

# Transamerica Life (Bermuda) Ltd.

Financial Condition Report for  
the twelve (12) month period  
ending 31 December 2023

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Transamerica Life (Bermuda) Ltd. (the “Company”) was incorporated in Bermuda on 27 May 2005 and was registered and licensed as a Long-Term insurer by the Bermuda Monetary Authority on 5 August 2005 under the Bermuda Insurance Act 1978, to carry on insurance business. The Company was registered as a Class E Long Term insurer on December 30, 2011.

## **1. Business and Performance**

### **(a) Name of Insurer**

Transamerica Life (Bermuda) Ltd.

### **Supervisors**

#### **Insurance Supervisor**

Bermuda Monetary Authority  
BMA House  
43 Victoria Street, Hamilton  
Bermuda

The Company also has branch offices in Hong Kong and Singapore. Details of the relevant insurance supervisors in those jurisdictions are as follows:

Insurance Authority  
19th Floor  
41 Heung Yip Road  
Wong Chuk Hang  
Hong Kong

Monetary Authority of Singapore  
10 Shenton Way  
MAS Building  
Singapore 079117

#### **Group Supervisor**

The Company is a member of the Aegon Group of Companies (“Aegon Group”). The Bermuda Monetary Authority is responsible for the supervision of the Company’s ultimate parent, Aegon Ltd. (“Aegon”), which was formerly known as Aegon N.V.

**(b) Approved Auditor**

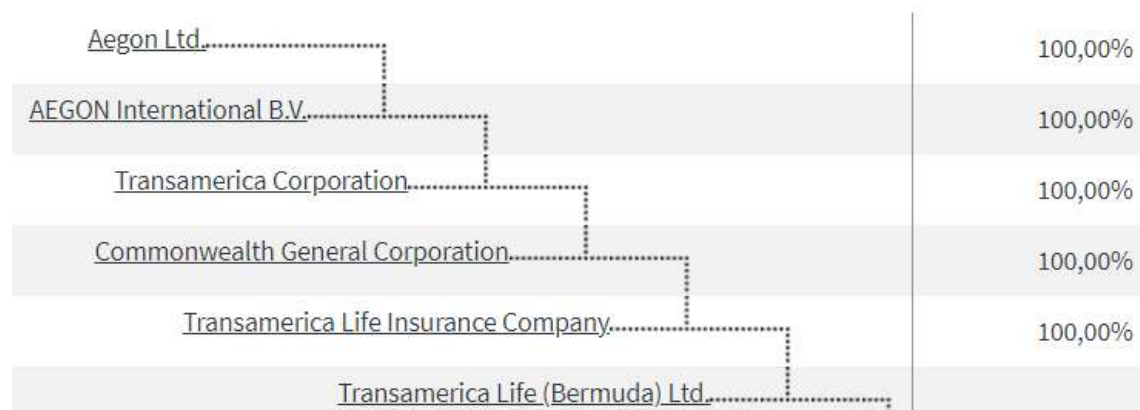
PricewaterhouseCoopers Ltd.  
 4th Floor, 16 Church Street  
 Hamilton, HM 11  
 Bermuda

**(c) Ownership Details**

The Company is a wholly owned subsidiary of Transamerica Life Insurance Company ("TLIC"). TLIC is a wholly owned indirect subsidiary of Aegon Ltd.

**Group Structure**

The following chart provides details of the Company in the Aegon Group Structure.

**(d) Insurance Business Written by Business Segment and by Geographical Region**

The Company specializes in providing life insurance solutions to high-net-worth individuals, families and businesses, via its universal life and term life insurance products. The Company currently operates primarily in the high net worth markets in Asia through local branch offices in Singapore and Hong Kong. In addition, business is also written from Bermuda. All of the Company's current business is direct insurance business.

A breakdown of the premium income for the Company by geographical region and type of business is shown below. Gross Written Premiums are taken from the Statutory Statement of Income.

**i. Gross Written Premiums by Geographical Region for the Reporting Period**

<u>Region</u>	<u>US\$'000</u>	<u>US\$'000</u>
	<b>2023</b>	<b>2022</b>
Hong Kong	39,906	42,908
Singapore	84,596	52,924
Bermuda	3,633	325
<b>Total</b>	<b>128,135</b>	<b>96,157</b>

The income from gross written premiums has increased in 2023, when compared to 2022. This is mainly driven from the Bermuda and Singapore branch from product enhancements and campaign promotions for Genesis Indexed Universal Life.

**ii. Gross Written Premiums by Business Segment for the Reporting Period**

<u>Line of Business</u>	<b>US\$'000</b>	<b>US\$'000</b>
	<b>2023</b>	<b>2022</b>
Mortality	125,671	90,910
Deferred Annuities	22	18
Accident and Health	2,442	5,229
<b>Total</b>	<b>128,135</b>	<b>96,157</b>

**(e) Performance of Investments and Material Income and Expenses for the Reporting Period**

**i. Investment types held by the Company for the Reporting Period**

The Company invests in a combination of Government bonds and corporate bonds as well as carefully selected additional asset classes such as asset backed securities and mortgage-backed securities. The Company primarily covers its technical provisions with government and investment grade fixed income securities. Assets are US Dollar denominated in order to match the Company's technical provisions which are predominantly US Dollar denominated. The market value of assets is taken from the Economic Balance Sheet.

