

RISK MANAGEMENT DISCLOSURE UNDER MAS NOTICE 124¹ (SINGAPORE BRANCH)

June 2022

¹The figures disclosed in this document are summarised to provide relevant and concise information to the readers. This document is published on 30 June 2022. More detailed and complete information is available at the MAS statistics page which can be found at <http://www.mas.gov.sg/Statistics/Insurance-Statistics/Insurance-Company>Returns/I556L.aspx>.

The following commentary is intended to provide you with relevant, timely and adequate information to give you a clear view of the business activities, performance and financial position of Transamerica Life (Bermuda) Ltd. (“Transamerica Life Bermuda”). We also hope that the information provided will enhance your understanding of the risks to which we are exposed and the way we manage these risks.

COMPANY PROFILE

From its foundation in 1906 to the present, Transamerica has helped individuals, families, and businesses to protect and preserve their wealth. Transamerica Life Bermuda has inherited this tradition of providing quality financial products and services. Transamerica Life Insurance Company owns approximately 94.07% of the shares in Transamerica Life Bermuda, with Aegon International B.V. owning the remaining shares (being approximately 5.93% of the shares in Transamerica Life Bermuda). Transamerica Life Insurance Company is a wholly owned indirect subsidiary of Aegon International B.V., and both Transamerica Life Insurance Company and Aegon International B.V. are wholly owned subsidiaries of Aegon N.V., one of the world’s leading life insurance and financial services organisations.

Leveraging on Transamerica’s experience in managing universal life insurance portfolios for over 40 years, Transamerica Life Bermuda specialises in providing life insurance solutions tailored for High Net Worth (“HNW”) individuals, families or businesses, via our universal life and term life products. Incorporated in Bermuda, Transamerica Life Bermuda currently has two branch offices located in Hong Kong and Singapore. Our team of specialist underwriters is experienced in handling exceptionally large sums assured and complex cases supporting specific legacy planning needs and key man protection.

The Singapore branch, which is subject to regulatory oversight by the Monetary Authority of Singapore (“MAS”), adopts a business-to-business model. Solicitation and distribution are conducted through insurance brokers, licensed financial advisers, capital markets intermediaries and banks that primarily target the HNW segment.

Our vision is to be an Asia-based leader in the HNW life insurance market by helping our HNW customers secure their financial futures and provide them with peace-of-mind. We adopt the following strategic priorities:

- **Innovative Product Offerings**

We offer a variety of universal life products and term products for uncompromising individuals. Our commitment to building truly innovative products has always been of paramount importance to us.

- **Embedded Business Partner Relationships**

We strive to select our business partners with specialised experience in serving the HNW market that share and demonstrate mutual commitment in providing exceptional customer service.

- **Exceptional Local Customer Service**

We have always strived to create leading customer experience. Our commitment to quality, service and ultimately our customers over the past century is something of which we are very proud.

- **Empowered Employees**

Investing in our employees is one of our critical strategic priorities. By continuing to invest in the personal and professional capabilities of our employees, we will help enable and empower them to better serve our customers.

CORPORATE GOVERNANCE

Board Responsibilities

Transamerica Life Bermuda's board of directors ("the Board") oversees Transamerica Life Bermuda's affairs, including those of the Singapore branch.

The Board meets at least four times a year to review business performance and key activities, and to ensure that adequate corporate governance frameworks are in place across the organisation. It also ensures that any reliance placed on group-level corporate governance practices are in accordance with any local regulatory requirements. The Board has established a separate Audit Committee, Risk and Capital Committee and an ALM Investment Committee (a sub-committee of the Risk and Capital Committee), all of which are constituted with written and approved charters.

Risk Governance

Aegon's risk governance structure comprises a set of risk and capital committees on different organisational levels: group level, regional level, and at an entity level for Transamerica Life Bermuda. Transamerica Life Bermuda's risk team and committees have matrix reporting to the risk function at the next organisational level.

Three Lines Model

In order to ensure conscious risk-return decision making and to limit the magnitude of potential losses to 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 internal audit. The application of the 'Three Lines' structure promotes a professional risk 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 Transamerica Life Bermuda'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 organisation and participates in decision making based on its authority as described in the charters. 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 external 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.

