

BERMUDA

INSURANCE (GROUP SUPERVISION) RULES 2011

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The Bermuda Monetary Authority, in exercise of the powers conferred on by section 27F of the Insurance Act 1978 (the “Act”), makes the following Rules—

Citation and commencement

1 These Rules may be cited as the Insurance (Group Supervision) Rules 2011 and shall come into operation—

- (a) on 16 January 2012, in respect of paragraphs 1, 2, 23 to 28, inclusive, and Schedules 1 and 2; and
- (b) on 1 January 2013, in respect of paragraphs 3 to 22, inclusive, and 29.

Part 1

Group Responsibilities and Governance

Interpretation

2 (1) 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 Insurance (Prudential Standards) (Insurance Group Solvency Requirements) Rules 2011;

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

“fit and proper” has the meaning given in paragraph 1(2) of the Schedule to the Act;

“GAAP” means Generally Accepted Accounting Principles;

“IFRS” means International Financial Reporting Standards.

(2) References in these Rules to the “parent” are references to the parent company of the group (such as the ultimate parent) that is not a subsidiary company of any other member of the group;

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General principles

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

(2) An insurance group shall ensure that there are organizational, governance and communications structures at the group level that facilitate the fulfilment of the duties of the designated insurer.

(3) A designated insurer shall facilitate and maintain compliance by the group with the Act and these Rules.

(4) Where obligations are imposed either on the group or the parent of 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 to require the group to perform the obligations or to remediate the breach.

(5) The Authority may acknowledge the existence of a variety of group structures, taking into consideration that some group structures are more or less centralized and some are managed on a business line, as opposed to being managed on the basis of a legal entity.

(6) To the extent that reference is made to responsibilities performed by the parent board under these Rules, such 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 on group operations.

(7) 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 the parent company oversight and the ratification by parent company executives of key decisions that materially impact group operations.

Corporate governance: general

4 (1) An insurance group must establish 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) An insurance group must have adequate capital resources and sources of funding liquidity in light of its risk profile and operational strategy and planned changes to that strategy.

(3) An insurance group must establish 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.

(4) An insurance group must establish 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 and that is not compensated on the basis of the financial performance of the business lines for which the function has responsibility.

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(5) An insurance group must establish group internal audit, risk management, compliance and actuarial functions that are fit for the purpose, given the nature, scale and complexity of the group.

(6) In each insurance group—

- (a) senior executives, persons responsible for the internal audit, risk management, compliance and actuarial functions and the approved group statutory function holders (such as an approved actuary, loss reserve specialist) shall have the ability to communicate directly with the parent board without the need for management review or approval; and
- (b) the parent board shall have direct access to senior executives, persons responsible for the internal audit, risk management, compliance and actuarial functions and the approved group statutory function holders.

(7) The insurance group must establish 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.

Corporate governance: responsibilities of the parent board

5 (1) A 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) A 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) The independence of a director shall be determined by reference to the rules of an appointed stock exchange as defined in the Companies Act 1981.

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

(5) A 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 a 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

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- (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) A parent board is responsible for—
- (a) overseeing the implementation by the senior executives of group operational objectives and strategies in light of the group's stated risk tolerance and appetite, group structure and material risks;
 - (b) 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;
 - (c) 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;
 - (d) 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; and
 - (e) 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: responsibilities of the chief and senior executives of the parent company

6 (1) The chief executive of a 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 a parent company (senior executives) must ensure 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.

(3) Senior executives must ensure that systems and controls are established that produce complete, reliable, clear, consistent, timely and relevant reporting and

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management information concerning the business activities and risks to which the group is exposed.

- (4) Senior executives of a parent company are responsible for—
 - (a) 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;
 - (b) reporting promptly to the parent board any material deficiencies in the effectiveness of group functions or any decisions taken that deviate materially from the group risk tolerance, risk appetite or operational strategy;
 - (c) reviewing and approving all material outsourcing arrangements and for the effective performance and oversight of outsourced functions or tasks; and
 - (d) ensuring that all required returns and financial statements are accurate, complete and filed in a timely manner.

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.

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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 shall 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 shall 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 must 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.

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—

- (a) 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;
- (b) 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;
- (c) have direct access to and report to the parent board on matters including—
 - (i) the compliance risk management framework and the resources it has available to implement that program;

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- (ii) key compliance risks and the strategy for mitigating those risks;
 - (iii) the results of compliance monitoring and testing; and
 - (iv) compliance deficiencies or violations and actions taken or recommended to be taken to address those deficiencies or breaches; and
- (d) 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) An insurance group shall ensure that the risk management and internal controls framework is well integrated into its overall system of governance and contains 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 shall include stress and scenario analysis using extreme but plausible internal scenarios, including those prescribed by the Authority.

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(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) a clear statement of objectives and strategy for their use and standards governing the employment and valuation of such instruments, where hedging and derivatives instruments are used;
 - (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

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- (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 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 executives.

