

# **SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)**

**Year ended 31 December 2020**



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# CONTENTS

Introduction .....	3
Summary .....	4
COVID-19 Update .....	9
A. Business and Performance .....	12
B. System of Governance .....	21
C. Risk Profile .....	43
D. Valuation for Solvency Purposes .....	65
E. Capital Management.....	85
Glossary.....	93
Appendix – Reporting Templates.....	94

# INTRODUCTION

This report covers the Cigna Europe Group of Cigna Myrtle Holdings Ltd (Myrtle), parent of Cigna Elmwood Holdings SPRL (Elmwood) and all underlying subsidiaries, including the two insurance companies of Cigna Life Insurance Company of Europe S.A./N.V. (CLICE) and Cigna Europe Insurance Company S.A./N.V. (CEIC). The report contains the narrative in respect of the Solvency and Financial condition report (SFCR) required by articles 290-303 and 359-371 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 [the “Delegated Acts”] supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). The National Bank of Belgium (NBB) confirmed on 16 May 2017 that Cigna Europe was authorised to use a single SFCR report for all the insurance entities within the Cigna Europe Group in accordance with article 256 of Directive 2009/138/EC.

This report refers to “the Company” as Cigna Europe Group of Cigna Myrtle Holdings Ltd (Myrtle) unless otherwise stated.

# SUMMARY

Myrtle is the parent of Cigna Elmwood Holdings SPRL and all underlying subsidiaries, including the two insurance companies of Cigna Life Insurance Company of Europe S.A./N.V. (CLICE) and Cigna Europe Insurance Company S.A./N.V. (CEIC). The ultimate parent of Myrtle is Cigna Corporation.

Cigna's mission is to improve the health, well-being and peace of mind of the people we serve. The Company's strategic focus is centred on delivering high quality, affordable, and personalized products and solutions to our customers and clients by leveraging our insights, brand, talent and localized approach. We continue to solve for market needs that are ever evolving, including those of our customers and employers, as well as the government and healthcare providers.



## **CIGNA'S FRAMEWORK FOR CREATING SHAREHOLDER VALUE:**

1. Leveraging existing capabilities across core businesses.
2. Driving strong margins and significant free cash flow.
3. Pursuing additional growth opportunities via new distribution marketplaces, geographies, and service expansion.

Cigna is a global company with more than 75,000 people representing different cultures, beliefs and values. Cigna takes an active, affirmative approach to making sure every one of its people develops an appreciation for individual and collective experiences, different ways of thinking and diverse communication styles. This approach is also more than a cultural diversity program; it's part of who we are.



## BUSINESS AND PERFORMANCE

The financial results presented in the following table for CLICE and CEIC for years ended 31 December 2020 and 2019 are derived from the BE GAAP Financial Statements and adjusted for Myrtle intragroup consolidation eliminations. The purpose of this table is to provide an accurate reflection of the Myrtle data which is attributable to the insurance companies within the group.

(EUR'000)	CLICE		CEIC		Myrtle <sup>(1)</sup>	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Income Statement Data</b>						
Gross Earned Premium	837,420	790,555	181,415	194,665	1,018,834	985,220
Result for financial year	39,026	14,482	(3,928)	9,225	28,727	19,003

<b>Balance Sheet Data</b>						
Total assets	822,731	713,739	225,793	223,946	1,279,851	1,187,913
Shareholders' equity	199,629	160,603	93,386	97,314	369,495	346,913

Summary of financial performance

(1) Unaudited Consolidated figures

## SYSTEM OF GOVERNANCE

The Company is committed to ensuring strong corporate governance practices on behalf of its shareholders. Cigna Corporation's Practices, together with the charters of its Audit, Corporate Governance, Finance, People Resources and Executive Committees, establish a framework of policies and practices for effective governance across the Enterprise.

Over the past few years, the respective Boards in the Company have implemented significant measures to strengthen the corporate governance framework, including the risk management function, in readiness for Solvency II which was effective from 1 January 2016. During 2020, Cigna Europe's business units were brought together to form the Europe and Global Segments business under common leadership. Changes were made to ensure that business and legal entity management is aligned and to further strengthen corporate governance arrangements.

The principles of Cigna Corporation's Practices, which are available at [www.cigna.com/about-us/company-profile/corporate-governance](http://www.cigna.com/about-us/company-profile/corporate-governance), are followed in Europe as articulated in the Company's Regular Supervisory Report and the numerous supporting policies. These address Board of Directors structure and leadership, director qualifications, director independence, and committee structure and roles. The governance policies and practices of the Company are regularly reviewed in light of developments in corporate governance and the Regulatory Supervisory Report and charters of the Board of Directors (sub) committees are updated when deemed appropriate for the Company.

The primary role of the Board of Directors is the oversight of management of the Company's business affairs and assets (including at group level for responsibilities delegated from Myrtle and Elmwood). To fulfil their responsibilities, Cigna's European Boards, both directly and through their specialised committees, regularly engage with management, ensure management accountability and review the most critical issues that face the Company. Among other things, the Boards review the Company's strategy and mission, its execution on financial and strategic plans, and succession planning.

The Board also oversees risk management and approves executive compensation. All directors play an active role in overseeing the Company's business strategy at Board and committee levels.

The company has in place a Risk Management System (RMS), the primary objective of which is to identify, measure, monitor, manage and report the risks that the Company is exposed to on at least an annual basis. The RMS comprises the strategies, processes and reporting procedures to meet this objective. The Company has identified five key material risk exposures which form the basis of the Risk Profile: Insurance, Investment, Credit, Business and Operational risk. Each of these key risks is defined within the Risk Universe and includes all sub risk components. The Risk Universe also defines the primary method adopted internally to identify, assess and measure each material risk.

Life and Health Insurance risks are those which emerge from the Company's core business functions. The Company has a low exposure to Investment Risk as it has a limited investment portfolio which is based upon high quality, medium maturity and low volatility bonds with strong concentration thresholds. The Company is exposed to credit risk due to the possible failure of one or several internal/external counterparties.

The 2016 UK vote to leave the European Union (BREXIT) presented a significant Business risk to the Company. Cigna Europe has been working to prepare for BREXIT since 2016 with a number of actions already taken in response and further actions in progress. The company applied for authorization as a Third Country Branch in 2018 and is currently operating in the Prudential Regulation Authority's Temporary Permissions Regime whilst that application is finalized. Throughout this process, with engagement with both European and UK regulatory authorities, Cigna Europe is implementing actions designed to maintain a long-term, sustainable solution to enable it to continue serving its existing customer and client base, while also ensuring cross-border regulatory compliance by the time that incoming EEA firms need re-authorisation.

## **RISK PROFILE**

The Company's Risk Universe provides the basis for all risk assessments conducted by management and the control functions. By utilising the risk universe as a benchmark, it ensures that management considers all material risks within the scope of business operations in a consistent manner. Management can then prioritise the key risk exposures from the Risk Universe and identify and assess the risks relative and most prominent to the business model and operations. For each of these risks,

the exposure, the concentration, the mitigation techniques and the sensitivity to stress tests scenarios is analysed in this report.

The development of sophisticated quantitative and qualitative risk assessment tools has been primarily driven through the risk-based European regulatory requirements of the Solvency II Directive. In order to meet Solvency II requirements, the Company developed a Partial Internal Model (PIM) for the two insurance companies, CLICE and CEIC, which received regulatory approval in 2015. This includes an internally developed risk module for key exposures where the Standard Formula is deemed insufficiently accurate to reflect Cigna Europe's specific risk exposures. This PIM was also approved for use and deployed at the holding company level in 2017.

As outlined in the Solvency II Directive, the risk measure is the Value at Risk (VaR) of the basic own funds (BOF) of the Company subject to a confidence level of 99.5% over a one-year period. The components of Cigna Europe's Solvency Capital Requirement (SCR) are detailed in the following table.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>SCR</b>	<b>129,900</b>	<b>107,762</b>	<b>50,782</b>	<b>50,750</b>	<b>198,385</b>	<b>185,752</b>
<i>Market Risk</i>	18.5%	17.5%	47.0%	34.4%	36.6%	37.2%
<i>Credit risk</i>	17.6%	21.0%	3.8%	6.2%	17.8%	20.9%
<i>Life Underwriting risk</i>	1.8%	1.7%	0%	0%	1.2%	1.0%
<i>Health Underwriting risk</i>	43.6%	38.9%	38.4%	47.6%	29.4%	25.4%
<i>Non-Life Underwriting risk</i>	0%	0%	0.4%	0.4%	0.1%	0.2%
<i>Operational Risk</i>	18.5%	20.8%	10.5%	11.4%	14.9%	15.3%

Cigna Europe's Risk profile

## VALUATION

The Solvency II balance sheet is prepared in compliance with the Solvency II requirements. Assets and liabilities are valued on a 'fair value' basis assuming that the company will pursue its business as a going concern.

Economic adjustments have been made where the valuation methodology on a statutory basis differs to the valuation methodology requirements under Solvency II.

## CAPITAL MANAGEMENT

The table below illustrates the Own Funds and the Solvency Capital Requirements for year end 2020 compared to 2019.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Own Funds and SCR/MCR Data						
Own Funds	226,416	185,593	106,345	101,134	359,952	353,029
Solvency Capital Requirement (SCR)	129,900	107,762	50,782	50,750	198,385	185,752
Minimum Capital Requirement (MCR)	34,488	33,054	12,695	12,688	47,183	45,742
Ratio of Eligible own funds to SCR	174%	172%	209%	199%	181%	190%
Ratio of Eligible own funds to MCR	657%	561%	838%	797%	763%	772%

Own Funds and Solvency Capital Requirements for year end 2019 and 2020

The Company continues to hold a strong capital base under Solvency II driven by the ongoing drive to sustain business growth and reinforce value, strength and security brought to all stakeholders. The Company continues to seek opportunities which offer a good return on solvency capital.

During 2020, Cigna Europe established the Europe and Global Segments business to unite processes and management structures across Europe. A clear strategy has been defined for the new organisation with three pillars: affordability, whole health and growth. Key to achieving this will be the focus on developing solutions which meet customer needs whilst aiming to provide a superior customer experience. The development of new distribution and digital capabilities will be key in enabling us to grow the Group and Individual business across the European market. The Company will also continue to leverage the distribution capabilities of other Cigna Europe Group companies to enhance the capability to grow in the market.

# COVID-19 UPDATE

This report highlights the solvency and financial condition of CLICE, CEIC and Myrtle as at December 31, 2020. The COVID-19 pandemic outbreak that emerged in 2020 had a significant impact on many aspects of the Company's business during the year and continues to impact the outlook for 2021 and beyond. This section therefore summarises the overall impacts of the pandemic on the Company, following the same structure as the rest of the report.

## A. BUSINESS AND PERFORMANCE

Cigna Europe tracks the number and amount of COVID-19 related claims declared on a weekly basis. This has varied by geography during the various waves of the pandemic. Whilst the overall claims costs arising from the prevention and treatment of COVID-19 are significant, some other claims expenses have reduced in certain countries, mainly in Q2 and Q3 of 2020. This was due to delayed or discontinued treatment as countries applied lockdowns and managed hospital capacity to prioritise patients affected by COVID-19. There was an increase of overall claims costs in Q4 and management anticipates continued increased of claims costs in the future, due to delayed treatment taking place as well as the ongoing impacts of COVID-19 claims.

As many governments are predicting that the pandemic and responses to it will have significant impacts on economies around the world, the Company expects challenges in continuing the growth of its business until economies recover.

From an investment performance perspective, initial fluctuations in financial markets had an impact on the Company's investments during the year as a consequence of volatility in bond spreads. Since then though, the Company's investment portfolio value has increased significantly as a result of recovering markets and targeted portfolio management.

## B. SYSTEM OF GOVERNANCE

The Company's response to the COVID-19 outbreak demonstrated the effectiveness of the governance structure and related processes. The Company reacted promptly to the pandemic to ensure the safety of its employees while continuing to serve its customers by moving the majority of staff to home working.

Furthermore, the pandemic scenario modelled annually in the Company's ORSA has been crucial in multiple respects:

- Mitigation measures were already implemented;
- Management actions in case of materialization had been identified in advance; and
- Financial implications of COVID-19 could be quickly forecast by leveraging the existing scenario.

Finally, the Company takes a prudent approach with respect to variable remuneration and ensures this aligns members of staff's objectives to the long-term interests of the company and effective control of risks.



## **C. RISK PROFILE**

Underwriting risk: the Company has leveraged its Pandemic Internal Model as well as Pandemic ORSA scenario in order to forecast the potential ultimate loss of the COVID-19 pandemic. These forecasts have proven that even under extreme circumstances, the solvency position of the Company would remain within risk appetite limits and well above the regulatory minimum.

Market risk: given the ongoing economic impact from COVID-19, the Company expects further credit deterioration and rating downgrades across various sectors, with a magnitude depending on the duration of the crisis. The impact is however expected to be limited seen Cigna Europe's high quality and short duration investments.

Credit risk: the Company's overall client base is considered to be financially solid with limited exposure to corporate sectors suffering from the COVID-19 crisis. Whilst requests for payment holidays were received from some clients, management has not seen and does not anticipate significant revenue collection risk at this point in time.

Liquidity risk: since the start of the COVID-19 outbreak, the liquidity of the Company has remained at adequate levels. The Company does not expect any liquidity concerns in the near future.

Operational risk: as countries across Europe put their populations into lockdown in response to the pandemic, Cigna Europe implemented Business Continuity Plan procedures, closed its European offices and moved staff to working from home. Preparations have been made for the easing of lockdowns and returning teams to offices. However, management expects that even after lockdowns are lifted, many teams will continue to work partly from home as a change to the standard operating model.

## **D. VALUATION FOR SOLVENCY PURPOSES**

The technical provisions have not been significantly impacted by COVID-19. Premium Provisions are based on longer term expectations of Loss Ratios and are therefore not impacted by temporary variations due to changing claims patterns from COVID-19. The Company continues to monitor the impact of COVID-19 and will adjust technical provision assumptions to allow for unusual claim patterns if required.

## **E. CAPITAL MANAGEMENT**

The Solvency positions of CLICE, CEIC and Myrtle at December 31, 2020 were well above the regulatory minimum (respectively of 174%, 209% and 181%). In line with regulatory directives, no dividends were distributed in 2020. The Company will continue to take a prudent approach to Capital Management and will comply with all EIOPA or NBB guidelines in that respect.

A person in a business suit is holding a smartphone in their left hand, displaying a line chart with multiple colored lines (green, red, blue) on a white background. The smartphone screen also shows a status bar at the top with signal strength, battery, and time (10:46). In the background, a laptop screen displays a similar line chart with multiple colored lines (green, red, blue) on a dark background. The laptop keyboard is visible, and the person's right hand is resting on it. A blue banner with white text is overlaid on the left side of the image.

# A. BUSINESS AND PERFORMANCE

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# A. BUSINESS AND PERFORMANCE

## A.1. Business

### A.1.1. Legal Group Structure

Cigna Europe initiated changes to its governance structure in Europe starting in 2013 in order to be compliant with the Solvency II regime, both at the local Belgium and overall European group levels.

Two European holding companies were set up for the purposes of holding the shares in CLICE, CEIC and the other European Cigna entities:

- › Cigna Myrtle Holdings, Ltd (“Myrtle”), a Maltese company, is the European holding company of the Cigna Europe entities; and
- › Cigna Elmwood Holdings SPRL-BVBA (“Elmwood”, ref. 0543.609.378), a Belgian company, is the Belgian holding company of the Cigna Europe entities.

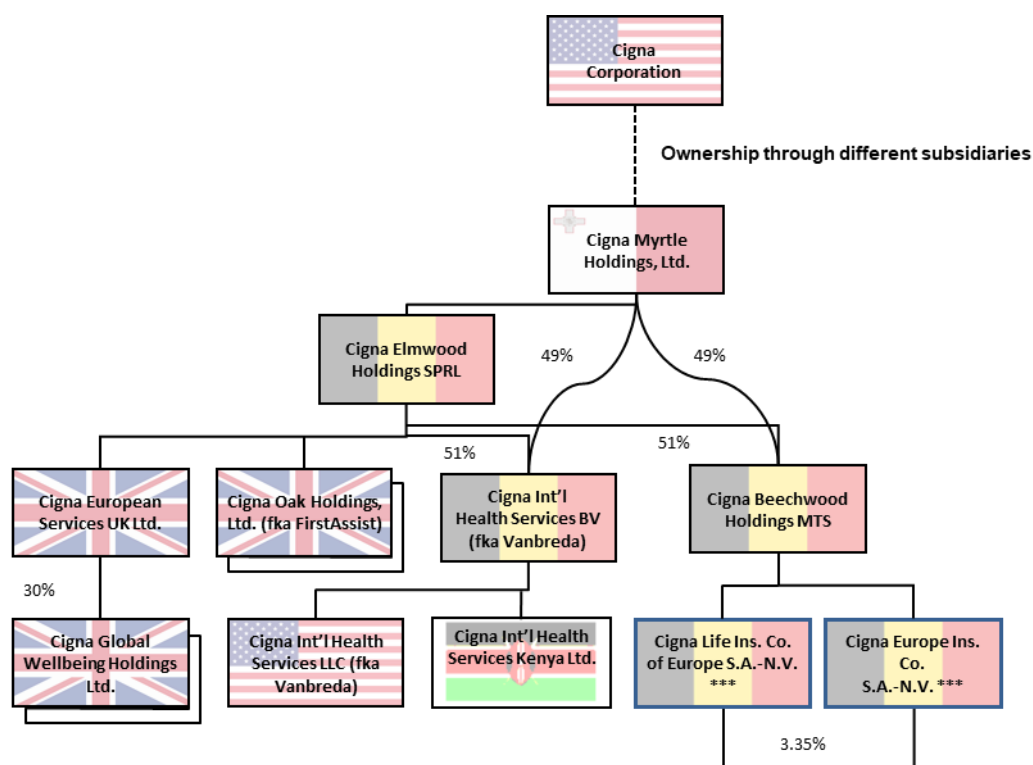
Myrtle is the parent of Cigna Elmwood Holdings SPRL and all underlying subsidiaries, including:

- › The insurers CLICE and CEIC;
- › Cigna European Services (UK) Ltd (“CESL” ref. 00199739) which is a service company to support the Company on a pan-European basis;
- › The two intermediaries who also provide products and services to the Group, i.e. Cigna Insurance Services (Europe) Limited (“CISEL” ref. 04617110) and Cigna International Health Services BV (“CIHS” ref. 0414.783.183).

In addition, CLICE is the Responsible Entity for Cigna Europe with most key matters for group supervision delegated to CLICE through a cascade of delegation from Myrtle to Elmwood and Elmwood to CLICE. Cigna Corporation is the ultimate parent company and is listed on the New York stock exchange under symbol CI.

Cigna Europe has grown organically, and also through the acquisitions of Vanbreda International SA-NV in 2010 (subsequently renamed Cigna International Health Services BVBA and which is registered in Belgium) and FirstAssist Ltd in 2011 (which has been renamed Cigna Oak Holdings Ltd and which is registered in the United Kingdom). These two companies are intermediaries providing insurance products and services and are incorporated into the wider governance structure referred to below. In addition to this, the European Group also includes Cigna Global Wellbeing Holdings Limited (ref. 3976059) which provides health guidance to members (owned 70% by Connecticut General Corporation and 30% by CESL).

The current Group governance structure has been in place since January 1, 2015 and enables Solvency II related responsibilities to be allocated between the companies (Pillar II Elmwood and Pillar III Myrtle) while the life (CLICE) and non-life (CEIC) insurance companies are the risk carriers by which business is written and strategic objectives are met through the established global branch structures.



SOLVENCY AND FINANCIAL CONDITION REPORT 2021 - MYRTLE, CLICE and CEIC

The shareholders of the insurance entities CLICE and CEIC are:

Shareholder	CLICE	CEIC
Cigna Beechwood Holdings "Maatschap" / "Société de droit commun", Plantin en Moretuslei 309, 2140 Antwerp, Belgium	139,911 shares	142,089 shares
Ownership (%)	96.645%	92.517%
Cigna Myrtle Holdings, Ltd., 171 Old Bakery Street, Valletta VLT 1455, Malta	1 share	11,493 share
Ownership (%)	0.001%	7.483%
Cigna Europe Insurance Company SA, "Société Anonyme", Plantin en Moretuslei 309, 2140 Antwerp, Belgium	4,855 shares	
Ownership (%)	3.354%	

Exhibit A.2: YE 2020 Shareholders CLICE and CEIC

No material transactions with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body occurred during 2020.

## A.1.2. Regulator and External Auditor

Cigna Elmwood Holdings, CLICE and CEIC are supervised by the National Bank of Belgium ("NBB"), Boulevard de Berlaimont 14, 1000 Brussels, Belgium. Myrtle is supervised by the Malta Financial Services Authority ("MFSA"), Notabile Road, BKR3000, Attard, Malta which has delegated its supervisory responsibilities to the NBB.

