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Esprit Insurance DAC

Solvency and Financial Condition Report 2018

Version 9th April 2019

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Scope of the report

This report is Esprit Insurance DAC's Solvency and Financial Condition Report (SFCR) for the year ending December 31, 2018. 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 third 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 2018

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 2018. 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 2018 had issued 6 insurance policies during the most recent financial period all of which fall into the general liability class of business. The underwriting performance in 2017 and 2018 is compared in Table 1 below:

Underwriting performance - US Dollar	2018	2017
Written Premium	6,769,474	2,053,500
Change in Unearned premium	2,409,049	2,378,718
Earned Premium	**4,360,425**	**4,432,218**
Claims Paid	1,623	- -
Change in OSLR	-889,312	-1,577,560
Change in IBNR	528,231	862,346
Net Claims Incurred	**-362,704**	**-715,214**
Underwriting performance	**3,997,722**	**3,717,004**

Table 1. Underwriting Performance in 2017 and 2018

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 2018 compared to 2017 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 2018 was US$ 951,304 (2017: US$ 583,903).

Total net income for the period under IFRS was US$ 3,657,245 (2017: US$ 3,105,754) which is an increase of 18% compared to the prior year. This increase is primarily due to a significant increase in investment income earned in the year of US$ 367,401 and a better claims incurred result. Claims incurred for 2018 saw an increase of US$ 362,705 as opposed to the prior year when claims incurred was US$ 715,214. Known Case Reserves increased during the period by US$889,312 primarily due to a change in reserving policy put in place by the Company in April 2018 that recognizes instances where there is material erosion of an underlying policy deductible – an E&O claim from the 2014 policy period is driving this change where 50% of the underlying deductible has been eroded and therefore a 5% reserve of policy limit is in place.

IBNR has decreased during the period by US$528,231 with the reduction principally arising through better claims activity on a number of open policy years. The IBNR of $1,239,041 attached to the 2010 E&O policy year has been fully released as the only open claim from that policy was closed during the year without a need for payment. This release is offset by the reporting of a new D&O claim to the 2016 policy year where that IBNR is now on hold until the claim develops further. Remaining IBNR movement is in line with the Company's reserving policy to have a claims incurred ratio at 75% of premium for any underwriting year in which a known claim is reported.

System of Governance

Esprit's Board of Directors (also referred to as the "Board") consisted of 4 group directors at 31 December 2018 and there were no changes during the year. In the fourth quarter of 2017 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. 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 apart from its 2% share in Transamerica's property insurance programme that, upon review of solvency capital rules, proved to be an inefficient use of capital for the Company. Esprit's main risk remains non-life underwriting risk and this component contributes over 58% 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 2018.

Valuation for Solvency purposes
Esprit's balance sheet consists of highly liquid assets in the form of cash and cash equivalents like commercial paper. The majority of liabilities consist of technical provisions held against accepted underwriting risks. For Solvency II purposes, the value of the technical provisions is US$ 11,390,865, which is US$ 5.73 million *lower* than the IFRS value of US$ 17,120,955 (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$ 10,218,802. A Risk Margin of US$ 1,172,063 is finally added to result in a total of US$ 11,390,866.

Capital Management
Esprit's SCR at the end of 2017 amounted to US$ 13.2 million, during 2017 the Company assumed a 2% quota share on Transamerica's All Risk Property insurance program and this participation had the effect of driving the SCR up to $13.2M. Upon review during the 2017 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 in 2017 was driven by a change to the input used for man-made 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

In light of the additional capital charge surrounding participation in the property insurance program the Company declined to participate upon renewal in March 2018. This move has therefore stimulated the reduction of SCR to US$ 7.9 million at year end 2018.

