

25th November, 2011

Dear insurers,

Re: The Insurance (Group Supervision) Rules 2011 (the Group Rules)

The Bermuda Monetary Authority (the Authority) wishes to thank stakeholders for their continued support of our key initiatives. In December 2010, the Authority published draft rules with respect to group supervision and eligible capital and a number of comments were received. The Authority is committed to engaging stakeholders in such initiatives as we strive to achieve supervisory objectives while retaining Bermuda's role as a key player in the international insurance arena.

The Authority's responses to the key comments that were received are outlined below.

1. Application of the Group Rules vis-à-vis the Insurance Code of Conduct (the Code)

Clarification was requested regarding: (i) the application of the Group Rules vis-à-vis the Code; (ii) how insurance groups will be supervised for corporate governance requirements; (iii) how insurance groups will be expected to demonstrate compliance with the Group Rules; and (iv) the potential for duplicate requirements to be imposed on the designated insurer (the "DI") as a solo legal entity and in its role with respect to the insurance group.

The Group Rules apply to insurance groups of which the Authority is the group supervisor. The Code applies to all insurers registered under Section 4 of the Insurance Act 1978 (the Act). An insurance group must comply with the Group Rules and insurers must comply with the Code. The Authority will not publish an insurance code of conduct for insurance groups *per se*; however, compliance with respect to corporate governance and risk management requirements for insurance groups are included in the Group Rules. In certain respects, the requirements of the Group Rules have been drafted more stringently than the requirements of the Code which appropriately reflects the nature, size, scale and complexity of insurance groups for which the Authority serves, or expects to serve as group supervisor.

Insurance groups will be supervised for corporate governance requirements through desk-based and on-site reviews conducted in a manner broadly similar to the conduct of reviews for existing insurers. Insurance groups will be expected to demonstrate compliance with the Group Rules through the establishment, maintenance and documentation of organisational, governance, communications and reporting structures and the establishment and oversight of key functions (i.e. internal audit, compliance, risk management and actuarial).

With respect to the potential for duplicate requirements imposed on the DI, it is not anticipated that the Group Rules and Code will lead to conflicting or duplicate obligations. The Authority will publish guidance on the role of the DI (the Guidance Note) which will allow the Authority to conclude, on a case-

by-case basis, that the performance of risk management functions by the DI for the insurance group addresses the risks of the insurer and therefore, the group risk management framework also satisfies the requirements of the Code with respect to the DI as a solo legal entity.

2. Statutory Obligations of the DI

Clarification was sought regarding the statutory obligations of the DI vis-à-vis its obligations to the parent board.

Clarification of the statutory obligations of the DI will be provided in the Guidance Note. In general, in its effort to provide effective supervision and oversight to insurance groups, the Authority shall appoint an insurer which is a member of the insurance group as the DI for every insurance group (for which the Authority is group supervisor). Certain responsibilities are imposed on the DI under the Act including but not limited to, responsibility for monitoring and facilitating compliance by the insurance group with requirements under the Act and Group Rules. The DI is therefore is poised to act in an “early warning” role which will allow the Authority to administer effective and timely insurance group supervision.

In the event of breaches of the Act or the Group Rules by the insurance group, the Authority may issue a direction to the DI as a means to compel the insurance group to remediate the breach. The Group Rules will commence on 1st January, 2013 with the exception of the requirements for filing statutory returns and group financial statements. Compliance with enhanced capital requirements under the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 will not commence until 1st January, 2013.

3. Role of the Board and Executive Management

Clarification was sought regarding the respective roles of the board of directors and executive management.

The provisions of the Group Rules delineating the respective roles and responsibilities of the board of directors and executive management were revised substantively from the draft published in December 2010. The board of directors is responsible for, *inter alia*:

- Establishing and communicating to senior executives the insurance group’s risk tolerance and appetite and the insurance group’s operational objectives and strategies and overseeing the implementation of those objectives and strategies and the management of the insurance group’s business
- Ensuring that the insurance group has adequate capital resources and sources of funding liquidity
- Establishing and overseeing the key functions of internal audit, compliance, risk management and actuarial.

Senior executives are responsible for implementing the key functions and business activities of the insurance group, reporting to the board of directors. Thus, the day-to-day operations of the insurance group are the responsibility of senior executives, whereas the strategic direction, establishment of key functions and oversight responsibilities are the responsibility of the board of directors.

The Group Rules have also been clarified to state that directors should act in the best interests of the insurance group and that the board of directors, in the first instance, should determine an appropriate number of non-executive directors to be appointed, subject to the power of the Authority to require the appointment of additional non-executive directors. A definition of “independent director” has been included under the Group Rules, which harmonises with the definition of an “independent director” of a company listed on the New York Stock Exchange (on which the Authority recognises securities of many insurance groups are listed).

4. Clarification of Group Own Risk and Solvency Assessment (ORSA)

Clarification was sought as to whether the self-assessment procedures are considered the group ORSA.

The Group Solvency Self-Assessment (the GSSA) serves as the group ORSA.

5. Application of the Eligible Capital Rules 2011 (EC rules) requirements vis-à-vis Group Audited GAAP Accounts and Form 8 (The Statutory Statement of Capital and Surplus) under the Insurance Accounts Regulations 1980 (the Regulations)

Clarification was sought as to how the proposed EC rules requirements will be applied vis-à-vis group audited GAAP accounts and Form 8.

The interplay of the EC rules with GAAP and statutory financial statements is designed to be straightforward: the equity block of the GAAP financial statements feeds directly into Form 8 of the Regulations. The instruments reflected in the GAAP equity block are allocated to the appropriate tier of regulatory capital in accordance with the EC rules that reflect the relative loss absorbency of various instruments. With respect to ancillary capital instruments which depart from GAAP, the approved value of such instruments generally would be credited to Line 1(c) – “Any Other Fixed Capital” – in Form 8.

6. Scope of Insurance Group

Clarification was sought as to the determination of the composition of an insurance group.

The Act will be amended to provide that the definition of an insurance group is consistent with international standards. The Authority has the power, under Section 27C of the Act, to exclude from group supervision any company that is a member of an insurance group if it is satisfied that: (i) the company is situated in a country or territory where there are legal impediments to cooperation and exchange of information; (ii) the financial operations of the company have a negligible impact on insurance group operations; or (iii) the inclusion of the company would be inappropriate with respect to the objectives of group supervision. The Authority may also include “specified entities” within the scope of group supervision under Section 27CA of the Act if it is satisfied that: (i) the financial operations of the company may have a material impact on the insurance group’s operations; and (ii) the inclusion of the company would be appropriate having regard to the objectives of group supervision.

