Esprit Insurance DAC

Solvency and Financial Condition Report

For the Financial Year Ending 31st December 2019

Version 26 March 2020

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Scope of the report

This report is Esprit Insurance DAC's Solvency and Financial Condition Report (SFCR) for the year ending December 31, 2019. 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 fourth 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 2019

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 2019. 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 2019 had issued 4 insurance policies during the most recent financial period all of which fall into the general liability class of business. The underwriting performance in 2018 and 2019 is compared in Table 1 below:

Underwriting performance - US Dollar	2019	2018
Written Premium	4,400,000	6,769,474
Change in Unearned premium	-3,638	-2,409,048
Earned Premium	**4,396,362**	**4,360,426**
Claims Paid	-10,906	-1,623
Change in OSLR	-1,233,641	-889,312
Change in IBNR	1,950,568	528,230
Net Claims Incurred	706,021	**-362,705**
Investment income	1,232,065	951,304
Operating expenses	-692,684	-762,476
Underwriting performance	**5,641,764**	**4,186,549**

Underwriting Performance in 2018 and 2019

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 2019 compared to 2018 in terms of the business acceptance and, underwriting policy which were both reviewed during the reporting period. The Company reviews the reserving policy to ensure it remains appropriate for Esprit. The investment performance improved 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 2019 was US$ 1,232,065 (2018: US$ 951,304).

Total net income (before dividends) for the period under IFRS was US$ 4,940,928 (2018: US$ 3,657,245) which is an increase of 35% year on year; this principally being due to a release of IBNR provision and an increase in investment income earned in the year and a favourable net claims incurred result.

Net claims incurred for 2019 was income of US$ 706,021, a decrease in expense of US$ 1,068,726 in comparison to the prior year when claims incurred was an expense of US$ 362,705. This was in part due to a release in IBNR reserves for the underwriting year 2011, this release resulting from no further development on open claims during the preceding 5 years.

IBNR reduced in the period by US$ 1,950,568; as noted this was primarily due to the release of US$1,500,000 of IBNR for the 2011 E&O Insurance Program and resulted from there being no further development in the only open claim from that policy year. This release of reserve being is accordance with the reserving policy of the Company. OSLR increased during the period by US$ 1,233,641; this primarily being due to the inclusion of the OSLR reserve of US$1,250,000 for underwriting year 2015 E&O Insurance program.

The release of IBNR of US$ 1,950,568, the offsetting increase in OSLR of US$ 1,233,641 and claims paid of US$ 10,906 resulted in an overall positive net claims incurred of US$ 706,021.

System of Governance

Esprit's Board of Directors (also referred to as the "Board") consisted of 4 group directors at 31 December 2019 and there were no changes during the year. Esprit has implemented the Key Functions as required under Solvency II and makes use of outsourcing, both internally and externally to fulfil the requirements for these Key Functions. The Head of Actuarial Function, the Head of Risk and the Head of Compliance are outsourced externally, while the Head of Internal Audit is performed by Aegon N.V.

Risk Profile

The Company maintained a stable business case and risk profile during the year, renewing all existing policies. The key components and main risks for Esprit remains non-life underwriting risk. Under the Solvency II framework non-life catastrophe risk accounted for 34% (US $2,745,852) of the Company's Basic Solvency Capital Requirement (BSCR) which totalled US $7,993,844 and premium and reserving risk accounted for 29% (US $2,294,852) of the BSCR. Other material risks faced by the Company are market risk, in particular market concentration risk accounting for 17% of the BSCR (US $1,369,333) and market currency risk accounting for 13% of the BSCR (US$ 1,029,189). 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 2019.

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$ 15,267,006, which is US$ 1,140,660 *lower* than the IFRS value of US$ 16,407,666 (please see Section D.2.1 for detailed analysis). Solvency II specifies the removal of margins, future profit and corrects for an allowance for discounting and claims handling expenses which creates a Best Estimate of US$ 13,230,065. A Risk Margin of US$ 2,036,941 is finally added to result in the total of US$ 15,267,006.

Capital Management

Esprit's SCR at the end of 2019 amounted to US$ 7,381,517 compared to a SCR of US$ 7,358,910 as at the end of 2018, the components of which are all broadly comparable year on year this being reflective of the stable risk profile.

The MCR stayed unchanged at the US Dollar equivalent of the applicable absolute floor of EUR€ 3,700,000. With US$ 35,976,829 of assets available to cover the SCR and MCR, the Company's solvency ratio was 487%, down from 516% in the prior year which is again broadly comparable year on year. In 2019, the Esprit Board reviewed the Company's capital management policy and uplifted its capital bands to include a target coverage ratio, based on SCR, of between 300-500%. This target coverage ratio reflects the low frequency, high severity nature of the business and the need to hold a buffer considering the limits that the Company writes. In Q4 2019 the Company returned US$ 2,925,000 in dividends to its parent company Aegon N.V. in line with the established dividend policy in place. 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.

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 26,000 employees
- At year-end 2018 managed more than EUR 804 billion of revenue generating investments
- 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 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 paragraphs outline some generic information about Esprit's ultimate shareholder Aegon N.V. that are more specific for the Group SFCR but included here for completeness. Under Dutch law a qualifying holding means a direct or indirect holding in Aegon N.V. which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of Aegon N.V. Only Vereniging Aegon qualifies based on this definition.