Risk Committees

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

The RCC ensures that risk management is appropriately integrated into Transamerica Life Bermuda's broader strategy and monitors Transamerica Life Bermuda's overall risk exposure. If Transamerica Life Bermuda 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.

The ALM Investment Committee, which is a sub-committee of the RCC, oversees and manages risk issues arising from investing assets to generate income and support contractual liability payments along with the related general account reserves and capital.

ENTERPRISE RISK MANAGEMENT

Transamerica Life Bermuda has established an Enterprise Risk Management framework to provide direction to manage the level of risk 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 risks that Transamerica Life Bermuda faces. This also ensures that Transamerica Life Bermuda 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 Enterprise Risk Management framework is embedded into Transamerica Life Bermuda's key functional areas such as business planning, capital planning and management, remuneration, pricing and product development, reinsurance as well as sales and operational processes.

Transamerica Life Bermuda's Enterprise Risk Management framework comprises 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 Transamerica Life Bermuda's liabilities and those assets used to back those liabilities.

To embrace the challenges and opportunities arising from environmental risk, the Enterprise Risk Management framework is enriched to incorporate formal governance and strategies to enhance Transamerica Life Bermuda's resilience to and management of relevant exposure. Further details on the environmental risk approach and exposures are consolidated at group level and presented in the Integrated Annual Report of Aegon N.V. via the below link.

<https://www.aegon.com/investors/annual-reports/#>

INSURANCE AND FINANCIAL RISK MANAGEMENT

Market Risk

The main investment objective of Transamerica Life Bermuda is to provide investment income sufficient to support Transamerica Life Bermuda's liabilities while preserving its invested capital. Market Risk covers both Investment Risk ("IR") and Mismatch Risk ("MR").

Investment Risk exposure captures the risk that the market value of Transamerica Life Bermuda's investments changes. Underlying risk drivers vary with specific IR risk types and are generally related to the ability of the issuing entity to make good on the promises of the investment. IR affects direct investments in the Singapore branch's non-par Singapore Insurance Fund and Offshore Insurance Fund.

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.

Transamerica Life Bermuda has established investment 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 investment risk policies also cover asset liability matching, liquidity risk and derivatives use. Transamerica Life Bermuda's ALM Investment Committee has the primary responsibility for investment oversight.

Compliance with the investment risk policies is monitored by the investment manager daily and by the ALM Investment Committee quarterly. This Committee monitors various investment reports as part of its supervision of Transamerica Life Bermuda's investment activities.

As at 31 December 2021, the Singapore branch had approximately SGD4.2 billion in investments as part of Transamerica Life Bermuda's total investment portfolio of approximately SGD9.8 billion [USD7.3 billion]. For details on these investments, please refer to Transamerica Life Bermuda's corporate brochure on our website which can be found at <https://www.transamericalifebermuda.com/en/home/>

Interest Rate Mismatch Risk

Transamerica Life Bermuda holds assets to back its liabilities under its insurance contracts. Mismatch risk is the risk of losses when these assets and liabilities display different sensitivities to certain risk factors (for example, interest rates). Interest rate mismatch risk is a key risk of Transamerica Life Bermuda's business.

Duration is one of the key metrics used to measure how well the assets and liabilities are matched with regard to interest rate sensitivity. This key metric is a measure of change in value as a result of small changes in interest rates. Transamerica Life Bermuda has an Asset Liability Management Strategy to help to ensure that the duration of the assets and associated liabilities are within the risk limit to keep potential losses to within an acceptable limit.

For internal management purposes, capital will be held for any mismatch risk taken, including both interest rate risk and volatility risk. As at 31 December 2021 the Singapore branch's regulatory Debt Investment and Duration Mismatch Risk Requirement was SGD358.5 million. This covers risk charges on interest mismatch risk and credit spread risk as defined by Singapore's Risk-Based Capital framework. At the entity level, the required capital is also determined in line with Aegon's internal Economic Capital Model.

The Singapore branch regularly conducts Own Risk and Solvency Assessment to measure the impact of changes in market variables to ensure that the Singapore branch's risk tolerance is maintained and remains adequately capitalised.

Insurance Risk

Underwriting risk ("UR"), also referred to as "insurance risk", may arise from deviations in product pricing assumptions. These are typically actuarial assumptions that cover policyholder behavior and claims. UR 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. Concentration risk refers to the risk of loss arising from a disproportionate exposure to a particular group of customers.