The external auditor for Myrtle is Romina Soler, PricewaterhouseCoopers (Malta), 78 Mill Street, Qormi, QRM3101, Malta. For CLICE and CEIC, the external auditor is Isabelle Rasmont, SRL PricewaterhouseCoopers (Brussels), Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe, Belgium.

## A.1.3. Structure of Business

Cigna Corporation is one of the largest publicly owned employee benefits organisations in the United States and is one of the few health benefits companies with a comprehensive portfolio of health, pharmacy, behavioural, dental, disability, life, accident and international businesses. With approximately 75,000 employees after the acquisition of Express Scripts, Cigna Corporation and its subsidiaries serve millions of people worldwide. In Europe, the Company provides specialist individual and group healthcare, both within Europe and globally. It also leads the way in the direct marketing of high benefit, low cost insurance products in the health, life, accident, disability, travel and credit protection sectors.



During 2020, Cigna's European business was brought together under one Management Team with the creation of the Europe and Global Segments ("EGS") business. As part of this, the naming convention for the business units was updated to reflect a new aligned approach.

As shown in Exhibit A.3 below, the Company operates through seven business units. The diagram illustrates the operational geographies, business lines and the Solvency II Lines of Business.

BUSINESS UNITS	UKEH	SEH	GEH	IOH	GIH	CISEL	HLA
GEOGRAPHICAL FOOTPRINT	UK	SPAIN	GLOBAL	GLOBAL	EUROPE, UK	UK	EUROPE
SOLVENCY II PRODUCTS	Medical Expenses	Medical Expenses	Medical Expenses	Medical Expenses incl. Life Protection	Medical Expenses	Medical Expenses Income Protection Misc. NL. Legal Expenses	Medical Expenses incl. Life Protection

Exhibit A.3: Cigna Europe Structure – Products/Lines of Business

### A.1.4. Business Units

Cigna's European business operates from the US, UK, Spain and Belgium offering managed medical, pharmacy and dental care services, including integrated indemnity and group life and health insurance for employees, primarily through their employer. The European business includes the following Business Lines:

- **Global Employer Health (GEH):** healthcare coverage for expatriates from major corporate groups with globally mobile employees.
- **IGO, NGO and Governmental Health (IOH):** cross-border medical insurance and employee benefit programs and products for Intergovernmental Organisations (IGO), Non-Governmental Organisations (NGO) and Governmental Organisations across the globe.
- **UK Employer Health (UKEH):** domestic healthcare coverage for corporate groups and a very small number of individuals.
- **Spanish Employer Health (SEH):** domestic healthcare coverage for corporate groups and individuals.
- **Global Individual Health (GIH):** healthcare coverage for individual expatriates and high net worth individuals.
- **Health, Life & Accident (CISEL - UK):** selling through affinity partners in the UK market by CISEL covering individual health and accident. This business is now being managed as a runoff business.
- **Health, Life & Accident (HL&A - European (non-UK)):** individual health and accident related products sold via Direct Marketing plus Payment Protection Insurance sold in selected European markets. This business is being managed as a runoff business.

### A.1.5. Key changes during 2020

There were no changes in group or capital structure in 2020.

## A.2. Underwriting Performance

The information by lines of business and by countries where business is written in accordance with the Solvency II Quantitative Reporting Template (QRT) S.05.01.02 'Premiums, claims and expenses by line of business' can be found in the appendix.

The following tables summarise the underwriting performance in 2020 on a gross of reinsurance basis, together with prior year comparison, for the legal entities and for those countries where the volume of business written is material:

(EUR'000)	CLICE		CEIC		MYRTLE	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Gross Earned Premium	837,420	790,555	181,415	194,665	1,018,835	985,221
Claims Incurred	570,222	575,304	116,034	125,790	686,256	701,094
Commission	50,147	47,166	17,607	23,508	67,754	70,674
Expenses	148,421	137,987	41,636	37,246	190,057	169,534
<b>Operating Profit</b>	<b>68,630</b>	<b>30,098</b>	<b>6,138</b>	<b>8,121</b>	<b>74,768</b>	<b>43,919</b>
Loss Ratio	68.1%	72.8%	64.0%	64.6%	67.4%	71.2%
Combined Ratio	91.8%	96.2%	96.6%	95.8%	92.7%	95.5%

Exhibit A.4: Underwriting Performance by Legal Entity

#### CLICE

CLICE writes business mainly in UK, Belgium, Spain, France, Germany, the Netherlands, Austria and Italy. The detailed underwriting performance information per country can be found in the QRT S.05.01.02 in the Appendix.

At total CLICE level, Operating Profit has increased by €39m in 2020 relative to 2019. Gross Earned Premium has increased by 5.9% (€47m) driven by growth of IOH business. Combined Ratio for 2020 was 92.7% compared with 95.5% in 2019 due to lower claims utilisation as a result of disrupted access to physical care due to COVID-19, particularly in Q2. This favourability was partially offset by a significant volume of Covid-19 claims (testing and treatments), continued investment in technology as well targeted financial support delivered to clients and customers via premium rebates, premium and copay waivers.

## **CEIC**

CEIC writes business mainly in Singapore and Switzerland. The detailed underwriting performance information per country can be found in the QRT S.05.01.02 in the Appendix.

At total CEIC level, Operating Profit has decreased by €2m in 2020 relative to 2019. Earned Premium has decreased by 6.8% (€13m) mainly due to run-off of the UK CISEL business. Combined Ratio for 2020 was 96.6% compared with 95.8% in 2019 due to lower Commission Ratio and Loss Ratio being offset by continued investment in technology. The impact of COVID-19 on CEIC is less pronounced than on CLICE because the Singapore health care system was disrupted less than in other regions.

## **MYRTLE**

Myrtle only underwrites insurance business through CLICE and CEIC and therefore Myrtle results are for CLICE and CEIC combined. The detailed underwriting performance information per country can be found in the QRT S.05.01.02 in the Appendix.

# **A.3. Investment Performance**

The Company holds operating cash and short term investments that meet the immediate liquidity obligations of the European Group, taking due consideration of liquidity, diversification and yield requirements for the insurance, intermediary and service entities. Where a cash surplus exists for the insurance businesses beyond this requirement, investment activity is undertaken in the longer term portfolio environment with internal and external asset management oversight based on Board of Directors approved appetite towards currency risk, concentration risk, interest rate risk and credit rate risk. The Group only holds assets in the investment classes bonds and Investment funds. Statutory Investment income and management expenses are detailed in the following tables.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Investment Income by Class</b>						
Bonds	4,667	3,682	1,873	2,805	6,540	6,487
Investment Funds	2,314	875	498	-	2,812	875
<b>Investment Income</b>	<b>6,981</b>	<b>4,557</b>	<b>2,371</b>	<b>2,805</b>	<b>9,352</b>	<b>7,362</b>
Realized Capital Gains/ losses	(1,365)	(193)	24	(61)	(1,341)	(254)
Gain on Sale (Intercompany shares)	-	-	-	-	-	-
<b>Net Investment Income</b>	<b>5,616</b>	<b>4,364</b>	<b>2,395</b>	<b>2,744</b>	<b>8,011</b>	<b>7,108</b>
<b>Investment Expenses</b>	<b>304</b>	<b>286</b>	<b>88</b>	<b>99</b>	<b>392</b>	<b>385</b>
<b>Unrealized gains and losses</b>	<b>21,673</b>	<b>15,457</b>	<b>3,901</b>	<b>1,838</b>	<b>25,574</b>	<b>17,295</b>

Exhibit A.7: Investment income/expense and unrealized gains and losses – Statutory Basis

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Government Bonds	74,559	108,940	41,314	49,132	115,873	158,072
Corporate Bonds	328,168	263,051	88,195	80,138	416,363	343,189
Collateralized Securities	-	1,295	-	-	-	1,295
Private Debt Lending	2,110	-	-	-	2,110	-
Short-Term deposits	34,350	12,078	1,917	1,065	38,837	13,143
<b>Total Investments</b>	<b>439,187</b>	<b>385,364</b>	<b>131,426</b>	<b>130,335</b>	<b>573,183</b>	<b>515,699</b>

Exhibit A.8: Investment by Class – Statutory Basis

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Opening Balance	373,286	355,452	129,270	134,622	502,556	490,074
Acquisitions	140,566	96,111	43,544	43,693	184,110	139,804
Disposals/Maturities	(98,330)	(83,631)	(38,484)	(50,608)	(136,814)	(134,239)
FX + Amortisation of Premium	(10,685)	5,354	(4,821)	1,563	(15,506)	6,917
<b>Total Investments (less Short -Term deposits)</b>	<b>404,837</b>	<b>373,286</b>	<b>129,509</b>	<b>129,270</b>	<b>534,346</b>	<b>502,556</b>

Exhibit A.9: Investment Movements – Statutory Basis

## **A.4. Performance of other activities**

There have been no other significant activities undertaken by the Company other than its insurance and related activities.

## **A.5. Any other information**

There are no other material matters in respect to the business or performance of the Company.





## B. SYSTEM OF GOVERNANCE

Together, all the way.®



## B. SYSTEM OF GOVERNANCE

The Company is committed to ensuring strong corporate governance practices on behalf of its shareholders. Cigna Corporation's Practices, together with the charters of its Audit, Corporate Governance, Finance, People Resources and Executive Committees, establish a framework of policies and practices for Cigna Europe's effective governance.

### B.1. General Information on the System of Governance

The System of Governance is a collection of key components which combine to provide an integrated system of control. The key components include:

- › Organisational Structure (as disclosed in section A Exhibit A.1 and A.2);
- › Regulatory Supervisory Report, supporting policies and sub-committee structure;
- › Functions of Control;
- › Fit and Proper requirements;
- › Risk Management System; and
- › Internal Control Environment.

#### B.1.1. Regulatory Supervisory Report, supporting policies and Sub Committee Structure

The principles of Cigna Corporation's Practices, which are available at [www.cigna.com/about-us/company-profile/corporate-governance](http://www.cigna.com/about-us/company-profile/corporate-governance) are followed within Europe as articulated in the Regulatory Supervisory Report of the Company and the numerous supporting policies. These address Board of Directors structure and leadership, director qualifications, director independence, and committee structure and roles. The governance policies and practices of the Company are regularly reviewed in light of developments in corporate governance and the Regulatory Supervisory Report and charters of the Board of Directors (sub) committees are updated when deemed appropriate for the Company.

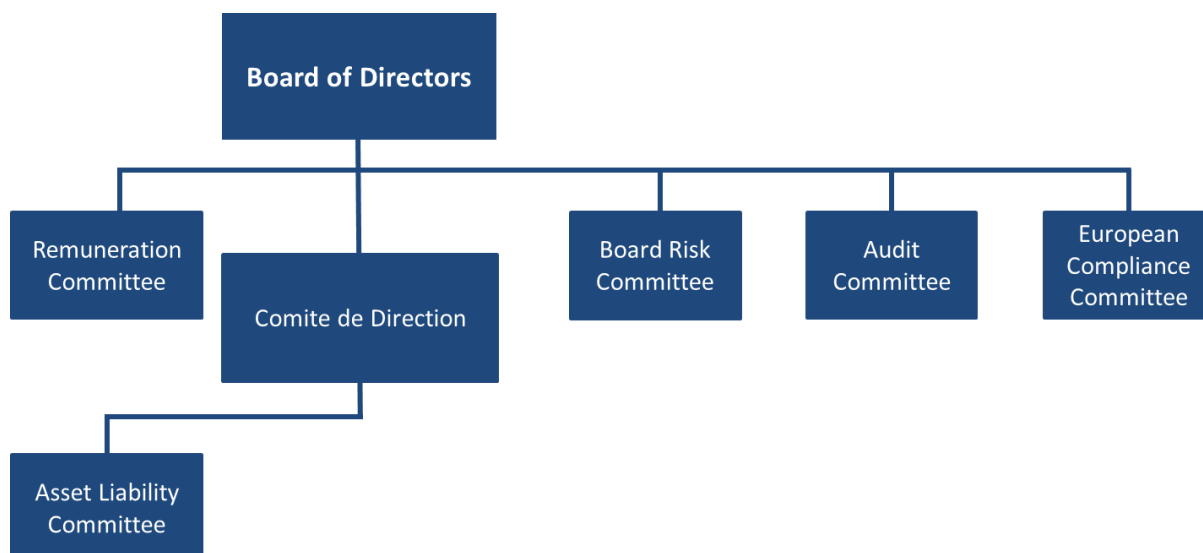


Exhibit B.1: The Company Committee Structure

**Exhibit B.1** shows the Governance structure adopted within the Company (including the various Board sub-committees). The following sections describe the roles and responsibilities of these different bodies which form the overall System of Governance.

## B.1.2. Board of Directors

The Board of Directors is composed of four Executive Directors and five Non-Executive Directors, two of which are independent. If necessary, the number of Directors will be modified to reflect the business and regulatory requirements. The Board of Directors elects a chairman to be chosen amongst the Non-Executive Directors, after consultation with the NBB. This Board of Directors structure, including the separation of the roles of its Chairman and the European Managing Director helps to ensure independent oversight of the Company and the management team and contributes to strong governance practices.

The primary role of the Board of Directors is the oversight of the management of the Company's business affairs and assets (including at group level for responsibilities delegated from Myrtle and Elmwood). To fulfil their responsibilities, Cigna's European Boards, both directly and through their specialised committees, regularly engage with management, ensure management accountability and review the most critical issues that face Cigna Europe. Among other things, the Boards review the Company's strategy and mission, its execution on financial and strategic plans, and succession planning. The Board also oversees surveillance of activities, risk management, people matters, governance, training, and determines executive compensation. All directors play an active role in overseeing the Company's business strategy at the Board and committee levels.

### B.1.2.1. Audit Committee

The Audit Committee is made up of at least 3 members and have a majority of independent directors within the meaning of Article 526ter of the Company Code. All the other members must be non-

executive. The members shall have collective expertise in the activities of the Company as well as in the field of financial management, financial reporting, accounting and audit.

One of the two independent directors is the chairman of the Audit Committee. The Audit Committee reports to the Board of Directors on its proceedings and makes whatever recommendations it deems appropriate on any area within its remit. Members of the Audit Committee are appointed by the Board of Directors, in consultation with the Chairman of the Audit Committee.

The responsibilities of the Audit Committee are detailed in the Audit Committee Charter and can be summarized as follows:

- › To monitor the integrity of the financial reporting of the Company;
- › To monitor and review the effectiveness of the Company's:
  - Internal controls and risk management systems;
  - Internal Audit function;
  - External Audit function;
  - Compliance function; and
- › To monitor the whistle blowing policy.

#### **B.1.2.2. Board Risk Committee (BRC)**

The Board Risk Committee requires at least five members, either executive or non-executive directors. Currently, all five Non-Executive Board Directors are members of the BRC. The chairman of the BRC is an independent non-executive director of the Board of Directors.

The Committee's main responsibilities are to:

- › Advise the Board on the risk implications of strategic options that impact the future direction of the business;
- › Provide guidance on risk management framework, policy, reporting and other risk mechanisms;
- › Recommend to the Board of Directors the risk appetite for the Company, and the metrics to target and monitor the overall risk tolerance of the organisation;
- › Monitor the current risk profile of the Company;
- › Monitor the prospective view of the capital intensity of the business;
- › Review the Own Risk Solvency Assessment (ORSA) process, and report and summarise to the Board;
- › Express an opinion and risk based recommendations on key initiatives (risk/return analysis) for final sign off by Board of Directors;
- › Monitor the implementation of Solvency II; and

- › Review any reports or information supplied to it through the Chief Risk Officer in relation to the lower risk forums.

The Board Risk Committee is a high level, strategic focussed committee set up with the Board of Directors considering the risk profile of the company.

The Company adjusted its Risk Governance structure in 2020 to align with changes in the business. Various levels of Risk Management processes have been determined which are intended to be fully implemented in 2021. This changes the governance from being managed on a business unit basis to being managed through the Company's various Europe-wide management structures, including the Business Operations Team, Strategic Delivery Teams and legal entity management teams. This structure is designed to ensure that risks are managed at the right level in the business. It also helps embedding the risk management system, internal control framework and a strong risk management culture.

### **B.1.2.3. Remuneration and People Resources Committee**

The Company has a Remuneration Policy in place which reflects both the NBB requirements and the philosophy of the Cigna Corporation in terms of Remuneration Policy. The Company's remuneration philosophy reflects its desire to strengthen its financial position and to invest in its people, who, through their skills, competencies, and abilities advance the Company in the competitive marketplace. The Remuneration and People Resources Committee is made up of three Non-Executive Directors who are independent of the business. In addition, two of the members are Independent Non-Executive Directors. The chairman of the Board of Directors is also the chairman of the Remuneration and People Resources Committee.

#### **B.1.2.3.1. Remuneration principles**

It has to be noted that Non-Executive Directors of the Board of Directors are not remunerated by the Company as they are employees of other Cigna group entities.

Independent Directors are remunerated for their roles with an annual fee which is agreed on a yearly basis. They are not part of the remuneration policy and do not receive any stock options or long term incentive plan. The Company has in place a Remuneration Policy approved by the Board of Directors. The remuneration Policy is applicable to all employees and Executive Directors. Rewards for contribution means the remuneration package each employee earns represents the value his returns to the Company and its shareholders. The reward package consists of a competitive base pay and a performance-based variable pay. The remuneration package is also indirectly based on seniority and promotion. Remuneration related to such seniority is set in a multi-year framework in order to ensure that the overall assessment process is based on longer term performance.



## **COMPETITIVE BASE PAY**

The fixed remuneration, represented in the competitive base pay, is established at an appropriate level and constitutes a sufficiently high proportion of the total remuneration so that the employees do not have to fully rely on the variable component of the remuneration.

The Company has retirement plans for its employees and members of the Comité de Direction (Executive Directors). The Non-Executive members of the Board of Directors do not have a Retirement Plan offered by the Company.

There are no anticipated plans for retirement in place for the employees or the members of the Comité de Direction.

There are no lump sum contributions by the Company possible in the plan of one or all employees or Executive Directors.

## **VARIABLE PAY**

In addition to the Competitive Base Pay, the individual contribution to the organisational and the Company goals by each employee may be recognised through the differentiation of the variable pay components which can take the form of a cash bonus or a participation in a stock (options) plan which constitutes a Long Term Incentive Plan.

### **B.1.2.3.2. Employee Assessment**

The assessment of the performance may be based on a combination of the assessment of the performance:

- › Of the individual;
- › Of the business unit concerned; and
- › Of the overall results of the Company.

The final level of variable pay awarded will take account of these 3 factors.

### **B.1.2.3.3. Variable Pay Claw Back**

To the extent lawful in a particular jurisdiction, the Company's Board of Directors shall be able to require the Executive Directors and the other employees who have received variable pay to repay all or part of the variable pay if this payment resulted from their fraudulent activities or where the variable pay has been awarded for performance based on data which has subsequently proven to be manifestly incorrect or misleading.

### **B.1.2.3.4. Independent Control Functions**

Staff members engaged in independent control functions (including actuaries, compliance officers, risk managers and internal auditors) are compensated in accordance with the achievement of the

objectives linked to their functions, independent of the performance of the business areas they control.

#### **B.1.2.4. Comité de Direction**

The Comité de Direction or Management Committee comprises four executive members of the Board of Directors (“Executive Directors”), and is therefore composed as follows:

- › the European Managing Director;
- › the Chief European Counsel;
- › the Chief Risk Officer; and
- › the Chief Finance Officer.

The Comité de Direction is chaired by the European Managing Director. The Company ensures that the Comité de Direction is composed, at all time, of at least 3 Executive Directors. No legal Entities “management company” can be a member of the Comité de Direction. The collective and individual skills and competencies of the Comité de Direction and its individual members are subject to an annual assessment. If needs are identified, appropriate measures are taken to provide training.

The duties and responsibilities of the Comité de Direction are detailed in the Internal Regulations of the Comité de Direction and can be summarised as the following:

#### **ADVISING THE BOARD OF DIRECTORS**

- › Advise the Board of Directors on general policies and develop proposals to the Board on the business strategy and business development of the Company;
- › Report at least annually to the Board of Directors in relation to internal audit and compliance.

#### **DAY-TO-DAY MANAGEMENT**

- › Within the strategic guidelines and policy frameworks set by the Board, ensure the leadership of the Company and its general management;
- › Ensure that an adequate framework is in place for the appropriate functioning of the independent control functions.