The scope of the group, subject to exclusions under Section 27C of the Act, includes the ultimate parent and all entities under it where control or significant influence exists. Entities where control or significant influence exists include subsidiaries, affiliates, participations held by subsidiaries and affiliates and other

entities related to the foregoing through the establishment, contractually or otherwise, of strong and sustainable financial relationships. Generally, the scope of an insurance group is consistent with the scope of entities included in the consolidated US GAAP or IFRS financial statements of the ultimate parent.

7. Definition of Material Risks

It was noted that the concept of materiality is not defined in terms of a quantitative threshold.

The Authority notes that the concept of materiality has qualitative and quantitative aspects and, thus, it generally is not appropriate to define “materiality” by reference to strict quantitative standards for the purposes of the Group Rules. However, for the purposes of the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011, a quantitative definition of a “material intra-group transaction” is provided.

8. Requirement to meet minimum margin of solvency (MSM) and enhanced capital requirement (ECR)

Clarification was requested with respect to the obligations of the insurance group and the DI to ensure that the insurance group meets the MSM and ECR. Concern was expressed about different capital and solvency requirements that do not compare to those of the Authority.

Under the Group Rules, the parent board must ensure that the group’s assets exceed the group’s liabilities by the aggregate MSM of each qualifying member of the insurance group. Qualifying members of the insurance group are those subject to solvency requirements in their home jurisdiction. The parent board must ensure that the group holds eligible capital equal to or exceeding the greater of the MSM and the insurance group ECR. The DI is obligated to notify the Authority if it has knowledge or reason to believe that the insurance group has failed to meet the MSM or the ECR. If the insurance group fails to meet the ECR, the DI is required to file a capital and solvency return that reflects an ECR that has been prepared using post-loss data and 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.

The Authority will entertain applications to use an aggregation approach to capital (rather than a consolidation approach that uses the insurance group BSCR to derive the ECR). An aggregation approach would take the capital requirements of legal entities in other approved jurisdictions and aggregate them with the legal entity requirements applicable to the Bermuda entities in order to arrive at the insurance group ECR.

9. Reporting by DI of Material Breaches of Statutory Requirements

Concern was expressed with respect to the provision of the Group Rules that requires the DI to notify the Authority of material breaches of any statutory requirements by any member of the insurance group located outside of Bermuda that could lead to supervisory or enforcement action by a competent authority.

The Authority has adopted a hybrid approach to group supervision that combines elements of direct and indirect approaches and relies on the mechanism of the DI to effect group supervision. This approach was

adopted in consultation with the industry. In order to effectively supervise insurance groups, the Authority must place a considerable degree of reliance on the DI to notify the Authority of matters that could impact the sound and prudent conduct of the insurance group's business activities, wherever located. A breach of statutory requirements that could lead to supervisory or enforcement action by a competent authority clearly is such a matter; and the Authority intends to retain the provision of the Group Rules that requires the DI to notify the Authority of any such matter. It is noted that the Group Rules requires the parent board to confirm that there are organisational, governance and communications structures in place to facilitate the effective exercise of the role of the DI.

Reference is also made to paragraph 2, above. As noted therein, additional clarification of the statutory obligations of the DI will be provided in the Guidance Note.

10. Role of Principal Representative (PR) in Group Context

Clarification was requested as to the need for, and role of, the PR in a group context.

As will be detailed further in the Guidance Note, it is important for the Authority to have a natural person as a liaison between the Authority and the DI. The person generally would be the PR of the DI, but flexibility is provided to allow for the designation of another person if it better meets the needs of the DI and the insurance group. If the PR of the DI is a company or other non-natural person, a natural person that represents such entity should be identified as a contact.

11. Documentation of GSSA

Guidance was sought on what supporting documentation needs to be maintained with respect to the GSSA for Authority review.

In general, it is expected that insurance groups will maintain background information and workpapers related to the allocation of GSSA and regulatory capital in the various risk categories of Table 14 of the Insurance (Prudential Standards)(Group Solvency Requirement) Rules 2011 (the Group Prudential Rules), evidence in the form of board minutes or otherwise of the use of the GSSA in the strategic and decision making process, and background information and workpapers related to responses to the items contained in the Tables to the Group Prudential Rules, including but not limited to, the assessment of material risks of the group, stress testing and contingency plans. Documentation of models and tools used to calculate the GSSA capital should be maintained as substantiation of the information provided under Item 12 of Table 14B. The supporting documentation should provide a clear roadmap of the process and key decision points in determining a particular insurance group's solvency and capital requirements. The process and decision points necessarily will vary among insurance groups and, as such, it is not possible to provide a comprehensive description of required documentation that would cover all insurance groups.

12. Issues Related to Available Statutory Capital and Surplus

Clarity was required with respect to the proposed requirements relating to available statutory capital and surplus to be complied with by insurance groups and a request was made for the application of the Group Rules and Group Prudential Rules until Industry has had an opportunity to apply such requirements on a solo insurer basis.

A request was made for an exception to the Group Prudential Rules that would reduce the amount of statutory surplus includable in tier 1 capital by the amount of collateral posted to ceding companies net of associated loss reserves.

The Authority confirms that the trial run conducted this year provided an opportunity to clarify the provisions of the Group Rules relating to EC and it is not intended to suspend the group requirements. Insurers are encouraged to contact the Authority with any questions regarding these requirements or the calculation of available statutory capital and surplus.

With respect to the reduction of statutory surplus includable in tier 1 capital, the Group Rules reflect that collateral that is freely available to all policyholders would not be deducted from statutory surplus for purposes of calculating tier 1 capital.

13. Inclusion of Subordinated Debt in Tier 1 Capital

Clarification was sought that subordinated debt that is non-redeemable or repayable for so long as the insurer fails to meet its ECR would continue to be tier 1 capital even if the stated maturity is less than 10 years.

In order to qualify as tier 1 capital, the Authority is of the view that the subordinated debt must have a stated maturity of 10 years or longer. Further, the Authority reserves the right to approve otherwise non-conforming instruments on a case-by-case basis.

14. Clarification of the Term “Incentive to Redeem”

Clarification was sought as to the meaning of the term “incentive to redeem.”

In general, “incentives to redeem” include contractual increases in the interest rate or dividend payment combined with a call option (i.e. step-ups). Instruments with incentives to redeem are classified as “Tier 3” eligible capital under the EC rules.

