

The Netherlands Institute of Chartered Accountants  
Illustrative procedures

# Agreed upon procedures Day-1 Solvency II reporting

## **Status of the Illustrative Agreed Upon Procedures Day-1 Solvency II**

*This is a translation of a non-regulatory NBA publication, which has been established under the responsibility of a tripartite committee ('Tripartite Overleg') representing the Dutch Association of Insurers, the Dutch Central Bank (DNB) and NBA/SVP. It aims to give auditors a handle for the execution of specific procedures regarding the Day-1 Solvency II reporting as required by DNB.*

*It is expected that auditors take note of these illustrative procedures and the considerations provided herewith as far as relevant for their engagements. This publication is not an NBA-Alert or 'Handreiking' and does not have the status of a professional regulation.*

## Day-1 Solvency II reporting

Agreed upon procedures – NBA illustrative procedures dated 18 January 2016

translation

Final version	Illustrative Agreed Upon Procedures Day-1 Solvency II report 2016
Date	18 January 2016
Subject	Execution by the external auditor of Agreed Upon Procedures on the Day-1 Solvency II reporting in 2016
Scope	Day 1 QRT's selected by DNB for solo and group reports of insurers reporting under the Solvency II standard formula or a (partial) internal model. This considers some specific governance, reporting, IT / Data and internal controls aspects.
Applicability	External auditors employed by or associated with an audit practice performing audit engagements with insurance companies.
Status	Final. The responsibility lies with the steering committee of the 'Tripartiete Overleg' (TPO) representing Verbond van Verzekeraars, DNB en NBA-SVP.
Relevant regulations	Engagements to perform agreed-upon procedures regarding financial information (COS 4400 engagements).
Timelines and reports	The deadline for the Report of findings of the external auditor on the solo report is 30 June 2016. For the group reporting this is 15 August 2016. The auditor may refer to the Report of findings on the solo reporting in the Report of findings on the group reporting if the answers are the same.
Explanation	<p>The DNB sector letter of January 2016 addressed to Solvency II institutions about the Solvency II Day-1 Report refers to the role of the auditor in the Agreed-Upon Procedures (AUP).</p> <p>The AUP program in principle does not apply to 'Solvency Basic' insurance companies. However, if desired, arrangements can be made and the program can be performed in whole or in part.</p> <p>The goal of the AUP program is to gain insight, by the insurer and DNB, into the status of the implementation of Solvency II. The AUP is also intended as preparation for the statutory 'True and Fair view' audit of the annual Solvency II reporting starting from 2016. The procedures described in the AUP focus mainly on the structure of the organization (governance and internal controls) and the application of the requirements of the Solvency II rules and regulations for the preparation of the Solvency II Day-1 report. For insurers that use a (partial) internal model (PIM), the AUP focus on the application of the PIM. In that case, it is not expected that all work steps relating to the application of the standard formula are followed. Additional arrangements will be made about this in consultation between the insurer, DNB and the external auditor.</p>
Contact	For any questions or comments about the AUP illustrative procedures please contact Rob Schouten, secretary of the TPO steering group, at <a href="mailto:r.schouten@nba.nl">r.schouten@nba.nl</a>

## Contents

<b>I.</b>	<b>Governance, reporting and internal control</b>	<b>4</b>
<b>II.</b>	<b>Data/IT</b>	<b>4</b>
<b>III.</b>	<b>Market Consistent Balance Sheet (MCBS)</b>	<b>5</b>
<b>IV.</b>	<b>Own funds</b>	<b>9</b>
<b>V.</b>	<b>Taxation</b>	<b>10</b>
<b>VI.</b>	<b>SCR and MCR</b>	<b>10</b>
<b>VII.</b>	<b>Consolidation</b>	<b>22</b>
<b>VIII.</b>	<b>Appendix 1: illustrative engagement letter for agreed-upon procedures with respect to Day-1 reporting</b>	<b>25</b>

## I. Governance, reporting and internal controls

- 1 Ascertain that Solvency II documentation (e.g. a manual) is available, that it has been internally reviewed and approved by the insurer's relevant management body and that, as a minimum, it contains the following elements: accounting standards, capital management, governance process (ref. step 2) and internal control framework.
- 2 Ascertain that policies and procedures have been documented for purposes of preparing and adopting the Solvency II Day-1 Reporting, including a description and a definition of roles and responsibilities of the staff members involved, the models considered relevant by management and the sources of information used.  
In these Illustrative Agreed Upon Procedures, *Relevant management* means the level of management that, according to the policies and procedures established, is authorised to do the final review and approve the Day-1 report.
- 3 Ascertain that the insurer has established and documented and that this documentation shows that the Solvency II Day-1 report has been drafted in accordance with Solvency II laws and regulations (Directive 2009/138/EC, Delegated Acts (EU) 2015/35, the Implementing Technical Standards, EIOPA Guidelines and are in line with the relevant Opinions and Q&As issued by De Nederlandsche Bank (DNB).
- 4 Ascertain that the insurer has established that the Quantitative Reporting Templates have been prepared on the basis of the relevant Solvency II laws and regulations; and
  - a. that the qualitative reports accompanying the opening balance sheet address the subjects prescribed by Articles 314 and 375 of the Delegated Acts and the EIOPA Guidelines; and
  - b. that the insurer has established that these reports are in accordance with the information set out in the Quantitative Reporting Templates (QRTs).
- 5 Ascertain that the Solvency II Day-1 Reporting were initialled by the relevant management body or its representative.
- 6 Ascertain the existence of an internal control framework overseeing the creation of the Solvency II Day-1 Reporting and whether its design, existence and effective operation has been assessed. Indicate which function performed this assessment.
- 7 Ascertain that the validations and reviews of the Solvency II Day-1 Reporting as described took place in accordance with the described internal control procedures and that the calculations and outcomes were approved by the relevant management.
- 8 Ascertain that:
  - a. the insurer has documented the impact of the transitionals applied and the Long Term Guarantee (LTG) measures;
  - b. the relevant management has approved these;
  - c. a process has been put in place to verify whether the conditions for application of the transitionals and the LTG measures have been met; and
  - d. DNB approval has been obtained.
- 9 Ascertain whether the insurer's actuarial function has reported on its procedures, including those with respect to the (Day-1) Solvency II balance sheet, to the relevant management in accordance with Article 272(5) of the Delegated Acts and Section 9 of the EIOPA Guidelines regarding the system of governance (EIOPA-BoS-14/253 EN).

## II. Data/IT

- 10 Ascertain that the insurer has drawn up a data policy that includes the organization and processes relating to data quality.