Vereniging Aegon, is a Dutch association located in The Hague, the Netherlands, with a special purpose to protect the broader interests of Aegon N.V. and its stakeholders. On December 31, 2019 Vereniging Aegon, Aegon's largest shareholder, held a total of 288,702,769 common shares and 559,712,240 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, 2019, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.75%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase, currently to 32.6%, for up to six months.

On November 3, 2015, Aegon was designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). Up until 2019, the FSB reviewed the G-SII designation annually. However, the FSB, in consultation with the IAIS and national authorities, decided not to publish a new list of G-SIIs for 2017 or 2018. In November 2019, in recognition of the fact that the Holistic Framework (see below), consistently implemented, provides an enhanced approach to assessing and mitigating systemic risk in the global insurance sector, the FSB decided to suspend the identification of global systemically important insurers (G-SIIs). In November 2022, the FSB will, based on the initial years of implementation of the Holistic Framework, review the need to either discontinue or re-establish an annual identification of G-SIIs. Consequently, Aegon continues to be designated at the time of publication of this Solvency and Financial Condition Report. Due to its G-SII status, Aegon has been subject to an additional layer of direct supervision at group level. In accordance with these requirements, Aegon submitted a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan to DNB and to the G-SII crisis management group (CMG) that was established. Aegon has updated these plans on an annual basis. In addition, the Aegon Group’s Resolution Authority (the Dutch Central Bank) was made responsible for the development of Aegon’s resolution plan.

In November 2019, the IAIS adopted the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector. Some of the provisions of the Holistic Framework are included in the IAIS Insurance Core Principles (that apply to all insurers), while others are included in ComFrame (the Common Framework for the Supervision of Internationally Active Insurance Groups, or IAIGs).The Holistic Framework consists of an enhanced set of supervisory policy measures and powers of intervention, an annual IAIS global monitoring exercise and collective discussion on the outcomes and appropriate supervisory responses, and an assessment of consistent implementation of supervisory measures. ComFrame establishes supervisory standards and guidance focusing on the effective group- wide supervision of IAIGs. ComFrame is a comprehensive and outcome-focused framework that provides supervisory minimum requirements tailored to the international activity and size of IAIGs. ComFrame builds on the Insurance Core Principles that are applicable to the supervision of all insurers.If the FSB would, as referred to above, discontinue the annual identification of G-SIIs after the review of the Holistic Framework in November 2022 or, alternatively, Aegon would not be identified as a G-SII, Aegon would still be subject to ComFrame and ICS, to the extent these would be implemented in local legislation.

A.1.4 Material lines of business and geographical areas

Esprit's captive nature entails that it offers non-life insurance contracts to other entities in the Aegon group. At the end of 2019, 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

The Company had previously entered into a service level agreement with its sister company Blue Square Re N.V. to provide finance and pricing support. Following a decision by the parent company in October 2019 to wind-down Blue Square Re N.V. this entity will no longer be in a position to provide such services to Esprit post May 1st 2020. The Company is in discussions with parent Company Aegon N.V. to transition these services with a migration and handover process currently ongoing to ensure continued smooth business operations.

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

A.2 Underwriting performance

This section provides insight into the underwriting performance of the Company. Esprit's underwriting surplus at 31 December 2019 was US$ 5,641,764 (2018: US$ 4,186,549). The table below shows a summary of the underwriting account on an IFRS basis and each category is discussed individually.

Underwriting performance - US Dollar	2019	2018
Written Premium	4,400,000	6,769,474
Change in Unearned premium	-3,638	-2,409,048
Earned Premium	**4,396,362**	**4,360,426**
Claims Paid	-10,906	-1,623
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Change in IBNR	1,950,568	528,230
Net Claims Incurred	706,021	**-362,705**
Investment income	1,232,065	951,304
Operating expenses	-692,684	-762,476
Underwriting performance	**5,641,764**	**4,186,549**

Underwriting performance in 2018 and 2019

A.2.1 Earned Premium

Esprit's largest insurance covers are Directors and Officers, Errors and Omissions and Crime/Fidelity. Premium income is therefore predominantly attributed to the General Liability line of business. Earned premium is calculated based on number of days earned. Apart from one policy with premium of US$ 30,000 the remainder of Esprit's policies are group policies issued to Aegon N.V. which is domiciled in The Netherlands.

Due to changes in the structures of the Aegon insurance programs with Esprit assuming less risk premium income to Esprit has declined in the past few years. 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. These programs returned to their natural 12 month renewal cycles of November through November in 2019. These shortened policy periods in the prior period had the effect of increasing Gross Written Premium in the prior period to US$ 6,769,474 as opposed to US$ 4,400,000 in 2019. However the movement in unearned premium had a counter balancing effect to produce earned premium of USD$ 4,396,362 in 2019 compared to USD$ 4,360,425 in 2018 which was in line with expectations.

A.2.2 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. 2019 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.

A.2.3 Investment income related to the Underwriting Account

The positive changes made to Esprit's investment portfolio in prior periods to combine investments in Term Deposits with Commercial Paper has been continued in 2019. 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 2019 was US$ 1,232,065 (2018: US$ 951,304) which is a 30% year on year increase. More details on overall investment performance can be found in the next section.