15. Classification of Letters of Credit

Clarification was sought as to the proper capital tier for certain instruments, including:

- **Letters of credit and trust account assets held in support of surety and workers’ compensation business**
- **Letters of credit and trust account assets held to support reinsured losses**
- **Letters of credit issued by banks to support obligations to reinsureds**
- **Letters of credit issued by banks to provide funds for Lloyds operations**
- **Junior subordinated trust preferred debt where coupons are deferrable but not cancellable**

In general, letter of credit instruments are considered “encumbered assets for policyholder obligations” that are deducted from tier 1 capital. The appropriate tier for junior subordinated trust preferred debt would depend on the particular terms and conditions of the instrument, including its maturity. The Authority encourages insurers to seek a determination as to the appropriate capital tier for particular instruments.

16. Treatment of Pooled Guarantees

Clarification was sought as to the treatment of pooled guarantees where the potential obligation is unknown.

The liability would be reflected on the balance sheet in an amount equal to the present value of the amount expected to be drawn down, discounted to take into consideration the time value of money at an appropriate rate disclosed to the Authority. If this is not feasible, the entire amount of the obligation would be reflected as an on balance sheet liability.

17. Clarification of the Impact of Prior Grandfathering Arrangements

Clarification was sought regarding the impact of prior arrangements to grandfather the tier 1 capital treatment of certain capital instruments.

“Hybrid instruments” have not been approved as “capital” for insurance groups. In relation to existing insurers, approval of hybrid instruments and their grandfathered status will continue to be considered on a case-by-case basis.

18. Concern over Duplication of Reporting Requirements

Concern was expressed over the duplication of legal entity and group level reporting and the need for both audited GAAP and audited group statutory financial returns.

Insurance Group statutory financial returns are not audited but include inputs from the audited financial statements, subject in certain cases, to adjustments to extract non-admitted assets for statutory solvency purposes. In order to effectively fulfill its role as group supervisor and to confirm group solvency, the Authority needs insurance group-level reporting, including both GAAP and statutory financial returns. Audited financial statement information generally is not sufficiently granular for supervisory prudential assessments and, therefore, additional information is needed.

The Authority will undertake to review its reporting requirements over time with a view towards streamlining these requirements to the extent it deems consistent with its supervisory responsibilities.

19. Acknowledgement of Developments in the European Union (the EU)

Commenters noted that the European Commission will be clarifying the role of an EU group supervisor, both generally and as it relates to internal capital models.

The Authority acknowledges and will continue to monitor on-going developments in the EU, which may be necessary or advisable to make certain revisions to the Group Rules.

Once again, the Authority would like to thank stakeholders for their comments to the proposed Group Rules; and remains committed to working with the industry and other stakeholders to ensure results achieved are always in the best interests of the Bermuda market.

Please feel free to contact the Authority if you have any questions in relation to the foregoing matters.

Any final comments on the revised Rules should be submitted to policy@bma.bm by Tuesday, 13th December 2011.

Yours sincerely,

The Bermuda Monetary Authority

Insurance Act 1978

2010: 37

THE INSURANCE (GROUP SUPERVISION) RULES 2011

1. Citation and commencement

Part 1

2. Interpretation

3. General principles

4. Corporate governance:
membership of the parent board

5. Corporate governance:
responsibility of the parent board

6. Corporate governance:
responsibility of chief and senior
executive

7. Internal audit function

8. Risk management function

9. Compliance function

10. Actuarial function

11. Risk management and internal
controls framework

12. Risk management and internal
controls framework:
Investment/market risk
component

13. Risk management and internal
controls framework: Liquidity
risk component

14. Risk management and internal
controls framework:
Concentration risk component

15. Risk management and internal
controls framework: Credit risk
component

16. Risk management and internal
controls framework: Operational
risk component

17. Risk management and internal
controls framework: Insurance
risk component

18. Group Solvency Self-assessment

19. Minimum margin of solvency

20. Group Enhanced Capital
Requirement

Part 2 – Eligible Capital

21. Interpretation

22. Available statutory capital and
surplus

23. Group financial statements

24. Statutory financial statements

25. Group statutory financial return

26. Requirements relating to
preparation of returns generally

27. Opinion of group actuary

28. Requirement to keep records in
Bermuda

29. 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, as amended (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 1 January 2013 except for paragraphs 23 to 28 and schedules of 1 and 2 which come into operation on 31 December 2011.

Part 1

Interpretation

2. (1) In these Rules, references to the “parent” are references to the parent company of the group that is not a subsidiary company of any other member of the group (i.e. the ultimate parent..

(2) In these Rules, “compliance risk,” “investment risk,” “market risk,” “liquidity risk,” “concentration risk,” “credit risk,” “operational risk” and “insurance underwriting risk” have the meanings given in Paragraph 2 of the (Prudential Standards) (Insurance Group Solvency Requirements) Rules 2011.

General principles

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

(2) It is incumbent upon the parent board to ensure that there are organizational, governance and communications structures at the group level that facilitate the effective exercise of the monitoring and reporting role of the designated insurer.

(3) The designated insurer has the responsibility to facilitate compliance by the group with the Act and these Rules.

(4) Where obligations are imposed either on the parent board of a group or the group, or in the event of breaches of the Act or these Rules, or otherwise to safeguard the interests of policyholders or potential policyholders of the group, the Authority may issue a direction to the designated insurer as a means to compel the group to perform the obligations or to remediate the breach.

(5) The Authority acknowledges the existence of a variety of group structures, some of which are more or less centralized and some of which are managed on a business line, as opposed to a legal entity basis.

(6) To the extent that reference is made to responsibilities performed by the parent board under these Rules, those responsibilities may be delegated to and performed by an appropriately constituted committee of the parent board or the board of a subsidiary or affiliate of the parent company, provided that the parent board exercises oversight over and ratifies key decisions that impact materially group operations.

(7) Similarly, responsibilities assigned to senior executives of the parent company may be delegated to and performed by appropriate senior executives of a subsidiary or affiliate of the parent company, subject to parent company oversight and the ratification by parent company executives of key decisions that impact materially group operations.

The parent board

Corporate governance: membership of the parent board

4. (1) The parent board must establish and maintain appropriate governance procedures and practices to facilitate its work in a manner that supports objective and independent judgment and decision-making.

(2) The parent board must include such number of independent directors without executive responsibility for the management of the business of the group as the board considers appropriate, subject to the power of the Authority to review and require the addition of independent directors as it may deem appropriate.

(3) An independent director without executive responsibility for the management of the business of the group is a person who is not currently, and has not been within the last three years: (i) an employee of the group, the parent company or a member of the group; (ii) a member of the external audit firm with direct responsibility for the audit of the parent company; or (iii) a supplier or vendor of goods or services to the group, the parent company or a member of the group if the value of those goods or services exceeds either \$1 million or 2 percent of consolidated gross revenues as of the last fiscal year.

