



BERMUDA MONETARY AUTHORITY

INNOVATIVE INSURER-GENERAL BUSINESS (IIGB) RETURN

2022 INSTRUCTION HANDBOOK

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A.OVERVIEW

A1. INTRODUCTION TO THE IIGB RETURN

Introduction

- A1.1 The capital and solvency return is an annual return relating to an insurer's risk management practices and information used by an insurer to calculate its Enhanced Capital Requirement (ECR) and Target Capital Level (TCL) as prescribed by Prudential Standard Rules (Rules) made under section 6A of the Insurance Act 1978 (the Act). Every IIGB shall submit to the Bermuda Monetary Authority (Authority or BMA) a completed capital and solvency return on or before its filing date. The most recent version of the capital and solvency return is available on the BMA website at: <https://www.bma.bm/document-centre/reporting-forms-and-guidelines-insurance> .
- A1.2 The capital and solvency model is used to calculate an insurer's ECR, an additional capital and surplus requirement imposed by Rules made under section 6A of the Act. The ECR of an insurer shall be calculated at the end of its relevant year by the higher of the Bermuda Solvency Capital Requirement (BSCR) model and an approved internal capital model, provided that the ECR amount is equal to or exceeds the Minimum Solvency Margin (MSM). The TCL of an insurer is calculated as 120% of the ECR and, although not a capital requirement per se, insurers are expected to hold eligible capital resources to cover it; failure to do so will result in additional reporting requirements and enhanced monitoring, and in the submission of a remediation plan to restore capital above the TCL.
- A1.3 The BSCR model calculates a risk-based capital measure by applying capital factors to capital and solvency return elements, including investments and other assets, operational risk and insurance risks, in order to establish an overall measure of capital and surplus for statutory solvency purposes. The capital factor established for each risk element, when applied to that element, produces a required capital and surplus amount. The individual capital amounts generated for each risk element (excluding operational risk) are then summed. Covariance adjustments are made to arrive at the BSCR (after covariance adjustment), which is further adjusted to include insurer-specific operational risk and capital add-ons, as assessed by the BMA, to finally produce the BSCR of an insurer.
- A1.4 An insurer's available statutory capital and surplus divided by the BSCR gives the BSCR ratio. An insurer's available statutory capital and surplus divided by the ECR gives the ECR ratio. The BSCR and ECR ratios will assist the BMA to evaluate the financial strength of an insurer.
- A1.5 The BSCR, ECR and TCL establish solvency capital levels that are used by the BMA to monitor the capital adequacy of IIGB insurers.

Purpose

- A1.6 This document presents clear instructions for persons responsible for computing the required capital and surplus and for submitting the completed capital and solvency return, including the BSCR model, to the BMA.
- A1.7 The capital and solvency return contains diverse risk elements of an insurer's operation and will likely require the participation of experienced individuals within the accounting, finance, and actuarial areas of the insurer. In order to ensure accurate completion, insurers are highly advised to refer to this instruction handbook.

Overview

- A1.8 Forms 1SFS, 2SFS and 8SFS are published in the Insurance (Technical Standards) (Class IIGB Insurer) (Statements, Returns and Capital Solvency) Rules 2020. The electronic copy of Forms 1SFS, 2SFS, 8SFS and Form 1EBS, and Schedules IIB, IIC, IID, IIE, IIF, IIA, III, IIIA, IV, IVA, IVC, IVD, IVE, IVF, V, V(a), V(c), V(e), V(g), V(k), V(l), VI, IX, X, XI(a)/(b), XII, XVI, XVII, XVIII, XIXA, XXA, XXIA, XXIII, and operational risk are included in the capital and solvency return and have been appropriately linked to the BSCR model, where applicable
- A1.9 Also included is an appendix containing a glossary of terms that is meant to clarify the meaning of any terms used within the capital and solvency return, as well as to provide guidance on reconciling totals.

Changes to the BSCR Formula

- A1.10 Periodically, changes to the BSCR formula may be necessary due to changes in the capital and solvency return, accounting requirements, and enhancements to the formula or to the capital factors. Any such changes will be communicated to insurers in a timely fashion, in order to allow adequate time for insurers to collect any additional information that may be required.

Work Papers and Supporting Documents

- A1.11 Work papers and documents used to prepare the BSCR submission should be retained and kept available for examination and discussion with the BMA, should the need arise.

Contact Person for Questions

- A1.12 Questions pertaining to the content or meaning of any of the items in this report should be addressed to riskanalytics@bma.bm.

A2. SUBMISSION

Background

- A2.1 For the 2019 year-end and beyond, insurers may file only an **electronic version** if they submit via the ‘submit’ macro embedded in the BSCR model. Otherwise, **both an electronic version and printed version** of the capital and solvency return is required to be forwarded to the BMA on or before its specified filing date. Insurers are advised to refer to the *BSCR E-Filing Manual*, available on the BMA website, for guidance on electronic filing. Insurers are also advised not to alter or modify the capital and solvency return or any part thereof.

Items

- A2.2 Input Data - Input data in each form and schedule, applicable.
- A2.3 Submit - Submit the capital and solvency return by clicking the ‘SUBMIT’ button.

Additional Guidance

- A2.i. If the insurer is having difficulty submitting the capital and solvency return following the above instructions, it is recommended to review the *BSCR E-Filing Manual* found on the Authority’s website: www.bma.bm > Document Center > Reporting Forms and Guidelines > Insurance
- A2.ii. If there are still issues with the submission, send an email to riskanalytics@bma.bm with the capital and solvency return attached. If the capital and solvency return is too large to send via email (limited to 15MB), the Authority will advise a course of action.

A3. CONTENTS

- A3.1 The Contents tab replaces the Index tab. The Contents tab has validation checks to various Forms/Schedules in the model as well as hyperlinks to each of the tabs in the model.
- A3.2 Insurers should review validation checks prior to submission and acknowledge any errors by selecting 'Confirm Message' as applicable. A comment to explain the validation check is to be included on the Submission tab.

A4. IMPORT

- A4.1 The Import tab includes links to each of the input cells in the model.
- A4.2 Users of the BSCR model can either enter data via the Import tab or can manually enter data throughout the model.
- A4.3 Note that cells highlighted in blue are drop-down cells. White highlighted cells are numerical/text entry fields.

A5. EXPORT

- A5.1 The Export tab includes links to each of the data cells in the model.
- A5.2 This function is useful if there is a need to re-enter data from an existing model to a new model. A user should use the data stored in the Export tab and copy it to the Import tab.

A6. ATTACHMENTS

A6.1

Insurers can attach any necessary files through the Attachments tab, up to ten files for each category provided. When an attachment is provided, the insurer is to include the Schedule and/or item the attachment references in the comment field. Note that once attached, the file is embedded in the capital and solvency return and sent to the BMA when the model is transmitted using the ‘Submit’ macro found in the Submission tab. The *BSCR E-Filing Manual* provides guidance on how to attach, view and remove files.

A7. COMPANY INFORMATION

Items

- A7.1 Company Name — Input the name of the insurer, as it appears on the Certificate of Registration.
- A7.2 Date Incorporated or Organised — Input the date that the insurer was licenced by the BMA to conduct business in Bermuda.
- A7.3 Date Commenced Business — Input the date that the insurer began writing business as a licenced Bermuda company.
- A7.4 Registration No. — Input the corresponding General business registration number of the insurer, as it appears on the Certificate of Registration.
- A7.5 Contact Person Information — Input the insurer's contact person who will be the main conduit through which the BMA will make and respond to enquiries about the BSCR and related information. Note that this person does not have to be the insurer's principal representative.
- A7.6 No Subsidiaries/Subsidiaries – If an insurer has no entities to consolidate, it can select the 'No Subsidiaries' button and the model will be adjusted to Unconsolidated BSCR model. If an insurer wishes to revert back to the original model, then it can select the 'Subsidiaries' button.

A8. CAPITAL AND SOLVENCY RETURN DECLARATION

Background

IIGB Insurers

- A8.1 The capital and solvency return declaration should be signed and dated by two directors and the insurer's principal representative. The signed declaration is to be included in the attachments section of the BSCR model.

B. ADDITIONAL SUPPORTING SCHEDULE

- B1.1 Included in the capital and solvency return is the Insurer Information Sheet which is to be completed in its entirety.

B2. INSURER INFORMATION SHEET

Background

- B2.1 To provide the Authority with details of the insurer's organisational structure and details to review the statutory statements, the Insurer Information Sheet is a redesign of the former Cover Sheet and Solvency Declaration that has been amended to provide greater clarity, avoid duplication, and provide more useful information to better assess the insurer.

Items

a. Company Information

| Line Item | | Description |
|------------------|------------------------------------|---|
| a | Name of Insurer | Row (1) The name of the insurer shall automatically populate based on the name entered in the Information Sheet tab. |
| b | Certificate of Registration Number | Row (2) The Certificate of Registration Number shall automatically populate based on the number entered in the Information Sheet tab. |
| c | Class of Registration | Row (3) The Class of Registration shall automatically populate based on the class entered in the Information Sheet tab. |
| d | Statements Availability | Row (4) The confirmation of the Statutory Financial Statements availability at the insurer's registered office is to be selected from the drop-down menu. |
| e | Filing Period | Row (5) The Filing Period Start Date is to be manually entered and the Period End Date shall automatically populate based on the date entered in the Information Sheet tab. |
| f | Currency Used | Row (6) The Currency used in the Statutory Financial Statements shall automatically populate based on the currency type entered in the Form 1SFS tab. |

| Line Item | | Description |
|-----------|---|--|
| g | Exchange Rate | <p>Row (7) What multiplier exchange rate / translation rate is applicable in converting the reporting currency to United States Dollar (USD)/Bermuda Dollar (BMD).</p> <p><u>Additional Guidance</u></p> <p>i) For insurers that report in currencies other than the BMD or USD, the exchange rate to report is the rate used to convert the figures to BMD/USD. For insurers reporting in BMD or USD, enter '1.000'.</p> <p>For example, if an insurer reported in Canadian Dollars (CAD) with an exchange rate of CAD to BMD of 0.7657 and BMD to CAD of 1.3060, the exchange rate to report in paragraph (g) would be 0.7657.</p> |
| h | Ultimate Parent | Row (8) The insurer's Ultimate Parent is to be entered. In instances where an insurer is part of an insurance group that is owned by a conglomerate, it is the head company in the insurance group that is being requested. |
| i | Insurer's Parent Company | Row (9) The insurer's Parent Company is to be entered. Parent Company refers to the direct parent of the insurer. |
| j | Industry Sector of the Insurer's Parent | Row (10) The Industry Sector of the Insurer's Parent is to be entered. If the insurer's parents are in multiple industries, provide the industry of the parent that has the largest ownership. |
| k | Insurer's Ownership Structure | Row (11) The Insurer's Ownership Structure is to be selected from the drop-down menu. |
| l | Insurer's Company Structure | Row (12) The Insurer's Company Structure is to be selected from the drop-down menu. |
| m | General Questions | <p>Row (13) Select from the drop-down menu to answer the following questions:</p> <p>(i) Is the insurer a member of a group of companies? A member of an insurance group is defined as: 'a group that conducts insurance business.'</p> |
| m | General Questions | <p>(ii) Does the insurer have segregated accounts? Segregated accounts is defined as 'a separate and distinct account (comprising or including entries recording data, assets, rights, contributions, liabilities and obligations linked to such account) of a segregated accounts company pertaining to an identified or identifiable pool of assets and liabilities of such segregated accounts company which are segregated or distinguished from other assets and liabilities of the segregated accounts;'</p> |

| Line Item | | Description |
|-----------|-------------------|---|
| m | General Questions | <p>(iii) Whether the general purpose financial statements of the insurer for the relevant year have been audited and an unqualified opinion issued</p> <p>General Purpose financial statements are referred to as ‘additional GAAP financial statements’ prepared in accordance with 17A(2) of the Act;</p> <p><u>Additional Guidance</u></p> <p>The Authority would like to advise that in relation to paragraph (m)(iv), a qualified opinion would not include qualifications for reporting its financial statements as condensed general purpose financial statements.</p> |
| m | General Questions | <p>(iv) The minimum solvency margin was metMSM is set in accordance with Paragraph 11 of the Insurance Account Rules 2016 (IAR).</p> |
| m | General Questions | <p>(v) The applicable minimum liquidity ratio was met during the reporting period. The Minimum Liquidity Ratio is set in accordance with Paragraph 12 of the IAR</p> |

b. Certificate of Registration Conditions

| Line Item | | Description |
|-----------|---|---|
| n 1 | Certificate of Registration Effective Date | Row (1) The Certificate of Registration Effective Date shall automatically populate based on the date entered in the Information Sheet tab. |
| n 2 | Certificate of Registration General Conditions | Row (2) The Certificate of Registration General Conditions are to be entered based on the conditions stipulated on the Certificate of Registration. This includes the start date, end date and condition description. |
| | Certificate of Registration Approved Conditions | Row (3) The Certificate of Registration Approved Conditions are to be entered based on the conditions stipulated on approved certificate of registration. This includes the start date, end date and condition description. |
| o | Confirmation of Condition Compliance | Row (4) The Confirmation of Compliance with the Conditions on Certificate of Registration is to be selected from the drop-down menu. |

c. Regulatory Approvals

| Line Item | | Description |
|-----------|----------------------|---|
| p 1 | Regulatory Approvals | Row (1) The Regulatory Approvals are to include conditions, directions and restrictions imposed on, or approvals granted to, the insurer. This includes the start date, end date and condition description. |

d. Confirmation of Corrective Action

| Line Item | | Description |
|-----------|-----------------------------------|---|
| q 1 | Confirmation of Corrective Action | Row (1) If the insurer has answered negative to points (m) (v), (m)(vi) or (o), the insurer is to state the reason for the negative answer and describe whether or not the insurer has taken corrective action. Where the insurer has taken such action, it should describe the action in a statement attached. |

B3. ASSETS QUALIFYING FOR RISK MITIGATING PURPOSES

Background

- B3.1 In order to promote good risk management and increase risk sensitivity, the scope of risk mitigation in the BSCR is extended by allowing insurers to explicitly take into account their hedging programmes within market risk calculations, subject to certain rules and restrictions.
- B3.2 Credit for a risk mitigating effect in the BSCR calculations is only allowed if the risk mitigation techniques fulfil a set of criteria set out in the next section.

Instructions

- B3.3 The calculation of the ECR will allow for the effects of risk mitigation techniques through a reduction in requirements commensurate with the extent of risk mitigation notwithstanding the provisions set in this section.
- B3.4 The ECR calculation for market risk is made on the basis of the assets and liabilities existing at the reference date of the ECR calculation and through the use of scenario and factor-based approaches; by definition this design setting excludes allowance for the full effect of dynamic hedging programmes which can only be applied appropriately in a context where capital charges are being stochastically calculated.
- B3.5 Internal capital models are allowed to be used in the context of the BSCR standard formula for the calculation of the variable annuity guarantees capital charge which, despite being part of the Long-Term Insurance risk module, is predominantly market risk driven; concomitantly in these cases, insurers may take into full account the effect of their dynamic hedging programmes as long as they comply with the provisions set in paragraphs B4.6 and B4.9 below. In all other cases, the risk mitigating effect of dynamic hedging programs will be subject to the provisions set in paragraphs B4.6–B4.8 and thus taken into account in a limited manner.
- B3.6 When calculating the ECR, insurers shall only take into account risk mitigation where all of the following qualitative criteria are met:
- a) The contractual arrangements and transfer of risk are legally effective and enforceable in all relevant jurisdictions and there is an effective transfer of risk to a third party;
 - b) The contractual arrangement ensures that the risk transfer is clearly defined;
 - c) The insurer has taken all appropriate steps to ensure the effectiveness of the arrangement and to address the risks related to that arrangement;
 - d) The insurer is able to monitor the effectiveness of the arrangement and the related risks on an ongoing basis;

- e) The calculation of the ECR makes reasonable allowance for any basis risk effects due to changes in risk mitigation assumptions and relationships during a stress scenario and there is appropriate treatment of any corresponding risks embedded in the use of risk mitigation techniques (e.g., credit risk). These two effects should be separated;
- f) Providers of risk mitigation should have adequate credit quality (demonstrable through either adequate rating, capitalisation or collateralisation levels) to guarantee with appropriate certainty that the insurer will receive the protection in the cases specified by the contracting parties;
- g) The insurer has, in the event of a default, insolvency or bankruptcy of a counterparty or other credit event set out in the transaction documentation for the arrangement, a direct claim on that counterparty; and
- h) There is no double counting of risk mitigation effects in technical provisions and in the calculation of the ECR or within the calculation of the ECR.

B3.7 Only risk mitigation techniques that are in force for at least the next 12 months and which meet the qualitative criteria set out in paragraph B4.6 shall be fully taken into account in the ECR. In all other cases, the effect of risk mitigation techniques that are in force for a period shorter than 12 months and which meet the qualitative criteria set out in paragraph B4.6 shall be taken into account in the ECR in proportion to the length of time involved for the shorter of the full term of the risk exposure or the period that the risk mitigation technique is in force.

B3.8 Where contractual arrangements governing the risk mitigation techniques will be in force for a period shorter than the next 12 months and the insurer intends to replace that risk mitigation technique at the time of its expiry with a similar arrangement, the risk mitigation technique shall be fully taken into account in the ECR provided all of the following qualitative criteria are met:

- a) The insurer has a written policy on the replacement of that risk mitigation technique;
- b) The replacement of the risk mitigation technique shall not take place more often than every month, except in duly justified circumstances which require prior approval from the Authority;
- c) The replacement of the risk mitigation technique is not conditional on any future event, which is outside of the control of the insurer. Where the replacement of the risk mitigation technique is conditional on any future event, that is within the control of the insurer, then the conditions should be clearly documented in the written policy referred to in point (a);
- d) The replacement of the risk mitigation technique shall be realistic based on replacements undertaken previously by the insurer and consistent with its current business practice and business strategy;
- e) The risk that the risk mitigation technique cannot be replaced due to an absence of liquidity in the market is not material under different market conditions and

there is no material basis or operational risks compared to the risk mitigation effect;

- f) The risk that the cost of replacing the risk mitigation technique increases during the following 12 months is reflected in the ECR by deducting it from the value attributed to the risk-mitigation technique;
- g) Any additional risk stemming from the risk mitigation arrangement (e.g., credit risk) is taken into account in the ECR; and
- h) The hedge effectiveness and any related risks are monitored on an ongoing basis.

B3.9

In the cases of insurers using the internal capital model in the context of the BSCR standard formula for the calculation of the variable annuity guarantees capital charge, where portfolio rebalancing is being performed, the risk-mitigation effect shall be fully taken into account in the ECR provided all of the following qualitative criteria are met:

- a) The insurer has a written policy on portfolio rebalancing;
- b) The portfolio rebalancing is realistic based on actions undertaken previously by the insurer and consistent with its current business practice and business strategy;
- c) The risk that the portfolio rebalancing cannot be performed due to an absence of liquidity in the market is not material under different market conditions;
- d) The risk that the cost of the portfolio rebalancing increases during the following 12 months is reflected in the ECR;
- e) Any additional risk stemming from the portfolio rebalancing (e.g., credit risk) is taken into account in the ECR; and
- f) The hedge effectiveness and any related risks are monitored on an ongoing basis.

B4. MANAGEMENT ACTIONS

Background

- B4.1 With the introduction of new shock-based capital charge calculations for certain risks in the BSCR standard formula, the use of management actions will be allowed under certain conditions (as set out in the next section).
- B4.2 Management actions are relevant for products where profits are shared with policyholders, for example participating or ‘with-profits’ products. This means that management actions, in the sense used here, are mainly relevant for Long-Term insurers only.
- B4.3 For BSCR purposes, allowable management actions will be confined to actions reducing or increasing liabilities for Future bonuses or other Discretionary Benefits (FDB).
a) These include changes to profit sharing / bonuses / policyholder dividends / credited rates but can also include actions such as changes in investment policy (e.g., the equity backing ratio) affecting FDB.
- B4.4 Given that the effect of management actions is considered separately for each risk in the modular BSCR standard formula, there is a risk of double counting the credit for management actions when the individual capital charges are aggregated (through the correlation matrices). For this reason, a cap on the overall credit must be included.
- B4.5 The natural cap for the credit for management actions is the total amount of (best-estimate liabilities held for) future discretionary benefits.
a) The most an insurer can do to reduce its discretionary liabilities is to reduce the profit sharing – policyholder dividends, credited rate – to zero (in all future scenarios), which corresponds to FDB going to zero.

Instructions

- B4.6 Management actions are confined to actions reducing or increasing liabilities for future bonuses or other discretionary benefits.
- B4.7 Management actions must comply with all the requirements of paragraph 196 of the *Guidance Notes for Commercial Insurers and Groups Statutory Reporting Regime* (30th November 2016).
- B4.8 Given the modular structure of the BSCR standard formula, management actions are to be considered in each applicable risk calculation separately.
- B4.9 Management actions can be reflected in the shock-based components of the BSCR standard formula and in the variable annuity guarantees capital charges (when an internal

capital model is used). Management actions shall not be taken into account in the factor-based components of the BSCR standard formula. The exception is the duration-based approach to interest rate risk, where management action may be taken into account in calculating effective durations for liabilities.

B4.10 The shock-based components of the BSCR standard formula are based on the impact of instantaneous stresses (equity risk, interest rate and liquidity risk calculated under the alternative approach, and currency risk), and insurers shall not take credit for future management actions at the time the stress occurs (i.e., during the stress), due to the instantaneous nature of the stresses. Nevertheless, future management actions may be taken into account after instantaneous shocks as a response to the shocks.

B4.11 If management actions are used, the insurer needs to ensure that the effects of specific management actions are not effectively counted multiple times when the different scenario components are aggregated into the total capital requirement.

Loss-Absorbing Capacity of Future Bonuses and Other Discretionary Benefits

B4.12 To prevent double-counting, the capital requirement for each risk should be calculated both gross and net of the loss-absorbing capacity of technical provisions. Therefore, the applicable capital charge will be calculated with (net of) and without (gross of) management actions. This will allow the calculation of the capital requirement both with management actions ('net BSCR') and without management actions ('gross BSCR') by aggregating the respective (net, gross) component capital requirements using the applicable correlation matrices.

B4.13 The *gross* capital requirement for each applicable risk is obtained as the decrease in the Net Asset Value (NAV) as a result of the shock, where the change in liabilities is calculated by comparing the after-shock gross best-estimate liabilities to the base case best-estimate liabilities. The gross capital requirement cannot be less than zero.

B4.14 The *net* capital requirement for each applicable risk is obtained as the decrease in the NAV as a result of the shock, where the change in liabilities is calculated by comparing the after-shock net best-estimate liabilities to the base case best-estimate liabilities. The net capital requirement cannot be less than zero.

B4.15 The *gross* BSCR (post diversification) ($BSCR^{div}$) is calculated by aggregating the gross capital requirements using the relevant correlation matrices.

B4.16 The *net* BSCR (post diversification) ($nBSCR^{div}$) is calculated by aggregating the net capital requirements using the relevant correlation matrices.

B4.17 The adjustment to the ECR for the loss-absorbing capacity of technical provisions is then

$$Adj_{TP} = - \max(\min(BSCR^{div} - nBSCR^{div}, FDB), 0)$$

where FDB is the net present value of future bonuses or other discretionary benefits corresponding to the best estimate calculation. The FDB amount is used as a cap on the overall credit allowed for in the capital requirement calculation.

- B4.18 The gross capital requirements per risk shall be calculated by keeping the future discretionary benefits unchanged at the best-estimate (base scenario) level.
- B4.19 The net capital requirements per risk shall be calculated by allowing the future discretionary benefits to change as a result of a shock.
- B4.20 For those risks which are calculated using a factor-based approach, the net BSCR is defined to be equal to the gross BSCR (except for the duration-based approach to interest rate risk, if the durations are calculated by taking management actions into account).
- B4.21 The procedure as described above requires calculating the relevant capital charges twice: with and without management actions. Typically, this would mean that the insurer needs to do two model runs per relevant capital charge. Nevertheless, as this may in some cases significantly increase the workload and/or the time needed to produce the required numbers, a simplified way to calculate the ‘gross’ charges, as described below, may be used. This approach requires only one set of model runs (base scenario + ‘net’ runs).
- a) Obtain the value of guaranteed¹ benefits and future discretionary benefits, separately, in the base scenario².
 - b) Calculate guaranteed benefits and future discretionary benefits, with management actions, in each applicable shock. This gives the net best estimate liabilities in the shock scenarios.
 - c) To derive the gross best estimate liabilities needed for the gross capital requirement calculations, add future discretionary benefits from the base scenario to the guaranteed benefits from the shock scenarios to obtain gross best-estimate liabilities in the shock scenarios.

¹ ‘Guaranteed’ benefits here refer to those contractual benefits that the insurer does not have the ability to change at its discretion. In particular, it is taken to mean all benefits other than future discretionary benefits.

² Where ‘baseline’ level of management actions is assumed in calculating the best estimate liability for future discretionary benefits.

Additional Guidance

- B4.i. Regarding the restriction of management actions to those actions affecting liabilities for future discretionary benefits, it is noted that premium increases³ or expense reductions are out of the scope of allowed management actions.
- B4.ii. With regards to paragraph B5.8, it is noted that management actions may be taken immediately after the (instantaneous) stress has happened (subject to reflecting in the modeling realistic time required to implement any management action). The stresses are assumed to happen ‘overnight’, and management actions can be taken immediately on ‘day 1’ afterwards.
- B4.iii. Both increases and decreases in future discretionary benefits as a result of shocks should be modelled. In particular, the liability for future discretionary benefits may increase as a result of certain shocks: For example, in the interest rate up shock the effect of higher future (reinvestment) rates may exceed any negative time-0 effect on the values of fixed-income assets, leading to more profit sharing.

Guidance – BSCR Model

- B4.iv. Where applicable, the risk charges per module in the BSCR model are calculated both with and without management actions. This concerns principally those market risks that are calculated using shocks.
- B4.v. The Schedules feeding the relevant risk calculations contain input fields for entering after shock values for best estimate liabilities both with and without management actions.
- B4.vi. If no management actions are assumed, or if management actions do not affect a particular line, the ‘with’ value should be set equal to the ‘without’ value (where the latter is to be always calculated).
- B4.vii. The effect of management actions on the ECR is calculated by comparing the ‘Gross BSCR’ to the ‘Net BSCR’, where the former is derived by aggregating individual risk charges without management actions, and the latter is derived by aggregating individual risk charges with management actions (using the

³ The overall significance of premium increases is, in any case, mitigated by the fact that if the insurer has the possibility to change premium at a certain point, then in most cases the cash flows after the said point will fall outside of the contract boundaries. Hence, premium increases would only be relevant where the insurer does have an ability to change the premiums, but only in a very limited way.

relevant correlation matrices). This is completed on the Summary tab of the BSCR model.

- B4.viii. Nevertheless, to avoid double counting the same management actions in multiple separate risk modules, a cap on the overall credit for management actions needs to be imposed. The cap is equal to the initial reserve for FDB, which needs to be entered in cell N143 on the Summary tab.
- B4.ix. The overall adjustment for management actions, subject to the cap, is then automatically calculated in cell N144 of the Summary tab, and should be deducted from the final BSCR (in cell N87).

B5. LOOK-THROUGH

Background

- B5.1 Previously look-through was allowed in the BSCR in concentration risk calculation. To more properly assess the risks of fund type investments and similar assets (and liabilities) the look-through approach is extended to market risk calculated under a shock approach (equity, interest rate and currency risks). This means looking through funds to the underlying investments, and considering each of the underlying assets individually in appropriate risk calculation(s).
- B5.2 A full look-through of underlying assets should be used as a default option. If this is not achievable, then a number of partial look-through options are to be considered. As set out in the next section, these options form the following ladder:
- a) Full look-through;
 - b) Partial look-through based on target asset allocation;
 - c) Partial look-through based on investment limits; and
 - d) No look-through: capital charge for other equities/other assets used.

Instructions

- B5.3 In order to properly assess the risks inherent in collective investment vehicles, other investments packaged as funds, and other types of assets and liabilities (as defined below), each of the assets underlying them shall be considered individually (using the look-through approach) in the BSCR calculation.
- B5.4 The scope of the look-through covers the following:
- a) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - b) Segregated accounts assets and liabilities;
 - c) Deposit assets and liabilities;
 - d) Other sundry assets and liabilities; and
 - e) Derivatives.
- B5.5 The look-through approach applies to market risk calculated under a shock approach (equity, interest rate and currency risks) and concentration risk calculations. It also applies to fund-type investments (as defined in B6.4a) within other risk calculations, for example, bond funds in fixed income risk calculation.
- a) Look-through will be allowed for equity exposures classified as ‘strategic holdings’ or ‘duration based’ with underlying individual assets getting the 20% (strategic holdings, duration based) equity charge each.