- 11 Ascertain that the insurer has set up a data directory for the data elements used to prepare the Solvency II Day-1 Reporting and that this data directory contains the sources and characteristics of those data elements.
- 12 Ascertain that the insurer has determined the data quality of the data elements relevant to Solvency II Day-1 Reporting in the source systems and that it remedied deficiencies in the data quality where needed.
- 13 Ascertain that the insurer has established that the data flow from source systems through to Solvency II Day-1 reporting has been documented.
- 14 Ascertain that the insurer has concluded that ITGCs (IT-general controls) relating to the IT data and models used for the Solvency II Day-1 Reporting exist.
- 15 Ascertain that the internal audit function has assessed the design, existence and effective operation of the ITGCs and, if so, document the opinion issued.

### **III. Market Consistent Balance Sheet (MCBS)**

*(S.02.01.01 (solo) and S.02.01.02 (group) Balance Sheet)*

#### **General**

- 16 Ascertain that the insurer has established and documented that the bases for valuation and assumptions that form the basis for the Solvency II Day-1 balance sheet are in accordance with Articles 9 through 16 of the Delegated Acts and secondary Solvency II laws and regulations, and that they have been explained to the qualitative report submitted to DNB.
- 17 Ascertain that the reports at a solo level are prepared based on a company-only (solo) balance sheet.
- 18 Ascertain that:
  - a. an analysis has been prepared and documented of the qualitative and/or the quantitative differences by line item between the (Day-one) Solvency II balance sheet and the statutory balance sheet, and that those differences are explained with reference to the Solvency II provisions or guidance deemed applicable by management.
  - b. this analysis makes a distinction between differences that stem from reclassification and from changes in valuation.

## Technical provisions

***The agreed-upon procedures set out below must be performed such that they cover at least 80% of the balance sheet value of technical provisions, including the risk margin. The auditor must state, with respect to the remaining balance sheet value (no more than 20%) which provisions or parts thereof his procedures do not cover.***

### General

- 19 Ascertain that the insurer has established that the principles used to value the technical provisions in the Solvency II Day-1 balance sheet have been documented and are in accordance with Articles 17 through 60 of the Delegated Acts, meaning that:
- the technical provisions have been segmented into homogeneous risk groups, at least at the level of "lines of business" in accordance with Article 80 of the Directive and Article 55 of the Delegated Acts;
  - the assumptions, considerations and principles that the relevant management has used have been explained in sufficient detail;
  - the bases for making the Best Estimate calculation and establishing the Risk Margin for each homogeneous risk group have been elaborated and explained in sufficient detail; and
  - the bases provide an explanation of the "contract boundaries" applied separately to each homogeneous risk group or other risk classification of the technical provisions, taking into account Article 18 of the Delegated Acts.
- 20 Ascertain that procedures have been formulated on the basis of which the data have been identified that are considered determinative of the calculation of the amount of the technical provisions ("key data") and that those key data have been documented.
- 21 Ascertain that processes and procedures for the identified key data have been developed and documented that ensure that the use of those data in establishing the technical provisions satisfies the aspects set out in Articles 19 and 265 of the Delegated Acts, which concern the accuracy, completeness, timeliness and applicability of key data in relation to the methodology used to establish the technical provisions.
- 22 Ascertain that a Volatility Adjustment has been applied and that the insurer has documented and explained its application and impact in the qualitative reports to DNB.
- 23 Ascertain that the insurer has established and documented how the transitional arrangements with regard to risk-free interest rates and technical provisions are applied to the insurance and reinsurance obligations.

### Best Estimate

- 24 Ascertain that procedures have been developed and documented that ensure that the assumptions used to calculate the best estimate meets the following criteria.
- The assumptions have been explained.
  - The circumstances under which the assumptions cease to apply have been described.
  - The assumptions used have been based on specific characteristics of the relevant insurance contracts formulated by the relevant management.
  - The assumptions have been applied systematically and consistently.
  - The assumptions reflect the uncertainties in the cash flows of the relevant insurance contracts.
  - The assumptions have been subjected to a process of internal or external review prior to formal approval of the relevant management.

- 25 Ascertain that the insurer has established and documented that the cash flow projections underlying the best estimate calculation take account of the elements set out in Articles 28 through 36 of the Delegated Acts.
- 26 Ascertain that the cash flow projections have been subjected to a process of model validation performed independently of those responsible for the development of the cash flow projections prior to formal approval of the relevant management.
- 27 Ascertain that an analysis has been prepared based on outward reinsurance contracts, of the impact of reinsurance on gross cash flows and reinsured cash flows, to substantiate the reinsurance asset component of the best estimate of the net liability.
- 28 Ascertain that the insurer has established and documented an adjustment to take account of expected losses due to default of a counterparty in accordance with Article 42 of the Delegated Acts in establishing the amounts to be recovered.
- 29 Ascertain that a process has been put in place and is documented to identify all relevant contractual options and financial guarantees as well as the factors indicative of the extent to which policyholders will use those options and realize the value of the guarantees.
- 30 Ascertain that the insurer has established that the methods to value the identified contractual options and financial guarantees have been documented with due observance of the provisions set out in Guidelines 35-37, 53 and 54 of the EIOPA Guidelines on valuation of technical provisions (EIOPA BoS-14-166) and Articles 26 and 32 of the Delegated Acts.

### **Risk Margin**

- 31 Ascertain that procedures have been developed and documented that ensure that the assumptions used to calculate the risk margin meet the following criteria.
  - a The assumptions and the method used have been explained.
  - b Guideline 2 of the EIOPA Guidelines LTG-measures (EIOPA BoS 15/111/NL) have been applied.
  - c The circumstances under which the assumptions cease to apply have been described.
  - d The assumptions used have been based on specific characteristics of the relevant insurance contracts formulated by management.
  - e The assumptions have been applied systematically and consistently.
  - f The assumptions take account of all uncertainties in the cash flows of the relevant insurance contracts.
  - g The assumptions have been subjected to a process of internal or external review prior to the formal approval of the relevant management.
- 32 Ascertain that the insurer has established that the bases for calculating the entire risk margin of the portfolio and the allocation to the lines of business have been drawn up with due observance of Article 77 of the Directive and Article 37 of the Delegated Acts and that they contain the following elements.
  - a. The total risk margin is calculated as the sum of the present value of the cost of capital in each future year until the obligations have been settled.
  - b. In determining the present value of the cost of capital, the basic risk-free interest rate have been used without applying a volatility adjustment or matching adjustment.
  - c. A 6% cost of capital was used.
  - d. the risk margin have been based on the concept of a 'reference' insurer as referred to in Article 38 of the Delegated Acts.
  - e. If the relevant management has chosen to apply a simplified risk margin calculation for reasons of proportionality pursuant to Article 58 of the Delegated Acts, relevant management has documented this decision and the considerations underlying it.

- 33 Ascertain that the risk margin calculations/methodology have been subjected to a process of internal validation performed independently of those responsible for the development of the risk margin calculations/methodology prior to the formal approval of the relevant management.