A.2.4 Expenses related to the Underwriting Account

Esprit's expenses have remained stable year on year at USD$ 692,681 (2018: US$ 762,476), a slight decrease during the period of US$ 69,794.

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 2019, 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 2019, on an IFRS basis the following notional amounts were invested in the following asset classes:

Investment portfolio – USD	2019	2018
Bank deposits	10,300,608	14,805,932
Commercial paper	41,100,000	34,000,000
Cash	557,490	1,950,046
Total investments	**51,958,098**	**50,755,978**

Investment portfolio in 2018 and 2019

Total investment income to the Company was US$ 1,232,065 (2018: US$ 951,304). The next table splits the investment performance by investment type.

Investment income – USD	2019	2018
Income from Other Investments	1,232,065	951,304
Total investment income	**1,232,065**	**951,304**

Investment income in 2018 and 2019

The increase in investment income 2019 compared to 2018 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 or 6 month durations utilized during the year.

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

A.4 Performance of other activities

The Company did not engage in any other activities, such as leases, during the reporting year.

A.5 Overall business performance

At 31 December 2019, Esprit generated a technical underwriting result of US$ 5,102,383 (2018: US$ 3,997,721) on an IFRS basis. Together with overall investment income and expenses the total profit before tax was US$ 5,647,101 (2018: US$ 4,179,708).

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 2019 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 2.1% and 2.2%.

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 is presently undertaking a strategic review of the operations of the Company, 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 finalized in Q3 2020 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 subsequent 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 meetings outside of these Board meetings depending on critical business operations. The Board is comprised of 4 non-executive directors who are existing Aegon employees and they also serve as members of the Company's Investment Committee and Underwriting Committee.

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 section B.2.3 for this report.

B.1.2 Material changes in the system of governance.

There were no material changes in the system of governance during 2019 with the Board members and committee members not changing during the period.

B.1.3 Remuneration policy

Esprit has a documented local Remuneration policy, setting out how Aegon's Global Remuneration principles apply for Esprit specifically. For senior management, remuneration will be set according to the Aegon Group standards. Group directors who are employed in positions elsewhere within the Aegon Group are remunerated locally at their respective group entities. Any independent directors shall be remunerated at appropriate market levels.

B.1.4 Transactions with shareholders and other stakeholders

The Company's shares are all held by its parent company, Aegon N.V.. As described in greater detail elsewhere, the Company issues general liability insurance policies to Aegon N.V. Esprit has paid a dividend of US$ 2,925,000 to Aegon N.V. in Q4 2019. 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. Blue Square has advised that they will not be in a position to provide services beyond the 1st May 2020 and the Company is setting in place replacement solutions.

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.

B.2.2 Process for assessing such requirements

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

- Interview and application

- The Company conducts its own fitness and probity due diligence before proposing a person for appointment to a PCF. The due diligence required is referenced within the Central Bank of Ireland's Guidance on Fitness and Probity Standards. The following is captured:

    - Evidence of a relevant professional qualification.
    - Confirmation of continuous professional development.
    - Evidence of professional membership of an organisation (where applicable).
    - Reference checks.
    - Review 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 Companies Registration Office and a judgment debt check is performed.
    - Signed Fitness and Probity declarations.
    - Individual Questionnaire

- A PCF holder from the Company will review the Individual Questionnaire, complete a declaration on behalf of the Company and submit the Individual Questionnaire to the Central Bank of Ireland for assessment.
- As part of the continuing obligations, annual declarations are sought from all PCF's, each PCF file is reviewed and an annual PCF return is submitted to the Central Bank of Ireland via the online reporting system.

An annual confirmation for each individual holding a Pre-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.

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.

B.3.1.1 Risk identification

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

B.3.1.2 Risk tolerance

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

1. Financial strength
   First, risk tolerance is defined in terms of the applicable capital requirements in force. Actions are identified if capital management zones are breached.
2. Continuity
   Second, continuity of the company is tested against identified extreme events. This is documented in the Company's 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.

B.3.1.3 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.

B.3.1.4 Risk monitoring and reporting

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

B.3.1.5 Risk control

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

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

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

B.3.2 Own risk and solvency assessment ("ORSA")

B.3.2.1 ORSA process overview

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

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

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

All of the above must be evidenced.

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 and annually thereafter.

The scenarios underpinning the 2019 ORSA were reviewed by the Board at Board meetings in December. The Board wishes the ORSA Process Report to be a living document and therefore continuously updates scenarios to reflect the changing risk profile of the company and the environment in which it operates. In 2019 a number of scenarios continued 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. The Company also introduced the new scenario in 2019 'Electronic / Cyber Fraud' which is a reflection of the risks presented to large corporations by the "Internet of Things (IoT)". The financial statements used for the ORSA were as of 30 September 2019 so as to give the Board as up to date a financial picture as possible in reviewing impact on the Company's operations. The 2019 ORSA was completed during 2019 and an Internal Report on the ORSA has been approved by the Board in

December 2019 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 2019.

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

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

The Business Acceptance policy requires that any new or renewal business the Company wants to explore is assessed in terms of its impact on the SCR and the required pricing under the Aegon pricing policy. The Underwriting Committee reviews and decides whether 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 300% and 500%. Any new or renewed business will need to be assessed 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.