MCR stayed unchanged at the US Dollar equivalent of the applicable absolute floor of €3.7 million. With US$ 37,976,650 of assets available to cover the SCR and MCR, the Company's solvency ratio was 478%, up from 264% in the prior year. This increase being driven by not participating in the Transamerica property insurance programme in March 2018. In 2018, the Esprit Board reviewed the Company's capital management policy and re-affirmed its capital bands in July of 2018 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. Further in December 2018 the board made an adjustment to its capital policy with respects dividend payments. When the Company's solvency ratio remains within the target zone or above the Board will consider the payment of dividends to the shareholder at the level of no higher than 80% of its after tax operating result rather than the prior trigger of prior year underwriting profits. The remaining surplus will be retained to build up resources within Esprit. In Q3 2018 the Company returned a US$ 3.7 million dividend to parent company Aegon N.V. in line with the established dividend policy in place at that time of remitting prior year underwriting result once the company was within its target capital zone. 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 largest and only shareholder is Aegon N.V., a Dutch life insurance and pension company domiciled in The Hague, the Netherlands. Aegon N.V. holds 100% of Esprit's shares.

Aegon Global facts and figures:

- Helping people to achieve a lifetime of financial security
- Global Life insurance, accident & health cover, pensions and retirement plans, annuities, savings products and investments provider serving 28.5 million customers in over 20 countries across Europe, Asia and the Americas
- Over 26,500 employees
- Manages EUR 316 billion in assets under management on behalf of savers and investors worldwide
- Main global brands are Aegon and Transamerica

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

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

Vereniging Aegon, is a Dutch association located in The Hague, the Netherlands, with a special purpose to protect the broader interests of Aegon N.V. and its stakeholders. On December 31, 2018 Vereniging Aegon, Aegon's largest shareholder, held a total of 279,236,609 common shares and 571,165,680 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, 2018, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.33%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase, currently to 32.6%, for up to six months.

On November 3, 2015, Aegon was 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 for 2018 and that the measures will continue to apply to the G-SIIs that were on the 2016 list. Consequently, Aegon 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. Aegon 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 submitted plans to DNB, and to the G-SII crisis management group (CMG) that was established for Aegon 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).

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 will qualify as such. After an extended field testing period of ICS version 1.0, that ended in 2017, the IAIS has proceeded with the development of ICS version 2.0 informed by field tests in 2018 and a final field test in 2019, with the aim of adopting ICS version 2.0 at the Annual General Meeting of the IAIS in November 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.

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 2018, Esprit had issued various group insurance policies to Aegon N.V. and one other policy to company affiliates. These issued policies cover a range of risk including management liability, general liability and fidelity covers.

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

During the course of 2018 Esprit continued to review its outsourced activities to ensure the optimal solution is in place as its appointed General Manager departed in October 2017. 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.

A.2 underwriting performance

This section provides insight into the underwriting performance of the Company. Esprit's underwriting surplus at 31 December 2018 was U$ 4m. Table 2 below shows a summary of the underwriting account on an IFRS basis and each category is discussed individually.

Underwriting performance - US Dollar	2018	2017
Written Premium	6,769,474	2,053,500
Change in Unearned premium	-2,409,048	2,378,718
Earned Premium	**4,360,426**	**4,432,218**
Claims Paid	-1,623	-
Change in OSLR	-889,312	-1,557,560
Change in IBNR	528,230	862,346
Net Claims Incurred	**-362,705**	**-715,241**
Underwriting performance	**3,997,721**	**3,717,004**

Table 2. Underwriting Performance in 2017 and 2018

Earned Premium

Premium income is predominantly attributed to the General Liability line of business with a modicum of property earned premium in the income statement for 2018. Earned premium is calculated based on number of days earned. Apart from one policy with premium of US$25,000 the remainder of Esprit's policies are group policies issued to Aegon N.V. which is domiciled in The Netherlands.