<u>Market Value</u>	<b>US\$'000</b>	<b>US\$'000</b>
	<b>2023</b>	<b>2022</b>
Cash	81,372	58,108
Corporate and Government bonds	937,812	1,272,539
Asset/Mortgage-Backed Securities	68,663	55,525
<b>Total</b>	<b>1,087,847</b>	<b>1,386,172</b>

There was a change in the investment portfolio for 2023. There are 3 portfolios which are earmarked for the purpose of dividend payment to the parent company, Transamerica Life Insurance Corporation. As at 31 December 2023, a total value of U\$188,663,319 assets were disposed for dividend payment.

With effect from 1 July 2022, the Company reinsured a substantial portion of its inforce Universal Life policies to TLIC, in an affiliate coinsurance arrangement. The assets used to back those policies were transferred to a trust ("TLIC-TLB trust") established by TLIC, with the Company as beneficiary.

The Company's investment performance, based on the Statutory Statement of Income is shown below.

**ii. Investment performance of the Company for the Reporting Period**

<u>Investment Income</u>	<b>US\$'000</b>	<b>US\$'000</b>
	<b>2023</b>	<b>2022</b>
Gross investment income	66,924	165,634
Interest on policy loans	(122)	100
Realized (losses) / gains	(6,440)	(609,280)
Investment expenses	(1,491)	(4,601)
<b>Total Investment Performance</b>	<b>58,871</b>	<b>(448,147)</b>

Investment income and investment expenses have decreased from 2022 to 2023, mainly due to decrease in assets under management, as assets were transferred to the TLIC-TLB trust.

The Company achieved an average investment gross book yield, before investment expenses, of 4.79% (2022: 4.53%). The average gross book yield is calculated based on the weighted average using the market value of the assets and the gross book yield percentages.

<b><u>Gross Book Yield %</u></b>	<b>2023</b>	<b>2022</b>
Government	3.18%	2.92%
Corporate	5.01%	4.70%
Asset-Backed Securities	6.02%	5.14%
Mortgage-Backed Securities	3.49%	3.19%
<b>Average Gross Book Yield %</b>	<b>4.79%</b>	<b>4.53%</b>

### **iii. Material Income and Expenses for the Reporting Period**

The Company's main sources of revenue are premiums, fees and charges from insurance contracts and investment income. Premium income has reduced from the prior year, as mentioned previously. Investment income has increased from the prior year broadly in line with the growth in the Company's assets under management.

The Company's major expense categories are commissions, claims, and operating expenses.

As is typical of a growing company with high levels of new business sales, commissions remain the predominant expense category.

Expenses for the reporting period are taken from the Statutory Statement of Income.

	<b>US\$'000</b>	<b>US\$'000</b>
	<b>2023</b>	<b>2022</b>
Surrenders	3,534	153,345
Claims	1,641	3,910
Commissions	32,173	8,080
Operating Expenses	38,921	41,300
<b>Total</b>	<b>76,270</b>	<b>206,636</b>

## 2. Governance Structure

### (a) Board and Senior Executives

#### **Board and Senior Executive Structure, Role and Responsibilities**

The Company's Board of Directors ("Board") is ultimately entrusted with establishing that a sound and prudent governance framework is in place and functioning appropriately, as well as directing the overall strategic direction of the Company. The Board has delegated to the Company's management the responsibility for the day-to-day management of the business of the Company in accordance with the strategy, objectives and policies set by the Board from time to time. In addition, certain matters have been delegated by the Board to the Risk and Capital Committee, the ALM & Investment Committee (a sub-committee of the Risk and Capital Committee) and the Audit Committee for consideration and advice. Matters delegated to these committees are regularly reported to the Board in accordance with the terms of their respective charters.

The Board is comprised of six directors; one executive director, three non-executive directors, and two independent directors. The roles and responsibilities of the Board are outlined in the Company's Bye-Laws and the Board of Directors' Charter. The Board is required to meet in Bermuda at least four times each year, or more often as may be required to fulfil its responsibilities effectively and prudently.

Further details about the Company's Senior Executives are provided in following sections.

#### **Remuneration Policy and Practices**

As a member of the Aegon Group of Companies, the Company follows the Aegon Group's global remuneration framework. The Aegon Group has developed effective remuneration policies that do not induce excessive or inappropriate risk-taking, are in line with its risk-appetite and long-term interests and have proper regard for the interests of its stakeholders. The global remuneration framework includes both base (fixed) compensation and variable compensation. Variable compensation is capped at an appropriate level as a percentage of base pay and varies in accordance with both the Company's and individual's performance. Independent board members receive a flat fee. Employees of Aegon Group receive remuneration according to their roles and responsibilities, including in their capacity as Board Members.

#### **Pension or Early Retirement Schemes for Members, Board and Senior Executives**

Employees of the Company, (including employees who are members of the Board or Senior Executives) are offered pension arrangements and retirement benefits. Benefits offered are consistent with the Aegon Group's policies. Employees of the Company participate in pension plans as and when offered in the country in which their employment agreements are constituted.