(4) The parent board must establish, maintain and review annually policies and procedures that address adequately actual or potential conflicts of interest.

(5) The parent board is responsible for ensuring that sufficient board committees are established and operational to allow for the effective discharge of the parent board's responsibilities.

(6) The members of the parent board must review the membership of the board and its committees and the composition of the chief and senior executives of the group no less frequently than every three years and upon a material change in the business activities or risk profile of the group to ensure that:

- (a) the members of the board and the executives continue to be fit and proper;
- (b) the members of the board and each of its committees and the members of the executive individually and collectively have the requisite knowledge, skills, expertise and resources given the nature, scale and complexity of the group's operations; and
- (c) the members of the board and its committees and the members of the executive individually and collectively remain effective in

discharging the respective roles and responsibilities assigned to them.

(7) The Authority may disqualify a member of the parent board who in the Authority's view is not fit and proper to hold office.

Corporate governance: responsibility of parent board

5. (1) The parent board is responsible for establishing and communicating to the senior executives a group risk tolerance and appetite and group operational objectives and strategies that reflect an understanding of the structure of the group, the material risks that the structure may pose to the group and the key drivers of those risks.

(2) The parent board is responsible for overseeing the implementation by the senior executives of the operational objectives and strategies in light of the stated risk tolerance and appetite, group structure and material risks.

(3) The parent board is responsible for overseeing the effective management of the group's business in a sound and prudent manner with integrity and the professional skills appropriate to the nature and scale of its activities.

(4) The parent board is responsible for ensuring that the group has adequate capital resources and sources of funding liquidity in light of its risk profile and operational strategy and planned changes to that strategy, and, to that end, the parent board is responsible for decisions impacting the group's capital structure or position, including share issuances, share repurchases, borrowings and dividends.

(5) The parent board is responsible for confirming that the organizational, governance and communications structures of the group facilitate the effective execution of the group's operational objectives and strategies, the effective exercise of the role of the designated insurer and compliance with the Act and these Rules.

(6) The parent board is responsible for confirming that the communications structure of the group facilitates the effective communication of the statutory obligations of the group and its members under Bermuda law.

(7) The parent board is responsible for ensuring that there is a reliable and transparent group-wide financial reporting process for regulatory reporting and public disclosure and for selecting (or proposing to shareholders) an independent and objective external auditor.

(8) The parent board is responsible for the establishment and effective oversight of a group internal audit function that is independent of other group functions, the lines of business for which it has audit responsibilities and underwriting and financial operations.

(9) The parent board is responsible for the establishment, review and effective oversight of a group risk management function that is not responsible for, nor compensated on the basis of, the financial performance of the business lines or

operations over which it has responsibilities, and is independent of the chief financial officer and chief actuary.

(10) The parent board is responsible for the establishment, review and effective oversight of a compliance function that is not responsible for, nor compensated on the basis of, the financial performance of the business lines or operations over which it has responsibilities.

(11) The parent board is responsible for the establishment, review and effective oversight of an actuarial function that is not responsible for, nor compensated on the basis of, the financial performance of the business lines or operations over which it has responsibilities.

(12) The parent board is responsible for selecting a competent chief executive who is fit and proper and has the requisite knowledge, skills, expertise and resources given the nature, scale and complexity of the group's operations, and, with respect to that person, establishing roles and responsibilities giving due regard to the potential for conflicts of interest, reviewing and approving cash, non-cash and incentive compensation, evaluating at least annually performance and ensuring that any deficiencies in performance are addressed in a timely manner.

Corporate governance: responsibility of the chief and senior executives of the parent company

6. (1) The chief executive of the parent company is responsible for selecting competent senior executives, who are fit and proper and have the requisite knowledge and skills, given the nature, scale and complexity of the group's operations, establishing their roles and responsibilities giving due regard to the potential for conflicts of interest, reviewing and approving their cash, non-cash and incentive compensation, evaluating at least annually their performance and ensuring that any deficiencies in performance are addressed in a timely manner.

(2) Senior executives of the parent company are responsible for implementing an effective group internal audit function that is independent of other group functions, the lines of business for which it has audit responsibilities and underwriting and financial operations.

(3) Senior executives of the parent company are responsible for implementing an effective risk management function and compliance and actuarial functions that are not responsible for the financial performance of the business lines for which they have responsibilities.

(4) Senior executives of the parent company are responsible for ensuring that the internal audit, risk management, compliance and actuarial functions are staffed in a manner that provides for appropriate segregation of duties, clear reporting lines and the avoidance or management of conflicts of interest by fit and proper persons who are competent and properly trained to perform the assigned functions, and able and willing to perform those functions in an effective manner.

(5) Senior executives of the parent company are responsible for ensuring that the remuneration of persons engaged in the internal audit, risk management, compliance and actuarial functions are not based upon the financial performance of the business lines for which the functions have responsibility.

(6) Senior executives of the parent company are responsible for establishing systems and controls that produce complete, reliable, clear, consistent, timely and relevant reporting and management information concerning the business activities and risks to which the group is exposed.

(7) Senior executives of the parent company are responsible for establishing, implementing, testing and monitoring an adequate business continuity plan aimed at ensuring, in the case of a business interruption event, the preservation or timely recovery of group functions, data and business activities.

(8) Senior executives of the parent company are responsible for providing the parent board with timely, accurate and comprehensive reports that highlight current and prospective changes in business activities, profitability, capital and funding liquidity positions, risk profile or risk drivers.

(9) Senior executives of the parent company are responsible for reporting promptly to the parent board any material deficiencies in the effectiveness of group functions or any decisions taken that deviate materially from the board-established risk tolerance, risk appetite or operational strategy.

(10) Senior executives of the parent company are responsible for reviewing and approving all material outsourcing arrangements and for the effective performance and oversight of outsourced functions or tasks.

(11) Senior executives of the parent company are responsible for ensuring that all required returns and financial statements are accurate, complete and filed in a timely manner.

(12) Senior executives, persons responsible for the internal audit, risk management, compliance and actuarial functions and the approved group statutory function holders (e.g. approved actuary, loss reserve specialist) should have the ability to communicate directly with the parent board without the need for management review or approval and, similarly, the parent board should have unfettered access to senior executives, persons responsible for the internal audit, risk management, compliance and actuarial functions and the approved group statutory function holders.

Internal audit function

7. (1) The group internal audit function is responsible for:

- (a) Providing an independent and objective evaluation of the robustness of the group's corporate governance framework, and the reliability, integrity and completeness of the design and effectiveness of the risk management function and internal controls framework, and the compliance and actuarial functions;

- (b) Developing minimum standards for internal audit and a risk-based internal audit plan, which is reviewed, amended as appropriate and approved by the parent board or an appropriate committee thereof at least annually; and
- (c) Developing recommendations for the remediation of internal or external audit deficiencies or for improvement of corporate governance, the risk management, compliance and actuarial functions and business operations and monitoring the implementation of those recommendations.