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. In February 2018 the Global Directors & Officers Insurance Programme and its Global Errors & Omissions Insurance Programme were renewed up until November 2018, this a shortened policy period but with the intent to return these programs to their natural 12 month renewal cycles of November through November. These shortened policy periods from February 2018 had the effect of increasing Gross Written Premium for the period to US$ 6.8m as opposed to US$2.05m in 2017. However the movement in unearned premium had a counter balancing effect to produce earned premium of US$4.36M 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. 2018 proved to be a relatively 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 I, the change in IBNR is excluded, implying a Net Claims Incurred of US$ -819,312, which for 2018 is principally the change in OSLR along with a minor claim payments.

Investment income related to the Underwriting Account
The positive changes made to Esprit's investment portfolio during 2016 and 2017 to combine investments in Term Deposits with Commercial Paper has been continued in 2018. 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 2018 was US$ 951,304 which is a 62% 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 remained stable year on year at US$ 762,476, a slight decrease during the period of US$ 32,584.

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 2018, Esprit's investment portfolio consisted of highly liquid deposits with financial institutions and commercial paper. No investments in equity or securitizations were made. All investments were in line with the documented Investment policy.

At 31 December 2018, on an IFRS basis the following notional amounts were invested in the following asset classes:

Investment portfolio - USD	2018	2017
Bank deposits	14,805,932	28,864,940
Commercial paper	34,00,000	19,500,000
Cash	950,046	1,405,782
Total investments	**50,755,978**	**45,770,722**

Table 3. Investment portfolio in 2017 and 2018

Total investment income to the Company was US$ 951,304 (2017: US$ 583,903). The next table splits the investment performance by investment type.

Investment income - USD	2018	2017
Intercompany Loan	-	148,114
Income from Other Financial Investments	951,304	435,789
Total investment income	**951,304**	**583,903**

Table 4. Investment income in 2017 and 2018

The increase in investment income 2018 compared to 2017 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 also reviewed its investment policy in April 2018 and agreed to amendments to maturity levels and concentration levels so as to take advantage of enhanced yield available in the financial markets while still maintaining a conservative approach to investment type. 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 had made use of an intercompany loan with its parent Aegon N.V. in prior years 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 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 2018, Esprit generated a technical underwriting result of US$ 3,997,721 on an IFRS basis. Together with overall investment income and expenses the total profit before tax was US$ 4,179,707.

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 2018 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 1.7%.

Underwriting performance is expected to remain stable. A major factor influencing the underwriting performance is how the external insurance markets react in the coming years as there are signs recently of market hardening particularly in E&O risks and this could imply an uptick in premium income going forward. In addition, any claims or reserve forecasting is an inherently uncertain activity which may impact Esprit's performance.

The Board and its parent will conduct a strategic review of the operations of the Company in 2019, Esprit has been trading since 2006 so now is an opportune time to revisit long term strategy. When the Company was initially established Aegon had a number of other trading entities in Dublin that over time provided office space and supporting infrastructure to the appointed General Manager. With all other Aegon companies now sold or liquidated Esprit remains the only Aegon entity left in Ireland and its General Manager departed the Company late in 2017. This strategic review will be conducted over the first half of 2019 and will assess the ongoing necessity of a captive insurance company for Aegon and the appropriate location for its operations.

B. System of Governance

B.1 General Information on the System of Governance

B.1.1 Corporate governance

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

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

The Company is classified as a Low 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 Board is comprised of 4 non executive directors who are existing Aegon employees and they also serve as members of the Comoany's Investment Committee and Underwriting Committee.

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.

There were no material changes in the system of governance during 2018 with the Board members and committee members not changing during the period.

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.. As described in greater detail elsewhere, the Company issues general liability insurance policies to Aegon N.V. Furthermore, Esprit has paid a dividend of US$ 3.7 million to Aegon N.V. in Q3 2018. Finally, Esprit has entered into service level agreements with Aegon N.V. and sister company Blue Square Re N.V. that arranges particular services provided to the Company and the agreed cost sharing for the services in scope of the service level agreements.