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 (such as credit, investment/market, underwriting or liquidity risks) or arising from concentrations of exposures to a particular geography, market segment (catastrophe risk) or type of counterparty.

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(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 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 executives.

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,

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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

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.

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(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) An insurance group 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) be conducted 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) An insurance group 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).

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(2) In addition to meeting the requirements of subparagraph (1), 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 insurance group 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;

“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 meaning given 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);

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“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;

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- (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

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- (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

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- (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;
 - (b) where the value of encumbered assets for policyholder obligations exceeds the higher of subparagraph (a)(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

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- (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

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- (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.
- (9) For the purposes of these Rules, Tier 1-capital, Tier 2-capital and Tier 3-capital that meets the requirements of subparagraphs (2) through (7), as applicable, but for the requirement that the coupon payment on the instrument would be cancellable or deferrable indefinitely upon breach (or if it would cause a breach) in the ECR may continue to be included in Tier 1-capital, Tier 2-capital or Tier 3-capital, as applicable, until January 1, 2018.

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—

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- (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 annually by the group's approved auditor and an auditor's report prepared by the group's approved auditor in accordance with generally accepted auditing standards ("GAAS") for Canada, the United Kingdom, the United States of America or such GAAS as the Authority may recognise.

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

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

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

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

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year, provided that the rate of exchange of one U.S. dollar will be deemed to be one Bermuda dollar.

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

(9) A designated insurer must within five months after the end of the financial year or such longer period, not exceeding eight months, as the Authority may allow after the end of each financial year, file with the Authority audited group financial statements in respect of the business of the group of which it is a member.

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

(11) Group financial statements shall be accompanied by an unaudited statement for public disclosure of the amounts required to be held by the group to satisfy the MSM and ECR and the actual capital held in satisfaction of the MSM and ECR.

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, provided that the rate of exchange of one U.S. dollar will be deemed to be one Bermuda dollar.

(4) A designated insurer must file with the Authority statutory financial statements prepared in accordance with subparagraph (2) in every financial year within five months after the end of the financial year or such longer period, not exceeding eight 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 five months

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after the end of the financial year or such longer period not exceeding eight 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;
- (g) particulars of qualifying members within the meaning of subparagraph 19(3) as set out in subparagraph (4).

(4) The particulars of qualifying members within the meaning of subparagraph 19(3) are—

- (a) the name of the registered entity;
- (b) the name of the jurisdiction in which the entity is registered;
- (c) the minimum margin of solvency for each registered entity;
- (d) the group's participation interest (percentage) of each registered entity; and
- (e) the member's minimum margin of solvency that is taken into account in calculating the group's minimum margin of solvency 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

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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 paragraph 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, provided that the rate of exchange of one U.S. dollar will be deemed to be one Bermuda dollar; 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 (as provided in subparagraph (3)) 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;

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- (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)(e), 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.

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SCHEDULE

*The Schedules to these Rules have been omitted.
They are available for inspection at the offices of the Bermuda Monetary Authority or on the
website: www.bma.bm*

Made this 30th day of December 2011

Chairman
The Bermuda Monetary Authority

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

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

Line 11

Letters of credit: These relate to letters of credit issued in favour of the group relating to reinsurance balances receivable and reinsurance recoverable balance.

Line 15

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

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

Line 17

General business reserves:

Gross loss and loss expense provisions at beginning of year	XXX	XXX
Less: Reinsurance recoverable at beginning of year	(XXX)	(XXX)
Net loss and loss expense provisions at beginning of year	<u>XXX</u>	<u>XXX</u>
Net losses incurred and net loss expenses incurred related to:		
a) Current year	XXX	XXX
b) Prior years	<u>XXX</u>	<u>XXX</u>
Total net losses incurred and net loss expenses incurred	<u>XXX</u>	<u>XXX</u>
Less: Losses and loss expenses paid or payable related to:		
a) Current year	(XXX)	(XXX)
b) Prior years	<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	XXX XXX
(c)	Total gross premiums written	XXX XXX
2.	REINSURANCE PREMIUMS CEDED	XXX XXX
3.	NET PREMIUMS WRITTEN	XXX XXX
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	XXX XXX
5.	NET PREMIUMS EARNED	XXX XXX
6.	OTHER INSURANCE INCOME	XXX XXX
7.		XXX XXX
GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSS INCURRED AND NET LOSS EXPENSES INCURRED	XXX XXX
9.	COMMISSIONS AND BROKERAGE	XXX XXX
10.		XXX XXX
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;">(iii) common stock: investments in publicly quoted common shares;</p> <p style="padding-left: 40px;">(iv) preferred shares: investments in publicly quoted preferred shares; and</p> <p style="padding-left: 40px;">(v) mutual funds: investments in publicly quoted mutual funds , etc.</p> <p>(d) Total equities: The total of (i), (ii) and (iii).</p> <p>(e) Other quoted investments: Other quoted investments not included in 2(b) and 2(d) e.g.</p>