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

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

- *Compliance*
    - The Board supports the Compliance Function and shall make available such resource as is necessary. It provides access to all relevant documentation and information from the business for the Compliance Function to fulfil its role.
    - A Compliance Officer is appointed through a formal outsourcing arrangement with Allied Risk Management Limited who have responsibility for the Compliance Function. The Compliance Officer ensures the Company's continuing compliance in relation to its regulatory and legal obligations. It aims to minimise the risks to the Company of material financial loss or reputational damage arising from the potential failure to comply with legal or regulatory requirements. The Compliance Officer liaises with regulatory bodies and authorities and provides updates on changes in legislation and regulatory requirements.
    - The Compliance Officer has responsibility for the implementation of the Company's Compliance strategy and effective compliance processes and is responsible for the monitoring, managing and reporting of compliance risks to which the Company is exposed. It ensures that arrangements are sufficiently robust, proportionate, effective and efficient. The Compliance Officer is responsible for identifying and evaluating compliance risk, overseeing the implementation of controls for the risks identified, and monitoring their efficiency through Compliance monitoring.
    - Compliance auditing occurs to check that the Company is adhering to its obligations. Compliance reports are issued to the Board assessing the effectiveness and adequacy of compliance within the Company. The activities of the Compliance function are subject to periodic review by Internal Audit. Compliance also reports to the parent company Aegon N.V. group compliance team on a bi-annual basis.
    - On an ongoing basis, the Compliance Officer strives to ensure that there is an organisational culture in place which promotes a high standard of integrity and regulatory compliance.
- *Internal Audit*
    - The key function holder for Internal Audit is 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 reserves and reinsurance arrangements and provides essential input to the ORSA process. The Head of Actuarial Function issues documents, such as the Actuarial Function Report and several opinions on the ORSA, underwriting and the adequacy of reinsurance arrangements, to the Board.
- *Internal Control*
    - The principal control framework for the Company is its controls set at Board level. These controls include the Board approved policies, reports, terms of reference, schedule of matters and minutes of board meetings. The policies describe the 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, Directors and key role holders also participate in the management of the system. The Company's internal controls are part of its compliance framework. Various measures are incorporated into systems and processes to control day-to-

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

- The Compliance Officer is responsible for ensuring that all Company policies are fit for purpose. The relevant area of the business is responsible for ensuring that their procedures are up to date and reflect how the business operates. All amendments are submitted to the Board for approval. There is a compliance monitoring programme in place to review all of its regulatory requirements. This is completed by the Compliance Officer on a regular basis and forms part of the compliance report to the Board.
- Where any functions or activities are outsourced, the Company expects that any outsourcing entity manages its control framework to the same standards as the Company and adheres to the Company's policies and procedures and employs fit and proper people in its controlled functions. The Company has a Service Level Agreement in place with each outsourced entity with Key Performance Indicators set to ensure regular reporting to the Board. Presently a third party vendor risk dashboard has been developed for Captive Manager Allied Risk Management, 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 thus affording a platform to quickly intervene should service levels drop below expected standards. In October 2019 Blue Square Re formally advised the Company that they would not be able to provide services beyond the 1st May 2020 and the Company is actively working through a transition of services with other providers both inside and outside of the Aegon Group. 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.

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 2019 in line with the Audit Plan for 2018 and 2019 dated July 4, 2018. This audit focused on assessing the design and effectiveness of controls surrounding activities that are outsourced. The scope encompasses the Company's management of outsourced service providers e.g. tax advisors, actuarial advisors, treasury financial services etc.

As a result of this audit a formal timeline was agreed by the Board of Directors to address all open items and update the Internal Audit function on a periodic basis on progress made. A final review of steps taken by the Company will be conducted by Internal Audit in 2020 and a report will be issued conveying status on all matters.

Internal Audit's main tasks and responsibilities are to:

- Prepare and execute a risk based audit plan which is approved annually by the Board of Directors.
- Identify, and agree with management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented within a reasonable period of time;
- Assist in the investigation of any significant suspected fraudulent activities within Esprit or conduct special reviews or consulting which may not usually be included in the scope of Internal Audit and notify the Board of the results of these activities;

- Issue periodic reports 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 to assist the internal auditors and comply with the principles of the Aegon Internal Audit Charter.

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

B.6 Actuarial function

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

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

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

As part of an ongoing due diligence process around outsourcing Esprit and WTW updated their Service Level Agreement in December 2018 that sets out the terms and conditions of the assignment including key performance indicators to fulfil the Actuarial Function under Solvency II as specified by the CBI. Esprit and WTW meet on a regular basis to exchange information for the calculations of Technical Provisions and for assistance on the Risk Management function, such as quarterly SCR calculations and ad-hoc requests for impacts on SCR of new or renewal business.

B.7 Outsourcing

B.7.1 External outsourcing arrangements

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

Outsourcing risk is considered material[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. As a single parent captive insurance company Esprit has outsourced all of these functions, to both internal (i.e. within the Aegon group) and external providers.

To manage outsourcing arrangements, Esprit has adopted an Outsourcing & 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 adheres to the Central Bank of Ireland Notification Process for (Re) Insurance Undertakings when outsourcing Critical or Important Function or Activities under Solvency II Regulations.