#### **Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board and Senior Executives**

No material transactions.

## **(b) Fitness and Propriety**

### **Fit and Proper Process**

The Company appoints members of the Board based on the individual's expertise and work experience as well as professional judgment. Before being appointed, all candidates undergo a rigorous selection process and background screening.

The Company appoints Senior Executives based on individual expertise and work experience relevant for the position. Before appointment, all candidates undergo internal selection process with assessments and input from key functional areas. Certain regulated positions (including Chief Executive of Hong Kong and Singapore Branch, Key Persons in Control Functions of Hong Kong Branch, Approved and Appointed Actuaries) must also be approved by local regulators. All candidates are subject to background screening before commencing permanent employment.

### **Board and Senior Executives Professional Qualifications, Skills and Expertise**

Details of the qualifications, skills and expertise of the Board and the Company's Senior Executives are set out below.

#### **Board**

##### **Thomas Grondin – Non-Executive Director, Chairman**

Tom has nearly 30 years of industry related experience as a qualified Actuary, including over 20 years at executive level in various positions, including as Chief Risk Officer for Aegon N.V. from 2003 to January 2016, Chief Financial Officer for Aegon Asia from January 2016 to June 2017 and Executive Chairman for Aegon-Sony Life in Japan from June 2018 to January 2020.

Tom currently acts as a consultant to Aegon (in the Netherlands and Asia) and is a lecturer at the University of Windsor, Ontario. He is also a Fellow of the Society of Actuaries and has a B.A. Honours degree in Mathematics and Statistics from the University of Windsor.

##### **Chirag Rathod – Executive Director, CEO**

Chirag has over 20 years of insurance expertise having undertaken a variety of roles based in the UK, India and Hong Kong. He is a qualified actuary with Fellow membership of the Institute and Faculty of Actuaries (IFOA) UK, Institute of Actuaries of India (IAI) as well as the Actuarial Society of Hong Kong (ASHK).

##### **Bonnie Gerst – Non-Executive Director**

Bonnie has over 25 years of experience in insurance finance, regulatory and international capital requirements. She is responsible for capital initiatives, dividend management and reinsurance relationships in the US operations. Bonnie previously worked as a Senior Manager at Ernst & Young from 1990 to 1997 before joining National Travelers Life as the CFO from 1997 to 2000. In 2000, Bonnie became a Vice President and Controller of Transamerica Life and became Head of Capital Strategy in 2016. Bonnie has expertise in reinsurance operations and has served as an interim chief accounting officer and has also held various leadership positions in regulatory and capital reporting, Solvency II, market consistent reporting, GSII global response team, M&A teams, reinsurance operations, accounting and strategy. Bonnie



serves as an officer and director of many legal entities within the Transamerica Group. Bonnie earned a B.S. degree in Accounting, Business Administration from Coe College and has passed the Certified Public Accountant exam.

**Marco Keim – Non-Executive Director**

Marco began his career with accountancy firm Coopers & Lybrand/Van Dien. He has also worked at aircraft manufacturer Fokker Aircraft and NS Reizigers, part of the Dutch railway company, NS Group. In 1999, he joined Swiss Life in the Netherlands as a member of the Board and was appointed CEO three years later.

Mr Keim was appointed CEO of Aegon The Netherlands and member of Aegon's Management Board in June 2008. From 2017 to 2020, Mr. Keim headed Aegon's operations on mainland Europe. Since January 2020, Mr. Keim has been responsible for the International division, which today consists of Aegon's growth business units including Brazil, China, Portugal and Spain.

**Damian Resnik – Independent Director**

Damian is the Managing Director at Ocorian in Bermuda and is a Director for a portfolio of clients and is responsible for the management of service delivery, operational activities and organisational strategies. Damian specialises in business development and client relationship management, fund operations, investment management and compliance. With over 30 years' experience in international and financial services in Bermuda, Damian has held senior positions at a number of major businesses in the jurisdiction. Before joining Ocorian, Damian held positions of Vice President of Fund Operations at a Bermuda Fund Administrator, Chief Compliance Officer at a Hedge Fund Manager, and ILS Manager as well as the Head of Bermuda Investment Compliance at a global investment management company. Damian earned a Bachelor of Arts degree from Providence College, Providence Rhode Island. He is a Fellow of the International Compliance Association and a Member of the National Society of Compliance Professionals.

With effect from 1 February 2024, Damian resigned as independent director and Stephen Caton was appointed as independent director of the Company.

**Gerard Pennefather – Independent Director**

Gerard is an Associate Chartered Account (1991 New Zealand Society of Accountants). He has over 30 years of experience in banking, insurance, strategic advisory and executive search.

## Senior Executives

### **Ing Tai Ching – Chief Financial Officer**

Ing Tai Ching has over 15 years of working experience in the life insurance industry. His experience includes economic capital, risk management, pricing, valuation, reporting, reinsurance, ALM and IFRS 17 before joining TLB as the Chief Actuary and eventually the CFO. He holds the FSA and CERA designations from the Society of Actuaries and is also a CFA charterholder.