**Assets, and liabilities other than technical provisions**

- 34 Ascertain that policies and procedures have been documented that ensure that assets and other liabilities are valued in accordance with the valuation hierarchy as described in Articles 7 through 16 of the Delegated Acts and Guideline BoS 15/113 "Recognition and valuation of assets and liabilities other than technical provisions".
- 35 Ascertain that the insurer has established and documented that:
- a. it has applied the fair value hierarchy as referred to in Article 10 of the Delegated Acts;
  - b. it has applied IFRS as set out in Guideline BoS 15/113 to the extent this is in compliance with this fair value hierarchy and Article 75 of the Solvency II Directive; and
  - c. if it applies Dutch GAAP (Book 2 of the Dutch Civil Code and the Dutch Accounting Standards), it complies with the provisions of Article 9(4) of the Delegated Acts, with valuation being in line with Article 75 of the Solvency II Directive.
- 36 Obtain documentation on the valuation bases used by the insurer for Solvency II purposes and ascertain, based on the insurer's descriptions, that:
- a. goodwill and other intangible assets have been valued at zero, unless, pursuant to Article 12 of the Delegated Acts, the intangible assets may be sold separately and that market prices are available for those intangible assets;
  - b. the valuation bases do not provide for valuation of financial assets and liabilities at cost or amortized cost or at redemption value or lower market value;
  - c. valuation of investments in real estate, land and buildings and real estate for own use is based on the fair value model;
  - d. valuation of financial obligations in principle does not include adjustments for own credit spread;
  - e. valuation of finance lease assets is based on market value, and valuation of the discounted value of the minimum lease payments is based on inputs believed by the relevant management to be market consistent without adjustments for 'own credit spread';
  - f. valuation of pension obligations in the Solvency II Day-1 balance sheet is based on IAS 19 valuation principles;
  - h. only insurance receivables from and liabilities to intermediaries, policyholders and reinsurers are recognized in the balance sheet that are past due. Amounts receivable or owed but not past due have been included in cash inflows that form the basis for measurement of the gross technical provisions and the share of reinsurers in technical provisions. (See Guideline 68 of EIOPA Guidelines "Valuation of technical provisions"); participations in related insurers are recognized in the company-only balance sheet and their valuation is based on the valuation hierarchy described in Article 13 of the Delegated Acts.
- 37 Ascertain that a process has been put in place to ensure identification of material contingent liabilities and that the material contingent liabilities identified by the insurer are valued in the Solvency II balance sheet based on future cash flows expected by the relevant management that are needed to settle the liability using a risk-free interest rate.



## IV. Own funds

*(S.23.01.01 (solo) and S.23.01.04 (group) Own Funds)*

- 38 Ascertain that a reconciliation has been prepared between own funds in the Solvency I balance sheet, the statutory financial statements and the 'excess of assets over liabilities' in the Solvency II Day-1 solo balance sheets, and that differences have been analysed and documented.
- 39 Ascertain that DNB approval has been obtained for recognition of ancillary own funds items.
- 40 Establish how own funds items have been tiered in accordance with Articles 93 through 97 of the Solvency II Directive and Articles 69 through 79 of the Delegated Acts.
- 41 Ascertain that eligible own funds have been calculated taking account of the tiering limits as set out in Articles 98 and 99 of the Solvency II Directive and Article 82 of the Delegated Acts.
- 42 Ascertain that the insurer has documented that, and establish how, account has been taken of the deduction of participations in credit institutions and financial institutions that, individually or jointly, exceed 10% of the Tier 1 capital in accordance with Article 68 of the Delegated Acts.
- 43 Ascertain that the insurer has established and documented how the transitional arrangements for the existing ancillary capital under Solvency I are applied when allocating the tiers under Solvency II.
  - a. Ascertain that it has been established that the allocation of the upper ancillary capital (Solvency I) to Tier 1 (Solvency II) meets the criteria of Article 308b(9) of the Directive.
  - b. Ascertain that it has been established that the allocation of the lower ancillary capital (Solvency I) to Tier 2 (Solvency II) meets the of Article 308b(10) of the Directive.
  - c. Ascertain that it has been established that the Solvency II limits concerning the tiers have also been correctly applied to the capital items that are included in available own funds under the transitional arrangements.

## V. Taxation

*(S.02.01.s (solo) and S.02.01.t (group) Balance Sheet)*

*(S.23.01.s (solo) and S.23.01.t (group) Own Funds)*

*(S.25.01.s (solo) and S.25.01.t (group) Solvency Capital Requirement - only SF)*

- 44 Establish how DNB's Q&A documents on taxes have been applied.
- 45 Ascertain that the insurer has documented and analysed the valuation differences between the Solvency II Day-1 balance sheet and the balance sheet for tax purposes.
- 46 Ascertain that the insurer has assessed whether the internal calculation of deferred tax assets and liabilities has been based on the applicable rules concerning the calculation of and reporting on taxes as set out in IAS 12.
- 47 Ascertain that the insurer has prepared a profit projection for tax purposes for the coming years and that this has been approved by the relevant management.
- 48 Ascertain that an analysis has been made of the impact of a shock on deferred tax assets and liabilities.
- 49 Ascertain that the insurer has prepared a profit projection for tax purposes for the coming years after incorporating the impact of the shock and that the amended profit projection has been approved by the relevant management.
- 50 Ascertain whether any loss carry-back for tax purposes that has been recognized, is based on the most recent corporate income tax return.

## VI. SCR and MCR

***The procedures listed below have been described with respect to calculations according to the standard formula.***

***For insurers using a (partial) internal model (PIM), the auditor must perform these procedures to those components of the (partial) internal model that relate to the SCR and MCR reporting process, using the documentation available about the internal model. The design and effective operation of the internal model are not in scope for the AUP engagement.***

### SCR

*(S.25.01.01 (solo) and S.25.01.04 (group) Solvency Capital Requirement - only SF)*

#### **General - high-level**

- 51 Ascertain that the insurer has established that documentation is available showing that the aggregate SCR calculation and the calculation of the underlying SCR modules are correctly performed, with due observance of the prescribed correlation matrix and supplementary calculation rules as described in the Delegated Acts.
- 52 Ascertain that the insurer has established that documentation has been prepared analysing the reasonableness of the gross SCR calculation for the relevant risk as well as the net SCR calculation in connection with a potential change in value of the future discretionary benefits included in the technical provisions.
- 53 Ascertain that internal control procedures exist for calculating the SCR and that they are in line with the internal control procedures described for the SCR calculation; they concern both automated calculations and manual adjustments to the outcome thereof.