(2) The internal audit function must be headed by an appropriately qualified and experienced senior executive with direct reporting lines to the parent board or an appropriate committee thereof.

(3) The internal audit function must be staffed by persons independent of any other function, the lines of business over which the function has audit responsibilities, and underwriting and financial operations.

(4) Staff of the internal audit function shall not report to the chief financial officer or the chief actuary or persons performing equivalent roles and must have unrestricted access to all group, legal entity and business line records, including those held at third party service providers, subject to legal requirements.

Risk management function

8. (1) The risk management function is responsible for developing and maintaining appropriate enterprise-wide strategies and policies for identifying, measuring, monitoring, controlling and reporting in a timely manner the group's reasonably foreseeable material risks, including those arising from off-balance sheet and contingent exposures and relating to, at a minimum: investment/market, liquidity, concentration, credit, operational and insurance risks, taking into consideration both regulated and unregulated entities and material intra-group transactions, and reflecting the structure and interdependencies within the group.

(2) The size, scope and sophistication of the risk management function should reflect the nature, scale and complexity of the group's operations and the risk tolerance, risk appetite and operational strategies established by the parent board.

(3) Persons responsible for the risk management function should assess the adequacy of group capital and liquidity in light of the risk profile associated with the group's activities and make recommendations to the parent board regarding appropriate levels of capital and liquidity.

(4) The risk management function must be supported by a risk management and internal controls framework that specifies and implements appropriate written procedures and processes to execute effectively the risk management framework and identifies the persons responsible for the implementation of the framework.

(5) The risk management function should be supported by management information and reporting systems that capture data that reflect the group's risk exposures and provide timely, accurate and meaningful reports to the parent board, other appropriate boards and committees and appropriate executives.

(6) Staff of the risk management function may not report to the chief financial officer or the chief actuary or persons performing equivalent roles.

Compliance function

9. (1) Persons responsible for the compliance function shall ensure that compliance risks across the group are identified, measured, monitored, controlled and reported and that strategies for mitigating or controlling material risks are developed.

(2) Persons responsible for the compliance function must establish a compliance risk management framework that is documented in the form of policies, procedures and processes, including those related to legal and ethical conduct and compliance with applicable laws, rules and standards, including contract certainty standards.

(3) Persons responsible for the compliance function must establish a system of compliance monitoring and testing that is risk-based and a program for remediating any deficiencies or non-compliance with policies or procedures revealed through the compliance monitoring and testing system.

(4) Persons responsible for the compliance function must have direct access to and report to the parent board on matters including the compliance risk management framework and the resources it has available to implement that program; key compliance risks and the strategy for mitigating those risks; the results of compliance monitoring and testing; and compliance deficiencies or violations and actions taken or recommended to be taken to address those deficiencies or breaches.

(5) Persons responsible for the compliance function must hold regular training for staff on the compliance risk management framework and provide a mechanism for staff to report confidentially concerns regarding compliance deficiencies or breaches.

Actuarial function

10. (1) The actuarial function must:

- (a) Assess the appropriateness and reasonableness of methodologies and assumptions relating to obligations to policyholders;
- (b) Provide independent support to the risk management function in the modeling and estimation of current and potential obligations to policyholders and appropriate levels of capital and reserves against those obligations;

- (c) Provide independent support to the risk management function by providing input into pricing, reserves and risk mitigation techniques including ceding reinsurance and the purchase of protection;
- (d) Evaluate and provide independent advice on technical provisions and a comparison of estimated policyholder obligations to actual policyholder payments; and
- (e) Provide a written report to the parent board and other appropriate boards and committees at least annually.

(2) In evaluating technical provisions, the actuarial function shall apply methodologies and procedures to assess their sufficiency, taking into consideration uncertainties of estimation and data limitations.

Risk management and internal controls framework

11. (1) The risk management and internal controls framework must be well integrated into the group's overall system of governance and contain policies, procedures and processes for implementing the strategies and policies developed by the risk management function to identify, measure, monitor and control in a timely manner the material risks of the group.

(2) The risk management and internal controls framework must employ robust risk-based methodologies for identifying, measuring and monitoring material risks, taking into account the probability, potential impact and time duration of risks, as well as risks that are not readily quantifiable.

(3) The measurement of material risks should include stress and scenario analysis using extreme but plausible internal scenarios, including those prescribed by the Authority.

(4) The risk management and internal controls framework must utilize comprehensive systems for identifying and reporting the potential impact of material risks to the parent board and other appropriate boards and committees and the chief and senior executives.

Risk management and internal controls framework: investment/market risk component

12. (1) The investment/market risk component of the group's risk management and internal controls framework must, amongst other things:

- (a) Give effect to the 'prudent person' principle in relation to the investment of assets;

- (b) Reflect investment objectives, strategies, policies and practices that align with the risk tolerance, risk appetite and overall group strategies and provide:
- (i) Clear standards for the selection and composition of the investment portfolio, expected returns, desired holding periods, exit strategies and dispositions, diversification parameters and allocation limits;
 - (ii) Clear standards for investments in more complex or less transparent assets, markets or instruments;
 - (iii) Procedures for conducting due diligence and approving investments;
 - (iv) Methodologies to assess the effectiveness of asset/liability management and the management of asset-liability mismatch risk and funding and cash flow gaps;
 - (v) Where hedging and derivatives instruments are used, include a clear statement of objectives and strategy for their use and standards governing the employment and valuation of such instruments;
 - (vi) Methodologies for the valuation of the investment portfolio in accordance with generally accepted accounting standards and policies for the review of those methodologies for consistent application;
 - (vii) Controls to prevent the inappropriate use of the investment portfolio to manage earnings or otherwise to conceal the true financial performance of the group;
 - (viii) Techniques, including benchmarking and stress and scenario testing, to analyse performance results, confirm whether the investment strategy would continue to meet the group's risk tolerance and operational strategy in a stressed market, and identify current and contingent exposures arising from the execution of a planned strategy or market developments;
 - (ix) Standards for data management of the investment portfolio and the reporting of timely, accurate and meaningful information and results to the parent board and the chief and senior executives; and
 - (x) Techniques for assessing and monitoring regularly the adequacy of capital to support current and planned objectives and strategies.

- (c) Establish lines of authority and responsibility of senior executives for making and monitoring investments and managing risk; and
- (d) Establish standards for the selection, compensation and oversight of service providers including those providing custodian and investment management services.