- B5.6 The look-through is to be based on the current underlying assets as of the BSCR valuation date (typically year-end). The valuation of assets and liabilities subject to application of the look-through must be consistent with the EBS rules.
- B5.7 Where the full look-through approach cannot be applied to collective investment vehicles or other investments packaged as funds, the capital requirement may be calculated based on the target underlying asset allocation of the vehicle or fund, provided that such a target allocation is available at a level of granularity necessary for the calculation, and the underlying assets are managed strictly according to the target allocation.
- B5.8 Where conditions of paragraph B6.7 are not fulfilled (i.e., a target allocation does not exist or it cannot be determined that the assets are managed strictly according to the target allocation), the capital requirement may be calculated by assuming that the vehicle or fund first invests, to the maximum extent allowed under its investment limits, in the asset class with the highest capital charge. It can then continue to make investments in descending order until the maximum total investment level is reached. This approach requires that such allocation limits exist.
- B5.9 Where no look-through is possible and neither the target-based approach of paragraph B6.7 nor the limit-based approach of paragraph B6.8 can be applied, the whole investment shall be treated as an equity holding of type ‘Other’ for capital charge purposes.
- B5.10 Insurers should perform a sufficient number of iterations of the look-through approach, where appropriate (e.g. in the case of fund of funds), to capture all material risk adequately.

Additional Guidance

- B5.i. To illustrate the application of the limit-based approach of paragraph B6.8, consider the following hypothetical example: For a combination fund having allocation limits of 50-80% for equity and 20-50% for investment-grade fixed income, with equity sub-limits of 50-100% for European Economic Area (EEA) equities and 0-50% for Eastern European (non-EEA) equities, the overall allocation would be considered to be 40% to non-EEA equities, 40% to EEA equities, and 20% to fixed income with rating BBB- to produce the most conservative capital charge consistent with the limits.
- B5.ii. Exactly as is for directly held investments, instruments resulting from look-through may need to be considered in several risk calculations if the instrument’s price is exposed to several sources of risk. For example, convertible bonds are typically exposed to interest rate, credit (spread) and

equity risk, and would typically need to be included under all three risk calculations (i.e., interest rate, fixed income, and equity).

- B5.iii. As set out in B6.4, related undertakings used as investment vehicles must be looked through and the assets underlying them must be considered individually. In particular, there is no economic difference in the risk of positions held directly on the balance sheet versus holding the same assets in a separate investment company instead. Therefore, the treatment and resulting capital charges should be the same in both cases.
- B5.iv. In the case of long-short funds or leveraged funds, shocks (capital charges) cannot simply be applied to the NAV of the fund; instead, the increased exposure caused by leverage must be taken into account.
- a) In the case of leveraged funds, where the leverage is implemented (e.g., by borrowing (instead of short sales)), the capital charge/shock needs to be applied to the gross exposure; and
 - b) In the case of long-short funds, only short positions that qualify as risk mitigating under the BSCR rules can be ‘netted’ against long positions (as described below). Consider the two extremes, (i.e., all shorts qualifying versus none qualifying). If none of the short positions qualify as risk mitigating, only the long positions are shocked (and the short positions ignored); whereas if all of the short positions qualify as risk mitigating, both the long and the short positions are shocked (separately) and the resulting changes in values summed, so that the short positions provide an offset to the longs. In the former case, the gross long exposure is considered, while in the latter case the calculation is effectively on a net basis (however, the longs and shorts are shocked separately and then added, instead of shocking the net position). If part of the short positions qualify (and part do not), then only the qualifying short positions are shocked and, therefore, provide some offset to the longs, in addition to shocking all of the long positions.

Guidance – BSCR Model

- B5.v. When filling in Schedules feeding various risk calculations, the line items and the associated market values entered should already be after look-through. That is, the look-through of investments (necessarily) needs to be done outside the BSCR model, and the resulting numbers entered in the Schedules.
- B5.vi. If investments are looked-through, the amounts shown in different risk calculations do not match the balance sheet classifications any more.
- a) As a simple example, consider a mixed mutual fund with a market value of \$100, consisting of 60% equities and 40% corporate bonds. Assume it is originally classified under equity in the balance sheet (line 2.(c)iii.) and is the only investment. After the look-through, \$40 would be entered in Schedule IIB (EBS) under corporate bonds and \$60 under listed equity

securities in developed markets. This means that the balance sheet shows equity investments of \$100, but in the equity risk calculation the amount of equities is only \$60, corresponding to the true exposure after the look-through. Similarly, the balance sheet does not show fixed-income exposure, but the fixed-income risk calculation has bonds worth \$40 resulting from the look-through.

- B5.vii. An ‘Investment Reconciliation’ tab is included in the BSCR model to provide a reconciliation between the balance sheet (Form 1EBS) amounts and the amounts in Schedules IIB-IIF feeding the risk calculations on the one hand and reconciliation between Schedules IIB-IIF and the risk calculations (equity, interest rate risk) on the other hand.
- B5.viii. To illustrate the investment reconciliation tab, consider the example of paragraph B6.vi.
- a) The opening balance on line 1 of the schedule (line 10 in the spreadsheet) would show the values from the balance sheet: \$0 in interest-rate sensitive investments (cell G10), and \$100 in equity-sensitive investments (cell H10).
 - b) The adjustments for look-through could be done in either of two ways:
 - (i) Entering the net adjustment directly. This would involve subtracting exposure of \$40 from equity (i.e., entering -\$40 in cell H13) and adding the \$40 to bonds (i.e. entering \$40 in cell G12).
 - (ii) Entering full amounts. Under this alternative, first indicate under which category the investment being looked-through was classified in the balance sheet. In the case of the example, the whole \$100 fund investment was under equity in the balance sheet; hence \$100 would be entered in cell F13 (balance sheet amounts reported under equities). Nevertheless, after looking through, the actual equity exposure was only \$60; this amount would be entered into cell H13. The remaining \$40, corresponding to bonds, would be entered into cell G12. Entering the original balance sheet amounts under columns E and F makes the reconciliation formula remove these amounts from the opening exposure, and then add the actual values resulting from the look-through back. In this example, the \$100 reported originally under equity in balance sheet is first removed from equity. Then only the actual equity exposure resulting from look-through (\$60) is added back to equity.
 - c) In either case, the final balances on line 18 of the schedule (line 27 of the spreadsheet) will show \$40 of interest-rate sensitive investments (in column G) and \$60 of equity-sensitive investments (in column H). These should match the amounts reported in Schedule IIB in the Schedule’s fixed income and equity parts.

B6. DEFINITIONS

- B6.1 Developed Markets** - are defined as regulated markets in countries that are members of the Organisation for Economic Co-operation and Development (OECD) or the European Economic Area (EEA), or in Hong Kong or Singapore.
- B6.2 Duration** - are defined as equity securities listed on developed markets (refer to section B7.1), held by Long-Term insurers to cover retirement products where:
- a) All assets and liabilities corresponding to the business are ring-fenced (refer to section B7.5) without any possibility of transfer.
 - b) The average duration of the liabilities corresponding to the business held by the insurer exceeds an average of 12 years.
 - c) The equity investments backing the liability are type 1 equity exposures. These are equities listed on developed markets or preferred shares (PS 6 to PS 8).
- B6.3 Infrastructure investments** - are defined as 'investment in an infrastructure project entity that meets all of the following criteria':
- a) The infrastructure project entity can meet its financial obligations under sustained stresses that are relevant for the risk of the project.
 - b) The cash flows that the infrastructure project entity generates for equity investors are predictable.
 - (i) For the purposes of this paragraph, the cash flows generated for debt providers and equity investors shall not be considered predictable unless all except an immaterial part of the revenues satisfies the following conditions:
 - 1) One of the following criteria is met:
 - (a) The revenues are availability-based. That is, the revenues consist primarily of fixed periodic payments, usually from a public sector authority, and are based on the availability of project facilities for use as specified in the contract;
 - (b) The revenues are subject to rate-of-return regulation;
 - (c) The revenues are subject to take-or-pay contract; and
 - (d) The level of output or the usage and the price shall independently meet one of the following criteria:
 - i. It is regulated;
 - ii. It is contractually fixed; or
 - iii. It is sufficiently predictable as a result of low demand risk.
 - 2) Where the revenues of the infrastructure project entity are not funded by payments from a large number of users, the party which agrees to purchase the goods or services provided by the infrastructure project entity shall be one of the following:
 - (a) Central banks or governments, multilateral development banks or international organisations as established in instructions issued by the Authority;
 - (b) A regional government or local authority as established in Instructions issued by the Authority;

- (c) An entity with a BSCR Credit Rating of at least 4; or
 - (d) An entity that is replaceable without a significant change in the level and timing of revenues.
- c) The terms and conditions relating to matters such as the infrastructure project assets and infrastructure project entity are governed by a contract (which specifies the laws of the country under which it is governed) that provides equity investors with a high degree of protection including the following:
- (i) Where the revenues of the infrastructure project entity are not funded by payments from a large number of users, the contractual framework shall include provisions that effectively protect equity investors against losses resulting from the termination of the project by the party which agrees to purchase the goods or services provided by the infrastructure project entity; and
 - (ii) The infrastructure project entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project.
- d) The infrastructure assets and infrastructure project entity are located in Bermuda or in an OECD member country.
- e) Where the infrastructure project entity is in the construction phase the following criteria shall be fulfilled by the equity investor, or where there is more than one equity investor, the following criteria shall be fulfilled by all of the equity investors as a whole:
- (i) The equity investors have a history of successfully overseeing infrastructure projects and the relevant expertise to oversee such projects;
 - (ii) The equity investors have a low risk of insolvency, or there is a low risk of material losses for the infrastructure project entity as a result of their insolvency; and
 - (iii) The equity investors are incentivised to protect the interests of investors.
- f) The infrastructure project entity has established safeguards to ensure the completion of the project according to the agreed specification, budget or completion date.
- g) Where operating risks are material, they are properly managed.
- h) The infrastructure project entity uses tested technology and design.
- i) The capital structure of the infrastructure project entity allows it to service its debt.
- j) The refinancing risk for the infrastructure project entity is low.
- k) The infrastructure project entity uses derivatives only for risk-mitigation purposes.

Infrastructure project entity – refers to an entity which is not permitted to perform any other function other than owning, financing, developing or operating infrastructure assets and is used as the primary source to facilitate payments to debt providers and equity investors out of the income generated by such assets.

Infrastructure assets – refers to physical structures or facilities, systems and networks that provide or support essential public services.

B6.4 Qualifying unlisted equity investments – refers to unlisted equity investments that have risk characteristics similar to listed Type 1 equities, and may be classified as Type 1 equities under the category ‘Listed equity securities in developed markets’ with the associated lower capital charge. ‘Qualified unlisted equity investments’ are defined as:

- a) Direct investments in the equity of unlisted companies; or
- b) Equity investments in unlisted portfolio companies resulting from the look-through of private equity funds or private equity funds of funds;
where the investments fulfil all of the following conditions:
 - (i) Criteria on (underlying) equity investments:
 - 1) Investments are in the common equity of companies that are unlisted;
 - 2) The companies are established in, derive a majority of their revenues from, and have the majority of the staff that they employ located in, eligible countries. An eligible country here is defined as Bermuda or a country such that, if the company were listed in the stock exchange of the country, the listed equity of the company would qualify as Type 1 equity as set out in these instructions; and
 - 3) The companies have been larger than a small-sized enterprise in the last three years.
 - (a) For the purposes of this paragraph, a ‘small-sized enterprise’ is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed USD 10 million.
 - (ii) Criteria on the vehicle (only for fund-type investments)
 - 1) The fund is closed-end
 - 2) The fund does not use leverage, with the following exceptions which are allowed:
 - (a) Borrowing arrangements entered into if these are temporary in nature and are fully covered by contractual capital commitments from investors in the fund; and
 - (b) Derivative instruments used for currency hedging purposes that do not add any incremental exposure, leverage or other risks.
 - 3) The fund meets the following requirements:
 - (a) The fund invests in unlisted companies, listed companies that are to become unlisted as a result of the investment made by the fund or listed companies as the temporary consequence of exiting the investment;
 - (b) The investment strategy includes the intention to remain invested in the underlying companies for a number of years;
 - (c) The fund manager has the power to appoint a director to the boards of the underlying companies and take an active role in the company’s governance with the aim to bring about a significant development or transformation;
 - 4) The insurer has all the information necessary to assess the fund manager’s performance (e.g., profit and loss, cash flows and profits of the portfolio companies at a meaningful level of aggregation) and continues to get the information on a timely basis; and
 - 5) The insurer invests through several independent fund managers to avoid undue concentration.

- (iii) Criteria on own risk management
 - 1) Fund-type investments: the following requirements should be met:
 - (a) The insurer computes the portfolio beta whenever BSCR is calculated.
 - (b) The insurer follows a due diligence process prior to investing in the fund, including but not limited to:
 - i. Qualitative and quantitative analysis of the companies in which the manager has invested with its prior funds
 - ii. Obtaining information on how the fund is managed and the processes followed before investing
 - (c) The insurer assesses the fitness of the fund manager on an on-going basis.
 - (d) The insurer benchmarks the performance of the fund against comparable funds.
 - (e) There are regular and reliable reporting lines between the fund manager and the insurer.
 - (f) The insurer is able to challenge the investment decisions made by the fund manager (this implies that the fund manager provides sufficient information on the underlying assets).
 - (g) The insurer verifies that the fund manager regularly interacts with the management teams of the companies in which the fund invests.
 - 2) Direct investments: the following requirements should be met:
 - (a) The insurer computes the beta whenever BSCR is calculated.
- (iv) Similarity criterion
 - 1) The approach can only be applied to portfolios where any equity investment does not represent more than 10% of the portfolio value.
 - 2) The approach cannot be applied to financial companies.
 - 3) The beta of the unlisted equity portfolio is determined via the following steps:
 - i. The hypothetical beta for each individual unlisted equity investment is calculated using the function set out below.
 - ii. The portfolio beta is calculated as the average of the individual betas weighted by the book values of the equity investments.
 - 4) The beta for direct unlisted equity investments is calculated in the same way as the beta for individual portfolio companies above.
 - 5) The similarity criterion is met if the beta of the portfolio or direct investment does not exceed a cut-off value of 0.80.
 - 6) The beta for an individual unlisted equity investment is calculated with the following formula: $\text{beta} = 0.9478 - 0.34\% * \text{AvgGrossMargin} + 0.0139 * \text{TotalDebt} / \text{AvgCFO} - 0.15\% * \text{AvgROE}$; where AvgGrossMargin = Average Gross Margin, TotalDebt = Total Debt, AvgCFO = Average Cash Flow

from Operations, AvgRoe = Average Return on Common Equity. All the numbers should be entered as percentages/decimals; multiplied by 100; (e.g., an ROE figure of 15.5% (i.e. 0.155 in decimal form)) would be entered as '15.5' in the formula.

- 7) In the above formula, 'Avg' means the average of the annual figures over the last five financial years. If this information is unavailable, the value at the end of the last financial year must be used.

The value of unlisted equity investments to which the lower capital charge is applied shall not exceed 5% of the market value of all investments.

B6.5 Ring-fenced shall be defined as assets and liabilities that

- a) Are managed and organised separately from other Long-Term businesses of the Long-Term insurer;
- b) Are recorded as a separate (internal) financial reporting segment within the Long-Term insurer's general account; and
- c) Have sufficient general account capital allocated to satisfy BSCR requirements on a stand-alone basis.

B6.6 Selected Mutual funds – is defined as units or shares of alternative investment funds authorised as European Long-Term Investment Funds in accordance with Regulation (EU) 2015/760 of 29 April 2015, or units or shares of collective investment undertakings which are qualifying social entrepreneurship funds in accordance with article 3(b) of Regulation (EU) 346/2013, of 17 April 2013 or units or shares of collective investment undertakings which are qualifying venture capital funds as referred to in Article 3(b) of Regulation (UE) 345/2013 of 17 April 2013, and units or shares of closed-ended and unleveraged alternative investment funds where those alternative investment funds are established in the European Union or, if they are not established in the European Union, they are marketed in the European Union according to Articles 35 or 40 of Directive 2011/61/EU of 8 June 2011, as well as other similarly purposed investment funds approved by the Authority.'

B6.7 Strategic holdings – A qualifying strategic holding must fulfil all of the following criteria:

- a) The investing company holds at least 20 % of voting rights or share capital in the investment or is able to demonstrate it has significant influence (as defined by the applicable GAAP) over the investment;
- b) The value of the equity investment is likely to be materially less volatile than the value of other equities as a result of both the nature of the investment and the influence exercised by the participating company; and
- c) The nature of the investment is strategic, taking into account:
 - (i) The existence of a clear decisive strategy to continue holding participation for a long period;
 - (ii) The consistency of such strategy with the main policies guiding or limiting the actions of the participating company; and where the company is part of a group,

- the consistency of such strategy with the main policies guiding or limiting the actions of the group;
- (iii) The ability of the company to continue holding the participation; and
 - (iv) The existence of a durable link.

C.STATUTORY STATEMENTS AND BSCR SCHEDULES

C1. FORMS 1SFS, 2SFS, AND 8SFS

Background

- C1.1 The statutory balance sheet (Form 1SFS), statutory statement of income (Form 2SFS), and statutory statement of capital and surplus (Form 8SFS) shall be completed by the insurer in accordance with the filing guidance relating to these Forms found in the Insurance Accounts Rules 2016.
- C1.2 Additionally, the insurer must ensure that amounts reported in these forms correspond to the general purpose financial statements, where appropriate.
- C1.3 For insurers that have no change in valuations from an unconsolidated and consolidated basis, the insurer is to provide details in the **consolidated** tabs only and a note in the submission tab indicating there is no valuation differences between the unconsolidated and consolidated basis.

Additional Guidance

Figures are to be reported in thousand units ('000s)

- C1.i. Although the insurer does not need to prepare its financial statements in thousands units, the Authority requires insurers to report its statutory financial statements and economic balance sheet in thousands as this impacts the capital charges calculated in the BSCR model. The insurer may attach its Statutory Financial Return under 'Other Attachments' to provide the BMA with a more accurate financial position.

Future Operating Lease Payments

- C1.ii. For the 2019 year-end and beyond, insurers that have future operating lease payments are to gross up their balance sheet for the right of use assets and a lease liability equivalent to the discounted value of future payments under an operating lease **only if the underlying assets being leased are tangible assets.**

Further in the Schedule V(e) stress test scenarios, lease liability should be included in the following scenarios:

- Interest Rate Stress Scenario;
- Expected Inflation Stress Scenario; and
- Foreign Exchange stress (where relevant).

Insurers are to report the right of use assets on Form 1SFS and 1EBS as 'Other Sundry Assets' and on Schedule IIF 'Other Sundry Assets and Liabilities' on Line 28 'Other Equities / Other Assets'.

C2. SCHEDULE OF FIXED INCOME AND EQUITY INVESTMENTS BY BSCR RATING (SCHEDULE II)

Background

- C2.1 The schedule of fixed income and equity investments by BSCR rating (Schedule II), provides a breakdown of an insurer's bonds and debentures and equity investments by both investment categories (Corporate and Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8).
- C2.2 This schedule applies a capital charge based on the type of category and rating of the security held, which is aggregated in the fixed income and equity risk tab. Further this information provides the BMA with the type and quality of investments held for assessing the insurer's market risk. It is noted that the balances reported on this schedule also serve as a proxy of the insurer's liquidity position when assessed with the Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts / Trusts by BSCR Rating (Schedule IIA) and Interest Rate/Liquidly Risk Charge.

Items

- C2.3 The Schedule is broken into three separate sections for which the total of each should correspond to a specific balance reported in Form 1EBS and Unconsolidated Form 1SFS for the relevant year:
- a) Quoted and unquoted bonds and debentures – Line 10, Column (9) 'Total' corresponds to Unconsolidated Form 1SFS, Line 2(b) and 3(b);
 - b) Quoted and unquoted equities – Line 21, Column (9) 'Total' corresponds to Unconsolidated Form 1SFS, Line 2(d) and 3(d); and
 - c) Mortgage loans – Line 26, Column (1) 'Total' corresponds to Unconsolidated Form 1SFS, Line 5(c).

Instructions Affecting Schedule II

- C2.1a. Fixed income investments, both quoted and unquoted, shall be categorised into corporate bonds and sovereign bonds, residential mortgage-backed securities, commercial mortgage-backed securities/asset-backed securities, and bond mutual funds and classified by BSCR rating;
- C2.1b. Equity investments, both quoted and unquoted, shall be categorised into common stock, preferred stock and equity mutual funds;

- C2.1c. Preferred stock shall be classified by BSCR rating;
- C2.1d. Sovereign debt issued by a country in its own currency that is rated AA- or better shall be classified under BSCR rating 0 while all other sovereign bonds shall be classified in a similar manner as corporate bonds;
- C2.1e. Debt issued by government-owned and related entities that were explicitly guaranteed by that government, with the exception of mortgage-backed securities, shall be assigned a BSCR rating of 0, provided that the country is rated AA- or better and the debt is in the local currency of the country and otherwise classified in a similar manner as corporate bonds;
- C2.1f. Bond mutual funds shall be classified based on the underlying bond ratings as advised by the fund manager; equity mutual funds shall be classified in a similar manner as direct equity investments;
- C2.1g. Money market funds shall be classified by the underlying credit security based on the BSCR rating prescribed in Schedule XIX; and
- C2.1h. Amounts are to be reported on both an unconsolidated basis.

BSCR Ratings

- C2.1i. The following process will apply to determine the BSCR rating classifications:
- a) Use the lowest BSCR rating comparable to the ratings of S&P, Moody's, Fitch and AM Best.
 - b) Insurers may select additional BMA named rating agencies to use, from those included in the table in the next paragraph, subject to the following:
 - (i) The additional BMA-named rating agencies are Dominion Bond Rating Service, Egan Jones Rating Company, Japan Credit Rating Agency, Kroll Bond Rating Agency, and Morningstar Credit Ratings;
 - (ii) Insurers must document the selection process of credit rating agencies;
 - (iii) Insurers must use the selected rating agencies and their ratings in a consistent manner over time. There must be a documented process for making any changes to the list of selected rating agencies and how ratings are selected;
 - (iv) The selection process and its outcome must be approved by senior management; and
 - (v) The lowest BSCR rating comparable to the ratings of all the selected rating agencies is used, including the rating agencies from step (a).

c) For any fixed income instruments for which a credit rating is not available from any of the rating agencies named in step (a) or step (b) (as per the insurer's selection), the insurer may elect to either leave the assets as unrated (i.e., BSCR rating 8) or obtain the BSCR rating from the National Association of Insurance Commissioners (NAIC) Securities Valuation Office (SVO) rating.

C2.1j. The table below contains, for each credit rating agency, the rating categories for which their ratings are allowed for BSCR purposes (marked with 'X'). Additionally, the NAIC SVO ratings may be applied for otherwise unrated assets in accordance with the previous paragraph.

| Credit Rating Agency | Principal Office | Financial institutions, brokers and dealers | Insurance companies | Corporate issuers | Issuers of asset-backed securities | Government securities, municipal securities, foreign government securities |
|-------------------------------|------------------|---|---------------------|-------------------|------------------------------------|--|
| Moody's Investor's Service* | US | X | X | X | X | X |
| Standard and Poor's* | US | X | X | X | X | X |
| Fitch Ratings* | US | X | X | X | X | X |
| Dominion Bond Rating Service* | US | X | X | X | X | X |
| A.M. Best Company* | US | | X | X | X | |
| Morningstar Credit Ratings* | US | X | | X | X | |
| Kroll Bond Rating Agency* | US | X | X | X | X | X |
| Egan Jones Rating Company* | US | X | X | X | | |
| Japan Credit Rating Agency* | Japan | X | X | X | | X |

* As determined by the SEC.

C2.1k. The mapping of credit ratings to BSCR ratings are:

| BSCR Rating | Standard & Poor's | Moody's | AM Best | Fitch |
|-------------|-------------------|--------------|--------------|--------------|
| 1 | AAA | Aaa | aaa | AAA |
| 2 | AA+ to AA- | Aa1 to Aa3 | aa+ to aa- | AA+ to AA- |
| 3 | A+ to A- | A1 to A3 | a+ to a- | A+ to A- |
| 4 | BBB+ to BBB- | Baa1 to Baa3 | bbb+ to bbb- | BBB+ to BBB- |
| 5 | BB+ to BB- | Ba1 to Ba3 | bb+ to bb- | BB+ to BB- |
| 6 | B+ to B- | B1 to B3 | b+ to b- | B+ to B- |
| 7 | CCC+ to CCC- | Caa1 to Caa3 | ccc+ to ccc- | CCC+ to CCC- |
| 8 | Below CCC- | Below Caa3 | Below ccc- | Below CCC- |

| BSCR Rating | KBRA | DBRS | Egan-Jones | Japan Credit Rating Agency | Morningstar Credit Ratings |
|-------------|--------------|-------------------------|--------------|----------------------------|----------------------------|
| 1 | AAA | AAA | AAA | AAA | AAA |
| 2 | AA+ to AA- | AA (High) to AA (Low) | AA+ to AA- | AA+ to AA- | AA+ to AA- |
| 3 | A+ to A- | A (High) to A (Low) | A+ to A- | A+ to A- | A+ to A- |
| 4 | BBB+ to BBB- | BBB (High) to BBB (Low) | BBB+ to BBB- | BBB+ to BBB- | BBB+ to BBB- |
| 5 | BB+ to BB- | BB (High) to BB (Low) | BB+ to BB- | BB+ to BB- | BB+ to BB- |
| 6 | B+ to B- | B (High) to B (Low) | B+ to B- | B+ to B- | B+ to B- |
| 7 | CCC+ to CCC- | CCC (High) to CCC (Low) | CCC+ to CCC- | CCC+ to CCC- | CCC+ to CCC- |
| 8 | Below CCC- | Below CCC (Low) | Below CCC- | Below CCC- | Below CCC- |

| BSCR Rating | NAIC SVO |
|-------------|----------|
| 1 | - |
| 2 | - |
| 3 | 1 |
| 4 | 2 |
| 5 | 3 |
| 6 | 4 |
| 7 | 5 |
| 8 | 6 |

C2.11. A BSCR rating of 0 (not included above) has been provided for certain high-quality fixed income investments, specifically sovereign bonds and bond mutual funds.

Additional Guidance

Applying a BSCR Rating to unquoted internally rated investments

C2.i. Insurers that have developed an internal rating for unquoted investments shall apply a BSCR rating of 8. Nevertheless, if an insurer would like to request permission to use an equivalent scale of these investments in their BSCR filing, the insurer shall request such permission in writing to the BMA and include details on the internal rating assessment and a proposed equivalent scale to the BSCR Rating scale. Only upon approval shall the insurer reclassify an unquoted investment from BSCR Rating 8.

GNMA, FNMA and FHLMC are not eligible for BSCR Rating 0

C2.ii. Securities that have a BSCR Rating 0 have been defined as ‘Sovereign debt issued by a country in its own currency that is rated AA- or better’, however the Authority would like to acknowledge that Government National Mortgage

Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) are not eligible for the sovereign bond classification BSCR Rating 0 and shall be reported under Mortgage-Backed Securities (MBS). While the Authority acknowledges that an explicit government guarantee applies to the credit risk for GNMA-insured mortgages, uncertainty remains with the timing of the mortgage loan repayments. Consequently, the Authority does not extend the sovereign debt treatment to MBS.

Mortgage Backed-Securities to use NAIC Rating

C2.iii. Mortgage Backed Securities do not always adequately reflect the risk associated with being held at less than par value. For this reason, the NAIC has modeled these bonds and provides United States (US) insurers with a rating reclassification. The Authority shall allow insurers the option to use these reclassifications when summarising their portfolio. Instances where an instrument has a rating from a rating agency that would put it in BSCR ratings classes 1-2, and it has also been classified as NAIC ratings class 1 (equivalent to BSCR ratings class 3), then the better BSCR ratings class may be selected. The Authority requires insurers to provide a separate summary of the Form 1SFS value by BSCR rating class, both before and after the adjustment.