## Market Risk

### *General*

- 54 Ascertain that it has been established and documented which sub-modules concerning market risk apply.
- 55 Ascertain that a reconciliation has been made internally between the Solvency II Day-1 balance sheet and the list of assets (QRT S.06.02) and the list of derivatives (S.08.01) and that the insurer has established and documented that the assets and liabilities in the Solvency II Day-1 balance sheet have been allocated to the applicable sub-modules for the purpose of calculating market risk.
- 56 Ascertain that the insurer has established and documented the accuracy and completeness of the input data, including market data, used to perform the shocks with regard to the assets and liabilities and, where applicable, establish the consistency of these input data with the input data used for preparing the Solvency II Day-1 balance sheet.
- 57 Ascertain that the insurer has established and documented that the look-through approach has been correctly applied as described in Article 84 of the Delegated Acts and BoS 24/171 "Guidelines on look-through approach".
- 58 Ascertain that the insurer has established and documented that the SCR for market risk and the SCR for the sub-modules have been correctly calculated, based on the prescribed correlation matrix and supplementary calculation rules as described in the Delegated Acts.

### *Interest rate risk*

- 59 Ascertain that the insurer has established and documented that the SCR has been calculated for all assets and liabilities to which the interest rate risk applies.
- 60 Ascertain that the insurer has established and documented that the shocks applied in the SCR calculation are in accordance with Articles 165 through 167 of the Delegated Acts and Guideline 4 of the EIOPA "Guidelines on the treatment of market and counterparty risk exposures (EIOPA-BoS-14/174)".
- 61 Ascertain that the insurer has established and documented that the method and parameters used to value assets and liabilities under stress scenarios are in accordance with Solvency II laws and regulations.
- 62 Ascertain that the insurer has established and documented that the method and parameters used to value the technical provisions under stress scenarios are consistent with the calculation of the best estimate and the other risk modules (e.g. underwriting risk).
- 63 Ascertain that the insurer has established and documented that the method and parameters used to value other liabilities under stress scenarios are in accordance with Solvency II laws and regulations, including the reconciliation with the Solvency II balance sheet.
- 64 Ascertain that the insurer has established and documented that any simplifications used have been substantiated by the insurer.

*Equity risk*

- 65 Ascertain that the insurer has established and documented that the SCR has been calculated for the assets and liabilities to which the equity risk applies.
- 66 Ascertain that the insurer has established and documented that the classification applied to the equity portfolio is in accordance with the technical specifications, and include strategic/non-strategic participations (type 1 versus type 2 investments).
- 67 Ascertain that the insurer has established and documented that the provisions for strategic equity investments are met as set out in Article 171 of the Delegated Acts and Guideline 3 of the EIOPA Guidelines on treatment of related insurers (EIOPA-BoS-14/170).
- 68 Ascertain that the insurer has established and documented that the method and parameters used to value assets and liabilities under stress scenarios are in accordance with Solvency II laws and regulations.
- 69 Ascertain that the insurer has established and documented that any simplifications used have been substantiated by the insurer.
- 70 Ascertain that the insurer has established and documented whether the transitional arrangement for equity risk is applied (Article 308b(13) of the Directive and Article 173 of the Delegated Acts) and, if so, that its application is documented and reported to DNB.

*Real estate risk*

- 71 Ascertain that the insurer has established and documented that the SCR has been calculated for all assets and liabilities to which the real estate risk applies.
- 72 Ascertain that the insurer has established and documented that the method and parameters used to value assets and liabilities under stress scenarios are in accordance with Solvency II laws and regulations.
- 73 Ascertain that the insurer has established and documented that any simplifications used have been substantiated by the insurer.

*Spread risk*

- 74 Ascertain that the insurer has established and documented that the SCR has been calculated for the assets and liabilities to which the spread risk applies.
- 75 Ascertain that the insurer has established and documented that the classification applied, of bonds and loans (corporate versus government-guaranteed), structured credit products and credit derivatives, is in accordance with the technical specifications .
- 76 Ascertain that the insurer has established and documented that the accuracy of input data, such as credit ratings and term to maturity, has been assessed internally for consistency with the list of assets and derivatives.
- 77 Ascertain that the insurer has established and documented that the method and parameters used to value assets and liabilities under stress scenarios are in accordance with Solvency II laws and regulations.
- 78 Ascertain that the insurer has established and documented that any simplifications used have been substantiated by the insurer.

*Currency risk*

- 79 Ascertain that the insurer has established and documented that the SCR has been calculated for the assets and liabilities to which the currency risk applies, in accordance with the technical specifications issued by EIOPA.
- 80 Ascertain that the insurer has established and documented that the shocks applied in the SCR calculation are in accordance with Article 188 of the Delegated Acts.
- 81 Ascertain that the insurer has established and documented that the effects of any currency hedging and/or other strategies applied to mitigate the risk have been considered in establishing a lower capital requirement. Specifically also ascertain that the underlying documentation to substantiate the lower capital requirement is available.
- 82 Ascertain that the insurer has established and documented that any simplifications used have been substantiated by the insurer.

*Concentration risk*

- 83 Ascertain that the insurer has established and documented that the SCR has been calculated for all assets to which the concentration risk applies, in accordance with the Delegated Acts.
- 84 Ascertain that the insurer has established and documented that the grouping method applied for purposes of the concentration risk is in accordance with the technical specifications.
- 85 Ascertain that the insurer has established and documented the quality of all key input variables.
- 86 Ascertain that the insurer has established and documented that the shocks applied in the SCR calculation are in accordance with the Delegated Acts.
- 87 Ascertain that the insurer has established and documented that any simplifications used have been substantiated by the insurer.

**Counterparty credit risk**

- 88 Ascertain that the insurer has established and documented that the SCR for counterparty risk has been calculated for all balance sheet items to which this risk applies, including the determination of the risk mitigating effect according article 196 of the Delegated Acts.
- 89 Ascertain that the insurer has established and documented that the subdivision into Type 1 and Type 2 exposures has been made in accordance with the Delegated Acts and that the insurer has clearly documented the reconciliation to the underlying balance sheet items (Article 189 of the Delegated Acts) for the calculation.
- 90 Ascertain that the insurer has established and documented that the exposure to each and every counterparty has been established and that multiple exposures to the same counterparty are considered as one combined exposure ('single name exposure').
- 91 Ascertain that the insurer has established and documented that, if there are mortgage loans in the balance sheet, the insurer has analysed the characteristics of the mortgage loan portfolio to verify that the portfolio meets the characteristics of Article 191 of the Delegated Acts, meaning that the mortgage loan capital requirement must be calculated under that module.
- 92 Ascertain that the insurer has established and documented that the method and parameters used to value the portfolio under stress scenarios have been assessed.
- 93 Ascertain that the accuracy of the credit ratings for type 1 exposures has been assessed internally.

### **Intangible assets**

94 Ascertain that the insurer has established and documented that the SCR for all intangible assets has been calculated for the balance sheet items to which this risk applies.

95 Ascertain that the insurer has established and documented that the methods and parameter(s) used to value the portfolio under stress scenarios have been assessed.