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*
  - The Board supports the Risk Management Function and shall make available such resource as is necessary. It provides access to all relevant documentation and information from the business for the Risk Management Function to fulfil its role.
  - A Head of Risk function is appointed through a formal outsourcing arrangement with Allied Risk Management Limited who have responsibility for the Risk Management Function of the Company while working closely with the Board. Key documentation including the risk appetite and risk tolerance statements along with business acceptance policy are reviewed by the Head of Risk along with a very interactive role during the ORSA process.
- *Compliance*
  - The Board supports the Compliance Function and shall make available such resource as is necessary. It provides access to all relevant documentation and information from the business for the Compliance Function to fulfil its role.
  - A Compliance Officer is appointed through a formal outsourcing arrangement with Allied Risk Management Limited who have responsibility for the Compliance Function. The Compliance Officer ensures the Company's continuing compliance in relation to its regulatory and legal obligations. It aims to minimise the risks to the Company of material financial loss or reputational damage arising from the potential failure to comply with legal or regulatory requirements. The Compliance Officer liaises with regulatory bodies and authorities and provides updates on changes in legislation and regulatory requirements.

- The Compliance Officer has responsibility for the implementation of the Company's Compliance strategy and effective compliance processes and is responsible for the monitoring, managing and reporting of compliance risks to which the Company is exposed. It ensures that arrangements are sufficiently robust, proportionate, effective and efficient. The Compliance Officer is responsible for identifying and evaluating compliance risk, overseeing the implementation of controls for the risks identified, and monitoring their efficiency through Compliance monitoring.
- Compliance auditing occurs to check that the Company 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. John Charles of Willis Towers Watson was approved by the Central Bank of Ireland in December 2017. The Actuarial Function holder provides an external view as to the appropriateness of technical 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.

- 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. Presently a third party vendor risk dashboard has been developed for Captive Manager Allied Risk Management, actuarial provider Willis Towers Watson and finance and pricing support partner Blue Square Re N.V. 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. 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.. 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.

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

<u>Risk Tolerance</u>
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. <u>Financial strength</u>
   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 an informational tool used to help in the measurement and quantification of risk;
- The output from the business strategy, financial strategy, business plan and the risk and capital assessments must be used in the decision making process;

All of the above must be evidenced.