(2) For the purposes of subparagraph (1)(a), under the 'prudent person' principle, the group only assumes investment risks that it can properly identify, measure, monitor and control, taking into consideration its capital needs and resources, short-term and long-term sources and uses of funding liquidity, policyholder obligations and the protection of the interests of policyholders and beneficiaries.

Risk management and internal controls framework: Liquidity risk component

13. (1) The liquidity risk component of the group's risk management and internal controls framework must include:

- (a) Sound liquidity management policies, procedures and practices covering short-, medium- and long-term objectives that reflect the risk tolerance and operational strategy of the group, including investment, underwriting and claims strategies;
- (b) Policies and procedures to manage short-term liquidity requirements, including access to sufficient funds to meet its day-to-day obligations and any intra-group funding needs;
- (c) Policies and procedures to manage group-wide liquidity risk exposures on a consolidated basis, where necessary recognizing legal distinctions and possible obstacles, including legal and regulatory restrictions, to the movement of cash and other liquid assets among group members;
- (d) Policies, procedures and practices to manage the collateral positions of members of the group and any intra-group positions or exposures;
- (e) Benchmarking and stress and scenario testing to assist in the identification and determination of unexpected adverse developments in the medium and long term; and
- (f) Timely, accurate and meaningful reporting of the group's liquidity position and risk exposure to the parent board and the chief and senior executive.

Risk management and internal controls framework: Concentration risk component

14. (1) The concentration risk component of the group's risk management and internal controls framework must include policies, procedures and methodologies to identify, measure, monitor and manage concentrations of risk within or among risk types (e.g., credit, investment/market, underwriting or liquidity risks) or arising from concentrations of exposures to a particular geography, market segment (e.g., catastrophe risk) or type of counterparty.

(2) Sound and robust reporting and accounting procedures must be in place to manage intra-group transactions and risk concentrations.

(3) Concentrations that pose material risks to group solvency or liquidity must be reported in a timely, accurate and meaningful manner to the parent board, other appropriate boards and committees and the senior executives.

Risk management and internal controls framework: Credit risk component

15. (1) The credit risk component of the group's risk management and internal controls framework must include:

- (a) A credit risk policy that is aligned with the group's risk tolerance, risk appetite and short-term and long-term strategies, reflects the group's key business lines and activities, and takes into consideration plans for new business lines or activities or growth in existing business lines or activities;
- (b) Detailed exposure limits relating to:
 - (i) Individual counterparty or concentrations of counterparties;
 - (ii) Material intra-group transactions;
 - (iii) Assets or sectors;
 - (iv) Off balance sheet exposures, including guarantees and letters of credit;
 - (v) Exposures to issuer-specific countries or regions that may be exposed to country-specific or regional economic or market factors, including but not limited to sovereign exposures;
- (c) Qualitative and quantitative assessments of both on- and off-balance sheet exposures and potential future exposures;
- (d) Qualitative and quantitative standards for the use of credit risk mitigation tools and techniques, including collateral and other credit enhancements;
- (e) Measurement techniques to assess the risk exposures and effectiveness of the credit risk mitigation tools and techniques used, including stress and scenario testing; and

- (f) Timely, accurate and meaningful reporting of the group's credit risk exposure to the parent board and the chief and senior executive.

Risk management and internal controls framework: Operational risk component

16. (1) The operational risk component of the group's risk management and internal controls framework must include procedures and processes for identifying, measuring and assessing:

- (a) The operational risk of the group and establishing appropriate tolerance limits within the group's overall risk tolerance, taking into consideration: business process risk, business continuity risk, compliance risk, information systems risk, distribution channels risk, fraud risk, human resources risk and outsourcing risk;
 - (b) The operational risk of each material product, activity, process and system and for incorporating the consideration of potential sources of operational risk in new product or business line approval reviews;
 - (c) The extent to which operational risk may be transferred from one member of the group to others, including but not limited to risk transfer through guarantees or the purchase or sale of protection or derivatives instruments; and
 - (d) Systems and operations exposures and for capturing and tracking systems and operations near-miss data.
- (2) Operational risk must be managed and controlled through:
- (a) A system of effective internal reporting and operating controls (including IT infrastructure);
 - (b) Measurement techniques, including stress and scenario testing, to assess the vulnerability of the group to operational risk; and
 - (c) Annual reviews to ensure that mitigation strategies, including business resiliency and contingency plans and an early warning system, have been deployed.

Risk management and internal controls framework: Insurance underwriting risk component

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17. (1) The insurance underwriting component of the risk management and internal controls framework must include:
- (a) Underwriting strategies that reflect the risk tolerance and overall group strategy and reflect appropriate risk mitigation techniques;
 - (b) Appropriately detailed underwriting policies that reflect those underwriting strategies and facilitate the accurate pricing of

underwriting contracts and manage the risk of loss from inadequate pricing or provisioning assumptions;

- (c) Monitoring and measurement of exposures to policyholders and risks arising from those exposures, and stress testing and scenario analysis of those exposures and risks, to ensure that they remain within established risk tolerance levels;
- (d) Procedures for managing and processing policyholder claims and resolving disputes;
- (e) Policies and procedures for establishing appropriate reserves against claims to reflect current and contingent obligations to policyholders; and
- (f) Systems to capture, maintain and analyze underwriting and claims data.

(2) The insurance underwriting component of the risk management function must encompass risk mitigation techniques that are embedded into the underwriting policies and processes and are reflective of the group's risk tolerance and overall strategy.

Group Solvency Self-Assessment

18. (1) The parent board must ensure that senior management establishes written group solvency self-assessment procedures that reflect all reasonably foreseeable material risks arising from both on- and off-balance sheet exposures of the group and material intra-group exposures.

(2) The procedures must:

- (a) Be an integral part of the group's risk management framework, forward-looking, reflect the group's risk tolerance and overall business strategy, and link the group's risk tolerance to exposure limits and set forth the process through which breaches of exposure limits are addressed;
- (b) Be documented, readily available for supervisory review, and maintained by the parent company or the designated insurer in a form readily accessible to the Authority for a period of five years; and
- (c) Conduct annually or after a significant change in the business activities or risk profile of the group self-assessments on the quantity and quality of capital required to adequately cover all reasonably foreseeable material risks to which the group is exposed and to support the group's current and planned activities.

(3) The interlinkages among the procedures and the risk management framework, risk tolerance, business strategy, and new product approval or business line process must be documented and demonstrate consideration of the relationships among risk management, the quantity and quality of capital resources, the impact of risk mitigation techniques and correlations or interdependencies among material risks.