### **Life underwriting risk**

#### *General*

96 Ascertain that the insurer has established and documented which sub-modules concerning life underwriting risk apply.

97 Ascertain that the insurer has established and documented that the SCR for life underwriting risk and the SCR for the sub-modules have been correctly calculated, based on the prescribed correlation matrix and supplementary calculation rules as described in the Delegated Acts.

98 Ascertain that the insurer has established and documented that an assessment has been made of the plausibility of the outcome of the SCR calculation for the life underwriting risk.

99 Ascertain that the insurer has established and documented that the criteria for simplification have been met where simplified formulas are applied for one or several sub-modules.

#### *SCR for life mortality risk*

100 Ascertain that the insurer has established and documented which insurance policies or portfolios are subject to life mortality risk.

101 Ascertain that the insurer has established and documented that the life mortality risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to the life mortality risk.

102 Ascertain that the insurer has established and documented that the shock, for life mortality risk SCR, as prescribed in the Delegated Acts has been applied.

#### *SCR for longevity risk*

103 Ascertain that the insurer has established and documented which insurance policies are subject to the longevity risk.

104 Ascertain that the insurer has established and documented that the longevity risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to longevity risk.

105 Ascertain that the insurer has established and documented that the shock, for longevity risk SCR, as prescribed in the Delegated Acts has been applied.

#### *SCR for life disability-morbidity risk*

106 Ascertain that the insurer has established and documented that the disability-morbidity risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to life disability-morbidity risk.

107 Ascertain that the insurer has established and documented that the prescribed shock for the disability-morbidity risk SCR in the Delegated Acts has been applied.

#### *SCR for life-expense risk*

108 Ascertain that the insurer has established and documented that the life-expense risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to life-expense risk.

109 Ascertain that the insurer has established and documented that the life-expense risk SCR sub-module has been calculated for all expenses considered to be relevant by the relevant management, taking account of realistic management action relating to capital restrictions.

110 Ascertain that the insurer has established and documented that the shock, for the life-expense risk SCR, as prescribed in the Delegated Acts has been applied.

*SCR for life-revision risk*

111 Ascertain that the insurer has established and documented which insurance policies are subject to revision risk.

112 Ascertain that the insurer has established and documented that the life-revision risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to the life-revision risk.

113 Ascertain that the insurer has established and documented that the shock, for the life-revision risk SCR, as prescribed in the Delegated Acts has been applied.

*SCR for life-lapse risk*

114 Ascertain that the insurer has established and documented that the life-lapse risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to life-lapse risk.

115 Ascertain that the insurer has established and documented that the shock, for the life-lapse risk SCR, prescribed in the Delegated Acts has been applied.

*SCR for life-catastrophe risk*

116 Ascertain that the insurer has established and documented that the life-catastrophe risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to life-catastrophe risk.

117 Ascertain that the insurer has established and documented that the shock, for the life-catastrophe risk SCR, as prescribed in the Delegated Acts has been applied.

## **Non-life underwriting risk**

### *General*

- 118 Ascertain that the insurer has established and documented which sub-modules concerning non-life underwriting risk apply.
- 119 Ascertain that the insurer has established and documented that the SCR for non-life underwriting risk and the SCR for the sub-modules have been correctly calculated, based on the prescribed correlation matrix and supplementary calculation rules as described in the Delegated Acts.
- 120 Ascertain that the insurer has established and documented that an assessment has been made of the plausibility of the outcome of the SCR calculation for the non-life underwriting risk.
- 121 Ascertain that the insurer has established and documented that the criteria for simplification have been met where simplified formulas are applied for one or several sub-modules.
- 122 Ascertain that the insurer has established and documented that the correct formula has been applied where simplified formulas are applied for one or several sub-modules.

### *SCR for premium and reserve risk*

- 123 Ascertain that the insurer has established and documented that the SCR for premium and reserve risk has been calculated in accordance with the requirements set out in Articles 115 through 117 of the Delegated Acts.
- 124 Ascertain that the insurer has established and documented that the calculations have been made for all applicable segments as set out in Annex II to the Delegated Acts.
- 125 Ascertain that the insurer has established and documented that the input for the volume measure for premium and reserve satisfies the requirements of Articles 116(5) and 116(6), respectively, of the Delegated Acts.
- 126 Ascertain that the insurer has established and documented visible evidence that the input for the volume measures for premium and reserve risk has been reconciled with the policy and/or claims subledger systems and that discrepancies have been explained and resolved.

### *SCR for non-life lapse risk*

- 127 Ascertain that the insurer has established and documented that the SCR for lapse risk has been calculated based on the loss of basic own funds resulting from a combination of the following instantaneous events (in accordance with Article 118 of the Delegated Acts):
  - a The discontinuance of 40% of the insurance policies for which discontinuance would result in an increase of technical provisions (excluding risk margin).
  - b For inward reinsurance: a decrease of 40% of the number of insurance or reinsurance contracts underwritten used in the calculation of technical provisions.
- 128 Ascertain that the insurer has established and documented that the insurer bases its determination of the loss in basic own funds under procedure 127(a) on the scenario set out in Article 118(3) of the Delegated Acts.
- 129 Ascertain that the insurer has established and documented that the input data for the calculation reconciles to the policy administration systems and that any differences have been explained and resolved.



*SCR for non-life catastrophe risk*

- 130 Ascertain that the insurer has established and documented that the SCR for non-life catastrophe risk has been calculated in accordance with the requirements set out in Articles 119 through 135 of the Delegated Acts.
- 131 Ascertain that the insurer has established and that there is visible evidence that the input for the calculation has been reconciled to the policy and/or claims subledger systems and that differences have been explained and resolved.
- 132 Ascertain that the insurer has established and documented that the outcome of the calculation has been assessed for reasonableness by comparing it by the outcome for previous periods.

**Health underwriting risk**

*General*

- 133 Ascertain that the insurer has established and documented which Similar to Life Technique (SLT), Non-Similar to Life Technique (NSLT) and Catastrophe risk modules and which sub-modules relating to health underwriting risk apply.
- 134 Ascertain that the insurer has established and documented that the SCR for health underwriting risk and the SCR for the sub-modules have been correctly calculated, based on the prescribed correlation matrix and supplementary calculation rules as described in the Delegated Acts.
- 135 Ascertain that the insurer has established and documented that the criteria for simplification have been applied where simplified formulas are applied for one or several sub-modules.
- 136 Ascertain that the insurer has established and documented that the correct formula has been used where simplified formulas are applied for one or several sub-modules.

**Similar to Life Technique (SLT) health underwriting risk**

*SCR for SLT life mortality risk*

- 137 Ascertain that the insurer has established and documented which insurance policies or portfolios are subject to SLT life mortality risk.
- 138 Ascertain that the insurer has established and documented that the SCR has been calculated for all insurance and reinsurance policies to which life mortality risk applies.
- 139 Ascertain that the insurer has established and documented that the prescribed for the SCR for SLT life mortality risk of the Delegated Acts has been applied.