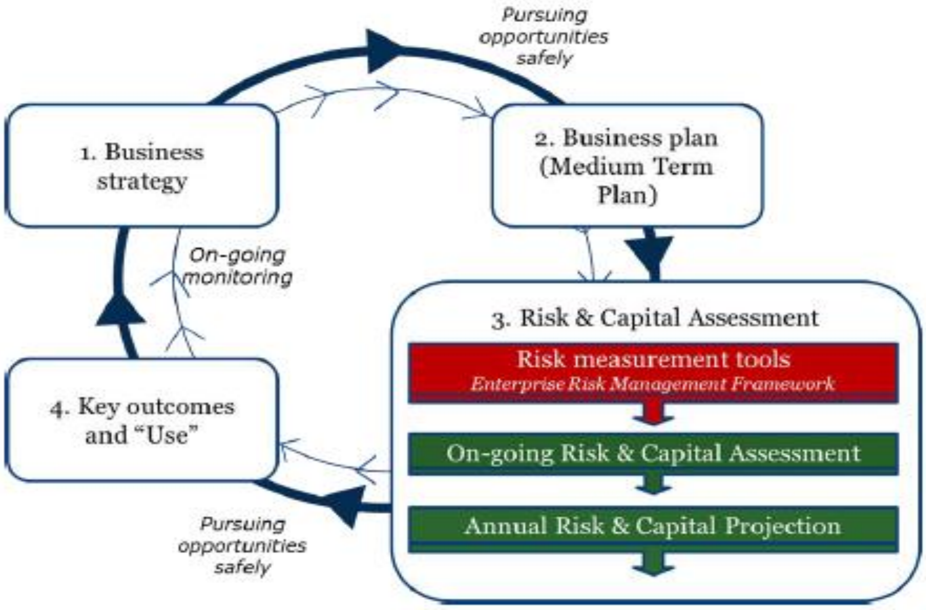

Figure 1. ORSA process

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 2017 ORSA were reviewed by the Board at Board meetings in October and December. The Board wishes the ORSA to be a living document and therefore continuously updates scenarios to reflect the changing risk profile of the company and the environment in which it operates. In 2018 a number of scenarios were modified to reflect the potential of a hard Brexit and what it might mean for the Company along with the introduction of a deteriorating loss ratio scenario. Further the financial statements used for the ORSA were as of September 2018 so as to give the Board as up to date a financial picture as possible in reviewing impact on the Company's operations. The 2018 ORSA was completed during 2018 and an Internal Report on ORSA has been approved by the

Board in December 2018 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 2018.

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 measure its risk profile.

The Business Acceptance policy requires that any new or renewal business the Company wants to explore is assessed in terms of its impact on the SCR and the required pricing under the 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 was been agreed to by the Board and a formal timeline put in place to address any recommendations. During the course of 2018 the Chairman of the Board put in place an action plan to address all open items and updated the Internal Audit function on a periodic basis on progress. A final review of steps taken by the Company was conducted by Internal Audit in December 2018 and a report was issued conveying status on all matters. During the course of 2018 the Board agreed an internal audit plan for 2019 where the subject matter will be a deep dive review of outsourcing arrangements.

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

As part of an ongoing due diligence process around outsourcing Esprit and WTW updated their Service Level Agreement in December 2018 that sets out the terms and conditions of the assignment 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 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 accounting / 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

[1] Under Solvency II

board of 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.

During the course of 2018 Esprit entered into 6 separate insurance policies with group companies for a total limit of liability of USD 225 million. All policies fall into the General Liability classification as the Company did not renew its property insurance business in 2018.

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. There are a number riofsk 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 a 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 business acceptance policy to ensure consistency in pricing.

Finally, catastrophe risk stems from the underlying risks that Esprit insures. Claims could be reported under the insurance policies that Esprit issues. The 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$ 5 million (after diversification), which makes up 63% of the total SCR applicable at 31 December 2018 of US$ 7.9 million. In 2017, the capital charge for non-life underwriting risk was US$ 11.5m (after diversification), or 87% of the total SCR of US$ 13.2 million. The decrease in SCR year on year is a direct result of the Company discontinuing its 2% share of the Transamerica property insurance programme in March 2018 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.

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 and commercial paper (other than cash held at banks) and to mitigate risks, Esprit splits its investments over several financial institutions and issuers. Esprit's Investment Policy and the group's Credit Name Limit policy requires minimum ratings for counterparties and sets maximum exposures across the group to each counterparty with which Esprit has to comply. As an example no more than 20% of the Company's available assets can be invested in any single name subject to an absolute $10M maximum. Monitoring takes place on a 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 in term deposits with financial institutions and commercial paper with other financial institutions and issuers.

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 2018 is US$ 3.5m (after diversification) or US$ 4.4m (pre diversification). In 2017, market risk accounted for a total of US$ 3.1 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 2018 is US$ 0.1m after diversification (US$ 0.1m before diversification) which is in alignment with the prior year. More details as to this can be found in section E.

The Company's ORSA considers a reverse stress scenario that can "break" the Company which essentially is the combination of a large claim under one of Esprit's insurance policies – which is Esprit number 1 risk – combined with an inability to recover its largest commercial paper holding. Whereas a single claim within the ORSA scenarios 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 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 level agreement with sister company Blue Square Re N.V. for finance, administration and pricing support.