The NAIC reclassifications of MBS will be assigned to the BSCR Ratings Classes according to the following table:

| BSCR Rating Class | NAIC (for MBS Only) |
|--------------------------|----------------------------|
| 0-2 | |
| 3 | 1 |
| 4 | 2 |
| 5 | 3 |
| 6 | 4 |
| 7 | 5 |
| 8 | 6 |

Some Residential MBS bonds are not directly modelled by the NAIC, including bonds held by insurers that do not have a US presence. The NAIC provides a documented four-step process as part of its SSAP No. 43R for reclassifying such bonds based on their rating and their Form 1SFS value relative to par. The Authority shall allow companies to optionally follow this process in classifying bonds the NAIC has not formally reclassified.

C3. SCHEDULE OF FUNDS HELD BY CEDING REINSURERS IN SEGREGATED ACCOUNTS/TRUSTS BY BSCR RATING (SCHEDULE IIA)

Background

- C3.1 To assess the risk of amounts reported in Digital Assets Held in Custody For Clients (Form 1SFS, Line 12), the Authority requires insurers to determine the arrangement that the funds are being held. In the event of default, if the reinsurer bears the risk of the assets held, then these amounts are to be reported on Schedule XVIII – Schedule of Particulars of Ceded Reinsurance; if the insurer bears the risk (as well as the market risk of the valuation of investments), then these amounts are to be reported in Schedule IIA – Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts/Trusts By BSCR Rating.
- C3.2 The Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts/Trusts by BSCR Rating — Schedule IIA — provides the BMA with details to assess the type and quality of investment held by requiring the insurer to allocate the balances by investment category and BSCR Rating (similar to investments reported on Schedule II). In addition, the balances reported on Schedule IIA also are used in the calculation for the Interest Rate/Liquidity Risk and Cash and Cash Equivalents exposure.
- C3.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found in Schedule II.

Items

- C3.4 The Schedule is broken into five separate sections as follows:
- a) Quoted and unquoted bonds and debentures;
 - b) Quoted and unquoted equities;
 - c) Other Investment;
 - d) Mortgage loans; and
 - e) Cash and time deposits.

Instructions Affecting Schedule IIA

- C3.5 All digital assets held in custody for clients (as reflected in Form 1SFS, Line 12) in segregated accounts/trusts with identifiable assets, such as fixed income investments, equity investments, mortgage loans, other investments and cash and cash equivalents, shall be included here;

- C3.6 Fixed income investments, both quoted and unquoted, shall be categorised into corporate bonds and sovereign bonds, residential MBS, commercial MBS/asset-backed securities, and bond mutual funds and classified by BSCR rating;
- C3.7 Equity investments, both quoted and unquoted, shall be categorised into common stock, preferred stock and equity mutual funds;
- C3.8 Preferred stock shall be classified by BSCR rating;
- C3.9 BSCR ratings shall be determined in the manner specified in the instructions affecting Schedule II;
- C3.10 Sovereign debt issued by a country in its own currency that is rated AA- or better shall be classified under BSCR rating 0 while all other sovereign bonds shall be classified in a similar manner as corporate bonds;
- C3.11 Debt issued by government-owned and related entities that were explicitly guaranteed by that government, with the exception of MBS, shall be assigned a BSCR rating of 0;
- C3.12 Bond mutual funds shall be classified based on the underlying bond ratings as advised by the fund manager; equity mutual funds shall be classified in a similar manner as direct equity investments;
- C3.13 Money market funds shall be classified by the underlying credit security based on the BSCR rating prescribed in Schedule XIX; and
- C3.14 Amounts are to be reported both on an unconsolidated basis.

Additional Guidance

Additional guidance for assessing the Digital Assets Held in Custody for Clients arrangement

- C3.i. For digital assets held in custody for clients, the capital risk charge is calculated by the nature of the arrangement.
- a) Where specific assets have been allocated for the benefit of the reinsurer, such that the reinsurer bears market risk on those assets, the Authority requires insurers to look through to the underlying assets, and report these balances on Schedule IIA. This adds to the fixed income risk and equity risk modules similar to Schedule II.
- b) Where there are no specific identified assets, the reinsurer is in a similar position to a typical cedant with reinsurer exposure, and the amounts will thus be treated similarly to reinsurance recoveries and shall be reported on Schedule XVIII Particulars of Ceded Reinsurers. Furthermore, the rating for

reinsurance exposures should be based on the financial strength ratings of the insurer.

Applying a BSCR Rating to unquoted internally rated investments

C3.ii. Insurers that have developed an internal rating for unquoted investments shall apply a BSCR rating of 8. Nevertheless, if an insurer would like to request permission to use an equivalent scale of these investments in their BSCR filing, the insurer shall request such permission in writing to the BMA and include details on the internal rating assessment and a proposed equivalent scale to the BSCR Rating scale. Only upon approval shall the insurer reclassify an unquoted investment from BSCR Rating 8. For funds held by ceding companies, the capital risk charge is calculated by the nature of the arrangement.

Reporting Hedge Funds

C3.iii. When reporting hedge funds on Schedule II, insurers may not have the exact details of the underlying assets in which the funds are held. In these instances, the Authority advises allocating, on a proportionate basis of the balance of the portfolio, to the approved investment guidelines of the hedge fund and provide in the Attachment section the methodology used when reporting these figures.

C4. SCHEDULE OF FIXED INCOME AND EQUITY INVESTMENTS BY BSCR RATING (SCHEDULE IIB)

Background

C4.1 The schedule of fixed income and equity investments by BSCR rating (Schedule IIB), provides a breakdown of an insurer's:

- a) Bonds & Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
- b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
- c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down (for long and short exposures); and
- d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over collateralisation; and
- e) Cash and Cash Equivalents.

The amounts reported on Schedule IIB should reflect the balances as shown on Form 1SFS (Consolidated) lines 2(f) Quoted Investments, 3(f) Unquoted investments and 13(a) Derivatives after look-through (where applicable).

C4.2 This schedule applies a capital charge to fixed income investments based on the type of category and rating of the security held; and a shock to equity investments based on the type of investment. The fixed income and equity charges are aggregated in the fixed income and equity risk tabs, respectively. Further this information provides the BMA with the type and quality of investments held for assessing the insurer's market risk. It is noted that the balances reported on this schedule are to be included:

- a) Where interest-rate sensitive, to be included in Interest Rate/Liquidity Risk charge calculation along with the interest-rate sensitive values reported on Schedules IIC – IIF; and
- b) Balances in Schedule XIXA Cash and Cash Equivalents.

Items

C4.3 The Schedule is broken into five separate sections for which the total of each should, after reconciling for look-through, correspond to balances reported on Form 1SFS (Consolidated) for the relevant year. In the absence of look-through, the following (points a-d) should hold:

- a) Quoted and unquoted bonds and debentures, and Investment in Mortgage Loans on Real Estate – line 14, Column (11) ‘Total’ corresponds to Form 1SFS (Consolidated), line 2(b), 3(b) and 5(c);
- b) Quoted and unquoted equities – Line 37, Column (11) ‘Total’ corresponds to Form 1SFS (Consolidated), line 2(d) and 3(d);
- c) Derivatives instruments – line 47, Columns (1, 3, 6 and 8) and Line 57, Columns (1, 2 and 3) corresponds to Form 1SFS (Consolidated) 13(a);
- d) Cash and Cash Equivalents – line 58, Column (1) corresponds to cash and cash equivalents from hedge funds as reported on Form 1SFS (Consolidated) lines 2(e) and 3(e); and
- e) Quoted and unquoted investments corresponds to hedge funds as reported on Form 1SFS (Consolidated) lines 2(e) and 3(e) – is to be reported on a look through basis and allocated in sections a-d above.

Instructions Affecting Schedule IIB

- C4.3a Fixed income investments, both quoted and unquoted, shall be categorised into corporate bonds and sovereign bonds, residential MBS, commercial MBS/asset-backed securities, and bond mutual funds and classified by BSCR rating;
- C4.3b Equity investments, both quoted and unquoted, shall be categorised into long exposures, short exposures qualifying as assets held for risk mitigation purposes in accordance with criteria prescribed in section B4, and short exposures not qualifying as assets held for risk mitigation purposes in accordance with criteria prescribed in section B3. They are further required to be classified by strategic holdings, duration based, listed equity securities, preferred stocks, other equities, letters of credit, intangible assets, pension benefit surplus, infrastructure, derivatives and real estate;
- C4.3c Preferred stock shall be classified by BSCR rating;
- C4.3d The BSCR ratings for fixed income securities and preferred stocks shall be determined in the manner specified in the instructions affecting Schedule II;
- C4.3e Where a security is rated differently by various rating agencies, the insurer shall classify the security according to the most conservative rating assigned;
- C4.3f Unrated securities shall be assigned a BSCR rating of 8;
- C4.3g Sovereign debt issued by a country in its own currency that is rated AA- or better shall be classified under BSCR rating 0; while all other sovereign bonds are required to be classified in a manner similar to corporate bonds;
- C4.3h Debt issued by government-owned or entities that are explicitly guaranteed by that government, (except government issued MBS), shall be assigned a BSCR rating of 0,

provided that the country is rated AA- or better and the debit is in the local currency and otherwise classified in a similar manner as corporate bonds;

- C4.3i 'Exposures' shall include those determined by the application of the 'look-through' approach calculated in accordance with criteria prescribed in section B5 for collective investment vehicles and other investments packaged as funds;
- C4.3j 'Strategic holdings' refers to holdings in qualifying equity investments of a strategic nature which meet the criteria prescribed in section B6.7 for such holdings. Where such investments are listed on a designated stock exchange or are investments in certain funds both meeting criteria prescribed by the Authority, then such investments will be classified as 'Type 1'. Investments that do not meet such criterion shall be classified as 'Type 2'.
- C4.3k 'Infrastructure' refers to holdings in qualifying equity infrastructure investments which meet criteria prescribed in section B6.3 for such investments that are non-strategic holdings.
- C4.3l 'Listed equity securities in developed markets' refers to holdings in equity securities listed on designated stock exchanges or investments in certain funds prescribed in section B6.6. Certain qualifying unlisted equity investments may also be included under this category instead of the 'Other Equities' category under conditions set out in section B6.4.
- C4.3m 'Other equities' shall include holdings in quoted and unquoted equity investments that are not reported in accordance with the requirements of paragraphs '(j)' and '(l)' above; or not listed herein as an 'Equity Holding' in this Schedule (i.e., equities not listed on a designated stock exchange prescribed by the Authority, hedge funds, commodities and other alternative investments);
- C4.3n Best-estimate insurance liabilities and other liabilities (excluding risk margin) with their value subject to equity risk are to be included in lines 15 to 36;
- C4.3o Exposures qualifying as assets held for risk-mitigation purposes, and exposures not qualifying as assets held for risk-mitigation purposes, shall be determined in accordance with criteria prescribed in section B3;
- C4.3p For all exposures other than derivatives, a default calculation of after-shock value is provided to expedite the filling of the schedule. It is expected that the default calculation will be appropriate in the majority of cases⁴; however, the insurer always needs to review the appropriateness and approve any resulting values. If the default formula is not appropriate for a certain asset class, or for certain instruments within an asset class, the

⁴ In particular, this is true for all 'delta-one assets', such as common stocks and funds, for which the application of an x% downwards shock is equivalent to reducing the market value (price) by x%.

insurer is responsible for entering correct after-shock values by overriding the default formula; and

- C4.3q For derivatives, no default formula can be provided due to the non-linearity of the change in value. That is, the change in derivative value (in percentages) is generally different from the shock (in percentages) that is applied to the underlying of the derivative.

Additional Guidance

Applying a BSCR Rating to unquoted internally rated investments

- C4.3.i. Insurers that have developed an internal rating for unquoted investments shall apply a BSCR rating of 8. Nevertheless, if an insurer would like to request permission to use an equivalent scale of these investments in their BSCR filing, the insurer shall request such permission in writing to the BMA and include details on the internal rating assessment and a proposed equivalent scale to the BSCR Rating scale. Only upon approval shall the insurer reclassify an unquoted investment from BSCR Rating 8.

GNMA, FNMA and FHLMC are not eligible for BSCR Rating 0

- C4.3.ii. Securities that have a BSCR rating 0 have been defined as ‘Sovereign debt issued by a country in its own currency that is rated AA- or better’, however the Authority would like to acknowledge that Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) are not eligible for the sovereign bond classification BSCR Rating 0 and shall be reported under Mortgage-Backed Securities (MBS). While the Authority acknowledges that an explicit government guarantee applies to the credit risk for GNMA-insured mortgages uncertainty remains with the timing of the mortgage loan repayments. Consequently, the Authority does not extend the sovereign debt treatment to MBS.

Mortgage Backed-Securities to use NAIC Rating

- C4.3.iii. MBS do not always adequately reflect the risk associated with being held at less than par value. For this reason, the National Association of Insurance Commissioners (NAIC) has modeled these bonds and provides US insurers with a rating reclassification. The Authority shall allow insurers the option to use these reclassifications when summarising their portfolio. In instances where an instrument has a rating from a rating agency that would put it in BSCR ratings class 1-2, and it has also been classified as NAIC ratings class 1 (equivalent to BSCR rating class 3), then the better BSCR ratings class may be selected. The Authority requires insurers to provide a separate summary of the Form 1EBS value by BSCR rating class, both before and after the adjustment.

The NAIC reclassifications of MBS will be assigned to the BSCR ratings classes according to the following table:

| BSCR Rating Class | NAIC (for MBS Only) |
|----------------------------------|--------------------------------|
| 0 | |
| 1 | |
| 2 | |
| 3 | 1 |
| 4 | 2 |
| 5 | 3 |
| 6 | 4 |
| 7 | 5 |
| 8 | 6 |

Some Residential MBS bonds are not directly modeled by the NAIC, including bonds held by insurers that do not have a United States presence. The NAIC provides a documented four-step process as part of its SSAP No. 43R for reclassifying such bonds based on their rating and their Form 1SFS (Consolidated) value relative to par. The Authority shall allow companies to optionally follow this process in classifying bonds that have not been formally reclassified by the NAIC.

Affiliated Balances

- C4.3.iv. Investments in Affiliates are to be treated like any other financial investment unless they fulfil the criteria prescribed in section B6.7 as ‘Strategic Holdings’. Otherwise, the affiliate investment is to be allocated as an equity holding in lines 15-36.

C5. SCHEDULE OF FUNDS HELD (SCHEDULE IIC)

Background

- C5.1 To assess the risk of amounts reported in Digital Assets Held in Custody for Clients (Form 1SFS (Consolidated), line 12), the Authority requires insurers to determine the arrangement in which the funds are being held. In the event of default, if the reinsurer bears the risk of the assets held, then these amounts are to be reported on Schedule XVIII – Schedule of Particulars of Ceded Reinsurance; if the insurer bears the risk (as well as the market risk of the valuation of investments), then these amounts are to be reported in Schedule IIC – Schedule of Funds Held.
- C5.2 The Schedule of Funds Held — Schedule IIC — provides the BMA with details to assess the type and quality of investment held by requiring the insurer to allocate the balances by investment category and BSCR Rating (similar to investments reported on Schedule IIB). Further the balances reported on Schedule IIC also are used in the calculation for the Interest Rate/Liquidity Risk and Cash and Cash Equivalents exposure.
- C5.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found on Schedule IIB.

Items

- C5.4 The amounts reported should correspond to balances reported on Form 1SFS (Consolidated) line 12 and is allocated in the following five sections:
- a) Quoted and Unquoted Bonds and Debentures, and Investment in Mortgage Loans on Real Estate;
 - b) Quoted and Unquoted Equities;
 - c) Derivatives Instruments;
 - d) Cash and Cash Equivalents; and
 - e) Quoted and Unquoted Investments.

Instructions Affecting Schedule IIC

- C5.4a All digital assets held in custody for clients (as reported in Form 1SFS (Consolidated), line 12) and digital assets held in custody for clients (as reported in Form 1SFS (Consolidated), line 34) with identifiable assets and liabilities, such as fixed income investments, equity investments, mortgage loans, derivatives, hedge funds and cash and cash equivalents, are required to be included here, and should be reported on a look-through basis according to section B5 where applicable;

C6. SCHEDULE OF OTHER SUNDRY ASSETS AND LIABILITIES (SCHEDULE IIF)

Background

- C6.1 The schedule of Other Sundry Assets and Liabilities (Schedule IIF) provides a breakdown of an insurer's Other Sundry Assets and Liabilities:
- a) Bonds & Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
 - b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
 - c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down (for long and short exposures);
 - d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over collateralisation; and
 - e) Cash and Cash Equivalents
- C6.2 This schedule applies a capital charge to fixed income investments based on the type of category and rating of the security held and a shock to equity investments based on the type of investment. The fixed income and equity charges are aggregated in the fixed income and equity risk tabs, respectively. Furthermore, this information provides the BMA with the type and quality of investments held for assessing the insurer's market risk. It is noted that the cash and cash equivalent balances reported on this schedule are to be included in the balances in Schedule XIXA Cash and Cash Equivalents.
- C6.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found on Schedule IIB.

Items

- C6.4 The amounts reported should correspond to balances reported on Form 1SFS (Consolidated) lines 13(c) Prepaid expenses, 13(d) Goodwill and other intangibles, 13(e-g) Other Sundry Assets and 14(d) Letters of Credit, Guarantees and Other Instruments is allocated in the following five sections:
- a) Quoted and unquoted bonds and debentures, and Investment in Mortgage Loans on Real Estate;
 - b) Quoted and unquoted equities;
 - c) Derivatives instruments;
 - d) Cash and Cash Equivalents; and

e) Quoted and unquoted investments.

Instructions Affecting Schedule IIF

C6.4a All other sundry assets with identifiable assets (as reported in Form 1SFS (Consolidated), lines 13(h)) a and Letters of Credit, Guarantees and Other Instrumetns (as reported in Form 1SFS (Consolidated), line 14(d)), such as fixed income investments, equity investments, mortgage loans, and cash and cash equivalents, shall be included here;

**C9. SCHEDULE OF NET LOSS AND LOSS EXPENSE PROVISIONS BY
LINE OF BUSINESS (SCHEDULE III)**

Background

- C9.1 The schedule of net loss and loss expense provisions by line of business — Schedule III — provides a breakdown of an insurer’s net loss and loss expense provisions by statutory lines of business. The BMA has identified and defined 24 statutory lines of business.
- C9.2 Line item 25 ‘Total’ of Schedule III for net loss and loss expense provisions should correspond to the balance reported in Form 1SFS (Consolidated), line 17(d) for the relevant year.

Instructions Affecting Schedule III

- C9.2a Amounts shall be reported on a consolidated basis;
- C9.2b The same definition below shall be applied to both proportional and non-proportional statutory lines of business below;
- C9.2c Where the BSCR risk factor charges differ in (a), insurers shall make a distinction when completing the statutory filing and using the BSCR model;
- C9.2d Statutory lines of business shall be mutually exclusive (e.g. ‘Retro casualty’ is only to be placed into ‘Retro property’ as prescribed, and not any of the other ‘casualty’ related statutory lines, etc.);
- C9.2e Insurers may in good faith determine the allocation of the statutory lines;
- C9.2f Where an insurance contract involves multiple lines, the insurer shall assign to the various lines in accordance with the proportions written;
- C9.2g Where an insurer is unable to make the determination in instruction (e), the business shall be allocated to the line with the highest proportion;
- C9.2h Where the insurer is unable to make the determination in instruction (f), then the business shall be assigned to the line with the highest capital risk charge; and
- C9.2i The support and assumptions used by senior management shall be made available for review by the BMA.

| Statutory Lines of Business (Proportional and Non-Proportional) | Line of Business Mappings and Definitions |
|--|--|
| Property Catastrophe | <i>Property catastrophe</i> — coverage of damage arising from a peril that triggers an event (or events) that causes \$25 million or more indirect insured industry losses to property (or a loss value in accordance with the coverage provider’s stated policies) and that may affect a significant number of policyholders and insurers – a peril could be hurricane, earthquake, tsunami, or tornado. |
| Property | <p><i>US property</i> — coverage of US risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses.</p> <p><i>Crop / agriculture</i> — coverage of risks including onshore/offshore farms, livestock, agriculture and other food production-related losses.</p> <p><i>International property</i> — coverage of non-US risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses.</p> |
| Personal Accident | <i>Personal accident</i> — coverage of risks arising from an accident that causes loss of sight, loss of limb, other permanent disablement or death, including related medical expenses, etc. |
| Aviation | <i>Aviation</i> — coverage of risks arising from airport, fleet, or satellite property and operations-related losses. |
| Credit / Surety | <i>Credit / surety</i> — coverage of risks arising from various types of guarantees, commercial surety bonds, contractor bonds and various credit-related losses. |
| Energy Offshore / Marine | <i>Energy offshore / marine</i> — coverage of risks arising from offshore exploration and production, refining, power generation and/or cargo, hull and other marine-related losses. |
| US Casualty | <p><i>US casualty motor</i> — coverage of U.S. risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for motor related activities/actions, including auto liability</p> <p><i>US casualty – general</i> — coverage of U.S. risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for non-motor related activities including theft, fraud, negligence, and workers’ compensation</p> <p><i>Terrorism</i> — coverage of risks arising from acts of both certified and uncertified acts of terrorism (e.g. the calculated use or threat of violence against civilians to achieve an objective(s)) and related losses associated with acts of terrorism</p> <p><i>Other</i> — business that does not fit in any other category</p> |

| | |
|----------------------------------|---|
| US Professional | <i>U.S. casualty – professional</i> — coverage of US risks arising from injuries to persons and/or legal liability imposed upon the insured as a professional (e.g., director of a board, etc.) for negligent or fraudulent activities |
| US Specialty | <i>US casualty – medical malpractice</i> — coverage of US risks arising from injuries to persons and/or legal liability imposed upon the insured as a medical professional for negligent (or other) medical related activities |
| International Motor | <i>International motor</i> — coverage of non-US risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for motor-related activities/actions, including auto liability |
| International Casualty Non-Motor | <i>International casualty non-motor</i> — coverage of non-US risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for non-motor related activities/actions, including professional, medical, and workers' compensation |
| Retro Property | <i>Retro property</i> — retrocession cover for risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses <i>Retro casualty</i> — retrocession cover for risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for motor and non-motor related activities including theft, fraud and negligence, etc. |
| Structured/Finite Reinsurance | <i>Structured/finite reinsurance</i> — limited risk transfer contract comprising reinsurance cover where there is not both significant relative timing AND significant relative underwriting risk transfer – there may be either significant timing OR significant underwriting risk transfer – OR a significant relative economic loss may be possible but not probable (extremely remote) – not including certain catastrophe covers, like earthquake, where the probability of a loss event is also remote |
| Health | <i>Health</i> — coverage of care, curative or preventive medical treatment or financial compensation arising from illness, accident, disability, or frailty, including hospital, physician, dental, vision and extended benefits |

**C10. SCHEDULE OF GEOGRAPHICAL DIVERSIFICATION OF NET LOSS
AND LOSS EXPENSE PROVISIONS (SCHEDULE IIIA)**

Background

- C10.1 The schedule of geographical diversification of net loss and loss expense provisions — Schedule IIIA — provides a breakdown of an insurer’s net loss and loss expense provisions by statutory lines of business and by geographical location. The BMA has identified and defined 24 statutory lines of business and 18 statutory geographical zones.
- C10.2 Line item 25 ‘Total’ of Schedule IIIA for net loss and loss expense provisions should correspond to the balance reported in Form 1SFS (Consolidated), line 17(d) for the relevant year.

Instructions Affecting Schedule IIIA

C10.2a For each line of business, the net loss reserves for the current year stated in Schedule III may be split between the 18 geographic zones set below. If included, the total of amounts in zones 1-18 for a given line of business shall equal the corresponding amount of net loss reserves shown in Schedule III;

C10.2b Amounts shall be reported on a consolidated basis only

| Underwriting Zone | Location |
|---------------------------------------|--|
| Zone 1 - Central & Western Asia | Armenia, Azerbaijan, Bahrain, Georgia, Iraq, Israel, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Oman, Palestinian, Qatar, Saudi Arabia, Saudi Arab Republic, Tajikistan, Turkey, Turkmenistan, United Arab Emirates and Uzbekistan |
| Zone 2 - Eastern Asia | China, Hong Kong, Japan, Macao, Mongolia, North Korea, South Korea and Taiwan |
| Zone 3 - South and South-Eastern Asia | Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, India, Indonesia, Iran, Lao PDR, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Timor-Leste and Vietnam |
| Zone 4 - Oceania | American Samoa, Australia, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia, Nauru, New Caledonia, New Zealand, Niue, Norfolk Island, N. Mariana Islands, Palau, Papua New Guinea, Pitcairn, Samoa, Solomon Islands, Tokelau, Tonga, |

| | |
|--|---|
| | Tuvalu, Vanuatu and Wallis & Futuna Island |
| Zone 5 - Northern Africa | Algeria, Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Cote d' Ivoire, Egypt, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Saint Helena, Senegal, Sierra Leone, Sudan, Togo, Tunisia and Western Sahara |
| Zone 6 - Southern Africa | Angola, Botswana, Burundi, Democratic Republic of Congo, Comoros, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mayotte, Mozambique, Namibia, Republic of Congo, Reunion, Rwanda, Sao Tome & Principe, Seychelles, Somalia, South Africa, Swaziland, Uganda, United Republic of Tanzania, Zambia and Zimbabwe |
| Zone 7 - Eastern Europe | Belarus, Bulgaria, Czech Republic, Hungary, Moldova, Poland, Romania, Russian Federation, Slovakia and Ukraine |
| Zone 8 - Northern Europe | Aland Islands, Channel Islands, Denmark , Estonia, Faeroe Islands, Finland Guernsey, Iceland, Republic of Ireland, Isle of Man, Jersey, Latvia, Lithuania, Norway, Svalbard, Jan Mayen, Sweden, and United Kingdom |
| Zone 9 - Southern Europe | Albania, Andorra, Bosnia, Croatia, Cyprus, Gibraltar, Greece, Italy, fYR of Macedonia, Malta, Montenegro, Portugal, San Marino, Serbia, Slovenia, Spain and Vatican City |
| Zone 10 - Western Europe | Austria, Belgium, France, Germany, Liechtenstein, Luxembourg, Monaco, Netherlands and Switzerland |
| Zone 11 - Northern America (Excluding USA) | Bermuda, Canada, Greenland and St Pierre & Miquelon |
| Zone 12 - Caribbean & Central America | Anguilla, Antigua & Barbuda, Aruba, Bahamas, Barbados , Belize, British Virgin Islands, Cayman Islands, Costa Rica, Cuba, Dominica, Dominican, El Salvador, Grenada, Guadeloupe Guatemala, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Netherlands Antilles, Nicaragua, Panama, Puerto Rico, St-Barthelemy, St Kitts & Nevis, St Lucia, St Martin, St Vincent, Trinidad & Tobago, Turks & |

| | |
|--|---|
| | Caicos Islands and US Virgin Islands |
| Zone 13 - Eastern South America | Brazil, Falkland Islands, French Guiana, Guyana, Paraguay, Suriname and Uruguay |
| Zone 14 - Northern, Southern and Western South America | Argentina, Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela |
| Zone 15 - North-East United States | Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont |
| Zone 16 - South-East United States | Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, Virginia and West Virginia |
| Zone 17 - Mid-West United States | Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota and Wisconsin |
| Zone 18 - Western United States | Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Texas, Utah, Washington and Wyoming |

**C11. SCHEDULE OF PREMIUMS WRITTEN BY LINE OF BUSINESS
(SCHEDULE IVA)**

Background

C11.1 The schedule of premiums written by line of business — Schedule IVA — provides a breakdown of an insurer’s gross premiums written and net premiums written by statutory lines of business. Insurers are required to separate gross premiums written into ‘unrelated’ and ‘related’ business according to the 24 prescribed statutory lines of business.

Instructions Affecting Schedule IVA

C11.1a Gross premiums written is the amount of gross premiums written during the relevant year and the ‘Total’ on Line 25 should correspond to the balance reported in Form 2SFS (Consolidated), line 1(c) for the same relevant year; and

C11.1b Net premiums written is gross premiums written in instruction (a) less reinsurance premiums ceded during the relevant year. The 'Total' on line 25 should correspond to the balance reported in Form 2SFS (Consolidated), line 3 for the same relevant year.