*SCR for SLT health longevity risk*

140 Ascertain that the insurer has established and documented which insurance policies are subject to the SLT longevity risk.

141 Ascertain that the insurer has established and documented that the SCR for sub-module SLT longevity risk has been calculated for all insurance and reinsurance policies subject to longevity risk.

142 Ascertain that the insurer has established and documented that the shock, for the SCR SLT longevity risk SCR, as prescribed in the Delegated Acts has been applied.

*SCR for SLT disability-morbidity risk*

143 Ascertain that the insurer has established and documented which insurance policies or portfolios are subject to SLT disability-morbidity risk. Ascertain that the insurer has established and documented that the SLT health disability-morbidity SCR sub-module has been calculated for all insurance and reinsurance policies subject to disability-morbidity risk.

144 Ascertain that the insurer has established and documented that the shock, for the disability-morbidity risk SCR, as prescribed in the Delegated Acts has been applied.

*SCR for SLT health lapse risk*

145 Ascertain that the insurer has established and documented that the SLT lapse risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to health-lapse risk.

146 Ascertain that the insurer has established and documented that the shock, for the SLT lapse risk SCR, as prescribed in the Delegated Acts has been applied.

*SCR for health expense risk*

147 Ascertain that the insurer has established and documented that the SLT expense risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to life-lapse risk.

148 Ascertain that the insurer has established and documented that the SLT lapse risk SCR sub-module has been calculated for all expenses considered to be relevant by relevant management, taking account of realistic management actions relating to cost coverage/loadings.

149 Ascertain that the insurer has established and documented that the shock, for the SLT expense risk SCR, as prescribed in the Delegated Acts has been applied.

*SCR for SLT health revision risk*

150 Ascertain that the insurer has established and documented which insurance policies are subject to SLT health revision risk.

This includes ascertaining that the insurer has established and documented that the SLT health revision risk SCR sub-module has been calculated for all insurance and reinsurance policies subject to health revision risk.

151 Ascertain that the insurer has established and documented that the shock, for the SLT health revision risk SCR, as prescribed in the Delegated Acts has been applied

**Non-Similar To Life Technique (NSLT) health underwriting risk**

*SCR for NSLT health premium and reserve risk*

152 Ascertain that the insurer has established and documented which insurance policies or portfolios are subject to the SCR for NSLT premium and reserve risk.

- 153 Ascertain that the insurer has established and documented that the capital requirement for premium and reserve risk has been calculated in accordance with the requirements set out in Articles 147 through 149 of the Delegated Acts.
- 154 Ascertain that the insurer has established and documented that the input for the volume measure for premium and reserve satisfies the requirements of Article 147 of the Delegated Acts and that documentation is available of the way in which DNB's Q&A on the volume measure for current premium risk has been applied.
- 155 Ascertain that the insurer has established and there is visible evidence that the input for the calculations of the volume measures for premium and reserve risk has been reconciled to the policy and/or claims subledger systems and that discrepancies have been explained and resolved.

*SCR for NSLT health lapse risk*

- 156 Ascertain that the insurer has established and documented that the SCR has been calculated based on the loss of basic own funds resulting from a combination of the following instantaneous events (in accordance with Article 150 of the Delegated Acts) or in accordance with DNB's Q&A on the lapse risk for basic health insurance (*basisverzekering*), where applicable.
- a. The discontinuance of 40% of the insurance policies for which discontinuance would result in an increase of technical provisions (excluding risk margin)
  - b. A decrease of 40% in the number of future policies for which reinsurance has been purchased as used in calculating the technical provisions
- 157 Ascertain that the insurer has established and documented that determining the loss of basic own funds under procedure 156(a) is based on the scenario laid down in Article 150(3) of the Delegated Acts.
- 158 Ascertain that the insurer has established and documented that the input data for the calculation reconciles to the policy subledger system and that differences have been explained and resolved.

*SCR for catastrophe risk*

- 159 Ascertain that the insurer has established and documented that the SCR for health catastrophe risk has been calculated in accordance with the requirements set out in Articles 160 through 163 of the Delegated Acts.
- 160 Ascertain that the insurer has established and documented that there is visible evidence that the input for the calculation has been reconciled to the policy and/or claims subledger systems and that discrepancies have been explained and resolved.

**Risk mitigation techniques (reinsurance)**

- 161 Ascertain that the insurer has established and documented that the correct methods and assumptions as described in Article 208 of the Delegated Acts are used in applying the risk mitigation techniques.
- 162 Ascertain that the insurer has established and documented that in calculating the SCR the applicable risk mitigation techniques satisfy the qualitative criteria described in Article 209 of the Delegated Acts.
- 163 Ascertain that the insurer has established and documented that the contractual arrangements relating to the risk mitigation technique involve an effective transfer of underwriting risk in accordance with Article 210 of the Delegated Acts.

- 164 Ascertain that the insurer has established and documented that the classification of the risk mitigating techniques (reinsurance agreements, special purpose vehicles and financial risk mitigating techniques) has been made in accordance with the technical specifications and are applied to the correct sub-modules (e.g. underwriting risk or market risk).
- 165 Ascertain that the insurer has established and documented that the accuracy of the input data resulting from the applicable contractual arrangements (traditional and finite), including the related calculation rules and covers provided, has been assessed for plausibility with respect to the original underwriting risks.
- 166 Ascertain that the insurer has established and documented that in calculating the SCR the status of the counterparty has been correctly determined and that the collateral arrangements and guarantees under the risk mitigating techniques satisfy the criteria of Articles 214 and 215 of the Delegated Acts.
- 167 Ascertain that the insurer has established and documented that an assessment has been made of the method and the parameters of the risk mitigating techniques used to value the assets and liabilities under stress scenarios (e.g. catastrophe scenarios) in accordance with the Solvency II Directive and technical specifications of the Delegated Acts.
- 168 Ascertain that the insurer has established and documented that an assessment has been made of the "simplifications" applied with respect to the contractual calculation rules (e.g. determining the best estimate) and that it has documented the considerations and supporting arguments for the use of these simplifications.
- 169 Ascertain that the insurer has established and documented that an assessment has been made of the consistency of the calculation steps under the risk mitigation technique used for the current SCR calculation with the calculation steps under previous SCR calculations.

#### **Operational risk**

- 170 Ascertain that the insurer has established and documented that the required capital for operational risk is based on Article 204 of the Delegated Acts (including among others the risk margin, reinsurance and SPVs).

## **MCR**

*(S.28.01.s Minimum Capital Requirement - Non-composite)*

*(S.28.02.s Minimum Capital Requirement - Composite)*

### **General - high-level**

- 171 Ascertain that the insurer has established and documented how it is safeguarded that the MCR calculations are performed in accordance with the Delegated Acts.
- 172 Ascertain that the insurer has established and documented that the validations and reviews of the MCR calculations as described took place in accordance with the described internal control procedures and that these were approved by responsible management.