B.7.2 Intra-group outsourcing arrangements

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

Intra-group outsourcing is also covered in the Outsourcing & 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

[1] Under Solvency II

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. Defined key performance indicators are documented and reviewed under each intra-group arrangement.

B.8 Any other information

B.8.1 Assessment of adequacy of system of governance

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

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

During the course of 2019 Esprit entered into 4 separate insurance policies with group companies for a total limit of liability of USD 150 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.1.1 Underwriting risk

C.1.1.1 Underwriting risk exposure

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.

C.1.1.2 Underwriting risk concertation

All of Esprit's exposure in 2019 is allocated to the general liability category. In terms of its insurance license, the Company can also accept property insurance, which would provide portfolio diversification. The Company will continue to actively explore acceptance of property related business and assess according to the business

acceptance policy's requirements. It is however expected that general liability will continue to be the majority line of business due to the Company's nature.

C.1.1.3 Underwriting risk mitigation

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 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; namely 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. A further risk mitigant is that the insurance policies that Esprit accepts also has significant underlying deductibles e.g. US$ 5 million for D&O or US$ 50 million for E&O. 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$ 5,040,195 (after diversification) (2018: US$ 5,022,397), which makes up 68% (2018: 63%) of the total SCR applicable at 31 December 2019 of US$ 7,381,517 (2018: US $ 7,358,910). The SCR year on year is broadly comparable reflecting the stable risk profile of the Company.

C.1.1.4 Underwriting risk sensitivity

The Company's 2019 ORSA included several scenarios that incorporated underwriting risk that show the capital levels for Esprit under each.

As an example the Company's 2019 ORSA included a stress scenario where a large claim was received under the D&O policy. Based on external research customized to Aegon, there is a 5.58% chance of a D&O claim occurring in any given year and should that claim occur the average securities settlement is estimated at US$ 69 million. If an event of this magnitude occurred at Aegon N.V. then Esprit would face a US$ 25 million D&O claim. In this event the SCR ratio drops below the 100% and places the Company in the regulatory phase of the Company's capital policy with notification to the CBI occurring.

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

C.1.2 Market risk

C.1.2.1 Market risk exposure

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

C.1.2.2 Market risk concertation

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

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 2019 was US$ 2,907,595 after diversification (2018: US$ 3,513,047) or US$ 3,608,588 pre diversification (2018: US$ 4,419,382). More details on market risk can be found in section E.

C.1.2.3 Market risk mitigation

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

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

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

C.1.2.4 Market risk sensitivity

The Company's 2019 ORSA considered several stress scenarios including market risk that show the capital levels for Esprit under each. As detailed above the Company's 2019 ORSA included a stress scenario where a large claim was received under the D&O policy. The Board also considered the significant correlation between asset performance and the environment for heightened D&O claims activity and as a result considered the impact of a default of US$ 9 million commercial paper investment along with a US$ 25 million D&O claim. In this extreme event the SCR ratio drops below the 100% and places the Company in the regulatory phase of the Company's capital policy with notification to the CBI occurring.

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

C.1.3 Credit risk

C.1.3.1 Credit risk exposure

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

Overall credit risk at the end of 2019 was $US 46,054 after diversification (2018 US$ 88,534) and US$ 57,157 before diversification (2018 US$ 111,375). 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.1.3.2 Credit risk concentration

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

C.1.3.3 Credit risk mitigation

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

C.1.3.4 Credit risk sensitivity

As detailed above in 'Market risk' the Company's 2019 ORSA considered several stress scenarios including market and credit risk that show the capital levels for Esprit under each. Please refer to section 'Market risk sensitivity' for further detail.

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

C.1.4 Liquidity risk

C.1.4.1 Liquidity risk exposure

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

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

C.1.4.2 Liquidity risk concertation

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

C.1.4.3 Liquidity risk mitigation

Esprit's Investment policy requires the average duration of the entire portfolio to not exceed 3 years and no individual maturity may exceed 7 years. In the current budget and MTP planning, the Company assumes interest rates to remain relatively low, which implies that it is unlikely that there is any reward to invest in longer term,

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

C.1.4.4 Liquidity risk sensitivity

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

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

C.1.5 Operational risk

C.1.5.1 Operational risk exposure

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

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

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.

C.1.5.2 Operational risk concertation

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

C.1.5.3 Operational risk mitigation

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

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

Operational risk is further mitigated by dedicated Underwriting Limits, Escalation thresholds, testing of the Business Continuity Plan, banking authorities in place and four eyes principles. As an additional line of defence, the Company's Internal Auditor has authority to test the internal control framework in line with the agreed Internal Audit Plan.

C.1.5.4 Operational risk sensitivity

The Company's 2019 ORSA included several stress scenarios including operational risk that show the capital levels for Esprit under each. 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.

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

C.2.1 Risk measures

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

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

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

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

Risk Tolerance Category	Risk Measures
Financial strength	1. Solvency II ratio
Continuity	1. Meet minimum statutory capital requirements at Legal Entity level. 2. Be able to pay all claims when they fall due over the full tenure of policyholder obligations.