### **Frankie Chan – Bermuda Approved Actuary**

Frankie Chan has over 10 years of working experience in the life insurance industry and joined TLB in Nov 2017. He has experience in different actuarial related area such as various reporting (TEV, value of new business, economic capital, IFRS, HKIO, Bermuda reporting), ALM, reinsurance, assumption review and experience studies. He graduated from Chinese University of Hong Kong with a bachelors' degree in Insurance, Financial and Actuarial Analysis. He holds the FSA designations from the Society of Actuaries.

### **Brian Chui – Chief Risk Officer**

Brian has been working for Aegon since joining in May 2007. He has over 16 years of experience in external audit, internal audit and risk management experience. Brian holds qualifications in accounting, internal audit and financial risk management.

### **Anna Saing – Head of Legal and Compliance**

Anna has over 20 years post qualification experience as a lawyer, including almost 12 years' experience working in the life insurance and pensions industry. Before joining the Company in 2021, Anna led a team of Legal and Compliance professionals supporting the pensions and group life and health insurance business of Manulife Hong Kong and Macau.

### **Sarah Chan – Head of Human Resources**

Sarah has more than 20 years of experience in the financial services industry. Sarah attained a BA (Hons) in Business Administration from Bournemouth University and over the years has attained FLMI (Fellow Life Management Institute), ACS, AIAA, AIRC and LLIF (LIMRA Leadership Institute Fellow) qualifications specific to the insurance industry.

### **Frank Sullivan – Head of IT**

Frank has worked for the Aegon Group of Companies for more than 20 years in various roles across the Americas and Asia. Frank currently serves as the Company's Head of IT.

## **(c) Risk Management and Solvency Self-Assessment**

As a member of the Aegon Group, the Company incorporates the Aegon Group's Enterprise Risk Management Framework, Model Validation Framework, and Risk Policies, in developing its own policies.

The ERM Framework includes risk strategy and tolerance limits, which lays the foundation for managing risk throughout TLB. A comprehensive set of risk management activities for the key components are undertaken throughout the year. TLB has been able to effectively manage its key risks through the above policies and procedures. TLB reviews its ERM framework and risk policies regularly to effectively manage and monitor TLB's risk exposures. TLB is also implementing risk policy attestation process to confirm the operating effectiveness of the key

controls required by our risk policies regularly.

## **Risk Governance**

The Aegon Group's risk governance structure is comprised of a set of risk and capital committees on different organizational levels: group level, regional level, and at an entity level for the Company. The Company's Risk Management function and committees have matrix reporting to the Risk Management function at the next organizational level.

### **i. Three Lines Model**

In order to ensure conscious risk-return decision making and to limit the magnitude of potential losses within defined thresholds, a risk management structure has been established based on a 'Three Lines' model.

The Three Lines are: risk owners, risk management, and independent assurance, such as internal audit function. The application of the Three Lines structure promotes a professional risk management culture where risk management is embedded within the business.

The risk owners are directly responsible for managing and taking risk in accordance with defined risk tolerances and risk policies. This first line embeds risk management into all elements of the Company's value chain as well as in its supporting processes.

The Risk Management function facilitates and oversees the effectiveness and integrity of the Enterprise Risk Management framework across the Company and participates in decision making based on its authority. The role of the Risk Management function is to advise risk owners, thus resulting in informed decisions.

Finally, the Internal Audit function, together with the Approved Auditor, provides independent assurance regarding the effectiveness and integrity of the Enterprise Risk Management framework across the organisation. The Internal Audit function reports its observations directly to the Audit Committee, established by the Board.

### **ii. Risk Committees**

The Company's Risk and Capital Committee ("RCC") is responsible for overseeing the implementation of and compliance with the Company's Enterprise Risk Management framework, including its risk policies, guidelines, and tolerances.

The RCC ensures that risk management is appropriately integrated into the Company's broader strategy and monitors the Company's overall risk exposure. If the Company breaches a risk tolerance, the RCC supervises and monitors any necessary remediation and if needed, reports the matter to the next level within the risk governance structure as well as to the Board.

Significant risk decisions are made by the RCC, where the Chief Executives, Risk Management, and other key functions are represented. Material risk decisions made during RCC meetings are brought to the attention of the Board for a formal notification or approval by the Chair of the RCC (or delegate) in accordance with the Board of Directors' Terms of Reference.

The RCC is responsible for overseeing the implementation of the Company's Enterprise Risk

Management framework, including risk governance and measures taken, in order to provide a high level assurance to the Company's management that risk taking is in compliance with the defined risk management frameworks, policies, and guidelines. The RCC ensures that risk management is integrated properly into the Company's broader strategy and monitors the Company's overall risk exposure.

Specifically, the RCC is responsible for the following activities as documented in its charter: promoting risk management culture, setting overall risk policies and frameworks, supporting decision making and risk-based strategy development, providing oversight and ensuring appropriate risk reporting and escalation. The Chair of the RCC is the Company's CEO.

