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☞ A China Re Company

CHAUCER INSURANCE COMPANY DESIGNATED ACTIVITY COMPANY

Directors' report and financial statements

For the financial year ended 31st December 2021

CHAUCER INSURANCE COMPANY DESIGNATED ACTIVITY COMPANY

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CHAUCER INSURANCE COMPANY DESIGNATED ACTIVITY COMPANY

COMPANY INFORMATION

DIRECTORS

Mr Robert Callan (British)
Mr Timothy Carroll*
Mr Jerome Faure* (American)
Dr Zuo Huiqiang (Chinese)
Ms Michelle Moore (resigned 31st March 2021)
Mr Enda Murphy*
Mr Neil Riordan
Mr Jonathan Sutcliffe (appointed 28th January 2021)

**Denotes Independent Non-Executive Director*

SECRETARY

Mr Richard Barnett (British)

REGISTERED OFFICE

38 & 39 Baggot Street Lower
Dublin 2
Ireland
D02 T938

REGISTERED NUMBER OF INCORPORATION

587682

BANKERS

Bank of Ireland
Baggot Plaza
27-33 Baggot Street Lower
Dublin 4
Ireland

The Bank of New York Mellon
London Branch
One Canada Square
London E14 5AL
United Kingdom

Lloyds Bank plc
25 Gresham Street
London EC2V 7HN
United Kingdom

Bank of America
King Edward Street
London EC1A 1HQ
United Kingdom

INDEPENDENT AUDITORS

PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

SOLICITORS

William Fry
6th Floor
2 Grand Canal Square
Dublin 2
Ireland

INVESTMENT MANAGER

Goldman Sachs Asset Management International
Plumtree Court
25 Shoe Lane
London EC4A 4AU
United Kingdom

DIRECTORS' REPORT

The directors present herewith their report and audited financial statements of Chaucer Insurance Company Designated Activity Company ("CIC" or "the Company") for the financial year ended 31st December 2021.

Principal Activities

CIC is an Irish domiciled insurance company that underwrites non-life specialty insurance and reinsurance business with clients primarily in the European Economic Area (the "EEA"), the United Kingdom and the United States of America ("US"). CIC was incorporated on 16th August 2016 and is regulated by the Central Bank of Ireland ("CBI") following authorisation on 16th June 2017.

The Company is wholly owned by China Re International Company Limited ("CRICL"), a UK based entity that is also the Parent Company for Chaucer Syndicates Limited ("Chaucer"), the managing agent for Chaucer's syndicates operating in the Society Corporation of Lloyd's ("Lloyd's"). CRICL is a member of The China Reinsurance (Group) Corporation, ("China Re"). China Re, headquartered in Beijing, is a Chinese insurance group and is listed on the Hong Kong stock exchange.

CIC headquartered in Dublin, has established branches in the UK, Denmark and Bermuda. The UK Branch is currently authorised under the PRA Temporary Permissions regime, and CIC is in the process of applying for full third country branch status. The Denmark Branch operates on a freedom of establishment basis under the EU Solvency II Directive; and the Bermuda Branch is authorised as a third country branch by the Bermuda Monetary Authority ("BMA"). All branches operate from the offices of affiliated Chaucer entities. Through outsourcing arrangements with these affiliates, the branches leverage the existing operational resources of Chaucer.

Business Strategy

CIC writes international specialty insurance and reinsurance business. CIC, rated "A (Excellent)" by AM Best and "A" by Standard & Poor's, respectively, plays a key role in delivering China Re's strategic initiatives for international development. CIC also represents an important source of growth by providing greater flexibility for Chaucer through increased commercial choice for customers and brokers. Through CIC, Chaucer has reduced its dependency on Lloyd's whilst offering low cost and capital efficient platforms through its Branches in the UK, Denmark and most recently Bermuda.

The Company mitigates its exposure to the business written via extensive reinsurance arrangements with third party reinsurers and a 90% quota share, net of external reinsurance, with China Property & Casualty Reinsurance Company Limited ("China P&C Re"), a China Re affiliate, reflecting the Company's conservative reinsurance strategy. This reinsurance structure is a key element of our strategy in supporting our security ratings and ensuring capital efficiency.

Business Review

The Company continued to grow its broadly diversified portfolio in 2021, with gross written premiums increasing in line with plan to \$282.8 million (2020: \$124.3 million), representing a 128% increase on the prior year. The Company experienced strong growth in all target classes of business during the year. There are many factors driving the overall growth including, but not limited to, achieving our targeted growth through the Bermuda Branch, organic growth through our other platforms, continued expansion into the US in the Excess & Surplus market and the positive impact of rate increases benefitting most classes of business across the industry.

The Company recorded a net underwriting profit, which excludes the impact of investments and foreign exchange on performance, of \$0.2 million during the year. The strong growth achieved during the year was impacted by loss events, notably hurricane Ida and the euro-storms, Bernd and Volker. The Company's comprehensive reinsurance programme however ensures that the impact of such events on the Company is significantly dampened.

Whilst the COVID-19 pandemic and associated economic lock-downs had a significant impact on the industry overall, the Company's exposure to the pandemic remains relatively limited. The Company continues to adopt a best estimate approach in relation to its exposures related to the pandemic. Throughout the pandemic, staff have worked successfully from home with the Company continuing to ensure appropriate measures are in place to protect staff and also, ensuring the Company continues to offer policyholders high quality service and honour policies as appropriate.

DIRECTORS' REPORT (continued)

On October 15th 2021, the Company achieved a rating upgrade to 'A' from S&P reflecting the Company's enhanced strategic role within the China Re as the Company is acknowledged a key contributor to China Re's international expansion.

During 2021 the Company continued to develop a roadmap to enable the Company to implement a cohesive Environmental, Social and Governance (ESG) strategy. This will encompass climate change factors, Board-level risk appetites, metrics to measure the achievement of strategic objectives, and the cascading of responsibilities through the business.

Financial Performance

Whilst the Company generated a net underwriting profit, overall the Company recorded a net loss before tax for the financial year ended 31st December 2021 of \$0.8 million (2020: net profit before tax of \$2.5 million). This net loss arises due to the unrealized losses on the Company's investment portfolio driven by the steepening yield curves caused by inflation concerns during the year. The Company has a conservative fixed income portfolio and typically hold assets to maturity. As a result, the Company expects these losses to naturally unwind as the assets mature.

The Company's net assets as at 31st December 2021 are \$102.8 million (2020: \$103.8 million).

Future Outlook

CIC continues on a controlled growth trajectory, as a major driver for the international growth of China Re Group. The Company's strategy has evolved to writing a more diverse portfolio, with a continued focus on treaty reinsurance through the Bermuda Branch whilst also expanding into new markets. Through the backing of China Re, combined with the strong ratings, the Company is well placed to respond to market conditions and to deliver its growth strategy.

Furthermore, the Company, as part of Chaucer Group, will continue to develop its climate risk strategy to bolster the management of risks and also opportunities arising from climate change. The Company has been developing specific risk management tools and processes to address climate risks and also ensure the sustainability of its business. This development will complement the existing strategies in place that are designed to ensure the Company is well-positioned to meet the demands of a dynamic and changing environment. These strategies include, but are not limited to:

- Enhanced focus on catastrophe perils where climate change is identified as a driver of increased risk, including improved modelling capability and reporting;
- Underwriting of renewable energy
- Enhanced risk management capability and framework specifically adapted to improve understanding and management of climate change risks;
- Formation of an ESG Group and the ongoing development of an ESG strategy and objectives which will contribute to the mitigation of climate-related operational risks
- Development of Own View of Risk which is core to managing climate risk;

Capital Management

CIC's objective is to hold sufficient capital to meet all of its obligations to policyholders, meet regulatory requirements and to safeguard its ability to continue as a strong going concern so that it can provide returns for its shareholder. The Company is subject to the Solvency II European Directive ("Solvency II regulations"). Solvency II regulations relate to the solvency standards applicable to insurers and reinsurers, within Europe, and lays down the minimum amounts of financial resources required in order to cover the risks to which it is exposed and the principles that should guide its overall management and reporting.