Additional Guidance

Reporting Premiums as Unrelated or Related

C11.i. When reporting the gross premiums as 'unrelated or 'related', the Authority advises the following:

- a) Schedule of General Business Premiums Unconsolidated - the insurer should look at the nature of the contract and not 'look through' the underlying risk. If the insurer writes to an affiliate; then the insurer should include this as related business, if the business is not connected to any affiliate within the insurance group, then this shall be reported as unrelated.
- b) Schedule of General Business Premiums Consolidated - the insurer should 'look through' to the underlying policyholder and determine the appropriate categorisation based on its relationship with the underlying policyholder. If the insurer writes to an affiliate (or any affiliate within the insurance group), then the insurer shall look through the underlying risk and if it is to 3rd party, then this shall be included as unrelated business. Otherwise this is included as related risk.

C12. SCHEDULE OF GEOGRAPHIC DIVERSIFICATION OF NET PREMIUMS WRITTEN (SCHEDULE IVC)

Background

- C12.1 The schedule of geographic diversification of net premiums written — Schedule IVC — provides a breakdown of an insurer’s net premiums written by statutory lines of business and by geographical location. The BMA has identified and defined 24 statutory lines of business and 18 statutory geographical zones.
- C12.2 Line item 25 ‘Total’ of Schedule IVC for net premiums written should correspond to the balance reported in Form 2SFS (Consolidated), line 3 for the relevant year.

Instructions Affecting Schedule IVC

- C12.2a For each line of business, the net premiums written for the current year stated in Schedule IVA may be split between the 18 geographic zones set above. If included, the total of amounts in zones 1-18 for a given line of business shall equal the corresponding amount of net premiums written shown in Schedule IVA.
- C12.2b Amounts shall be reported on a consolidated basis only.

Additional Guidance

- C12.i. When allocating the premiums by geographic location, allocate the premiums by the location of the risk.

C13. SCHEDULE OF PREMIUM EXPOSURE MEASURE BY LINE OF BUSINESS (SCHEDULE IVD)

Background

- C13.1 The schedule of premium exposure measure by line of business — Schedule IVD — provides a breakdown of an insurer’s gross premium exposure measure and net premium exposure measure on a consolidated basis. The exposure measure is calculated by the greater of:
- a) Gross Premium Written / Net Premium Written for the current year; and
 - b) Estimate of Net Earned Premiums for the next 12 months;
- plus
- (i) Net FP (Existing); and
 - (ii) Net FP (Future)

Instructions Affecting Schedule IVD

- C13.1a ‘Net Premiums Written’ means the consolidated net premiums written for the reporting period;
- C13.1b ‘Estimate of Net Earned Premiums for the next 12 months’; means the net premiums earned for the next 12 months (whether arising from policies already incepted, bound but not incepted, or not bound but incepting in the next 12 months);
- C13.1c ‘Net Base Premium Exposure’ means the greater of the amounts calculated under lines of Business in paragraphs (a) and (b) above;
- C13.1d ‘Net FP (existing)’ means the expected present value of net premiums to be earned by the insurer after the next 12 months reporting period for existing qualifying multi-year insurance policies;
- C13.1e ‘Net FP (future)’ means the expected present value of net premiums to be earned by the insurer after the next 12 months reporting period for qualifying multi-year insurance policies where the initial recognition date falls in the following twelve months;
- C13.1f ‘Net Premium Exposure Measure’ means the total derived from paragraphs (c), (d) and (e) above;
- C13.1g ‘Gross Premium Exposure Measure’ means the amount calculated in paragraph (f) above but on a gross of reinsurance basis;
- C13.1h ‘Geographic Net Premium Exposure Measure’ means the total shown on Schedule IVE; and

C13.1i all amounts shall be reported on a consolidated basis only.

Additional Guidance

Qualifying multi-year insurance policies

C13.i. ‘Qualifying multi-year insurance policies’ means those insurance policies with an earning term longer than 12 months after allowing for the criteria prescribed by the Authority;

C13.ii. Corollary to the above is that insurance policies that are earned over a term of twelve months or less (i.e., single year policies) are not considered ‘qualifying multi-year insurance policies’;

C13.iii. In order to determine what contracts fall under multi-year exposure, insurers should take into account paragraph 122 of the Authority’s Guidance Notes for Commercial Insurers and Insurance Groups’ Statutory Reporting Regime, of 30th November 2016: ‘The cash flow projections used in the calculation of the best estimate should take account of all future cash in- and out-flows required to settle the insurance obligations attributable to the lifetime of the policy. This is defined to continue up to the point at which:

- a) The insurer is no longer required to provide coverage;
- b) The insurer has the right or the practical ability to reassess the risk of the particular policyholder and, as a result, can set a price that fully reflects that risk; or
- c) The insurer has the right or the practical ability to reassess the risk of the portfolio that contains the contract and, as a result, can set a price that fully reflects the risk of that portfolio.

C13.iv. For example, multi-year contracts with ‘getaway clauses’, such as the annual renewal of cancellation provisions, may be treated as one-year contracts and thus are excluded from multi-year exposure.

C13.v. The criteria prescribed in paragraph C20.2c are taken from the Guidance for calculating the EBS Technical Provisions. A natural implication is that the treatment of multi-year contracts should be consistent between the calculation of FP(Existing) and Loss Provisions.

C14. SCHEDULE OF GEOGRAPHIC DIVERSIFICATION OF NET PREMIUM EXPOSURE MEASURE (SCHEDULE IVE)

Background

- C14.1 The schedule of geographic diversification of net premium exposure measure — Schedule IVE — provides a breakdown of an insurer’s net premium exposure measure by statutory lines of business and by geographical location. The BMA has identified and defined 24 statutory lines of business and 18 statutory geographical zones.
- C14.2 Line item 25 ‘Total’ of Schedule IVE for net premium exposure measure should correspond to the balance reported in IVD Net Premium Exposure Measure for the applicable line of business.

Instructions Affecting Schedule IVE

- C14.2a For each line of business, the net premium exposure measure stated in Schedule IVD may be split between the 18 geographic zones set below. If included, the total of amounts in zones 1-18 for a given line of business shall equal the corresponding amount of net premiums written shown in Schedule IVD.
- C14.2b Amounts shall be reported on a consolidated basis only.

Additional Guidance

- C14.i. When allocating the premium exposure measure by geographic location, allocate the premiums by the location of the risk.

C15. SCHEDULE OF RISK EXPOSURE (SCHEDULE IVF)

Background

- C15.1 The Schedule of Risk Exposure – Schedule IVF – is intended to capture the location of:
- a) Insurance subsidiaries jurisdiction of registration;
 - b) Gross and Net Premium Written by location of risk being underwritten. For worldwide coverage or instances when the location of risk is not able to be easily determined, insurers can provide the location of risk of the cedant. This information assists the Authority in determining the location of premiums written from Bermuda insurers;
 - c) Gross Incurred Losses by location assists the Authority in determining the location of the losses that have occurred, and the impact Bermuda insurers have on worldwide markets; and
 - d) Gross Reserves by location assists the Authority of determining the location of the losses that have occurred, and the impact Bermuda insurers has with worldwide markets.

Items

- C15.2 Provide jurisdiction of the ultimate parent company of the insurer:
- C15.3 All insurance groups shall provide the following information for the reporting period

Instructions Affecting Schedule IVF

C15.3a ‘Location’ shall be the location of the risk being underwritten. If the location of the risk being underwritten is not available, then insurers are to allocate based on the location of the cedant;

C15.3b The ‘number of subsidiaries’ refers to the number of subsidiaries licensed within the jurisdiction;

C15.3c All amounts shall be reported on a consolidated basis only.

C16. SCHEDULE OF RISK MANAGEMENT (SCHEDULE V)

Background

- C16.1 For assessing the areas of risk of an insurer, the Authority also takes into consideration the insurer's risk management structure on an on-going basis. Such areas include: structure of the insurer, the underwriting risks, market/investment risks, liquidity/interest rate risk, and any other risks (such as deposit assets and liabilities and segregated accounts) associated with the insurer. These areas are to be provided on a forward-looking basis and, if there are significant changes to the insurer's business plan for the upcoming year, the insurer shall include a description of the change in the supporting documentation.
- C16.2 The schedule of risk management shall include the following:
- a) Governance and group structure;
 - b) Intra-group transactions that the insurer is a party to and the insurer's risk concentrations;
 - c) Effective duration of assets;
 - d) Effective duration of liabilities;
 - e) Gross probable maximum loss;
 - f) Net probable maximum loss;
 - g) Average annual loss (excluding property catastrophe);
 - h) Actual attritional losses and large claims losses – relevant year;
 - i) Arrangements with respect to property catastrophe recoverables;
 - j) Mutual fund disclosures;
 - k) Summary of projected performance;
 - l) Financial impact and description of stress and scenario tests;
 - m) List of statutory lines and statutory territories that have catastrophe exposures
 - n) Reconciliation from GAAP financial statements to Form 1SFS; and
 - o) Details of alternative capital;

Instructions Affecting Schedule V

C16.2a Governance and group structure must disclose (on a legal entity and group basis where applicable) —

- 1) The structure of the board of directors including each director's name, role, country of residence, work experience and status on the Board;

Additional Guidance for Status on the Board:

| | |
|--------------------------------|---|
| Non-Executive (Independent) | Refers to a non-executive member of the board that is not affiliated to the insurer or a service provider |
|--------------------------------|---|

| | |
|----------------------------------|---|
| Non-Executive (Affiliate) | Refers to a non-executive member of the board that is part of the group of the insurer |
| Non-Executive (Service Provider) | Refers to a non-executive member of board that: a) Acts as a company formation agent, or agent for the establishment of a partnership; b) Acts as a nominee shareholder of a company; c) Providing administrative and secretarial services to the insurer; d) Performs its functions in the capacity of resident representative under the <i>Companies Act 1981, Exempted Partnerships Act 1992</i> and <i>Overseas Partnerships Act 1995</i> ; and e) Provides any additional corporate or administrative services as may be specified in regulations |
| Non-executive (Other) | Refers to a non-executive member of the board that does not qualify as an independent director nor is a service provider |
| Executive | Refers to an executive member of the board |

- 2) The structure of the management of the insurer including names, roles, work country of residence, experience, employee arrangement (e.g., confirm whether employees are hired or outsourced, etc.) and description of responsibilities of the chief and senior executive;

Additional Guidance for Employee Arrangement:

Chief and Senior Executives Employee Arrangements are categorised as follows:

| | |
|---------------------------|---|
| Insurer | Employee working fulltime for the insurer |
| Affiliate | Employee working for the parent company or any other entity affiliated to the company |
| External Service Provider | Third-party service providers e.g. insurance managers |

Additional Guidance for Description of responsibilities:

Chief and Senior Executive Positions are categorised as follows:

| | |
|------------|--|
| Category A | Has authority to make key strategic, underwriting or investment decisions, etc. |
| Category B | Has authority to make key strategic, underwriting or investment decisions, etc., within the risk appetite explicitly set by the board of directors |
| Category C | Must get key strategic, underwriting, or investment decisions signed-off by board of directors before executing |

- 3) Terms of reference of the board of directors of the insurer and its sub-committees;

3a) Does your company have tax residency outside of Bermuda? If yes, confirm the location of the tax residency.

- 4) The jurisdiction(s) where the board of directors of the insurer meet on activities including but not limited to —
- (a) Setting the strategic direction of the insurer;
 - (b) Determining the (re)insurer’s risk appetite;
 - (c) Making strategic decisions about new and/or changes to products, lines of business or markets; and
 - (d) Assessing or managing solvency requirements.

Additional Guidance for Jurisdiction(s) where the Board of Directors of the insurer meet on activities:

| | |
|--------------|--|
| Select ‘Yes’ | If the insurer’s board of directors meet only in Bermuda |
| Select ‘No’ | If the insurer’s board of directors do not meet in Bermuda |
| Select ‘No’ | If the insurer’s board of directors meets both in Bermuda and another jurisdiction(s) and provide details of each jurisdiction and identify the jurisdiction where activities are deliberated mainly |

- 5) Where functions are outsourced, details of every service provider of the insurer performing the function including: name, main jurisdiction of operation and details of the insurer’s operations which are primarily being performed in relation to—
- (a) Underwriting (re)insurance policies;
 - (b) Risk management decisions and activities;
 - (c) Investment strategy;
 - (d) Actuarial;
 - (e) Compliance; and
 - (f) Internal audit.

Additional Guidance for Jurisdiction(s) where the board of directors of the insurer meet on operations:

| | |
|--------------|---|
| Select ‘Yes’ | If the insurer’s board of directors meet only in Bermuda |
| Select ‘No’ | If the insurer’s board of directors do not meet in Bermuda |
| Select ‘No’ | If the insurer’s Board of Directors meet both in Bermuda and another jurisdiction(s), provide details of each jurisdiction and identify the jurisdiction in which activities are deliberated mainly |

Additional Guidance for Outsourced Services:

| | |
|-------------------|---|
| Insurance Manager | Refers to a service provider that is not an employee of the insurer, and holds themselves out as a manager in relation to the insurer, whether or not the |
|-------------------|---|

| | |
|-------------------|--|
| | functions performed by them as such go beyond the keeping of insurance business accounts and records |
| Other Third Party | Refers to a service provider that is not affiliated nor the insurance manager |
| Affiliate | Refers to a service provider that is part of the group of the insurer |

_____ 5a) . Details of the services outsourced, and if yes, confirmation of whether or not the services are performed in Bermuda;

6) Number of employees of the insurer that are resident in Bermuda (non-outsourced positions);

6a) Confirmation of the number of employees residing in Bermuda employed as

(i) Senior Executive – means a person who, under the immediate authority of a director or chief executive of the registered person:

(a) Exercises managerial functions; or

(b) Is responsible for maintaining accounts or other records of the registered person

(ii) 2. Senior Manager – means in relation to an insurer, a chief executive or senior executive performing the duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters;

(iii) 3. Technical officer - means a person (other than a senior manager) who performs management or other non-management core duties within the underwriting, actuarial, risk management, compliance, internal audit, finance or investment functions; and

(iv) 4. Administrative – means a person who is not a senior manager or technical officer;

7) The jurisdiction(s) where the parent board primarily deliberates on matters including, but not limited to—

(a) Setting strategic decisions;

(b) Determining the group’s risk appetite;

(c) Choosing a corporate structure, including amalgamations, acquisitions and strategic alliances;

(d) Making strategic decisions about new, and/or changes to, products, lines of business or markets; and

(e) Assessing or managing solvency requirements.

- 8) The jurisdiction(s) where the parent board and chief and senior executives primarily reside;
- 9) The jurisdiction where the insurance group's control functions resides (i.e., group finance, actuarial, and risk management);
- 10) The insurance group's financial position based on its most recent audited general purpose financial statement regarding its—
 - (a) Total assets;
 - (b) Total reserves; and
 - (c) Capital and surplus;
- 11) The name of insurers within the insurance group that have the highest—
 - (a) Total asset value;
 - (b) Total insurance reserve value; and
 - (c) Total capital and surplus based on the group's most recent audited general purpose financial statement;
- 12) The total values for subparagraph (11)(a), (b) and (c);
- 13) The jurisdiction of licensing of each insurer in subparagraph (11);
- 14) Any events which have occurred or decisions made subsequent to the relevant year-end that would, or have, materially changed the information in subparagraphs (4) through (13) (e.g., amalgamation or acquisition or restructuring, etc.); provide a detailed response and explanation;
- 15) A copy of the latest group organisational chart

Additional Guidance

Change in Board and/or Senior Management after Financial Year-End

- C16.a.1 Instances where the composition of the board and senior management has undergone changes since the financial year-end, insurers are to report the composition of the board and senior management as of the financial year-end, as well as provide in brackets in the name field, the effective date of the previous and new members of the board or senior management.

C16.a.2 Note that under section 30J of the Act, a notification is required for change in board members and officers within 45 days of the insurer becoming aware of the change, and thus the inclusion of this information in the BSCR does not qualify as notification of such change.

Terms of Reference clarification

C16.a.3 ‘Terms of Reference’ in this case refers to the duties of the Board and its sub-committees as stated in the Company’s charter. The BMA reviews the terms of reference in assessing whether significant decisions are deliberated in Bermuda, and if the insurer meets the head office requirements. If the insurer’s bye-laws include information which aids in the BMA’s assessment, it is then acceptable.

Figures are to be reported in thousand units (‘000s)

C16.a.4 The figures for Schedule V(a), Items 10 and 11 are to be reported on the same basis as either thousand units (‘000s) or units as indicated in the Summary tab of the return. The insurer may attach additional information under ‘Other Attachments’ to provide the BMA with the financial position of the Group and/or the insurers in their local currency.

Insurance Group details if not part of an Insurance Group

C16.a.5 If the insurer is not part of an insurance group, the insurer shall put the values reported on Form 1EBS in Schedule V(a), Item 10 ‘Group’s Financial Position.

Insurance Group details of entities domiciled in Bermuda

C16.a.6 The insurer is one of a few insurance companies within the group operating out of Bermuda. Does it still report the overall group position or combined amounts for the Bermuda-domiciled entities?

The insurer shall report for all companies within the group, regardless of their place of incorporation. Therefore, the insurer shall report the overall group position based on its most recent audited general-purpose financial statements.

Insurance Group details of with unaudited statements

C16.a.7 The insurance group does not produce audited general-purpose financial statements. Shall the insurer report NIL (0) values?

The Authority will accept the requested information based on unaudited group financial statements. The insurer should not leave this field blank.

Insurance Group details – organisational chart

C16.a.8 The insurer is part of a large insurance group with subsidiaries worldwide. Can the insurer submit a condensed organisational chart that includes only the Bermuda entities?

The Authority requires the organisational chart to include all group companies and indicate the place of incorporation and percentage holdings of each. Furthermore, the Bermuda insurer shall be clearly identifiable.

Details of the services outsourced – scope of services

C16.a.9 When responding to the details of the services outsourced, insurers should consider both internal and external parties when responding to this section.

C16.2b Intra-group transactions to which the insurer is a party and the insurer’s risk concentrations—

- a) Details of material intra-group transactions between the insurer and other members of the group to which it belongs, including (where applicable):
 - (i) Exposure value (face value or market value, if the latter is available);
 - (ii) Counterparties involved including where they are located; and
 - (iii) Summary details of the transactions, including purpose, terms and transaction costs, duration of the transaction and performance triggers.
- b) Details surrounding all intra-group reinsurance and retrocession arrangements, and other material intra-group exposures including:
 - (i) Counterparties involved including where they are located
 - (ii) Aggregated values of the exposure limits (gross and net) by counterparties broken down by counterparty rating;
 - (iii) Aggregated premium flows between counterparties (gross and net); and
 - (iv) The proportion of the insurer’s insurance business exposure covered by internal reinsurance, retrocession and other risk transfer arrangements.
- c) the ten largest exposures to unaffiliated counterparties and any other unaffiliated counterparty exposures or series of linked unaffiliated counterparty exposures exceeding 10% of the insurer’s statutory capital and surplus—
 - (i) Name of counterparty;
 - (ii) Exposure values (face value or market value); and
 - (iii) Transaction type.

Additional Guidance

Material Intra Group Transactions and Intra-Group Reinsurance & Retrocession Arrangements

C16.2.b.1 When providing details of ‘material intra-group transactions’ the Authority considers ‘material exposure’ in relation to statutory capital and surplus (ie. Greater than 10% of statutory capital and surplus), as well as the materiality of the specific disclosure. For example, if the insurer holds cash of \$3 million and total assets of \$4 million, the

BMA would consider the \$3 million cash balance to be material as it pertains to 75% of the insurer's total assets.

When providing details of 'intra-group reinsurance and retrocession arrangements' the Authority is looking for **all** intra-group reinsurance and retrocession arrangements. Note that if an insurer has more than 25 transactions with the same assuming and ceding party, they can be aggregated together. If an insurer has more than 25 transactions, please include these details in the attachments section of the BSCR model.

The 'Aggregated Premium Flows' shall be the premium written for the reporting period (note that net refers to any reinsurance that is ceded back to the counterparty). The 'Aggregated Values of the Exposure Limits' shall be the outstanding reserve at the reporting period (note the net refers to any reinsurance that is deducted from the counterparty).

In instances where the insurer is an affiliated reinsurer and all of its transactions are deemed intra-group transactions, the insurer may include an attachment that provides this information.

Internal Reinsurance Arrangement calculation

C16.2.b.2 The proportion of internal reinsurance arrangements is calculated by dividing the amount of reinsurance provided by affiliates into the total amount of reinsurance available. The insurer shall only include arrangements where it is the ceding party.

Unaffiliated Counterparties Ten Largest Exposures

C16.2.b.3 In instances where the insurer does not have any investing activities, yet it holds cash and cash equivalents, the insurer shall list these as counterparty exposures as well as include each bank separately.

Unaffiliated Counterparties Ten Largest Exposures – investments to report

C16.2.b.4 When determining the ten largest unaffiliated counterparty exposures, insurers are to include cash and cash equivalents, investments (including hedge funds), receivables, recoverables and letters of credit at the end of the reporting period. If the information is available, insurers are to provide a look-through basis of the underlying investment.

C16.2c The effective duration of assets must be determined using the aggregate of the total bonds and debentures (as reflected in Form 1SFS (Consolidated), lines 2(b) and 3(b)), preferred stock (as reflected in Form 1(Consolidated), lines 2(c)(ii) and 3(c)(ii)), and mortgage loans (as reflected in Form 1(Consolidated), line 5(c)) as a basis.

C16.2d The effective duration of liabilities must be determined using the reserves (as reflected in Form 1(Consolidated), lines 17(d)) as a basis.

C16.2e **Gross Probable Maximum Loss Instructions**The gross probable maximum loss (if property catastrophe writer) means the gross probable maximum loss for natural catastrophe losses (prior to reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all property-related risks and all perils (for the property catastrophe line only), including reinstatement premiums for the year following the relevant year based upon the insurer's catastrophe model. The support documentation must be retained for at least five years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the insurer and shall be presented to the BMA upon request.

Net Probable Maximum Loss Instructions

C16.2f The net probable maximum loss (if property catastrophe writer) means the net probable maximum loss for natural catastrophe losses (after reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all property related risks and all perils (for the property catastrophe line only), including reinstatement premiums for the year following the relevant year based on the insurer's catastrophe model. The support documentation must be retained for at least five years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the insurer and shall be presented to the BMA upon request.

Additional Guidance

Probable Maximum Loss and Average Annual Loss Valuation – After Tax

C16.2.g.1 The Probable Maximum Loss and Average Annual loss shall be valued after tax.

C16.2g The average annual loss means-

- a) The expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all property related risks and all perils other than those relating to the property catastrophe line of business for the year following the relevant year based on the insurer's catastrophe model;
- b) The calculation should be from the same underlying loss distribution used to determine the gross probable maximum loss and the net probable maximum loss (excluding the property catastrophe component); and
- c) The support documentation must be retained for at least five years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the insurer and shall be presented to the BMA upon request.

C16.2h The actual attritional losses and large claim losses – relevant year means the actual aggregate losses (classified by insurers as attritional and large claim losses in accordance with its own policy) experienced by the insurer in the relevant year (not including prior year reserve releases or adverse development).

C16.2i The arrangements with respect to property catastrophe recoverables shall disclose the amounts of:

- a) Collateral;
- b) Catastrophe bonds;
- c) Special purpose insurer (indemnity basis);
- d) Special purpose insurer (other basis); and
- e) Total.

C16.2j Mutual fund disclosures shall include the name, type and amount of each mutual fund used by the insurer.

Additional Guidance

Mutual Fund Information to Provide

C16.2k.1 Insurers to are to provide a summary report (in excel format) that lists each fund the insurer is using, a brief description of the type of fund (such as bond fund, equity fund balanced fund, etc.) and the amount the insurer has invested in each fund.

C16.2k Summary of projected performance for the year following the relevant year:

- a) The insurer's latest estimate of annual net premiums written;
- b) Estimated underwriting profit or loss;
- c) Estimated net income or loss either for the insurer or on a group basis with disclosure of the estimated percentage of the insurer's contribution relative to the group; and
- d) A qualitative description of the insurer's business and underwriting strategy to be used in an attempt to achieve the estimates in (a) and (c) above.

C16.2l Financial impact and description of stress and scenario tests shall disclose the results from the stress and scenario tests prescribed by the BMA annually and published in such manner as the BMA directs.

C16.2m The list of statutory lines and statutory territories that have catastrophe exposures as set out below.

| Zone | Territories |
|-------------|---|
| 1 | Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, the District of Columbia, Alabama, Arkansas, Louisiana, Mississippi, Texas, Florida, Georgia, North Carolina and South Carolina |
| 2 | Caribbean |
| 3 | Arizona, Colorado, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Montana, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Utah, Wisconsin and Wyoming |
| 4 | California |
| 5 | Oregon, Washington |
| 6 | Hawaii |
| 7 | Canada, Alaska |
| 8 | United Kingdom, Continental Europe |
| 9 | Australia / New Zealand |
| 10 | Japan |
| 11 | Nationwide covers |
| 12 | Worldwide covers |
| 13 | All exposures not included in Zones 1 to 12 |

C16.2n A reconciliation of amounts reported in total assets, total liabilities and total statutory economic capital and surplus comprising of any adjustments applied to the GAAP financial statements to arrive at the amounts disclosed in Form 1SFS.

C16.2o In respect of business for which deposit accounting approaches have been followed: a description of business, total assets held in trust or other collateral, lines of business written, gross premiums written for the period, net premiums written for the period, limits (maximum exposure). For business that has limited exposure, provide the results at a 99.0% TVaR and for business with unlimited exposure, provide details of such business; and

Additional Guidance

Contracts that Qualify as Deposit Assets & Liabilities

C16.2.s.1 Deposit Asset & Liability contracts represent insurance contracts that do not meet the definition of meeting insurance risk (as applicable per the insurer's GAAP). Prior to December 31, 2016, if an insurer wrote insurance business that did not meet the definition of insurance risk, insurers would be required to seek BMA approval to include such contracts in the statutory balance sheet. (Going forward, this approval will not be necessary.)

As a result, the Authority has provided the new schedule V(k) Details of Deposit Asset & Liabilities to assess the insurer contracts that do not meet the definition of insurance risk, and lines of business that are written (both on a gross and net basis) for the reporting period, assess the assets that are supporting these obligations, and assess the exposure levels of such contracts.

Details by Contract and Line of Business

C16.2s.2 Complete the schedule by providing the lines of business written for each exposure type separately. (I.e., if an insurer has exposure that writes both property and casualty business), then the insurer is to report the business for the property business on one line and report the casualty business line separately.

C16.2p In respect of segregated account business, details of each by net loss reserves by statutory lines of business: segregated account cell name, total assets, total liabilities, statutory capital and surplus, cash and investments, net loss reserves, reinsurance recoverable, statutory lines of business written, gross premium written, net premium written, currency, details (if any) of the insurer writing “related” business, details if the insurance or reinsurance contract has limited recourse language, details of inter-relationship between segregated account cells (if any), details of the segregated account cell’s access to the general account (if any) and details where a segregated account cell is in a deficit, insolvent or subject to litigation.

“related” for the purposes of this paragraph, means where the insurance business written by a segregated account cell is business that meets the definition in the Act of business that can ordinarily be written by a Class 1, Class 2, Class 3, Class A or Class B insurance business (with the exception that the insurance business written is that which is assumed from an affiliate insurer; is deemed by the Authority as “connected business”; or is business written by an insurer owned by insurance brokers or agents).”;

“limited recourse” for the purposes of this paragraph, means where the segregated account cell has access to the general account in the instance the segregated account cell is in deficit;

“inter-relationship between segregated account cells” for the purposes of this paragraph, means where the segregated account cell has access to another segregated account cell. (IE if one segregated account cell were to be in deficit, could another segregated account cell be able to support the deficit?)

Additional Guidance

C16.2t.1 Complete the schedule by providing the lines of business written for each cell separately. (I.e., if an insurer has exposure that writes both property and casualty business, then the insurer is to report the business for the property business on one line and report the casualty business line separately.

C16.2q The Alternative Capital Schedule is applicable to insurers that conduct business that is financed by a mechanism other than the (re)insurance company's shareholder capital. This may take various forms such as catastrophe (cat) bonds, industry loss warranties, sidecars, collateralised reinsurers, longevity and mortality bond/swaps, hybrid securities such as preference shares, swaps and contingent capital such as letters of credit, among others.