(4) The procedures must be subject to regular review and updating to reflect changes in the risk management framework, risk tolerance, business strategy and lines of business or activities of the group, as well as changes in market conditions.

(5) The procedures must include appropriate stress and scenario testing measures to determine the group's ability to manage its business with appropriate levels of capital under conditions of severe but plausible stress and contingency plans to restore capital to adequate levels after an adverse event.

(6) The self-assessment procedures must contain a clear process and timeline for addressing any deficiencies in the quantity or quality of capital.

Minimum margin of solvency

19. (1) The parent board must ensure that the value of the group's assets exceeds the group's liabilities by the aggregate minimum margin of solvency (MSM) of each qualifying member of the group (i.e. the simple summation of the MSM of each qualifying member of the group controlled by the parent company).

(2) In addition to meeting the requirements of (1), above, where the parent company exercises significant influence over a member of the group but does not control the member, the MSM for purposes of calculating the group requirement with respect to that member shall be equal to the parent company's percentage shareholding in the member multiplied by the member's MSM.

(3) A member is a qualifying member of a group if it is subject to solvency requirements in the jurisdiction in which it is registered.

(4) In determining whether the parent company controls or exercises significant influence over a member of the group, the definitions contained in U.S., U.K. or Canadian GAAP or IFRS, as applicable, shall apply.

Group Enhanced Capital Requirement

20. (1) The parent board must ensure that the group holds eligible capital equal to or exceeding the greater of the MSM calculated under paragraph 19 of these Rules and the group enhanced capital requirement (group ECR) calculated according to the requirements of this paragraph and the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 (or any subsequent amendments to or restatements of such Rules).

(2) In calculating the group ECR:

(a) Non-admitted assets are deducted.

- (b) The discounted expected value of contingent and off-balance sheet obligations are reflected as a liability.
- (c) Amounts that reflect the double or multiple gearing of capital or the intra-group creation of capital through reciprocal financing are deducted.
- (d) Holdings in regulated non-insurance financial entities are reflected by including in the group ECR the proportionate share of regulatory capital calculated using the solvency rules applicable to those entities and without regard to any diversification benefit.

(3) The Authority may require additional capital to mitigate the risks arising from intra-group transactions and the lack of transferability of capital within the group.

(4) A group may apply to the Authority for approval to use an internal model to calculate the group ECR based on a robustly modeled assessment of the risks posed by such exposures or based on a modified aggregation approach under which the capital requirements for each company in an approved jurisdiction would be aggregated in determining the group ECR, and in accordance with the Insurance (Prudential Standards)(Insurance Group Solvency Requirement) Rules 2011.

PART 2

Eligible Capital

Interpretation

21. (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 19;

“Tier 1-ancillary capital”, in relation to an insurer’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 Line 1(c) of Form 8, Group Statutory Statement of Capital and Surplus of 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 common 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, Group 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., and to the extent to which there are encumbered assets for policyholder obligations which would not be available to meet the obligations of any policyholder in a going concern, 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 16, 17(a), 18 and 27(a), Group 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 Line 37(d) of Form 1, Group 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; and
- (iv) where assets are not transferable among members of the group, less the aggregate amount of such assets in excess of the capital requirement applicable to each member owning those assets provided such amount has not already been deducted in subparagraphs (ii) and (iii);
- (b) capital stock and contributed surplus prepared in accordance with instructions set out for Lines 1(a)(i) and 1(b) of Form 8, Group Statutory Statement of Capital and Surplus of 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 Line 1(a)(ii) of Form 8, Group Statutory Statement of Capital and Surplus of 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 common 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 Line 1(c) of Form 8, Group Statutory Statement of Capital and Surplus of 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 Line 1(a)(ii) of Form 8, Group Statutory Statement of Capital and Surplus of 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 Lines 16, 17(a), 18 and 27(a) of Form 1, Group 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 Line 1(c) of Form 8, Group Statutory Statement of Capital and Surplus of 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 Line 1(a)(ii) of Form 8, Group Statutory Statement of Capital and Surplus of 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

22. (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

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

(2) Such 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 or international standards 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 disclose in the Notes thereto, the group's MSM and the ECR in accordance with paragraphs 19 and 20.

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

(6) 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:

(7) 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.

(8) For the purposes of subparagraph (7), 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.

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

(10) 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.

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

Supervisory reporting and disclosures

Statutory financial statements

24. (1) Every insurance group must prepare in each year financial statements (including notes to the financial statements) of the parent company of the group 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 Bermuda-equivalent 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) For the purposes of subparagraph (2), 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.

(4) 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

25. (1) An insurance group must prepare an annual financial return in accordance with this paragraph ("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 that 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 insurance group business solvency certificate as prescribed in schedule 2;
- (c) an opinion of a group actuary where such is required under paragraph 27 and prescribed in schedule 2;
- (d) 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;
- (e) 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
- (f) a list of non-insurance financial regulated entities owned by the group.

(4) The following particulars of qualifying members within the meaning of subparagraph 19(3) -

- (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 pursuant to paragraph 19.

(5) 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 schedule of ceded reinsurance to unaffiliated reinsurers has effect.

Requirements relating to preparation of returns generally

26. (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 23(6) 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

27. The statutory financial return required by subparagraph 25(3) 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

28. 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

29. (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 (i.e. breaching a regulatory capital requirement applicable to the insurance group or any member); 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 or to facilitate compliance by the group to enable the designated insurer to comply with a direction given to the designated insurer in respect of the group or any of its member under Sections 6C and 32A of the Act;

- (c) conviction of a criminal offence by any member of the group whether in Bermuda or abroad;
 - (d) 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;
 - (e) 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
26))

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 AND ADVANCES TO 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>
(g)	Advances to affiliates	XXX	<u>XXX</u>
(h)	Total investments in and advances to 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.	OTHER INSURANCE GENERAL RESERVES	XXX	XXX
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		
	(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)	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

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	(<u>XXX</u>)	(<u>XXX</u>)
Total losses and loss expenses paid or payable	(<u>XXX</u>)	(<u>XXX</u>)
Net loss and loss expense provisions at end of year	(XXX)	(XXX)
Add: Reinsurance recoverable at end of year	<u>XXX</u>	<u>XXX</u>
Gross loss and loss expense provisions at end of year	<u>XXX</u>	<u>XXX</u>
Line 27		
Long-term business reserves:		
Total gross long-term business insurance reserves at beginning of year	XXX	XXX
Less: Reinsurance recoverable on long-term business at beginning of year	(XXX)	(XXX)

Total net long-term business insurance reserves at beginning of year	<u>XXX</u>	<u>XXX</u>
Long-term business deductions related to:		
a) Current year	XXX	XXX
b) Prior years	<u>XXX</u>	<u>XXX</u>
Total long-term business deductions	<u>XXX</u>	<u>XXX</u>
Less: Long-term business deductions paid or payable related to:		
a) Current year	(XXX)	(XXX)
b) Prior years	<u>(XXX)</u>	<u>(XXX)</u>
Total long-term business deductions paid or payable	<u>(XXX)</u>	<u>(XXX)</u>
Total net long-term business insurance reserves at end of year	<u>(XXX)</u>	<u>(XXX)</u>
Add: Reinsurance recoverable on long-term business at end of year	<u>XXX</u>	<u>XXX</u>
Total gross long-term business insurance reserves at end of year	<u>XXX</u>	<u>XXX</u>

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 26)

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.	PREMIUMS AND OTHER CONSIDERATIONS CEDED	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	XXX	XXX
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)	XXX	XXX
37.	COMBINED INTEREST CHARGES	<u>XXX</u>	<u>XXX</u>
38.	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.