Culture (operational risk)	1. No operational event with losses greater than €25,000 in any one year time horizon 2. No operational event greater than €10,000 in any one year time horizon
Risk balance sheet	1. Tolerance level per risk (e.g. equity – IR2 and IR5, interest rate – MR1 and MR2) 2. Credit name limits

C.2.2 Nature of material risk exposures

The material risk that the Company is exposed to is the risk of adverse claims experience. This is addressed under Underwriting Risk above and Technical Provisions below. There have been no material changes over the reporting period.

C.2.3 Prudent person principle

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

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

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

The Company's policy boundaries are all one year and the premium is paid in full at inception, therefore, the EPIFP for the Company is zero.

C.4 Risk data

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

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

At the end of 2019, Esprit had the following material intragroup transaction with Aegon N.V.;

- Insurance transactions across 4 different insurance policies for a total aggregate limit of liability of US$ 150 million.

The following paragraphs outline some generic information about Esprit's ultimate shareholder Aegon N.V. that are more specific for the Group SFCR but included here for completeness

C.5.1 Brexit

The United Kingdom has left the European Union and is currently in a standstill transition period until the end of December 2020. Technically, this period can be extended by two years but that has to be agreed by June at the latest according to the Withdrawal Agreement between the EU and the UK. Hence, Brexit remains of special consideration this year because of the uncertainty regarding the future relationship between the EU and the UK after the transition phase expires, which could expose Aegon to similar risk characteristics of a hard Brexit scenario. Aegon hence continues to prepare itself for the worst Brexit outcome. The main consequences of a 'hard Brexit' have been identified and contingency plans are in place. These plans are updated on a continuous basis. Focus areas for Aegon have been derivatives,data transfer and cross border policies.

C.5.2 IBOR transition

The future of IBORs (Interbank Offered Rates) such as Euribor, Eonia and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/panel input data. In the EU this is adopted in the new Benchmark Regulation (BMR) which stipulates that from January 2020 only BMR compliant benchmarks may be used within the EU. Aegon recognizes that IBOR transitions potentially have implications for all reporting units, including our insurance, asset management and banking activities. Despite current uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including a.o. derivatives, corporate bonds, structured debt products, deposits and mortgages. The impact of the IBOR transition on the business- and operating models are described in transition plans and include among others project solutions and actions, timelines and ownership to ensure timely preparation and implementation.

C.5.3 COVID-19

The Company is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its potential impact on Esprit. Esprit has a very liquid investment portfolio with no equity or derivative exposure. The most significant risks Esprit faces are related to underwriting risks (particularly related to D&O and E&O claims). Esprit continues to monitor claim activity which at this present moment in time is normalized. At the date of this report it is too early to tell what the impact of the COVID-19 crisis is on Esprit's underwritings result going forward.

D. Valuation for Solvency Purpose

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

D.1 Assets

Assets

		Solvency II value	Statutory accounts value
		C0010	C0020
Investment (other than assets held for index-linked and unit-linked contracts	**R0070**	**51,344,069**	**51,344,069**
Bonds	**R0130**	**41,027,651**	**41,027,651**
- Corporate Bonds	R0150	41,027,651	41,027,651
Deposits other than cash equivalents	R0200	10,316,418	10,316,418
Insurance and intermediaries' receivables	R0360	-	-
Receivables (trade, not insurance)	R0380	21,682	21,682
Cash and cash equivalents	R0410	557,490	557,490
Total Assets	**R0500**	**51,923,241**	**51,923,241**

Total Assets under Solvency II per 31 December 2019

Assets

		Solvency II value	Statutory accounts value
		C0010	C0020
Investment (other than assets held for index-linked and unit-linked contracts	**R0070**	**48,644,615**	**48,644,615**
Bonds	**R0130**	**33,817,078**	**33,817,078**
- Corporate Bonds	R0150	33,817,078	33,817,078
Deposits other than cash equivalents	R0200	14,827,537	14,827,537
Insurance and intermediaries' receivables	R0360	-	-
Receivables (trade, not insurance)	R0380	46,666	46,666
Cash and cash equivalents	R0410	1,950,046	1,950,046
Total Assets	**R0500**	**50,641,327**	**50,641,327**

Total Assets under Solvency II per 31 December 2018

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

D.1.1 Investments

This category contains 8 commercial paper investments ranging in value between US$ 4,000,000 and US$ 6,000,000 with maturities between 1 and 6 months at inception. These investments are valued for Solvency II purposes on the same basis as for the statutory financials (IFRS). Therefore, no material reclassification adjustments or material revaluation adjustments were required.

D.1.2 Cash and cash equivalents

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

D.1.3 Any other assets, not elsewhere shown

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

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

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

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

D.2.1 Technical provisions – non-life

Liabilities

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

Technical Provisions under Solvency II per 31 December 2019

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

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.

D.2.1.1 IFRS Treatment

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

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

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

D.2.1.2 Solvency II Treatment

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

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

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

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

The total revaluation adjustments of (US$ 1,140,660) include:

- US$ (2.655) million for the removal of margins
- US$ (0.734) million for the removal of future profit
- US$ 1.042 million for ULAE
- US$ (0.83) million for the allowance for discounting
- US$ 2.037 million for the Risk Margin

Which brings the Solvency II reserves to US$ 15,267,006 down from US$ 16,407,666 under IFRS.