C17. SCHEDULE OF ASSETS (SCHEDULE VI)

Background

- C17.1 The schedule of assets — Schedule VI — provides the BMA with details to assess the insurer's investment risk on a look-through basis, (other than the allocation provided in Schedule IIB) the jurisdiction and the duration of the holdings. This schedule is also considered when reviewing the insurer's asset-liability matching practices.
- C17.2 It is noted that the allocation and balances reported on Schedule VI are not applied a capital charge, however, it is used for the BMA to assess the insurer's investment risk and location of the investments held.
- C17.3 Assets are to be allocated as follows:

Items

- a) Cash, certificates of deposit and money market funds;
- b) Sovereign bonds, municipals, supnationals (multilateral development banks and international organisations), corporate bonds, private placements, mutual funds, other-secured bonds and other-unsecured bonds;
- c) Residential MBS, commercial MBS, collateralised loan obligations, collateralised debt obligations, auto loan ABS, student loan ABS, and credit card receivables ABS;
- d) Public equities, public preferred stock and exchange-traded funds;
- e) Private equities, investment funds, hedge funds, private credit funds, catastrophe bonds, other insurance-linked securities, infrastructure debt, equity investments in infrastructure, investment in affiliates, advances in affiliates and equity release/reverse mortgages;
- f) Investment income due and accrued, accounts and premiums receivable, reinsurance balance receivable, sundry assets, letters of credit, and guarantees and other instruments;
- g) Real estate – owner-occupied, real estate – investment; and
- h) Listed options, futures, forwards, swaps, swaptions, over-the-counter options.

Additional Guidance

Assets Types

- C17.i. Assets are to be located as follows:

- a) For assets listed in a. – d. provide:
 - (i) The jurisdiction where the asset is held/stock exchange-traded;
 - (ii) Average rating of the asset type (if applicable);
 - (iii) Face value;
 - (iv) Fair value;
 - (v) Average effective yield to maturity (if applicable); and
 - (vi) Average duration and convexity (if applicable).
- b) For assets listed in g. (i.e., real estate) provide:
 - (i) The jurisdiction where the asset is held/stock exchange-traded;
 - (ii) The purpose of the asset;
 - (iii) Face value; and
 - (iv) Fair value.
- c) For assets listed in h. (i.e., derivatives) provide:
 - (i) The purpose of holding the derivative;
 - (ii) The position held in the derivate;
 - (iii) Whether the derivative is centrally cleared;
 - (iv) Fair value;
 - (v) Notational value; and
 - (vi) Exposure.
- d) The amounts are to be reported on both EBS and unconsolidated basis.

C18. SCHEDULE OF COMMERCIAL INSURER'S SOLVENCY SELF-ASSESSMENT (SCHEDULE IX)

Background

- C18.1 The Commercial Insurer's Solvency Self-Assessment (CISSA) is a regime that requires insurers to perform an assessment of their own risk and solvency requirements. This provides the BMA with the insurer's perspective of the capital resources (referred to as CISSA capital) necessary to achieve its business strategies and remain solvent given its risk profile, as well as insight into the risk management and governance procedures surrounding this process. The risk profile considers all reasonably foreseeable material risks arising from its operations or operational environment. Insurers should perform this assessment on an unconsolidated basis, with the exception of internal to regulatory capital level which should be done on a consolidated basis.
- C18.2 The CISSA is one of the tools used in the supervisory review process to assist in monitoring compliance with the Insurance Code of Conduct (Code), given that the CISSA should, at a minimum, consider those risks outlined in the Code.
- C18.3 The CISSA process should be integrated into the insurer's decision-making process and serve a critical role in the development, implementation and monitoring of management strategies. This is referred to as the 'use test.'

Items

- C18.4 The schedule of CISSA — Schedule IX — shall provide particulars of the following matters:
- a) CISSA capital summary and additional information – disclosing the insurer's own capital computations, insurer's comparison of the CISSA capital to regulatory capital, insurer's plans for raising additional capital and contingency arrangements impacting the available capital.
 - b) CISSA general questions – providing information on an insurer's risk management and governance programme, the review and approval of the CISSA, and integration of the CISSA into the strategic decision-making process.
 - c) CISSA assessment of material risks of the insurer – providing information on an insurer's assessment of material risks, determination of both the quality and quantity of capital required to cover its risks, the forward-looking analysis and its ability to manage its capital needs, the review and approval of CISSA and the governance and controls surrounding model(s)/tool(s) used to compute the CISSA capital.

Instructions Affecting Schedule IX

C18.4a CISSA capital summary and additional information—

| Column Item | | Description |
|-------------|--------------------|--|
| 1 | CISSA capital | <p>CISSA capital is the amount of capital the insurer has determined that it is required to achieve its strategic goals upon undertaking an assessment of all material risks (reasonably foreseeable) arising from its operations or operating environment.</p> <p>Input the CISSA capital determined by the insurer for each respective risk category. The BMA is mindful that it is difficult to quantify and therefore hold capital in respect of certain risks, e.g. liquidity, reputational, concentration, group and strategic risk. Where an insurer does not hold capital against certain risks, it should input a nil amount in the respective cell.</p> <p>Where an insurer uses an internal capital model/tool to determine its CISSA capital, the internal model/tool will not require the BMA’s approval for purposes of completing this Schedule.</p> <p>All supporting work papers and documents for the purposes of completing this Schedule should be retained and kept available for examination and discussion with the BMA should the need arises.</p> |
| 2 | Regulatory capital | <p>Regulatory capital is determined by the BSCR or an approved internal capital model at 99.0% TVaR over a one-year time horizon.</p> <p>Input the regulatory capital determined by the insurer for each respective risk category, where applicable.</p> |

Additional information

| Line Item | | Description |
|-----------|---------------|---|
| 1-7 | Questions 1-7 | <p>The insurer should select the appropriate response from the drop-down menu provided and/or otherwise provide a brief description, explanation or attachment. Where an attachment is provided, the designated insurer shall include references (e.g., page number, paragraph number) of where the information can be located within the attachment.</p> <p>Where a question/section is not applicable to an insurer or the options provided do not fully reflect the insurer’s position, the insurer shall select the ‘Others’ option and include a brief description.</p> <p>For Question 7 – The insurer must disclose whether a regulator in any jurisdiction has placed a restriction on the movement of assets/payment of dividends from a subsidiary in that jurisdiction, and the associated amount. The amount should be gross of regulatory capital requirements.</p> |

C18.4b CISSA general questions

| Line Item | | Description |
|-----------|---------------|---|
| 1-5 | Questions 1-5 | The insurer should select the appropriate response from the drop-down menu provided. Where a question/section is not applicable to an insurer or the options provided do not fully reflect the insurer's position, a brief description shall be included. |
| 5 | Question 5 | Independent verification shall be conducted by an internal or external auditor or any other appropriately skilled internal or external function, as long as they have not been responsible for the part of the CISSA process they review, and are therefore deemed to be independent in their assessment. |

C18.4c CISSA assessment of material risks of the insurer

| | Description |
|-----------------------|--|
| Questions (1) to (11) | <p>The insurer is required to undertake and file with the BMA an assessment of its material risks and the determination of both the quality (types of capital) and quantity of CISSA capital required to cover these risks, while remaining solvent and achieving its business goals.</p> <p>Attachments containing the information requested should include references (e.g., page number, paragraph number) of where the information can be located within the attachment.</p> |

Additional Guidance

Risk Management Policy in lieu of CISSA Report

C17.i. If the insurer's Risk Management Policy is used to assess and monitor strategic goals and it minimally addresses Schedule IX(c), items 1-11, it can be submitted in lieu of the CISSA Report. This would also apply for an insurer's Code of Conduct assessment, Risk Framework, Underwriting Framework, and other internal documents. Insurers should include a reference table that identifies the CISSA disclosure within the submitted attachment(s) (ie. CISSA Item 3 is covered in the Risk Management Policy, section 5 (pages 40-44)). Note that any documents referenced in these Risk Management Policy (or other such document) shall be submitted as part of the submission package.

C19. CATASTROPHE RISK RETURN (SCHEDULE X)

Background

- C19.1 The Catastrophe Risk Return ('Cat Return') is set out to determine the extent of reliance on vendor models to assess catastrophe exposures and highlight the actions insurers take to mitigate model risk, including a description of procedures and analytics in place to monitor and quantify exposure to vendor models. It also serves as a tool to assist the BMA to assess the reasonableness of inputs into the catastrophe component of the regulatory capital requirement, and whether standards are being applied evenly.
- C19.2 The Cat Return will also be used to assess liquidity. Liquidity risk is not always mitigated simply by holding additional capital. Claims-paying ability is obviously an important factor that is perhaps more pronounced with catastrophe risk where large amounts of capital may have to be liquidated to pay claims at very short notice. Additionally, complexity arises with the currency mismatch that may exist between an insurer's capital and a subset of its potential catastrophe liabilities. An insurer should be able to demonstrate that it has considered potential challenges to liquidity, including the methodology and principles used to measure liquidity, contingency plans, access to new funding sources, and projected liquidity requirements.
- C19.3 The Cat Return is only required when the insurer writes property catastrophe line of business.

Items

- C19.4 The Cat Return — Schedule X — shall provide the following matters:
- a) Total Exceedance Probability ('EP') curves;
 - b) EP curve for insurance;
 - c) EP curve for region-perils;
 - d) Statutory lines of business and zones exposure per region-perils;
 - e) Accumulations overview;
 - f) Data analysis;
 - g) Reinsurance disclosures;
 - h) Insurance terrorism exposure;
 - i) Reinsurance terrorism limits; and
 - j) Assumed exchange rates.
- C19.5 The 'Catastrophe Risk Return Guidelines (2016)' provide detailed instructions on the above requirements and has been updated for frequently asked questions. A copy of these guidelines is available on the BMA's website.

C20. line“lineline”“lineSCHEDULE OF PARTICULARS OF CEDED REINSURANCE (SCHEDULE XVIII)

Background

- C20.1 To assess the risk of amounts reported in Digital Assets Held in Custody for Clients (Form 1SFS (Consolidated), line 12), the Authority requires insurers to determine the arrangement in which the funds are being held. In the event of default, if the Company bears the risk (as well as the market risk of the valuation of investments), then these amounts are to be reported in Schedule IIA, Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts/Trusts By BSCR Rating; if the reinsurer bears the risk of the assets held, then these amounts are to be reported on Schedule XVIII – Schedule of Particulars of Ceded Reinsurance.
- C20.2 Particulars of reinsurance balances shall disclose at least the ten largest reinsurance exposures with the remaining reinsurance exposures grouped according to BSCR ratings and/or a single consolidated reinsurance exposure by providing:
- a) The name of reinsurer;
 - b) The BSCR rating;
 - c) The amount of reinsurance balances receivable, funds held by ceding reinsurers, and reinsurance recoverable balance (as reflected in Form 1EBS, lines 11(e), 12(c), and 17(c));
 - d) Digital assets held in custody for clients (as reflected in Form 1SFS (Consolidated), line 12), in paragraph (c) above, shall be included only to the extent that they are not already included under Schedule IIA;
 - e) The amount of reinsurance balances payable and other payables (as reflected in Form 1SFS (Consolidated), lines 28, 29, 33, and 34) to the extent that they are attributable to that particular reinsurer or reinsurance exposure balance and there is a contractual right of set-off;
 - f) The amount of any collateral placed in favour of the insurer relating to the reinsurance balances (as reflected in the Notes to Form 1SFS(Consolidated), lines 11(c), and 17(c));
 - g) The amount of qualifying collateral shall be the collateral amount in (f) less a 2% reduction to account for the market risk associated with the underlying collateral assets but, at all times, the qualifying collateral shall not exceed the net exposure, which is the difference between the amounts in (c) and (e);
 - h) The net qualifying exposure shall be the amount under (c) less the amounts under both (e) and (g) above; and
 - i) For the purposes of this Schedule, the appropriate BSCR rating shall be determined as follows:

- (i) The BSCR rating shall be based on either the rating of the reinsurer or the rating of the letters of credit issuer, if any, whichever is higher;
- (ii) Where the letters of credit does not relate to the entire reinsurance exposure, the reinsurance exposure should be separated to reflect the rating of that portion of the exposure which is covered by the letters of credit and the rating of that portion of the exposure which is not;
- (iii) Where the reinsurer is a domestic affiliate, it shall be assigned a BSCR rating of 0 regardless of its credit rating;
- (iv) Where a reinsurer is not rated but is regulated in a jurisdiction that applies the International Association of Insurance Supervisors' Insurance Core Principles (IAIS' ICPs) and in particular imposes both a minimum capital requirement and a Prescribed Capital Requirement (PCR) and fully meets its PCR in that jurisdiction, it shall be assigned a BSCR rating of 4 or otherwise, it shall be assigned a BSCR rating of 8;
- (v) Where the insurer has disclosed a single consolidated reinsurance exposure, that exposure shall be assigned a BSCR rating of 8; and
- (vi) Insurance financial strength ratings, reflecting the claims paying ability of (re)insurers, issued by the recognised credit rating agencies shall be used for the purposes of this schedule; the corresponding BSCR ratings shall be determined in the same manner as specified in sections C2.1a to C2.11 instructions affecting Schedule II.

The mapping of credit ratings to BSCR ratings are as follows:

| BSCR Rating | Standard & Poor's | Moody's | AM Best | Fitch |
|-------------|-------------------|--------------|----------|--------------|
| 1 | AAA | Aaa | | AAA |
| 2 | AA+ to AA- | Aa1 to Aa3 | A++ , A+ | AA+ to AA- |
| 3 | A+ to A- | A1 to A3 | A , A- | A+ to A- |
| 4 | BBB+ to BBB- | Baa1 to Baa3 | B++ , B+ | BBB+ to BBB- |
| 5 | BB+ to BB- | Ba1 to Ba3 | B , B- | BB+ to BB- |
| 6 | B+ to B- | B1 to B3 | C++ , C+ | B+ to B- |
| 7 | CCC+ to CCC- | Caa1 to Caa3 | C , C- | CCC+ to CCC- |
| 8 | Below CCC- | Below Caa3 | Below C- | Below CCC- |

Additional Guidance

Premiums Receivables to be Reported on line 10 of Balance Sheet

C20.i. The Authority would like to confirm that premiums receivables should typically be captured under line 10 of the balance sheet and not line 11. Reinsurance receivables are typically those recoverables that have now been crystallised – hence both reinsurance receivables and recoverables are assessed together from a credit risk perspective. Additionally, the Authority confirms that the line 33 offset against reinsurance balances should only apply to the extent that they are attributable to a specific reinsurer

Capital Risk Charge based on nature of the arrangement

C20.ii. For digital assets held in custody for clients, the capital risk charge is calculated by the nature of the arrangement.

c) Where specific assets have been allocated for the benefit of the reinsurer, such that the reinsurer bears market risk on those assets, the Authority requires insurers to look through to the underlying assets, and report these balances on Schedule IIA. This effectively adds to the fixed income risk and equity risk modules similar to Schedule II.

d) Where there are no specific identified assets, the reinsurer is effectively in a similar position to a typical cedant with reinsurer exposure. Thus, the amounts will be treated similarly to reinsurance recoveries and shall be reported on Schedule XVIII Particulars of Ceded Reinsurers. Further, the rating for reinsurance exposures should be based on the financial strength ratings of the insurer.

C21. SCHEDULE OF CASH AND CASH EQUIVALENT COUNTERPARTY ANALYSIS (SCHEDULE XIXA)

Background

C21.1 For assessing the underlying credit security of cash and cash equivalent counterparties, the Authority is requiring insurers to provide details of the largest 10 exposures and rating of those institutions. The remaining balance can be aggregated by BSCR rating (which is a similar methodology to the Schedule of Particulars of Ceded Reinsurance).

Instructions Affecting Schedule XIXA

C21.1a An insurer may disclose at least the top 10 cash and cash counterparty exposures (as reflected in Form 1SFS (Consolidated) line 1 and Schedules IIB to IIF column 1, line 58)

C21.1b The remaining balance may be grouped according to BSCR rating;

C21.1c All unreconciled balances shall be allocated to the single consolidated exposure balance that receives a BSCR Rating of 8;

C21.1d Cash and cash equivalents issued by a country that is rated AA- or better in its own currency shall be classified under BSCR rating class 0;

C21.1e Insurers may allocate BSCR Ratings based on the short-term ratings in the table below, or alternatively based on the long-term ratings detailed in Schedule IIB, in each case following the process specified in the instructions affecting Schedule IIB; and

C21.1f Amounts shall be reported on an EBS valuation basis.

| BSCR Ratings | Standard & Poor's | Moody's | AM Best | Fitch |
|--------------|--|---------|--------------|--------|
| Class 2 | A1+ | P1 | AMB-1+ | F1+ |
| Class 3 | A1 | P2 | AMB-1 | F1 |
| Class 4 | A2, A3 | P3 | AMB-2, AMB-3 | F2, F3 |
| Class 5 | | | | |
| Class 6 | B-1, B-2 | | | B |
| Class 7 | B-3 | | | |
| Class 8 | Unrated short-term investments and all other ratings | | | |

| BSCR Ratings | KBRA | DBRS | Egan-Jones | Japan Credit Rating Agency | Morningstar Credit Ratings |
|--------------|--|-----------|------------|----------------------------|----------------------------|
| Class 2 | K1+ | R-1 H,M | A-1+ | J1+ | M1+ |
| Class 3 | K1 | R-1 L | A-1 | J1 | M1 |
| Class 4 | K2, K3 | R-2 H,M,L | A-2, A-3 | J2 | M2, M3 |
| Class 5 | | R-3 | B-1 | J3 | |
| Class 6 | B | R-4 | B-2 | | |
| Class 7 | | | B-3 | NJ | |
| Class 8 | Unrated short-term investments and all other ratings | | | | |

C22. SCHEDULE OF CURRENCY RISK (SCHEDULE XXA)

- C22.1 For insurers that write business in multiple currencies, the Authority has developed a capital charge for each currency where the insurer's liabilities may exceed its assets. For the grounds of proportionality, the Authority is requiring insurers to provide currency exposures for at least 95% of total assets and liabilities held.
- C22.2 For those currencies for which the assets in the currency are less than the sum of the liabilities denominated in the currency plus a proxy BSCR for that currency, shocks are applied to the assets and liabilities to determine a capital charge. The proxy BSCR for a given currency shall be calculated as the product of the liabilities in that currency and the proxy BSCR factor. The Proxy BSCR factor is calculated as the total liabilities found on Form 1EBS line 39 divided by the total ECR Charge. The proxy BSCR factor shall be the maximum of:
- a) The prior year value; and
 - b) Average of the last 3 years.

Instructions Affecting Schedule XXA

- C22.2a Insurers shall report currencies representing not less than 95% of their economic balance sheet liabilities;
- C22.2b Assets qualifying as held for risk mitigation purposes; assets not qualifying for risk mitigation purposes and liabilities without management actions shall be valued in line in accordance with criteria prescribed in section B3;
- C22.2c Liabilities with management actions shall be valued in in accordance to with criteria prescribed in section B4 in relation to the valuation of future bonuses and other discretionary benefits; and
- C22.2d For all exposures other than Foreign Exchange (FX) derivatives, a default calculation of after-shock value is provided to expedite the filling of the schedule. It is expected that the default calculation will be appropriate in the majority of cases⁵; however, the insurer always needs to review the appropriateness and approve any resulting values. If the default formula is not appropriate for a certain asset class, or for certain instruments within an asset class, the insurer is responsible for entering correct after-shock values by overriding the default formula.

⁵ In particular, this is true for all assets whose value is not directly sensitive to exchange rate movements i.e. whose local (foreign) currency value is independent of changes in exchange rates. For example, and assuming that USD is the reporting currency: although the value *in dollars* of a bond or common stock denominated in Euros (EUR) will change as a result of a shock to USD/EUR exchange rate, the local currency value of the bond or common stock will not change as a result of the shock. For such assets, the only change in value is the change in reporting currency terms, meaning that the percentage shock can be straightforwardly applied to the reporting currency value of the foreign currency position.

C22.2e For FX derivatives, no default formula can be provided, due to the non-linearity of the change in value. That is, the change in derivative value (in percentages) is generally different from the shock (in percentages) that is applied to the exchange rate underlying the derivative.

C22.2f amounts shall be reported on consolidated basis.

Additional Guidance

Calculating the BSCR Proxy

C27.i. When calculating the BSCR Proxy, insurers are to provide Liabilities and ECR capital charge for the prior 3 years.

C27.ii. If the insurer does not have either liabilities or ECR capital charge for the prior 3 years,

a) Insurers filing their BSCR for the first time are to use current year figures for the prior year;

b) Insurers that have previously filed a BSCR, yet do not have 3 years of historical data shall provide the years they have data for, and leave the years with no data reported as blank

Meeting the 95% Minimum Asset and Liability Test

C27.iii. If an insurer does not meet the 95% minimum test on this schedule regarding how it will impact the BMA's risk assessment of the insurer.

a) The Authority may require additional information from the insurer to assess its currency risk. This may result in a capital add-on which will require the insurer's ECR and TCL ratios to be revised.

Guidance for Reporting Currency Shocks for FX Forward Positions

C27.iv. When reporting foreign exchange hedges on Schedule XXA, the before-shock market value is the fair value of the contract on an consolidated basis, and should be already available without a need for separate calculations (from the financial statements/asset reports/asset system). The after-shock value is to be calculated by the insurer under the prescribed currency shocks, following standard market practices and using generally accepted models for valuation of specific assets.

a) In particular, as the cash flows of an FX forward occur at its maturity, the forward exchange rate and the discount rate for the appropriate term should be used to value the FX forward, both at the valuation date and after the shock.

b) For avoidance of doubt, the before-shock value (i.e. the balance sheet value) and the after-shock value may be either positive or negative (or zero),

depending on the specifics and the circumstances. As a result of the shock, a negative market value may become more negative, less negative, or positive; and a positive market value may become more positive, less positive, or negative. Only the change in the market value matters, where the change is calculated as [Market Value Before Shock] minus [Market Value After Shock].

Below is a simplified example of the calculation of the after-shock value of an FX forward contract for illustration purposes. The example assumes that an insurer's reporting currency is USD, and that it has GBP-denominated liabilities in excess of GBP-denominated assets. The insurer is therefore exposed to the risk of GBP appreciating against the USD; or, equivalently, to the risk of USD depreciating against the GBP. Assume that the insurer has entered into an FX forward to sell USD (buy GBP) at a fixed price to hedge some of this risk.

- (i) Let the GBP/USD rate entered be 1.3 (the forward rate/delivery price) and the insurer is selling 1,000 USD (this being the nominal amount). At the contractual rate, this is equivalent to buying 769.23 GBP. The market value of the FX forward at inception is, by definition, 0. Assume the original maturity of the contract is T (in years).
- (ii) Assume that, as of the valuation date (denote this by time t), the current GBP/USD forward rate for the period equal to the remaining maturity of the contract (i.e., T-t) is 1.5. This means that if the insurer were to enter into a new forward contract, at time t, to sell 1000 USD for GBP at time T, it would receive 666.67 GBP at time T. Nevertheless, the delivery rate of the FX forward stays unchanged over the life of the contract, and under the contract the insurer can get 769.23 GBP for 1000 USD at the maturity, T. Therefore, ignoring discounting for the sake of simplicity in this example, the market value of the FX forward is equal to the difference, 102.56 GBP. (Alternatively, this can be thought of as closing the position by entering into an opposite contract, (i.e., selling 666.67 GBP to receive 1,000 USD), at time T; the USD payments cancel at T, and the GBP legs yield a net profit of $769.23 - 666.67 = 102.56$ GBP at T.) The GBP value then needs to be converted into the reporting currency (at the spot rate). Assuming that the spot GBP/USD rate at valuation date is, say, 1.4, the market value of the FX forward is 143.58 USD. This is the before-shock market value in Schedule XXA, which should correspond to the fair value at which the FX forward is recorded on the EBS balance sheet (after properly accounting for all the factors affecting the price of the forward, such as discounting the payoff from time T to present time t).
- (iii) Under the BSCR currency risk calculation – Schedule XXA – the FX forward is revalued under the prescribed currency shock. In this case, the shock is a 25% depreciation of the USD against GBP (or, equivalently, a 25% appreciation of the GBP against the USD). The shocked GBP/USD forward rate is therefore 1.875 (assuming that neither the relevant USD nor GBP interest rates change as a result of the shock). At this rate, 1,000 USD could be sold forward for 533.33 GBP at the maturity T.

Nevertheless, again, the forward contract entitles the insurer to receive 769.23 GBP for 1,000 USD. Therefore, the market value of the contract after the shock is 235.90 GBP (again ignoring discounting). Using the shocked spot rate of 1.75 (i.e., $(1+25\%)*1.4$), the shocked market value is 412.83 USD. This is the after-shock market value in Schedule XXA.

(iv) The effect of the currency shock on the FX forward is the difference between the before and after-shock market values (i.e., an increase in value of 269.25 USD in this example). Note that the insurer needs to only fill the before-shock and after-shock values in Schedule XXA; the change in market value is then automatically calculated in the Currency Risk tab. This increase in the value of the FX forward would help to offset some of the increase, in USD terms, in the value of the GBP-denominated liabilities.

C10.1.ii. Alternatively, instead of reporting the (net) market value of an FX forward contract, insurers may report both legs of the FX forward separately on Schedule XXA, with each leg allocated to the line for the appropriate currency. In this case the sum of the reported (before-shock) values of the legs must be equal to the fair value, as of valuation date, of the FX forward contract as a whole. Similarly, the sum of the mark-to-model values of the legs after the shock should by definition be equal to the after-shock mark-to-model value of the contract as a whole, if the calculation is carried out correctly. That is, the market value of the contract, or the results of the shock calculation, shall not be affected by the chosen representation.

C23. SCHEDULE OF CONCENTRATION RISK (SCHEDULE XXIA)

Background

- C23.1 To assess the insurer's concentration risk, the Authority requires the identification of largest 10 independent exposures relating to all instruments (e.g., equity holdings, bonds, real estate, loans, etc.), which would be an addition to the existing BSCR market and/or credit risk contributed by those exposures.
- C23.2 In deciding which counterparties need to be grouped together, a single counterparty should include all related/connected counterparties, which are defined as:
- a) Control relationship: one of the counterparties, directly or indirectly, has control over the other(s); and
 - b) Economic inter-dependence: if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s) as a result, would also be likely to encounter funding or repayment difficulties.

Instructions Affecting Schedule XXIA

- C23.2a Disclosure of an insurer's ten largest exposures to single counterparty risk by reporting the name, the exposure and allocation by asset type, bond or mortgage type (if applicable), BSCR Rating (if applicable) and asset value consistent with Form 1 SFS (Consolidated).
- C23.2b For the purposes of this Schedule, a counterparty shall include all related or connected counterparties captured by either of the following criteria:
- a) Controller relationship: if a counterparty, directly or indirectly, has control of (as a result of its majority shareholding in or significant influence) the other counterparties; or
 - b) Economic interdependence: if one of the counterparties were to experience financial difficulties which directly or indirectly affect the ability of any or all of the remaining counterparties to perform their financial obligations (for example where a counterparty becomes unable to fund or repay certain financial contractual obligations, and as a result, other counterparties, are likely to be unable to fund or repay certain obligations imposed on them);
- C23.2c Asset Type (column A) shall be determined by the insurer as one of the following:
- (a) Cash and Cash Equivalents (as defined in Schedule XIXA Column B Schedules IIB, IIC, IID, IIE, and IIF column (1), line 68);
 - (b) Quoted and Unquoted Investments (as defined in Schedules IIB, IIC, IID, IIE, and IIF Column (11), line 14);

(c) Equity Holdings (as defined in Schedules IIB, IIC, IID, IIE, and IIF Column (11), line 37);

(d) Advances to Affiliates (reported on Form 1SFS (Consolidated), line 4);

(e) line (f) Real estate (reported on Form 1SFS (Consolidated), line 7); or

line (g) Loans Receivable (reported on Form 1SFS (Consolidated), line 8(c)).

C23.2d When reporting asset sub-type (under column B) shall provide further details of the type of asset as included in table 1, table 2 or table 8 as appropriate;

C23.2e When applying the BSCR Rating (under column C), the insurer shall apply the BSCR rating that was allocated to the asset when it was included in table 1, table 2 or table 8, as appropriate; and

C23.2f Amounts shall be reported on a consolidated basis.