The Company is required to hold sufficient levels of capital in excess of its Solvency Capital Requirements, as calculated in accordance with Solvency II. As at 31st December 2021, the Company's capital sufficiently covers its regulatory requirements.

DIRECTORS' REPORT (continued)

Capital Management (continued)

As at 31st December 2021, the Company has a Solvency II SCR of \$61.2 million (2020: \$24.2 million) and a capital coverage ratio of 165% (2020: 429%).

In addition to the Solvency II regulations, the Company's Bermuda Branch operates as a Class 4 insurer and is subject to the Bermuda Insurance Act 1978. The Branch is required to hold sufficient levels of capital in excess of the Bermuda Solvency Capital Requirements ("BSCR"), as calculated in accordance with the relevant Bermuda laws and regulations.

The directors note that the Company has exceeded its regulatory and solvency capital requirements throughout the financial period.

Regulation

The Company is incorporated under the laws of Ireland and is subject to regulation by the CBI under; inter alia, the European Union (Insurance and Reinsurance) Regulations 2015. The Company's Branches are subject to prudential supervision by the CBI and regulatory oversight by the Financial Conduct Authority (the "FCA"), Danish Financial Supervisory Authority ("FSA") and the BMA, respectively, for conduct of business rules within those jurisdictions.

Corporate Governance Requirements

The Company hereby confirms that it is subject to the Corporate Governance Requirements for Insurance Undertakings 2015 ("the Requirements") (as amended) published by the CBI. The Company is a non-high impact designated institution on the CBI's PRISM scale. In determining the appropriate composition of the Board, due consideration is given to the diversity of directors.

Principal Risks and Uncertainties

The core principle of the Company's business model is assuming and managing risk. The predominant risk areas that the Company faces include insurance risks, credit risks, financial risks, and operational risks. As outlined in Note 4 to the financial statements accompanying this report, various policies, procedures and controls are utilised by the directors and management to manage or mitigate these risks as necessary.

Directors and Company Secretary

The directors, throughout the period under review, and the Company Secretary, are listed on page 3.

The directors and secretary who held office at the period end did not have any interests in excess of 1% of the issued shares of the Company or any group company at either the beginning or end of the period.

Going Concern Basis

The directors have reasonable expectations, having made appropriate enquiries that the Company has adequate resources to continue in operational existence for the foreseeable future. The directors have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue. For this reason, they continue to adopt the going concern basis or preparation in preparing the financial statements. In making this assessment the directors considered a number of factors, including but not limited to, the following:

- the Company's performance and expected levels of growth planned for the next 12 months;
- the Company's strong capital and liquidity position, and also the ongoing capital support it receives through the 90% quota share agreement from a Group affiliate entity;
- Events that have occurred after the balance sheet date; and,
- the relatively low impact of COVID-19 on the Company.

DIRECTORS' REPORT (continued)

Events after the reporting date

FRS 102 defines an adjusting event as an event that provides evidence of conditions that existed at the reporting date. A non-adjusting event indicates conditions that arose after the reporting date.

It is too early to accurately estimate the impact of the Ukraine and Russia conflict on the Company's future results. The Company's risk management and underwriting teams have completed a preliminary review of potential exposures and will continue to monitor the exposure as the conflict develops. Based on these reviews, the Company does not have significant exposures that may be impacted by the conflict. Furthermore, all risks are covered by the extensive reinsurance programme and any loss would not be material. The impact of sanctions on premiums or investment holdings is expected to be minimal, but are being monitored.

On 24th March 2022, the Board approved a capital injection of \$50,000 from its parent CRICL. This is a planned capital injection with the purpose of supporting the continued growth of the Company.

There are no other events that are material to the operations of the Company that have occurred since the reporting date which affect the Company's reported results for the year ended 31st December 2021.

Accounting Records

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate internal control systems and procedures and employment of competent persons. The accounting records are kept at 38 & 39 Baggot Street Lower, Dublin 2, Ireland, D02 T938.

Audit Committee

An Audit Committee has been established in compliance with section 167 of the Companies Act 2014.

Political Donations

The Company did not make any political donations during the year ended 31st December 2021 (2020: \$0).

Dividends

The Company did not declare any dividends during the year ended 31st December 2021 (2020: \$0).

Statutory Auditors

The statutory auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Directors' Statement on relevant audit information

We, the directors of the Company, confirm:

- to the best of our knowledge that there is no information relevant to the audit of which the statutory auditors are unaware; and,
- that all steps have been taken to make ourselves aware of any relevant audit information and to ensure the statutory auditors are made aware of such information.

On behalf of the Board



J Sutcliffe
Director



N Riordan
Director

7th April 2022

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with Irish law.

Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the Company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the Company for the financial year. Under that law the directors have prepared the financial statements in accordance with Generally Accepted Accounting Practice (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland) and Irish law.

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Company for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102; and,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Independent auditors’ report to the members of Chaucer Insurance Company Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, Chaucer Insurance Company Designated Activity Company’s financial statements:

- give a true and fair view of the company’s assets, liabilities and financial position as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Directors’ Report and Financial Statements, which comprise:

- the Statement of Financial Position as at 31 December 2021;
- the Profit and Loss Account for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (“ISAs (Ireland)”) and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA’s Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA’s Ethical Standard were not provided to the company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2021 to 31 December 2021.

Our audit approach

Overview

	Materiality <ul style="list-style-type: none"> • USD2,828,200 (2020: USD1,242,800) • Based on 1% of gross written premiums.
	Audit scope <ul style="list-style-type: none"> • We performed a full scope audit of the company’s financial statements, based on materiality levels.
	Key audit matters <ul style="list-style-type: none"> • Methodologies and assumptions applied in the valuation of claims outstanding.



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Methodologies and assumptions applied in the valuation of claims outstanding</i></p> <p><i>Refer to note 3(d), note 4 and note 11 to the financial statements.</i></p> <p>Gross claims outstanding are the company’s largest liability and their valuation involves considerable judgment.</p> <p>Provisions for claims outstanding are established to cover the expected outstanding liability for losses in respect of all claims that have already occurred. The provision is comprised both individual case estimates and claims incurred but not reported (“IBNR”).</p> <p>Case estimates are booked based on information received from claimants and using information received from loss adjusters.</p> <p>The IBNR is determined using loss ratios and loss development factors for similar business within the group.</p> <p>Additional qualitative judgement is used to assess the appropriateness of these benchmark loss ratios.</p> <p>We have focused on this matter because claims reserves are a significant liability of the company and valuation of the reserves involves considerable judgement.</p>	<p>We evaluated the actuarial methodologies and key assumptions with the assistance of our actuarial specialists.</p> <p>This involved:</p> <ul style="list-style-type: none"> • agreeing case estimates to supporting documentation on a sample basis; • reconciling the data used in the determination of the provision for claims incurred but not reported to the underlying systems on a sample basis; • assessing the assumptions and methodologies underpinning management’s actuarial valuation by reference to experience for similar classes in the broader group and industry data; • checking management’s calculations on a sample basis; • reconciling the actuarial valuation outputs to the financial statements; and • considering the report of the Head of Actuarial Function. <p>No matters were noted as a result of these procedures.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:



Overall materiality	USD2,828,200 (2020: USD1,242,800).
How we determined it	1% of gross written premiums.
Rationale for benchmark applied	We have applied this benchmark as it provides a more stable measure than profit for insurance entities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above USD141,400 (2020: USD62,140) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- obtaining management's going concern assessment for the going concern period;
- obtaining an understanding of the company's capital position and liquidity for the period of the assessment;
- evaluation of the company's forecast capital and liquidity positions including the ongoing capital support it receives through the 90% quota share agreement from a Group affiliate entity;
- assessing the creditworthiness of the reinsurers; and
- assessing the going concern disclosures included in the Solvency and Financial Condition Report in order to assess whether the disclosures were appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Directors' Report and Financial Statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.



Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.



Appointment

We were appointed by the directors on 21 September 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2017 to 31 December 2021.

A handwritten signature in black ink, appearing to be 'Paraic Joyce', written over a horizontal line.

Paraic Joyce
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
7 April 2022

CHAUCER INSURANCE COMPANY DESIGNATED ACTIVITY COMPANY

Profit and Loss Account
For the year ended 31st December 2021
All amounts in US\$'000 unless stated otherwise

	Notes	<u>31/12/2021</u>	<u>31/12/2020</u>
Technical Account			
Gross premiums written	Note 5	282,824	124,287
Outward reinsurance premiums		(259,763)	(114,154)
Net premiums written		<u>23,061</u>	<u>10,133</u>
Change in the gross provision for unearned premiums		(67,574)	(22,551)
Change in provision for unearned premiums - reinsurers' share		61,532	20,689
Change in the net provision for unearned premiums		<u>(6,042)</u>	<u>(1,862)</u>
Earned premiums, net of reinsurance		17,019	8,271
Allocated investment return transferred from the non-technical account		(1,433)	2,205
Claims incurred, net of reinsurance			
Claims paid:			
- Gross amount		(46,007)	(17,647)
- Reinsurers' share		42,445	15,967
Net claims paid		<u>(3,562)</u>	<u>(1,680)</u>
Change in provision for claims			
- Gross amount		(80,932)	(45,073)
- Reinsurers' share		74,896	41,957
Change in net provision for claims		<u>(6,036)</u>	<u>(3,116)</u>
Claims incurred, net of reinsurance		<u>(9,598)</u>	<u>(4,794)</u>
Net operating expenses	Note 7	<u>(7,186)</u>	<u>(3,145)</u>
Balance on the technical account for non-life insurance business		<u>(1,198)</u>	<u>2,536</u>
Non-Technical Account			
Balance on the technical account- Non-life insurance		(1,198)	2,536
Investment Income			
- Net income from other investments	Note 6	2,386	1,394
Investment charges			
- Investment management expenses	Note 6	(193)	(150)
Unrealised (losses) gains on investments	Note 6	(2,997)	1,269
Loss on realisation of investments	Note 6	(629)	(308)
Foreign exchange gains (losses)		412	(86)
Allocated Investment return transferred to the technical account		1,433	(2,205)
(Loss) Profit on ordinary activities before taxation		<u>(786)</u>	<u>2,450</u>
Tax charge on ordinary activities	Note 9	(183)	(534)
(Loss) Profit for reporting period		<u>(969)</u>	<u>1,916</u>

CHAUCER INSURANCE COMPANY DESIGNATED ACTIVITY COMPANY

Statement of Financial Position
As at 31st December 2021
All amount in US\$'000 unless stated otherwise

	Notes	2021	2020
Assets			
Other financial investments			
Debt securities and other fixed income securities	Note 10	132,341	91,238
		132,341	91,238
Reinsurers' share of technical provisions			
Provision for unearned premiums	Note 11	115,804	57,829
Claims outstanding	Note 11	131,987	58,255
		247,791	116,084
Debtors			
Debtors arising out of insurance operations	Note 12	59,871	40,554
Debtors arising out of reinsurance operations	Note 13	33,025	8,271
Other debtors		241	158
		93,137	48,983
Other assets			
Cash at bank		40,515	37,156
Deferred tax asset	Note 9	859	489
		41,374	37,645
Prepayments and accrued income			
Deferred acquisition costs	Note 11	33,409	15,469
Other prepayments and accrued income	Note 14	970	496
		34,379	15,965
Total assets		549,022	309,915
Liabilities			
Capital and reserves			
Called up share capital	Note 15	1,000	1,000
Capital contribution	Note 15	105,000	105,000
Profit and loss account brought forward		(2,224)	(4,140)
Profit and loss account for the reporting period		(969)	1,916
Total shareholder's funds		102,807	103,776
Technical provisions			
Provision for unearned premium	Note 11	126,724	63,060
Claims outstanding	Note 11	142,501	62,857
		269,225	125,917
Creditors			
Creditors arising out of insurance operations	Note 16	95,178	45,776
Creditors arising out of reinsurance operations	Note 17	41,618	12,468
Other creditors including tax and social insurance	Note 18	6,885	6,871
Ceded deferred acquisition costs	Note 11	30,132	13,921
Accruals and deferred income	Note 19	3,177	1,186
Total liabilities		176,990	80,222
Total liabilities and shareholder's funds		549,022	309,915

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the directors on 7th April 2022 for issue and signed on its behalf by:

J Sutcliffe
Director



N Riordan
Director



Statement of Changes in Equity
For the year ended 31st December 2021
 All amount in US\$'000 unless stated otherwise

2021	Called-up share capital	Capital contribution	Profit and loss account	Total
Balance as at 1 st January 2021	1,000	105,000	(2,224)	103,776
Shares issued	-	-	-	-
Capital Contributions received during the period	-	-	-	-
Loss for the period	-	-	(969)	(969)
Balance as at 31st December 2021	1,000	105,000	(3,193)	102,807

2020	Called-up share capital	Capital contribution	Profit and loss account	Total
Balance as at 1 st January 2020	1,000	55,000	(4,140)	51,860
Shares issued	-	-	-	-
Capital Contributions received during the period	-	50,000	-	50,000
Profit for the period	-	-	1,916	1,916
Balance as at 31st December 2020	1,000	105,000	(2,224)	103,776

NOTES TO THE FINANCIAL STATEMENTS

For the reporting period ended 31st December 2021

1. General Information

CIC, incorporated in Ireland on 16th August 2016, is a single member Designated Activity Company, limited by shares. CIC's registered office is 38 & 39 Baggot Street Lower, Dublin 2, Ireland, D02 T938. The Company is wholly owned by CRICL, a UK based entity that is also the Parent Company for Chaucer, the managing agent for Chaucer's syndicates operating Lloyd's. CRICL is a member of China Re. China Re, headquartered in Beijing, is a Chinese insurance group and is listed on the Hong Kong stock exchange. A copy of the most recent consolidated financial statements, prepared under IFRS, is available from the website of China Re. (www.eng.chinare.com).

CIC is regulated by CBI following authorisation on 16th June 2017 to write non-life insurance business. CIC headquartered in Dublin, has established branches in the UK, Denmark and Bermuda. The UK branch is currently authorised under the PRA Temporary Permissions regime. The Company is in the process of applying for full third country branch status. The Denmark Branch operates on a freedom of establishment basis under the EU Solvency II Directive; and the Bermuda Branch is authorised as a third country branch by the BMA. All branches operate from the offices of affiliated Chaucer entities through outsourcing arrangements with these affiliates leveraging the existing operational resources of Chaucer.

2. Statement of Compliance

The financial statements of the Company have been prepared on a going concern basis and in accordance with Irish GAAP (accounting standards issued by the Financial Reporting Council of the UK and Republic of Ireland) and Irish law. The entity financial statements comply with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, Insurance Contracts ("FRS 103"), the European Union (Insurance Undertakings: Financial Statements) Regulation 2015 and the Companies Act 2014.

3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. All amount disclosed in the financial statements are in US\$ thousands unless stated otherwise.

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standards 102 & 103 ("FRS 102 & 103") issued by the Financial Reporting Council. The Company is also subject to the requirements of the Companies Acts 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015.

The directors have a reasonable expectation that the Company will continue in operational existence for twelve months from the date of approval of these financial statements ('the period of assessment') and have prepared the financial statements on a going concern basis.

In making this assessment the directors considered a number of factors, including but not limited to, the following:

- the Company's performance and expected levels of growth planned for the next 12 months;
- the Company's strong capital and liquidity position, and also the ongoing capital support it receives through the 90% quota share agreement from a Group affiliate entity;
- events after the balance sheet date; and,
- the relatively low impact of COVID-19 on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant Accounting Policies (continued)

(b) Disclosures Exemptions for Qualifying Entities under FRS 102

The Company is a qualifying entity for the purposes of FRS 102. Note 1 gives details of the Company's parent and where its consolidated financial statements prepared in accordance with IFRS may be obtained.

As a qualifying entity the Company has availed of an exemption from the disclosure requirements of FRS 102 in the preparation of these financial statements. The Company is exempt under the terms of FRS 102 from preparing a cash flow statement and disclosing related party transactions with the ultimate parent company or any of its wholly owned subsidiaries. In addition, in accordance with FRS 102 the Company, has availed of the exemption to disclose key management personnel compensation.

(c) Foreign Currencies

These financial statements are presented in United States Dollar ("US\$"), which is the currency of the Company's primary economic environment, and therefore it's functional currency.

Foreign currency transactions are translated into the functional currency using the average exchange rates applicable to the period in which the transactions take place and where the Company considered these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit and loss non-technical account. Non-monetary items recorded at historical cost in the foreign currencies are translated using the exchange rate on the date of the initial transaction.

(d) Insurance Contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those contracts that transfer significant insurance risk. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

(i) Premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Gross premiums written are shown gross of acquisition costs, taxes and duties levied on them. Estimates are made for pipeline premiums; representing amounts due to the Company which have not yet been notified.

Gross written premiums are recognised as earned according to the profile of the policy.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. Outwards reinsurance premiums are recognized as ceded in accordance with the respective reinsurance contract. Premiums earned are presented net of reinsurance in the profit and loss account.

(ii) Unearned premiums

Unearned premiums represent the proportion of the gross premiums written that relate to unexpired risks under contracts in force at the period end date, calculated on the basis of established earnings patterns or time apportionment, as appropriate. The unexpired portion of outwards reinsurance premiums purchased by the Company is amortized over the contract period in proportion to the amount of insurance protection provided. The ultimate amount of premiums, including adjustments, is recognised as premiums ceded, and amortized over the applicable contract period to which they apply.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant Accounting Policies (continued)

(iii) Acquisition costs

Acquisition costs consist of brokerage fees and commissions paid to intermediaries and costs directly related to the acquisition and renewal of insurance contracts. Acquisition costs are deferred to the extent that they are attributable to premiums unearned at the period end date.

(iv) Reinsurance commission

Reinsurance commission income is earned over the period in which the related premiums are ceded.

(v) Claims incurred

Gross claims incurred comprise the estimated cost of all claims arising during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

(vi) Claims provision and related recoveries

The provision for claims outstanding is assessed on an individual case basis and is determined on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods. The provision for claims outstanding is not discounted.

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. When past experience is not available to develop claims projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions, which may lead to a high degree of volatility.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year. A number of statistical methods are used to assist in making these estimates.

In estimating reserves, the Company utilizes a variety of standard actuarial methods. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known.

(vii) Liability adequacy testing

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after considering anticipated investment return.

(viii) Receivables and payables

Insurance and reinsurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers, insurance contract holders and ceded premium payable under reinsurance contracts, including to/from affiliates. Receivables and reinsurance payables are carried at cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant Accounting Policies (continued)

(e) Financial Assets

The Company has chosen to apply the provisions of Sections 11 and 12 of FRS 102 to account for all its financial instruments.

Investments are recognised in the Statement of Financial Position at such time as the Company becomes a party to the contractual provisions of the asset. Purchases and sales of investments are recorded on a trade date basis. All investments on initial recognition are designated as fair value through profit and loss and are measured at fair value, which is the transaction price excluding transaction costs. The Company's investment portfolio comprises solely of debt securities and other fixed income securities.

The directors consider the fair value through profit and loss option to be appropriate as investments are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to key management personnel. In addition, investment risk is assessed on a total return basis, which is consistent with the adoption of fair value through profit and loss.

(i) Unrealised gains and losses

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

(ii) Realised gains and losses

The realised gains and losses on disposal of an investment, carried at market value, are calculated as the difference between sale proceeds and its original cost.

(iii) Interest Income

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

(iv) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and other charges. In the normal course of business, investment return is allocated from the non-technical account to support the insurance technical provisions.

(f) Cash at Bank

Cash at bank in the Statement of Financial Position represent cash balances lodged with our custodian and banks with maturity dates in less than 3 months from the date of acquisition.

(g) Taxation

The tax expense represents the sum of the current tax charge and the deferred tax movement for the reporting period.

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit on ordinary activities as reported in the profit and loss account because it excludes certain items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates applicable at the Statement of Financial Position date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant Accounting Policies (continued)

(g) Taxation (continued)

Deferred tax

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date.

Deferred tax assets are recognized only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The carrying amount of deferred taxation assets is reviewed at the statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(h) Operating Expenses

Operating expenses are recognised on an accruals basis. These include remuneration, professional fees, other office costs and costs associated with outsourcing arrangements.

(i) Dividends

Dividends paid or declared during the year are recognised as a reduction in equity. Dividends declared after the balance sheet date but before the financial statements are authorised are not recognised but are disclosed in the notes to the financial statements. The Company has not declared, or paid, any dividends during the reporting period or before the financial statements are authorised.

(j) Employee Benefits

The Company participates in a defined contribution pension plan operated by Willis Towers Watson. The assets of the defined contribution pension plan are held in separate trustee-administered funds. The pension plan is funded by payments from employees and by the Company.

Once the contributions have been paid by the Company, the Company, as the employer, has no further payment obligation under the plan. The Company contributions are charged to the profit and loss account in the year to which they relate and are included in staff costs.

(k) Events after the Statement of Financial Position date

The financial statements are required to be adjusted to reflect events that occurred between the Statement of Financial Position date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the Statement of Financial Position date. Events that are indicative of conditions that arose after the Statement of Financial Position date, but do not result in an adjustment of the financial statements are disclosed where relevant.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Significant Accounting Policies (continued)

(l) Provisions and Contingencies

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where a reimbursement is expected, this is recognised only when it is virtually certain that the reimbursement will take place, and of the amount to be reimbursed.

Contingent liabilities are liabilities that represent a possible obligation arising from a past event whose existence is dependent on one or more uncertain future events not within the control of the Company, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not disclosed where the likelihood of the uncertain future event is remote, unless the disclosure of the contingent liability adds clarity to the financial statements.

Contingent assets, which relate to possible assets and depend on the outcome of uncertain future events, are not recognised. Such an asset is disclosed only where the inflow of economic benefit is probable.

(m) Use of judgements and Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and the underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Ultimate liability arising from claims made under insurance contracts

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the balance sheet date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Company uses a variety of estimation techniques based upon statistical analyses of historical experience, which assumes past trends can be used to project future developments. The carrying amount of the liability at 31st December 2021 is \$142,501 (2020: \$62,857).

Fair Value Measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available as well as representing actual and regularly occurring market transactions on an arm's length basis. The Company's investments are measured at a bid price. These prices are monitored and deemed to approximate exit price.

If a market for an investment is not active, the Company establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models, if necessary. The chosen valuation technique makes maximum use of market inputs and minimises the use of unobservable inputs. See note 10 for further detail on the Company's valuation of its investments as at 31st December 2021.

Premium Recognition

Please refer to note 3 (d)(i).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management

The assumption of risk is at the heart of the Company's business. The understanding and management of risk, in all its forms, is a core part of the business operations. The Company has a clearly defined governance structure and framework for risk management grounded in the need to properly identify, measure, manage, mitigate and monitor risks the organisation faces in an appropriate and proportionate manner. CIC also adopts a culture that encourages good risk management practices, including remuneration policies and practices that do not encourage excessive risk taking, a code of conduct and a whistleblowing policy that both encourage and provide proper mechanisms for escalating any concerns employees might have.

The primary objectives of the Company's risk management framework are to ensure that the business has a repeatable process for identifying risk, conducting risk assessments and reporting on risks related to its pursuit of strategic and business objectives; and ensuring that it is commercially effective and supports senior management and Board level decision making. The Company believes that effective risk management forms a critical part of the governance framework and as a result, has adopted effective controls and management processes designed to identify, monitor and control risks across all areas of the risk universe.

The Company's risk management framework has been adapted from Chaucer's existing framework in a manner that is proportionate to the size, nature and complexity of the Company's business.

a) Governance Framework

The Company has a clearly defined governance structure for risk management. The Board of Directors ("the Board") is responsible for strategic and operational oversight of the Company. The Board comprises a mix of executives, non-executives ("NEDs") and Independent Non-Executive Directors ("INED's"). This provides a balance of diverse thinking with extensive business knowledge and sectoral experience.

Whilst the Board has ultimate responsibility for the Company's oversight and governance, Committees have been established to support the Board in this regard. The Board has approved the terms of reference for each respective Committee. Each Committee is comprised of Board members or a combination of Board members and the Company's senior management, which serves to enhance the Board's consideration of risk related issues. These committees have the power to carry out activities on behalf of the Board, to the extent such activities are set out in the approved terms of reference.

The Risk & Capital Committee oversees the Company's risk management systems and controls including its risk appetite and Own Risk Self-Assessment ("ORSA"), linking to the capital position. The Audit Committee oversees how management monitors compliance with the Company's internal control framework, including policies and procedures. The Audit Committee is assisted in its oversight role by the Internal Audit function. Internal Audit undertakes regular reviews of the risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Strategic Risk

Strategic risk arises from the failure to appropriately and sufficiently define and articulate the direction and objectives of the Company. This risk category will consider the ability of the Company to respond to external factors, its ability to write critical classes of business, outsourcing risk and other global economic factors.

These risks are mitigated by ensuring the Company has strong governance procedures and the necessary resources available to it, including a system of processes and internal controls to manage the associated risks. Furthermore, a risk assessment approach is adopted which uses risk appetites, limits linked to business plans, along with aggregation and accumulation management. Additionally, the Company has a well-developed business planning process which is closely aligned with the ORSA process, and approved by the Board.

The Company's strategic risk is also mitigated through direct relationships with both CIC's ultimate parent and affiliate Chaucer, through membership of the Board by China Re and Chaucer executives.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

c) Capital Management

This is the risk that the Company fails to maintain adequate levels of capital resources of sufficient quality and quantity in order to carry out its business objectives and in order to meet all domestic and international regulatory considerations regarding the capital resource requirements.

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a strong going concern so that it can continue to provide returns for its stakeholders and pay claims; and,
- ensure that there is adequate capital to fulfil the regulatory requirements, as well as economic and commercial targets.

The Company is subject to the Solvency II European Directives that came into effect on 1st January 2016. Under Solvency II regulations, the Company is required to maintain the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR") at all times. The capital requirements are calculated by reference to standard formulae as defined in Solvency II, to ensure the Company has adequate capital and financial resources to fulfil its obligations. The MCR is the level of capital below which the Company would be deemed insolvent for regulatory purposes. If the Company were to fall below the SCR threshold, the CBI is authorised to take action to restore the financial position of the Company.

The Company is in full compliance with its regulatory and solvency capital requirements throughout the year.

In addition to the Solvency II regulations, the Company's Bermuda branch operates as a Class 4 insurer and is subject to the Bermuda Insurance Act 1978. The branch is required to hold sufficient levels of capital in excess of the Bermuda Solvency Capital Requirements ("BSCR"), as calculated in accordance with the relevant Bermuda laws and regulations.

The Company may declare dividends out of retained earnings subject to meeting the Solvency Capital Requirement. The maximum dividend is limited to excess eligible own funds. In addition, in accordance with Section 117 of the Companies Act, 2014, the Company is restricted to declaring dividends out of "profits available for distribution", which consists of accumulated realised profits less accumulated realised losses and statutory reserves, subject to the Company continuing to meet its Solvency requirements. The Company has not declared dividend for the year ended 31st December 2021 (2020: \$0).

The capital position of the Company is monitored by the local management team and is reported to the Risk & Capital Committee, as well as the Board, on a quarterly basis.

d) Insurance Risk

Insurance is the principal activity of the Company and effective management of insurance risk, both underwriting and claims risk, is vital to ensure the Company meets its strategic and regulatory objectives.

Insurance risk includes the risk of loss to the Company as a result of inappropriate or ineffective underwriting processes, the risk of loss as a result of inappropriate or ineffective claims handling or the risk that the ultimate value of insurance liabilities prove to be greater than the estimated value, and the risk that inadequate pricing leads to unprofitable business. CIC leverages the expertise and knowledge of the underwriters at Chaucer through its outsourcing arrangements.

CIC takes a conservative approach to managing all aspects of underwriting risk. The limits are clearly defined within the Company's risk appetite statement, which is actively managed and reported to the Board on a quarterly basis. The maximum gross limit is \$100m per risk and maximum net retention after reinsurance is \$1.5m per risk. The appetite is supported by underlying internal control policies which define the standards to be followed by those involved in underwriting, claims, pricing and reserving. Underwriters have specific authority limits, which limit the extent to which they can bind business. The Company adopts a best estimate approach in determining its ultimate liability to policyholders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

d) Insurance Risk (continued)

The Company's reinsurance strategy is conservative, with reinsurance support provided by both external and group reinsurers. The reinsurers are typically rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets. The strategy is reviewed annually and is aligned to the capital and underwriting risk appetite in order to mitigate the underwriting and insurance risks and limit the risk of losses exceeding the Company's appetite.

Concentration

The Company's insurance risk exposures are mitigated by diversification across a portfolio of insurance contracts and geographical areas. The concentration of insurance by location of the underlying risk is summarised below by reference to gross claims outstanding:

	Gross	Reinsurers' share	Net
	2021	2021	2021
	US\$'000		
UK	(64,850)	60,066	(4,784)
Europe excl. UK	(35,185)	32,589	(2,596)
US	(33,823)	31,328	(2,495)
Other	(8,643)	8,004	(639)
At 31st December 2021	(142,501)	131,987	(10,514)

	Gross	Reinsurers' share	Net
	2020	2020	2020
	US\$'000		
UK	(36,091)	33,334	(2,757)
Europe excl. UK	(14,239)	13,184	(1,055)
US	(2,210)	2,075	(135)
Other	(10,317)	9,662	(655)
At 31st December 2020	(62,857)	58,255	(4,602)

The concentration of insurance by type of contract is summarised below by reference to gross claims outstanding:

	Gross	Reinsurers' share	Net
	2021	2021	2021
	US\$'000		
Class of Business			
Credit & Political Risk	(2,367)	2,291	(76)
Marine	(23,620)	21,416	(1,743)
Casualty	(39,236)	36,325	(2,895)
Property & Political Violence	(5,886)	5,466	(434)
Energy	(11,635)	11,199	(859)
Other	(2,797)	2,586	(260)
Total Direct	(85,541)	79,283	(6,213)
Reinsurance	(56,960)	52,704	(4,256)
At 31st December 2021	(142,501)	131,987	(10,514)

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

d) Insurance Risk (continued)

Class of Business	Gross	Reinsurers' share	Net
	2020	2020	2020
	US\$'000		
Credit & political	(9,235)	8,711	(405)
Marine	(15,503)	13,950	(1,539)
Casualty	(17,968)	16,584	(1,380)
Property & Political Violence	(2,774)	2,632	(267)
Energy	(1,376)	1,311	(69)
Other	(974)	891	(178)
Total Direct	(47,830)	44,079	(3,751)
Reinsurance	(15,027)	14,176	(851)
At 31st December 2020	(62,857)	58,255	(4,602)

Assumptions and sensitivities

The risks associated with the non-life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as ultimate claims numbers and expected loss ratio. The key methods used by the Company in estimating liabilities are:

- Chain ladder;
- Expected loss ratio;
- Benchmarking; and,
- Bornhuetter-Ferguson.

The Company considers that the liability for insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

Some results of the sensitivity analysis are set out below, showing the impact on profit before tax and shareholder's equity gross and net of reinsurance. The sensitivity impact shown is a single factor, with all other assumptions unchanged.

	Pre-Tax Profit	Equity	Pre-Tax Profit	Equity
	2021	2021	2020	2020
	US\$'000	US\$'000	US\$'000	US\$'000
5% Increase in loss ratios				
Gross	(6,347)	(5,204)	(3,133)	(2,506)
Net	(480)	(394)	(240)	(192)
5% Decrease in loss ratios				
Gross	6,347	5,204	3,133	2,506
Net	24	20	12	10

The Company's method for sensitivity analysis has not changed from the prior year financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

d) Insurance Risk (continued)

Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment. The top half of the table shows how estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

Estimate of Ultimates – gross	2018	2019	2020	2021	Total
<u>End of Reporting Year</u>	816	14,403	31,475	87,919	134,613
One year later	3,574	42,938	71,099		117,611
Two years later	10,626	41,865			52,491
Three year later	10,101				10,101
Current estimate of ultimate claims	10,101	41,865	71,099	87,919	210,984
Cumulative payments	(8,295)	(26,826)	(19,610)	(13,752)	(68,483)
Liability recognised in Balance Sheet	1,806	15,039	51,489	74,167	142,501
Provision for prior financial years					-
Liability in Balance Sheet					142,501

Estimate of Ultimates – net	2018	2019	2020	2021	Total
<u>End of Reporting Year</u>	43	1,173	2,612	6,596	10,424
One year later	255	3,544	5,821		9,620
Two years later	643	3,663			4,306
Three year later	266				266
Current estimate of ultimate claims	266	3,663	5,821	6,596	16,346
Cumulative payments	(396)	(2,527)	(1,795)	(1,114)	(5,832)
Liability recognised in Balance Sheet	(130)	1,136	4,026	5,482	10,514
Provision for prior financial years					-
Liability in Balance Sheet					10,514

e) Market Risk

Market risk is the risk that changes in market prices, arising primarily from changes in interest rates and foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- The market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk & Capital Committee. The policy is reviewed regularly for pertinence and for changes to the risk environment;
- Investment guidelines are set to ensure that the investment manager operates within the portfolio parameters; and,
- There is strict control over hedging activities (only currency hedging is permitted).

Interest rate risk is the risk that the fair value or future cash-flows of a financial instrument will fluctuate because of changes in interest rates. This exposure arises for the Company through its debt securities and other fixed income portfolio. In order to mitigate this risk, the Company adopts conservative investment guidelines ensuring the safety of the principal investment is the core focus while also generating a reasonable return. Furthermore, the Company actively monitors its asset and liability matching to ensure the duration of the fixed maturities relative to the duration of the (re)insurance liabilities is within a tolerated range so that the economic value of changes in interest rates has offsetting effects on the Company's assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

e) Market Risk

As at 31st December 2021, if interest rates on debt securities had been 100bps higher/lower with all other variables held constant, shareholder's equity would have been higher/lower by \$3.2 million, respectively (2020: lower by \$2.9 million and higher by \$2.4 million).

Foreign exchange risk is the risk that arises from fluctuation of foreign exchange rates that impacts the fair value of future cash flows.

The Company manages its foreign currency risk exposures by calculating the net exposures (assets less liabilities), in original currency, on a regular basis and the expected return range (based on the historical volatility of exchange rates) is assessed against a predetermined tolerance band. Where the expected return is outside of the tolerance band, the Company looks to rebalance net exposures and reduce overall currency risk.

The following table details the Company's sensitivity to a 10% increase and decrease in the US dollar against the relevant foreign currencies for the year end 31st December 2021 and 2020. A 10% sensitivity rate is used when reporting foreign currency risk as it represents a reasonable possible change in foreign exchange rates. For each sensitivity, the impact of change in a single factor is shown, with other assumptions unchanged.

	Pre-Tax Profit	Equity	Pre-Tax Profit	Equity
	2021	2021	2020	2020
	US\$'000	US\$'000	US\$'000	US\$'000
10% Strengthening in rates	2,745	2,251	645	564
10% Weakening in rates	(3,355)	(2,751)	(787)	(689)

f) Credit Risk

The Company defines credit risk as the risk that a counterparty to a contract fails or fails to discharge an obligation, thereby causing financial loss to the Company. The Company is exposed to credit risk through its investment portfolio (including cash in banks) and through its exposure to reinsurance counterparties (i.e. companies with whom the Company places reinsurance) and intermediaries. In the event that any of the counterparties fail, the Company would incur a loss on its financial assets or reinsurance recoverable.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Counterparty risk policy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk & Capital Committee. The policy is reviewed regularly for pertinence and for changes to the risk environment.
- The credit risk related to cash, cash equivalents and fixed maturities are primarily mitigated by placing constraints on the credit quality of the portfolio and managing the concentrations with single providers.
- The credit risk related to reinsurers is primarily mitigated through robust reviews of all reinsurer counterparties with whom the Company wishes to conduct business and setting credit thresholds for the total potential recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing within the market.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

f) Credit Risk (continued)

The following table provides details regarding the investment credit risk exposure of the Company, classifying debt security counterparties by Standard & Poor's (or equivalent) credit ratings of the counterparties:

Debt securities and other fixed incomes	2021		2020	
	US\$'000	%	US\$'000	%
AAA	66,026	50%	40,940	45%
AA	6,424	5%	4,656	5%
A	23,387	18%	21,681	24%
BBB	32,506	24%	23,549	25%
BB or lower	3,998	3%	412	1%
Total	132,341	100%	91,238	100%

As at 31st December 2021, approximately 99% (2020: 98%) of the Company's reinsurers share of technical provisions are rated A (+/-), the largest being with an affiliate entity China Re P&C. Cash and cash equivalents are held with banks and financial institution counterparties which are rated as follows by Standard & Poor's (or equivalent):

Cash at Bank	2021		2020	
	US\$'000	%	US\$'000	%
AA	3,319	8%	3,297	9%
A	36,370	90%	33,296	90%
BBB	826	2%	563	1%
Total	40,515	100%	37,156	100%

The following table shows the carrying value of assets that are neither past due or impaired and the ageing of the assets. No assets are impaired at the reporting date.

	Neither due nor impaired	Up to three months	Three to six months	Greater than six months	Total
	2021				
	US\$'000				
Debtors arising out of insurance operations	51,322	4,507	1,827	2,215	59,871
Debtors arising out of reinsurance operations	28,132	3,075	1,227	591	33,025
Other debtors	970	-	-	-	970
Total credit risk	80,424	7,582	3,054	2,806	93,866
	2020				
	US\$'000				
Debtors arising out of insurance operations	35,580	3,377	541	1,056	40,554
Debtors arising out of reinsurance operations	7,701	274	208	88	8,271
Other debtors	496	-	-	-	496
Total credit risk	43,777	3,651	749	1,145	49,321

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

d) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. In respect of catastrophic events, there is also a liquidity risk associated with the timing difference between gross cash out-flows and expected reinsurance recoveries. The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk to the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk & Capital Committee. The policy is regularly reviewed for pertinence and for changes to the risk environment;
- Guidelines are set for asset allocations, maturity profile of assets and working capital limits in order to ensure sufficient funding available to meet insurance and investment contract obligations;
- Minimum liquidity limits are set at a level designed to ensure CIC has sufficient funds to meet obligations and is not forced to sell assets at a significant discount to true economic value; and
- A cash-call provision is incorporated in the intra-group quota share agreement to significantly reduce the impact of timing differences between settlement of large inward claims and the receipt of related recoveries from the reinsurer to ensure CIC remains within its liquidity limits.

There were no changes to the Company's objectives, policies and processes for managing liquidity risk during the financial year.

The following table summarises the maturity profile of the Company's undiscounted contractual obligations with respect to its gross claims outstanding as at 31st December 2021 and 2020:

	Up to 1 year	1-5 years	Over 5 years	No maturity	Total
2021					
\$'000					
Claims outstanding	57,769	63,238	21,494	-	142,501
Creditors arising out of insurance	-	-	-	95,178	95,178
Creditors arising out of reinsurance	-	-	-	41,618	41,618
Other Creditors including tax	6,885	-	-	-	6,885
Accruals & deferred income	3,177	-	-	-	3,177
Total	67,831	63,238	21,494	136,796	289,359
2020					
US\$'000					
Claims outstanding	28,270	29,495	5,092	-	62,857
Creditors arising out of insurance	-	-	-	45,776	45,776
Creditors arising out of reinsurance	-	-	-	12,468	12,468
Other Creditors including tax	6,871	-	-	-	6,871
Accruals & deferred income	1,186	-	-	-	1,186
Total	36,327	29,495	5,092	58,244	129,158

The Company expects to meet its obligations from operating cash flows and proceeds from maturing financial assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Risk Management (continued)

e) Operational Risk

Operational risk is the risk of loss arising from processes, procedures, human or system inadequacy or failure, loss of key personnel, outsourcing relationship failures or other external events. It includes legal, regulatory and reputational risks in addition to technology and cyber risks. It extends to any ineffectiveness in internal controls which could have an adverse effect on the Company's business. Instances of ineffective internal control, include but are not limited to, poor quality management information or IT systems to capture data and business performance or, a potential lack of control over the actions of third parties operating on behalf of the Company.

The Company manages this risk through a combination of operational risk management, supported by internal controls, control policies, processes and procedures, segregation of duties and the three lines of defence model. It is however recognised that achieving complete system and process resilience to ensure no losses could ever occur would entail impractical measures and unacceptable cost management seeks to balance the risk through the overall enterprise risk management.

5. Segmental information

(a) Analysis of gross written premiums by geographic location

	2021 US\$'000	2020 US\$'000
United Kingdom	112,592	77,990
US	84,623	8,439
Europe	66,076	23,131
Other	19,533	14,727
Total	282,824	124,287

(b) Analysis of gross written premiums by geographic location of underwriting office

	2021 US\$'000	2020 US\$'000
Ireland	28,943	11,447
United Kingdom	182,544	102,220
Denmark	33,738	10,620
Bermuda	37,599	-
Total	282,824	124,287

Please note the Bermuda branch commenced underwriting on 1st January 2021.

(c) Analysis of gross written premiums written, gross premium earned, gross claims incurred, gross operating expenses and reinsurance balances by class of business

2021	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balances
	US\$'000				
Direct					
Marine	52,293	42,582	19,531	13,109	(2,515)
Casualty	81,024	57,602	29,785	20,311	163
Property & Political Violence	26,871	16,212	6,972	6,736	(1,449)
Aviation	6,819	4,791	1,838	1,709	(664)
Energy	14,345	13,963	11,077	3,596	4,126
Other	4,202	3,628	333	1,054	(1,625)
Total Direct	185,554	138,778	69,536	46,515	(1,964)
Reinsurance	97,270	76,472	57,403	24,383	19,142
Total	282,824	215,250	126,939	70,898	17,178

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Segmental information

2020	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balances
US\$'000					
Direct					
Marine	34,653	29,537	14,263	9,951	(2,933)
Casualty	44,111	38,585	23,398	12,668	803
Property & Political Violence	9,095	7,048	3,415	2,612	(688)
Aviation	3,781	1,917	904	1,086	(211)
Energy	7,279	2,589	1,295	2,090	(214)
Other	272	3,494	7,607	78	5,285
Total Direct	99,191	83,170	50,882	28,485	2,042
Reinsurance	25,096	18,566	11,838	7,207	952
Total	124,287	101,736	62,720	35,692	2,994

6. Investment Return

	2021 US\$'000	2020 US\$'000
Investment income		
Interest from financial assets at fair value through profit and loss	2,385	1,353
Other interest and similar income	1	41
	<u>2,386</u>	<u>1,394</u>
Investment return		
Realised losses on investments	(629)	(308)
Unrealised (losses) gains on investments	(2,997)	1,269
Investment expenses and charges		
Investment manager expenses	(193)	(150)
Net investment (expense) income	<u>(1,433)</u>	<u>2,205</u>
	2021 US\$'000	2020 US\$'000
Investment return is analysed between		
Allocated investment return transferred to the technical account	(1,433)	2,205
Net investment return included in the non-technical account	-	-
Net investment return	<u>(1,433)</u>	<u>2,205</u>

7. Net Operating Expenses

The net operating expenses of the Company for the reporting period ended 31st December 2021 and 2020 are as follows:

	2021 US\$'000	2020 US\$'000
Service charges from related parties	10,656	3,302
Other expenses	8,285	4,460
Gross acquisition costs	51,957	27,930
Ceded acquisition costs and override	(63,712)	(32,547)
Total	<u>7,186</u>	<u>3,145</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Net Operating Expenses (continued)

Included within other expenses for the reporting period ended 31st December 2021 and 2020 is the following:

Auditors' remuneration

Remuneration (including expenses) for the statutory audit and other services carried out for the Company by the Company's auditors is as follows:

	2021	2020
	US\$'000	US\$'000
Audit of entity financial statements	133	101
Other assurance services	55	47

The remuneration for other assurance services was for the audit of the Solvency II annual return to the CBI.

8. Employees and Directors

(a) Employees

The average number of persons, including executive directors, employed by the Company during the period was as follows:

	2021	2020
	Number	Number
Risk & Compliance	4	3
Actuarial	1	1
Underwriting	1	1
Finance	4	3
Management	1	1
Operations	3	2
Average	14	11

Through its outsourcing arrangements, the Company utilises the staff and other resources of Chaucer Underwriting Services Limited in the UK, Chaucer ApS in Denmark and Chaucer Bermuda Services Limited in Bermuda. The Company pays service charges to each entity in respect of services provided.

Staff costs comprise:

	2021	2020
	US\$'000	US\$'000
Wages and salaries	2,834	1,920
Social Insurance costs	247	186
Other retirement benefit costs	197	139
Total	3,278	2,245

All the amounts stated above were treated as an expense of the Company in the financial statements. No amount was capitalised into assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Employees and Directors (continued)

(b) Directors emoluments

The directors' remuneration analysed under the headings required by company law are set out below:

	2021 US\$'000	2020 US\$'000
Emoluments		
For services as director	984	459
For other services	-	-
Gain on exercise of share options during the year	-	-
Pensions		
For services as director	58	29
For other services	-	-
Compensation for loss of office paid by the Company and other termination payments	-	-
Total	1,042	488

The remuneration of executive directors is included within the Staff costs as disclosed under Section 8 (a). The remuneration of group non-executive directors is paid by their respective employer within the group. Their services to this Company are of a non-executive nature and their remuneration is deemed to be wholly attributable to their services to their employer. Accordingly, the above details include no remuneration in respect of group non-executive directors.

9. Tax Expense on ordinary activities

The income tax expense for the reporting period ended 31st December 2021 and 2020 comprises:

	2021 US\$'000	2020 US\$'000
Current Tax:		
Irish corporation tax	4	5
Overseas Tax:		
UK corporation tax	549	234
Danish corporation tax	-	74
Total current tax	553	313
Deferred tax:		
Origination and reversal of timing differences	(628)	208
Adjustments in respect of prior year	258	13
Total deferred tax	(370)	221
Total current and deferred tax expense	183	534

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Tax Expense on ordinary activities

The reconciliation of the income tax expense/(benefit) is shown below. The actual income tax benefit differs from that resulting from applying the standard rate of corporation tax in Ireland of 12.5%.

The differences are explained below:

	2021 US\$'000	2020 US\$'000
Profit (Loss) on ordinary activities before tax	786	2,450
Tax at 12.5%	(98)	306
<i>Effects of:</i>		
- Different tax rates applied in other jurisdictions	23	210
- Adjustments in respect of prior year	258	18
Total income tax expense	183	534

The tax expense/(benefit) for future years will be affected by similar factors as noted above. Although the rate of corporation tax in Ireland is 12.5%, it is higher for the UK Branch and Danish Branch, at 19% and 22% respectively.

The deferred tax assets are measured at relevant corporation tax rate. The Company assesses the recoverability of the deferred tax assets based on future taxable income projections and considers that the following deferred tax assets as at 31st December 2021 and 2020 are recoverable.

	2021 US\$'000	2020 US\$'000
Opening deferred tax asset	489	710
Adjustment in respect of prior year	(258)	(13)
Utilisation of tax losses during the year	-	(284)
Tax losses carried forward	628	76
Total deferred tax asset as at 31st December	859	489

10. Other Financial Investments

The cost and fair value of the investments at fair value through the profit and loss at 31st December 2021 and 2020 were as follows:

	Cost 2021 US\$'000	Fair Value 2021 US\$'000	Cost 2020 US\$'000	Fair Value 2020 US\$'000
Debt securities and other fixed income securities	133,859	132,341	89,759	91,238

The table below analyses financial instruments carried at fair value, by valuation method:

	Level 1	Level 2	Level 3	Total
Fair Value categories at 31st December 2021	US\$'000			
US Treasury	23,853	-	-	23,853
US agency bonds	-	31,011	-	31,011
Non-US Government & Supranational Bonds	-	12,726	-	12,726
Municipal bonds	-	2,269	-	2,269
Corporate bonds	-	62,482	-	62,482
Total Debt and other fixed income securities	23,853	108,488	-	132,341

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Other Financial Investments

	Level 1	Level 2	Level 3	Total
Fair Value categories at 31 st December 2020	US\$'000			
US Treasury	10,067	-	-	10,067
US agency bonds	-	30,342	-	30,342
Non-US Government & Supranational Bonds	-	-	-	-
Municipal bonds	-	2,469	-	2,469
Corporate bonds	-	48,360	-	48,360
Total Debt and other fixed income securities	10,067	81,171	-	91,238

The fair value hierarchy has the following levels:

- (a) Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (b) Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and,
- (c) Level 3: Unobservable inputs for the asset or liability.

At 31st December 2021, the Company's Level 1 fixed maturities comprise US Treasury issues that are highly liquid and for which quoted market prices are available. All other fixed maturities are included in Level 2. Level 2 securities are valued using pricing for similar securities and pricing models that incorporate observable inputs, but not limited to yield curves and issuer spreads.

The Company utilises a third-party pricing service for the valuation of the majority of its debt securities and other fixed income securities and receives one quote per security. When quoted market prices in an active market are available, they are provided by the pricing service as the fair value and such values are classified as Level 1. Since debt securities and other fixed income securities other than US Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value for those securities using pricing applications based on a market approach.

Inputs into the fair value pricing common to all asset classes include: benchmark US Treasury security yield curves; reported trades of identical or similar debt securities; dealer quotes of identical or similar debt securities and structural characteristics such as maturity date, coupon, mandatory principal payment dates, frequency of interest and principal payments, and optional redemption features. At 31st December 2021, the Company does not hold any debt securities in Level 3.

The Company does not have any restrictions on its investment portfolio at 31st December 2021.

11. Reconciliation of insurance balances

(a) Deferred acquisition costs

	Gross	Reinsurers' share	Net
	2021	2021	2021
	\$'000		
At 1 st January 2021	15,469	(13,921)	1,548
Acquisition costs deferred during the year	69,897	(79,923)	(10,026)
Amortisation	(51,957)	63,712	11,755
At 31st December 2021	33,409	(30,132)	3,277

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Reconciliation of insurance balances

	Gross	Reinsurers' share	Net
	2020	2020	2020
	\$'000		
At 1 st January 2020	10,632	(9,611)	1,021
Acquisition costs deferred during the year	32,767	(29,385)	3,382
Amortisation	(27,930)	25,075	(2,855)
At 31st December 2020	15,469	(13,921)	1,548

Ceded deferred over-rider commissions are disclosed under Creditors arising out of reinsurance operations.

(b) Unearned premium provision

	Gross	Reinsurers' share	Net
	2021	2021	2021
	\$'000		
At 1 st January 2021	(63,060)	57,829	(5,231)
Movement in the year	(63,664)	57,975	(5,689)
At 31st December 2021	(126,724)	115,804	(10,920)

	Gross	Reinsurers' share	Net
	2020	2020	2020
	\$'000		
At 1 st January 2020	(37,849)	34,810	(3,039)
Movement in the year	(25,211)	23,019	(2,192)
At 31st December 2020	(63,060)	57,829	(5,231)

(c) Claims outstanding

	Gross	Reinsurers' share	Net
	2021	2021	2021
	\$'000		
At 1 st January 2021	(62,857)	58,255	(4,602)
Movement in the year	(79,644)	73,732	(5,912)
At 31st December 2021	(142,501)	131,987	(10,514)

	Gross	Reinsurers' share	Net
	2020	2020	2020
	\$'000		
At 1 st January 2020	(14,480)	13,379	(1,101)
Movement in the year	(48,377)	44,876	(3,501)
At 31st December 2020	(62,857)	58,255	(4,602)

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Reconciliation of insurance balances (continued)

As at 31st December 2021 and 2020, the Company benefitted from an internal quota share arrangement with an affiliated group entity, whereby the Company cedes 90% of the business, net of any other inuring reinsurance. Reinsurers' share of the technical provisions as set out in the Statement of Financial Position, includes an asset of \$131,987 (2020: \$58,255) in respect of claims outstanding. Included in this amount is \$94,638 (2020:\$40,845) recoverable under the internal quota share agreement. The remaining \$37,349 (2020: \$17,410) represents amounts recoverable from non-group reinsurers.

The change in provisions for unearned premium and claims outstanding differs slightly to the amounts disclosed in the Profit and Loss Account, respectively, due to the revaluation of the Balance Sheet using closing foreign exchange rates.

12. Debtors arising out of insurance operations

	2021 US\$'000	2020 US\$'000
Premiums receivable from policyholders	59,871	40,554

13. Debtors arising out of reinsurance operations

	2021 US\$'000	2020 US\$'000
Due from reinsurers	33,025	8,271

14. Other Prepayments and Accrued Income

Amounts falling due within one year:

	2021 US\$'000	2020 US\$'000
Accrued Interest	588	492
Prepayments and other	382	4
Other assets	970	496

15. Called up share capital

At 31st December 2021 and 2020, the authorised share capital of the Company is 50,000,000 shares from which the Company has issued and fully paid 1,000,001 ordinary common shares, with a par value of \$1 per share.

The Company has one class of ordinary shares which carry no right to fixed income. All shares carry equal voting rights and rank for dividends to the extent to which the total amount on each share is paid up. See Note 4 for the Company's approach to capital management.

16. Creditors Arising out of Insurance Contracts

Creditors arising out of Insurance operations

	2021 US\$'000	2020 US\$'000
Premiums due to group reinsurers	77,525	27,037
Premiums due to other reinsurers	9,538	14,243
Ceded deferred acquisition costs over-rider group reinsurers	7,049	3,614
Ceded deferred acquisition costs over-rider other reinsurers	1,066	882
Total	95,178	45,776

All creditors amounts above are expected to be due within one year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Creditors Arising out of Reinsurance Contracts

Creditors arising out of reinsurance operations

	2021	2020
	US\$'000	US\$'000
Premiums due to group reinsurers	20,502	7,158
Premiums due to other reinsurers	19,458	4,645
Ceded deferred acquisition costs over-rider group reinsurers	1,480	566
Ceded deferred acquisition costs over-rider other reinsurers	178	99
Total	41,618	12,468

All creditors amounts above are expected to be due within one year.

18. Other Creditors including Tax and Social Insurance

Other creditors including tax and social insurance

	2021	2020
	US\$'000	US\$'000
Payable to affiliates entities	1,005	3,886
Other payables	5,813	2,939
PAYE and PRSI	67	46
Total other creditors	6,885	6,871

All creditors are due within one year.

19. Accruals and Deferred Income

Accruals and deferred income in the Statement of Financial Position comprise of accrued expenses that the Company has recognised at 31st December 2021 and 2020 including audit fees, legal fees and other professional fees.

20. Post-Employment Benefits

The Company operates a defined contribution retirement benefit scheme for all qualifying employees which is run independently by Willis Towers Watson. The total expense charged to the profit and loss in the reporting period ended 31st December 2021 was \$196 (2020: \$139).

21. Related Party Transactions

The Company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the China Re.

22. Commitments

The Company has not entered into any material non-cancellable operating leases during the year ended 31st December 2021 and 2020.

During the year, in the normal course of its operations, the Company entered into agreements with financial institutions to obtain unsecured letters of credit facilities for collateral purposes. As at 31st December 2021, the total amount of such credit facilities available to the Company was \$150,000. Under the terms of certain reinsurance agreements, irrevocable letters of credit were issued for a total of \$16,300 on an unsecured basis in respect of losses and unearned premium reserves. The agreements include default covenants, which could require the Company to fully secure the outstanding letters of credit to the extent that the facility is not already fully secured and/or result in the Company not being allowed to issue any new letters of credit. As at 31st December 2021, no conditions of default existed under these facilities

The Company had no other off-balance sheet commitments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Events after the reporting date

On 24th March 2022, the Board approved a capital injection of \$50,000 from its parent CRICL. This is a planned capital injection with the purpose of supporting the continued growth of the Company.

There are no other events that are material to the operations of the Company that have occurred since the reporting date which affect the Company's reported results for the year ended 31st December 2021.

24. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 7th April 2022 and were signed on its behalf on that day.