#### **RISK MANAGEMENT**

- › Ensure that the risk framework defined and the risk management policy approved by the Board of Directors are implemented through processes and procedures;
- › Ensure that the risks of the Company are identified, measured, managed, controlled and reported adequately through reports of the independent control functions;
- › Ensure that an appropriate risk management system is put in place including, among other things, the overall risk governance structure and the risk reporting;
- › Implement the necessary measures to ensure that risks are monitored and controlled.

## INTERNAL CONTROL AND GOVERNANCE

- › Perform annually a governance self-assessment and communicate the report to the Board of Directors, the external auditor, and the NBB;
- › Implement an adequate internal control and risk management within the guidelines approved by the Board and monitor their effectiveness at least annually, based on the annual report of the internal audit department, monthly reports from the Chief Risk Officer, the annual System of Governance self-assessment report and other sources such as reports and/or notes of the different departments and business units. The review relates to all aspects of internal control such as the objectives, the means that are implemented, the methods that are used, the shortcomings that are found and the adequate character and efficiency of the internal control;
- › Ensure, based on the reporting to be made at least every six months by the Internal Audit Department that the latter adequately follows-up whether its investigative findings and recommendations are complied with.

## REPORTING

- › Report in writing annually to the NBB, the statutory auditor and the Board of Directors, through the Audit Committee, in relation to internal control; in particular, the minutes of the meetings of the Comité de Direction shall stipulate the deliberations relating to the status of the internal control and its assessment;
- › Submit the declaration on prudential reporting and the representative assets reporting to the NBB, the statutory auditor and the Board of Directors on a half-yearly basis;
- › Ensure that the Company permanently disposes of an adequate compliance function and assess the compliance function at least annually.

## POLICY IMPLEMENTATION

- › Implement the Integrity Policy and update it regularly;
- › Implement the Remuneration Policy and update it regularly;
- › Implement the Subcontracting Policy and update it regularly;
- › Implement the Investment Policy and update it regularly;
- › Implement the Reserving Policy and update it regularly; and
- › Insure the adequacy and application of internal policies.

Without prejudice to its own powers and duties, the Board of Directors vests the Comité de Direction with the authority that is adequate and necessary to the proper exercise of its duties and responsibilities, within the wider framework of the general strategy and policies outlined by the Board

of Directors. While the members of the Comité de Direction report individually to the European Managing Director on their areas of responsibility, the Comité de Direction as a whole is collectively accountable to the Board on all matters entrusted to it by the Board.

The Asset Liability Committee (ALCO) reports to the Comité de Direction by assisting it in fulfilling its responsibilities related to the management of the Company's assets relative to its liabilities, and to the oversight of the Company's Investment Managers in accordance with the Company's risk management practices (including the Company's Risk Appetite) and any other related policies.

#### **B.1.2.5. European Compliance Committee**

The European Compliance Committee ('ECC') is composed of the local compliance officers of the various Business Units and is chaired by the European Compliance Officer. The ECC meets on a semi-annual basis.

The tasks of the European Compliance Committee within its action areas are to:

- › Assess the risks incurred by the Company to its integrity, draft any proposals to improve it where necessary and report to the Audit Committee;
- › Assess the day-to-day application of the Integrity Policy within the Company;
- › Draft, in all its action areas, procedures, instructions and codes of conduct in order to implement the Integrity Policy, to prevent and eliminate the risks incurred by the Company to its integrity and to adopt adequate internal control measures in this respect;
- › Regularly assess the adequate character of these procedures, instructions, codes of conduct and internal control measures and, as the case may be, to draft amendments;
- › Review and follow-up any breaches committed within the Company against the laws and regulations and internal procedures, instructions and codes of conduct;
- › Supervise certain operations and transactions and certain relationships that could represent a risk for the integrity of the Company;
- › Advise the Comité de Direction in terms of conformity to the Integrity Policy before the launch of any new concept of product or before the entry into any new market;
- › Follow-up all relevant national and international laws including all regulations and prudential rules and their interpretation; and
- › Review all pertinent internal and external documents concerning the functioning of the Company (for example, audit documents, minutes of the management bodies, remarks and reports from the regulatory authorities).

## B.2. Fit and proper requirements

The Persons responsible for the governance, oversight and management of the Company provide strategic leadership that influences the financial position and future direction of the Company. The Company recognises that these persons in their positions must have the expertise and professional integrity required for their positions that will allow them to perform their duties and carry out their responsibilities in the most effective manner.

The Company has put in place a Fit and Proper Policy which contains the requirements in terms of fitness and propriety of the Key Responsible Persons which have been identified by the Company based on the regulatory and supervisory requirements “the Key Responsible Persons”.

The Key Responsible Persons include, at least, members of the Board of Directors and the Comité de Direction, the Heads of the Independent Control Functions and the foreign branches legal representatives.

### B.2.1. Description of the Fit and Proper requirements

The assessment of a person's suitability is described as assessing whether they are “fit and proper”:

- › A person is considered to be fit for a specific position when the person has knowledge and experience, skills and the professional behaviour required for the position in question;
- › Propriety relates to a person's honesty and integrity.

#### B.2.1.1 Fitness requirements

Competency and capability are demonstrated by a person who possesses the relevant knowledge, experience, skills and professional behaviour to understand the technical requirements of the business, the inherent risks and the management process required to perform his role in a key function in the relevant capacity effectively.

The Company has a description of the specific knowledge, experience, skills and professional behaviour required for each position of a Key Responsible Person as detailed in the job descriptions/profile functions.

#### B.2.1.2. Propriety assessment

Key Responsible Persons must carry out their duties honestly, faithfully, independently, ethically and with integrity. They must not have been convicted or have been prohibited from carrying out their profession on the ground of an offence against relevant provisions of financial laws.

### B.2.2. Fit and Proper Assessment Process

Key Responsible Persons must, at any time, be skilled and act with professional integrity. As a consequence, the assessment of suitability shall take place:

- › Before the Key Responsible Person takes up his position and then on an annual basis;
- › Each time a Key Responsible Person changes his position or is re-appointed for a further term; and
- › When any information which is likely to influence a Key Responsible Person's fit and proper status arises during the holding of the position or if facts or circumstances raise doubts about the suitability.

The Company has a Remuneration and People Resources Committee set up as a sub-committee of the Board of Directors who is responsible to implement the Fit and Proper Policy principles together with the Head of the Compliance function.

### B.2.3. Fit and Proper Declaration

During the performance of the position, each Key Responsible Person will be asked to sign a declaration annually which will serve as the basis to consider that there are no relevant, significant changes in relation to the compliance by the Key Responsible Person with the fit and proper standards.

### B.2.4. NBB prior approval and information

The Company informs the NBB in advance of any proposed appointment, reappointment or termination of the Key Responsible Persons. Any proposed appointment of the Key Responsible Persons is subject to the NBB prior approval.

## B.3. Risk management system including the own risk and solvency assessment

The primary objective of the Risk Management System (RMS) is to identify, measure, monitor, manage and report the risks that the Company is exposed to on at least annual level. The Risk Management System comprises the strategies, processes and reporting procedures to meet this objective. The diagram below provides a graphical overview of the Risk Management System and illustrates the processes and organisational structure which contribute to the business' decision making process.

The same top down approach to risk will be used to manage the risks at group level as well as at a solo level.

The approach to identify, assess, measure, manage and report on all key risk categories is disclosed within Section C of this report.

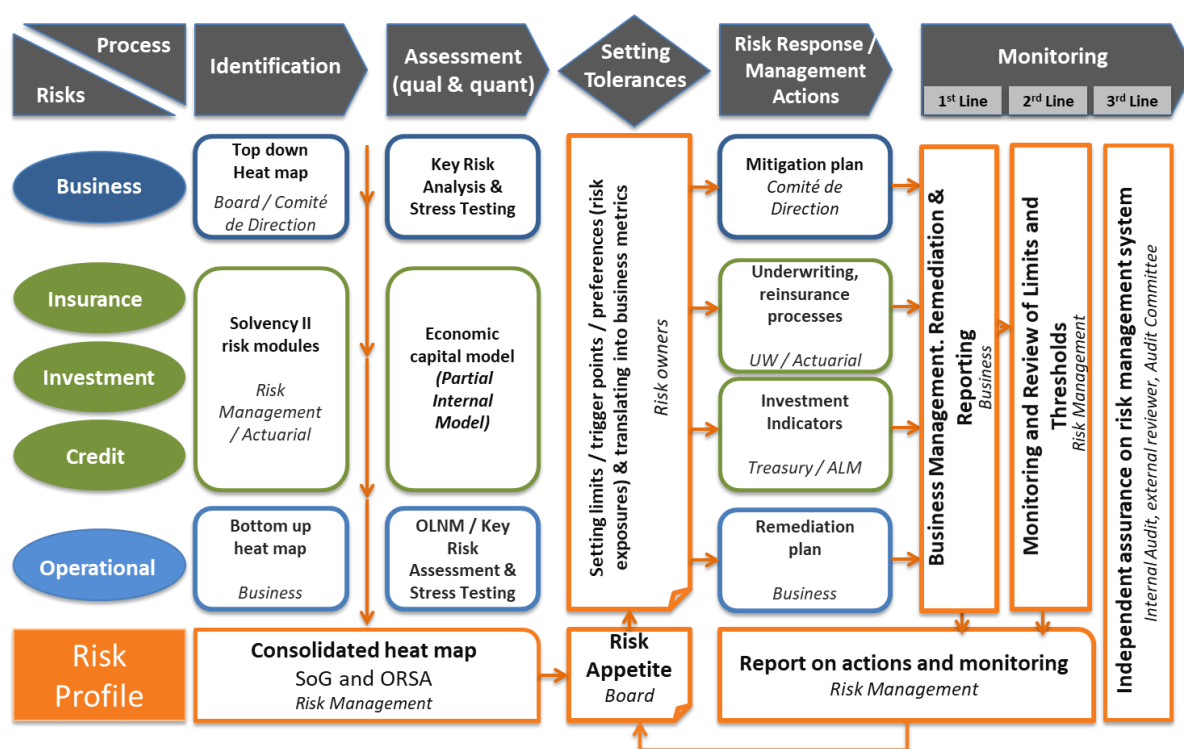


Exhibit B.2: The Company Risk Management System

### B.3.1. Risk Management objectives, strategies, process and reporting procedures for each category of risk

The Risk Strategy is directly linked with the Corporate Strategy and Business requirements for a strong financial rating which has driven the implementation of a Risk Appetite Framework to align risk preference with corporate strategy to ensure the business is assuming and constraining risk exposures in a consistent manner to achieve strategic objectives.

The Risk Appetite Framework sets triggers and thresholds for each category of risk (Insurance, Investment, Credit, Business and Operational) which subsequently defines the reporting and escalation criteria for risk exposures deemed to be in breach of allocated thresholds. Risk exposures are reported on a monthly, quarterly and annual basis as part of the standardised risk reporting but also on an ad-hoc basis when immediate review from the Comité de Direction or the Board of Directors is required (e.g. underwriting referrals for a large concentration risk).

### B.3.2. Own Risk and Solvency Assessment (ORSA)

The Own Risk and Solvency Assessment (ORSA) brings together the key processes which underpin the Company's Risk Management System.

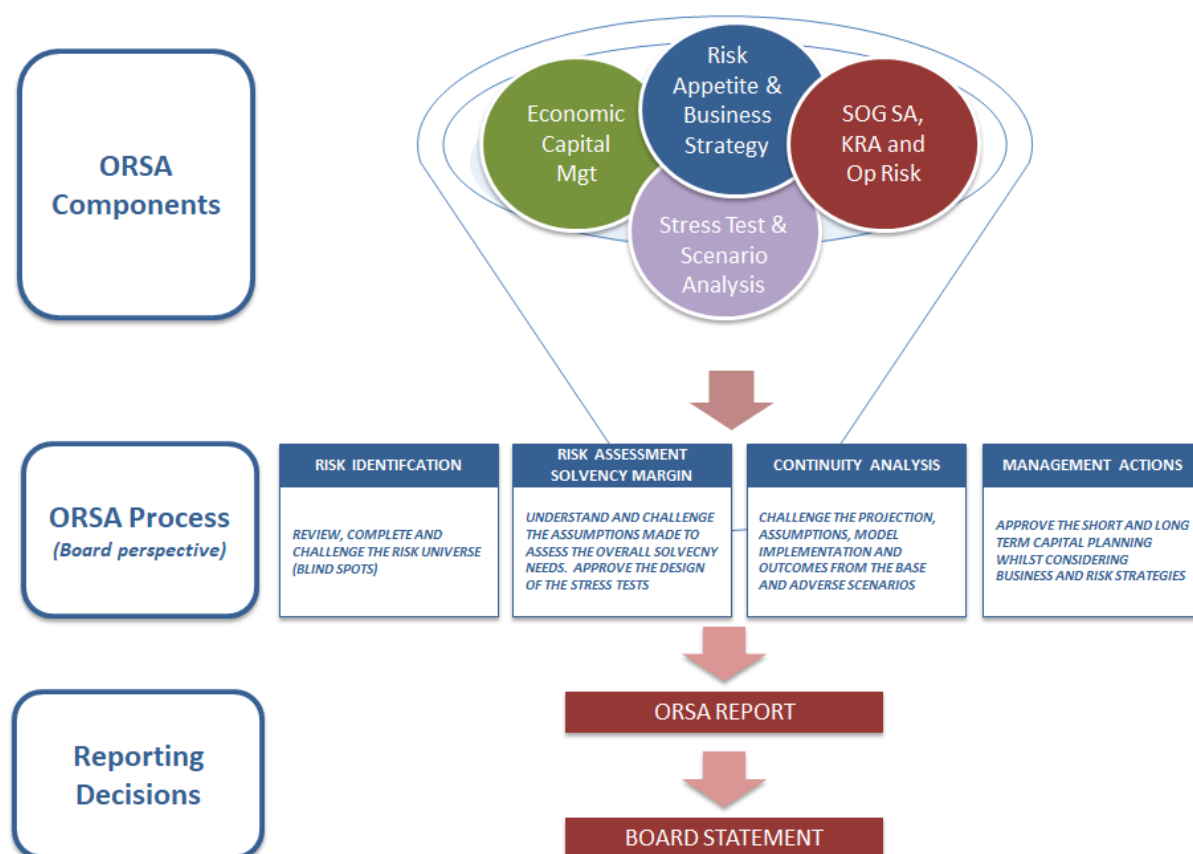


Exhibit B.3: Own Risk & Solvency Assessment

The ORSA process is underpinned by the following 4 risk based processes:

- › Risk Strategy and Risk Appetite;
- › Economic Capital Management;
- › Qualitative Risk Assessments (Key Risk Assessment, System of Governance (SoG) Self-Assessment, Monthly Operational Risk Report and Operational Loss and Near Miss (OLNM) data collection); and
- › Stress Testing and Scenario Analysis.

The Company developed a Partial Internal Model (PIM) to calculate the Solvency Capital Requirements, as required by the Solvency II Directive. This was approved in December 2015 for application on 1<sup>st</sup> January 2016 for CLICE and CEIC. Group approval to use a PIM was given in 2017 for



application on 1<sup>st</sup> January 2018. The decision to internally develop a PIM was underpinned by the multiplicity of markets where Cigna Europe operates and the specialization in niche products which subsequently limits the application of the Standard Formula (SF).

The Company follows its ORSA process holistically at the level of the Cigna Europe and Solo insurance companies with consideration of the underlying entities. This results in one ORSA Report for the Company. The single ORSA process for the Group combines the outputs from the 4 risk based processes above, considers the capital, regulatory and operational implications, and evaluates the potential impact upon the organisation.

The ORSA is a key tool in making recommendations and providing risk based information to the Board to facilitate fully informed decision making, e.g.:

- › Providing assurance regarding material and foreseeable future risks;
- › Ensuring solvency needs are sufficiently aligned to business and corporate objectives;
- › Ensuring the continuous compliance with the capital requirements and the requirements on technical provisions;
- › Approving the Risk Profile of the organisation;
- › Assessing the significance of any deviation from the risk profile;
- › Aligning Capital, Risk and Business Strategy; and
- › Ensuring the Company has the capacity to absorb losses in the case of adverse scenarios.

The ORSA process encapsulates two reporting documents: ORSA Record and ORSA Report. These two documents evidence the overall ORSA process, outcomes and actions, and give consideration to business strategy and are signed off by the Board of Directors.

The ORSA is conducted annually and may also be triggered on an ad-hoc basis following any significant changes in business profile or within the internal/external business environment or at the request of the regulator to ensure the process is an accurate reflection of the organisation's risk profile.

### B.3.3. Risk Universe

The Company has identified five key material risk exposures which form the basis of the Risk Profile: Investment, Insurance, Operational, Credit and Business risks. Each of these key risks is defined within the Risk Universe and includes all sub risk components. The Risk Universe also discloses the primary method adopted to internally identify, assess and measure each material risk.



Exhibit B.4: Risk Universe

## B.4. Internal control system

The Company's Internal Control System and principles are embedded through its Risk Management Framework, which is based upon the externally recognised 3 lines of defence model:

1. First Line of Defence - Management Oversight;
2. Second Line of Defence - Risk Management, Compliance and Actuarial;
3. Third Line of Defence - Independent Assurance.

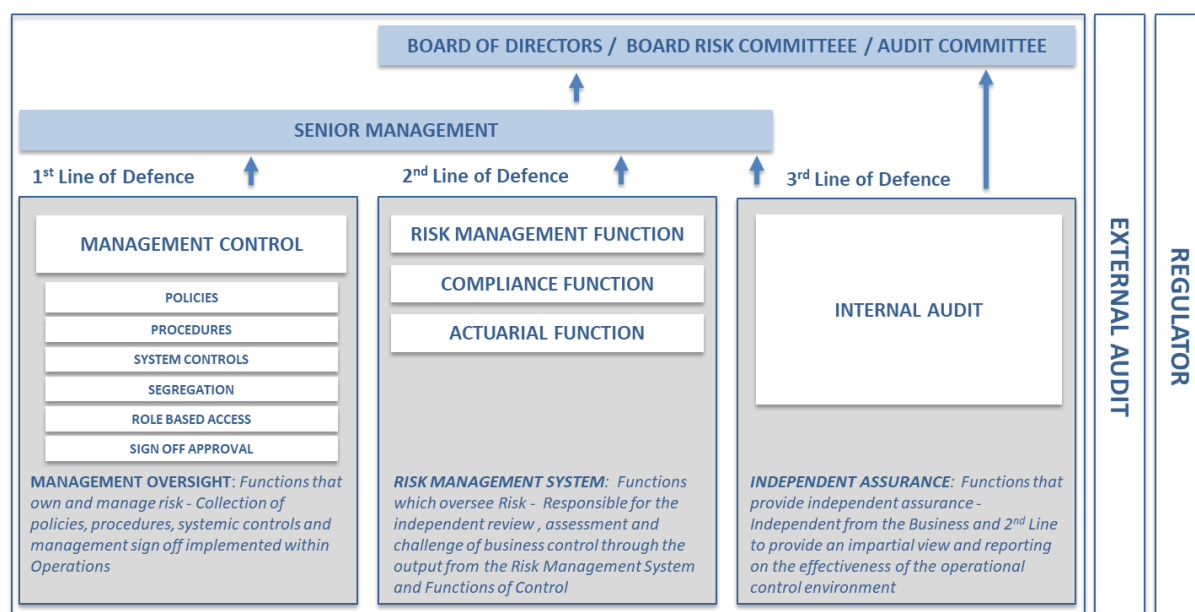


Exhibit B.5: Lines of Defence

The 3 lines of defence model ensures that Risk Management remains independent from other control functions and the business, which conducts the risk and control assessments for each business area. This internal structure and segregation enables Risk Management to independently review, challenge and consolidate findings free from bias. Independent Assurance is provided by Internal Audit, the Audit Committee or the Board of Directors who challenge that the assessments performed by the

business as reported by Risk Management are an accurate representation of the operational and risk profile of the Company.

### **B.4.1. First Line of Defence - Management Oversight**

The first line of defence is Management Oversight, which includes the control activities (operational policies and procedures) applied by staff within the Business Lines and service areas. Internal Controls are implemented within the operational processes and procedures of the Company and ensure the regularity, the security and the validity of the operations. These control activities are an essential component of the success of the day-to-day operations of the business.

Management Oversight is implemented at operational level and the monitoring and review of the effectiveness is the responsibility of senior management of each business line. Senior management of each business line provide the critical link between operational controls and the Second line of Defence and have the duty to assess the internal control environment on an annual basis.

### **B.4.2. Second Line of Defence - Risk Management, Compliance and Actuarial**

The second line of defence comprises six key components which interact and provide the Company with a fundamental toolkit to identify, assess, measure, monitor, manage and report on key risk exposures. The 6 components (which also contribute directly to the ORSA process and report) are:

#### **B.4.2.1. Economic Capital Management**

The Company's Partial Internal Model (PIM) is a sophisticated quantitative risk assessment tool which has been tailored by the Risk Management Function to accurately assess the organisation's risk profile, capital requirements and provide the business with the security and stability to support business activity. The PIM is reviewed and assessed at least on an annual basis.