RCC is supported by the ALM and Investment Committee ("ALMIC"), IT Risk Working Group ("ITRWG"), and Country Review Committee ("CRC"). The ALMIC is responsible for overseeing and managing risks and profitability issues arising from investing TLB's assets to ensure that TLB's contractual liabilities will be met and adequate returns will be generated for the TLB's shareholders, subject to the risk tolerance and constraints. The ITRWG is responsible for providing advice and monitoring the development and implementation of IT risk management framework and programs, including overseeing compliance with TLB's IT risk appetite and tolerance throughout the company and by relevant line of business. The CRC serves as a platform to foster a systematic governance process with respects to jurisdictions that TLB has existing customers or potential new business opportunities. The objective is to facilitate informed and risk-based decision making to help achieve the company strategic goals.

## **Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures**

The Company has established an Enterprise Risk Management framework to help ensure that risks are managed at a level which is consistent with the requirements of various stakeholders, including policyholders, regulators and shareholders. This framework sets the boundaries for seeking an optimal risk profile and capital level, taking into account the risk/return characteristics of the Company. The framework also ensures that the Company maintains a solvency and liquidity position such that there is no plausible scenario that would cause it to default on its obligations to its policyholders.

The Company's Enterprise Risk Management framework is comprised of various risk policies and guidelines, including the Asset Liability Management Strategy. This document sets out the risk limits on the mismatch between interest rate sensitivity to the Company's liabilities and those assets used to back those liabilities.

The Company's Enterprise Risk Management framework is aligned with Aegon Group's risk management framework to manage risk exposures:

- **Identify Risk** – the Company's risk universe captures all material risks to which the Company is exposed. The emerging risk process ensures that the risk universe remains up to date. The Company employs various means in order to identify, measure and manage its risks. The tools, processes and methods used are documented in various risk policies, procedures and guidelines, which are included in the Company's Enterprise Risk Management framework. Management information is used to identify the key risks to which the business is exposed. Significant risks that could materially affect the Company's financial position or the objectives of the organisation are included in the Company's risk register;
- **Measure** – The Company uses multiple ways to measure risks, including risk exposures included in the Company's risk register. The impact of risk on various metrics is analyzed including but not limited to regulatory capital, earnings, economic required capital, economic value and liquidity. The Company complements quantitative measures of risk with qualitative risk statements and risk analyses;
- **Manage** – Each identified and assessed risk is addressed by risk responses of accept, control, transfer and avoid. Any risk that is not accepted will have a specific and realistic action plan with ownership and timelines agreed upon to ensure risk exposure is retained within the Company's risk tolerance; and
- **Report** – The Company produces a set of risk reports to measure, monitor and manage risk. The reports are designed to cover the broad range of risks as defined in the Company's risk universe. The RCC are informed of all material risk exposures and that such risks have been tracked against the Company's risk guidelines. Breaches of risk limits are escalated to the Board. Risk reports are reviewed on a quarterly basis and, where relevant, are used to identify the key sensitivities to the Company's solvency position as part of testing the capital adequacy of the Company.

As detailed above, the Company's risk management framework is integrated into the Company's systems, processes and procedures via the Enterprise Risk Management framework. The Board, RCC, Risk Management function, Internal Audit function as well as external parties (where deemed necessary) review the controls to ensure that controls are operating effectively.

## **Relationship between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management**

As part of its annual strategy and business planning process, the Company projects its capital and solvency position over a three year period. Capital and solvency are analysed further through the production of a number of stress and "extreme event" scenarios. The results of the stresses are used by the Company to understand its vulnerability to various events and to identify potential mitigating actions available in such circumstances in the form of management actions. Hence, this process of solvency self-assessment and identification of key risks forms an integrated part of the Company's strategy and business planning processes.

In addition to the annual strategy and business planning processes, the Company also undertakes annual stress and scenario tests as part of the Bermuda CISSA, Hong Kong Dynamic Solvency Testing and Own Risk and Solvency Assessment, and Singapore Own Risk and Solvency Assessment. The results of these tests are further used by the Company to understand the material risks to solvency and capital under the Bermuda, Hong Kong and Singapore regulatory regimes. These documents are produced by the Approved or Appointed Actuary in the various countries and presented to the RCC and/or the Board to ensure escalation of issues, if any, in a timely manner.

Due to the structure and multiple regulatory regimes in which the Company is operating, the solvency position under Bermuda, Hong Kong and Singapore statutory requirements is estimated on a quarterly basis and reviewed by the RCC.

## **Solvency Self-Assessment Approval Process**

The approval processes for the various solvency projections and sensitivities are described in the previous section.

### **(d) Internal Controls**

#### **Internal Control System**

This section outlines the general principles of the Company's internal control system and of the Risk Management Framework which is a key element of the Aegon Group's internal control system.

The Company has documented signing authority limits and requirements as part of its internal control framework and agreed procedures on the opening of bank accounts. Operating procedures and limits also apply to the Company's bank accounts. The Company

has also established robust documented controls over other operating procedures to reduce the potential for fraud risk, as well as money laundering processes and procedures in order to reduce the risk of anti-money laundering. Proper segregation of duties has been established.

The Company has documented internal controls which are performed either internally or through services agreements with affiliates.

The Company has outsourced its Internal Audit function to Aegon International. The Internal Audit function audits the Company's internal controls. The Board relies on the Internal Audit function to perform audits on operating procedures and to report back to the Board with the results.