Additional Guidance

Reporting Largest 10 Independent Exposures

C29.i. Complete the schedule by providing the 10 largest independent exposures relating to all instruments (e.g. equity holdings, bonds, real estate, loans, etc.) largest counterparties. If a counterparty has more than one BSCR rating or Asset Type, enter each rating separately (i.e., if an insurer has purchased bonds and preferred shares of a company, then the insurer is to report 'Asset Type' as 'Bond Types'; 'Bond/Mortgage Loan Type' as the applicable bond type, and 'BSCR Rating' as the rating of the company in one line. In the second line, the insurer is to report the 'Asset Type' as 'Preferred Shares' and 'BSCR Rating' as the rating of the company.

C24. SCHEDULE OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES (SCHEDULE XXIII)

Background

C24.1 An alternative and more risk sensitive method for determining capital requirements for interest and liquidity risk has been developed. This method will require companies to apply shocks to the yield curve used for determining best estimate liabilities (which includes segregated account company liabilities, deposit liabilities and sundry liabilities) and market values of assets (which includes segregated account company assets, deposit assets and sundry assets) exposed to interest rate risk (e.g., fixed income and hybrid assets, bank deposits, etc.). Any changes in market values of assets and best estimate liabilities due to interest rate-sensitive cash flows should be accounted for. The capital requirement is then determined as the negative change to the net asset value (net balance sheet) of the highest magnitude resulting from these shocks.

Instructions Affecting Schedule XXIII

C24.1a The shock-based method requires companies to apply shocks to the yield curve used for determining best estimate liabilities⁶ and market values of assets⁷ exposed to interest rate risk (e.g., fixed income and hybrid assets, bank deposits, etc.). Any changes in market values of assets and best estimate liabilities due to interest rate-sensitive cash flows should be accounted for.

C24.1b Two shocks are to be applied: an upwards shock and a downwards shock. The capital requirement is then determined as the negative change to the net asset value (net balance sheet) of the highest magnitude resulting from these shocks.

C24.1c For the purposes of calculating capital requirements for interest rate risk, rates are allowed to go negative. If the application of the downward shock leads to negative rates, these shall not be floored at zero.

C24.1d For the calculation of the interest risk capital charge under the shock-based approach, hedging and risk transfer mechanisms should be taken into account as long as they comply with the requirements set in the Risk Mitigation section of these instructions. Also, management actions should be taken into account as long as they comply with the requirements set in the Management Actions section of these instructions.

Additional Guidance

C30.i. The shocks (per currency) are to be applied to the valuation date spot curve (per currency). The shocks are absolute shocks expressed in percentage points i.e. are added on top of the base spot curve.

⁶ And segregated account company liabilities, deposit liabilities and sundry liabilities.

⁷ Including segregated account company assets, deposit assets and sundry assets.

- For companies using the standard approach to calculating best estimate liability (BEL), the shocks are applied to the standard spot curves published by the Authority.
- C30.ii. The assets and liabilities need to be revalued under the shocks. For assets, this involves calculating the market value of assets after the shock (i.e. the shocked value). Depending on the asset, this may be a mark-to-model calculation. Conceptually the shocked value corresponds to the expected present value of cash flows projected under the stress scenario (taking into account that the amount and/or timing of cash flows themselves might change due to the shock, e.g. for bonds with call/put options, or for derivatives).
- C30.iii. Revaluing the (best estimate) liabilities involves calculating the expected present value of cash flows projected under the stress scenarios. In particular, where the amount and/or timing of liability cash flows themselves depends on interest rates, the liability cash flows need to be projected (re-evaluated) under the stress scenarios, as opposed to, for example, simply re-discounting the base scenario cash flows.

Interaction between Shock-based approach and the Scenario-based approach for BEL

- C30.iv. For companies using the scenario-based approach for BEL calculation there is an offset from the interest rate risk capital charge when the shock-based approach is used. The offset is based on the difference in the best estimate liability between the ‘worst’ scenario and the base scenario under the scenario-based approach, according to the formula specified in the Prudential Rules.
- C30.v. As a simplification companies using the scenario-based approach may calculate the capital charge for interest rate risk (before the application of offset) based on shocks to the balance sheet as if the base scenario had been applied. In this case the offset is to be calculated as the difference between the ‘worst’ scenario and the base scenario before the application of shocks.

C25. SCHEDULE OF DIGITAL ASSETS

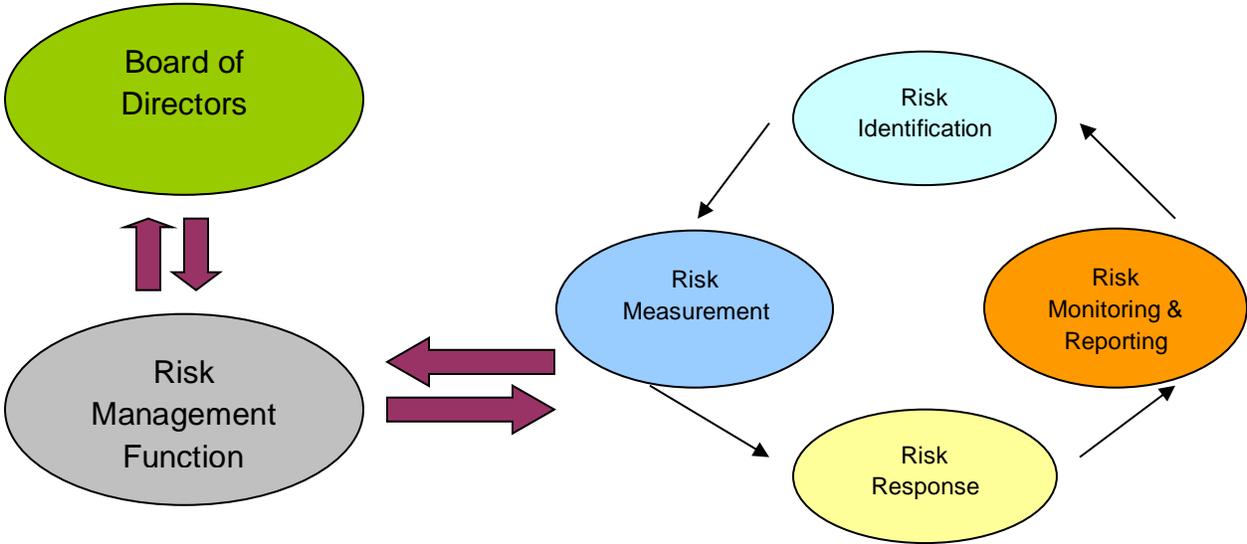
Background

- C25.1 Every Class IIGB insurer shall provide the following information in relation to its digital assets and liability holdings as follows:
- C25.2 Stablecoins are to be a digital asset that is fully funded by a fiat currency reserve and can be used at any point in time to redeem that fiat currency from the issuer of the stablecoin or the issuer's agent on a one -o-one basis Only fiat-backed stablecoins audited by a professional firm recognised by the Authority are allowed to be classified as stablecoins, for the purposes of this Rule; and
- C25.3 Other Digital Assets include all other digital assets that are not classified as 'stablecoins' for the purposes of this Rule.

C26. COMMERCIAL INSURER RISK ASSESSMENT

Background

C26.1 The Commercial Insurer Risk Assessment (CIRA) framework assesses the quality of the risk management function surrounding the insurer's operational risk exposures. Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems or external events. Operational risk also includes legal risks. Reputational risks arising from strategic decisions do not count as operational risks. The CIRA framework emphasises the interrelationships between the Risk Management and Corporate Governance functions as seen below:



- C26.2 The Board of Directors has an influential role in establishing, inter alia, the strategic direction and risk culture of the insurer. The BMA views the Risk Management function as a critical tool to furnish the board with the necessary information to make appropriate decisions and assist the insurer's management in steering the organisation forward.
- C26.3 The Risk Management function within the CIRA has four components: Risk Identification, Risk Measurement, Risk Response, and Risk Monitoring & Reporting. The insurer will undertake the self-assessment by answering the questions related to the calibre of its risk management processes in place to address the material risk arising from each operational risk area.
- C26.4 The CIRA framework embodies a maturity model approach to identify an insurer's developmental stage with respect to a specific operational risk area. It rewards the insurer for achieving progress in each risk management area. It reviews the following eight operational risk exposures as follows:
- a) Business Processes Risk – includes a risk of errors arising from data entry, data processing, or application design
 - b) Business Continuity Risk – includes a risk of an event that threatens or disrupts an insurer's continuous operations
 - c) Compliance Risk – includes a risk of legal or regulatory breaches or both
 - d) Information System Risk – includes a risk of unauthorised access to systems and data, data loss, utility disruptions, software and hardware failures, and inability to access information systems
 - e) Distribution Channels Risk – includes a risk of disruption to an insurer's distribution channel arising from employment of inexperienced or incapable brokers or agents
 - f) Fraud Risk – includes a risk of misappropriation of assets, information theft, forgery, or fraudulent claims
 - g) Human Resources Risk – includes a risk of employment of unethical staff, inexperience or incapable staff, failure to train or retain experienced staff, and failure to adequately communicate with staff
 - h) Outsourcing Risk – includes a risk of miscommunication of responsibilities in relation to outsourcing, breach of outsource service agreements or entering into inappropriate service agreements

C26.5 The CIRA framework applies the components within the Risk Management function to each operational risk area. The insurer assesses each operational risk area and selects the applicable descriptor under the 'Dimension' column that reflects the developmental stage of the insurer's process surrounding the specific risk area.

C26.6 In order to be credited for a relevant score within the CIRA Framework, the insurer must fulfill the criteria in the 'Dimension' column. In its assessment, if the insurer finds itself between stages, the insurer must select the lower stage. The insurer can supplement the selection with additional comments that can be made at the end of each risk management function.

C26.7 The total scores for each component within the CIRA Framework are aggregated and produce the pertinent Operational Risk Charge percentage. The Operational Risk Charge ranges from 1% to 10%. The relevant Operational Risk Charge percentage is applied to the 'BSCR (After Covariance Adjustment)' subtotal. The resultant figure is the Operational Risk Capital Charge.

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- a) Corporate Governance – the insurer assesses each statement in the ‘Dimension’ column and places an ‘X’ in the column ‘Implemented’ where the Corporate Governance function meets the criteria (200 points for each fulfilled area). The worksheet will automatically aggregate all scores.

The insurer may provide comments in the space provided to support its responses.

| Dimension | Implemented | Score |
|--|-------------|-------|
| Sets risk policies, practices and tolerance limits for all material foreseeable operational risks at least annually | | 200 |
| Ensures they are communicated to relevant business units | | 200 |
| Monitors adherence to operational risk tolerance limits more regularly than annually | | 200 |
| Receives, at least annually, reports on the effectiveness of material operational risk internal controls as well as management’s plans to address related weaknesses | | 200 |
| Ensures that systems and/or procedures are in place to identify, report and promptly address internal control deficiencies related to operational risks | | 200 |
| Promotes full, open and timely disclosure from senior management on all significant issues related to operational risk | | 200 |
| Ensures that periodic independent reviews of the risk management function are performed and receives the findings of the review | | 200 |

- b) Risk Management Function – the insurer assesses each statement in the ‘Dimension’ column and places an ‘X’ in the column ‘Implemented’ where the Risk Management function meets the criteria (200 points for each fulfilled area). The worksheet will automatically aggregate all scores.

The insurer may provide comments in the space provided to support its responses.

Risk Management Function:

| Dimension | Implemented | Score |
|---|-------------|-------|
| Is independent of other operational units and has direct access to the board of directors | | 200 |
| Is entrenched in strategic planning, decision making and budgeting process | | 200 |
| Ensures that the risk management procedures and policies are well documented and approved by the board of directors | | 200 |
| Ensures the risk management policies and procedures are communicated throughout the organisation | | 200 |
| Reviews operational risk management processes and procedures at least annually | | 200 |
| Ensures that loss events arising from operational risks are documented and loss event data is integrated into enterprise risk management | | 200 |
| Documents its risk management recommendations for operational units, ensures that deficiencies have remedial plans and progress on the execution of such plans are reported to the board of directors at least annually | | 200 |

c) Operational Risk Charge Calculation

Subject to the BMA having a different opinion and reassessing the charge through an onsite inspection, the ‘Total Operational Risk Capital Charge’ is applied to the insurer’s BSCR (After Covariance Adjustment) sub-total for purposes of arriving at its ECR for the year-end filing.

- (i) Overall CIRA Score – the aggregate of all the total scores from the Corporate Governance and Risk Management Function to determine the Operational Risk Charge %.

(ii) CIRA Scoring Grid – the applicable Operational Risk Charge % that would be used to determine the insurer’s Total Operational Risk Capital Charge.

| Overall Score | Applicable Operational Risk Charge % ‘BSCR (After Covariance Adjustment)’ |
|----------------|---|
| <= 800 | 10% |
| > 800 <= 1200 | 9% |
| > 1200 <= 1400 | 8% |
| > 1400 <= 1600 | 7% |
| > 1600 <= 1800 | 6% |
| > 1800 <= 2000 | 5% |
| > 2000 <= 2200 | 4% |
| > 2200 <= 2400 | 3% |
| > 2400 <=2600 | 2% |
| > 2600 | 1% |

(iii) Total Operational Risk Capital Charge – calculated using the [Operational Risk Charge % x BSCR (After Covariance Adjustment)]

D.SUMMARY

D1. FEATURES – BSCR

Background

- D1.1 The Summary Exhibit has seven key features: Required Capital and Surplus, Available Statutory Capital and Surplus, MSM, ECR and TCL, Ratios, Solvency Capital Distribution chart, and Regulatory Action Level graph. Each feature is described below. At the bottom of the page the BSCR formula for combining the various risk capital charges is displayed. The data input into the Summary Exhibit are i) the BMA approved Capital Contribution of the insurance group; ii) initial best estimate liabilities held for future discretionary benefits (FDB) (if any); iii) the effective (federal) tax rate of the insurance group; and iv) the amount of loss carryback.

Required Capital and Surplus

- D1.2 The BSCR is determined according to the following formula:

$$BSCR_{Corr} = \text{Basic BSCR} + C_{operational} + C_{regulatoryadj} + C_{otheradj} + C_{AdjTP}$$

Where—

- Basic BSCR* = basic BSCR risk module charge;
C_{operational} = operational risk charge;
C_{regulatoryadj} = regulatory capital requirement for regulated non-insurance financial operating entities;
C_{AdjTP} = adjustment for the loss absorbing capacity of loss provisions;
C_{otheradj} = adjustment for the loss absorbing capital of deferred taxes;

- D1.3 The Basic BSCR risk module charge calculation is determined in accordance with the following formula:

$$\text{Basic BSCR} = \sqrt{\sum_{i,j} \text{CorrBBSCR}_{i,j} \times C_i \times C_j}$$

Where:

- CorrBBSCR_{i,j}* = the correlation factors of the Basic BSCR correlation matrix in accordance with Table A;
i, j = the sum of the different terms should cover all possible combinations of *i* and *j*;
C_i and *C_j* = risk module charge *i* and risk module charge *j* which are replaced by the following:

C_{Market} = $C_{Market}, C_{P\&C}, C_{Credit}$;
 $C_{P\&C}$ = capital charge in respect to market risk;
 C_{Credit} = capital charge in respect to P&C risk; and
 = capital charge in respect to credit risk.

Table A – Basic BSCR Correlation Matrix

| $CorrBBSCR_{i,j}$ | C_{Market} | C_{Credit} | $C_{P\&C}$ |
|-------------------|--------------|--------------|------------|
| C_{Market} | 1 | | |
| C_{Credit} | 0.25 | 1 | |
| $C_{P\&C}$ | 0.125 | 0.50 | 1 |

D1.4 The market risk module risk module charge calculation is determined in accordance with the following formula—

$$C_{Market} = \sqrt{\sum_{i,j} Market_{i,j} \times C_i \times C_j}$$

Where —

$CorrMarket_{i,j}$ = the correlation factors of the market risk module in accordance with Table B; where A = 0 if interest rate and liquidity risk charge is calculated using the shock-based approach and the risk charge is being determined based on the interest rate up shock, and A = 0.25 otherwise;

i,j = the sum of the different terms should cover all possible combinations of i and j;

C_i and C_j = risk charge i and risk charge j which are replaced by the following: $C_{fixedIncome}, C_{equity}, C_{interest}, C_{currency}, C_{concentration}$;

$C_{fixedIncome}$ = capital charge in respect to fixed income investment risk;

C_{equity} = capital charge in respect to equity investment risk;

$C_{interest}$ = capital charge in respect to interest rate and liquidity risk;

$C_{currency}$ = capital charge in respect to currency risk;

$C_{digital\ asset}$ = capital charge in respect to digital asset risk; and

$C_{concentration}$ = capital charge in respect to concentration risk.

Table B – Market Risk Module Correlation Matrix

| $CorrMarket_{i,j}$ | $C_{fixedIncome}$ | C_{equity} | $C_{interest}$ | $C_{currency}$ | $C_{digital\ asset}$ | $C_{concentration}$ |
|--------------------|-------------------|--------------|----------------|----------------|----------------------|---------------------|
| $C_{fixedIncome}$ | 1 | | | | | |
| C_{equity} | 0.50 | 1 | | | | |
| $C_{interest}$ | A | A | 1 | | | |
| $C_{currency}$ | 0.25 | 0.25 | 0.25 | 1 | | |

| | | | | | | |
|----------------------------|------|------|------|------|------|---|
| $C_{\text{digital asset}}$ | 0.25 | 0.25 | 0.25 | 0.25 | 1 | |
| $C_{\text{concentration}}$ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1 |

D1.5 The P&C risk module charge calculation is determined in accordance with the following formula—

$$C_{\text{P\&C}} = \sqrt{\sum_{i,j} \text{CorrP\&C}_{i,j} \times C_i \times C_j}$$

Where—

- $\text{CorrP\&C}_{i,j}$ = the correlation factors of the P&C risk module correlation matrix in accordance with Table C;
- i,j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 C_{premium} , C_{reserve} , $C_{\text{catastrophe}}$;
- C_{premium} = capital charge in respect to premium risk;
- C_{reserve} = capital charge in respect to reserve risk; and
- $C_{\text{catastrophe}}$ = capital charge in respect to catastrophe risk;

Table C - P&C Risk Module Correlation Matrix

| $\text{CorrP\&C}_{i,j}$ | C_{premium} | C_{reserve} | $C_{\text{catastrophe}}$ |
|--------------------------|----------------------|----------------------|--------------------------|
| C_{premium} | 1 | | |
| C_{reserve} | 0.25 | 1 | |
| $C_{\text{catastrophe}}$ | 0.125 | 0.00 | 1 |

D1.6 This formula utilises the correlation matrix to aggregate the various risks under the assumption that the risks are not independent with one another, and therefore, provides a linear diversification benefit when combining the risk charges. The end result is the BSCR (after correlation adjustment).

D1.7 The operational risk capital charge is the operational risk charge multiplied by the sum of (gross) BSCR (after correlation adjustment) and the loss-absorbing capacity of loss provisions according to paragraph D11.4. The risk charge ranges from 1% to 20% based on each insurer's self-assessment of the CIRA framework.

D1.8 Capital add-ons/reductions may be assessed where the BMA believes that an insurer's risk profile deviates significantly from the risk assumptions underlying the ECR or from the insurer's assessment of its risk management policies and practices. These include, but are not limited to, items such as: provisions for reserve deficiencies, significant growth in premiums, and quality of risk management surrounding operational risk.

D1.9 The BSCR is equal to the sum of the BSCR (after correlation adjustment), operational risk capital charge, capital add-ons/reductions (if assessed), adjustment for loss absorbing capacity of technical provisions and adjustment for loss absorbing capacity of deferred taxes.

Available Statutory Economic Capital and Surplus

D1.10 Available Statutory Capital and Surplus is defined as the Total Statutory Capital and Surplus of the insurer, including subsequent Capital Contribution less Capital Add-ons/Reductions (BMA assessment). All capital contributions are to be approved by the BMA, and all capital add-ons / reductions are determined at the discretion of the BMA.

D1.11 The insurer's available statutory economic capital and surplus is determined for purposes of calculating the BSCR and ECR ratios.

Minimum Margin of Solvency

D1.12 The MSM is prescribed by the Insurance (Technical Standards) (Class IIGB Insurer) (Statements, Returns and Capital Solvency) Rules 2020'.

ECR and TCL

D1.13 The ECR is the higher of the MSM and the BSCR / approved internal capital model.

D1.14 The TCL is equal to 120% of the ECR.

Ratios

D1.15 The BSCR Ratio is the ratio of the Available Statutory Capital and Surplus to the BSCR.

D1.16 The ECR Ratio is the ratio of the Available Statutory Capital and Surplus to the ECR.

Solvency Capital Distribution Chart

D1.17 The Solvency Capital Distribution chart displays the relative contribution of each charge to the BSCR, prior to the correlation adjustment.

Regulatory Action Level Graph

D1.18 The Regulatory Action Level graph displays the insurer's Available Statutory Capital and Surplus position relative to the BMA's regulatory action guidelines, where Regulatory Action Level 1 is equal to the insurer's ECR and Regulatory Action Level 2 is equal to the insurer's TCL.

Items

- a) Required Capital and Surplus – The calculation of the Required Capital and Surplus is used for the purpose of determining the required capital level.

| Line Item | | Description |
|-----------|--|--|
| 1 | Fixed Income Investment Risk | Based on current year fixed income investment risk (column (3), row (g)). |
| 2 | Equity Investment Risk | Based on current year equity investment risk (column (11), row (f)). |
| 3 | Interest Rate and Liquidity Risk | Based on current year interest rate and liquidity risk (column (4)). |
| 4 | Currency Risk | Based on current year currency risk (column (20)). |
| 5 | Digital Asset Risk | Based on current year digital asset risk (column (x)) |
| 6 | Concentration Risk | Based on current year concentration risk (column (3), row (i)). |
| 7 | Premium Risk | Based on current year premium risk (column (11) row (d) for Class 4 and 3B insurers and column (11) row (e) for Class 3A insurers). |
| 8 | Reserve Risk | Based on current year reserve risk (column (5) row (c) for Class 4 and 3B insurers and column (5) row (d) for Class 3A insurers). |
| 9 | Credit Risk | Based on current year credit risk (column (3), row (e)). |
| 10 | Catastrophe Risk | Based on current year catastrophe risk (row (g)). |
| 11 | BSCR (Prior to Correlation Adjustment) | BSCR (Prior to Correlation Adjustment) is the sum of the line items (1) to (9) above. |
| 12 | BSCR (After Correlation Adjustment) | BSCR (After Correlation Adjustment) is the resulting amount after applying the correlation matrix on line item (10) to reflect a diversification benefit when aggregating all the risks described above. |
| 13 | Operational Risk (%) | Operational Risk (%) is the applicable operational risk charge % of 'BSCR After Correlation Adjustment' based on the overall score derived from the CIRA framework as prescribed by the BMA. |

| Line Item | | Description |
|-----------|---|---|
| 14 | Operational Risk Capital Charge (\$) | Operational Risk Capital Charge (\$) is the resulting amount when the operational risk (%), as prescribed in line item (12), is applied to the BSCR (After Correlation Adjustment) (including the loss-absorbing capacity of technical provisions, if any). |
| 15 | Regulated Non-Insurance Financial Operating Entities Capital Charge | Regulated Non-Insurance Financial Operating Entities Capital Charge is the resulting amount from the sum of the insurer's proportionate share of each entity's regulatory capital requirement in accordance with the applicable solvency laws of the jurisdiction where the entity is licenced or registered. |
| 16 | Capital Add-On / Reduction (BMA Assessment) | Capital Add-Ons/Reductions on the Required Capital and Surplus is the difference between the user required capital (using insurer-specific capital factors) and the standard required capital (using the prescribed BSCR capital factors) determined under the company-specific parameters section, which is to be completed only with the prior approval of the BMA. |
| 17 | Adj. for Loss Absorbing Capacity of Technical Provision | Adjustment for Loss Absorbing Capacity of Technical Provision is the resulting amount from the sum of Basic BSCR correlation before management actions less the sum of Basic BSCR correlation after management actions, capped at the initial base level of bonus reserves at EBS basis. |
| 18 | Adj. for Loss Absorbing Capacity of Deferred Taxes | Adjustment for Loss Absorbing Capacity of Deferred Taxes reflects a potential tax benefit, in a loss scenario envisaged by the BSCR, resulting in current or future taxes payable, as determined according to paragraph D11.5: a) Past Loss Carry Back Provision; b) Current Loss Carry Back Provision; and c) Future Loss Carry Back Provision. |
| 19 | Final BSCR | BSCR is the sum of the line items (12), (14), (15), (16), (17) and (18). |

- b) Available Statutory Capital and Surplus – The calculation of the Available Statutory Capital and Surplus is used for the purpose of determining the appropriate regulatory action level.

| Line Item | | Description |
|-----------|-------------------------------------|--|
| 1 | Total Statutory Capital and Surplus | Based on the current year economic balance sheet of the insurer; as reported on Form 1SFS (Consolidated), line 40. |
| 2 | Capital Contribution | Capital Contributions must be approved by the BMA. Note that a Capital Contribution increases the Total Statutory Capital and Surplus. |

| Line Item | | Description |
|-----------|--|---|
| 3 | Pre-Adjustment Available Statutory Capital and Surplus | Pre-Adjustment Available Statutory Capital and Surplus is the sum of lines (1) and (2) above. |
| 4 | Capital Add-Ons / Reductions (BMA assessment) | Capital Add-ons / Reductions may be assessed where the BMA believes that an insurer's risk profile deviates significantly from the risk assumptions underlying the ECR. |
| 5 | Available Statutory Capital and Surplus | Available Statutory Capital and Surplus is the sum of lines (3) and (4) above. |

D2. FIXED INCOME INVESTMENT RISK

Background

- D2.1 There are various categories of assets comprised of bonds, loans, and other miscellaneous investments that are used to determine the Fixed Income Investment Risk capital charge.
- D2.2 Where applicable, the amounts must reconcile to the appropriate line(s) of the insurer's Form 1SFS(Consolidated) or to the schedules prescribed by or under the Rules for the relevant year.

Fixed Income Investment Risk Capital Charge

- D2.3 The fixed income investment risk charge calculation can be summarised by the following formula:

$$C_{fixedIncome} = \sum_i \chi_i \times FI_{astclass_i} \times \mu_r + Credit\ Derivatives$$

Where—

- χ_i = the BMA supplied asset class capital charge factor for type of fixed income asset class i ;
- $FI_{astclass_i}$ = value of investment in fixed income asset class i ;
- μ_r = additional diversification adjustment factor applied to cash and cash equivalent balances, or 1 for other asset classes; and
- Credit Derivatives* = the spread risk charge for credit derivatives calculated as per the following formula:
- CreditDerivatives* = greater of:
- CreditDerivatives_{ShockUp}* ;
 - CreditDerivatives_{ShockDown}* ; and
 - 0.
- CreditDerivatives_{ShockUp}* = the spread risk charge for credit derivatives resulting from an upward credit spread shock calculated as per the following formula:
- $$CreditDerivatives_{ShockUp} = \sum_i [(LCD_i^{BShock} - LCD_i^{AShock}(\chi_i)) + (SCD_i^{BShock} - SCD_i^{AShock}(\chi_i))]$$
- CreditDerivatives_{ShockDown}* = the spread risk charge for credit derivatives resulting from a downward credit spread shock calculated as per the following formula:
- $$CreditDerivatives_{ShockDown} = \sum_i [(LCD_i^{BShock} - LCD_i^{AShock}(\chi_i)) + (SCD_i^{BShock} - SCD_i^{AShock}(\chi_i))]$$
- LCD_i^{BShock} = refers to the valuation of long exposures for credit derivatives before applying the instantaneous shock χ_i over the classes as set out below;
- $LCD_i^{AShock}(\chi_i)$ = refers to the valuation of long exposures for credit derivatives after applying instantaneous shock χ_i over the classes as set out below
- SCD_i^{BShock} = refers to the valuation of short exposures for credit derivatives before applying the instantaneous shock χ_i over the classes as set out below
- $SCD_i^{AShock}(\chi_i)$ = refers to the valuation of short exposures for credit derivatives after applying the instantaneous shock χ_i over the classes as set out below

Items

- Corporate and Sovereign Bonds

| Line Item | | Statement Source – The Rules |
|------------------|---------------|--|
| 1 | BSCR rating 0 | Based on Schedule IIB-IIF, line 1, column (1). |
| 2 | BSCR rating 1 | Based on Schedule IIB-IIF, line 2, column (1). |
| 3 | BSCR rating 2 | Based on Schedule IIB-IIF, line 3, column (1). |
| 4 | BSCR rating 3 | Based on Schedule IIB-IIF, line 4, column (1). |
| 5 | BSCR rating 4 | Based on Schedule IIB-IIF, line 5, column (1). |
| 6 | BSCR rating 5 | Based on Schedule IIB-IIF, line 6, column (1). |
| 7 | BSCR rating 6 | Based on Schedule IIB-IIF, line 7, column (1). |
| 8 | BSCR rating 7 | Based on Schedule IIB-IIF, line 8, column (1). |
| 9 | BSCR rating 8 | Based on Schedule IIB-IIF, line 9, column (1). |

b) Residential Mortgage-Backed Securities

| Line Item | | Statement Source – The Rules |
|------------------|---------------|--|
| 1 | BSCR rating 1 | Based on Schedule IIB-IIF, line 2, column (3). |
| 2 | BSCR rating 2 | Based on Schedule IIB-IIF, line 3, column (3). |
| 3 | BSCR rating 3 | Based on Schedule IIB-IIF, line 4, column (3). |
| 4 | BSCR rating 4 | Based on Schedule IIB-IIF, line 5, column (3). |
| 5 | BSCR rating 5 | Based on Schedule IIB-IIF, line 6, column (3). |
| 6 | BSCR rating 6 | Based on Schedule IIB-IIF, line 7, column (3). |
| 7 | BSCR rating 7 | Based on Schedule IIB-IIF, line 8, column (3). |
| 8 | BSCR rating 8 | Based on Schedule IIB-IIF, line 9, column (3). |

c) Commercial Mortgage-Backed Securities/Asset-Backed Securities

| Line Item | | Statement Source – The Rules |
|------------------|---------------|--|
| 1 | BSCR rating 1 | Based on Schedule IIB-IIF, line 2, column (5). |
| 2 | BSCR rating 2 | Based on Schedule IIB-IIF, line 3, column (5). |
| 3 | BSCR rating 3 | Based on Schedule IIB-IIF, line 4, column (5). |
| 4 | BSCR rating 4 | Based on Schedule IIB-IIF, line 5, column (5). |
| 5 | BSCR rating 5 | Based on Schedule IIB-IIF, line 6, column (5). |
| 6 | BSCR rating 6 | Based on Schedule IIB-IIF, line 7, column (5). |
| 7 | BSCR rating 7 | Based on Schedule IIB-IIF, line 8, column (5). |
| 8 | BSCR rating 8 | Based on Schedule IIB-IIF, line 9, column (5). |

d) Bond Mutual Funds

| Line Item | | Statement Source – The Rules |
|------------------|---------------|---|
| 1 | BSCR rating 0 | Based on Schedule IIB-IIF , line 1, column (7). |
| 2 | BSCR rating 1 | Based on Schedule IIB-IIF , line 2, column (7). |
| 3 | BSCR rating 2 | Based on Schedule IIB-IIF , line 3, column (7). |
| 4 | BSCR rating 3 | Based on Schedule IIB-IIF , line 4, column (7). |
| 5 | BSCR rating 4 | Based on Schedule IIB-IIF , line 5, column (7). |
| 6 | BSCR rating 5 | Based on Schedule IIB-IIF , line 6, column (7). |
| 7 | BSCR rating 6 | Based on Schedule IIB-IIF, line 7, column (7). |
| 8 | BSCR rating 7 | Based on Schedule IIB-IIF, line 8, column (7). |
| 9 | BSCR rating 8 | Based on Schedule IIB-IIF, line 9, column (7). |

e) Mortgage Loans

| Line Item | | Statement Source – The Rules |
|------------------|-------------------------------------|---|
| 1 | Insured/guaranteed mortgages | Based on Schedule IIB-IIF, line 10, column (9). |
| 2 | Other commercial and farm mortgages | Based on Schedule IIB-IIF, line 11, column (9). |
| 3 | Other residential mortgages | Based on Schedule IIB-IIF, line 12, column (9). |
| 4 | Mortgages not in good standing | Based on Schedule IIB-IIF, line 13, column (9). |

f) Other Fixed Income Investments

| Line Item | | Statement Source – The Rules or IAR |
|------------------|-------------|--|
| 1 | Other loans | Based on Form 1SF5(Consolidated), line 8. |

g) Cash and Cash Equivalents

| Line Item | | Statement Source – The Rules |
|------------------|---------------|-------------------------------------|
| 1 | BSCR rating 0 | Based on Schedule XIXA, column (A). |
| 2 | BSCR rating 1 | Based on Schedule XIXA, column (A). |
| 3 | BSCR rating 2 | Based on Schedule XIXA, column (A). |
| 4 | BSCR rating 3 | Based on Schedule XIXA, column (A). |
| 5 | BSCR rating 4 | Based on Schedule XIXA, column (A). |
| 6 | BSCR rating 5 | Based on Schedule XIXA, column (A). |
| 7 | BSCR rating 6 | Based on Schedule XIXA, column (A). |

| Line Item | | Statement Source – The Rules |
|-----------|----------------------------------|-------------------------------------|
| 8 | BSCR rating 7 | Based on Schedule XIXA, column (A). |
| 9 | Less: Diversification Adjustment | Based on Schedule XIXA, column (A). |

Instructions Affecting Fixed Income Investment Risk

- (a) All assets comprising of bonds and debentures, loans, and other miscellaneous investments that are subject to capital charges within the fixed income investment risk charge shall be included;
- (b) All non-affiliated quoted and unquoted bonds and debentures shall be included in the fixed income investment charge;
- (c) All bonds and debentures, loans, and other miscellaneous investments shall include amounts reported for economic balance sheet reporting purposes and include fixed income risk exposures as determined by application of the ‘look-through’ approach calculated in accordance with the criteria prescribed in section B5 for the following items:
- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets and liabilities;
 - (iii) Deposit asset and liabilities;
 - (iv) Assets and liabilities held by ceding insurers or under retrocession;
 - (v) Other sundry assets and liabilities; and
 - (vi) Derivatives.
- (d) The capital requirements relating to cash and cash equivalents shall be reduced by a diversification adjustment of up to a maximum of 40%;
- (e) The diversification adjustment in paragraph (d) is determined as 40% multiplied by 1 minus the ratio of the largest cash and cash equivalent balance held with a single counterparty to the total of all cash and cash equivalent balance; and
- (f) Spread Risk Shocks for Credit Derivatives

| Line Item | | Statement Source – The Rules | |
|-----------|---------------|---|--|
| Spread Up | | | |
| | | Long Exposures | Short Exposures |
| 1 | BSCR rating 0 | Based on Schedules IIB-IIF column (1) line 38 | Based on Schedules IIB-IIF column (3), line 38 |

| | | | |
|-------------|---------------|---|--|
| 2 | BSCR rating 1 | Based on Schedules IIB-IIF column (1) line 39 | Based on Schedules IIB-IIF column (3), line 39 |
| 3 | BSCR rating 2 | Based on Schedules IIB-IIF column (1) line 40 | Based on Schedules IIB-IIF column (3), line 40 |
| 4 | BSCR rating 3 | Based on Schedules IIB-IIF column (1) line 41 | Based on Schedules IIB-IIF column (3), line 41 |
| 5 | BSCR rating 4 | Based on Schedules IIB-IIF column (1) line 42 | Based on Schedules IIB-IIF column (3), line 42 |
| 6 | BSCR rating 5 | Based on Schedules IIB-IIF column (1) line 43 | Based on Schedules IIB-IIF column (3), line 43 |
| 7 | BSCR rating 6 | Based on Schedules IIB-IIF column (1) line 44 | Based on Schedules IIB-IIF column (3), line 44 |
| 8 | BSCR rating 7 | Based on Schedules IIB-IIF column (1) line 45 | Based on Schedules IIB-IIF column (3), line 45 |
| 9 | BSCR rating 8 | Based on Schedules IIB-IIF column (1) line 46 | Based on Schedules IIB-IIF column (3), line 46 |
| Spread Down | | | |
| | | Long Exposures | Short Exposures |
| 10 | BSCR rating 0 | Based on Schedules IIB-IIF column (6) line 38 | Based on Schedules IIB-IIF column (8), line 38 |
| 11 | BSCR rating 1 | Based on Schedules IIB-IIF column (6) line 39 | Based on Schedules IIB-IIF column (8), line 39 |
| 12 | BSCR rating 2 | Based on Schedules IIB-IIF column (6) line 40 | Based on Schedules IIB-IIF column (8), line 40 |
| 13 | BSCR rating 3 | Based on Schedules IIB-IIF column (6) line 41 | Based on Schedules IIB-IIF column (8), line 41 |
| 14 | BSCR rating 4 | Based on Schedules IIB-IIF column (6) line 42 | Based on Schedules IIB-IIF column (8), line 42 |
| 15 | BSCR rating 5 | Based on Schedules IIB-IIF column (6) line 43 | Based on Schedules IIB-IIF column (8), line 43 |
| 16 | BSCR rating 6 | Based on Schedules IIB-IIF column (6) line 44 | Based on Schedules IIB-IIF column (8), line 44 |
| 17 | BSCR rating 7 | Based on Schedules IIB-IIF column (6) line 45 | Based on Schedules IIB-IIF column (8), line 45 |
| 18 | BSCR rating 8 | Based on Schedules IIB-IIF column (6) line 46 | Based on Schedules IIB-IIF column (8), line 46 |

D3. EQUITY INVESTMENT RISK

Background

D3.1 There are various categories of equity investments comprising common stocks, preferred stocks, real estate, and other miscellaneous investments that are used to determine the Equity Investment Risk capital charge. All non-affiliated stocks held by the insurer should be reported, including both quoted and unquoted issues.

Equity Investment Risk Capital Charge

D3.2 The equity investment risk charge calculation can be summarised by the following formula:

$$C_{\text{equity}} = \sqrt{\sum_{i,j} \text{CorrEq}_{i,j} \times C_i \times C_j}$$

Where—

- $\text{CorrEq}_{i,j}$ = the correlation factors of the equity risk correlation matrix in accordance with Table 2A;
- i,j = the sum of the different terms should cover all possible combinations of correlation i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 C_{Type1} , C_{Type2} , C_{Type3} , C_{Type4} ;
- C_{Type1} = Type1 equity risk charge as calculated over the classes set out below;
- C_{Type2} = Type2 equity risk charge as calculated over the classes set out below;
- C_{Type3} = Type3 equity risk charge as calculated over the classes set out below;
- C_{Type4} = Type4 equity risk charge as calculated over the classes set out below;

Table 2A – Equity Risk Charge Correlation Matrix

| Equity Corr Matrix | C_{Type1} | C_{Type2} | C_{Type3} | C_{Type4} |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| C_{Type1} | 1.00 | | | |
| C_{Type2} | 0.75 | 1.00 | | |
| C_{Type3} | 0.75 | 0.75 | 1.00 | |
| C_{Type4} | 0.50 | 0.50 | 0.50 | 1.00 |

D3.3 Type1, Type2 Type3 and Type4 equity risk charges calculation shall be determined in accordance with the following formulas—

$$C_{\text{Type1}} = \max \left\{ \sum_{i \in \text{Type1}} \left[\max(L\text{Assets}_i^{\text{BShock}} - L\text{Assets}_i^{\text{AShock}}(\chi_i), 0) + (SQ\text{Assets}_i^{\text{BShock}} - SQ\text{Assets}_i^{\text{AShock}}(\chi_i)) + \dots \right] + \max(SNQ\text{Assets}_i^{\text{BShock}} - SNQ\text{Assets}_i^{\text{AShock}}(\chi_i), 0) - (BELiabilities_i^{\text{BShock}} - BELiabilities_i^{\text{AShock}}(\chi_i)) \right], 0 \right\}$$

$$C_{\text{Type2}} = \max \left\{ \sum_{i \in \text{Type2}} \left[\max(L\text{Assets}_i^{\text{BShock}} - L\text{Assets}_i^{\text{AShock}}(\chi_i), 0) + (SQ\text{Assets}_i^{\text{BShock}} - SQ\text{Assets}_i^{\text{AShock}}(\chi_i)) + \dots \right] + \max(SNQ\text{Assets}_i^{\text{BShock}} - SNQ\text{Assets}_i^{\text{AShock}}(\chi_i), 0) - (BELiabilities_i^{\text{BShock}} - BELiabilities_i^{\text{AShock}}(\chi_i)) \right], 0 \right\}$$

$$C_{Type3} = \max \left\{ \sum_{i \in Type3} \left[\max(LAssets_i^{BShock} - LAssets_i^{AShock}(\chi_i), 0) + (SQAssets_i^{BShock} - SQAssets_i^{AShock}(\chi_i)) + \dots \right. \right. \\ \left. \left. + \max(SNQAssets_i^{BShock} - SNQAssets_i^{AShock}(\chi_i), 0) - (BELiabilities_i^{BShock} - BELiabilities_i^{AShock}(\chi_i)) \right], 0 \right\}$$

$$C_{Type4} = \max \left\{ \sum_{i \in Type4} \left[\max(LAssets_i^{BShock} - LAssets_i^{AShock}(\chi_i), 0) + (SQAssets_i^{BShock} - SQAssets_i^{AShock}(\chi_i)) + \dots \right. \right. \\ \left. \left. + \max(SNQAssets_i^{BShock} - SNQAssets_i^{AShock}(\chi_i), 0) - (BELiabilities_i^{BShock} - BELiabilities_i^{AShock}(\chi_i)) \right], 0 \right\}$$

Where—

| | |
|--------------------------|---|
| χ_i | = the instantaneous shocks prescribed in Table 2B for each type of equity class i ; |
| $LAssets^{BShock}$ | = refers to the valuation of long asset exposures before applying shock; |
| $LAssets^{AShock}$ | = refers to the valuation of long asset exposures after applying shock; |
| $SQAssets_{BShock}$ | = refers to the valuation of short exposures for qualifying assets that are held for risk mitigating purposes as determined in accordance with the criteria prescribed in section B3 before applying shock; |
| $SQAssets_{AShock}$ | = refers to the valuation of short exposures for qualifying assets that are held for risk mitigating purposes as determined in accordance with the criteria prescribed in section B3 after applying shock; |
| $SNQAssets_{BShock}$ | = refers to the valuation of short exposures for assets that do not qualify for risk mitigating purposes as determined in accordance with the criteria prescribed in section B3 before applying shock; |
| $SNQAssets_{AShock}$ | = refers to the valuation of short exposures for assets that do not qualify for risk mitigating purposes as determined in accordance with the criteria prescribed in section B3 after applying shock; |
| $BELiabilities^{BShock}$ | = refers to the best estimate of insurance liabilities and other liabilities before applying shock; and |
| $BELiabilities^{AShock}$ | = refers to the best estimate of insurance liabilities and other liabilities after applying shock. |

Items

a) Type 1 Equity Holdings

| Line Item | | Statement Source – The Rules | | | |
|-----------|---|---|---|---|---|
| | | Assets | | | Liabilities |
| | | Long Exposures | Short Exposures | | |
| | | | Qualifying as Assets held for risk mitigation purposes | Qualifying as Assets held for risk mitigation purposes | Without Management Actions |
| 1 | Strategic Holdings – Listed | Based on Sch. IIB-IIF col. (1) line 15 col. (2) line 15 | Based on Sch. IIB-IIF col. (3) line 15 col. (4) line 15 | Based on Sch. IIB-IIF col. (5) line 15 col. (6) line 15 | Based on Sch. IIB-IIF col. (7) line 15 col. (8) line 15 |
| 2 | Duration Based | Based on Sch. IIB-IIF col. (1) line 16 col. (2) line 16 | Based on Sch. IIB-IIF col. (3) line 16 col. (4) line 16 | Based on Sch. IIB-IIF col. (5) line 16 col. (6) line 16 | Based on Sch. IIB-IIF col. (7) line 16 col. (8) line 16 |
| 3 | Listed Equity Securities in Developed Markets | Based on Sch. IIB-IIF col. (1) line 17 col. (2) line 17 | Based on Sch. IIB-IIF col. (3) line 17 col. (4) line 17 | Based on Sch. IIB-IIF col. (5) line 17 col. (6) line 17 | Based on Sch. IIB-IIF col. (7) line 17 col. (8) line 17 |
| 4 | Preferred Stocks Rating 1 | Based on Sch. IIB-IIF col. (1) line 18 col. (2) line 18 | Based on Sch. IIB-IIF col. (3) line 18 col. (4) line 18 | Based on Sch. IIB-IIF col. (5) line 18 col. (6) line 18 | Based on Sch. IIB-IIF col. (7) line 18 col. (8) line 18 |
| 5 | Preferred Stocks Rating 2 | Based on Sch. IIB-IIF col. (1) line 19 col. (2) line 19 | Based on Sch. IIB-IIF col. (3) line 19 col. (4) line 19 | Based on Sch. IIB-IIF col. (5) line 19 col. (6) line 19 | Based on Sch. IIB-IIF col. (7) line 19 col. (8) line 19 |
| 6 | Preferred Stocks Rating 3 | Based on Sch. IIB-IIF col. (1) line 20 col. (2) line 20 | Based on Sch. IIB-IIF col. (3) line 20 col. (4) line 20 | Based on Sch. IIB-IIF col. (5) line 20 col. (6) line 20 | Based on Sch. IIB-IIF col. (7) line 20 col. (8) line 20 |
| 7 | Preferred Stocks Rating 4 | Based on Sch. IIB-IIF col. (1) line 21 col. (2) line 21 | Based on Sch. IIB-IIF col. (3) line 21 col. (4) line 21 | Based on Sch. IIB-IIF col. (5) line 21 col. (6) line 21 | Based on Sch. IIB-IIF col. (7) line 21 col. (8) line 21 |
| 8 | Preferred Stocks Rating 5 | Based on Sch. IIB-IIF col. (1) line 22 col. (2) line 22 | Based on Sch. IIB-IIF col. (3) line 22 col. (4) line 22 | Based on Sch. IIB-IIF col. (5) line 22 col. (6) line 22 | Based on Sch. IIB-IIF col. (7) line 22 col. (8) line 22 |
| 9 | Preferred Stocks Rating 6 | Based on Sch. IIB-IIF Col. (1) line 23 Col. (2) line 23 | Based on Sch. IIB-IIF Col. (3) line 23 Col. (4) line 23 | Based on Sch. IIB-IIF Col. (5) line 23 Col. (6) line 23 | Based on Sch. IIB-IIF Col. (7) line 23 Col. (8) line 23 |
| 10 | Preferred Stocks Rating 7 | Based on Sch. IIB-IIF Col. (1) line 24 Col. (2) line 24 | Based on Sch. IIB-IIF Col. (3) line 24 Col. (4) line 24 | Based on Sch. IIB-IIF Col. (5) line 24 Col. (6) line 24 | Based on Sch. IIB-IIF Col. (7) line 24 Col. (8) line 24 |
| 11 | Preferred Stocks Rating 8 | Based on Sch. IIB-IIF Col. (1) line 25 Col. (2) line 25 | Based on Sch. IIB-IIF Col. (3) line 25 Col. (4) line 25 | Based on Sch. IIB-IIF Col. (5) line 25 Col. (6) line 25 | Based on Sch. IIB-IIF Col. (7) line 25 Col. (8) line 25 |
| 12 | Equity Derivatives on Type 1 Equities | Based on Sch. IIB-IIF Col. (1) line 26 Col. (2) line 26 | Based on Sch. IIB-IIF Col. (3) line 26 Col. (4) line 26 | Based on Sch. IIB-IIF Col. (5) line 26 Col. (6) line 26 | Based on Sch. IIB-IIF Col. (7) line 26 Col. (8) line 26 |

b) Type 2 Equity Holdings

| Line Item | | Statement Source – The Rules | | | |
|-----------|--|---|---|---|---|
| | | Assets | | Liabilities | |
| | | Long Exposures | Short Exposures | | |
| | | | Qualifying as Assets held for risk mitigation purposes | Qualifying as Assets held for risk mitigation purposes | Without Management Actions |
| 16 | Strategic Holdings – Unlisted | Based on Sch. IIB-IIF Col. (1) line 27 Col. (2) line 27 | Based on Sch. IIB-IIF Col. (3) line 27 Col. (4) line 27 | Based on Sch. IIB-IIF Col. (5) line 27 Col. (6) line 27 | Based on Sch. IIB-IIF Col. (7) line 27 Col. (8) line 27 |
| 17 | Other Equities | Based on Sch. IIB-IIF Col. (1) line 28 Col. (2) line 28 | Based on Sch. IIB-IIF Col. (3) line 28 Col. (4) line 28 | Based on Sch. IIB-IIF Col. (5) line 28 Col. (6) line 28 | Based on Sch. IIB-IIF Col. (7) line 28 Col. (8) line 28 |
| 18 | Letters of Credit | Based on Sch. IIB-IIF Col. (1) line 29 Col. (2) line 29 | Based on Sch. IIB-IIF Col. (3) line 29 Col. (4) line 29 | Based on Sch. IIB-IIF Col. (5) line 29 Col. (6) line 29 | Based on Sch. IIB-IIF Col. (7) line 29 Col. (8) line 29 |
| 19 | Intangible Assets | Based on Sch. IIB-IIF Col. (1) line 30 Col. (2) line 30 | Based on Sch. IIB-IIF Col. (3) line 30 Col. (4) line 30 | Based on Sch. IIB-IIF Col. (5) line 30 Col. (6) line 30 | Based on Sch. IIB-IIF Col. (7) line 30 Col. (8) line 30 |
| 20 | Pension Benefit Surplus | Based on Sch. IIB-IIF Col. (1) line 31 Col. (2) line 31 | Based on Sch. IIB-IIF Col. (3) line 31 Col. (4) line 31 | Based on Sch. IIB-IIF Col. (5) line 31 Col. (6) line 31 | Based on Sch. IIB-IIF Col. (7) line 31 Col. (8) line 31 |
| 21 | Equity Derivatives on Type 2 Investments | Based on Sch. IIB-IIF Col. (1) line 32 Col. (2) line 32 | Based on Sch. IIB-IIF Col. (3) line 32 Col. (4) line 32 | Based on Sch. IIB-IIF Col. (5) line 32 Col. (6) line 32 | Based on Sch. IIB-IIF Col. (7) line 32 Col. (8) line 32 |

c) Type 3 Equity Holdings

| Line Item | | Statement Source – The Rules | | | |
|-----------|-------------------------------|---|---|---|---|
| | | Assets | | Liabilities | |
| | | Long Exposures | Short Exposures | | |
| | | | Qualifying as Assets held for risk mitigation purposes | Qualifying as Assets held for risk mitigation purposes | Without Management Actions |
| 22 | Infrastructure | Based on Sch. IIB-IIF Col. (1) line 33 Col. (2) line 33 | Based on Sch. IIB-IIF Col. (3) line 33 Col. (4) line 33 | Based on Sch. IIB-IIF Col. (5) line 33 Col. (6) line 33 | Based on Sch. IIB-IIF Col. (7) line 33 Col. (8) line 33 |
| 23 | Derivatives on Infrastructure | Based on Sch. IIB-IIF Col. (1) line 34 Col. (2) line 34 | Based on Sch. IIB-IIF Col. (3) line 34 Col. (4) line 34 | Based on Sch. IIB-IIF Col. (5) line 34 Col. (6) line 34 | Based on Sch. IIB-IIF Col. (7) line 34 Col. (8) line 34 |

d) Type 4 Equity Holdings

| Line Item | | Statement Source – The Rules | | | |
|-----------|----------------------|---|---|---|---|
| | | Assets | | | Liabilities |
| | | Long Exposures | Short Exposures | | |
| | | | Qualifying as Assets held for risk mitigation purposes | Qualifying as Assets held for risk mitigation purposes | Without Management Actions |
| 24 | Equity Real Estate 1 | Based on Sch. IIB-IIF Col. (1) line 35 Col. (2) line 35 | Based on Sch. IIB-IIF Col. (3) line 35 Col. (4) line 35 | Based on Sch. IIB-IIF Col. (5) line 35 Col. (6) line 35 | Based on Sch. IIB-IIF Col. (7) line 35 Col. (8) line 35 |
| 25 | Equity Real Estate 2 | Based on Sch. IIB-IIF Col. (1) line 36 Col. (2) line 36 | Based on Sch. IIB-IIF Col. (3) line 36 Col. (4) line 36 | Based on Sch. IIB-IIF Col. (5) line 36 Col. (6) line 36 | Based on Sch. IIB-IIF Col. (7) line 36 Col. (8) line 36 |

Instructions Affecting Equity Investment Risk

- (a) All assets (except regulated non-insurance financial operating entities) and liabilities (except the risk margin) whose value is subject to equity risk shocks are to be reported on a basis consistent with that used for the purposes of economic balance sheet reporting. Such assets and liabilities shall include equity risk exposures determined by application of the 'look-through' approach calculated in accordance with criteria prescribed in section B6 for the following items:
- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets and liabilities;
 - (iii) Deposit asset and liabilities;
 - (iv) Assets and liabilities held by ceding insurers or under retrocession;
 - (v) Other sundry assets and liabilities; and
 - (vi) Derivatives.
- (b) For asset types referred to in paragraph (a) (i) to (vi) where the 'look through' approach cannot be applied, the residual balance shall be included in 'Equity Securities – Other Investments';
- (c) Short exposures qualifying as assets held for risk-mitigation purposes and short exposures not qualifying as assets held for risk-mitigation purposes, shall both be determined in accordance with criteria prescribed in section B4; and
- (d) Amounts are to be reported on a consolidated statutory valuation basis.

D4. INTEREST RATE AND LIQUIDITY RISK

Background

- D4.1 The interest rate and liquidity risk charge calculation may be calculated based on the instructions D4.2-D4.9 (option 1) or based on the instructions D4.10-D4.15 (option 2). Once the insurer chooses to use option 2, the insurer cannot move back to option 1 without the prior written approval of the Authority.

Interest Rate and Liquidity Risk Capital Charge - Option 1

- D4.2 The interest rate and liquidity risk option 1 represents the economic risk an insurer is subjected to due to changes in interest rates. The charge is calculated by applying the ‘shock’ of a 2% increase in interest rates to the portion of the insurer’s assets (proportionate to the percentage of reserves) related to the duration difference. These assets include quoted and unquoted bonds and debentures - other, quoted and unquoted preferred stocks, and mortgage loans as reported on Schedules IIB and IIC.
- D4.3 The interest rate and liquidity risk option 2 represents an alternative and more risk sensitive method that requires insurers to apply shocks to the yield curve used for determining best estimate liabilities and market value of assets (which includes changes for interest rate-sensitive cash flows in the calculation). The capital requirement is determined as the negative changes to the net asset value of the highest magnitude resulting from these shocks.
- D4.4 The interest rate and liquidity risk option 1 charge calculation can be summarised by the following formula:

$$C_{\text{int}} = \text{bonds} \times \text{duration} \times \text{marketdecline}$$

Where—

bonds = quoted and unquoted value of bonds and debentures - other, preferred stocks or mortgage loans;

duration = the higher of 1 or the insurer’s effective asset duration less the insurer’s effective liability duration or the insurer’s effective liability duration less the insurer’s effective asset duration; and

marketdecline = assumed interest rate shock supplied by BMA.

Items

- D4.5 Bonds and Debentures – Based on current year Schedule IIB column (11), lines 1 to 9 and Schedule IIC column (11), lines 1 to 9; total quoted and unquoted value of bonds and debentures.

- D4.6 Preferred Stocks – Based on current year Schedule IIB column (11), lines 18 to 25 and Schedule IIC column (11), lines 18 to 25; total value of preferred stocks portfolio.
- D4.7 Mortgage Loans – Based on current year Schedule IIB column (11), lines 10 to 13 and Schedule IIC column (11), lines 10 to 13; total amortised cost (outstanding principal amount less any provision made for doubtful collection) of mortgage loan portfolio.
- D4.8 Effective Duration of Assets – The effective duration calculation is based on total bonds and debentures from D4.5, preferred stocks from D4.6, and mortgage loans portfolios from D4.7. The effective asset duration is pulled from Schedule V, line (c).
- D4.9 Effective Duration of Liabilities – The effective duration calculation is based on the reserves (Form 1SFS (consolidated) , lines 17(d)). The effective liability duration is pulled from Schedule V, line (d).