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

The Company ORSA also analyses the potential for situations to arise through regulatory developments or policy wording interpretations that broaden the risk profile of the Company. This risk, while always possible, is mitigated due to an annual deep dive review of policy wordings where resource from Aegon Group Legal is complemented by Aegon's global brokers 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

		Solvency II value	Statutory accounts value
		C0010	C0020
Assets			
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**48,644,615.00**	**48,644,615.00**
Bonds	*R0130*	*33,817,078.00*	*33,817,078.00*
Corporate Bonds	R0150	33,817,078.00	33,817,078.00
Deposits other than cash equivalents	R0200	14,827,537.00	14,827,537.00
Insurance and intermediaries receivables	R0360	0.00	0.00
Receivables (trade, not insurance)	R0380	46,666.00	46,666.00
Cash and cash equivalents	R0410	1,950,046.00	1,950,046.00
Total assets	**R0500**	**50,641,327.00**	**50,641,327.00**

Table 5. Total Assets under Solvency II per 31 December 2018

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 5 commercial paper investments ranging in value between US$4 million and US$ 10 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.1.4 Cash and cash equivalents

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

D.1.5 Any other assets, not elsewhere shown

The other assets consist of accrued interest on investments and cash and cash equivalents 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.

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

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

D.2.1 Technical provisions – non-life

Liabilities

Technical provisions - non-life	**R0510**	**11,390,865**
Technical provisions - non-life (excluding health)	**R0520**	**11,390,865**
Best estimate	R0540	10,218,802
Risk margin	R0550	1,172,063

Table 6. Technical Provisions under Solvency II per 31 December 2018

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 fees paid to service providers auditing costs, office rent, buying new IT systems, etc.).

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

Regarding the discount rate, the Solvency II discount rate is based on the swap rate at the reporting date including the Volatility Adjustment where applied. Esprit does not include a Volatility Adjustment. The Solvency II discount 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 5.7 million include:

- US$ -6.45 million for the removal of margins
- US$ -0.73 million for the removal of future profit
- US$ 0.8 million for ULAE
- US$ -0.5 million for the allowance for discounting
- US$ 1.17 million for the Risk Margin

Which brings the Solvency II reserves to US$ 11,390,865 down from US$ 17,120,955 under IFRS.

D.3 Other liabilities

Deferred Tax Liabilities	*R0780*	*716,261*
Payables (trade, not insurance)	*R0840*	*267,439*
Any other liabilities, not elsewhere shown	*R0880*	*290,112*

Table 7. Other liabilities under Solvency II per 31 December 2018

D.3.1 Deferred Tax Liabilities

A deferred tax liability of US$ 716,261 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 2018 but not yet invoiced or paid. 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.3.3 Any other liabilities, not elsewhere shown

Esprit's other liabilities of US$ 290,112 comprises premium taxes payable in several jurisdictions that were settled in Q1 2019.

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 2018 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 2018 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 2018. 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
Total basic own funds after deductions	**R0290**	**37,976,650.00**	**37,976,650.00**

Table 8. Total Basic Own Funds under Solvency II per 31 December 2018

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 2018 Solvency Capital Requirement (SCR) based on the Standard Formula. The table below shows the individual components of the SCR at 31 December 2017 and 31 December 2018:

		31/12/2018	31/12/2017
		C0030	C0040
Market risk	R0010	3,543,939.00	3,626,929.00
Counterparty default risk	R0020	111,375.00	115,623.00
Non-life underwriting risk	R0050	6,318,130.00	13,313,374.00
Diversification	R0060	-1,936,825.00	-2,348,573.00
Basic Solvency Capital Requirement	**R0100**	**8,036,619.00**	**14,707,353.00**
Total capital requirement for operational risk	R0130	306,564.00	290,857.00
Loss-absorbing capacity of technical provisions	R0140		
Loss-absorbing capacity of deferred taxes	R0150	-984,273.00	-1,804,118.00
Solvency capital requirement excluding capital add-on	**R0200**	**7,358,910.00**	**13,194,092.00**
Solvency capital requirement	**R0220**	**7,358,910.00**	**13,194,092.00**