D.3 Other liabilities

Any other liabilities

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

Other liabilities under Solvency II per 31 December 2019

Any other liabilities

Deferred tax liabilities	**R0780**	716,261
Insurance & intermediaries payable	**R0820**	267,439
Payables (trade, not insurance)	**R0840**	290,112
Any other liabilities, not elsewhere shown	**R0800**	-

Other liabilities under Solvency II per 31 December 2018

D.3.1 Deferred tax liabilities

A deferred tax liability of US$ 142,583 (2018: 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 2019 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 Insurance & intermediaries payable

Esprit's insurance & intermediaries payable of US$ 227,333 (2018: US$ 290,112) comprises premium taxes payable in several jurisdictions that were settled in Q1 2020.

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$ 1,500,000 (2018: US$ 1,500,000)
- Capital contribution of US$ 5,000,000 (2018: US$ 5,000,000)
- Retained earnings of US$ 28,478,751 at the 2019 financial year end (2018: US$ 26,462,823)

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 2019 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$ 22,976,829 at 31st December 2019 (2018: US$ 31,476,650). Total basic own funds were as follows:

		Total	Tier 1 - unrestricted
		C0010	C0020
Basic own funds before deduction for participants 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	1,500,000
Share premium account related to ordinary share capital	R0030	5,000,000	5,000,000
Total basic own funds after deductions	**R0290**	**29,476,829**	**29,476,829**

Total Basic Own Funds under Solvency II per 31 December 2019

		Total	Tier 1 - unrestricted
		C0010	C0020
Basic own funds before deduction for participants 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	1,500,000
Share premium account related to ordinary share capital	R0030	5,000,000	5,000,000
Total basic own funds after deductions	**R0290**	**37,976,650**	**37,976,650**

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 2019 Solvency Capital Requirement (SCR) based on the Standard Formula. The table below shows the individual components of the SCR at 31 December 2018 and 31 December 2019:

		2019	2018
		C0030	C0030
Market risk	R0010	3,608,588	3,543,939
Counterparty default risk	R0020	57,157	111,375
Non-life underwriting risk	R0050	6,255,336	6,318,130
Diversification	R0060	(1,927,238)	(1,936,825)
Basic Solvency Capital Requirement	**R0100**	**7,993,843**	**8,036,619**
Total capital requirement for operational risk	R0130	369,902	306,564
Loss-absorbing capacity of technical provisions	R0140	-	-
Loss-absorbing capacity of deferred taxes	R0150	(1,009,228)	(984,273)
Solvency capital requirement excluding capital add-on	**R0200**	**7,381,517**	**7,358,910**
Solvency capital requirement	**R0220**	**7,381,517**	**7,358,910**

Solvency Capital Requirement per 31 December 2019

E.2.2 SCR split by risk module

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

E.2.2.1 Non-life underwriting risk

For a non-life captive such as Esprit, 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$ 3,594,014 (2018: US$ 3,701,174), catastrophe risk for US$ 4,299,535 (2018: US$ 4,278,190) and a diversification of US$ 1,638,213 (2018: US$ 1,661,234) lead to the overall charge of US$ 6,255,336 (2018: US$ 6,318,130), which is broadly comparable to that of the prior period.

E.2.2.2 Market risk

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

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

The overall capital charge for market risk is US$ 2,907,595 after diversification (2018: US$ 3,513,047).

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 2019 for counterparty default risk is US$ 57,157 (2018: US$ 111,375).

E.2.3 SCR solvency ratio

The SCR solvency ratio is obtained by dividing the total own funds by the SCR. For the 2019 year end, the solvency ratio was 487% (2018: 516%) which is broadly comparable to that of the prior period and is indicative of the stable risk profile year on year.

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.2.4 Minimum capital requirement

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

For Esprit, the MCR is capped at US$ 3,321,683 (2018: US$ 3,311,509) and floored at US$ 1,845,379 (2018: US$ 1,839,727). To convert the absolute floor of EUR €3,700,000 into US Dollar, the officially published exchange rates by EIOPA have to be used. For 31 December 2019, the applicable conversion rate was 1.1234 (2018: 1.145), which determined the absolute floor to be US$ 4,156,580 (2018: US$ 4,236,500). As this is in excess of the calculated MCR cap, the absolute floor is the applicable MCR for the Company.

E.2.5 MCR solvency ratio

The MCR solvency ratio is obtained by dividing the total own funds by the MCR. For the 2019 year end, the MCR solvency ratio was 866% (2019: 897%) which is broadly comparable to that of the prior period.

E.2.6 Loss absorbing capacity of deferred tax ("LACDT")

Under Solvency II guidelines, the deferred tax asset that would be generated in the SCR can be offset against the SCR requirement if the Board is of the view that the Company would continue to trade profitably into the future.

The recoverability of this deferred tax asset is tested as part of the Company's ORSA process. This testing is a requirement of the CBI for companies that wish to include deferred tax assets in their available capital for solvency purposes. Although deferred tax assets can be carried forward indefinitely in the Irish tax system, the CBI has indicated that whilst it will not exclude profits beyond 5 years in this calculation, 'consideration should be given to the normal planning cycle of 3-5 year period'. The Company's profits in the projection period were analysed using our base case assumptions and given the Company is expected to remain profitable in the planning period it considers it reasonable to allow 100% of the deferred tax asset for the SCR calculation throughout the projection period.