The general principles of the Company's internal control system apply to all functional areas. These principles are:

- Compliance with the Aegon Group's Code of Conduct. The Aegon Group Code of Conduct states that all employees will conduct their work in an ethical manner;
- If employees of the Company become aware of or observe fraud, questionable accounting practices, or other unethical behavior they should report it to a member of management, Human Resources or to their local ethics hotline;
- Employees must be instructed regarding sensitivity and confidentiality of Company and policyholder or client information;
- All departments must develop a system of internal control to ensure that the assets and records of the Company are adequately protected from loss, theft, alteration or unauthorised access;
- All departments establish and maintain adequate segregation of duties. Where adequate segregation cannot be achieved, other compensating controls must be established and documented;
- The Company has a business continuity plan in place with a regular update process, and
- Records of the Company must be maintained in compliance with record retention policies and local regulatory requirements.

### **(e) Compliance Function**

The Compliance function is, on behalf of the Board, responsible for the supervision and oversight of the Company acting in a compliant manner, and for proactively advising the Board on all compliance issues. The Compliance function also monitors regulatory changes in relevant jurisdictions and compliance with applicable existing rules and laws. In this context the Compliance function is expected to proactively support the Company's management by highlighting compliance responsibilities and supporting the Company's management in the design and implementation of appropriate controls.

## **(f) Internal Audit Function**

As noted above, the Company has outsourced its Internal Audit function to Aegon International. The Internal Audit function assists the Board in protecting the Company's assets, reputation and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. An annual audit plan is developed using a risk-based methodology. The annual audit plan and any subsequent changes have to be approved by the Audit Committee before taking effect.

The Internal Audit function executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit including the Code of Ethics, as well as with the Aegon Group's policies and procedures.

## **(g) Actuarial Function**

The Company's Bermuda Monetary Authority Approved Actuary reports directly to the Chief Financial Officer and also has the ability to communicate directly with the Board. The Actuarial function has staff based in Hong Kong and Singapore.

The objectives of the Actuarial function are to:

- Ensure appropriate methodology and best estimate assumptions for the valuation of the Company's liabilities and related items, including procedures that ensure timely review and appropriate level of granularity on an ongoing basis;
- Ensure that insurance liabilities and related items are valued and reported properly, including choice of valuation approach, reflection of uncertainty and management discretion, model set-up and other relevant components of valuation;
- Furnish the Company's management with actuarial analysis and advice concerning appropriateness of data, assumptions and methodologies used to determine technical provisions and related items including items that are deemed to require future attention; adequacy of reinsurance and coinsurance arrangements; and impact of strategic or management decisions on liabilities;
- Contribute to the risk management function by performing sensitivity testing, scenario analysis, and calculation of capital requirements;
- Support the Company's management in the execution of effective underwriting policies, in particular pricing and product development, by providing expert opinions; and
- Ensure compliance with regulatory (actuarial reporting) requirements, including local actuarial sign-off on adequacy and/or appropriateness of reserves.



## **(h) Outsourcing**

### **Outsourcing Policy**

The Company has an 'Outsourcing Risk Policy Compliance Guideline' which aims to ensure that significant arrangements entered into by the Company are subject to appropriate due diligence, approval and on-going monitoring. All material risks arising from these activities are appropriately managed to ensure that the Company is able to meet both its financial and service obligations.

The Company mainly outsources key functions to Aegon-affiliated companies.

### **Intra-group Outsourcing Arrangements**

The Company makes use of several affiliated service companies which perform a range of services for it. These affiliated service companies are fully owned by the Aegon Group. The Company depends on TLIC for actuarial, reinsurance administration and financial reporting support, although the extent of this support is reducing significantly as the Company continues to build independent processes in-house. The Company also leverages Money Services Inc., which provides IT infrastructure support. The Company has outsourced its asset management to Aegon USA Asset Management LLC ("AUIM"). AUIM manages the Company's investments based on investment mandates.

The Company has also entered into a Services Agreement with the Transamerica (Bermuda) Services Center, Ltd. ("TBSC") pursuant to which TBSC performs certain management, consulting, advisory, legal and compliance services which are incidental to the conduct of the Company's business. In addition, and as previously noted, the Company's Internal Audit function has been outsourced to Aegon International.

### 3. Risk Profile

#### General

As an insurance company, the Company is exposed to a variety of risks. The Company's largest exposures are to changes in financial markets (e.g. interest rate and credit risks) that affect the value of the investments and liabilities from products that the Company sells. Other risks include insurance related risks, such as changes in mortality. The Company manages risk based on principles and policies established locally and at the Aegon Group level.

#### Market Risk

The main investment objective of the Company is to provide investment income sufficient to support the Company's liabilities while preserving its invested capital. Market risk covers both investment risk and mismatch risk.

Investment risk exposure captures the risk that the market value of the Company's investments change. Underlying risk drivers vary with specific investment risk types and are generally related to the ability of the issuing entity to make good on the promises of the investment.

Mismatch Risk captures the risk that arises from assets and liabilities having different sensitivities to interest rates and currency exchange rates. It covers three distinct risk types: interest rate risk, interest rate volatility risk and currency risk.