## VII. Consolidation

*(S.32.01.04 Entities in scope of the group)*

*(S.02.01.04 Balance sheet)*

*(S.23.01.04 Own Funds)*

*(S.25.01.04 Solvency Capital Requirement - Only SF)*

### General

173 Ascertain that the insurer has established and documented that consolidation has been performed in accordance with Solvency II laws and regulations (Solvency II Directive, Title III, starting from Article 220 and the Delegated Acts, Articles 328 through 350 and Guidelines Group Solvency (BoS 14-181).

174 Ascertain that the insurer has established and documented what type of group it is (mixed financial holding company, insurance holding company, mixed insurance holding or participating insurer).

175 Ascertain that the insurer has established and documented that the group structure has been appropriately explained in the breakdown of the group structure reported in QRT S.32.01.04 (name of legal entity, registered office, financial interest, type of undertaking).

176 Ascertain that the insurer:

- a. has documented the design of the process of compiling, analysing, validating and approving of Group Reporting (Group Own Funds and Group SCR);
- b. has defined key controls (design); and
- c. has established that the identified key controls have been implemented (existence).

### Scope of the Group solvency assessment and consolidation method

177 Ascertain that the insurer has performed an analysis and documented for every legal entity within the group:

- a. that it is an affiliated enterprise, a subsidiary or an associate;
- b. the degree of influence;
- c. which consolidation method (method 1 or 2 in Article 220 of the Solvency II Directive) has been applied in compiling the Group Reporting;
- d. the country in which the legal entity is established and the local supervisory regime which applies;
- e. whether there is third-country supervision and, if so, how this is dealt with in the consolidation (equivalence of a different supervisory regime);
- f. whether the entity is exempted from group supervision (Article 214 of the Solvency II Directive);
- g. whether it is deducted from own funds because information is unavailable (Article 229 of the Solvency II Directive).

178 Ascertain that the insurer has established that the correct Solvency II group aggregation method has been applied for Group Reporting and that, if method 1 is applied, a distinction has been made between the following categories (Article 335 of the Delegated Acts).

- a Full and proportional consolidation of insurers and reinsurers, insurance holding companies, mixed holding companies and ancillary service undertakings.
- b Proportional share in shareholders' equity of the enterprises calculated in accordance with applicable industry regulations (including Basel, UCITS and IORP). This also applies to non-regulated undertakings carrying out financial activities.

- c Modified equity accounting method (participating interests in affiliated insurance or reinsurance enterprises, third-country insurance or reinsurance enterprises, insurance holding companies and mixed financial holding companies that are not subsidiaries of the parent enterprise)
- d Market prices listed on active markets for all other related enterprises, including ancillary service undertakings)

### **Calculation of consolidated information**

179 Ascertain that the insurer has established that the calculation of the consolidated information:

- a has been performed at the level of the insurance undertaking, insurance holding company or mixed financial holding company based in the EU; and
- b includes the financial information of the group as described in the analysis in steps 1 and 2 under "Scope and consolidation method" and that adjustments to the financial consolidation have been made for undertakings consolidated differently under Solvency II.

180 Ascertain that the insurer has established and documented that intra-group transactions have been eliminated when drawing up the balance sheet, the level of technical provisions and the SCR.

181 Ascertain that the undertaking has established and documented that all intra-group reinsurance activities have been eliminated for group reporting.

### **Own funds at group level**

182 Ascertain that the undertaking has performed an analysis and has documented, for each legal entity, how account has been taken of the unavailable components of own funds and the classification of the components of own funds as set out in Articles 330 -334 of the Delegated Acts. This analysis at a minimum contains the following documentation :

- a. entities deducted from own funds due to the exemption from group supervision;
- b. entities deducted from own funds because information is unavailable;
- c. availability/transferability of own funds within a nine-month period;
- d. availability of minority interests;
- e. availability of subordinated loans, preference shares and mutual member accounts;
- f. availability of net deferred tax assets; and
- g. unavailable own funds due to ring fencing and matching adjustments.

183 Ascertain that the insurer has established that eligible own funds at group level is the sum of the following components falling under the scope of group supervision.

- a. The holding company's own funds. This includes the value of participating interests in insurance undertakings and all related party undertakings not included in the consolidation.
- b. The parent company's relative share in own funds of subsidiaries of insurance undertakings, insurance holding companies, mixed financial companies and ancillary service undertakings falling under the scope of group supervision.
- c. The relative share in the own funds calculated in accordance with the applicable industry supervisory regime for credit institutions, investment firms, financial institutions and occupational pension schemes in accordance with the conditions of Directive 2003/41/EC and non-regulated undertakings carrying out financial services.
- d. The relative share in the aggregated own funds available for capital coverage calculated according to consolidation method 2.

184 Ascertain that the undertaking has established and documented that it has established that eligible own funds at group level have been calculated with due observance of:

- a classification of own funds at group level according to the same tiering principles that apply at solo level; and
- b (accurate calculation of) tiering limits.

#### **SCR and Minimum Group SCR at group level**

185 Ascertain that the undertaking has established and documented that the SCR at group level consists of the following components.

- a The SCR of the holding company, including that of the participating interests in insurance undertakings and all affiliated undertakings not included in the consolidation;
- b The SCR's relative shares of insurance undertakings, insurance holding companies, mixed financial companies and ancillary service undertakings falling under the scope of group supervision;
- c The relative share in the capital requirements for credit institutions, investment firms, financial institutions and occupational pension schemes in accordance with the conditions of Directive 2003/41/EC and non-regulated undertakings carrying out financial services;
- d The relative share in aggregated required capital calculated according to consolidation method 2;

186 Ascertain that the undertaking has established and documented that it has used the correct Solvency II capital requirements, applying method 1 (in accordance with Article 336 of the Delegated Acts) for group reporting purposes:

- a. Full and proportional consolidation of SCR for insurers and reinsurers, insurance holding companies, mixed holding companies and ancillary service undertakings;
- b. Proportional share in the capital requirements of the participating interests in affiliated insurance or reinsurance enterprises, third-country insurance or reinsurance enterprises, insurance holding companies and mixed financial holding companies that are not subsidiaries of the parent enterprise;
- c. Proportional share in the capital requirements of the enterprises calculated in accordance with applicable industry regulations (including Basel, UCITS and IORP). This also applies to non-regulated undertakings carrying out financial activities;
- d. Equity risk, concentration risk and currency risk for all other affiliated undertakings, including ancillary service undertakings.

187 Ascertain that the undertaking has established and documented that the SCR at group level has been calculated as prescribed by the Delegated Acts and how it deals with specific risks, such as counterparty credit risk, concentration risk, currency risk, operational risk, non-life catastrophe risk and health catastrophe risk.