Line 37

Combined interest charges: 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
26))

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
(ii) Preferred shares: Authorized shares of par value each issued and fully paid shares	XXX	XXX
(iii) Treasury shares: Repurchased shares of par value each issued	XXX	XXX
(b) Contributed surplus	XXX	XXX
(c) Any other fixed capital		
(i) Hybrid capital instruments	XXX	XXX
(ii) Guarantees and others	<u>XXX</u>	<u>XXX</u>

	(iii) Total any other fixed capital	<u>XXX</u>	<u>XXX</u>
	(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.

**INSTRUCTIONS AFFECTING THE GROUP
STATUTORY BALANCE SHEET**

Line of group 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: 40px;">(i) held to maturity: quoted fixed maturities; and</p> <p style="padding-left: 40px;">(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: 40px;">(i) common stock: investments in publicly quoted common shares;</p> <p style="padding-left: 40px;">(ii) preferred shares: investments in publicly quoted preferred shares; and</p> <p style="padding-left: 40px;">(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</p>

**Line of group statutory
balance sheet**

Instructions

	included in 2(b) and 2(d) e.g. alternative funds.
	(f) Total quoted investments: The 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	All investments classed as

**Line of group statutory
balance sheet**

Instructions

affiliates (equity)

significant influence and accounted under the equity accounting method shall be included here.

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 both under control and 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)

**Line of group statutory
balance sheet**

Instructions

Line of group statutory balance sheet	Instructions
	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. (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	Accrued investment income shall

**Line of group statutory
balance sheet**

Instructions

due and accrued	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. (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,

**Line of group statutory
balance sheet**

Instructions

	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.
	(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</p>

**Line of group statutory
balance sheet**

Instructions

	in favour of the group which relate to insurance or reinsurance contracts shall not be recorded.
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 unearned premiums.</p>
17. Loss and loss expense provisions	<p>There shall be disclosed severally -</p> <p>(a) Gross loss and loss expense provisions: Gross unpaid loss and loss expenses.</p> <p>(b) Less: reinsurance recoverable balances (net of related provisions for uncollectible amounts): Unpaid and/or paid losses and loss expenses recoverable from -</p> <p>(i) Pools and associations; and</p> <p>(ii) All other insurers.</p> <p>(c) Total reinsurance recoverable balance: The total of (i) and (ii).</p> <p>(d) Net loss and loss expense provisions: The total of (a) and (c).</p>

**Line of group statutory
balance sheet**

Instructions

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 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	These consist of premiums paid in

**Line of group statutory
balance sheet**

Instructions

on deposit		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<ul style="list-style-type: none">(i) Pools and associations; and(ii) All other insurers.(c) Total reinsurance recoverable balance: The total of (i) and (ii).(d) Total net long-term business insurance reserves. The total of lines 20 and 26 inclusive, or the amount arrived at by subtracting line 27(c) from 27(a).
28. Insurance and		These are amounts payable to

**Line of group statutory
balance sheet****Instructions**

Reinsurance balances payable	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; (b) Segregated accounts companies; (c) Deposit assets; (d) Other assets: Other

**Line of group statutory
balance sheet**

Instructions

	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 inclusive.

**Line of group statutory
balance sheet**

Instructions

39. Total insurance business reserves and other liabilities	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 group statutory statement of capital and surplus.
41. Total	This shall be the total of lines 39 and 40.

**INSTRUCTIONS AFFECTING THE GROUP
STATUTORY STATEMENT OF INCOME**

**Line of group 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	This shall be the increase (decrease) in the unearned

**Line of group statutory
statement of income**

Instructions

unearned premiums	premiums (net of prepaid 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 written 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 - (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 –

- (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 General and administrative expenses, including salaries, wages and other expenses incurred not related to underwriting with respect to both general business and long-term business shall be included here.
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 group 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 before realized gains (losses)	This shall be arrived at by subtracting 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. Combined interest charges	This shall include interests and other costs incurred to settle debt payments and other obligations.
38. Net income	This shall be the total of lines 35, 36 and 37.

**INSTRUCTIONS AFFECTING THE GROUP
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 group statutory statement of capital and surplus]

1(a) Capital stock

This shall comprise of called up share capital or shares:

(a).(i). Common stock

This shall comprise of common shares.

(a).(ii). Preferred shares

This shall comprise of preferred shares.

(a).(iii). Treasury shares

This shall comprise of treasury 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 group statutory balance sheet to be credited to, or, as the case may be, charged against, capital:

(c).(i). Hybrid capital instruments

This shall include any other fixed capital in the form of debt instruments

with capital characteristics approved by the Authority.

(b).(ii). Guarantees and others

This shall include any other fixed capital in the form of guarantees approved by the Authority.

(a).(iii). Total any other fixed capital

This shall be the total of (c)(i) and (c)(ii).

(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 group 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 group statutory balance sheet), to the extent that that increase (decrease) is not reflected in the group 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 group 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 23(6) to be shown;

INSURANCE GROUP BUSINESS SOLVENCY CERTIFICATE

2. (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 28 or, as the case may be, have been filed pursuant to paragraphs 23(10) and 24(3) to 27;
 - (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 22(1) and 22(3);
 - (f) the aggregate value of the group's assets as shown in the group statutory balance sheet for the relevant year, in this sub-paragraph called "the group statutory balance sheet assets value";
 - (g) whether in the opinion of those signing the certificate—

- (i) that the group statutory balance sheet assets value was determined in accordance with the requirements of the Act and of any applicable Rules pursuant to paragraph 24(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 group 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 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 subparagraphs 23(8), 24(3) and 26(3) 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), (f), (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 CERTIFICATE

3. (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 group 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

4. (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, Group Statutory Balance Sheet of 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.