The Company has established risk policies to manage market risk by setting and monitoring objectives and constraints on investment, diversification and limits on investment in asset allocation, regions, sectors, issuers, and market. The risk policies also cover asset liability matching, liquidity risk, and derivatives use. The Company's ALMIC has the primary responsibility for investment oversight.

Compliance with the investment risk policies is monitored by the Company's investment manager daily and by the ALMIC quarterly. This Committee monitors various investment reports as part of its supervision of the Company's investment activities.

#### Insurance Risk

Underwriting risk, also referred to as "insurance risk", may arise from deviations in product pricing assumptions. These are typically actuarial assumptions that cover policyholder behaviour and claims. Underwriting risk is the result of both the inaccuracies in projecting liability cash flows over several future time periods, as well as fluctuations in the incidence of claims.

The Board defines the risk tolerance for insurance risk relative to overall risk capacity by setting specific risk limits. The Company monitors risk tolerance exposures and performs stress tests. If these risk monitoring tools fail, specific actions in the Company's capital management plan would be triggered.

The Company maintains documented underwriting processes that cover the assessment of proposals against evidence to support the applications. The processes also ensure that appropriate premium rates are charged based on internal guidelines. These processes are periodically validated by internal quality assurance processes, internal audits and external reinsurer reviews.

The Company also conducts experience studies to determine whether any portfolio experience deviates materially from assumptions. Segments that are evaluated as part of the experience studies may include country of residence, gender, age, risk class, and smoker status. Higher than expected mortality claims may reduce the available capital; if the deterioration in mortality experience is expected to persist, the Company will reflect such changes in the best estimate mortality assumption as appropriate.

### **Risk Mitigation in the Organisation**

The Company monitors risk policy compliance via reports that were developed based on Aegon's Enterprise Risk Management Framework. This includes tracking the portfolio, capital markets, and performing various stress tests. The risk reports are reviewed by the RCC regularly and risk limit breaches are escalated to the Board.

### **Material Risk Concentrations**

The Company has entered into an Investment Management Agreement and a Portfolio Management Mandate (together the "IMA") with AUIM, retaining AUIM as its investment manager. The IMA contains investment guidelines that the Company requires AUIM to follow when investing the Company's assets. The investment guidelines identify permissible investments and contain concentration limits by asset classes. The Company's investment portfolio is mainly exposed to interest rate risk, spread risk, and default risk.

### **Prudent Person Principle**

The prudent person principle is in the scope of the Aegon Group's system of governance. The investment mandates which form part of the Company's IMA with AUIM ensure that the prudent person principles are satisfied. Risks on the investment side are reported in risk reporting and also in more detailed reporting done by AUIM. Concentrations in exposures are avoided by setting limits on risk types, by testing extreme scenarios in the budgeting and planning process and by setting single counterparty limits in the Aegon Group Credit Name Limit Policy. The requirements related to the use of derivatives are documented in the Aegon Group Derivative Use Policy. The key principle of that Policy is that the derivative program is documented and used for risk mitigation purposes.

### **Stress Testing and Sensitivity Analysis to Assess Material Risks**

The Company undertakes stress testing in a number of different ways. More details are provided in the earlier section on Risk Management and Solvency Self-Assessment.

## 4. Solvency Valuation

### (a) Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has used the valuation principles outlined by the Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents – includes cash at the bank and money market accounts which are short-term highly liquid investments with original maturities of three months or less.
- Fixed Income Securities – The fair values of fixed income securities are determined by management after taking into consideration several sources of data. When available, the Company uses quoted market prices in active markets to determine the fair value of its investments. The Company's valuation policy utilises a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third-party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. Lastly, securities are priced using internal cash flow modelling techniques. These valuation methodologies commonly use reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.
- Policy loans – The fair value of policy loans is considered to approximate the book value of the loan, which is stated at the unpaid principal balance.
- Accounts and Premiums Receivable – These are recorded at fair value and balances due in more than one year have been discounted at the relevant risk free rate.
- Reinsurance Balances Receivable – These are recorded at fair value and balances due in more than one year have been discounted at the relevant risk free rate.
- Sundry Assets – These are recorded at fair value.

### (b) Valuation Bases, Assumptions and Methods used to Derive the Value of Technical Provisions

Technical provisions include a best estimate liability, the time value of options and guarantees, and a risk margin. The standard approach, as set out in the Bermuda Monetary Authority's Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime, is utilised to calculate the Company's technical provisions. The methodology is described below.

#### Standard approach

- Best estimate liabilities using one risk neutral scenario
- Time value of options and guarantees using stochastic economic scenarios;
- Risk margin calculation using a Cost of Capital approach

**Best Estimate Liability**

Best estimate liability ("BEL") is the present value of future liability cash flows which are based on best estimate assumptions, which are discounted using the Bermuda Monetary Authority yield curves.

The cash flows taken into account in the valuation are based on current estimates and include:

- Future best-estimate premium payments;
- Benefit payments to policyholders, including an allowance for any discretionary benefits;
- Expenses and commissions;
- Investment costs;
- Payments to and from reinsurers or other providers of risk mitigation; and
- Other cash flow items which are expected to be charged to policyholders or required to settle the obligations.