188 In the event that the consolidation method or a combination of methods has been used (not only the deduction- and aggregation method), ascertain that the undertaking has established and documented that it calculated the minimum consolidated SCR based on:

- a. the MCR of the *holding company*; and
- b. the relative share of the MCR of in the insurance undertakings in the group.

189 Ascertain that, in calculating the consolidated SCR, account has been taken of the corridor or absolute/minimum threshold value for the MCR for the solo entities.



## **VIII. Appendix 1: illustrative engagement letter for agreed-upon procedures with respect to Day-1 reporting**

### **CONFIDENTIAL**

Client<sup>1</sup>

Attn Mr/Ms ...

Address

POST CODE CITY

City, date

Our reference

### **Engagement letter for performing agreed-upon procedures with respect to the Day-1 Solvency II reports**

Dear .....,

During our pleasant meeting on ..., you granted us the engagement to perform agreed-upon procedures with respect to the Solvency II Day-1 reports. We are pleased to confirm our acceptance of this engagement by means of this letter, the aim of which is to establish our interpretation of the engagement and to lay out the conditions under which we will perform it.

We would like to take this opportunity to reconfirm the main points discussed at our meeting in the following paragraphs.

- 1 Responsibilities of (name of auditor) ("auditor" or "we")
- 2 Responsibilities of ... (client)
- 3 Reports by (name of auditor)
- 4 Our fees
- 5 Other agreements
- 6 Confirmation

#### **Responsibilities of (name auditor)**

##### **Engagement**

We will perform our engagement and report on the results in accordance with *International Standard on Related Services (ISRS) 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information"*.

The nature of the procedures to be performed as set out below means that no audit will be performed on the financial information referred to, and that a review will not be performed either. Hence, our report will not provide the same level of assurance about whether these figures are free of material misstatement as that provided by an audit.

##### **Professional rules**

Our will perform the agreed-upon procedures in accordance with Dutch law, including *Dutch Standard 4400*. This means that we have to comply with the standards of conduct applicable to us, which can be viewed on the website of the professional organization [www.nba.nl](http://www.nba.nl). (Optional: If you wish, we will send you a copy of the *Verordening gedrags- en beroepsregels accountants* (VGBA), which sets out the regulations governing the code of conduct.)

---

<sup>1</sup> This engagement letter is for public and private limited liability companies (NVs and BVs respectively). When writing to a cooperative, mutual assurance society, association, foundation, sole trader or general partnership, the wording of the letter should be amended accordingly.

We would draw to your attention the fact that, pursuant to the Wwft, we are obliged to notify the Financial Intelligence Unit Nederland in Zoetermeer of any unusual transaction, whether performed or planned, that we observe as part of our routine procedures. We are not allowed to inform you of such notification.

### **Scope**

We agreed our procedures with you as set out in the Annex to this engagement letter.

DNB has been involved in establishing the nature and extent of the agree-upon procedures to be performed with respect to the Day-1 reporting under Solvency II. The basis for these procedures is set out in Section 3:17 of the Wft (sound and ethical business operations). Our procedures form part of sound business operations with regard to reporting to the supervisory authority, preparing insurance firms for the full audit report on the truth and fairness of the Solvency II reports for the 2016 financial year.

### **Independence<sup>2</sup>**

Dutch law requires us to be independent of our clients. As a result, certain non-audit services are subject to supplementary conditions, and restrictions apply to certain types of non-audit services. If this issue arises, we will consult you about the conditions and/or possible restrictions.

To continue to safeguard our independence in the most efficient manner, we request you to notify us of any changes in your legal structure, the names of your direct and indirect shareholders, as well as the names of all other companies, including group companies and affiliates, to which ... (client) is directly or indirectly related, stating which of these companies and shareholders are listed on a stock exchange. Any change in the composition or legal structure of your company/group could mean that we would be obliged to discontinue providing certain services to your company.

### **Team (name of auditor)**

The team was made known to you in our proposal. (or: The members of the team are as follows: ). We will conduct the engagement with this team. The undersigned is responsible for the performance of the engagement. If circumstances and/or the nature of the engagement give cause to modify or expand the team, we will discuss the necessary changes with you immediately.

### **Responsibilities of ... (client)**

#### **Availability of information**

The efficient performance of the engagement is dependent on access to all the information, correspondence and files required for our review. In the preparatory phase of the engagement, we will determine with you exactly what information is needed.

#### **Availability of staff**

You should also make sure that the responsible officers are fully available in good time in order to facilitate the exchange of this information. Furthermore, where needed, we will rely on one or more of your staff members and their specific knowledge with regard to:

- ...;
- ...; and/or
- ....

We propose that we have access to the following staff members.

- ...
- ...
- ...

### **Reports by (name of auditor)**

We will present the results of our procedures in the form of a report of factual findings. This report is intended solely for your and DNB's use and it, or parts thereof, may not be made available to third parties without our express prior consent.

### **Our fees**

---

<sup>2</sup> Independence may be an issue in a long-term engagement if a change is made to the structure.

Our fees are based on the time spent by our team, the corresponding hourly rates, plus the additional costs, if any, attributable to the engagement. We will issue two or three fee notes for our services, the first one or two being interim fee notes. The final fee note will be accompanied by a breakdown of the hours and charges.

Taking into account recent years' experience and the estimated development of the hourly rates of the team members, we expect our total fee for the services described in this letter to be approximately € ...

(Please note that this figure does not allow for ...)

(This expected fee for the standard procedures can be broken down as follows.)

- ...
- ...
- ...)

If a situation arises during the engagement that might entail substantial additional costs, we will contact you immediately.

### **Other agreements**

#### **Planning**

...<sup>3</sup>

#### **General terms and conditions**

Our activities are subject to the *General Terms and Conditions* (to be specified), which are attached to this engagement letter as an annex. In the event of any inconsistency between this engagement letter and the General Terms and Conditions, the provisions of this engagement letter will prevail.

If any part of this engagement letter or part of the General Terms and Conditions were to be invalid or nullified, the other parts will remain in full force.

#### **Confirmation**

We are sending you this letter in duplicate. We kindly request that you sign and return one copy of this letter to us to confirm your agreement with its contents. You may keep the original letter for your own records.

As soon as we have received the signed copy of the letter, we will contact you to arrange the commencement of our procedures.

Finally, we would like to point out that this letter will remain valid until the engagement is terminated, amended or superseded.

We look forward to working with you.

Yours sincerely,  
(name of auditor)

(Name of partner)

Copy to:

---

<sup>3</sup> Optional: include the deadlines and timetables agreed with the client.

## Day-1 Solvency II reporting

Agreed upon procedures – NBA illustrative procedures dated 18 January 2016

translation

### Annexes:

- Programme of agreed-upon procedures Day-1 Solvency II reports 2016

**Agreed by:**

Name of client:

(Name of director)

Director

Date: