

BR /2010

Insurance Act 1978

2010: 37

THE INSURANCE (GROUP SUPERVISION) RULES 2011

Part 1

1. Citation and commencement
2. Interpretation
3. General principles
4. Corporate governance
5. Corporate governance:
responsibility of the parent
board
6. Establishment of group policies
and procedures
7. Establishment of certain
functions of the group
8. Role of actuarial functions
9. Role of compliance function
10. Role of internal audit function
11. Role of risk management
function
12. Risk management and internal
controls framework: essential
features
13. Investment risk
14. Liquidity risk
15. Concentration risk
16. Market risk
17. Credit risk
18. Operational risk
19. Strategic risk
20. Reputational risk
21. Group risk
22. Legal risk
23. Insurance underwriting risk
24. Self-assessment procedures
25. Minimum margin of solvency

Part 2

Eligible Capital

26. Interpretation
27. Available statutory capital and
surplus
28. Group financial statements
29. Statutory financial statements
30. Group statutory financial return
31. Requirements relating to
preparation of returns
generally
32. Opinion of group actuary
33. Requirement to keep records in
Bermuda
34. Designated insurer to report
certain events

*Schedule 1 – Content of Statutory
Financial Statements*

*Schedule 2 – Content of Statutory
Financial Return*

In exercise of the powers conferred on the Authority by section 27A of the Insurance Act 1978 (“the Act”), the following Rules are made—

Citation and commencement

1. These Rules may be cited as the Insurance (Group Supervision) Rules 2011 and shall come into operation on [].

PART 1

Interpretation

2. In these rules, references to the “parent board” or the “parent” is a reference to the parent company of the group that is not a subsidiary company of any other member of the group (ultimate parent).

General principles

3. (1) These Rules apply to insurance groups of which the Authority is group supervisor.

(2) In its administration of these Rules, the Authority must have regard to the principle of proportionality and in its assessment of compliance with these Rules, the Authority must take a risk based approach that takes into account the nature and scale of operations of the group and the complexity of its business.

(3) Where obligations are imposed either on the parent board of an insurance group or on the insurance group, it is the duty of the designated insurer to take appropriate measures to ensure that the parent board or the insurance group as the case may be, complies with these Rules, including ensuring that a robust communication mechanism is established to allow the designated insurer to monitor compliance.

The Parent Board

Corporate governance: membership of the parent board

4. (1) The parent board of a group must include such number of independent directors without executive responsibility for the management of the business of the group as the Authority considers appropriate.

(2) A director who in the Authority's view is not fit and proper to hold office in this capacity is disqualified from serving as a board director.

(3) Persons appointed to the parent board must not participate in any decision or unduly influence discussions where there is a likelihood that a conflict or potential conflict of interest may arise.

(4) Membership of the parent's board must be kept under continual review to ensure that members continue to be fit and proper and the board collectively has the requisite skills and expertise given the nature, scale and complexity of the group's operations.

Corporate governance: responsibility of parent board

5. (1) The parent board is responsible for establishing and effectively implementing corporate governance policies and practices, which it must review periodically to ensure that they continue to support the overall operational strategy of the group.

(2) It is also responsible for the effective oversight of the group's risk management and internal control framework.

(3) It must effectively manage the group's business in a sound and prudent manner with integrity, due care and professional skill.

(4) It must have in place a mechanism to assess the adequacy of compliance of the group with these Rules and any provisions of law applicable to it.

(5) It must establish group functions that assure appropriate accountability, for itself and senior management of the group.

(6) It may outsource group functions, but where it does so, it remains responsible for the due performance and monitoring of the outsourced functions.

(7) It must ensure that sufficient board committees are established to allow for the effective discharge of the board's responsibilities.

(8) It must ensure that the members of the insurance group are aware of their statutory obligations, and the requirement to operate in accordance with such obligations.

(9) It may delegate its powers and functions to subcommittees of the board or to senior management; but where the board does so, it must monitor the exercise of any such delegation.

(10) It must ensure that the group functions allow for oversight of management responsibilities, and that they ensure that persons with such oversight responsibilities can communicate directly with the board.

Establishment of group policies and procedures

6. (1) The parent board must establish, document, maintain and keep under review policies and procedures in relation to group risk management and internal controls framework, including policies on internal audit and outsourcing for the group.

(2) It must ensure that operational and oversight responsibilities of the group are clearly defined and documented, and that reporting of material deficiencies and fraudulent activities are transparent and devoid of conflicts of interest.

(3) It must establish systems for identifying on a risk sensitive basis those policies and procedures that must be reviewed annually; and those policies and procedures that must be reviewed at other regular intervals to ensure that they continue to support the overall operational strategy of the group.

(4) Such systems must provide for significant policies and procedures to be reviewed at least annually to ensure that they continue to support the overall operational strategy of the group.

(5) The design and effectiveness of the risk management and internal controls framework must be regularly assessed and such assessment must be reported to the parent's board and the chief and senior executives.

(6) Internal controls must facilitate effective and efficient operations particularly in the following areas-

- (a) duties and responsibilities of staff;
- (b) decision-making authority and procedures;
- (c) segregation of duties; and
- (d) internal monitoring and reporting of the effectiveness of internal controls and operational results.

(7) The parent's board must establish and maintain sound accounting and financial reporting procedures and practices for the group.

(8) Accounting and supporting records must provide a complete and accurate representation of the group's financial position, and the results of its operations.

Establishment of certain functions of the group

7. The parent board must establish and keep under review group functions relating to-

- (a) actuarial;
- (b) compliance;
- (c) internal audit; and
- (d) risk management

which must be independent from the underwriting and financial operations of the group in respect of the managerial reporting relationships.

Role of actuarial functions

8. The role of the actuarial function must include -

- (a) assessing the appropriateness and reasonableness of methodologies and assumptions and the quality of underlying data in relation to policyholders obligations;
- (b) assisting with the execution of the risk management framework particularly

as it relates to modelling techniques used to estimate policyholder obligations, potential exposures and capital requirements;

- (c) assisting with the underwriting process, including processes surrounding pricing and writing of underwriting contracts and group risk transfer mechanisms, including ceding reinsurance, derivative instruments, catastrophe bonds;
- (d) enabling a comparison to be made of the estimated policyholder obligations against actual policyholder obligations paid; and
- (e) reporting to the board and the chief and senior executives on the dependability and sufficiency of the estimates of policyholder obligations.

Role of compliance function

9. The compliance function must include procedures to monitor and evaluate the group's compliance with internal controls, policies and procedures, and with external laws and regulations.

Role of internal audit function

10. (1) The role of the internal audit function includes assisting the board of the parent with ensuring-

- (a) roles and responsibilities of senior management and committees thereof, and group functions are defined and documented; and
- (b) material policies and procedures are documented.

(2) The internal audit function should –

- (a) have unrestricted access to all areas of the group, including access to records held at third-party service providers;
- (b) be granted appropriate authority within the group to ensure that management satisfactorily addresses and resolves all internal audit

recommendations, including those arising from reviews conducted by external auditors.

- (c) examine operational practices to ensure compliance with jurisdictional laws and regulations, and group internal policies, procedures, and controls;
- (d) identify areas of improvement in light of the changing operating environment; and
- (e) develop and execute a plan to review key risk areas over a specified period.

Role of the risk management function

11. The role of the risk management function must –

- (a) be embedded in both the group's organisational structure and strategic oversight process;
- (b) be supported by appropriate internal control policies and procedures and by information systems that appropriately capture underwriting, investment, and other operational data;
- (c) provide relevant, accurate, and timely information to the applicable business functions;
- (d) include techniques necessary to identify, measure, respond to, monitor, and report, on a continuous basis and on an individual and aggregate level, all material risks including financial and non-financial material risks that are reasonably foreseeable, on and off-balance sheet exposures, current and contingent exposures;
- (e) include provisions for regular review of the operating environment to ensure material risks are identified, assessed and monitored, and appropriate action taken to manage exposures and adverse developments;
- (f) include provisions setting out objectives, risk tolerance levels and appropriate delegation of oversight, reporting and operating responsibilities across all functions;
- (g) include reporting systems that are appropriate for the group taking into consideration any outsourcing of responsibilities and safeguarding of assets;
- (h) include documentation of significant policies and procedures; and
- (i) include a review and approval process of these policies and procedures

by the parent board and the chief and senior executives, on a risk sensitive basis .

Risk management and internal controls framework: essential features

12. (1) The design of a risk management and internal control framework must achieve the following objectives-

- (a) identify all material risks that are reasonably foreseeable, including financial and non-financial risks, on and off-balance sheet exposures, and current and contingent exposures;
- (b) identify and measure material intra-group transactions and exposures, including intra-group guarantees and contagion risks;
- (c) assess the potential impact of all material risks that are reasonably foreseeable, including material risks affecting capital requirements and capital management, short-term and long-term liquidity requirements, current and future obligations of policyholders, and operational strategies and objectives; and
- (d) develop policies and strategies to manage, mitigate, and report all material risks effectively.

(2) For the purpose of these Rules material risks include-

- (a) investment, liquidity and concentration risk;
- (b) market risk;
- (c) credit risk;
- (d) operational risk;
- (e) group risk;
- (f) strategic risk;
- (g) reputational risk ;

- (h) group risk; and
- (i) insurance underwriting risk;

(3) In subparagraph (2), ‘credit risk’, ‘insurance underwriting risk’, ‘investment, liquidity and concentration risk’, ‘legal risk’, ‘market risk’, ‘operational risk’, ‘reputational risk’, and ‘strategic risk’ have the meanings given in paragraph 2 of the (Prudential Standards)(Insurance Group Solvency Requirement) Rules 2011.

Investment risk

13. (1) The investment risk component of the group’s risk management framework must amongst other things-

- (a) give effect to the “prudent person” principle in relation to the investment of assets;
- (b) establish strategies that align with the overall group strategy, especially those surrounding underwriting (including claims management) and capital requirements and capital adequacy;
- (c) establish an investment policy that supports strategies that-
 - (i) govern the selection and composition of the investment portfolio, including detailed composition and allocation limits, to allow appropriate execution of the investment policy and strategies and future assessment of compliance;
 - (ii) govern the employment, valuation, and effectiveness of off-balance sheet hedging and derivative instruments;
 - (iii) align with the group’s overall risk tolerance limits and exposures;
 - (iv) govern the selection and compensation of service providers including those providing custodian and investment management services;
 - (v) govern the reporting and data management of the investment portfolio;

- (vi) govern the oversight responsibilities of the parent board committees, internal functions, and third-party service providers;
- (vii) establish techniques to analyse performance results and identify current and contingent exposures arising from the execution of a planned strategy or market development;
- (viii) establish techniques to regularly assess and monitor the adequacy of capital to support the current strategy and the effectiveness of the management of assets and liabilities including the effectiveness of hedging strategies, the development of contingent exposures, and the impact of embedded options in long-term products; and
- (ix) provide for the reporting of investment results to the parent board and the chief executive and senior executives on a timely basis for monitoring and for ensuring compliance with the established investment policy.

(2) For the purposes of subparagraph (1), the 'prudent person principle' requires that the group, in determining the appropriate investment strategy and policy, must only assume investment risks that it can properly identify, measure, respond to, monitor, control, and report on while taking into consideration its capital requirements and adequacy, short-term and long-term liquidity requirements, and policyholder obligations, and investment decisions must be executed in the best interest of the group's policyholders.

Liquidity risk

14. The liquidity risk component of the group's risk management framework must include-
- (a) sound liquidity management practices covering short, medium, and long-term objectives that support the overall group strategy, including investment, underwriting, and claims strategies;
 - (b) procedures to manage short-term liquidity requirements, including access to sufficient funds to meet its day-to-day obligations; and
 - (c) benchmarking and stress and scenario testing to assist in the identification and determination of unexpected adverse developments in the medium and

long-term.

Concentration risk

15. The concentration risk component of the group's risk management framework must include strategies and policies to identify, measure, respond to, monitor, mitigate, and report on credit risk arising from an individual risk exposure or from a combination of risk exposures such as credit, market, underwriting, and liquidity risks.

Market risk

16. The market risk component of the group's risk management framework must include-
- (a) an investment strategy that is aligned with the group's overall short-term and long-term strategic objectives, including those surrounding the management of assets and liabilities;
 - (b) detailed policies on concentration and allocation limits, including counterparty, assets, and sectors;
 - (c) identification and quantification techniques relating to both on and off-balance sheet exposures;
 - (d) performance measurement techniques, including benchmarking and stress and scenario testing to ensure compliance with the investment strategy;
 - (e) monitoring procedures to assess the group's tolerance to changes in the market; and
 - (f) mitigation techniques to ensure appropriate management of adverse developments.

Credit risk

17. The credit risk component of the group's risk management framework must include-
- (a) a credit risk policy that is aligned with the group's overall short-term and long-term strategic objectives;

- (b) detailed exposure limits relating to-
 - (i) individual counterparty or concentration of counterparties;
 - (ii) intra-group transactions;
 - (iii) assets or sectors;
 - (iv) off-balance sheet including guarantees and letters of credit;
 - (v) geographical zones;
- (c) identification and quantification techniques relating to both on and off-balance sheet exposures;
- (d) mitigation tools employed to manage adverse developments; and
- (e) measurement techniques to assess the risk exposures and effectiveness of the mitigation tools used, including stress and scenario testing.

Operational risk

18. Operational risk component of the group risk management framework must include-
- (a) procedures for assessing the operational risk and for establishing tolerance limits for each material risk area that is reasonably foreseeable, including business process risk, business continuity risk, compliance risk, information systems risk, distribution channels risk, fraud risk, human resources risk, and outsourcing risk;
 - (b) procedures for identifying systems and operations exposures, and for capturing and tracking systems and operations near-miss data;
 - (c) a system of effective internal reporting and operating controls (including IT infrastructure) to manage and appropriately mitigate the operational risk;
 - (d) measurement techniques, including stress and scenario testing, to assess the vulnerability of the insurer; and
 - (e) frequent reviews to ensure mitigation strategies, including an early warning system, have been effectively deployed.

Strategic risk

19. The strategic risk component of the group's risk management framework must include-
- (a) procedures for ensuring the execution of the group's overall business strategy;
 - (b) procedures for measuring, monitoring, mitigating and responding to exposures and risks arising while implementing strategies; and
 - (c) procedures for determining the resources that will be needed to accomplish the strategic objectives including internal and external resources, and tangible and intangible resources.

Reputational risk

20. The reputational risk component of the group's risk management framework must include-
- (a) procedures for identifying, monitoring and mitigating potential reputational risks; and
 - (b) methodologies for understanding the impact of other material risks as they relate to the group's reputation.

Group risk

21. The group risk component of the group's risk management framework must include-
- (a) procedures to identify group structure and interrelationships, including measuring material intra-group transactions and exposures and assessing contagion risks; and
 - (b) evaluation and execution of strategies to mitigate group risk and ensure that the group is operating within its tolerance levels.

Legal risk

22. (1) The legal risk component of the group's risk management framework must include procedures for mitigating and monitoring legal risk that would ensure-
- (a) compliance with applicable laws and regulations;
 - (b) safeguarding of policyholder assets;
 - (c) the integrity of market conduct;

- (d) the integrity of financial or public reporting; and
 - (e) the maintenance of appropriate documentation of all transactions related to financing, investments, underwriting and claims management transactions and agreements.
- (2) Such procedures must-
- (a) ensure that management has access to records that meet requirements established by laws and regulations;
 - (b) establish and ensure the adoption of policies in relation to contract certainty standards for the group's insurance contracts including–
 - (i) requirements relating to the content of submission documentation, and actions to be undertaken prior to contract execution;
 - (ii) requirements relating to evidence of cover and documentation surrounding responsibilities of relevant parties at contract execution;
 - (iii) requirements relating to documentation and action to be undertaken for amendments subsequent to execution; and
 - (iv) requirements for monitoring adherence to contract certainty policies and procedures and reporting compliance to the Board and chief and senior executives;
 - (c) maintain appropriate documentation of all transactions such as documentation on investments, underwriting, and claims management transactions, and agreements, including custodian, investment management, letters of credit and debt agreements.

Insurance underwriting risk

23. (1) The insurance underwriting component of the risk framework must include-
- (a) underwriting strategies that are aligned with the overall group strategy, including alignment with the appropriate investment strategy and risk tolerance levels;
 - (b) underwriting policies that are sufficiently detailed to allow appropriate

management of the group's exposures;

- (c) procedures for the management of policyholder claims including processing of claims;
- (d) reserving techniques that adequately reflect the obligations to the group's policyholders;
- (e) procedures for identifying and evaluating risks arising from insurance policies and obligations, including concentration of risks;
- (f) measurement techniques to ensure compliance with risk tolerance levels and overall strategy;
- (g) procedures to ensure that risk mitigation strategies are appropriately employed and that unexpected exposures or deviations are mitigated, including those surrounding reserves;
- (h) systems to capture, maintain, and analyse underwriting data and policies and procedures to ensure relevant and accurate data is used to price underwriting contracts, establish adequate reserves, appropriately settle claims; and
- (i) benchmarking and stress and scenario testing techniques to review, approve, and assess strategies and tolerance limits.

(2) Insurance underwriting risk mitigation techniques must be embedded into the group's underwriting strategies to ensure processes and procedures are developed to approve, evaluate, and assess the effectiveness of the risk mitigation techniques employed in light of the group's risk tolerances, underwriting results, and investment strategies such as identifying and monitoring potential material risks that may arise while executing the strategy.

Self-Assessment procedures

24. (1) The parent board must establish solvency self-assessment procedures for the group that factors in all the foreseeable reasonably material risks including risks specified in subparagraph 12(2).

(2) Such procedures must provide for self-assessments to be conducted at least annually, and for assessments to be conducted on both the quality and quantity of the capital required to adequately cover the risks that the group is exposed to and to support the group's activities.

(3) Such procedures must also -

- (a) be an integral part of the group's risk management framework;
- (b) be clearly documented, reviewed, and evaluated regularly by the parent board and the chief and senior executives to ensure its continued relevance to changes in the strategic direction, risk management framework, and market developments affecting the group.

(4) The parent board must ensure that-

- (a) key individuals overseeing and performing the assessment have the requisite knowledge and experience to undertake the task, including third-party service providers assisting with assessment procedures;
- (b) an appropriate oversight process is established to enable material deficiencies to be reported on a timely basis; and
- (c) it has appropriately considered and accounted for all reasonably foreseeable material risks in undertaking its solvency self assessment and that appropriate processes are in place for monitoring the group's-
 - (i) risk profile
 - (ii) accumulation and concentration of risk; and
 - (iii) quantity and quality of capital;
- (d) the control framework and strategic planning processes relating to the self assessment are appropriately integrated into the group's operations; and
- (e) the frequency in which the self assessment is undertaken is appropriate given the nature, scale, complexity and risk profile of the group.

(5) The procedures must-

- (a) provide for a re-assessment to be undertaken as soon as is practicable following any significant change in the group's risk or solvency profile;
- (b) demonstrate consideration of the relationship between risk management, the quantity and quality of capital resources, the impact of risk mitigation techniques, and (when included) diversification or correlation effects between material risks;
- (c) include a description of the group's risk appetite as well as particulars surrounding exposure limits and the means by which such limits are both enforced and kept appropriate given the strategic direction and solvency position of the group;
- (d) be forward-looking, taking into account the group's business plans and capital projections, as would demonstrate whether-
 - (i) appropriate risk management has been implemented;
 - (ii) the group is maintaining sufficient financial resources to continue as a going-concern, where planned, over a short and longer term horizon;
 - (iii) the group is able to manage its business and capital under adverse circumstances and continues to meet its enhanced capital requirement;
- (e) include appropriate stress and scenario testing measures and contain contingency plans, where necessary, for restoring, after an adverse event, the group's capital or liquidity position to adequate levels, and which must be aligned with the group's risk appetite;
- (f) appropriately reflect -
 - (i) all assets and liabilities;
 - (ii) material off-balance sheet arrangements;
 - (iii) material intra-group transactions;
 - (iv) relevant management practices, systems and controls; and
 - (v) a valuation basis that is aligned with the risk characteristics and business model of the group.

(6) The supporting documentation related to the self-assessment must be maintained in a manner that can be easily reviewed by the Authority.

(7) Such documentation must be retained at the office of the designated insurer for a period of not less than five years after the assessment.

The solvency position of the insurance group

Minimum margin of solvency

25. (1) A designated insurer must, in relation to the insurance group of which it is a member, ensure that the value of the group's assets exceeds the amount of the group's liabilities by the aggregate of the minimum margin of solvency of each qualifying member of the group.

(2) In calculating the minimum margin of solvency of a group, the following principles shall apply –

(a) where the parent company exercises control in relation to any member of the group, the minimum margin of solvency applicable to the group in respect of each such member shall be that specified in subparagraph (1).

(b) Where the parent company exercises significant influence on any member of the group the minimum margin of solvency applicable to that member for the purposes of calculating group minimum margin of solvency shall be an amount equal to the parent company's percentage share holding in the member multiplied by that member's minimum margin of solvency.

(3) For the purposes of subparagraph (1) a member is a qualifying member if it is subject to solvency requirements in the jurisdiction where it is registered.

(4) For the purposes of subparagraph (2), "control" and "significant influence" shall be determined in accordance with the meaning given to those terms in the standards or principles prescribed in subparagraph 28(2).

(5) For the purposes of subparagraphs (1) and (2), the minimum margin of solvency for each qualifying member is the solvency control level which defines the supervisory intervention point at which its supervisor would invoke the strongest action if the level were breached.

PART 2

Eligible Capital

Interpretation

26. (1) In this part -

“capital instruments” means a financial instrument that qualifies to be admitted for the purposes of determining a group’s total statutory capital and surplus calculated in accordance with schedule 1 or is otherwise approved by the Authority as other fixed capital for the purpose of determining a group’s statutory capital and surplus in accordance with schedule 1;

“ECR” means enhanced capital requirement and has the same meaning as in section 1(1) of the Act;

“encumbered assets” means assets held for security or as collateral against a liability or contingent liability of the group or other person or any other use restriction, excluding encumbered assets for policyholder obligations of the group ;

“encumbered assets for policyholder obligations” means the total assets held for security or as collateral or otherwise restricted to meet the liabilities to the policyholders of the group in the event of a loss ;

“maturity” means the first contractual opportunity for the group to repay or redeem the capital instrument unless it is mandatory that the group repay or redeem the instrument with the issuance of an instrument of equal or higher quality;

“minimum margin of solvency” has the same meaning as in paragraph 25;

“Tier 1-ancillary capital”, in relation to a group’s available statutory capital and surplus, has the meaning given in subparagraph (2);

“Tier 1-basic capital”, in relation to a group’s available statutory capital and surplus, has the meaning given in subparagraph (3);

“Tier 2–ancillary capital”, in relation to a group’s available statutory capital and surplus, has the meaning given in subparagraph (4);

“Tier 2–basic capital”, in relation to a group’s available statutory capital and surplus, has the meaning given in subparagraph (5);

“Tier 1 - capital” means the aggregate sum of “Tier 1 – basic capital” and “Tier 1 – ancillary capital”;

“Tier 2 - capital” means the aggregate sum of “Tier 2 – basic capital” and “Tier 2 – ancillary capital”;

“Tier 3 - capital” means the aggregate sum of “Tier 3 – basic capital” and “Tier 3 – ancillary capital”;

“Tier 3 - ancillary capital” has the meaning given in subparagraph (6).

“Tier 3 - basic capital” has the meaning given in subparagraph (7);

“Total statutory capital and surplus” means the total statutory capital and surplus of the group as calculated in accordance with schedule 1.

(2) “Tier 1 - ancillary capital” shall comprise the following–

(a) capital instruments approved by the Authority as other fixed capital pursuant to schedule 1 that satisfy the following -

- (i) capable of absorbing losses in a going concern either by way of –
 - a. write downs of the principal amount or until losses cease; or
 - b. mandatory conversion to capital stock when losses accumulate; and
- (ii) highest level of subordination in a winding-up; and
- (iii) paid-up or called; and
- (iv) undated or estimated maturity of not less than 10 years from the date of issuance; and
- (v) non-redeemable or settled only with the issuance of an instrument of equal or higher quality; and
- (vi) free of incentives to redeem; and
- (vii) the coupon payment on the instrument, upon breach (or if it would cause a breach) in the ECR, is –
 - (a) cancellable; or
 - (b) deferrable indefinitely; and
- (viii) unencumbered; and
- (ix) do not contain terms or conditions designed to accelerate or induce a member of the group’s insolvency; and
- (x) do not give rise to a right of set off against a group’s claims and obligations to an investor or creditor; and

(b) excludes capital instruments that are included in Tier 1 – basic capital, Tier 2 – basic capital, Tier 2 – ancillary capital, Tier 3 – basic capital, and Tier 3 – ancillary capital.

(3) “Tier 1-basic capital” shall comprise the following–

(a) statutory surplus as set out in Line 2(h) of Form 8, Statutory Statement of Capital and Surplus of schedule 1 subject to the following -

(i) plus any adjustments to a group’s total statutory capital and surplus made by the Authority in accordance with the provisions of section 6D of the Act;

(ii) where the value of encumbered assets for policyholder obligations exceeds the higher of a. and b., less the aggregate difference between the value of the encumbered assets for policyholder obligations of each insurer that is a member of the group and the higher of-

a. the value of policyholder obligations of that insurer for which the assets have been held and calculated in accordance with the sum total of Form 1, Lines 17(a) and 27(a), Statutory Balance Sheet of schedule 1 in relation to that insurer; and

b. the value of the capital requirement applicable to the encumbered assets for policyholder obligations of that insurer; and

(iii) where the value of the encumbered assets exceeds the value reflected in Form 1, Statutory Balance Sheet of schedule 1 arising from the relative liability or contingent liability for which the encumbered assets are held, the excess must be deducted;

(b) capital stock and contributed surplus prepared in accordance with instructions set out for Form 8 in schedule 1 excluding preference shares;

(c) capital instruments not requiring an approval from the Authority to be admitted for the purposes of determining a group’s total statutory capital and surplus calculated pursuant to schedule 1 that satisfy the following-

(i) capable of absorbing losses in a going concern either by way of -

a. write downs of the principal amount or until losses cease; or

b. mandatory conversion to capital stock when losses accumulate; and

(ii) highest level of subordination in a winding-up; and

(iii) paid-up or called; and

- (iv) undated or estimated maturity of not less than 10 years from the date of issuance; and
 - (v) non-redeemable or settled only with the issuance of an instrument of equal or higher quality; and
 - (vi) free of incentives to redeem; and
 - (vii) the coupon payment on the instrument, upon breach (or if it would cause a breach) in the ECR, is –
 - a. cancellable; or
 - b. deferrable indefinitely; and
 - (viii) unencumbered; and
 - (ix) do not contain terms or conditions designed to accelerate or induce a member of the group’s insolvency; and
 - (x) do not give rise to a right of set off against a group’s claims and obligations to an investor or creditor; and
- (d) excludes capital instruments and other amounts that are included in Tier 1 – ancillary capital, Tier 2 – basic capital, Tier 2 – ancillary capital, Tier 3 – basic capital, and Tier 3 – ancillary capital.
- (4) “Tier 2 – ancillary capital” shall comprise the following–
- (a) capital instruments approved by the Authority as other fixed capital pursuant to schedule 1 that would otherwise qualify for Tier 1- ancillary capital or Tier 1 - basic capital instruments but are callable on demand and are unpaid;
 - (b) capital instruments approved by the Authority as other fixed capital pursuant to schedule 1 that satisfy the following–
 - (i) callable and convertible on demand to Tier 1- ancillary capital or Tier 1 - basic capital instruments when losses accumulate or when the ECR is breached; and
 - (ii) subordinated to policyholder obligations in a winding-up; and
 - (iii) undated or estimated maturity of not less than 5 years from the date of issuance; and
 - (iv) non-redeemable if ECR is breached or settled only with the issuance of an instrument of equal or higher quality; and

- (v) free of incentives to redeem; and
 - (vi) the coupon payment is deferrable indefinitely when ECR is breached; and
 - (vii) unencumbered; and
 - (viii) do not contain terms or conditions designed to accelerate or induce a member of the group's insolvency; and
 - (ix) do not give rise to a right of set off against a group's claims and obligations to an investor or creditor; and
- (c) excludes capital instruments that are included Tier 1- ancillary capital, Tier 1 - basic capital, Tier 2 – basic capital, Tier 3 – basic capital, and Tier 3 – ancillary capital.
- (5) "Tier 2 – basic capital" shall comprise the following:
- (a) capital instruments not requiring an approval from the Authority to be admitted for the purposes of determining a group's total statutory capital and surplus calculated pursuant to schedule 1 that satisfy the following-
 - (i) capable of absorbing moderate level of losses on a going concern, including suspending coupon payments if the ECR is breached; and
 - (ii) subordinated to policyholder obligations in a winding-up; and
 - (iii) undated or estimated maturity of not less than 5 years from the date of issuance; and
 - (iv) non-redeemable if the ECR is breached or settled only with the issuance of an instrument of equal or higher quality; and
 - (v) free of incentives to redeem; and
 - (vi) the coupon payment is deferrable indefinitely when ECR is breached; and
 - (vii) unencumbered; and
 - (viii) do not contain terms or conditions designed to accelerate or induce a member of the group's insolvency; and
 - (ix) do not give rise to a right of set off against a group's claims and obligations to an investor or creditor; and
 - (b) where the value of encumbered assets for policyholder obligations exceeds the higher of (i) and (ii), and to the extent that these assets would be available to

meet the obligations of any policyholder upon winding-up after the liabilities of the policyholders for which the assets are encumbered are settled, the aggregate difference between the value of the encumbered assets for policyholder obligations of each insurer that is a member of the group and the higher of-

- (i) the value of policyholder obligations of that insurer for which the assets have been held and calculated in accordance with Form 1, Lines 17(a) and 27(a), Statutory Balance Sheet of schedule 1 in relation to that insurer; and
 - (ii) the value of the capital requirement applicable to the encumbered assets for policyholder obligations of that insurer; and
 - (c) excludes capital instruments and other amounts that are included as Tier 1- ancillary capital, Tier 1 - basic capital, Tier 2 – ancillary capital, Tier 3 – basic capital, and Tier 3 – ancillary capital.
- (6) “Tier 3 - ancillary capital” shall comprise the following-
- (a) capital instruments approved by the Authority as other fixed capital pursuant to schedule 1 that satisfy the following-
 - (i) subordinated to policyholder obligations in a winding-up; and
 - (ii) unencumbered; and
 - (iii) undated or maturity of not less than 3 years from the date of issuance; and
 - (iv) do not contain terms or conditions designed to accelerate or induce a member of the group’s insolvency; and
 - (v) do not give rise to a right of set off against a group’s claims and obligations to the investor or creditor; and
 - (vi) non-redeemable if the ECR is breached or settled only with the issuance of an instrument of equal or higher quality; and
 - (vii) the coupon payment on the instrument, upon breach or if it would cause a breach in the minimum margin of solvency, is –
 - a. cancellable; or
 - b. deferrable indefinitely; and

- (b) excludes capital instruments that are included in Tier 1- ancillary capital, Tier 1 - basic capital, Tier 2 – ancillary capital, Tier 2 – basic capital, and Tier 3 – basic capital.

(7) “Tier 3 - basic capital” shall comprise the following –

- (a) capital instruments not requiring an approval to be admitted in determining a group’s total statutory capital and surplus calculated pursuant to schedule 1 -
 - (i) subordinated to policyholder obligations in a winding-up; and
 - (ii) unencumbered; and
 - (iii) undated or maturity of not less than 3 years from the date of issuance ; and
 - (iv) non-redeemable if the ECR is breached or settled only with the issuance of an instrument of equal or higher quality; and
 - (v) do not contain terms or conditions designed to accelerate or induce a member of the group’s insolvency; and
 - (vi) do not give rise to a right of set off against a group’s claims and obligations to the investor or creditor; and
 - (vii) the coupon payment on the instrument, upon breach or if it would cause a breach in the minimum margin of solvency, is -
 - a. cancellable; or
 - b. deferrable indefinitely; and
- (b) excludes capital instruments and other amounts that are included in Tier 1- ancillary capital, Tier 1 - basic capital, Tier 2 – ancillary capital, Tier 2 – basic capital, and Tier 3 – ancillary capital.

(8) For the purposes of these Rules, “the capital requirement applicable to the encumbered assets for policyholder obligations” means the following-

- (a) when determining whether a group’s available statutory capital and surplus meets its minimum margin of solvency such capital requirement is equal to the contribution of the pledged assets to the ECR multiplied by the quotient of the minimum margin of solvency divided by the ECR; and
- (b) when determining whether a group’s available statutory capital and surplus meets its ECR such capital requirement is the contribution of the pledged assets to the ECR.

Available Statutory Capital and Surplus

27. (1) Every insurance group shall, in accordance with subparagraph (2), maintain available statutory capital and surplus of an amount that is equal to or exceeds the value of its minimum margin of solvency.

(2) For the purposes of subparagraph (1), the available statutory capital and surplus is an amount equal to the sum of the following amounts –

- (a) an amount of the group's Tier-1 capital which must not be less than 80% of the value of the group's minimum margin of solvency; and
- (b) an amount of the group's Tier 2-capital which must not be more than 25% of the amount of subparagraph (a).

(3) Every group shall maintain available statutory capital and surplus of an amount that is equal to or exceeds the value of its ECR in accordance with subparagraph (4).

(4) In the case of a group, the available statutory capital and surplus shall be equal to the sum of the following amounts -

- (a) an amount of the group's Tier 1-capital which shall be not less than 60% of the value of the group's ECR;
- (b) an amount of the group's Tier 2 –capital which shall not be more than 66.67% of the amount of subparagraph (a); and
- (c) an amount of the group's Tier 3-capital which shall not be more than 17.65% of the aggregate sum of subparagraphs (a) and (b) to the extent that the aggregate sum of subparagraphs (b) and (c) do not exceed 66.67% of the amount of subparagraph (a).

Assessment of the financial situation of the insurance group

Group financial statements

28. (1) Every insurance group must prepare in each consolidated financial year financial statements (including notes to the financial statements) in accordance with subparagraph (3) (“group financial statements”).

(2) Such group financial statements must be prepared in accordance with any one of the following standards or principles -

- (a) International Financial Reporting Standards (“IFRS”)
- (b) Generally accepted accounting principles (“GAAP”) that apply in Bermuda, Canada, the United Kingdom or the United States of America; or
- (c) Such other GAAP as the Authority may recognise.

(3) The group financial statements of an insurance group must be audited thereon annually by the group’s approved auditor and an auditor’s report prepared by the group’s approved auditor in accordance with generally accepted auditing standards (“GAAS”) for Canada, the United Kingdom, the United States of America or such GAAS as the Authority may recognise.

(4) Group financial statements must be prepared in the English language.

(5) All amounts shown in a group financial statement must be shown in a single currency, and that currency must be the currency in which the books and records of the group are kept in the designated insurer's principal office in Bermuda or, where different books and records are kept in different currencies in that office, then the currency in which the majority of those books and records are kept:

(6) Where the Authority pursuant to the power provided by this paragraph directs the production of group financial statements, and the amounts in those statements are shown in a foreign currency, then those amounts must be converted into their Bermuda equivalent before the statements are so produced.

(7) For the purposes of subparagraph (6), the Bermuda equivalent of an amount in a foreign currency is the Bermuda dollar equivalent of that amount as converted into Bermudian dollars at the rate of exchange used by any licensed Bank in Bermuda in relation to purchases by that Bank of that foreign currency on the last day of the group’s financial year.

(8) For all items shown in any account of any group there must be shown the corresponding amounts for the immediately preceding financial year.

(9) A designated insurer must within four months after the end of the financial year or such longer period, not exceeding seven months, as the Authority may allow after the end of

each financial year, file with the Authority audited group financial statements in respect of the business of the group of which it is a member.

(10) The Authority must publish in such manner as it considers appropriate a copy of every audited financial statement filed with it under subparagraph (9) together with the notes to those statements and the auditor's report.

Supervisory reporting and disclosures

Statutory financial statements

29. (1) Every insurance group must prepare in each year financial statements (including notes to the financial statements) in accordance with subparagraph (2) ("statutory financial statements").

(2) The statutory financial statements must be prepared by completing forms 1, 2 and 8 of schedule 1 and populating the line items therein with the corresponding values of the line items in the group financial statements for the corresponding financial year taking into account the applicable instructions in forms 1, 2 and 8.

(3) A designated insurer must file with the Authority statutory financial statements prepared in accordance with subparagraph (2) in every financial year within four months after the end of the financial year or such longer period, not exceeding seven months as the Authority may allow.

Group statutory financial return

30. (1) An insurance group must prepare an annual financial return in accordance with this paragraph ("group statutory financial return").

(2) A designated insurer must submit a group statutory financial return in respect of the insurance group of which it is a member for each financial year within four months after the end of the financial year or such longer period, not exceeding seven months as the Authority may allow ("filing date").

- (3) The group statutory financial return must consist of the following documents—
- (a) a cover sheet as prescribed in schedule 2;
 - (b) an auditor's report in pursuance of paragraph 28(3) and prescribed in schedule 2;
 - (c) an insurance group capital and solvency return as prescribed in the Insurance (Prudential Standards)(Insurance Group Solvency Requirement) Rules 2011;
 - (d) an insurance group business solvency certificate as prescribed in schedule 2;
 - (e) an opinion of a group actuary where such is required under paragraph 32 and prescribed in schedule 2;
 - (f) particulars of ceded reinsurance comprising of top ten unaffiliated reinsurers for which the group has the highest recoverable balances and any reinsurer with recoverable balances exceeding 15% of the insurance groups statutory capital and surplus as prescribed in schedule 2;
 - (g) any adjustments applied to the group financial statements by the group to produce the statutory financial statements in the form of a reconciliation of amounts reported as total assets, total liabilities, net income and total statutory capital and surplus; and
 - (h) a list of non-insurance financial regulated entities owned by the group.
- (4) The following particulars of qualifying members within the meaning of subparagraph 25(3) are -
- (a) the name of the registered entity;
 - (b) the name of the jurisdiction in which the entity is registered;
 - (c) the minimum margin of solvency for each registered entity;
 - (d) the group's participation interest (percentage) of each registered entity; and
 - (e) the member's minimum margin of solvency that is taken into account in calculating the group's minimum margin of solvency.
- (4) Schedule 2 which prescribes the form and content of the cover sheet, the auditor's report, the insurance group business solvency certificate, the group actuary's

opinion, the particulars of ceded reinsurance of top ten unaffiliated reinsurers has effect.

Requirements relating to preparation of returns generally

31. (1) Every statutory financial return and any document annexed to such a return must be prepared in the English language.

(2) All amounts which are shown in any such return or document must be shown in the currency in which pursuant to subparagraph 28(5) amounts in any account of a group are to be shown; but the Bermuda equivalent of every such amount must be stated next to that amount in every case where that amount is an amount expressed in a foreign currency (in this rule called a "foreign currency amount").

(3) For the purposes of subparagraph (2), the Bermuda equivalent of a foreign currency amount shall be the Bermuda dollar equivalent of that foreign currency amount as converted into Bermuda dollars at the rate of exchange used by any licensed bank in Bermuda in relation to purchases by that Bank of that foreign currency on the last day of the relevant year; and the person preparing the return or document in question shall state that rate either in the return or document itself or in some other document made available to the Authority.

Opinion of group actuary

32. The statutory financial return required by subparagraph 30(3)(e) shall include an annual opinion of a group actuary in respect of the insurance group's loss and loss expense provisions.

Requirement to keep records in Bermuda

33. Every designated insurer must keep a copy of the insurance group's financial statements (together with the notes to those statements, the auditor's report thereon), statutory financial statements and the statutory financial return at its principal office for a period of five years.

General provisions to ensure compliance

Designated Insurer to report certain events

34. (1) A designated insurer must forthwith notify the Authority, in such manner as it may direct –
- (a) on the designated insurer reaching a view that there is a likelihood of the insurance group or any member of the group of which it is a member becoming insolvent; or
 - (b) if it knows or has reason to believe, that an event to which this paragraph applies has occurred.
- (2) Within 30 days of such notification, the designated insurer must furnish the Authority with a report in writing setting out all the particulars of the case that are available to it.
- (3) This paragraph applies to the following events —
- (a) failure by the insurance group or any member of the group to comply substantially with a requirement imposed upon it by or under these Rules or the Act or any rules or regulations made thereunder, including requirements relating to its solvency position, governance and risk management, or supervisory reporting and disclosures;
 - (b) failure by the designated insurer to comply with a direction given to the designated insurer in respect of the group or any of its members under Sections 6C and 32A of the Act;
 - (d) conviction of a criminal offence by any member of the group whether in Bermuda or abroad;
 - (e) material breaches of any statutory requirements by any member of the group located outside of Bermuda that could lead to supervisory or enforcement action by a competent authority;

(f) a significant loss that is reasonably likely to cause the insurance group to be unable to comply with the enhanced capital requirement applicable to it.

(4) Within 45 days of notifying the Authority of an event referred to in subparagraph (3)(f), the designated insurer must furnish the Authority with-

(a) a capital and solvency return that reflects an enhanced capital requirement that has been prepared using post-loss data;

(b) unaudited interim statutory financial statements in relation to such period as the Authority may require, together with a declaration of solvency in respect of those statements.

(5) A designated insurer must notify the Authority in writing within 14 days of becoming aware that a requirement of these Rules conflicts with the laws of another jurisdiction where a member of the insurance group operates.

SCHEDULE 1

CONTENT OF STATUTORY FINANCIAL STATEMENTS

Form 1

GROUP STATUTORY BALANCE SHEET

[blank] name of Parent

as at [blank] (day/month/year)

expressed in [blank] (currency used (Paragraph 31))

ASSETS

STMT. LINE No.		20XX	20XX
1.	CASH AND TIME DEPOSITS	XXX	XXX
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	(i) Held to maturity	XXX	XXX
	(ii) Other	<u>XXX</u>	<u>XXX</u>
(b)	Total Bonds and Debentures	<u>XXX</u>	<u>XXX</u>
(c)	Equities		
	(i) Common stocks	XXX	XXX
	(ii) Preferred stocks	XXX	XXX
	(iii) Mutual funds	<u>XXX</u>	<u>XXX</u>
(d)	Total equities	<u>XXX</u>	<u>XXX</u>
(e)	Other quoted investments	<u>XXX</u>	<u>XXX</u>
(f)	Total quoted investments	<u>XXX</u>	<u>XXX</u>
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	(i) Held to maturity	XXX	XXX

	(ii) Other	<u>XXX</u>	<u>XXX</u>
(b)	Total Bonds and Debentures	<u>XXX</u>	<u>XXX</u>
(c)	Equities		
	(i) Common stocks	XXX	XXX
	(ii) Preferred stocks	XXX	XXX
	(iii) Mutual Funds	<u>XXX</u>	<u>XXX</u>
(d)	Total equities	<u>XXX</u>	<u>XXX</u>
(e)	Other unquoted investments	<u>XXX</u>	<u>XXX</u>
(f)	Total unquoted investments	<u>XXX</u>	<u>XXX</u>
4.	INVESTMENTS IN AFFILIATES (EQUITY):		
(a)	Unregulated entities that conduct ancillary services	XXX	XXX
(b)	Unregulated non-financial operating entities	XXX	XXX
(c)	Unregulated financial operating entities	XXX	XXX
(d)	Regulated non-insurance financial operating entities	XXX	XXX
(e)	Regulated insurance financial operating entities	<u>XXX</u>	<u>XXX</u>
(f)	Total investments in affiliates	<u>XXX</u>	<u>XXX</u>
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens	XXX	XXX
(b)	Other than first liens	<u>XXX</u>	<u>XXX</u>
(c)	Total investment in mortgage loans on real estate	<u>XXX</u>	<u>XXX</u>
6.	POLICY LOANS	XXX	XXX
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)	XXX	XXX
(b)	Other properties (less encumbrances)	<u>XXX</u>	<u>XXX</u>

(c)	Total real estate	<u>XXX</u>	<u>XXX</u>
8.	COLLATERAL LOANS	XXX	XXX
9.	INVESTMENT INCOME DUE AND ACCRUED	XXX	XXX
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	XXX	XXX
(b)	Deferred – not yet due	XXX	XXX
(c)	Receivables from retrocessional contracts	<u>XXX</u>	<u>XXX</u>
(d)	Total accounts and premiums receivable	<u>XXX</u>	<u>XXX</u>
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Pools & associations	XXX	XXX
(b)	All other insurers	<u>XXX</u>	<u>XXX</u>
(c)	Total reinsurance balance receivable	<u>XXX</u>	<u>XXX</u>
12.	FUNDS HELD BY CEDING REINSURERS	XXX	XXX
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	XXX	XXX
(b)	Segregated accounts companies	XXX	XXX
(c)	Deposit assets	XXX	XXX
(d)	Other sundry assets	<u>XXX</u>	<u>XXX</u>
(e)	Total sundry assets	<u>XXX</u>	<u>XXX</u>
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit	XXX	XXX
(b)	Guarantees	XXX	XXX
(c)	Other instruments	<u>XXX</u>	<u>XXX</u>
(d)	Total letters of credit, guarantees and other instruments	<u>XXX</u>	<u>XXX</u>

15.	TOTAL	<u>XXX</u>	<u>XXX</u>
-----	-------	------------	------------

**TOTAL INSURANCE RESERVES, OTHER
LIABILITIES AND STATUTORY CAPITAL AND
SURPLUS**

STMT.

LINE No.		20XX	20XX
	GENERAL BUSINESS INSURANCE RESERVES		
16.	UNEARNED PREMIUMS	XXX	XXX
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	XXX	XXX
(b)	Less: Reinsurance recoverable balance		
	(i) Pools & associations	XXX	XXX
	(ii) All other insurer	<u>XXX</u>	<u>XXX</u>
(c)	Total reinsurance recoverable balance	<u>XXX</u>	<u>XXX</u>
(d)	Net loss and loss expenses provisions	<u>XXX</u>	<u>XXX</u>
18.			
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	<u>XXX</u>	<u>XXX</u>
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS	XXX	XXX
21.	RESERVES FOR UNREPORTED CLAIMS	XXX	XXX
22.	POLICY RESERVES - LIFE	XXX	XXX
23.	POLICY RESERVES – ACCIDENT AND HEALTH	XXX	XXX

24.	POLICYHOLDERS' FUNDS ON DEPOSIT	XXX	XXX
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	XXX	XXX
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	<u>XXX</u>	<u>XXX</u>
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES:		
(a)	Total gross long-term business insurance reserves	XXX	XXX
(b)	Less: Reinsurance recoverable balance on long-term business	<u>XXX</u>	<u>XXX</u>
(c)	Total net long-term business insurance reserves	<u>XXX</u>	<u>XXX</u>
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	XXX	XXX
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	XXX	XXX
30.	LOANS AND NOTES PAYABLE	XXX	XXX
31.	(a) INCOME TAXES PAYABLE	XXX	XXX
	(b) DEFERRED INCOME TAXES	XXX	XXX
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	XXX	XXX
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS	XXX	XXX
35.	DIVIDENDS PAYABLE	XXX	XXX
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	XXX	XXX
(b)	Segregated accounts companies	XXX	XXX
(c)	Deposit liabilities	XXX	XXX
(d)	Net payable for investments purchased	<u>XXX</u>	<u>XXX</u>
(e)	Total sundry liabilities	<u>XXX</u>	<u>XXX</u>

37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit	XXX	XXX
(b)	Guarantees	XXX	XXX
(c)	Other instruments	<u>XXX</u>	<u>XXX</u>
(d)	Total letters of credit, guarantees and other instruments	<u>XXX</u>	<u>XXX</u>
38.	TOTAL OTHER LIABILITIES	<u>XXX</u>	<u>XXX</u>
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	<u>XXX</u>	<u>XXX</u>
	STATUTORY CAPITAL AND SURPLUS		
40.	TOTAL STATUTORY CAPITAL AND SURPLUS	<u>XXX</u>	<u>XXX</u>
41.	TOTAL	<u>XXX</u>	<u>XXX</u>

NOTES TO FORM 1

The notes to the group statutory balance sheet shall include the following, and any other information which in the opinion of the group's directors is required to be disclosed if the group statutory financial statements are not to be misleading -

20XX **20XX**

Line 10

Collateral balances: These relate to the nature and terms (amounts) of any collateral issued in favour of the group related to accounts and premiums receivable.

Line 11

Letters of credit: These relate to letters of credit issued in favour of the group relating to reinsurance balances receivables.

Line 15

Total assets: The details of the total encumbered assets, including asset type, purpose of encumbrance, and amount shall be included.

Asset type	Purpose of encumbrance	Amount of encumbrance
Cash		XXX
Total quoted investments		XXX
Total unquoted investments		XXX
Other asset types		<u>XXX</u>
Total assets encumbered		<u>XXX</u>

Line 17

General business reserves:

Gross loss and loss expense provisions at beginning of year	XXX	XXX
---	-----	-----

Less: Reinsurance recoverable at beginning of year	(XXX)	(XXX)
--	-------	-------

Net loss and loss expense provisions at beginning of year	<u>XXX</u>	<u>XXX</u>
---	------------	------------

Net losses incurred and net loss expenses incurred related to:

a) Current year	XXX	XXX
-----------------	-----	-----

b) Prior years	<u>XXX</u>	<u>XXX</u>
----------------	------------	------------

Total net losses incurred and net loss expenses incurred	<u>XXX</u>	<u>XXX</u>
--	------------	------------

Less: Losses and loss expenses paid
or payable related to:

a) Current year	(XXX)	(XXX)
b) Prior years	(XXX)	(XXX)
Total losses and loss expenses paid or payable	(XXX)	(XXX)
Net loss and loss expense provisions at end of year	(XXX)	(XXX)
Add: Reinsurance recoverable at end of year	XXX	XXX
Gross loss and loss expense provisions at end of year	XXX	XXX

Line 37

Letters of credit, guarantees and other instruments:
The discount rate or rates used in any present value
calculations and the aggregate undiscounted value of
liabilities or contingent liabilities shall be disclosed.

Form 2

**GROUP STATUTORY STATEMENT OF
INCOME**

[blank] name of Parent

as at [blank] (day/month/year)

expressed in [blank] (currency used
(Paragraph 31)

STMT.

LINE No.		20XX	20XX
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN:		
(a)	Direct gross premiums written	XXX	XXX
(b)	Assumed gross premiums written	<u>XXX</u>	<u>XXX</u>
(c)	Total gross premiums written	XXX	XXX
2.	REINSURANCE PREMIUMS CEDED	<u>XXX</u>	<u>XXX</u>
3.	NET PREMIUMS WRITTEN	XXX	XXX
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	XXX	XXX
5.	NET PREMIUMS EARNED	XXX	XXX
6.	OTHER INSURANCE INCOME	<u>XXX</u>	<u>XXX</u>
7.		<u>XXX</u>	<u>XXX</u>
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSS INCURRED AND NET LOSS EXPENSES INCURRED	XXX	XXX
9.	COMMISSIONS AND BROKERAGE	<u>XXX</u>	<u>XXX</u>
10.		<u>XXX</u>	<u>XXX</u>
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	XXX	XXX
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
(a)	Direct gross premiums and other considerations	XXX	XXX
(b)	Assumed gross premiums and other considerations	<u>XXX</u>	<u>XXX</u>
(c)	Total gross premiums and other considerations	<u>XXX</u>	<u>XXX</u>
13.	REINSURANCE AND OTHER CONSIDERATIONS	XXX	XXX

14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
(a)	Life	XXX	XXX
(b)	Annuities	XXX	XXX
(c)	Accident and health	<u>XXX</u>	<u>XXX</u>
(d)	Total net premiums and other considerations	XXX	XXX
15.	OTHER INSURANCE INCOME	<u>XXX</u>	<u>XXX</u>
16.		<u>XXX</u>	<u>XXX</u>
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE	XXX	XXX
18.	POLICYHOLDERS' DIVIDENDS	XXX	XXX
19.	SURRENDERS	XXX	XXX
20.	MATURITIES	XXX	XXX
21.	ANNUITIES	XXX	XXX
22.	ACCIDENT AND HEALTH BENEFITS	XXX	XXX
23.	COMMISSIONS	XXX	XXX
24.	OTHER	<u>XXX</u>	<u>XXX</u>
25.		<u>XXX</u>	<u>XXX</u>
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
(a)	Life	XXX	XXX
(b)	Annuities	XXX	XXX
(c)	Accident and Health	<u>XXX</u>	<u>XXX</u>
(d)	Total increase (decrease) in policy reserves	XXX	XXX
27.		<u>XXX</u>	<u>XXX</u>
28.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	<u>XXX</u>	<u>XXX</u>
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	<u>XXX</u>	<u>XXX</u>

UNDERNOTED ITEMS

30.	COMBINED OPERATING EXPENSES		
(a)	General and administrative	XXX	XXX
(b)	Personnel costs	XXX	XXX
(c)	Other	<u>XXX</u>	<u>XXX</u>
(d)	Total combined operating expenses	<u>XXX</u>	<u>XXX</u>
31.	COMBINED INVESTMENT INCOME - NET	XXX	XXX
32.	COMBINED OTHER INCOME (DEDUCTIONS)	<u>XXX</u>	<u>XXX</u>
33.	COMBINED INCOME BEFORE TAXES	<u>XXX</u>	<u>XXX</u>
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
(a)	Current	XXX	XXX
(b)	Deferred	<u>XXX</u>	<u>XXX</u>
(c)	Total	<u>XXX</u>	<u>XXX</u>
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	XXX	XXX
36.	COMBINED REALIZED GAINS (LOSSES)	<u>XXX</u>	<u>XXX</u>
37.	NET INCOME	<u>XXX</u>	<u>XXX</u>

NOTES TO FORM 2

The notes to the group statutory statement of income shall include the following, and any other information which in the opinion of the parent's directors is required to be disclosed if the group statutory financial statements are not to be misleading -

20XX

20XX

Line 31

Combined investment income – net: The nature and amount of material items that have been included.

Line 32

Combined other income (deductions): The nature and amount of material items that have been included.

Line 36

Combined realized gains (losses): The nature and amount of material items that have been included.

Form 8

**GROUP STATUTORY STATEMENT OF
CAPITAL AND SURPLUS**

[*blank*] name of Parent
as at [*blank*] (day/month/year)
expressed in [*blank*] (currency used (Paragraph 31))

STMT. LINE No.		20XX	20XX
1.	STATUTORY CAPITAL:		
	(a) Capital stock		
	i) Common shares:		
	Authorized shares of par value		
	each issued and fully paid shares XXX	XXX	XXX
	ii) Preferred shares:		
	Authorized shares of par value		
	each issued and fully paid shares XXX	XXX	XXX
	(b) Contributed surplus	XXX	XXX
	(c) Any other fixed capital	XXX	XXX

	(d) Total Statutory Capital	<u>XXX</u>	<u>XXX</u>
2.	STATUTORY SURPLUS:		
	(a) Statutory Surplus — Beginning of Year	XXX	XXX
	(b) Add: Income for the year	XXX	XXX
	(c) Less: Dividends paid and payable	XXX	XXX
	(d) Add (Deduct) change in unrealized appreciation (depreciation) of investments	XXX	XXX
	(e) Add (Deduct) change in non-admitted assets	XXX	XXX
	(f) Add (Deduct) change in appraisal of real estate	XXX	XXX
	(g) Add (Deduct) change in any other statutory surplus	<u>XXX</u>	<u>XXX</u>
	(h) Statutory Surplus — End of Year	<u>XXX</u>	<u>XXX</u>
3.	MINORITY INTEREST	<u>XXX</u>	<u>XXX</u>
4.	TOTAL STATUTORY CAPITAL AND SURPLUS	<u>XXX</u>	<u>XXX</u>

NOTES TO FORM 8

The notes to the group statutory statement of capital and surplus shall include the following, and any other information which in the opinion of the parent's directors is required to be disclosed if the group statutory financial statements are not to be misleading -

20XX

20XX

Line 2(g)

Change in any other statutory surplus: The nature and amount of material items that have been included.

DRAFT

**INSTRUCTIONS AFFECTING THE STATUTORY
BALANCE SHEET**

Line of statutory balance sheet	Instructions
1. Cash and time deposits	Cash and cash equivalents (maturities of less than 90 days) as at balance sheet shall be included here. This includes restricted cash.
2. Quoted investments	<p>There shall be disclosed severally -</p> <p>(a) Bonds and debentures -</p> <p style="padding-left: 20px;">(i) held to maturity: quoted fixed maturities; and</p> <p style="padding-left: 20px;">(ii) other: quoted fixed maturities shall be included here.</p> <p>(b) Total bonds and debentures: The total of (i) and (ii);</p> <p>(c) Equities -</p> <p style="padding-left: 20px;">(i) common stock: investments in publicly quoted common shares;</p> <p style="padding-left: 20px;">(ii) preferred shares: investments in publicly quoted preferred shares; and</p> <p style="padding-left: 20px;">(iii) mutual funds: investments in publicly quoted mutual funds , etc.</p> <p>(d) Total equities: The total of (i), (ii) and (iii).</p> <p>(e) Other quoted investments: Other quoted investments not included in 2(b) and 2(d) e.g. alternative funds.</p> <p>(f) Total quoted investments: The</p>

**Line of statutory balance
sheet**

Instructions

total of 2(b), (d) and (e).

3. Unquoted investments

There shall be disclosed severally -

(a) Bonds and debentures -

(i) held to maturity:
unquoted fixed
maturities; and

(ii) other: unquoted fixed
maturities shall be
included here.

(b) Total bonds and debentures:
The total of (i) and (ii).

(c) Equities -

(i) common stock:
investments in unquoted
common shares;

(ii) preferred shares:
investments in unquoted
preferred shares; and

(iii) mutual funds:
investments in unquoted
mutual funds, etc.

(d) Total equities: The total of (i), (ii)
and (iii).

(e) Other unquoted investments:
Other unquoted investments not
included in 3(b) and 3(d) e.g.
alternative funds.

(f) Total unquoted investments:
The total of 3(b), (d) and (e).

4. Investment in affiliates
(equity)

All investments classed as significant
influence and accounted under the
equity accounting method shall be
included here.

**Line of statutory balance
sheet**

Instructions

There shall be disclosed severally -

(a) Unregulated entities that conduct ancillary services : All unregulated entities that conduct ancillary services accounted for under equity method shall be included here;

(b) Unregulated non-financial operating entities: All unregulated non-financial operating entities accounted for under equity method shall be included here;

(c) Unregulated financial operating entities: All unregulated financial operating entities accounted for under equity method shall be included here;

(d) Regulated non-insurance financial operating entities: All regulated non-insurance financial operating entities accounted for under equity method shall be included here;

(e) Regulated insurance financial operating entities: All regulated insurance financial operating entities accounted for under equity method shall be included here.

(f) Total investments in affiliates: The total of (a) to (e) inclusive.

5. Investments in mortgage loans on real estate

Residential and commercial investment loans shall be included here. There shall be disclosed severally -

(a) First liens.

**Line of statutory balance
sheet**

Instructions

	(b) Liens other than first liens.
	(c) Total investments in mortgage loans on real estate: The total of (a) and (b).
6. Policy loans	Loans to policyholders on the security of cash surrender value of the policyholder's long-term insurance policy shall be included here.
7. Real estate	Commercial investments occupied by group members shall be included here. (a) Occupied by any member of the group (less encumbrances): Both land and buildings and any other commercial investments occupied by group members shall be included here. (b) Other properties (less encumbrances): Other residential and commercial investments. (c) Total real estate: The total of (a) and (b).
8. Collateral loans	Other loans shall be included here.
9. Investment income due and accrued	Accrued investment income shall be included here.
10. Accounts and premiums receivable	There shall be disclosed severally - (a) In course of collection: Insurance balances receivable and accounts receivable. (b) Deferred - not yet due: Premiums receivable.

Line of statutory balance sheet

Instructions

	(c) Receivables from retrocessional contracts: Insurance balances receivable.
	(d) Total accounts and premiums receivable: The total of (a) to (c) inclusive.
11. Reinsurance balances receivable	There shall be disclosed severally - (a) Pools and associations: Reinsurance balances receivables from pools and associations. (b) All other insurers. (c) Total reinsurance balances receivable: The total of (a) to (b) inclusive.
12. Funds held by ceding reinsurers	Funds held by ceding reinsurers shall be included here. Any amounts deemed uncollectible shall be deducted.
13. Sundry assets	Any asset not accounted for in lines 1 to 12 and 14 may be included here if it has a readily realisable value except non-admitted assets (such as prepaid expenses, intangible assets, deferred tax assets). There shall be disclosed severally - (a) Derivative instruments: Derivative instruments with a favourable position shall be included here. (b) Segregated accounts companies. (c) Deposit assets.

Line of statutory balance sheet

Instructions

	(d)	Other sundry assets: Other assets not included above (such as unsettled sales of investments).
	(e)	Total sundry assets: The total of (a) to (d) inclusive.
14. Letters of credit, guarantees and other instruments		<p>These are contractual rights arising from off-balance sheet arrangements to receive financial assets through:</p> <p>(a) Letter of credit.</p> <p>(b) Guarantees.</p> <p>(c) Other instruments.</p> <p>(d) Total letters of credit, guarantees and other instruments: The total of (a) to (c).</p> <p>Such asset may, with the approval of the Authority obtained on an application made for that purpose, be recorded and the capital increased by a corresponding amount. Letters of credit, guarantees or other instruments in favour of the group which relate to insurance or reinsurance contracts shall not be recorded.</p>
15. Total		This shall be the total of lines 1 to 14 inclusive.
16. Unearned premiums		<p>This line shall include unearned premiums, net of the unearned portion of the reinsurance premiums ceded.</p> <p>Acquisition costs shall not be deducted in calculating the amount of</p>

Line of statutory balance sheet

Instructions

	unearned premiums.
17. Loss and loss expense provisions	There shall be disclosed severally - (a) Gross loss and loss expense provisions: Gross unpaid loss and loss expenses. (b) Less: reinsurance recoverable balances (net of related provisions for uncollectible amounts): Unpaid and/or paid losses and loss expenses recoverable from - (i) Pools and associations; and (ii) All other insurers. (c) Total reinsurance recoverable balance: The total of (i) and (ii). (d) Net loss and loss expense provisions: The total of (a) and (c).
19. Total general business insurance reserves	This shall be the total of lines 16 and 17 inclusive.
20. Reserves for reported claims	Reserves to meet unpaid claims at the end of the relevant year and made under long-term insurance policies in respect of incidents occurring and reported to the insurer before the end of year, net of any recoverable amounts.
21. Reserves for unreported claims	Reserves to meet unpaid claims at the end of the relevant year and made under long-term insurance policies in respect of incidents occurring but not reported to the insurer before the end

**Line of statutory balance
sheet**

Instructions

	of year, net of any recoverable amounts.
22. Policy reserves - life	Actuarially computed reserves in respect of future guaranteed benefits as they become payable under the provisions of life insurance policies in force. These may also include amounts applicable to other life contract benefits (such as disability waiver of premium, disability income benefits and additional accidental death benefits). These amounts are net of any recoverable balances.
23. Policy reserves - accident and health	Actuarially computed reserves in respect of accident and health policies. These amounts are net of any recoverable balances.
24. Policyholders' funds on deposit	These consist of premiums paid in advance of the due date.
25. Liability for future policyholders' dividends	Dividends payable, as declared by the directors, on participating life policies which qualify for such dividends.
26. Other long-term business insurance reserves	Reserves not included in lines 20 to 25.
27. Total net long-term business insurance reserves	There shall be disclosed severally - <ul style="list-style-type: none">(a) Total gross long-term business insurance reserves: Gross unpaid loss and loss expenses.(b) Less: Reinsurance recoverable balance on long-term business: Unpaid and/or paid losses and loss expenses recoverable(c) Total net long-term business

Line of statutory balance sheet

Instructions

	insurance reserves. The total of lines 20 and 26 inclusive, or the amount arrived at by subtracting line 27(b) from 27(a).
28. Insurance and Reinsurance balances payable	These are amounts payable to reinsurers (eg, premiums received in advance, reinsurance premiums payable. etc.).
29. Commissions, expenses, fees and taxes payable	All unearned commissions shall be included here.
30. Loans and notes payable	Loans and notes payable shall be included here. This shall include subordinated debt.
31. Income taxes	There shall be disclosed severally - (a) Income taxes payable; and (b) Deferred income taxes.
33. Accounts payable and accrued liabilities	All accounts payable and accrued liabilities shall be included here.
34. Funds held under reinsurance contracts	Funds held under reinsurance contracts shall be included here.
35. Dividends payable	All dividends payable shall be included here.
36. Sundry liabilities	There shall be disclosed severally - (a) Derivative instruments: Derivative instruments with an unfavourable position shall be included here;

Line of statutory balance sheet

Instructions

	(b) Segregated accounts companies;
	(c) Deposit assets;
	(d) Other assets: Other assets not included above (such as unsettled purchases of investments); and
	(e) Total sundry assets: The total of (a) to (d) inclusive.
37. Letters of credit, guarantees and other instruments	All contractual liabilities or contingent liabilities arising from off-balance sheet arrangements are reported in this line. A liability is recorded decreasing the statutory capital and surplus equal to the present value of such contingent obligations discounted to take into consideration the time value of money at an appropriate rate (to be disclosed). Where the present value of contingent obligations cannot be determined, the amount of the liability must be recorded at its undiscounted value. Letters of credit, guarantees or other instruments not in favour of a member of the group which relate to the group's insurance or reinsurance contracts shall not be recorded. There shall be disclosed severally - (a) Letters of credit; (b) Guarantees; (c) Other instruments; and (d) Total letters of credit, guarantees and other instruments: The total of (a) to (c).
38. Total other liabilities	This shall be the total of lines 28 to 37

Line of statutory balance sheet

Instructions

39. Total insurance business reserves and other liabilities

inclusive.

This shall be the total of lines 19, 27(c) and 38 inclusive.

40. Total statutory capital and surplus

This shall be the capital and surplus total as at the end of the relevant year, as shown in the statutory statement of capital and surplus.

41. Total

This shall be the total of lines 39 and 40.

INSTRUCTIONS AFFECTING THE STATUTORY STATEMENT OF INCOME

Line of statutory statement of income

Instructions

1. Gross premiums written

Gross premiums written during the relevant year and disclosed severally -

(a) Direct gross premium written;

(b) Assumed gross premium written; and

(c) Total gross premiums written: The total of (a) and (b) inclusive.

2. Reinsurance premiums ceded

Reinsurance premiums ceded during the relevant year shall be included here.

3. Net premiums written

This shall be arrived at by subtracting line 2 from line 1(c).

4. Increase (decrease) in unearned premiums

This shall be the increase (decrease) in the unearned premiums (net of prepaid

**Line of statutory
statement of income**

Instructions

	reinsurance premiums or ceded unearned reinsurance premiums) from the end of the immediately preceding financial year.
5. Net premium earned	This shall be the aggregate of lines 3 and 4.
6. Other insurance income	This shall be the aggregate of all other income (such as commission and brokerage income) directly related to the underwriting general business.
7.	This shall be the total of lines 5 and 6.
8. Net losses incurred and net loss expenses incurred	Net losses and loss expenses incurred shall be included here.
9. Commissions and brokerage	Acquisition expenses shall be included here.
10.	This shall be the total of lines 8 and 9 inclusive.
11. Net underwriting profit (loss) – general business	This shall be arrived at by subtracting line 10 from line 7 (<i>or vice versa</i>).
12. Gross premiums and other considerations	The amount of gross premiums and other considerations writtens during the relevant year shall be included here and disclosed severally - <ul style="list-style-type: none">(a) Direct gross premiums and other considerations;(b) Assumed gross premiums and other considerations;(c) Total gross premiums and other considerations: The total of (a) and (b) inclusive.

13. Reinsurance and other considerations	All reinsurance premiums ceded and other considerations with respect to long term business shall be included here.
14. Net premiums and other considerations	Gross premiums and other considerations written, less amounts ceded under reinsurance contracts, during the relevant year and disclosed severally - <ul style="list-style-type: none"> (a) Life; (b) Annuities; (c) Accident and health; and (d) Total net premiums and other considerations: The total of (a) to (c), or the amount arrived at by subtracting line 13 from line 12(c).
15. Other insurance income	This shall be the aggregate of all other income (such as commission and brokerage income) directly related to the underwriting long-term business.
16.	This shall be the total of lines 14(d) to 15 inclusive.
17. Claims – life	These shall be the amount of claims incurred under life insurance policies during the relevant year.
18. Policyholders’ dividends	These shall be amounts distributed or credited during the relevant year to policyholders with participating life policies.
19. Surrenders	These shall be the amounts incurred during the relevant year as a result of the surrender by policyholders, either for cash or in exchange for some other consideration, of policies with cash surrender.
20. Maturities	These shall be the amounts incurred as a result of the maturing during the relevant year, after a specified period of

	time, of any endowment policy before the death of the insured.
21. Annuities	These shall be the amounts incurred during the relevant year under the terms of any annuity contract.
22. Accident and health benefits	These shall be the amounts incurred in respect of claims under accident and health contracts, being claims arising out of incidents occurring during the relevant year.
23. Commissions	Commissions and brokerages paid or payable in respect of long-term business shall be included here.
24. Other	These shall include any underwriting expenses related to long-term business during the relevant year that are not included in lines 17 to 23.
25.	This shall be the total of lines 17 to 24 inclusive.
26. Increase (decrease) in policy reserves	This shall be the increase or decrease from the end of the immediately preceding financial year in policy reserves as disclosed severally – <ul style="list-style-type: none"> (a) Life; (b) Annuities; (c) Accident and health; and (d) Total increase (decrease) in policy reserves: The total of (a) to (c) inclusive.
27.	This shall be the total of lines 25 and 26(d).
28. Net underwriting profit (loss) – long-term business	This shall be the net total of lines 16 and 27.

29. Combined net underwriting profit (loss) before the undernoted items	This shall be the total of lines 11 and 28.
30. Combined operating expenses	There shall be disclosed severally - <ul style="list-style-type: none"> (a) General and administrative expenses; (b) Personnel costs; (c) Other; and (d) Total combined operating costs: The total of (a) to (c).
31. Combined investment income – net	Income from both general and long-term business assets but shall not include realized gains or losses as shown on line 36 of the statutory statement of income, net of applicable charges, shall be included here.
32. Combined other income (deductions)	These shall comprise all income (deduction) items not assigned to any of the lines above (such as equity share in earnings of partially-owned entities). Income taxes (line 34) and realized gains (losses) (line 36) shall not be included.
33. Combined income before taxes	This shall be the total of lines 29 to 32 inclusive.
34. Income taxes (if applicable)	This shall be disclosed severally - <ul style="list-style-type: none"> (a) Current: The amount provided in respect of income taxes currently payable; (b) Deferred: The amount provided in respect of deferred income taxes; and (c) Total: The total of (a) and (b).
35. Combined income	This shall be arrived at by subtracting

before realized gains (losses)	line 34(c) from line 33.
36. Realized gains (losses)	This shall include gains or losses on the sale of investments, whether quoted or unquoted, investments in affiliates, investments in mortgage loans on real estate, and real estate. This shall also include other-than-temporary impairment charges.
37. Net income	This shall be the total of lines 35 and 36.

Instructions affecting the statutory statement of capital and surplus

Instructions

[Note: The numerals in bold type and letters in bold type in parentheses refer to the numbers of the line of statutory statement of capital and surplus]

1(a) Capital stock

This shall comprise of called up share capital or shares:

(a).(i). Common shares

This shall comprise of common shares.

(a).(ii). Preferred shares

This shall comprise of preferred shares.

(b). Contributed surplus

This shall comprise of additional paid in capital or contributed capital in excess of par. Contribution made to additional paid in capital from shareholders shall be added to this line and distributions to common shareholders shall be deducted from this line.

(c). Any other fixed capital

This shall comprise any other fixed capital approved by the Authority relating to line

14 or line 37 of the statutory balance sheet to be credited to, or, as the case may be, charged against, capital.

(d). Total statutory capital

This shall be the total of lines 1(a), 1(b) and 1(c).

2(a). Statutory surplus — beginning of year

This shall be equivalent to retained earnings (deficit) and accumulated other comprehensive income (loss) at beginning of year or equal to the preceding year's statutory surplus – end of year balance.

(b). Income for the year

This shall be the amount described in line 40 of the statutory statement of income.

(c). Dividends paid and payable

This shall comprise of all dividends declared during the relevant year, whether such dividends were or were not in fact paid before the end of the relevant year.

(d). Change in unrealized appreciation (depreciation) of investments

This shall comprise any increase or decrease occurring since the end of the immediately preceding financial year in the value of quoted investments (line 2 of the statutory balance sheet), to the extent that that increase (decrease) is not reflected in the statutory statement of income.

(e). Change in non-admitted assets

This shall comprise any increase or decrease occurring since the end of the immediately preceding financial year in the value of non-admitted assets.

(f). Change in appraisal of real estate

This shall comprise any increase (or decrease) occurring since the end of the immediately preceding financial year in the

value of real estate carried at appraisal value relating to line 7 of the statutory balance sheet.

(g). Change in any other statutory surplus

This shall comprise of any change in retained earnings not included from 2(b) to (f). This line may also include change in accumulated other comprehensive income (loss) during the relevant year. This may also include any effect of adoption of an accounting standard.

(h). Statutory surplus — end of year

This shall be the aggregate of lines 2(a) to 2(g).

3. Minority interest

This shall be portion of the investments in partially-owned entities that is not owned by the insurance group or belonging to minority shareholders. This is also called a non-controlling interest.

4. Total statutory capital and surplus

This shall be the total of lines 1(d), 2(h) and 3.

SCHEDULE 2

CONTENT OF STATUTORY FINANCIAL RETURN

COVER SHEET

1. The cover sheet must specify—
 - (a) the name of the insurance group and the title "Statutory Financial Return";
 - (b) the name and address of the designated insurer;
 - (c) the name and address of other competent authorities supervising other companies that are members of the insurance group;
 - (d) the particulars in force, if any, of any direction issued by the Authority under Sections 6C and 32A of the Act;
 - (e) the period covered by the return;
 - (f) the nature of the insurance business carried on by the group, that is to say—
 - (i) whether the insurance business carried on is general business or long-term business or both; and
 - (ii) the classes of related and unrelated business in accordance with how these are reported by the group to senior management and the board; and
 - (iii) the amounts of gross premium written in respect of each such class; and
 - (iv) any other information required to describe the nature of the group's business; and
 - (g) the currency in which amounts are shown in the group's statutory financial statements and whether that currency is the currency in which those amounts are required by subparagraph 28(5) to be shown;

AUDITOR'S REPORT

2. The auditor's report must be signed by the group's approved auditor and must be prepared in accordance with an auditing standard recognised by the Authority.

INSURANCE GROUP BUSINESS SOLVENCY CERTIFICATE

3. (1) An insurance group solvency certificate must state—
- (a) whether or not the group has prepared statutory financial statements in respect of the relevant year;
 - (b) whether or not the statements are available at the designated insurer's principal office in Bermuda pursuant to paragraph 33 or, as the case may be, have been filed pursuant to paragraphs 28(9) and 29(3);
 - (c) whether or not the group has complied with every direction issued by the Authority under the Act, rules, any regulations or legislation pertaining to it;
 - (d) whether the group has complied with the minimum margin of solvency in accordance with these Rules;
 - (e) whether the group has complied with the requirements of the available statutory capital and surplus in accordance with subparagraphs 27(1) and 27(3);
 - (f) the aggregate value of the group's assets as shown in the statutory balance sheet for the relevant year, in this sub-paragraph called "the statutory balance sheet assets value";
 - (g) whether in the opinion of those signing the certificate—
 - (i) that the statutory balance sheet assets value was determined in accordance with the requirements of the Act and of any applicable Rules pursuant to paragraph 29(2);

- (ii) that the value of the group's assets at the end of the relevant year was in the aggregate at least equal to the statutory balance sheet assets value;
 - (h) whether in the opinion of those signing the certificate the aggregate amount of the group's liabilities at the end of the relevant year (after taking into account all prospective and contingent liabilities, but not liabilities in respect of share capital) is not more than the aggregate amount of the liabilities as shown in the group's statutory financial statements for that year;
 - (i) the aggregate amount of the statutory capital and surplus as shown in the group's statutory statement of capital and surplus for the relevant year;
 - (j) whether the currency in which amounts in the group's statutory financial statements for the relevant year have been shown;
 - (k) the rate of exchange used, in compliance with subparagraph 28(7) and paragraph 31 of the Rules, for the purposes of any statement called for by these Rules.
- (2) An insurance group business solvency certificate must relate to the business of the group and shall be signed—
- (a) by at least two directors of the parent board; and
 - (b) by the group's chief executive officer.
- (3) If any question in sub-paragraph (1)(b), (c), (d), (e), (g) or (h) of this paragraph has been answered in the negative, whether or not the parent company has taken corrective action.

GROUP ACTUARY'S OPINION

4. (1) The actuary's certificate must state whether or not, in the opinion of the group's actuary, the aggregate amount of the liabilities of the group in relation to insurance business as at the end of the relevant year exceeded the aggregate amount of those liabilities as shown in the statutory balance sheet and the procedures undertaken to arrive at the opinion.

(2) Such certificate must be signed by the group actuary and must be dated.

PARTICULARS OF CEDED REINSURANCE OF TOP TEN UNAFFILIATED REINSURERS

5. (1) An insurance group must furnish the Authority with the particulars of ceded reinsurance of the top ten unaffiliated reinsurers (the amount of reinsurance recoverable balances) and any reinsurers with recoverable balances exceeding 15% of the groups statutory capital and surplus.

(2) Particulars of ceded reinsurance required by subparagraph (1) must be divided into separate entries dealing with each reinsurer and each entry must include the following information relating to a reinsurer-

- (a) the name of the reinsurer;
- (b) the rating of the reinsurer (if any) and the name of the rating agency;
- (c) the jurisdiction of its incorporation;
- (d) the amount of the reinsurance premiums ceded to it during the relevant year;
- (e) the amount of reinsurance recoverable from it (Lines 11, 12, 17(c) and 27(b) of Form 1, schedule 1);
- (f) the amount of reinsurance balances payable to it (Lines 28, 29, 33 and 34 of Form 1, schedule 1);
- (g) the amount of net reinsurance recoverable from it;
- (h) the amount of net reinsurance recoverable from it which has been due for less than 180 days; and

- (i) the remainder of net reinsurance recoverable from it.

DRAFT