**Time Value of Options and Guarantees**

The allowance for the time value of financial options and guarantees is based on stochastic techniques using methods and assumptions consistent with the underlying embedded guarantees. All projected cash flows are valued using economic assumptions such that they are valued in line with the price of similar cash flows that are traded in the capital markets.

**Risk Margin**

The risk margin is calculated using Cost of Capital approach for the non-hedgeable risks.

The cost of holding the required capital is set as prescribed by the Bermuda Monetary Authority and the projected costs are then discounted at the risk free rate that is also prescribed by the Bermuda Monetary Authority. The risk margin is calculated to be US\$7,993,000.

**(c) Description of Recoverables from Reinsurance Contracts**

The calculation of the reinsurance recoverable balances is based on principles similar to the calculation of the gross long term business insurance technical provisions.

**(d) Valuation Bases, Assumptions, and Methods to Derive the Value of Other Liabilities**

Other liabilities on the Company's balance sheet include insurance and reinsurance balances payable, tax liabilities, amounts due to affiliates, accounts payable and accrued liabilities, and sundry liabilities (advance premium). These liabilities are valued on the same basis as in the Statutory Financial Statements (IFRS).

**(e) Other Material Information**

No other material information.

## 5. Capital Management

### (a) Eligible Capital

#### **Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period.**

The Company's primary capital management objectives are to maintain a strong capital base to support the execution of its financial strategy and to meet regulatory capital requirements at all times.

The Company's key financial strategy include:

- Execution of strategic priorities – maintain the allocation of capital towards core businesses;
- Return of capital to shareholders – maintain an attractive capital return in the form of dividends to allow investors to share in the performance of the Company.

The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance. It strives for an appropriate capital structure that efficiently allocates the risk to the capital. The Company's capital and risk management strategy is annually reviewed and remains largely unchanged since the last reporting period.

To maintain a strong capital base, the Company identifies, assesses, manages, and monitors the various risk sources it faces in the course of business both currently and as anticipated over a three-year planning horizon.

#### **Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules**

At the end of the reporting period, all of the Company's \$0.8 billion eligible capital in the Economic Balance Sheet was Tier 1, the highest quality capital, consisting of capital stock, contributed surplus, and statutory surplus. The Company has no Tier 2 or Tier 3 Capital as at 31 December 2023.

As at 31 December 2022, all of the Company's \$1.13 billion eligible capital in the Economic Balance Sheet was Tier 1, the highest quality capital, consisting of capital stock, contributed surplus, and statutory surplus. The Company has no Tier 2 or Tier 3 Capital.

The various factors causing the decrease in Eligible Capital were:

- Dividends paid to shareholders in 2023,
- Strain caused by new business written.

Offset by:

- Decrease in Technical Provision after TLIC rebalanced collateral in 2023Q1

## **Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act**

At the end of the reporting period, the Company's \$0.8 billion eligible capital in the Economic Balance Sheet for its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirement ("ECR") was all categorized as Tier 1.

## **Confirmation of Eligible Capital That is Subject to Transitional Arrangements**

Not applicable.

## **Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR**

Not applicable.

## **Identification of Ancillary Capital Instruments Approved by the Authority**

Not applicable.

## **Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus**

The significant difference between Generally Accepted Accounting Principles ("GAAP") shareholder equity and available statutory capital and surplus is the impact of employing statutory-based technical provision valuation techniques in the Available Capital and Surplus calculation.

## **(b) Regulatory Capital Requirements**

### **ECR and MSM Requirements at the End of the Reporting Period**

At the end of the reporting period, the Company's regulatory capital requirements in the Economic Balance Sheet were assessed as follows:

	<b>US\$'000</b>	<b>US\$'000</b>
<b>Requirement</b>	<b>2023</b>	<b>2022</b>
Minimum Margin of Solvency	20,140	24,692
Transitional Enhanced Capital Requirement	49,621	93,589

The company reports the Transitional Enhanced Capital Requirement, as required by the Bermuda Monetary Authority, since 2019;

The transitional solvency ratio is 1616% as at end December 2023; and was 1209% as at end December 2022.

Solvency ratio has increased in 2023, mainly due to TLIC collateral rebalancing in 2023Q1.

### **Identification of Any Non-Compliance with the MSM and the ECR**

The Company was compliant with the MSM and ECR requirement throughout the reporting period.

### **A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness**

Not applicable.

### **Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance**

Not applicable.

## **(c) Approved Internal Capital Model**

### **Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used**

Not applicable.

### **Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model**

Not applicable.

### **Description of Methods Used in the Internal Model to Calculate the ECR**

Not applicable.

### **Description of Aggregation Methodologies and Diversification Effects**

Not applicable.



## **Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model versus the BSCR Model**

Not applicable.

## **Description of the Nature & Suitability of the Data Used in the Internal Model**

Not applicable.

## **Any Other Material Information**

Not applicable.

## **6. Subsequent Events**

None noted.

## **7. Declaration**

On behalf of the Board of Directors of the Company, we hereby declare that, to the best of our knowledge and belief, this Financial Condition Report fairly represents the financial condition of the Company in all material respects.

By order of the Board of Directors

*Ing Tai Ching*

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Ing Tai Ching  
Chief Financial Officer

*CSR*

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Chirag Rathod  
Chief Executive Officer