E.3 Non-compliance with capital requirements

There have not been any instances during 2019 that the estimated Solvency II ratio was below the SCR, nor the MCR level. To ensure that Esprit maintains adequate Solvency levels, actual and expected capital positions are monitored against capitalization zones that are defined in the Company's Capital Management policy. Several activities are performed to monitor and assess the future development of our Solvency position, such as the annual Budget Medium Term Planning (MTP) process and periodic management reporting.

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

Appendix 1

S.02.01.02

Annex I
S.02.01.02
Balance sheet

		Solvency II value
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**	51,344
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	41,028
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	41,028
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	10,316
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	**R0280**	
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet	**R0400**	
Cash and cash equivalents	**R0410**	557
Any other assets, not elsewhere shown	**R0420**	22
Total assets	**R0500**	51,923

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	15,267
Technical provisions – non-life (excluding health)	**R0520**	15,267
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	13,230
Risk margin	**R0550**	2,037
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**	143
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	227
Reinsurance payables	**R0830**	
Payables (trade, not insurance)	**R0840**	309
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	
Total liabilities	**R0900**	15,946
Excess of assets over liabilities	**R1000**	35,977

S.05.01.02

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

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Line of business for:				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**								4,400									4,400
Gross - Proportional reinsurance accepted	**R0120**																	
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**																	
Net	**R0200**								4,400									4,400
Premiums earned																		
Gross - Direct Business	**R0210**								4,396									4,396
Gross - Proportional reinsurance accepted	**R0220**																	
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**																	
Net	**R0300**								4,396									4,396
Claims incurred																		
Gross - Direct Business	**R0310**							-5	-701									-706
Gross - Proportional reinsurance accepted	**R0320**																	
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**																	
Net	**R0400**							-5	-701									-706
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**								693									693
Other expenses	**R1200**																	
Total expenses	**R1300**																	693

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

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
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					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	30	4,370					4,400
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140							
Net	R0200	30	4,370					4,400
Premiums earned								
Gross - Direct Business	R0210	29	4,368					4,396
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240							
Net	R0300	29	4,368					4,396
Claims incurred								
Gross - Direct Business	R0310	-46	-660					-706
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340							
Net	R0400	-46	-660					-706
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	40	653					693
Other expenses	R1200							
Total expenses	R1300							693

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							

S.17.01.01

Annex I
S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and surety ship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060								2,994									2,994
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								2,994									2,994
Claims provisions																		
Gross	R0160								10,236									10,236
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								10,236									10,236
Total Best estimate - gross	R0260								13,230									13,230
Total Best estimate - net	R0270								13,230									13,230
Risk margin	R0280								2,037									2,037
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								15,267									15,267
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								15,267									15,267

S.19.01.21

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)

		Development year											In Current year	Sum of years (cumulative)
	Year		1	2	3	4	5	6	7	8	9	10 & +		
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100													
2010	R0160			1	-1									
2011	R0170													
2012	R0180													
2013	R0190													
2014	R0200													
2015	R0210													
2016	R0220													
2017	R0230			11									11	11
2018	R0240													
2019	R0250													
	Total												R0260	11	11

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year											Year end (discounted data)
	Year		1	2	3	4	5	6	7	8	9	10 & +	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100											0	0
2010	R0160							189	107				
2011	R0170						418	264	141	577			518
2012	R0180					566	424	225	679				608
2013	R0190				1,402	637	431	786					708
2014	R0200			2,637	1,523	836	916						828
2015	R0210		3,097	2,179	1,062	1,042							968
2016	R0220	643	3,638	1,578	1,144								1,122
2017	R0230	240	2,687	565									558
2018	R0240	591	4,549										4,345
2019	R0250	619											581
	Total												R0260	10,236

S.23.01.01

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	29,477	29,477			
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	35,977	35,977			
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	35,977	35,977			
Total available own funds to meet the MCR	R0510	35,977	35,977			
Total eligible own funds to meet the SCR	R0540	35,977	35,977			
Total eligible own funds to meet the MCR	R0550	35,977	35,977			
SCR	R0580	7,382				
MCR	R0600	4,157				
Ratio of Eligible own funds to SCR	R0620	487.39%				
Ratio of Eligible own funds to MCR	R0640	865.54%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	35,977
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	29,477
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	

S.25.01.01

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	3,609		
Counterparty default risk	R0020	57		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	6,255		
Diversification	R0060	-1,927		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	7,994		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	397
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-1,009
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	7,382
Capital add-on already set	R0210	
Solvency capital requirement	R0220	7,382
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	

		Yes/No
Approach to tax rate		C0109
Approach based on average tax rate	R0590	1 - Yes

Calculation of loss absorbing capacity of deferred taxes		LAC DT C0130
LAC DT	R0640	-1,009
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable economic profit	R0660	-1,009
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-1,049

S.28.01.01

Annex I
S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		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		
General liability insurance and proportional reinsurance	R0090	13,230	4,400
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	7,382
MCR cap	R0320	3,322
MCR floor	R0330	1,845
Combined MCR	R0340	1,939
Absolute floor of the MCR	R0350	4,157
		C0070
Minimum Capital Requirement	R0400	4,157