Table 9. Solvency Capital Requirement per 31 December 2018

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$ 3,701,174, catastrophe risk for US$ 4,278,190 and a diversification of US$ 1,661,234 lead to the overall charge of US$ 6,318,130 at year end 2018, which is considerably lower compared to the requirement of US$ 13,313,374 in 2017. The decrease in capital requirement is a direct result of the Company discontinuing its participation in the Transamerica property damage business in March 2018. 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 associated with the sensitivity in bond values due to changes in the risk free yield curve)
- Currency risk (i.e. the impact on the value of assets and liabilities following a 25% rise and fall against the reporting currency).
- Concentration risk (i.e. the risk regarding accumulation of exposures with the same counterparty).

The overall capital charge for market risk is US$ 3.5 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”, commercial paper and “short term deposits”.

The capital charge at the end of 2018 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 2018 year end, the solvency ratio was 516% which is up significantly from the 2017 year end solvency ratio of 264% - the principal reason 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$ 3.3 million and floored at US$ 1.8 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 2018, the applicable conversion rate was 1.145, which determined the absolute floor to be US$ 4.2 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 2018 year end, the MCR solvency ratio was 897% which is up from the 2017 year end solvency ratio of 808%.

E.3 Non-compliance with capital requirements

There have not been any instances during 2018 that the estimated Solvency II ratio was below the SCR, nor the MCR level. To ensure that Esprit maintains adequate Solvency levels, actual and expected capital positions are monitored against capitalization zones that are defined in the Company's Capital Management policy. Several activities are performed to monitor and assess the future development of our Solvency position, such as the annual Budget Medium Term Planning (MTP) process and periodic management reporting.

Any Solvency position is subject to risks and Esprit therefore monitors such risks. These are quantified to determine the impact of such risks on the current and the projected Solvency position. The Capital Management policy provides actions that need to be performed as soon as the identified risks could cause the projected Solvency ratio to fall within a particular capitalization zone.

Appendix I - S.02.01.02 Balance sheet

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**	48,645
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	33,818
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	33,818
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	14,827
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	**R0280**	
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	46
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**	1,950
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	50,641

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	11,391
Technical provisions – non-life (excluding health)	**R0520**	11,391
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	10,219
Risk margin	**R0550**	1,172
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**	716
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**	267
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	290
Total liabilities	**R0900**	12,664
Excess of assets over liabilities	**R1000**	37,977

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**

		Fire and other damage to property insurance	General liability insurance	Total
		C0070	C0080	C0200
Premiums written				
Gross - Direct Business	R0110		6,769	6,769
Gross - Proportional reinsurance accepted	R0120			
Gross - Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140			
Net	R0200		6,769	6,769
Premiums earned				
Gross - Direct Business	R0210	6	4,354	4,360
Gross - Proportional reinsurance accepted	R0220			
Gross - Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240			
Net	R0300	6	4,354	4,360
Claims incurred				
Gross - Direct Business	R0310	-23	386	363
Gross - Proportional reinsurance accepted	R0320			
Gross - Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340			
Net	R0400	-23	386	363
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	1	762	763
Other expenses	R1200			
Total expenses	R1300			763

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

		Life reinsurance obligations	
		Health reinsurance	Life-reinsurance
		C0270	C0280
Premiums written			
Gross	R1410		
Reinsurers' share	R1420		
Net	R1500		
Premiums earned			
Gross	R1510		
Reinsurers' share	R1520		
Net	R1600		
Claims incurred			
Gross	R1610		
Reinsurers' share	R1620		
Net	R1700		
Changes in other technical provisions			
Gross	R1710		
Reinsurers' share	R1720		
Net	R1800		
Expenses incurred	R1900		
Other expenses	R2500		
Total expenses	R2600		

Annex I
S.05.02.01
Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		NL	US				
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110		6,744	25				6,769
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140							
Net	R0200		6,744	25				6,769
Premiums earned								
Gross - Direct Business	R0210		4,329	31				4,360
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240							
Net	R0300		4,329	31				4,360
Claims incurred								
Gross - Direct Business	R0310		565	-202				363
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340							
Net	R0400		565	-202				363
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	763						763
Other expenses	R1200							
Total expenses	R1300							763

Annex I
S.05.02.01
Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410							
Reinsurers' share	R1420							
Net	R1500							
Premiums earned								
Gross	R1510							
Reinsurers' share	R1520							
Net	R1600							
Claims incurred								
Gross	R1610							
Reinsurers' share	R1620							
Net	R1700							
Changes in other technical provisions								
Gross	R1710							
Reinsurers' share	R1720							
Net	R1800							
Expenses incurred	R1900							
Other expenses	R2500							
Total expenses	R2600							

Annex I
S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance		
		Fire and other damage to property insurance	General liability insurance	Total Non-Life obligation
		C0080	C0090	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		3,007	3,007
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		3,007	3,007
Claims provisions				
Gross	R0160	21	7,191	7,212
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	21	7,191	7,212
Total Best estimate - gross	R0260	21	10,198	10,219
Total Best estimate - net	R0270	21	10,198	10,219
Risk margin	R0280	3	1,169	1,172
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	24	11,367	11,391
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	24	11,367	11,391

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		1	2	3	4	5	6	7	8	9	10 & +		In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											3,042	R0100		3,042
2009	R0160										2		R0160	2	2
2010	R0170												R0170		
2011	R0180			1	-1								R0180		
2012	R0190												R0190		
2013	R0200												R0200		
2014	R0210												R0210		
2015	R0220												R0220		
2016	R0230												R0230		
2017	R0240												R0240		
2018	R0250												R0250		
												Total	R0260	2	3,044

Development year

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year		1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100												R0100	
2009	R0160								10	4	0		R0160	
2010	R0170							189	107				R0170	
2011	R0180						418	264	140				R0180	137
2012	R0190					566	424	225					R0190	217
2013	R0200				1,402	637	431						R0200	404
2014	R0210			2,637	1,523	836							R0210	791
2015	R0220		3,097	2,179	1,062								R0220	1,016
2016	R0230	643	3,638	1,578									R0230	1,523
2017	R0240	240	2,685										R0240	2,566
2018	R0250	591											R0250	558
												Total	R0260	7,212

Development year

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	31,477	31,477			
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	37,977	37,977			
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	37,977	37,977			
Total available own funds to meet the MCR	R0510	37,977	37,977			
Total eligible own funds to meet the SCR	R0540	37,977	37,977			
Total eligible own funds to meet the MCR	R0550	37,977	37,977			
SCR	R0580	7,359				
MCR	R0600	4,236				
Ratio of Eligible own funds to SCR	R0620	5				
Ratio of Eligible own funds to MCR	R0640	9				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	37,977	
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	31,477	
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**	3,544		
Counterparty default risk	**R0020**	111		
Life underwriting risk	**R0030**			
Health underwriting risk	**R0040**			
Non-life underwriting risk	**R0050**	6,318		
Diversification	**R0060**	-1,936		
Intangible asset risk	**R0070**			
Basic Solvency Capital Requirement	**R0100**	8,037		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	306
Loss-absorbing capacity of technical provisions	**R0140**	
Loss-absorbing capacity of deferred taxes	**R0150**	-984
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	
Solvency capital requirement excluding capital add-on	**R0200**	7,359
Capital add-on already set	**R0210**	
Solvency capital requirement	**R0220**	7,359
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**	1,939

		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**	21	
General liability insurance and proportional reinsurance	**R0090**	10,198	6,769
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**	1,939
SCR	**R0310**	7,359
MCR cap	**R0320**	3,313
MCR floor	**R0330**	1,841
Combined MCR	**R0340**	1,939
Absolute floor of the MCR	**R0350**	4,236
		C0070
Minimum Capital Requirement	**R0400**	4,236