#### **B.4.2.2. Internal Control**

Internal Control is assessed as part of the annual System of Governance Self-Assessment and reported to the Belgian Regulator to fulfil the requirements of Circular 2016-31 (updated in 2020). The approach to assessing the internal control environment has evolved over a number of years. Previously built upon the externally recognised Committee of Sponsoring Organisations (COSO) internal control framework, the self-assessment is now tailored to assess the key components of the System of Governance and is mapped directly to the content of memorandum. By adopting this approach, the Company assesses the internal control environment through a consistent manner and is able to produce the following:

- › Identification of any significant weakness within the Control Environment;
- › Conduct evaluation and trend analysis of control environment across the full scope of the Business; and
- › Remediation plans for any key weaknesses and to drive continuous improvement;

### B.4.2.3. Key Risk Assessment

The Key Risk Assessment (KRA) is conducted on a quarterly basis by each of the Company's business units and functions of control to identify and assess the key risk exposures. The KRA is a qualitative assessment which includes all risk categories (Strategic, Operational, Financial, Insurance, and Business), aligned with the risk appetite framework and ultimately provides the Company and the Board of Directors with a qualitative Risk Profile of the organisation. The KRA is reviewed and assessed on a quarterly basis to allow the business to review key risk exposures, identify and assess emerging risks and enable Risk Management to analyse the evolution of the Risk Profile.

### B.4.2.4. Operational Risk Management

Operational Risk Management is implemented through two established business-as-usual processes designed to collect operational risk data and monitor internal control performance via standardised indicators. Operational risk is in scope of the ORSA Stress Testing and Scenario Analysis.

The Company has an established process for collection of operational risk data through the Operational Loss and Near Miss process. The OLNLM is one component of the wider Operational Risk Report (ORR) which monitors standardised operational risk indicators on a monthly basis and leverages existing business reports including OLNLM events, (error in claim payments, ex-gratia and exceptional payments, Performance Guarantees etc) Data Protection/Information Protection breaches, IT Systems Outage, BCP events, Complaints, Fraud, Internal Corporate Audit and Quality Audit Open and Overdue items to take the pulse of the organisation. This approach to operational risk data collection and reporting enables a dynamic reporting to be built as is formalised through a monthly report to the Comité de Direction providing the escalation vehicle for any significant breaches in the control environment or emerging trends to be identified and analysed. These processes are subject to continual review and improvement. In 2020 these were updated to align with the new EGS structure.

### B.4.2.5. Compliance

The Compliance function is placed within the second line of defence and has the responsibility for monitoring the regulatory and statutory environment of the Company's operations. The Compliance Function overlaps within the Operational Risk Management controls where recording compliance breaches and determining mitigation actions should improve the effectiveness of the internal control environment.

#### **B.4.2.6 Actuarial Function**

The Actuarial Function provides the final component of the second line of defence and the allocated tasks and responsibilities are fully disclosed in Section B.6 of this report.

#### **B.4.3. Third Line of Defence - Independent Assurance**

Independent Assurance is provided through Internal Audit, the Audit Committee and the Board of Directors. All output from the qualitative risk processes (KRA, ORR, and OLNLM) is reviewed by Internal Audit to ensure that what is being identified and assessed is accurate and consistent with their interpretation of the controls environment. Internal Audit provides to the other control functions any information deemed to be relevant for them. Internal Audit retain independence and the right to challenge all risk based information provided from the business based on experience, information and their audit reports. The full approach from Internal Audit is disclosed in Section B.5 of this report.

## **B.5. Internal audit function**

As for the other independent control functions, internal audit is set up at the Company level but is entrusted to carry out internal audit tasks at all other companies under Myrtle. All the below information applies to all companies under the responsibility of Myrtle.

#### **B.5.1. Mission statement**

Internal Audit is an independent, objective assurance and consulting function designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The objectives of the Internal Audit function are to assist all levels of the Company's management and the Audit Committee in the effective discharge of their responsibilities in these areas by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and investigated, and by promoting effective risk management and control at reasonable cost.

The scope of the Internal Audit function encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Company's stated goals and objectives.

## B.5.2. Audit Cycle

Annually, the European Internal Audit Senior Manager develops a risk based annual audit plan taking account of all the Company's activities and its entire governance system. The annual audit plan is discussed with the Comité de Direction and submitted to the European Audit Committee for approval and includes a summary of the audit schedule, staffing plan and budget for the following year. The audit plan should include enough time for additional internal audits or advisory engagements.

The annual audit plan is developed based on prioritisation of the audit universe using a risk based approach with a formal risk assessment of existing and emerging risks, to ensure alignment of audits planned to significant Company risks identified by the European Risk Management function and a broad consultation of companies' executives and control functions across the organization to take into account their risk assessment and recommendations. The audit plan aims at covering all significant activities of the Company and the entire governance system of the Company within a reasonable timeframe (at most every five years) and includes specific process audits, procedure reviews, IT audits and assignments that are a combination of all three.

Internal audits are undertaken by the European Internal Audit function in coordination with the global audit team using shared staff/management resources where relevant in order to share knowledge and experience across the enterprise, manage pooled resources and access specialist skills (e.g. IT audit).

Final audit reports, covering the audit and any findings, are distributed to the Company's and the audited entity's leadership at the conclusion of each audit assignment. Copies of all audit reports and audit plans are shared with the independent external auditors.

The status of findings and closure of findings are monitored by Internal Audit and entity leadership. On a monthly basis, Internal Audit reports on the progress of the audit plan and the main findings of the audits and distributes a summary of all open findings and closure status to the Comité de Direction.

## B.5.3. Reporting

The European Internal Audit Senior Manager reports quarterly to the European Audit Committee on Internal Audit activities including

- › The status and results of the annual audit plan; and
- › The resolution status of the findings from previous audits.

Annually, the Senior Internal Audit Manager provides the Board of Directors with a report on internal audit personnel and internal audit activities that will include a full listing of Internal Audits performed since previous reporting.

### B.5.4. Methodology

Cigna's global risk based internal audit methodology complies with guidance from the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) and ensures consistency of audit planning, execution and reporting.

In 2018, an External Assessment was conducted and Cigna Internal Audit received a "Generally Conforms" rating, the highest rating available. A process is in place to continue refinement of the methodology on a global level which the European team is linked into.

A quarterly Quality Assurance programme is in place across the Internal Audit function. This is carried out on a sample basis by members of the department who are independent of the assignment being reviewed.

### B.5.5. Preservation of Independence

The Company's Internal Audit function is independent from business activity and occupies the 3rd line of defence providing independent assurance to the Board of Directors. The Internal Audit function remains independent from the business through a centralised structure across the Business Units with no resource funded or located within a specific Business Unit. Internal Audit reports to the highest level within the Company to strengthen its objectivity and confirm its independence (i.e. review by the European Audit Committee and oversight by Directors). A close and continuous link is established with the European Audit Committee.

In accordance with the European Internal Audit Charter, no member of the Internal Audit team holds other key functions. The internal auditors shall have no direct operational responsibility or authority over any of the activities they review. Additionally, they shall not develop or install systems or procedures, prepare records, or engage in any other activity that would normally be audited but shall participate in an advisory capacity on such matters.

## B.6. Actuarial Function

The Actuarial Function of Cigna Europe is led by the European Head of Actuarial Function who is independent of the Head of the Actuarial Department and who is responsible for establishing and implementing a number of tasks to embed the system of governance and a strong internal control environment, and to comply with the Solvency II regulations. The Actuarial Function's responsibilities are to:

- › Coordinate the calculation of technical provisions and review the results;
- › Ensure the appropriateness of the methodologies, models and assumptions in the calculation of technical provisions;
- › Assess the sufficiency and quality of the data used in the calculation of technical provisions;

- › Compare best estimates against experience;
- › Inform the Board of the reliability and adequacy of the calculation of technical provisions;
- › Oversee the calculation of Technical Provisions where approximations are applied;
- › Express an opinion on the adequacy of reinsurance arrangements;
- › Express an opinion on underwriting policy; and
- › Contribute to the effective implementation of the risk-management system.

A key deliverable of the Actuarial Function to address each of the above responsibilities is the production of the annual Actuarial Function Report prepared by the European Head of Actuarial Function. The opinions formulated in this report are communicated to the Comité de Direction and to the Board of Directors on a yearly basis.

## B.7. Subcontracting

The Company has in place an Outsourcing Policy with general guidelines on subcontracting as well as a document describing the operational procedure that is in place when envisaging and deciding on Subcontracting of activities or processes called “Third Party Management Policy” which has been approved by the Board of Directors. Subcontracting shall mean the recourse to third parties in order to carry on activities or carry out processes which are intrinsic to the Company. Subcontracting of processes includes the subcontracting of the development of such processes where this is material to the Company or for their strategic development. Subcontracting may cover a variety of services and functions, for example services to policyholders (e.g. a call centre), administrative functions (e.g. accounting, pricing, acceptance of risk, premium collection, claims handling and payment, investment policy, etc.), services where (medical) sensitive data is involved and specialist functions, such as IT, internal audit and data management. In the Company’s daily operations, regular reference is made to both “external entities” and “third party management”. These entities and providers and their management come within the definition of subcontracting. When engaging in subcontracting activity, the Company takes into consideration that the subcontracting arrangement cannot:

- › Severely compromise the quality of the Company’s governance system;
- › Unduly increase the operational risk;
- › Compromise the ability of the regulators (in particular the National Bank of Belgium) to supervise that Cigna Europe is fulfilling its obligations under the Solvency II Law; or
- › Hamper the ongoing provision of a satisfactory level of service with regard to policyholders, insured parties and beneficiaries of insurance contracts or persons concerned by the execution of reinsurance contract.



The subcontracting process is managed by a dedicated team (Third Party Management team) which is responsible for the independent assessment, monitoring and review of the subcontracted activities or functions. In the subcontracting process, Cigna Information Protection, Legal and Compliance are involved. Necessary information duties and / or prior approval from the NBB are provided / sought when required by the regulatory provisions. All subcontracting which is critical for the Company is listed in the table below.

SERVICE PROVIDED	ORGANISATION
<b>Intra Cigna Group Subcontracting</b>	
Shared Service Centre - Sales, Underwriting, Claims Handling, HR, IT and Real Estate	Internal Organisation
Sales, Underwriting and Claims Handling (Regulated intermediary)	Internal Organisation
Internal Reinsurance Program	Internal Organisation
Independent Control Functions	Internal Organisation
<b>External to Cigna Group Subcontracting</b>	
Management of investments including discretion to manage portfolio creation and credit underwriting (Europe).	Subcontractor providing European wide service
Management of investments including discretion to manage portfolio creation and credit underwriting for below investment grade assets (Europe).	Subcontractor providing European wide service
Management of investments including discretion to manage portfolio creation and credit underwriting (Singapore).	Subcontractor providing European wide service
Provides a single, integrated platform for refined Management Information (Sales, Customer Service, Business Analysis)	Subcontractor providing European wide service
Evacuations and assistance with remote provider services	GEH
Scanning, indexing and document storage services for Member and Provider Claims	IOH / GEH

Exhibit B.6: Main Subcontractors List

## B.8. Any Other Information

All material facts regarding the Company's system of governance are covered in the sections above. As demonstrated quantitatively in Section E, the SCR for the insurance entities CLICE and CEIC makes up more than 90% of the Group SCR thus covering the material risks within the Company. All risks not in the scope of the regulatory SCR are captured through the Own Risk and Solvency Assessment (ORSA) process for the individual insurance companies as well as the non-insurance entities.

As part of the regulatory System of Governance requirements, the Company conducts an annual self-assessment exercise of the key control components described above. This includes a large number of

individual checks across all operational Business Units and Functions of Control, including the operation of the key governance bodies, and is designed to be proportionate and adequate to the nature, scale and complexity of the risks inherent to the Company. Some areas of improvement have been identified and updates are regularly monitored by the Comité de Direction.



# C. RISK PROFILE

Together, all the way.®



## C. RISK PROFILE

The Company Risk Universe provides the basis for all risk assessments conducted by the management and control functions. By utilising the risk universe as a benchmark, it ensures that management considers all material risks within the scope of business operations in a consistent manner. Management can then prioritise the key risk exposures from the Risk Universe and identify and assess the risks relative and most prominent to the business model and operations. Risk exposure is classified into five broad categories: insurance risk, market risk, credit risk, operational risk, and business risk. For each of these risks, the exposure, the concentration, the mitigation techniques and the sensitivity to stress tests scenarios is analysed in this section.

The development of sophisticated quantitative and qualitative risk assessment tools has been primarily driven through the risk-based European regulatory requirements of the Solvency II Directive. In order to meet Solvency II requirements, the Company uses a Partial Internal Model (PIM) for the two insurance companies CLICE and CEIC (approved in 2015), with internally developed risk modules for key exposures where the Standard Formula is deemed insufficiently accurate in reflecting Cigna Europe's specific risk exposures. This PIM has also been deployed at the holding insurance company level following approval in 2017. Cigna Europe has thus transitioned from a Deduction & Aggregation method towards a Full Consolidated approach, the latter method being applied since January 1, 2018.

As outlined in the Solvency II Directive, the risk measure is the Value at Risk (VaR) of the basic own funds (BOF) of the Company subject to a confidence level of 99.5% over a one-year period. The components of Cigna Europe's Solvency Capital Requirement (SCR) are detailed in the following table.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>SCR</b>	<b>129,900</b>	<b>107,762</b>	<b>50,782</b>	<b>50,750</b>	<b>198,385</b>	<b>185,752</b>
<i>Market Risk</i>	18.5%	17.5%	47.0%	34.4%	36.6%	37.2%
<i>Credit risk</i>	17.6%	21.0%	3.8%	6.2%	17.8%	20.9%
<i>Life Underwriting risk</i>	1.8%	1.7%	0%	0%	1.2%	1.0%
<i>Health Underwriting risk</i>	43.6%	38.9%	38.4%	47.6%	29.4%	25.4%
<i>Non-Life Underwriting risk</i>	0%	0%	0.4%	0.4%	0.1%	0.2%
<i>Operational Risk</i>	18.5%	20.8%	10.5%	11.4%	14.9%	15.3%

Exhibit C.1: Cigna Europe's Risk profile

## **RISK NOT CAPTURED WITHIN SCR**

Two risks are not assessed through the PIM: liquidity risk and business risks, for all three entities. Those risks are considered within the implemented risk management system and are assessed using other tools such as scenarios or key risk assessment.

In the context of Myrtle, the operational risk capital charge is also not completely captured within the SCR. The ancillary services companies provide mainly business support for internal clients CLICE and CEIC. Consequently, operational risk stemming from these ancillary companies is included when considering underlying premiums for CLICE and CEIC .

In addition to the establishment of a complete risk framework, the Solvency II regulation also provides for a self-assessment of risks in which, taking the business plan into account, the future capital margins are highlighted and a number of sensitive areas implemented. From this analysis management has concluded that the Company holds the capital margins required to absorb these shocks. The scenarios are further detailed in following sections.

The Risk Identification and Assessment processes are considered as Business as Usual (BAU) which enables the business and Board to discuss known and generally well understood risk exposures. Stress Testing and Scenario Analysis broaden the risk profile beyond the scope of the unknown and aim to identify Low Probability/High Impact events which, though unlikely, would have the potential to threaten the Solvency Position of the organisation.

The Company dynamically evaluates the impact of those scenarios on the regulatory solvency II position over the business planning time period. Those scenarios have been internally designed and tailored to the Company specificities, allowing for the application of simultaneous stress parameters. These are generally significantly stronger than the Standard Formula, and even than standard stress tests.

## **C.1. Underwriting Risk**

Underwriting risk refers to all insurance risk of loss arising from fluctuations in the timing, frequency and severity of claim payments (including expenses) compared to underlying assumptions made at the beginning of the policy.

Life risk includes mortality risk, longevity risk, disability/ morbidity risk, lapse, expense risk and revision risk while Health and Non-Life risks include reserve risk, premium risk, lapse risk and catastrophe risks.

Reserve risk is related to outstanding claims, while premium risk is related to future claims from which catastrophe claims are excluded. Catastrophe risk is related to claims arising from catastrophic events: either natural and epidemiologic disasters or man-made events.

Lapse risk is related to a risk of loss in the value of insurance liabilities, resulting from changes in the rates of policy lapses. From the Company standpoint this risk is thus related to future premiums included in the premium provision where an expected profit is foreseen. Lapse risk is the risk that more lapses will occur than the expected ones, generating less profit than foreseen.

### C.1.1. Risk exposure

The following table shows the SCR contribution of the underwriting risk to the overall risk profile for the three entities. The figures below take account of diversification effects between risk modules. The aggregated diversification effect is disclosed in section E and is here allocated to each risk module to be able to sum up SCRs at each level of granularity:

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Health Underwriting risk</b>	<b>43.6%</b>	<b>38.9%</b>	<b>38.4%</b>	<b>47.6%</b>	<b>29.4%</b>	<b>25.4%</b>
Premium risk	28.2%	22.6%	33.2%	41.7%	20.3%	15.5%
Reserve risk	12.6%	10.9%	4.8%	5.5%	7.5%	6.6%
Lapse risk	0.6%	1.1%	0.1%	0.0%	0.4%	0.5%
Catastrophe risks	2.1%	4.3%	0.3%	0.3%	1.3%	2.9%

<b>Life Underwriting risk</b>	<b>1.8%</b>	<b>1.7%</b>	<b>Not applicable</b>		<b>1.2%</b>	<b>1.0%</b>
Mortality/ Longevity risk	0.7%	0.8%			0.5%	0.5%
Expenses risk	0.1%	0.1%			0.1%	0.1%
Lapse risk	0.0%	0.1%			0.0%	0.0%
Catastrophe risk	1.0%	0.7%			0.6%	0.4%

<b>Non-Life Underwriting risk</b>	<b>Not applicable</b>		<b>0.4%</b>	<b>0.4%</b>	<b>0.1%</b>	<b>0.2%</b>
Premium risk			0.2%	0.1%	0.1%	0.0%
Reserve risk			0.0%	0.2%	0.0%	0.1%
Lapse risk			0.0%	0.0%	0.0%	0.0%
Catastrophe risks			0.1%	0.1%	0.0%	0.0%

Exhibit C.2: Cigna Europe's underwriting risk

Underwriting risks are those which emerge from the Company's core business functions. Premium, Reserving and Catastrophe risk are inherent risks to the business. Under Solvency II requirements, Life Underwriting Risk is modelled through the Standard Formula as it accurately reflects Cigna Europe's



risk profile, while Premium, Reserving and Pandemic Risks are internally assessed to better reflect the Company's specific risk profile and related entities.

The Company has also defined an Underwriting and Reserving Strategy which outlines the core processes and procedures which underpin Cigna Europe's internal approach.

The management of the Underwriting risk at the Company level is made in accordance with the Company's risk appetite through local and Board Risk Committees.

The underwriting strategy is continuously monitored by each concerned entity and followed up by the Risk Management function based on a risk dashboard providing specific limits per type of business.

### C.1.2. Risk concentration

As the Company is selling medical and non-medical (death benefits, disability benefits, etc...) group insurance to the employer segment, there might be a risk of having many people located in a same building at one time causing concentrations of accidental deaths, disabilities and injuries in the event of a catastrophic scenario e.g. terrorism, nuclear explosion, natural catastrophes.

Even if the calculation of the regulatory capital requirements under Solvency II already captures such concentration risk, the Company has developed an additional concentration catastrophe scenario where both claims and expenses are impacted. This is done at the solo entity (CLICE and CEIC) and at group level. Myrtle benefits from the mitigation effect brought by the different subsidiaries. The Company actively monitors this risk in respect of tailored risk appetite limits determined at solo entity and group levels. Specific governance processes are in place within each business line and each legal entity to ensure the immediate identification of any potential source of risks.

### C.1.3. Risk mitigation

Where appropriate, the Company utilises reinsurance to mitigate against significant financial impact of material risk exposures i.e. catastrophic concentration risk, underwriting concentration, earnings volatility. The main objective of reinsurance is to reduce volatility in capital requirements and earnings, and hence drive back the uncertainty associated with the risk in the insurer's valuation.

The reinsurance program of the Company is made of per event covers and aggregate covers. Reinsurers are selected based primarily on pricing and counterparty default risk considerations. Underwriting guidelines set the limits to be respected with regards to underwriting value of the business, in terms of expected margin targets.

The reinsurance committee ensures the continued effectiveness of the reinsurance program through monitoring of both current reinsurance strategy and results along with the shape of future direction of reinsurance based on expected risk profile of the business.



To this end, regular analysis is performed including monitoring of the performance of treaties, adequacy and appropriateness of reinsurance placements from a profitability and risk/return point of view and assessment of the capital efficiency of reinsurance through the Partial Internal Model.

### C.1.4. Risk sensitivity

The Company has identified two key scenarios affecting the underwriting risks<sup>1</sup>:

- › Pandemic scenario; and
- › Concentration scenario.

	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Δ Solvency position</b>						
Pandemic scenario <sup>(1)</sup>	-36.0%	-41.7%	-14.6%	-17.7%	-28.3%	-35.1%
Concentration scenario <sup>(2)</sup>	-4.1%	-0.7%	Not applicable		-4.6%	-9.7%

Exhibit C.3: Cigna Europe's sensitivity to underwriting scenarios

(1) The scenario considers the occurrence of a severe flu pandemic in an integrated worldwide context

(2) The scenario considers the occurrence of a high impact accident for the most concentrated exposure in the same building inspired by the World Trade Center Terrorist attack in terms of severity.

The sensitivity to the Pandemic scenario decreased compared to last year. Although still having a significant impact, the materialization of such a scenario would not threaten the Solvency position of CLICE, CEIC or Myrtle given the high Solvency positions at YE20. Furthermore, the above scenario is far more conservative compared to the current impact of the COVID-19 pandemic as it assumes significantly higher attack and death rates.

The concentration scenario has an increased effect for CLICE due to higher exposure within IGO. For Myrtle less expenses were considered in this update due to a refinement of the methodology related to the expense parameter.

Cigna Europe retains a strong solvency position under each of the underwriting scenarios as a result of high initial capital levels and various risk mitigating actions undertaken.

<sup>1</sup> Seen the material decrease of the travel insurance book of CEIC, the terrorist attack scenario has been removed from the set of scenarios as from 2019.

## C.2. Market Risk

Like any other financial institution, the Company is exposed to investment / market risks. Those risks arise from changes in values caused by potential adverse change in the value of assets and liabilities due to movements in the market prices level or volatilities of market prices. Those encompass:

- › Interest rate risk stems from the risk of a change in value caused by deviation of the term structure of interest rate or interest rate volatility;
- › Equity risk is defined as the risk of loss arising from a change in the level and/ or in the volatility of market prices of equities;
- › Spread risk is the Risk of change in value of assets, liabilities and financial instruments impacting the level or volatility of credit spreads over the risk-free interest rate term structure even if the credit quality (rating) remains unchanged;
- › Market concentration risk arises from an accumulation of exposures with the same counterparty or from large exposure to default risk by a single issuer of securities or a group of related issuers;
- › Currency risk relates to the sensitivity of assets and liabilities to changes in the level or volatility of currency exchange rates.

The Company sets multiyear objectives in terms of investment profitability and performance is tracked against a plan on a monthly basis and aligned with the risk budget. The investment portfolio is managed through internal benchmarks which are monitored for any breach in risk taking activity. This approach to investment is governed through a number of related policies to ensure investments operate within the risk appetite budget, are appropriate to the nature and complexity of the organisation and the impact to the overall risk appetite of the Company is understood. These complementary policies ensure monthly and quarterly monitoring of the overall quality, security and profitability of the investment portfolios ensuring full reporting of performance to the Comité de Direction and ultimately the Board in case of changes in the investment portfolios against risk appetite or subsequent impacts on the overall Risk Profile. The Company has a low exposure to Investment Risk as it has a limited investment portfolio which is based upon on high quality, medium maturity and low volatility bonds with strong concentration thresholds. The tables below shows the financial exposures per type of investments on a market value basis.

(EUR'000)	31-Dec-20			31-Dec-19		
CLICE	EUR	GBP	Others	EUR	GBP	Others
<b>Sovereign bonds</b>	<b>23,633</b>	<b>63,074</b>	<b>0</b>	<b>25,261</b>	<b>79,261</b>	<b>0</b>
AAA	8,600	34,133	0	8,710	41,095	0
AA	15,033	28,618	0	16,551	38,166	0
A	0	322	0	0	0	0
BBB	0	0	0	0	0	0
Below BBB	0	0	0	0	0	0
<b>Corporate bonds</b>	<b>211,641</b>	<b>94,250</b>	<b>31,679</b>	<b>126,592</b>	<b>114,500</b>	<b>41,775</b>
AAA	1,066	10,312	0	1,098	18,079	0
AA	14,590	17,264	0	11,911	22,696	0
A	71,068	37,055	0	58,837	51,739	0
BBB	92,250	27,326	810	54,024	19,641	611
Below BBB	32,668	2,293	30,870	723	2,346	41,163
<b>Investment Funds</b>	<b>25,645</b>	<b>6,593</b>	<b>417</b>	<b>2,854</b>	<b>6,158</b>	<b>0</b>
<b>Collateralized Securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,293</b>	<b>0</b>
<b>Loans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Short-Term deposits</b>	<b>0</b>	<b>0</b>	<b>3,805</b>	<b>0</b>	<b>0</b>	<b>3,067</b>

Exhibit C.4: CLICE's credit quality of market risk exposure – Solvency II Basis

(EUR'000)	31-Dec-20			31-Dec-19		
CEIC	EUR	GBP	Others	EUR	GBP	Others
<b>Sovereign bonds</b>	<b>4,837</b>	<b>3,488</b>	<b>34,362</b>	<b>8,032</b>	<b>3,618</b>	<b>38,199</b>
AAA	1,186	1,215	21,333	4,263	1,219	18,238
AA	3,651	2,273	13,029	3,768	2,399	13,614
A	0	0	0	0	0	6,347
BBB	0	0	0	0	0	0
Below BBB	0	0	0	0	0	0
<b>Corporate bonds</b>	<b>16,990</b>	<b>13,439</b>	<b>60,294</b>	<b>16,773</b>	<b>16,915</b>	<b>47,571</b>
AAA	160	0	48,133	165	0	0
AA	2,658	4,270	0	2,521	6,021	0
A	9,683	5,793	622	10,293	7,542	38,099
BBB	4,489	2,738	213	3,794	2,203	212
Below BBB	0	637	11,326	0	1,149	9,260
<b>Investment Funds</b>	<b>347</b>	<b>1,450</b>	<b>106</b>	<b>233</b>	<b>832</b>	<b>0</b>
<b>Collateralized Securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity</b>	<b>7,577</b>	<b>0</b>	<b>0</b>	<b>6,158</b>	<b>0</b>	<b>0</b>
<b>Short-Term deposits</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>

Exhibit C.5: CEIC's credit quality of market risk exposure – Solvency II Basis

(EUR'000)	31-Dec-20			31-Dec-19		
Myrtle	EUR	GBP	Others	EUR	GBP	Others
<b>Sovereign bonds</b>	<b>28,470</b>	<b>66,561</b>	<b>34,362</b>	<b>33,293</b>	<b>82,879</b>	<b>38,280</b>
AAA	9,786	35,347	21,333	12,974	42,314	18,238
AA	18,684	30,891	13,029	20,320	40,565	13,614
A	0	322	0	0	0	6,347
BBB	0	0	0	0	0	0
Below BBB	0	0	0	0	0	82
<b>Corporate bonds</b>	<b>228,631</b>	<b>107,689</b>	<b>91,974</b>	<b>143,366</b>	<b>131,415</b>	<b>89,346</b>
AAA	1,226	10,312	48,133	1,263	18,079	0
AA	17,248	21,534	0	14,432	28,717	0
A	80,751	42,848	622	69,130	59,281	38,099
BBB	96,739	30,064	1,023	57,818	21,843	824
Below BBB	32,668	2,930	42,196	723	3,495	50,423
<b>Investment Funds</b>	<b>25,992</b>	<b>8,043</b>	<b>522</b>	<b>3,087</b>	<b>6,990</b>	<b>0</b>
<b>Collateralized Securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,293</b>	<b>0</b>
<b>Loans<sup>(1)</sup></b>	<b>0</b>	<b>3,306</b>	<b>16,777</b>	<b>0</b>	<b>3,497</b>	<b>21,809</b>
<b>Equity</b>	<b>367</b>	<b>0</b>	<b>0</b>	<b>365</b>	<b>0</b>	<b>0</b>
<b>Short-Term deposits</b>	<b>1,213</b>	<b>0</b>	<b>5,211</b>	<b>1,387</b>	<b>0</b>	<b>4,581</b>

Exhibit C.6: Myrtle's credit quality of market risk exposure – Solvency II Basis

(1) The loans are intragroup transaction exposures

## C.2.1. Risk exposure

The following table shows the contribution of market risk to the overall risk profile for the three entities. The figures below take account of diversification effects between risk modules. The aggregated diversification effect is disclosed in section E and is here allocated to each risk module to be able to sum up SCRs at each level of granularity:

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Market risk</b>	<b>18.5%</b>	<b>17.5%</b>	<b>47.0%</b>	<b>34.4%</b>	<b>36.6%</b>	<b>37.2%</b>
Interest rate risk	2.2%	2.7%	2.2%	1.9%	2.5%	2.2%
Spread risk	11.3%	9.0%	3.5%	3.7%	9.0%	7.3%
Equity risk	0.4%	0.0%	2.7%	2.1%	1.0%	0.6%
Currency risk	4.6%	5.8%	37.2%	25.6%	23.9%	25.7%
Concentration risk	0.0%	0.0%	1.5%	1.0%	0.3%	1.4%

Exhibit C.7: Cigna Europe's market risk

Interest, concentration, equity and spread risks are modelled through the Standard Formula. Although the Company increased its investments in high yield bonds in 2020 impacting spread risk, overall investment risk exposure remains limited due to short maturity, mainly high quality bonds and limited concentration with single issuers. This investment strategy is driven by the Company's risk appetite. CEIC and Myrtle are exposed to equity risk due to the strategic participations they own in companies of the group.

The currency risk is assessed internally to allow for exchange rate dependencies. Currency risk mainly impacts CEIC due to its various non-EEA branches.

The management of the investment portfolio is the responsibility of the Asset Liability Committee (ALCO) and is monitored through the processes outlined in the Investment Management Policy and Asset and Liability Management policy. The ALCO is responsible for the management and monitoring of liquidity, currency, interest, concentration, cash and spread risk.

## C.2.2. Risk concentration

Diversification of sources of investments by issuer, by sector and by country is key for Cigna Europe. This allows the Company to better monitor potential concentration of risks, at legal entity level and for the group.

The main source of concentration within market risks stems from investments in Great Britain Pounds (GBP) and Singapore Dollar (SGD), that are not fully aligned with liabilities, which creates an impact on currency risk. Both solo entities (CLICE and CEIC) accept mismatches arising from ownership of local operating companies in non-euro currencies as a consequence of being an international group. However at the consolidated entity level, the Company is targeting the natural hedge of its Solvency II position against exchange rates volatility.

### C.2.3. Risk mitigation

The Company has limited exposure to investment of assets which limits the application of the 'prudent person' principles due to no activity in selling insurance or investment products which include commitment to policyholder return on investment which minimises any conflict of interest. Furthermore, the Company has no exposure to contracts in units of account and index linked contracts, assets not admitted to trading on regulated market or derivatives.

The Company's exposure to market risk is further minimised through policies on investment and Asset and Liability risk including selection, diversification and continuous monitoring of investment and cash exposures. This monitoring is made in accordance with the limits set up by the risk appetite framework. Those metrics cover currency, interest rate, spread, concentration and counterparty risks. The continued adequacy and effectiveness of these metrics are ensured thanks to the annual review of policies and update of the Risk Appetite framework.

### C.2.4. Risk sensitivity

Sensitivity and scenario testing are regularly performed to assess the strength of the Company to abnormal market movements and hence provides additional information about market risks alongside the information embedded in the Standard Formula.

The Company has thus identified two different scenarios affecting the market risks:

- Eurozone crisis scenario; and
- Investment contraction inspired from the Swiss and Singapore regulation.

	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Δ Solvency position</b>						
Eurozone crisis <sup>(1)</sup>	-40.1%	-32.5%	7.0%	-25.1%	-27.9%	-16.8%
Investment contraction <sup>(2)</sup>	-11.2%	-18.0%	-21.1%	-38.1%	-3.9%	-20.4%

Exhibit C.8: Cigna Europe's sensitivity to market scenario

- (1) This scenario encompasses several factors such as (non-exhaustive list) 20% depreciation of EUR against other currencies, an increase of 200 basis points of all spread curves, downgrade of all investment and reinsurance undertakings, bankruptcy of the largest bank exposure as well as largest corporate client. This scenario is the combination of several scenarios designed by several regulatory authorities: EIOPA, Swiss, Singapore and NBB.
- (2) This scenario assumes a general spread widening for all rating class (from 75bp for AAA to 400bp for BB and below), depreciation of Asian and emerging countries exchange rates and equity drop of 25%.



The Eurozone crisis' scenario is covering most of the identified market risks of the Company. It is considered as an extreme scenario mainly related to cash balances. The impact on CLICE is more significant compared to CEIC due to balance sheet profile and currency mix.

Cigna Europe retains a strong solvency position under each of the market risk scenarios as a result of high initial capital levels and various risk mitigating actions undertaken.

## C.3. Credit Risk

Credit risk stems from the potential of losses due to the non-payment or the unexpected failure of a given counterparty to meet its contractual obligations in accordance with agreed terms. The Company is exposed to credit risk due to the possible failure of one or several internal/external counterparties. The scope of credit risk within the Company encompasses both internal contagion risk and external counterparty default risk.

The table below provides a breakdown of the Company's credit risk exposures.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Internal exposures</b>	<b>129,166</b>	<b>100,063</b>	<b>35,033</b>	<b>33,587</b>	<b>164,200</b>	<b>150,061</b>
Internal reinsurer	120,514	85,830	34,093	30,759	154,607	116,590
Intercompany transactions	8,652	14,233	940	2,828	9,593	33,472
<b>External exposures</b>	<b>256,242</b>	<b>218,714</b>	<b>59,791</b>	<b>70,517</b>	<b>441,305</b>	<b>447,079</b>
Reinsurers	7,305	8,906	389	1,542	7,694	10,448
Cash and cash equivalents	80,141	47,728	33,238	27,507	199,923	160,413
Account receivables from policyholders and brokers	157,117	148,897	23,885	35,737	219,729	254,132
Other receivables from reinsurance	7,933	9,808	4,327	4,327	10,009	14,135
Other receivables from non-affiliates	3,747	3,375	1,404	1,404	3,950	7,952

Exhibit C.9: Cigna Europe's credit risk exposures

Contagion risk is the risk of experiencing losses due to the belonging to a large insurance conglomerate including financial distress across the group as a result of the ownership structure and related actions, or over-reliance on group capital to support local operations. This encompasses for example an internal reinsurer default or non-payment of intercompany obligations.

Intercompany transactions relate primarily to the allocation and recharging between Cigna companies of operating expenses. Cigna operates a centralised expense function model, with expenses initially incurred by specific service entities before being recharged on an arm's length basis to other Cigna companies. The majority of such recharges are physically settled within 30 days, with a policy of a maximum outstanding period of 90 days before settlement. Intercompany transactions and reconciliations are closely monitored by various levels of Cigna Europe management.

Any default risk on intercompany exposure is mitigated by the diversification of this balance across numerous different entities, limiting any individual exposure and the presence of wider Cigna group capital funding leading to the very low risk of any intercompany balance not being recoverable.

The external counterparty default risk might be caused by the propagation of the effect of a failure or financial distress of an external institution in a sequential manner to other institutions or markets. This includes for instance cash at bank exposures, external reinsurance arrangements or receivables from policyholders and intermediaries.

### C.3.1. Risk exposure

In respect of the assessment of the credit risk, the Company has adopted the Standard Formula risk mapping:

- › Type 1 credit risk encompasses reinsurance mitigation risk, captive risk and cash at bank;
- › Type 2 credit risk refers to account receivables' exposures.

Type 1 and Type 2 include internal and external sources of credit risks.

The following table outlines the breakdown per type of credit risk for the Company. The figures below take account of diversification effect between risk modules. The aggregated diversification effect is disclosed in section E and is here allocated to each risk module to be able to sum up SCRs at each level of granularity:

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Credit risk</b>	<b>17.6%</b>	<b>21.0%</b>	<b>3.8%</b>	<b>6.2%</b>	<b>17.8%</b>	<b>20.9%</b>
Type 1 risk exposures	5.3%	6.0%	0.9%	1.0%	5.4%	5.6%
Type 2 risk exposures	12.2%	14.9%	2.9%	5.2%	12.4%	15.3%

Exhibit C.10: Cigna Europe's credit risk

The Company has implemented a sound and robust Risk Management Framework at solo entity level to monitor credit risk. Each solo undertaking has a defined Reinsurance and Investment risk Strategy

which outlines the core processes and procedures which underpin Cigna Europe's credit risk approach. This ultimately benefits the group.

### C.3.2. Risk concentration

In respect of the optimisation of capital management and the Company's willingness to benefit from the strength and expertise of Cigna Corporation, the Company has established an arrangement with its internal reinsurer for some specific clients with high concentration risk exposure to benefit from the financial strength of Cigna Corporation.

The account receivables of the IOH business are the main contributor to the credit default risk of CLICE. Cash exposure at Myrtle level is not only driven by CLICE and CEIC, as all the other subsidiaries have significant cash needs. A specific cash pooling arrangement has been set up between all the entities of the Group to optimise cash use. As Cigna Europe entities' cash is mostly concentrated to Citibank entities, a specific limit threshold has been put in place, which enables mitigation of the risk as the bank is A rated. The Company actively monitors this risk in respect of tailored risk appetite limits, at solo and at group levels. Specific governance processes are in place to ensure the immediate identification of any potential source of risks. In case of breach and related magnitude, a set of management actions have already been set up.

### C.3.3. Risk mitigation

The Company minimises this risk through policies on counterparty and bank selection, collateral requirements, diversification and close monitoring of credit exposures. The credit rating applied by the Company is based on ratings provided by external rating agencies.

Specific policies provide guidelines for the proper utilization of reinsurance and ensure that, amongst other review and authorization requirements, reinsurance purchases are appropriate, security meets internal requirements, contractual terms & conditions are reasonable, and the risk strategy is supported by Cigna Europe management. In particular, contracting guidelines clearly define satisfying criteria for a reinsurer to be approved in a partnership, including the need to have an AM BEST rating of at least A- or equivalent.

This risk related to cash exposures is managed through limits which take into account the credit quality and the expected period of holding, and through regular monitoring and early warning systems. Even though the cash exposures have increased for all entities, the vast majority of the cash exposure is at least A-rated or equivalent. The cash exposure should remain within risk appetite budget. Cigna Europe also simulates a scenario for the default of the largest single bank exposures.

The continued adequacy and effectiveness of the risk mitigation techniques detailed above are ensured through an annual review of policies and Risk Appetite framework.

### C.3.4. Risk sensitivity

The table below shows the impact on Solvency II position as the result of three scenarios that could affect the credit risk.

	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Δ Solvency position</b>						
Collateral down shock <sup>(1)</sup>	-31.7%	-42.2%	-36.6%	-28.1%	-24.2%	-20.6%
Non-payment of receivables <sup>(2)</sup>	-3.6%	-1.5%	-2.6%	0.1%	-2.1%	-0.3%
Bank bankruptcy <sup>(3)</sup>	-11.7%	-9.7%	-12.3%	-25.8%	-20.9%	-9.6%

Exhibit C.11: Cigna Europe's sensitivity to credit scenario

- (1) The scenario considers a 50% decrease in value of the collateral arrangements.
- (2) The scenario refers to the non-payment of the largest client receivables
- (3) The scenario considers the bankruptcy of the largest bank exposure

The movements in sensitivities are mainly driven by increased cash positions in CLICE and Myrtle, combined with changes in amount of collateral held per entity.

## C.4. Liquidity Risk

Liquidity risk is the risk of loss arising from the illiquidity of the assets held to meet the cash flow requirements and also due to insufficient funds being available to meet cash outflow commitments as they fall due.

Two sources of liquidity risk have been identified within the Company:

- › Market liquidity risk is the risk of not selling assets at their fair value due to adverse market conditions;
- › Underwriting liquidity risk is the risk of not having sufficient amount of cash to offset liabilities commitments.

The principal objective of liquidity management is to be able to fund the Company and to enable the core business activities to continue to generate cash, even under adverse circumstances.

### C.4.1. Risk exposure

The risk exposure is relatively remote for the Company as:

- › The investment portfolio is well balanced over high quality bonds with relatively short maturities and moneymarket funds.

- › The nature of Cigna Europe's business does not trigger unexpected massive cash reimbursement:
  - limited risk of change in policyholder behaviour i.e. more lapses resulting in less profits being generated than foreseen;
  - limited risk in case of large claim as half of the claim payments are paid by the internal reinsurer.

The Company manages liquidity risk at different levels:

- › management review of Asset and Liability Management indicators on a monthly basis;
- › at the Asset and Liability Committee on a quarterly basis.

As set out in the Article 260 and 309 of the European Delegated Regulation 2015/35, the expected profit included in future premiums is calculated as the difference between the best estimate premium provisions and a calculation of the Best Estimate premium provision under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. All other assumptions remain unchanged.

The following table provides the expected profit included in future premiums, net of internal reinsurance.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Health underwriting</b>	<b>12,125</b>	<b>15,620</b>	<b>2,990</b>	<b>-1,557</b>	<b>15,115</b>	<b>14,063</b>
Medical Expenses	2,052	4,968	2,864	-1,666	4,915	3,302
Income Protection	10,073	10,651	126	109	10,200	10,761
<b>Life underwriting</b>	<b>-637</b>	<b>-678</b>	<b>0</b>	<b>0</b>	<b>-637</b>	<b>-678</b>
<b>Non-Life Underwriting risk</b>	<b>0</b>	<b>0</b>	<b>114</b>	<b>135</b>	<b>114</b>	<b>135</b>
Miscellaneous Non-Life	0	0	114	135	114	135
Legal Expenses	0	0	0	0	0	0

Exhibit C.12: Cigna Europe's expected profit included in future premiums

## C.4.2. Risk concentration

No liquidity risk concentration exists.

### C.4.3. Risk mitigation

As stated in section C.4.1, liquidity risk is limited by the nature of the investments (mostly high quality bonds with relatively short maturities) and the nature of the business that does not trigger unexpected massive cash reimbursement. Liquidity is managed through the monitoring of key exposures and tests performed at Asset and Liability Committee level.

The Company further minimises this risk through policies on liquidity risk and investment including identification, assessment, measurement and monitoring of liquidity risk on a continuous basis. These policies are reviewed on an annual basis to ensure their continued effectiveness. The Liquidity risk limits are established by the risk management function and are validated by the Asset and Liability Committee, with ultimate Board of Directors' review and approval.

Moreover, a cash pooling account has been implemented which allows Cigna European entities to assure liquidity at all times.

### C.4.4. Risk sensitivity

Additionally, the Company internally models Liquidity Risk through scenario analysis. The Company has for example assessed the time needed to raise liquidity to face potential severe large claims.

	Immediate	0-3 months
Availability of funds CLICE	23.6%	76.4%
Availability of funds CEIC	33.9%	66.1%
Availability of funds Myrtle	25.2%	74.8%

Exhibit C.13: Cigna Europe's availability of own funds

## C.5. Operational Risk

The Company is subject to operational risks defined as *'the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events (including legal risk)'*.

The Company has classified its potential sources of operational risks as follows:

- › Regulatory risk is generally defined as the risk of having the 'licence to operate' withdrawn by a regulator, or having conditions applied (retrospectively or prospectively) that adversely impact the economic value of an enterprise;
- › Human capital risk can be defined as events and employee behaviours that occur both within and outside the workplace that can affect employee productivity and/or otherwise affect the organization's operational and financial results;

- › Integrity generally refers to violations of law, regulations, internal policies and market expectations of ethical business conduct including fraud;
- › Process risk is the risk of failing to implement, monitor and manage internal processes and procedures through a strong internal control environment;
- › IT Risk incorporates the many different risks that are associated with Information Technology. These include resource availability, resource utilisation, and architecture/delivery.

### C.5.1. Risk exposure

Qualitative risks are inherently subjective and therefore cannot be accurately modelled via historical internal or external data. For operational risks, the Company has developed internal risk management frameworks to provide the business with tools to identify and assess risk exposures, evaluate the internal control environment, determine residual risk rating and subsequently the prioritisation of management actions. This toolkit includes monthly data collection, quarterly risk assessments and annual review of the internal control environment.

Although an inherently qualitative risk, Operational Risk is quantitatively modelled through the PIM and has a capital requirement based upon industry best practice. For the purposes of assessing and managing Operational Risks, the Company deploys two key processes as described in the Risk Management Framework section below.

At Group level, unlike at Solo entity, there is an operational risk exposure associated with the activities of CIHS as an insurance intermediary providing a series of services for internal (i.e. entities within Cigna Europe) and external clients including ASO schemes and insurance premiums underwritten by alternative insurance undertakings. This risk is not completely accounted for within the service companies' P&L and Myrtle does not hold any capital in respect of this risk due to the minor materiality of the risk outweighed by the modelling complexity. Consequently, Cigna Europe will continue to apply the SCR for operational risk based on the SF. The annual ORSA process includes an assessment of this operational charge.

### C.5.2. Risk concentration

Through the toolkit mentioned above, the Company has not specifically identified any operational exposures which could threaten its Solvency position. However, through the active monitoring of risk and control exposures, the Company has identified a collection of operational risks which could combine across each business line and present a material risk exposure at European Group level.

In 2020, the Board reviewed the qualitative scenarios approved in 2019 and did not identify any material gaps from the Brainstorming exercise undertaken in 2020. The Board considers the 3 qualitative scenarios as an accurate reflection of the business operational, strategic and external environments, capturing a 'slow burning' scenario whilst continuing to leverage the 'perfect storm' methodology to identify key components of interdependent risks and control which, if they



materialised and controls failed, could result in a solvency scenario through a combination of operational, commercial, regulatory and reputational impacts. On this basis, the following qualitative scenarios were included in the ORSA process:

1. Cyber Security Threat / Hacking;
2. Sustained Operational Pressure on Control Environment; and
3. Large Scale Data Privacy Event

Due to the nature of operational risk and scenario analysis, the three scenarios share common exposures and vulnerabilities (ie. Sensitive Data Volumes, GDPR fines). It should be noted, however, that a large scale Data Privacy event could emerge rapidly through internal control failure or mismanagement of a one off event and therefore provides a key differentiator from the 'perfect storm' methodology used to stress the Sustained Operational Pressure and Cyber Security Threat previously modelled.

### C.5.3. Risk mitigation

The nature of operational risk, inherent external exposures and the scenario analysis undertaken is such that these risks will never be fully mitigated, but the aim is to ensure the Board is fully aware of the potential worst case scenarios. The Company therefore breaks each scenario into key risk exposures or internal control components to ensure the business is taking steps to reduce either the likelihood of the risk occurring, or the impact it would have on the business and to provide assurance on this to the Board. Considering this approach and the commonalities of the scenarios identified, actions plans monitored by the Board on a quarterly basis include the following:

- Internal organisational changes to create greater efficiencies and synergies across Europe and leverage global skill sets;
- Implementation of specific projects to continually reduce regulatory exposure and enhance internal control environment;
- Implementation of global security standards and update of cyber controls;
- Coordination between Cigna Information Protection (CIP) and IT to embed further detection and monitoring tools for the external cyber environment and related threats;
- Phishing awareness campaigns and training;
- Ethical hacking exercises, recommendations and action plans;
- Strengthening of data governance frameworks and processes;
- Development of data privacy risk appetite and related reporting; and
- Review of data retention protocols and automation of their implementation.

### C.5.4. Risk sensitivity

For the purposes of Solvency II and ORSA reporting, the three main qualitative scenarios of Cyber Security Breach / Hacking, Sustained Operational Pressure and Large Scale Data Privacy Event were

considered to be sufficiently material that they could potentially threaten the continuity of CLICE and CEIC, and ultimately the Group. This is based not on likelihood of the events but on the 'perfect storm' methodology of all key elements used in the scenarios. Although not quantitatively assessed, the operational impact of each stressed scenario could ultimately result in significant regulatory fines, extended operational outages, or detriments to customer service and delivery. This could subsequently impact financial performance, reputation and result in potential regulatory action due to insufficient control. Although these are operational implications, the outcome of these scenarios would be for the Company to deploy capital if required to increase available resources and ensure the continued operations of the business.

## C.6. Other Material Risks

The Qualitative Risk Toolkit mentioned above is not limited in scope to Operational Risk but is implemented to include Business Risk also to ensure the full scope of the Company risk exposure is considered within the implemented risk management system. Business risk is defined as *'Risk of loss arising from Legal/political conditions to which the Company is subject, changes in the economic, social and political environment, as well as changes in the business profile and the general business cycle'*. This can include strategic implementation and initiatives, 3rd party dependency, customer experience, external environment. Although these risks are not deemed sufficiently material to breach the threshold and form part of the ORSA Stress Testing, they are considered material from a quarterly risk profile perspective and are thus reported to the Board for ongoing monitoring.

BREXIT remains a key risk due to the continued uncertainty regarding the format of the future regulatory framework in the UK. The Company's focus lies on implementing strong contingency processes which enable the business to continue to serve members and clients based in the UK via the most sustainable business solution. Cigna Europe engaged with the NBB and UK PRA and pursued the use of UK Branches to ensure continuous coverage to clients and members. It is anticipated that this approach will result in increased operating costs, operational complexity and greater complexity regarding compliance with regulations. Cigna Europe is implementing actions designed to maintain a long-term, sustainable solution to enable it to continue serving its existing customer and client base, while also ensuring cross-border regulatory compliance.

In addition to BREXIT, there are inherent key risk exposures which are monitored and managed continuously by the Business and the Board to ensure protection of members, clients and providers:

- Cyber security;
- Data privacy;
- Large scale project implementation;
- Managing outsourcing; and
- Increasing legal, compliance and regulatory requirements.

## C.7. Any other information

During 2020, the COVID-19 pandemic arose as a major risk to the Company. Given the wide-spread impact of the pandemic on the industry and Cigna Europe's business, a separate section has been included in this report containing more details on the impact on the Cigna Europe risk profile.

A background image showing a business meeting. A woman with long red hair in a white shirt is on the left, and a man in a blue shirt is on the right. They are sitting at a table with a laptop, a calculator, and documents featuring charts and graphs. The scene is brightly lit with natural light from a window.

## D. VALUATION FOR SOLVENCY PURPOSES

## D. VALUATION FOR SOLVENCY PURPOSES

Cigna Europe has applied the (Full) consolidation method to value the assets, technical provisions, other liabilities and own funds of the Group. The Full consolidation method calculates the group solvency as the ratio between the sums of the consolidated own funds in the group and the consolidated solvency capital requirements in the group. The Full consolidation method follows International Financial Reporting Standards and thus no longer includes three entities, Cigna Global Wellbeing Holdings Limited, Cigna Global Wellbeing Solutions Limited and Informatica J. Van Breda & Co NV, at 30% but instead includes them as investments. This also means that any balances and transactions relating to these three entities are not eliminated as they are not consolidated.

The group consolidated assets, liabilities and own funds have been calculated as described in the following paragraphs. The basis of the consolidation is from the individual financial statements of each entity within the group. The below table provides a summary of the statutory basis and functional currency under which the financial statements for each individual Company within the group have been prepared. For each entity, the table also shows the ultimate ownership percentages within the Group.

Entity	Domiciled	Statutory basis of Financial Statements	Functional Currency	Total Group Ownership
Cigna Myrtle Holdings Limited	Malta	IFRS	USD	100%
Cigna Elmwood Holdings SPRL(*)	Belgium	BE GAAP	EUR	100%
Cigna Beechwood Holdings Maatschap(*)	Belgium	BE GAAP	EUR	100%
Cigna Life Insurance Company of Europe SA	Belgium	BE GAAP	EUR	100%
Cigna Europe Insurance Company SA	Belgium	BE GAAP	EUR	100%
Cigna International Health Services BVBA	Belgium	BE GAAP	EUR	100%
Cigna International LLC	USA	US GAAP	USD	100%
Cigna International Health Services Kenya	Kenya	IFRS	KES	100%
Cigna European Services (UK) Limited	United Kingdom	UK GAAP	GBP	100%
Cigna Oak Holdings Limited	United Kingdom	UK GAAP	GBP	100%
Cigna Willow Holdings Limited	United Kingdom	UK GAAP	GBP	100%
Cigna Legal Protection UK Limited	United Kingdom	UK GAAP	GBP	100%
Cigna Insurance Services Europe Limited	United Kingdom	UK GAAP	GBP	100%
First Assist Administration Limited	United Kingdom	UK GAAP	GBP	100%

Exhibit D.1: Entities within Cigna Group

Note: Indented entities have both individual financial statements and group consolidated financial statements available under their parent entity being either Cigna Oak Holdings Limited or Cigna Global Wellbeing Holdings Limited.

(\*) Treatment of Maatschap within the group level consolidation. Cigna Beechwood Holdings Maatschap (“Beechwood”) is owned 51% by Cigna Elmwood Holdings SPRL and 49% by Cigna Myrtle Holdings Limited. For statutory reporting purposes, Cigna Elmwood Holdings SPRL includes 51% of the assets, liabilities and own funds of Beechwood within the reporting of its balance sheet as required under BE GAAP. Cigna Myrtle Holdings Limited, as required under IFRS, records its 49% ownership of Beechwood at historical cost less impairment. For the purposes of the group consolidation, Myrtle’s 49% ownership of Beechwood has been removed from the Solvency II consolidation via a participation adjustment, and has been replaced with the 49% of Beechwood’s assets, liabilities and own funds per Beechwood individual financial statements.

The individual entities’ statutory results have been converted to the groups Solvency II reporting currency of Euros using the NBB’s published exchange rates as at 31st December 2019. Euros have been determined to be the Group’s chosen reporting currency as it is the currency in which the majority of the Group’s transactions are conducted, and in which the majority of the Group’s assets and liabilities are held.

The individual financial statements of each operating entity have recorded their investments in other group entities at historical cost less any impairment (with the exception of Cigna Beechwood Holdings Maatschap as noted under the table above). In order to form a consolidated group position, all investments in other entities have been removed through a participation interest adjustment.

Intra-group receivables and payables as well as intra-group profit and loss transactions have also been eliminated from the consolidation with this approach resulting in accurate assets, liabilities and own funds disclosures consistent with the Solvency II guidance.

Economic adjustments have been made where the valuation methodology on a statutory basis differs to the valuation methodology requirements under Solvency II. A comparison and analysis of the differences between the Solvency II and statutory valuation bases is provided in section D1 for assets, section D2 for technical provisions and section D3 for other liabilities.

The individual results, participation adjustments and economic adjustments for all entities have been consolidated together with the exception of Cigna Global Wellbeing Solutions Limited, Cigna Global Wellbeing Holdings Limited and Informatica J. Vanbreda which the European Group only has a 30% holding in each. These have therefore, not been consolidated and rather have been assigned a value as per the value of the investment in the immediate parent Company’s signed statutory financial statements, this is in line with International Accounting Standards.

Eight of the ten consolidated entities included in the Myrtle Group are subject to an annual external audit:

- › Cigna Life Insurance Company of Europe S.A – N.V (“CLICE”);
- › Cigna Europe Insurance Company S.A – N.V (“CEIC”);
- › Cigna International Health Services BV (“CIHS Belgium”);

- › Cigna International Health Services Kenya Ltd (“CIHS Kenya”);
- › Cigna Elmwood Holdings SPRL (“Elmwood”);
- › Cigna European Services UK Ltd (“CESL”);
- › Cigna Oak Holdings Ltd (“Oak”); and
- › Cigna Myrtle Holdings Ltd (“Myrtle”).

## D.1. Assets

### D.1.1. Summary of Assets by Class

The tables below show the composition of assets in the balance sheet as at 31 December 2020 measured on a Solvency II basis (as per the Quantitative Reporting Templates (QRTs)) and, for comparison, as measured on a statutory basis.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Government Bonds	86,706	106,666	42,687	49,848	129,394	156,594
Corporate Bonds	337,571	280,723	90,723	81,259	428,293	361,985
Investment funds	32,655	10,305	1,917	1,065	34,573	11,370
<b>Total Investments</b>	<b>456,932</b>	<b>397,694</b>	<b>135,327</b>	<b>132,172</b>	<b>592,260</b>	<b>529,949</b>

Exhibit D.2a: Summary of assets by class for CLICE, CEIC and Myrtle – SII Basis

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Government Bonds	74,559	108,940	41,314	49,132	115,874	158,099
Corporate Bonds	328,168	263,052	88,195	80,138	416,362	343,191
Investment funds	32,655	10,306	1,917	1,064	34,573	11,371
<b>Total Investments</b>	<b>435,382</b>	<b>382,298</b>	<b>131,426</b>	<b>130,334</b>	<b>566,809</b>	<b>512,661</b>

Exhibit D.2b: Summary of assets by class for CLICE, CEIC and Myrtle – Statutory Basis

#### D.1.1.1. CLICE Assets

CLICE Solvency II Assets are prepared as of December 31, 2020 in compliance with the Solvency II Regulations. Assets are valued based on the assumption that the Company will pursue its business on



a going concern basis. Please note that there may be some differences compared to the Solo Solvency II submission due to the removal of intra-European group balances.

(EUR'000)	Solvency II Basis			Statutory Basis		
	31-Dec-20	31-Dec-19	Methods and main assumptions	31-Dec-20	31-Dec-19	Methods and main assumptions
Intangible assets	-	-	Historic Cost less amortisation	-	-	Historic Cost less amortisation
Deferred tax assets	-	-	Fair value	-	-	Fair value
Pension benefit surplus	-	-	Fair value	-	-	Fair value
Property, plant & equipment held for own use	-	254	Historic Cost less depreciation	-	254	Historic Cost less depreciation
Property (other than for own use)	-	-	Historic Cost less impairment	-	-	Historic Cost less impairment
Participations	-	-	Fair value	-	-	Historic Cost
Bonds	424,277	388,682	Market Value	402,727	373,286	Historic Cost/Market Value
Deposits other than cash equivalents	3,805	3,067	Fair value	3,805	3,067	Fair value
Other investments	32,655	9,012	Fair value	32,655	9,012	Fair value
Loans & mortgages	-	-	Fair value	-	-	Fair value
Reinsurance recoverable	115,902	94,737	Fair value	136,522	120,503	Fair value
Insurance & intermediaries receivables	131,958	133,324	Fair value	131,958	133,324	Fair value
Reinsurance receivables	18,084	9,808	Fair value	18,084	9,808	Fair value
Receivables (trade, not insurance)	75	68	Fair value	75	68	Fair value
Cash and cash equivalents	80,141	47,728	Mix of nominal and market value	80,141	47,728	Nominal value
Any other assets, not elsewhere shown	16,764	16,689	Fair value	16,764	16,689	Fair value
<b>Total Assets</b>	<b>823,661</b>	<b>703,369</b>		<b>822,731</b>	<b>713,739</b>	

Exhibit D.3: Summary of Assets for CLICE

### D.1.1.2. CEIC Assets

CEIC Solvency II Assets is prepared as of December 31, 2020 in compliance with the Solvency II Regulations. Assets are valued based on the assumption that the Company will pursue its business on a going concern basis. Please note that there may be some differences compared to the Solo Solvency II submission due to the removal of intra-European group balances.

(EUR'000)	Solvency II Basis			Statutory Basis		
	31-Dec-20	31-Dec-19	Methods and main assumptions	31-Dec-20	31-Dec-19	Methods and main assumptions
Intangible assets	-	-	Historic Cost less amortisation	-	-	Historic Cost less amortisation
Deferred tax assets	-	-	Fair value	-	-	Fair value
Pension benefit surplus	-	-	Fair value	-	-	Fair value
Property, plant & equipment held for own use	114	177	Historic Cost less depreciation	114	177	Historic Cost less depreciation
Property (other than for own use)	-	-	Historic Cost less impairment	-	-	Historic Cost less impairment
Participations	-	-	Fair value	-	-	Historic Cost
Bonds	133,410	131,108	Market Value	129,509	129,270	Historic Cost/Market Value
Deposits other than cash equivalents	-	-	Fair value	-	-	Fair value
Other investments	1,917	1,064	Fair value	1,917	1,064	Fair value
Loans & mortgages	-	-	Fair value	-	-	Fair value
Reinsurance recoverable	31,481	32,301	Fair value	38,292	41,075	Fair value
Insurance & intermediaries receivables	19,518	23,109	Fair value	19,518	23,109	Fair value
Reinsurance receivables	5,051	4,327	Fair value	5,051	4,327	Fair value
Receivables (trade, not insurance)	89	81	Fair value	89	81	Fair value
Cash and cash equivalents	28,471	21,090	Mix of nominal and market value	28,471	21,090	Nominal value
Any other assets, not elsewhere shown	2,832	3,753	Fair value	2,832	3,753	Fair value
<b>Total Assets</b>	<b>222,883</b>	<b>217,010</b>		<b>225,793</b>	<b>223,946</b>	

Exhibit D.4: Summary of Assets for CEIC

### D.1.1.3. Myrtle Group Assets

Myrtle Solvency II Assets are prepared as of December 31, 2020 in compliance with the Solvency II Regulations. Assets are valued based on the assumption that the Company will pursue its business on a going concern basis.

	Solvency II Basis			Statutory Basis		
	31-Dec-20	31-Dec-19	Methods and main assumptions	31-Dec-20	31-Dec-19	Methods and main assumptions
Intangible assets	-	-	Historic Cost less amortisation	29,686	10,060	Historic Cost less amortisation
Deferred tax assets	-	5,779	Fair value	5,845	5,779	Fair value
Pension benefit surplus	2,163	3,704	Fair value	2,163	3,704	Fair value
Property, plant & equipment held for own use	11,582	11,388	Historic Cost less depreciation	11,582	11,388	Historic Cost less depreciation
Property (other than for own use)	-	-	Historic Cost less impairment	-	-	Historic Cost less impairment
Participations	367	365	Fair value	227	227	Historic Cost
Bonds	557,687	519,872	Market Value	532,236	502,584	Historic Cost/Market Value
Deposits other than cash equivalents	6,410	5,969	Fair value	6,410	5,969	Fair value
Other investments	34,573	10,077	Fair value	34,573	10,077	Fair value
Loans & mortgages	20,083	25,306	Fair value	20,062	25,261	Fair value
Reinsurance recoverables	147,383	127,038	Fair value	174,814	161,578	Fair value
Insurance & intermediaries receivables	157,594	166,719	Fair value	157,594	166,719	Fair value
Reinsurance receivables	23,135	14,135	Fair value	23,135	14,135	Fair value
Receivables (trade, not insurance)	26,700	34,174	Fair value	51,938	63,270	Fair value
Cash and cash equivalents	199,923	160,413	Mix of nominal and market value	199,923	160,413	Nominal value
Any other assets, not elsewhere shown	54,901	75,846	Fair value	29,663	46,749	Fair value
<b>Total Assets</b>	<b>1,242,501</b>	<b>1,160,785</b>		<b>1,279,851</b>	<b>1,187,913</b>	

Exhibit D.5: Summary of Assets for the Myrtle Group

### D.1.2. Differences between statutory valuation and the approach used for Solvency II

The significant differences between the statutory reporting basis and Solvency II in relation to assets are:

- › The valuation of investments at market value under Solvency II instead of at historic cost for bonds on a statutory basis. An exception to this is the limited amount of preference stocks held within the bond portfolio of The Company that are already included at market value under Belgium GAAP.
- › Intangible assets, such as capitalised software development and purchased blocks of insurance policies have been included within the financial statements of Cigna Insurance Services (Europe) Limited and Cigna International Health Services B.V Under the Solvency II guidelines, intangible assets has no value.
- › Software is also an intangible asset but has been included within the “Property, plant & equipment held for own use” category for statutory reporting purposes under UK GAAP. As noted above, intangible assets are to be removed from the Solvency II calculation and an adjustment has been made for the relevant entities (Cigna European Services (UK) Limited, Cigna Insurance Services (Europe) Limited and Informatica J. Vanbreda & Co NV.).
- › Loans held between entities within the Cigna Group are held at book cost in the statutory accounts of Cigna European Services (UK) Limited, Cigna Europe Insurance Company SA/NV and Cigna Beechwood Holdings Maatschap as per relevant local generally accepted accounting principles. However, under Solvency II these loans have to be disclosed at market value. Consequently, adjustments are made to ensure the loans are shown at market value for Solvency II.
- › The pension benefit assets (and liabilities in section D3 below) are currently being measured under UK GAAP and BE GAAP requirements which calculate the net defined benefit asset/liability to be the net total of:
  - the present value of the defined benefit obligation at the end of the reporting period
  - minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly
  - minus any unrecognized past-service costs.
- › For Solvency II purposes, pension benefit assets (and liabilities) are to be measured under IAS 19, which also includes any actuarial gains (less any actuarial losses) not recognised due to the corridor approach (IAS 19 para 54). Cigna Europe has made no adjustment to take into account the actual gains and losses due to the corridor approach as it deems this economic adjustment to be immaterial in nature.
- › Following implementation of the updated Deferred Tax Policy, deferred taxes recognised in the statutory accounts of a legal entity are only recognised under Solvency II if they amount to a net Deferred Tax Liability (DTL). In the event of a net Deferred Tax Asset (DTA), deferred taxes are considered to be nil.

### D.1.3. Key changes since previous reporting period

The only change to the approach for valuing assets in 2020 was in relation to deferred tax as detailed above..

## D.2. Technical provisions

### D.2.1. Summary of Technical Provisions

The following table shows the Technical Provisions (TP) for the Company split by Solvency II Line of Business (LoB).

(EUR'000)	Medical Expenses	Income Protection	Legal Expenses	Miscellaneous Financial Loss	Non Proportional Health Reinsurance	LIFE	Total
<b>CLICE</b>							
Gross of Reinsurance	193,410	31,197		Not applicable		30,638	255,246
Reinsurance Ceded	89,374	20,230		Not applicable		6,297	115,902
Net of Reinsurance	104,037	10,967		Not applicable		24,341	139,344
Risk Margin	11,377	1,835		Not applicable		1,802	15,015
<b>Total Net TP</b>	<b>115,414</b>	<b>12,802</b>		<b>Not applicable</b>		<b>26,143</b>	<b>154,359</b>
<b>CEIC</b>							
Gross of Reinsurance	56,970	2,048	1,171	60	2,013	Not applicable	62,262
Reinsurance Ceded	27,837	1,079	583	13	1,970	Not applicable	31,481
Net of Reinsurance	29,133	969	588	47	43	Not applicable	30,781
Risk Margin	2,373	85	49	2	84	Not applicable	2,593
<b>Total Net TP</b>	<b>31,506</b>	<b>1,055</b>	<b>637</b>	<b>49</b>	<b>127</b>	<b>Not applicable</b>	<b>33,374</b>
<b>Myrtle</b>							
Gross of Reinsurance	258,155	34,277	1,171	60	2,013	31,800	327,476
Reinsurance Ceded	117,211	21,309	583	13	1,970	6,297	147,383
Net of Reinsurance	141,252	12,660	588	47	43	25,503	180,093
Risk Margin	14,502	2,034	49	2	84	1,929	18,658
<b>Total Net TP</b>	<b>155,812</b>	<b>14,694</b>	<b>637</b>	<b>49</b>	<b>127</b>	<b>27,432</b>	<b>198,751</b>

Exhibit D.6: Best Estimate Liability YE 2020

## D.2.2. Methodology

### D.2.2.1. Introduction

Solvency II Technical Provisions comprise a Best Estimate Liability (BEL) and a Risk Margin (RM). The BEL is calculated gross of any reinsurance with a separate calculation for the reinsurance portion.

For non-life business, the BEL is calculated separately for the following two components:

- › claims provisions: representing the expected present value of cash-flows from claim events that have occurred before the valuation date; and
- › premium provisions: relating to claim events occurring after the valuation date and during the remaining in-force period of cover.

For life business, the BEL is calculated as the prospective value of future expected cashflows on a policy by policy basis, allowing for premiums, claims, expenses and lapses. Negative reserves are permitted.

Since the 2018 year end, Cigna Europe has performed the annual reset of assumptions underlying the SII BEL calculations at year end on an off-cycle basis.

### D.2.2.2. Reinsurance

The Company operates a comprehensive reinsurance program to manage insurance risks. The program is a combination of internal and external reinsurance treaties, including quota share, excess of loss and catastrophe cover. The impact of reinsurance on the Technical Provisions is shown in the summary tables above.

### D.2.2.3. Non-Life Claim Provision Methodology

Claims are projected to ultimate using standard actuarial techniques such as Chain Ladder or Bornheutter-Ferguson. The most important point in producing cashflows is to arrive at a best estimate liability, rather than the method of producing the cashflows themselves.

The resulting cashflows are then discounted using risk free rates generated from EIOPA published yield curves which are dependent on the currency of the cashflows. Finally a loading is applied to the cashflows to allow for claims administration expenses to obtain the best estimate claim provision. Best estimates are calculated gross of reinsurance and also for reinsurance recoveries with the latter further adjusted to take account of expected loss due to counterparty default.

Due to the off-cycle methodology, Statutory Claim Provisions are calculated at year end then SII/Statutory ratios from end Q3 full valuation are applied to the yearend Statutory Claim Provisions to generate year end Solvency II Claim Provisions.

#### D.2.2.4. Non-Life Premium Provision Methodology

The best estimate of premium provisions corresponds to cashflows relating to claim events occurring after the valuation date but before the end of the remaining in force period for all in force business. In practice the expected claims ratio simplification has been applied to calculate the best estimate. Similar to claims provisions, best estimates are calculated gross of reinsurance and also for reinsurance recoveries with the latter further adjusted to take account of expected loss due to counterparty default.

Due to the off-cycle methodology, UPR and PVFP are calculated at year end then Loss Ratios, Expense Ratios etc. from Q3 update are applied to the yearend UPR and PVFP to calculate the Premium Provision, gross of Reinsurance. For Reinsurance ceded, the Q3 Loss Ratio and year end Ceding Commission Ratio are applied to ceded year end UPR and ceded year end PVFP.

#### D.2.2.5. Life Provision Methodology

The BEL for life insurance business is calculated on a policy by policy basis as the present value of: claim outflows + expense and commission outflows – premium cash inflows

The present value of these cashflows should allow for lapse and be further discounted for interest, generated using EIOPA published yield curves. Similar to non-life, best estimates are calculated gross of reinsurance and also for reinsurance recoveries with the latter further adjusted to take account of expected loss due to counterparty default.

In contrast with the Non-Life Provision no implementation of off-cycle methodology for the Solvency II Life Provisions.

#### D.2.2.6. Un-modelled Business

The vast majority of Best Estimate Liability is calculated using the methodology described in the 3 sub-sections above. For the remaining un-modelled business, a simplified conservative approach, typically Statutory Technical Reserves, is taken as a proxy for Solvency II BEL.

#### D.2.2.7. Risk Margin Methodology

As noted above, the BEL is calculated on a best-estimate basis whereas GAAP reserves include a margin for prudence. To ensure that adequate reserves are held, the Technical Provisions under Solvency II include an explicit Risk Margin to allow for the uncertainty in the best estimate.

The Risk Margin should be calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) necessary to support the insurance and reinsurance obligations over their expected future lifetime. The rate used in determining this cost is called the Cost of Capital Rate; this is a long term average rate and is currently set at 6%. The Risk



Margin should guarantee that the Technical Provisions are sufficient to allow the whole insurance (and reinsurance) portfolio to be transferred to another Insurer.

The method for calculating the Risk Margin can in general be expressed as the discounted value of all projected SCRs multiplied by the Cost of Capital Rate where discounting is at risk free rates of return. Note that, unlike the BEL which is calculated separately gross of reinsurance and for reinsurance ceded, the Risk Margin is calculated only on a net of reinsurance basis.

### D.2.3. Assumptions

The key assumptions underlying each category of BEL methodology are as described below. In general these assumptions have been derived from past experience of the Company business, at the appropriate level of granularity.

#### D.2.3.1. Claim Provisions

The key assumptions are the actuarial techniques applied to calculate projected cashflows for sufficiently developed claims including choice of link ratios, the expected loss ratio or average cost per claim to apply to months with insufficient claims, the assessment of when claims are sufficiently developed and the loading applied to best estimate claim provision to generate the claim expense component.

All assumptions underlying the calculation of Claim Provisions have the additional aim of ensuring that the margin of Statutory claim provisions (net of expense) over Solvency II best estimate claim provisions (net of expense) is in the range consistent with the Company's Reserve Policy. This should be the most important factor in determining the most appropriate set of assumptions to calculate the Claim Provisions.

#### D.2.3.2. Premium Provisions

Since the claims ratio simplification method has been used to calculate the best estimate premium provision, the following are the key assumptions required to complete the calculation:

- › Loss Ratio including claims handling cost;
- › Operating Expense Ratio;
- › Acquisition Expense Ratio;
- › Gross Commission Ratio;
- › Ceding Commission Ratio.

In general, a combination of the historic actual experience plus consideration of forecasted expected ratios have been assessed to set these assumptions. The Ceding Commission Ratio is set at contractually agreed terms per the reinsurance treaties.

### **D.2.3.3. Life Provisions**

The key assumptions used to generate the projected cashflows required to calculate the best estimate provision are for expected mortality, expense loadings and lapse.

### **D.2.3.4. Risk Margin**

Since the Hierarchy of Simplifications approach is adopted to calculate the Risk Margin, and the EIOPA supplied formulae and models have been used to produce the Risk Margin, there are no explicit assumptions to be assessed other than consistent use of yield curves for discounting cashflows for both BEL and Risk Margin.

### **D.2.4. Expert Judgement**

The application of expert judgement is required throughout the production of Technical Provisions from the assessment of data quality to the choice of methodology to apply, to the setting of assumptions underlying the calculations, through to the final assessment that the Technical Provisions are accurate and sufficient to meet future expected liabilities.

### **D.2.5. Uncertainty in Technical Provisions**

There are a number of factors that can influence the level of technical provisions and this uncertainty is described below for the different components.

#### **D.2.5.1. Uncertainty in Non-Life Claim Provision**

Analysis shows that the best estimate reserve is sensitive to the choice of assumptions with regards the choices of link ratio and the ultimate loss ratio (ULR). However, assumptions for these ratios have been set to remove the margin between Statutory reserves and best estimate ultimate claims. Overall, it is reserve adequacy that is important rather than the assumptions used to generate the cash flows. In addition the BEL is not especially sensitive to varying claim expense reserve assumptions and discounting of cash flows is not important for setting the reserve due to the short tail nature of this business.

#### **D.2.5.2. Uncertainty in Non-Life Premium Provision**

Small changes to the assumptions to calculate the Premium Provision can have a significant impact on the resulting reserve. For example a 1% change in Loss Ratio will increase the reserve by around €6.5m gross of reinsurance or €3.3m net of reinsurance in CLICE and by around €0.4m gross of reinsurance or -€0.2m net of reinsurance in CEIC. Changing the Operating Expense Ratio by 1% similarly impacts the gross reserve by €6.5m in CLICE and by €0.4m in CEIC and here there is no reinsurance relief because a share of expenses is not passed on to the reinsurers. The impact of

changing assumptions for Acquisition Expenses or Commission ratio by 1% impact the gross reserves by €2.9m in CLICE and by €1.0m in CEIC and similar to the operating expense ratio there is also no reinsurance relief.

The reason for this potential significant financial impact is mainly due to the impact on the PVFP component of the calculation. The total PVFP within the best estimate, gross of reinsurance, was €582m in CLICE and €101m in CEIC at end 2020 and so a 1% change in expected profit margin through change to Loss Ratio or Expense Ratio will change the gross reserve estimate by €5.8m in CLICE and by €1.0m in CEIC. Choice of ratios and indeed estimation of PVFP (in relation to allowance for persistency and tacit renewals) is therefore very important in the final reserve balance

#### **D.2.5.3. Uncertainty in BEL Life Provision**

For death benefits, the most financially significant impact is a change to the mortality experience assumption where a 10% strengthening would increase the gross reserve by €2.2m and therefore have 51% impact relative to the base gross reserve for Death benefit. Changing the persistency experience by an increase in lapses of 10% would increase the gross reserves by €0.6m representing an impact of 14%. Other sensitivities such as changes in operating expense or discount rates are much less significant and impact the base gross reserve by no more than 5%.

For the survival benefit, the most financially significant impact is a change to the mortality experience assumption where a 10% strengthening would increase the gross reserve by €1.8m and therefore have around 7% impact relative to the base gross reserve for Survival benefit. Other sensitivities such as changes to the operating expense or discount rates are much less significant and impact the base gross reserve by no more than 1%.

#### **D.2.5.4. Uncertainty in Risk Margin**

The Risk Margin is determined based on a full calculation of all future projected SCRs with some simplifications. Therefore, the choice of some of the simplifying proportional factors (such as the evolution of the net best estimate liability) could drive some uncertainty in the Risk Margin.

### **D.2.6. Differences between valuation approach for Solvency II and Belgium GAAP**

As noted above, the BEL is calculated on a best-estimate basis whereas GAAP reserves include a margin for prudence. To ensure that adequate reserves are held, the Technical Provisions under Solvency II then include an explicit Risk Margin to allow for the uncertainty in the best estimate. A further key difference is the PVFP component of the Non-Life Premium Provisions.

A high-level comparison of Solvency II reserves with those used in the financial statements is shown in the tables below. A more detailed comparison then follows.

(EUR'000)				
	Solvency II (SII)	SII / Statutory	Statutory	
CLICE				
Total Gross BEL	255,246	84.28%	302,865	Total TP Gross
Total Net BEL	139,344	83.77%	166,343	Total TP Net
Risk Margin	15,015			
Total Net TP	154,359	92.80%	166,343	Total TP Net
CEIC				
Total Gross BEL	62,262	83.94%	74,174	Total TP Gross
Total Net BEL	30,781	85.78%	35,881	Total TP Net
Risk Margin	2,593			
Total Net TP	33,374	93.01%	35,881	Total TP Net
Myrtle				
Total Gross BEL	327,476	84.6%	387,007	Total TP Gross
Total Net BEL	180,093	84.9%	212,193	Total TP Net
Risk Margin	18,658			
Total Net TP	198,751	93.7%	212,193	Total TP Net

Exhibit D.7: Best Estimate Liability SII vs. Statutory

The Myrtle table above is the sum of the CLICE and CEIC tables plus claims handling reserves in the service entities CIHS and CISL for an amount of €11.0m.

The key differences between Statutory and Solvency II Technical Provisions are the profit generated on future premiums plus removal of margins on Statutory Claim Provisions and UPR, offset to some extent by the addition of Risk margin. The other differences are much less significant.

For Life business the key difference between Statutory and Solvency II Technical Provisions is the removal of mortality reserve margin in the Statutory TP again offset to some extent by the addition of Risk Margin.

## D.2.7. Key changes since previous reporting period

There have been no material changes in methodology or assumptions used in calculating Technical Provisions relative to the prior reporting period.

## D.2.8. Other disclosures

- › Volatility adjustment is not applicable.
- › Transitional Risk Free Rates are not applicable.
- › Transitional deduction has not been applied.

## D.3. Other Liabilities

### D.3.1. Summary of Other Liabilities

The tables below show the composition of Other Liabilities in the balance sheet as at 31 December 2020 measured on a Solvency II basis (as per the Quantitative Reporting Templates (QRTs)) and, for comparison, as measured on statutory basis.

#### D.3.1.1. CLICE Other Liabilities

CLICE Solvency II Other Liabilities are prepared as of December 31, 2020 in compliance with the Solvency II Regulations. Liabilities are valued based on the assumption that the Company will pursue its business on a going concern basis. Please note that there may be some differences compared to the Solo Solvency II submission due to the removal of intra-European group balances.

(EUR'000)	Solvency II Basis			Statutory Basis		
	31-Dec-20	31-Dec-19	Methods and main assumptions	31-Dec-20	31-Dec-19	Methods and main assumptions
Provisions other than technical provisions	-	-	Fair value	-	-	Fair value
Pension benefit obligations	-	-	Actuarial valuation	-	-	Actuarial valuation
Deposits from reinsurers	127,492	122,857	Fair value	127,492	122,857	Fair value
Deferred tax liabilities	6,748	6,821	Fair value	-	-	n/a
Debts owed to credit institutions	-	-	Nominal value	-	-	Nominal value
Financial liabilities other than debts owed to credit institutions	-	-	Nominal value	-	-	Nominal value
Insurance & intermediaries payables	128,652	95,532	Fair value	128,652	95,532	Fair value
Reinsurance payables	13,198	11,913	Fair value	13,198	11,913	Fair value
Payables (trade, not insurance)	36,396	35,410	Fair value	36,396	35,410	Fair value
Any other liabilities, not elsewhere shown	6,468	6,738	Fair value	6,468	6,738	Fair value
<b>Total Liabilities</b>	<b>318,954</b>	<b>279,271</b>		<b>312,206</b>	<b>272,450</b>	

Exhibit D.8: Summary of Other Liabilities for CLICE

### D.3.1.2. CEIC Other Liabilities

CEIC Solvency II Other Liabilities are prepared as of December 31, 2020 in compliance with the Solvency II Regulations. Liabilities are valued based on the assumption that the Company will pursue its business on a going concern basis. Please note that there may be some differences compared to the Solo Solvency II submission due to the removal of intra-European group balances.

(EUR'000)	Solvency II Basis			Statutory Basis		
	31-Dec-20	31-Dec-19	Methods and main assumptions	31-Dec-20	31-Dec-19	Methods and main assumptions
Provisions other than technical provisions	-	-	Fair value	-	-	Fair value
Pension benefit obligations	-	-	Actuarial valuation	-	-	Actuarial valuation
Deposits from reinsurers	33,023	38,376	Fair value	33,023	38,376	Fair value
Deferred tax liabilities	1,043	448	Fair value	-	-	n/a
Debts owed to credit institutions	-	-	Nominal value	-	-	Nominal value
Financial liabilities other than debts owed to credit institutions	-	-	Nominal value	-	-	Nominal value
Insurance & intermediaries payables	5,656	4,570	Fair value	5,656	4,571	Fair value
Reinsurance payables	2,388	123	Fair value	2,388	123	Fair value
Payables (trade, not insurance)	10,653	8,488	Fair value	10,653	8,488	Fair value
Any other liabilities, not elsewhere shown	4,065	3,227	Fair value	4,065	3,226	Fair value
<b>Total Liabilities</b>	<b>56,828</b>	<b>55,232</b>		<b>55,785</b>	<b>54,784</b>	

Exhibit D.9: Summary of Other Liabilities for CEIC

### D.3.1.2. Myrtle Other Liabilities

Myrtle Solvency II Other Liabilities are prepared as of December 31, 2020 in compliance with the Solvency II Regulations. Liabilities are valued based on the assumption that the Company will pursue its business on a going concern basis.

(EUR'000)	Solvency II Basis			Statutory Basis		
	31-Dec-20	31-Dec-19	Methods and main assumptions	31-Dec-20	31-Dec-19	Methods and main assumptions
Provisions other than technical provisions	348	-	Fair value	348	-	Fair value
Pension benefit obligations	49	66	Actuarial valuation	49	66	Actuarial valuation
Deposits from reinsurers	160,515	161,233	Fair value	160,515	161,233	Fair value
Deferred tax liabilities	7,791	7,285	Fair value	(65)	15	Nominal value
Debts owed to credit institutions	16,846	7,587	Nominal value	16,846	7,587	Nominal value
Financial liabilities other than debts owed to credit institutions	12,362	25,456	Fair value	12,276	24,875	Nominal value
Insurance & intermediaries payables	134,308	100,103	Fair value	134,308	100,103	Fair value
Reinsurance payables	15,585	12,036	Fair value	15,585	12,036	Fair value
Payables (trade, not insurance)	158,397	157,457	Fair value	158,397	157,457	Fair value
Any other liabilities, not elsewhere shown	25,090	21,361	Fair value	25,090	21,361	Fair value
<b>Total Liabilities</b>	<b>531,291</b>	<b>492,584</b>		<b>523,349</b>	<b>484,733</b>	

Exhibit D.10: Summary of Other Liabilities for Myrtle Group

### D.3.2. Differences between statutory valuation and the approach used for Solvency II

There are no material differences for the valuation of other liabilities between the statutory basis used in financial statements and the Solvency II valuation approach except for the inclusion of a deferred tax liability on a Solvency II basis, which is the expected future tax effect of the profit and loss impact from valuing the balance sheet on an economic basis as opposed to the statutory basis used for Belgium tax purposes. Also Intragroup Loans under item “Financial liabilities other than debts owed to credit institutions” follow a fair value approach under Solvency II basis versus a nominal value approach under Statutory basis.



### D.3.3. Key changes since previous reporting period

There have been no changes during 2020 to the approach for valuing other liabilities.

## D.4. Alternative methods for valuation

The key areas which require mark to model techniques are the valuation of investments (fixed maturities and equity securities) and loans held between Cigna Europe entities (fixed maturity).

For any investments in fixed maturities and equity securities, the fair value is classified as level 2 due to the lower trading activity of these investments. Recent trades or pricing models are therefore used to determine fair value. When utilising pricing models, these models calculate fair values by discounting future cash flows at estimated market interest rates. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events.

## D.5. Any other information

All material facts regarding the valuation of assets and liabilities are covered in the relevant sections above. In particular, the nature of the Company's business means that no assumptions need to be made about future management actions. Similarly with policyholder's behaviour, the only assumption is the lapse rate, and this is described in the section above on the valuation of Technical Provisions.

The Company has not used the counter-cyclical premium or matching premium adjustments.



# E. CAPITAL MANAGEMENT

Together, all the way.®



## E. CAPITAL MANAGEMENT

Until year-end 2015, supervision was based on Solvency I requirements. Since 1st January 2016, the Company has been supervised based on the Solvency II framework on a statutory basis, allowing for the use of a Partial Internal Model for the calculation of its regulatory Solvency Capital Requirement following NBB's formal approval in 2015 for CLICE and CEIC and in 2017 for Myrtle. The management of own funds is considered over the business planning period i.e. 3 years alongside the Company's risk appetite. Those policies cover the following objectives:

- › Maintain a level of capital in adequacy with the Company's Risk Appetite;
- › Identify the key components of own funds and planning of future composition of capital;
- › Outline measures in the event that their solvency ratio declines rapidly or falls below the critical limit in respect; and
- › Set out the roles and responsibilities of each participant.

## E.1. Own funds

The following tables are as at 31/12/2020 and 31/12/2019 and are shown on a Solvency II basis. Under Solvency II, the excess of assets over liabilities is called “Own Funds” in the following exhibits and is all classed as Tier 1 in the own funds structure as detailed below. The differences between “Own Funds” (here from an economic perspective) and Shareholder’s Equity under BE GAAP as shown in the Company’s financial statements are due to the “reconciliation reserve” that comprises:

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Reconciliation reserve</b>	<b>26,787</b>	<b>24,990</b>	<b>12,959</b>	<b>3,820</b>	<b>-4,419</b>	<b>11,240</b>
Total best estimate impact (i.e. sum of below)	26,999	29,227	5,101	-642	32,100	28,585
<i>Claims provision, net of reinsurance<sup>(1)</sup></i>	7,485	5,818	2,077	2,368	9,562	8,187
<i>Premium provision, net of reinsurance<sup>(2)</sup></i>	12,956	15,623	3,024	-3,010	15,979	12,613
<i>Life provision, net of reinsurance<sup>(3)</sup></i>	6,558	7,786	0	0	6,558	7,786
Risk margin <sup>(4)</sup>	-15,015	-12,813	-2,593	-3,152	-18,658	-16,907
Investment <sup>(5)</sup>	21,550	15,397	11,495	8,062	25,472	17,333
Other Economic Adjustments linked to Service Companies <sup>(6)</sup>	0	0	0	0	-35,478	-10,502
Tax impact on valuation differences	-6,748	-6,821	-1,043	-448	-7,856	-7,269

Exhibit E.1: Cigna Europe’s Reconciliation reserves

- (1) Removal of prudence in best-estimate Solvency II reserves
- (2) Profit margin in next year’s future premiums
- (3) Difference in valuation assumptions due to best estimate versus inclusion of prudence
- (4) Explicit allowance under Solvency II (in excess of best-estimate) for capturing intrinsic market consistent value
- (5) Market value of bonds under Solvency II versus book value under Solvency I
- (6) For the non-insurance entities, the contribution to the reconciliation reserve from a group perspective is the removal of intangibles, the deferred tax assets, and the exclusion of software reported in the “Property, plant & equipment held for own use” line of the balance sheets

### OWN FUNDS STRUCTURE

Solvency II classifies the available capital into three main groups according to its availability and liquidity, i.e. from Tier 1 (which contains the highest quality of own funds that can fully absorb losses) to Tier 3.

The Eligible Capital held to meet the Solvency II requirement (SCR) is the available economic capital satisfying Tier 1, 2 and 3 conditions, including:

- Tier 2 and Tier 3 funds are limited to 50% of the SCR; and
- Tier 3 is limited to 15% of the SCR.

The split of available capital between the different Tiers together with their capital requirements is shown in the following tables for the respective Companies:

(EUR'000)	Tier (2)	CLICE		CEIC		Myrtle	
		31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Basic own funds</b>	<b>T1</b>	<b>226,416</b>	<b>185,595</b>	<b>106,345</b>	<b>101,134</b>	<b>359,952</b>	<b>353,029</b>
Ordinary share capital		104,078	104,078	92,401	92,401	493,993	493,993
Share premiums		8,551	8,551	0	0	62,058	79,659
Other reserves from accounting balance sheet <sup>(1)</sup>		10,747	10,747	2,151	2,151	30,838	40,047
Retained earnings		76,254	37,229	11,878	15,806	156,840	107,355
Reconciliation reserve		26,787	24,990	-85	-9,224	-4,419	11,240
Participation adjustments			Not applicable			-379,358	-379,265
<b>Unpaid capital, initial fund not been paid-up</b>	<b>T2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Deferred Tax Assets</b>	<b>T3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Eligible capital to cover SCR</b>		<b>226,416</b>	<b>185,593</b>	<b>106,345</b>	<b>101,134</b>	<b>359,952</b>	<b>353,029</b>
<b>Eligible capital to cover MCR</b>		<b>226,416</b>	<b>185,593</b>	<b>106,345</b>	<b>101,134</b>	<b>359,952</b>	<b>353,029</b>

Exhibit E.2: Cigna Europe's Own Funds structure

(1) Legal reserve and share premium accounts

(2) Tiering with respect to Capital Eligibility

## E.2. Solvency Capital Requirement and Minimum Capital Requirement

At 31 December 2020, the solvency II position of the Group stood at 181% of the SCR (31 December 2019: 190%) and at 763% of the required minimum (31 December 2019: 772%).

The Company continues to hold a strong capital base under Solvency II driven by the continuous drive to sustain business growth and reinforce value, strength and security brought to all stakeholders.

(EUR'000)	CLICE		CEIC		Myrtle (2)	
	31-Dec-20 (1)	31-Dec-19	31-Dec-20 (1)	31-Dec-19	31-Dec-20 (1)	31-Dec-19
Solvency Capital requirement ( <i>Partial Internal Model</i> )						
Eligible capital to cover SCR	226,416	185,593	106,345	101,134	359,952	353,029
SCR	129,900	107,762	50,782	50,750	198,385	185,752
<b>Solvency position</b>	<b>174%</b>	<b>172%</b>	<b>209%</b>	<b>199%</b>	<b>181%</b>	<b>190%</b>

#### Minimum Capital requirement

Eligible capital to cover MCR	226,416	185,593	106,345	101,134	359,952	353,029
MCR <sup>(2)</sup>	34,488	33,054	12,695	12,688	47,183	45,742
<b>Solvency position</b>	<b>657%</b>	<b>561%</b>	<b>838%</b>	<b>797%</b>	<b>763%</b>	<b>772%</b>

Exhibit E.3: Cigna Europe's required capital and solvency positions

- (1) Solvency Capital Requirement is still subject to final approval by the auditor.
- (2) The Minimum Capital requirement for Myrtle is calculated as the sum of the MCRs of CLICE and CEIC, where the latter have been individually calculated as  $\max(MCR_{SF}; MCR_{PIM})$

The Solvency Capital Requirement is calculated based on an internal approach as set out in section C and E.4. The risk profile of the Company is split over the different risk categories as follows:

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20 (1)	31-Dec-19	31-Dec-20 (1)	31-Dec-19	31-Dec-20 (1)	31-Dec-19
<b>Solvency Capital Requirement</b>	<b>129,900</b>	<b>107,762</b>	<b>50,782</b>	<b>50,750</b>	<b>198,385</b>	<b>185,752</b>
Market risk	40,398	32,273	29,845	23,947	98,070	92,799
Counterparty risk	38,971	36,522	4,786	6,931	60,136	62,963
Health underwriting risk	71,350	55,006	26,343	29,605	84,928	72,254
Life underwriting risk	6,353	5,024			6,353	5,024
Non-Life Underwriting risk			792	976	792	1,047
Diversification between risks	-45,810	-38,168	-15,383	-16,100	-74,173	-69,591
Operational risk	25,333	23,879	5,442	5,840	30,776	29,719
Loss absorbing effect of deferred taxes	-6,696	-6,773	-1,043	-448	-8,498	-8,463

Exhibit E.4: Cigna Europe's risk profile

(1) Solvency Capital Requirement is still subject to final approval by the auditor.

In respect of the calculation of the risk-modules and sub-modules of the standard formula, the Company does use simplified calculations in the Life expense for IOH, HL&A and UK Group Life. Further improvements are foreseen in the future.

The Company does not use any undertaking specific parameters as the internal model better captures the underlying risk profile.

## E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not apply the duration-based equity risk –sub-module.

## E.4. Differences between the standard formula and any internal model used

The following table shows the Solvency II position under on the one hand the Partial Internal Model and on the other hand the Standard Formula.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
	(1)		(1)		(1)	

### *Partial Internal Model*

Eligible capital to cover SCR	226,416	185,593	106,345	101,134	359,952	353,029
Solvency Capital Requirement	129,900	107,762	50,782	50,750	198,385	185,752
<b>Solvency position</b>	<b>174%</b>	<b>172%</b>	<b>209%</b>	<b>199%</b>	<b>181%</b>	<b>190%</b>

### *Standard Formula*

Eligible capital to cover SCR	225,926	183,612	106,479	101,490	359,955	351,783
Solvency Capital Requirement	137,950	132,216	47,757	45,090	197,020	201,069
<b>Solvency position</b>	<b>164%</b>	<b>139%</b>	<b>223%</b>	<b>225%</b>	<b>183%</b>	<b>175%</b>

Exhibit E.5: Cigna Europe's Partial Internal Model vs. Standard Formula solvency positions

(1) Solvency Capital Requirement is still subject to final approval by the auditor.

The Company has developed a PIM at solo entity and at group level to ensure the Solvency Capital Requirements are accurate and proportionate to the specific Risk Profile of the organization. The PIM is embedded within the organisation and provides a basis for management to take fully informed, risk based decisions on both the operational and strategic business environment since July 2013. More specifically, the Company has now embedded the PIM throughout standardised business practices including Business and Capital Planning exercises, underwriting discipline, investment and market risk monitoring, input into the Company Rating review process and reviews of Reinsurance arrangements.

The proposed approach to use a PIM at solo entity level was approved by the Board of Directors as the Standard Formula (SF) was considered unsuitable. It has been decided in early 2011 to internally model four risks and to integrate these results into standard formula results using the default integration techniques as stated in Article 245 of the Delegated Acts. The SCR modelled internally



covers all quantifiable risks relating to existing and also renewal / new business expected to be written in the forthcoming 12 months.

- › Premium and reserve risks: the Company developed a simulation-based approach allowing to produce a full probability distribution.
- › Pandemic risk: the Company designed a stochastic scenario generator for pandemic risk based on Monte-Carlo simulations.
- › Currency risk: the Company built a currency scenario generator simulating scenarios for all currency exposures over a one year period, accounting for their own dependencies. Each of these simulations is therefore applied on the relevant exposure and then the model aggregates all exposures to drive a different possible outcome.

All lines of business are considered in the scope of the PIM for the Company to avoid any form of cherry picking. Materiality thresholds determine whether a business segment is internally modelled versus the standard formula approach.

In the Company's case the partial internal model consists of different risk components which are separately calculated and aggregated via the SF default integration technique at the highest level. The probability distribution forecast is thus calculated for each component that is internally modelled.

The following table outlines the main differences between Standard Formula and Partial Internal Model.

(EUR'000)	CLICE		CEIC		Myrtle	
	31-Dec-20 (1)	31-Dec-19	31-Dec-20 (1)	31-Dec-19	31-Dec-20 (1)	31-Dec-19
<i>Solvency Capital Requirement</i>						
<b>Partial Internal Model (2)</b>	<b>129,900</b>	<b>107,762</b>	<b>50,782</b>	<b>50,750</b>	<b>198,385</b>	<b>185,752</b>
<i>Impact of internal model on...</i>						
Market risk	-2,025	1,773	-1,012	417	-24,492	-13,764
Counterparty risk	108	37	-47	-3	225	218
Health underwriting risk	10,707	27,063	-2,896	-7,602	20,729	33,038
Life underwriting risk	0	0	Not applicable		0	0
Non-Life Underwriting risk	Not applicable		64	186	64	184
Diversification between risks	-857	-4,816	897	1,366	1,731	-5,053
Loss absorbing effect of deferred taxes	117	397	-30	-26	379	694
<b>Standard Formula</b>	<b>137,950</b>	<b>132,216</b>	<b>47,757</b>	<b>45,090</b>	<b>197,020</b>	<b>201,069</b>

Exhibit E.6: Impact of internal model

- (1) Solvency Capital Requirement is still subject to final approval by the auditor.
- (2) The scope of the PIM encompasses both Insurance Companies within Cigna Europe and is split through the modular approach per CLICE (Counterparty, Market, Operational, Health and Life) and CEIC (Counterparty, Market, Operational, Health and Non-Life). Cigna Europe calculates the Group Capital Requirements for Cigna Myrtle Holdings through the use of the Consolidation Methodology after consolidating the scope of the two solo entities with the ancillary service companies

## E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

There is no non-compliance with the MCR and SCR for the undertaking.

## E.6. Any other information

There is no additional information related to the capital management of the undertaking.

# GLOSSARY

<b>Beechwood</b>	Cigna Beechwood Holdings MTS
<b>CEIC</b>	Cigna Europe Insurance Company S.A./N.V.
<b>CESL</b>	Cigna European Services (UK) Ltd
<b>CIHS</b>	Cigna International Health Services BV
<b>CISEL</b>	Cigna Insurance Services (Europe) Limited
<b>CLICE</b>	Cigna Life Insurance Company of Europe S.A./N.V.
<b>EGS</b>	Europe and Global Segments
<b>Elmwood</b>	Cigna Elmwood Holding SPRL-BVBA
<b>GEH</b>	Global Employer Health
<b>GEP</b>	Gross Earned Premium
<b>GIH</b>	Global Individual Health
<b>HL&amp;A</b>	Health, Life & Accident
<b>IG</b>	Intra Group
<b>IGT</b>	Intra Group Transaction
<b>IOH</b>	IGO Health, NGO Health and Government Health
<b>KRA</b>	Key Risk Assessment
<b>MCR</b>	Minimum Capital Requirements
<b>Myrtle</b>	Cigna Myrtle Holdings Limited
<b>NBB</b>	National Bank of Belgium
<b>Op Risk</b>	Operational Risk Management
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>QRT</b>	Quantitative Reporting Templates
<b>SCR</b>	Solvency Capital Requirements
<b>SFCR</b>	Solvency and Financial Condition report
<b>SOG SA</b>	System of Governance Self-Assessment
<b>SI</b>	Solvency I
<b>SII</b>	Solvency II
<b>SEH</b>	Spain Employer Health
<b>UKEH</b>	UK Employer Health

# APPENDIX – REPORTING TEMPLATES

The following Quantitative Reporting Templates (QRTs) for Myrtle, CLICE and CEIC are available by clicking on the links given below.

## [CLICK HERE FOR CLICE QRTS](#)

- QRT S.02.01.02 specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC.
- QRT S.05.01.02 specifying information on premiums, claims and expenses using the valuation and recognition principles used in the undertaking's financial statements, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35.
- QRT S.05.02.01 specifying information on premiums, claims and expenses by country using the valuation and recognition principles used in the undertaking's financial statements.
- QRT S.12.01.02 specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT') for each line of business as defined in Annex I to Delegated Regulation (EU) 2015/35.
- QRT S.17.01.02 specifying information on non-life technical provisions, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35.
- QRT S.19.01.21 specifying information on non-life insurance claims in the format of development triangles for the total non-life business.
- QRT S.23.01.01 specifying information on own funds, including basic own funds and ancillary own funds.
- QRT S.25.02.21 specifying information on the Solvency Capital Requirement calculated using the standard formula and a partial internal model.
- QRT S.28.02.01 specifying the Minimum Capital Requirement for insurance undertakings engaged in both life and non-life insurance activity.

## [CLICK HERE FOR CEIC QRTS](#)

- QRT S.02.01.02 specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC.
- QRT S.05.01.02 specifying information on premiums, claims and expenses using the valuation and recognition principles used in the undertaking's financial statements, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35.
- QRT S.05.02.01 specifying information on premiums, claims and expenses by country using the valuation and recognition principles used in the undertaking's financial statements.
- QRT S.17.01.02 specifying information on non-life technical provisions, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35.
- QRT S.19.01.21 specifying information on non-life insurance claims in the format of development triangles for the total non-life business.

- QRT S.23.01.01 specifying information on own funds, including basic own funds and ancillary own funds.
- QRT S.25.02.21 specifying information on the Solvency Capital Requirement calculated using the standard formula and a partial internal model.
- QRT S.28.01.01 specifying the Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity.

#### [CLICK HERE FOR MYRTLE QRTS](#)

- QRT S.32.01.22 specifying information on the undertakings in the scope of the group.
- QRT S.02.01.02 specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC.
- QRT S.05.01.02 specifying information on premiums, claims and expenses, using the valuation and recognition principles used in the consolidated financial statements for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35.
- QRT S.05.02.01 specifying information on premiums, claims and expenses by country, using the valuation and recognition principles used in the consolidated financial statements.
- QRT S.23.01.22 specifying information on own funds, including basic own funds and ancillary own funds.
- QRT S.25.02.22 specifying information on the Solvency Capital Requirement calculated using the standard formula and a partial internal model.

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