**Line of group statutory
balance sheet**

Instructions

	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 -
	(iii) common stock: investments in unquoted common shares;
	(iv) preferred shares: investments in unquoted preferred shares; and
	(v) mutual funds: investments in unquoted mutual funds, etc.
	(d) Total equities: The total of (i), (ii) and (iii).
	(e) Other unquoted investments: Other unquoted investments not included in 3(b) and 3(d) e.g. alternative funds.
	(f) Total unquoted investments: The total of 3(b), (d) and (e).
4. Investment in affiliates (equity)	All investments classed as significant influence and accounted under the equity accounting

**Line of group statutory
balance sheet**

Instructions

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) inclusive.

5. Investments in mortgage loans on

Residential and commercial investment loans shall be included

**Line of group statutory
balance sheet**

Instructions

real estate	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 due and accrued	Accrued investment income shall be included here.

**Line of group statutory
balance sheet**

Instructions

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, intangible assets, deferred tax

**Line of group statutory
balance sheet**

Instructions

	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	These are contractual rights arising from off-balance sheet arrangements to receive financial assets through: (a) Letter of credit. (b) Guarantees. (c) Other instruments. (d) Total letters of credit, guarantees and other instruments: The total of (a) to (c). Such asset may, with the approval of the Authority obtained on an application made for that purpose, be recorded and the capital increased by a corresponding amount. Letters of credit, guarantees or other instruments in favour of the group which relate to insurance or reinsurance

**Line of group statutory
balance sheet**

Instructions

	contracts shall not be recorded.
15. Total	This shall be the total of lines 1 to 14 inclusive.
16. Unearned premiums	This line shall include unearned premiums, net of the unearned portion of the reinsurance premiums ceded. Acquisition costs shall not be deducted in calculating the amount of unearned premiums.
17. Loss and loss expense provisions	There shall be disclosed severally - (a) Gross loss and loss expense provisions: Gross unpaid loss and loss expenses. (b) Less: reinsurance recoverable balances (net of related provisions for uncollectible amounts): Unpaid and/or paid losses and loss expenses recoverable from - (i) Pools and associations; and (ii) All other insurers. (c) Total reinsurance recoverable balance: The total of (i) and (ii). (d) Net loss and loss expense provisions: The total of (a) and (c).
19. Total general business insurance	This shall be the total of lines 16

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

reserves	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 on deposit	These consist of premiums paid in advance of the due date.
25. Liability for future policyholders’ dividends	Dividends payable, as declared by the directors, on participating life policies which qualify for such

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

			dividends.
26.	Other business reserves	long-term insurance	Reserves not included in lines 20 to 25.
27.	Total net business reserves	long-term insurance	There shall be disclosed severally - (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 (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 Reinsurance payable	balances	These are amounts payable to reinsurers (eg, premiums received in advance, reinsurance premiums payable. etc.).
29.	Commissions, expenses, fees and taxes payable		All unearned commissions shall be included here.
30.	Loans and notes		Loans and notes payable shall be

**Line of group statutory
balance sheet**

Instructions

payable	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 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	All contractual liabilities or contingent liabilities arising from off-balance sheet arrangements are

**Line of group statutory
balance sheet**

Instructions

instruments	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.
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.

**Line of group statutory
balance sheet**

Instructions

41. Total	This shall be the total of lines 39 and 40.
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**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 unearned premiums	This shall be the increase (decrease) in the unearned 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	This shall be the aggregate of all other income (such as commission

**Line of group statutory
statement of income**

Instructions

income	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	Gross premiums and other

other considerations	<p>considerations written, less amounts ceded under reinsurance contracts, during the relevant year and disclosed severally -</p> <p>(a) Life;</p> <p>(b) Annuities;</p> <p>(c) Accident and health; and</p> <p>(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).</p>
15. Other insurance income	This shall be the aggregate of all other income (such as commission and brokerage income) directly related to the underwriting long-term business.
16.	This shall be the total of lines 14(d) to 15 inclusive.
17. Claims – life	These shall be the amount of claims incurred under life insurance policies during the relevant year.
18. Policyholders' dividends	These shall be amounts distributed or credited during the relevant year to policyholders with participating life policies.
19. Surrenders	These shall be the amounts incurred during the relevant year as a result of the surrender by policyholders, either for cash or in exchange for some other consideration, of policies with cash surrender.
20. Maturities	These shall be the amounts incurred as a result of the maturing during the relevant year, after a specified period of time, of any

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

28. Net underwriting profit (loss) – long-term business	This shall be the net total of lines 16 and 27.
29. Combined net underwriting profit (loss) before the undernoted items	This shall be the total of lines 11 and 28.
30. Combined operating expenses	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 - (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(9) and 24 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(7), 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 one director of the parent board; and
- (b) by the group's chief executive and chief risk officers.

(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.