The Board defines the risk tolerance for insurance risks relative to the overall risk capacity by setting specific risk limits. Parameter sensitivity is tested to analyse deviations in the mortality assumptions on both a level and trend basis. In addition, exposures relative to risk tolerances are monitored and stress tests performed at both the Transamerica Life Bermuda entity level and the Singapore branch level, under which both need to remain solvent otherwise a capital management plan must be put in place. This is documented and is part of the Enterprise Risk Management framework.

Transamerica Life Bermuda maintains documented underwriting processes that cover the assessment of proposals against limits to the gathering and reviewing of 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.

As at 31 December 2021, the Singapore branch had 3,658 in-force policies with an aggregated sum assured of SGD18.1 billion. A majority of the in-force policies are our universal life products, which also dominated the contribution to the Singapore branch's new business in 2021.

Concentration Risk

Mortality concentration risk per life is managed by a retention limit. Any risk exceeding the retention limit is transferred through reinsurance. Transamerica Life Bermuda cedes risk to other companies, including certain affiliated companies through the use of reinsurance. Risks are reinsured with other companies to permit the recovery of a portion of the direct losses incurred.

Transamerica Life Bermuda remains liable even if the reinsuring companies do not meet their obligations under these reinsurance treaties. As such, Transamerica Life Bermuda has established processes to select and periodically monitor partnered reinsurers on their financial strength and service standards.

As of 31 December 2021, the Singapore branch had ceded insurance provisions of SGD1.6 billion. A majority of the risks was ceded to our parent company, Transamerica Life Insurance Company, which holds a credit rating of 'A1' issued by Moody's on 5 April 2022. After considering the impact of reinsurance, the capital held for the Singapore branch's regulatory Insurance Risk Requirement as at 31 December 2021 was SGD41.6 million, as defined by Singapore's Risk-Based Capital framework.

Transamerica Life Bermuda also conducts experience studies to determine whether any portfolio experience deviate materially from assumptions. Segments that are evaluated as part of the experience studies may include the country of residence, gender, age, risk class and smoker non-smoker status. Higher than expected mortality claims may reduce the available capital; if the deterioration in mortality experience is expected to persist, Transamerica Life Bermuda will reflect such changes in the best estimate mortality assumption as appropriate. Required capital may subsequently increase as a result of this change.

The Singapore branch conducts annual Own Risk and Solvency Assessment ("ORSA") to assess the impact on the Singapore statutory capital adequacy given the insurance risk exposure. The ORSA report is presented to the Board and the Board approves the report.

INSURANCE PROVISION AND CAPITAL ADEQUACY

Insurance Provision

The Singapore branch's statutory reserving basis and capital requirements are set up in accordance with Singapore's Risk-Based Capital framework.

The reserves for the Singapore branch are set using a Gross Premium Reserve calculation method. This method can also be described as a discounted prospective cash flow method. The assumptions are best estimate assumptions with provisions for adverse deviations.

The best estimate assumptions are set based on past experience. Transamerica Life Bermuda also obtains advice from consulting firms and reinsurers about future expectations which is also considered and reflected in forming the assumptions. Transamerica Life Bermuda conducts experience studies at the entity level to ensure that the experience assumptions continue to be relevant.

Discount rates used for the Singapore statutory valuation of policy reserves are prescribed by the MAS. There are two discount rates used, one is the U.S. risk free rates, the other is the best estimate

investment return which is derived based on the expected investment return of assets backing the policy reserves.

Capital Adequacy

The Singapore branch's financial condition is measured in the context of Singapore's Risk-Based Capital framework which takes into consideration insurance risk, mismatch risk and concentration risk. The Singapore branch is required by the MAS to maintain minimum standards in respect of its Capital Adequacy Ratio and financial resources.

The Singapore branch adopted a Capital Management Plan designed to ensure that adequate capital is maintained, while providing the flexibility necessary to take advantage of growth opportunities and to manage the risks associated with the business. This approach to managing capital was developed to ensure an appropriate balance between the internal assessment of capital needs and the regulatory solvency requirements.

The Capital Management Plan sets out risk tolerance levels and any corresponding management actions based on internal and external requirements. The Singapore branch monitors its solvency position on a monthly basis and also on an ad-hoc basis in accordance with procedures to re-evaluate the solvency position triggered by events that are deemed to pose a risk to Transamerica Life Bermuda's and the branch's solvency position. The Singapore branch also conducts annual ORSA exercise and it complied with all capital requirements in 2021. We aim to have an adequate level of capital throughout 2021 for the Singapore branch.

The Singapore branch's financial strength remained healthy throughout 2021 with a Capital Adequacy Ratio of 244% as at 31 December 2021. The Singapore branch categorises its issued policies into two groups, namely 'Singapore' and 'Offshore' policies. Accordingly, premiums in relation to these policies are separated into the Singapore Insurance Fund and Offshore Insurance Fund respectively.

In addition to statutory capital solvency monitoring, Transamerica Life Bermuda also monitors its capital adequacy on an economic basis. Our economic capital methodology is calibrated to ensure that if Transamerica Life Bermuda experiences adverse movement to the 99.5th percentile, adequate surplus is maintained to ensure obligations to customers are met. The various components of the economic capital model cover the various risk exposures of Transamerica Life Bermuda.

FINANCIAL PERFORMANCE

The financial performance of the Singapore branch in 2021 is presented in the summary below:

2021 STATEMENT OF FINANCIAL PERFORMANCE		
Description	Singapore Insurance Fund (SGD Million)	Offshore Insurance Fund (SGD Million)
Single Premium	83.2	8.0
FY Premium	5.6	1.4
RY Premium	6.3	11.0
Gross Premiums	95.1	20.4
Less: Outward reinsurance premiums	(6.3)	(8.7)
Investment revenue	82.5	71.1
Less: Investment expenses	(2.6)	(1.7)
Other income	--	0.1
Total Income	168.7	81.2
Gross claims settled	86.5	79.3
Less: Reinsurance recoveries	(8.4)	(19.6)
Management expenses	15.3	4.1
Distribution expenses	10.2	0.7
Increase (decrease) in policy liabilities, gross of reinsurance	47.5	(39.7)
Decrease in reinsurers' share of policy liabilities	13.4	29.0
Tax credits	(16.6)	(9.3)
Other expenses	-	-
Total Expenses	147.9	44.5
Net Income	20.8	36.7
* Unrealised loss on Investments	(100.0)	(83.9)
Total Comprehensive Income	(79.2)	(47.2)

* Under FRS 1 – Presentation of Financial Statements, gains/losses on investments is presented as Other Comprehensive Income (OCI).

Source of Earnings Analysis

The table below provides a summary of the Source of Earnings in FY 2021 for the Singapore branch.

2021 Source of Earnings Analysis	Singapore Insurance Fund (SGD 'Million)	Offshore Insurance Fund (SGD 'Million)
Impact of New Business	(5.0)	(0.8)
Experience Gains & Losses - Mortality	0.3	4.8
Experience Gains & Losses - Forfeiture/Surrender	(26.4)	(21.8)
Experience Gains & Losses - Interest	(84.1)	(69.8)
Experience Gains & Losses - Expenses	3.9	(1.9)
Change in Valuation Basis	(18.1)	(2.9)
Other	50.2	45.2
Total Comprehensive Income	(79.2)	(47.2)

Claims Statistics for the year ended 31 December 2021

The table below provides details of claims and termination pay-outs for the 5 year period from 1 January 2017 to 31 December 2021.

	Singapore Insurance Fund (SGD Million)		Offshore Insurance Fund (SGD Million)		Annual Total
	Death	Surrenders	Death	Surrenders	
2017	-	24.4	-	53.8	78.2
2018	2.2	24.4	20.2	51.7	98.5
2019	0.5	91.7	1.4	62.1	155.7
2020	7.5	115.6	102.7	43.6	269.4
2021	9.5	77.0	16.8	62.5	165.8

Pricing Adequacy

Transamerica Life Bermuda prices its products in accordance with its internal guidelines, which ensure adequate pricing considerations, all relevant risks are recognised and a profitability target is met under a market consistent basis. For the Singapore branch, premium certificates for all new and re-priced products are filed with the MAS. The premium certificates are prepared in accordance with the Insurance Act (of Singapore).