Instructions Affecting Interest Rate and Liquidity Risk

- a) All assets comprising of total bonds and debentures, preferred stock, and mortgage loans investments that are subject to capital charges within the interest rate/liquidity risk charge shall be included;
- b) All quoted and unquoted non-affiliated other bonds and debentures and preferred stock shall be included in the interest rate/liquidity risk charge; and

All other bonds and debentures, preferred stock, and mortgage loans investments shall be reported on a basis consistent with statutory reporting regime.

Interest Rate and Liquidity Risk Capital Charge Option 2

- D4.10 The interest rate and liquidity risk option 2 charge calculation can be summarised by the following formula:

$$C_{Interest} = \max\{\max(Shock_{IR,Down}, Shock_{IR,Up}) - OffSet_{ScenarioBased}, 0\}$$

Where—

$$Shock_{IR,\omega} = \sum_{CCY} Shock_{IR,\omega}^{CCY}$$

$$Shock_{IR,\omega}^{CCY} = (MVA_{Before}^{CCY,Q} - MVA_{After,\omega}^{CCY,Q}) + \max(MVA_{Before}^{CCY,NQ} - MVA_{After,\omega}^{CCY,NQ}, 0) - (MVL_{Before}^{CCY} - MVL_{After,\omega}^{CCY})$$

$\omega = Down, Up$

$$OffSet_{ScenarioBased} = \min(0.5 \cdot (BELiability_{WorstScenario} - BELiability_{BaseScenario}), 0.75 \cdot C_{Interest}^{WithoutOffset})$$

$$C_{Interest}^{WithoutOffset} = \max(Shock_{IR,Down}, Shock_{IR,Up})$$

| | |
|--------------------------------------|--|
| $MVA_{Before}^{CCY,Q}$ | = refers to the market value of qualified assets including derivatives qualifying as held for risk-mitigating purposes (as described in section B3) before shock ω (ω =Up or Down) by currency type (CCY), that has been converted to the functional currency as expressed in Form 1SFS (Consolidated); |
| $MVA_{After}^{CCY,Q}$ | = refers to the revaluation of qualified assets including derivatives qualifying as held for risk-mitigating purposes (as described in section B3) after shocking interest rates by $\chi(\text{CCY},\omega)$ where (CCY) refers to currency type, ω refers to shock Down and Up, and χ refers to the shock vector where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated) prescribed in Table 3B; |
| $MVA_{Before}^{CCY,NQ}$ | = refers to the market value of non-qualified assets which are derivatives not qualifying as held for risk-mitigating purposes (as described in section B3) before shock ω (ω =Up or Down) by currency type (CCY), that has been converted to the functional currency as expressed in Form 1SFS (Consolidated); |
| $MVA_{After}^{CCY,NQ}$ | = refers to the revaluation of non-qualified assets which are derivatives not qualifying as held for risk-mitigating purposes (as described in section B3) after shocking interest rates by $\chi(\text{CCY},\omega)$ where (CCY) refers to currency type, ω refers to shock Down and Up, and χ refers to the shock vector where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated) prescribed in Table 3B; |
| MVL_{Before}^{CCY} | = refers to the best estimate of insurance liabilities and other liabilities before shock ω (ω =Up or Down) by currency type that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| MVL_{After}^{CCY} | = refers to the revaluation of the best estimate of insurance liabilities and other liabilities after shocking interest rates by $\chi(\text{CCY},\omega)$ where (CCY) refers to currency type, ω refers to shock Down and Up, and χ refers to the shock vector where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated) prescribed in Table 3B; |
| $BE\text{Liability}_{BaseScenario}$ | = refers to best estimate of liabilities in the base case scenario when using the scenario-based approach; and |
| $BE\text{Liability}_{WorstScenario}$ | = refers to best estimate of liabilities in the worst-case scenario when using the scenario-based approach. |

Items

- D4.11 Assets (exposures other than derivatives) – based on current year interest rate sensitive assets including interest rate sensitive exposures from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D4.12 Assets Qualifying as held for risk mitigating purposes (derivative exposures) – based on current year interest rate sensitive assets including interest rate sensitive exposures from

investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.

- D4.13 Assets Not Qualifying as held for risk mitigating purposes (derivative exposures) – based on current year interest rate sensitive assets including interest rate sensitive exposures from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D4.14 Liabilities (exposures other than derivatives) – based on current year interest rate sensitive exposures from insurance technical provisions, segregated account company liabilities, deposit liabilities and other sundry liabilities as determined from the application of the look-through provisions.
- D4.15 Liabilities (derivative exposures) – based on current year interest rate sensitive exposures from insurance technical provisions, segregated account company liabilities, deposit liabilities and other sundry liabilities as determined from the application of the look-through provisions

a) Interest Rate Down – Exposures without Derivatives

| Currency | Market Value of Assets | Market Value of Liabilities |
|-----------------------|--|--|
| United States Dollars | Based on Sch. XXIII, col.(A), line 1 Less col. (B), line 1 | Based on Sch. XXIII, col. (C), line 1 Less col. (D), line 1 |
| Euro | Based on Sch. XXIII, col.(A), line 2 Less col. (B), line 2 | Based on Sch. XXIII, col.(C), line 2 Less col. (D), line 2 |
| UK Pounds | Based on Sch. XXIII, col.(A), line 3 Less col. (B), line 3 | Based on Sch. XXIII, col.(C), line 3 Less col. (D), line 3 |
| Japan Yen | Based on Sch. XXIII, col.(A), line 4 Less col. (B), line 4 | Based on Sch. XXIII, col.(C), line 4 Less col. (D), line 4 |
| Canada Dollars | Based on Sch. XXIII, col.(A), line 5 Less col. (B), line 5 | Based on Sch. XXIII, col.(C), line 5 Less col. (D), line 5 |
| Swiss Francs | Based on Sch. XXIII, col.(A), line 6 Less col. (B), line 6 | Based on Sch. XXIII, col.(C), line 6 Less col. (D), line 6 |
| Australia Dollars | Based on Sch. XXIII, col.(A), line 7 Less col. (B), line 7 | Based on Sch. XXIII, col.(C), line 7 Less col. (D), line 7 |
| New Zealand Dollars | Based on Sch. XXIII, col.(A), line 8 Less col. (B), line 8 | Based on Sch. XXIII, col.(C), line 8 Less col. (D), line 8 |
| Other currency 1 | Based on Sch. XXIII, col.(A), line 9 Less col. (B), line 9 | Based on Sch. XXIII, col.(C), line 9 Less col. (D), line 9 |
| Other currency 2 | Based on Sch. XXIII, col.(A), line 10 Less col. (B), line 10 | Based on Sch. XXIII, col.(C), line 10 Less col. (D), line 10 |
| Other currency 3 | Based on Sch. XXIII, col.(A), line 11 Less col. (B), line 11 | Based on Sch. XXIII, col.(C), line 11 Less col. (D), line 11 |
| Other currency 4 | Based on Sch. XXIII, col.(A), line 12 Less col. (B), line 12 | Based on Sch. XXIII, col.(C), line 12 Less col. (D), line 12 |
| Other currency 5 | Based on Sch. XXIII, col.(A), line 13 Less col. (B), line 13 | Based on Sch. XXIII, col.(C), line 13 Less col. (D), line 13 |
| Other currency 6 | Based on Sch. XXIII, col.(A), line 14 Less col. (B), line 14 | Based on Sch. XXIII, col.(C), line 14 Less col. (D), line 14 |
| Other currency 7 | Based on Sch. XXIII, col.(A), line 15 Less col. (B), line 15 | Based on Sch. XXIII, col.(C), line 15 Less col. (D), line 15 |
| Other currency 8 | Based on Sch. XXIII, col.(A), line 16 Less col. (B), line 16 | Based on Sch. XXIII, col.(C), line 16 Less col. (D), line 16 |
| Other currency 9 | Based on Sch. XXIII, Col.(A), line 17 Less Col. (B), line 17 | Based on Sch. XXIII, Col.(C), line 17 Less Col. (D), line 17 |
| Other currency 10 | Based on Sch. XXIII, Col.(A), line 18 Less Col. (B), line 18 | Based on Sch. XXIII, Col.(C), line 18 Less Col. (D), line 18 |

b) Interest Rate Down – Derivative Exposure

| Currency | Market Value of Assets Qualifying for Risk Mitigating Purposes | Market Value of Assets Not Qualifying for Risk Mitigating Purposes | Market Value of Liabilities |
|-----------------------|---|---|---|
| United States Dollars | Based on Sch. XXIII, Col.(G), line 1 Less Col. (H), line 1 | Based on Sch. XXIII, Col. (I), line 1 Less Col. (J), line 1 | Based on Sch. XXIII, Col. (K), line 1 Less Col. (L), line 1 |
| Euro | Based on Sch. XXIII, Col.(G), line 2 Less Col. (H), line 2 | Based on Sch. XXIII, Col.(I), line 2 Less Col. (J), line 2 | Based on Sch. XXIII, Col.(K), line 2 Less Col. (L), line 2 |
| UK Pounds | Based on Sch. XXIII, Col.(G), line 3 Less Col. (H), line 3 | Based on Sch. XXIII, Col.(I), line 3 Less Col. (J), line 3 | Based on Sch. XXIII, Col.(K), line 3 Less Col. (L), line 3 |
| Japan Yen | Based on Sch. XXIII, Col.(G), line 4 Less Col. (H), line 4 | Based on Sch. XXIII, Col.(I), line 4 Less Col. (J), line 4 | Based on Sch. XXIII, Col.(K), line 4 Less Col. (L), line 4 |

| | | | |
|---------------------|--|--|--|
| Canada Dollars | Based on Sch. XXIII, Col.(G), line 5 Less Col. (H), line 5 | Based on Sch. XXIII, Col.(I), line 5 Less Col. (J), line 5 | Based on Sch. XXIII, Col.(K), line 5 Less Col. (L), line 5 |
| Swiss Francs | Based on Sch. XXIII, Col.(G), line 6 Less Col. (H), line 6 | Based on Sch. XXIII, Col.(I), line 6 Less Col. (J), line 6 | Based on Sch. XXIII, Col.(K), line 6 Less Col. (L), line 6 |
| Australia Dollars | Based on Sch. XXIII, Col.(G), line 7 Less Col. (H), line 7 | Based on Sch. XXIII, Col.(I), line 7 Less Col. (J), line 7 | Based on Sch. XXIII, Col.(K), line 7 Less Col. (L), line 7 |
| New Zealand Dollars | Based on Sch. XXIII, Col.(G), line 8 Less Col. (H), line 8 | Based on Sch. XXIII, Col.(I), line 8 Less Col. (J), line 8 | Based on Sch. XXIII, Col.(K), line 8 Less Col. (L), line 8 |
| Other currency 1 | Based on Sch. XXIII, Col.(G), line 9 Less Col. (H), line 9 | Based on Sch. XXIII, Col.(I), line 9 Less Col. (J), line 9 | Based on Sch. XXIII, Col.(K), line 9 Less Col. (L), line 9 |
| Other currency 2 | Based on Sch. XXIII, Col.(G), line 10 Less Col. (H), line 10 | Based on Sch. XXIII, Col.(I), line 10 Less Col. (J), line 10 | Based on Sch. XXIII, Col.(K), line 10 Less Col. (L), line 10 |
| Other currency 3 | Based on Sch. XXIII, Col.(G), line 11 Less Col. (H), line 11 | Based on Sch. XXIII, Col.(I), line 11 Less Col. (J), line 11 | Based on Sch. XXIII, Col.(K), line 11 Less Col. (L), line 11 |
| Other currency 4 | Based on Sch. XXIII, Col.(G), line 12 Less Col. (H), line 12 | Based on Sch. XXIII, Col.(I), line 12 Less Col. (J), line 12 | Based on Sch. XXIII, Col.(K), line 12 Less Col. (L), line 12 |
| Other currency 5 | Based on Sch. XXIII, Col.(G), line 13 Less Col. (H), line 13 | Based on Sch. XXIII, Col.(I), line 13 Less Col. (J), line 13 | Based on Sch. XXIII, Col.(K), line 13 Less Col. (L), line 13 |
| Other currency 6 | Based on Sch. XXIII, Col.(G), line 14 Less Col. (H), line 14 | Based on Sch. XXIII, Col.(I), line 14 Less Col. (J), line 14 | Based on Sch. XXIII, Col.(K), line 14 Less Col. (L), line 14 |
| Other currency 7 | Based on Sch. XXIII, Col.(G), line 15 Less Col. (H), line 15 | Based on Sch. XXIII, Col.(I), line 15 Less Col. (J), line 15 | Based on Sch. XXIII, Col.(K), line 15 Less Col. (L), line 15 |
| Other currency 8 | Based on Sch. XXIII, Col.(G), line 16 Less Col. (H), line 16 | Based on Sch. XXIII, Col.(I), line 16 Less Col. (J), line 16 | Based on Sch. XXIII, Col.(K), line 16 Less Col. (L), line 16 |
| Other currency 9 | Based on Sch. XXIII, Col.(G), line 17 Less Col. (H), line 17 | Based on Sch. XXIII, Col.(I), line 17 Less Col. (J), line 17 | Based on Sch. XXIII, Col.(K), line 17 Less Col. (L), line 18 |
| Other currency 10 | Based on Sch. XXIII, Col.(G), line 18 Less Col. (H), line 18 | Based on Sch. XXIII, Col.(I), line 18 Less Col. (J), line 18 | Based on Sch. XXIII, Col.(K), line 18 Less Col. (L), line 18 |

c) Interest Rate Up – Exposures without Derivatives

| Currency | Market Value of Assets | Market Value of Liabilities |
|-----------------------|--|--|
| United States Dollars | Based on Sch. XXIII, Col.(A), line 20 Less Col. (B), line 20 | Based on Sch. XXIII, Col.(C), line 20 Less Col. (D), line 20 |
| Euro | Based on Sch. XXIII, Col.(A), line 21 Less Col. (B), line 21 | Based on Sch. XXIII, Col.(C), line 21 Less Col. (D), line 21 |
| UK Pounds | Based on Sch. XXIII, Col.(A), line 22 Less Col. (B), line 22 | Based on Sch. XXIII, Col.(C), line 22 Less Col. (D), line 22 |

| | | |
|---------------------|--|--|
| Japan Yen | Based on Sch. XXIII, Col.(A), line 23 Less Col. (B), line 23 | Based on Sch. XXIII, Col.(C), line 23 Less Col. (D), line 23 |
| Canada Dollars | Based on Sch. XXIII, Col.(A), line 24 Less Col. (B), line 24 | Based on Sch. XXIII, Col.(C), line 24 Less Col. (D), line 24 |
| Swiss Francs | Based on Sch. XXIII, Col.(A), line 25 Less Col. (B), line 25 | Based on Sch. XXIII, Col.(C), line 25 Less Col. (D), line 25 |
| Australia Dollars | Based on Sch. XXIII, Col.(A), line 26 Less Col. (B), line 26 | Based on Sch. XXIII, Col.(C), line 26 Less Col. (D), line 26 |
| New Zealand Dollars | Based on Sch. XXIII, Col.(A), line 27 Less Col. (B), line 27 | Based on Sch. XXIII, Col.(C), line 27 Less Col. (D), line 27 |
| Other currency 1 | Based on Sch. XXIII, Col.(A), line 28 Less Col. (B), line 28 | Based on Sch. XXIII, Col.(C), line 28 Less Col. (D), line 28 |
| Other currency 2 | Based on Sch. XXIII, Col.(A), line 29 Less Col. (B), line 29 | Based on Sch. XXIII, Col.(C), line 29 Less Col. (D), line 29 |
| Other currency 3 | Based on Sch. XXIII, Col.(A), line 30 Less Col. (B), line 30 | Based on Sch. XXIII, Col.(C), line 30 Less Col. (D), line 30 |
| Other currency 4 | Based on Sch. XXIII, Col.(A), line 31 Less Col. (B), line 31 | Based on Sch. XXIII, Col.(C), line 31 Less Col. (D), line 31 |
| Other currency 5 | Based on Sch. XXIII, Col.(A), line 32 Less Col. (B), line 32 | Based on Sch. XXIII, Col.(C), line 32 Less Col. (D), line 32 |
| Other currency 6 | Based on Sch. XXIII, Col.(A), line 33 Less Col. (B), line 33 | Based on Sch. XXIII, Col.(C), line 33 Less Col. (D), line 33 |
| Other currency 7 | Based on Sch. XXIII, Col.(A), line 34 Less Col. (B), line 34 | Based on Sch. XXIII, Col.(C), line 34 Less Col. (D), line 34 |
| Other currency 8 | Based on Sch. XXIII, Col.(A), line 35 Less Col. (B), line 35 | Based on Sch. XXIII, Col.(C), line 35 Less Col. (D), line 35 |
| Other currency 9 | Based on Sch. XXIII, Col.(A), line 36 Less Col. (B), line 36 | Based on Sch. XXIII, Col.(C), line 36 Less Col. (D), line 36 |
| Other currency 10 | Based on Sch. XXIII, Col.(A), line 37 Less Col. (B), line 37 | Based on Sch. XXIII, Col.(C), line 37 Less Col. (D), line 37 |

a. Interest Rate Up – Derivative Exposure

| Currency | Market Value of Assets Qualifying for Risk Mitigating Purposes | Market Value of Assets Not Qualifying for Risk Mitigating Purposes | Market Value of Liabilities |
|-----------------------|---|---|--|
| United States Dollars | Based on Sch. XXIII, Col.(G), line 20 Less Col. (H), line 20 | Based on Sch. XXIII, Col.(I), line 20 Less Col. (J), line 20 | Based on Sch. XXIII, Col.(K), line 20 Less Col. (L), line 20 |
| Euro | Based on Sch. XXIII, Col.(G), line 21 Less Col. (H), line 21 | Based on Sch. XXIII, Col.(I), line 21 Less Col. (J), line 21 | Based on Sch. XXIII, Col.(K), line 21 Less Col. (L), line 21 |
| UK Pounds | Based on Sch. XXIII, Col.(G), line 22 Less Col. (H), line 22 | Based on Sch. XXIII, Col.(I), line 22 Less Col. (J), line 22 | Based on Sch. XXIII, Col.(K), line 22 Less Col. (L), line 22 |
| Japan Yen | Based on Sch. XXIII, Col.(G), line 23 Less Col. (H), line 23 | Based on Sch. XXIII, Col.(I), line 23 Less Col. (J), line 23 | Based on Sch. XXIII, Col.(K), line 23 Less Col. (L), line 23 |
| Canada Dollars | Based on Sch. XXIII, Col.(G), line 24 Less Col. (H), line 24 | Based on Sch. XXIII, Col.(I), line 24 Less Col. (J), line 24 | Based on Sch. XXIII, Col.(K), line 24 Less Col. (L), line 24 |
| Swiss Francs | Based on Sch. XXIII, Col.(G), line 25 Less Col. (H), line 25 | Based on Sch. XXIII, Col.(I), line 25 Less Col. (J), line 25 | Based on Sch. XXIII, Col.(K), line 25 Less Col. (L), line 25 |
| Australia Dollars | Based on Sch. XXIII, Col.(G), line 26 Less Col. (H), line 26 | Based on Sch. XXIII, Col.(I), line 26 Less Col. (J), line 26 | Based on Sch. XXIII, Col.(K), line 26 Less Col. (L), line 26 |

| | | | |
|---------------------|---|---|---|
| New Zealand Dollars | Based on Sch. XXIII, Col.(G), line 27 Less Col. (H), line 27 | Based on Sch. XXIII, Col.(I), line 27 Less Col. (J), line 27 | Based on Sch. XXIII, Col.(K), line 27 Less Col. (L), line 27 |
| Other currency 1 | Based on Sch. XXIII, Col.(G), line 28 Less Col. (H), line 28 | Based on Sch. XXIII, Col.(I), line 28 Less Col. (J), line 28 | Based on Sch. XXIII, Col.(K), line 28 Less Col. (L), line 28 |
| Other currency 2 | Based on Sch. XXIII, Col.(G), line 29 Less Col. (H), line 29 | Based on Sch. XXIII, Col.(I), line 29 Less Col. (J), line 29 | Based on Sch. XXIII, Col.(K), line 29 Less Col. (L), line 29 |
| Other currency 3 | Based on Sch. XXIII, Col.(G), line 30 Less Col. (H), line 30 | Based on Sch. XXIII, Col.(I), line 30 Less Col. (J), line 30 | Based on Sch. XXIII, Col.(K), line 30 Less Col. (L), line 30 |
| Other currency 4 | Based on Sch. XXIII, Col.(G), line 31 Less Col. (H), line 31 | Based on Sch. XXIII, Col.(I), line 31 Less Col. (J), line 31 | Based on Sch. XXIII, Col.(K), line 31 Less Col. (L), line 31 |
| Other currency 5 | Based on Sch. XXIII, Col.(G), line 32 Less Col. (H), line 32 | Based on Sch. XXIII, Col.(I), line 32 Less Col. (J), line 32 | Based on Sch. XXIII, Col.(K), line 32 Less Col. (L), line 32 |
| Other currency 6 | Based on Sch. XXIII, Col.(G), line 33 Less Col. (H), line 33 | Based on Sch. XXIII, Col.(I), line 33 Less Col. (J), line 33 | Based on Sch. XXIII, Col.(K), line 33 Less Col. (L), line 33 |
| Other currency 7 | Based on Sch. XXIII, Col.(G), line 34 Less Col. (H), line 34 | Based on Sch. XXIII, Col.(I), line 34 Less Col. (J), line 34 | Based on Sch. XXIII, Col.(K), line 34 Less Col. (L), line 34 |
| Other currency 8 | Based on Sch. XXIII, Col.(G), line 35 Less Col. (H), line 35 | Based on Sch. XXIII, Col.(I), line 35 Less Col. (J), line 35 | Based on Sch. XXIII, Col.(K), line 35 Less Col. (L), line 35 |
| Other currency 9 | Based on Sch. XXIII, Col.(G), line 36 Less Col. (H), line 36 | Based on Sch. XXIII, Col.(I), line 36 Less Col. (J), line 36 | Based on Sch. XXIII, Col.(K), line 36 Less Col. (L), line 36 |
| Other currency 10 | Based on Sch. XXIII, Col.(G), line 37 Less Col. (H), line 37 | Based on Sch. XXIII, Col.(I), line 37 Less Col. (J), line 37 | Based on Sch. XXIII, Col.(K), line 37 Less Col. (L), line 37 |

Instructions Affecting Interest Rate and Liquidity Risk

- (a) All assets sensitive to interest rates shall be included in the table, including but not limited to fixed income assets, hybrid instruments, deposits, loans (including mortgage and policyholder loans), reinsurance balance receivables and exposures as determined by application of the 'look-through' approach calculated in accordance with criteria prescribed in section B5 for the following items:
- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets;
 - (iii) Deposit asset;
 - (iv) Other sundry;
 - (v) Derivatives; and
 - (vi) Funds held by ceding insurers.
- (b) All liabilities sensitive to interest rates shall be included in the table, including but not limited to best estimate of insurance liabilities, other liabilities (except risk margin) and liability exposures determined by application of the 'look-through' approach calculated in accordance with the criteria prescribed in section B5 for the following items:
- (i) Segregated accounts liabilities;
 - (ii) Deposit liabilities;
 - (iii) Other sundry liabilities;
 - (iv) Derivatives; and
 - (v) Funds held under retrocession.
- (c) Amounts are to be reported on a consolidated statutory valuation basis.

D5. CURRENCY RISK

Background

- D5.1 The currency risk charge is based on amounts reported on Form 1SFS (Consolidated) total assets and liabilities. It represents the risk that the net asset position of an insurer may worsen as a result of exchange rate changes if assets and liabilities are not currency matched. Insurers are to include at least 95% of their total assets and liabilities based on the predefined thirteen currency types (United States Dollar, Bermuda Dollar, Qatar Riyal, Hong Kong Dollar, Euro, Denmark Kroner, Bulgaria Leva, West African CFA Franc, Central African CFA Franc, Comorian Francs United Kingdom Pounds, Canadian Dollar and Japanese Yen) and ten other currency types.
- D5.2 The currency risk capital charge is based on the assets held for each currency type and the liabilities and the proxy BSCR (proxy BSCR is determined by applying the proxy BSCR factor of D4.3 to the currency type's liabilities). In instances there is a currency type that has insufficient assets held to the liabilities and proxy BSCR, a shock is applied to both the assets and the liabilities and the allocated capital requirement. The shock is a downwards shock to the reporting currency, meaning that the reporting currency will depreciate relative to other currencies. If there are sufficient assets held to the liabilities and proxy BSCR, then there is no/NIL capital charge applied.
- D5.3 The proxy BSCR factor is determined as the greater of:
- The prior year ECR charge to the prior year total EBS liabilities reported; and
 - The average of the last three prior years ECR charge to last three prior years total liabilities reported.

Currency Risk Capital Charge

- D5.4 The currency risk charge calculation can be summarised by the following formula:

$$C_{\text{Currency}} = \sum_i \max \left\{ \left[\begin{aligned} & (MVA_{i,Before} - MVA_{i,After}(\chi_i)) + (MVDL_{i,Before}^Q - MVDL_{i,After}^Q(\chi_i)) + \dots \\ & + (MVDS_{i,Before}^Q - MVDS_{i,After}^Q(\chi_i)) + \max(MVDL_{i,Before}^{NQ} - MVDL_{i,After}^{NQ}(\chi_i), 0) + \dots \\ & + \max(MVDS_{i,Before}^{NQ} - MVDS_{i,After}^{NQ}(\chi_i), 0) - (MVL_{i,Before} - MVL_{i,After}(\chi_i)) + \dots \\ & + Currproxybscr_i \times \chi_i \end{aligned} \right], 0 \right\}$$

Where —

- χ_i = the instantaneous shocks prescribed in Table 4A for each type of currency where $(MVA_{i,Before} + MVDL_{i,Before}^{NQ} + MVDS_{i,Before}^{NQ} + MVDL_{i,Before}^Q + MVDS_{i,Before}^Q - MVL_{i,Before}^Q - Currproxybscr_i) < 0$ and 0 otherwise;
- $Currency_i$ = refers to currency type that has been converted to the functional currency as reported in Form 1SFS (Consolidated);

| | |
|------------------------|---|
| $MVA_{i,Before}$ | = refers to the market value of assets excluding currency-sensitive derivatives prescribed by the Authority by currency type (CCY), that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVA_{i,After}$ | = refers to the revaluation of assets excluding currency-sensitive derivatives after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDL_{i,Before}^Q$ | = refers to the market value of long positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B3) by currency type (CCY), that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDL_{i,After}^Q$ | = refers to the revaluation of long positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B3) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDS_{i,Before}^Q$ | = refers to the market value of short positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B3) by currency type (CCY), that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDS_{i,After}^Q$ | = refers to the revaluation of short positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B3) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDL_{i,Before}^{NQ}$ | = refers to the market value of long positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B3) by currency type (CCY), that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDL_{i,After}^{NQ}$ | = refers to the revaluation of long positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B3) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDS_{i,Before}^{NQ}$ | = refers to the market value of short positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B3) by currency type (CCY), that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVDS_{i,After}^{NQ}$ | = refers to the revaluation of short positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B3) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated); |
| $MVL_{i,Before}$ | = refers to the market value of the best estimate of insurance liabilities and other liabilities by currency type that has been converted to the functional currency as reported in Form 1SFS (Consolidated); |

$MVL_{i,After}$ = refers to the revaluation of the best estimate of insurance liabilities and other liabilities after shocking by χ (CCY) where (CCY) refers to currency type and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1SFS (Consolidated);

$Currproxybscr_i$ = refers to the product of $MVL_{i,Before}$ and BSCR Proxy factor; and
BSCR Proxy factor = greater of paragraphs (a) and (b) below:
(a) the ECR divided by Form 1SFS (Consolidated) line 39 Total Liabilities for the preceding year; and
(b) the average of the above ratio for the preceding three years.

Where there are no prior submissions available, the BSCR proxy factor is the above ratio that would be obtained from the current submission without taking into account the currency risk charge.

Items

- D5.5 Assets (exposures other than derivatives) – based on current year currency exchange rate sensitive exposures including from cash, investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D5.6 Assets – Derivatives with Long Exposures Not Qualifying as held for risk mitigating purposes – based on current year currency derivatives including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D5.7 Assets – Derivatives with Short Exposures Qualifying as held for risk mitigating purposes – based on current year currency derivatives including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D5.8 Assets – Derivatives with Short Exposures Not Qualifying as held for risk mitigating purposes – based on current year currency derivatives including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D5.9 Assets – Derivatives with Long Exposures Qualifying as held for risk mitigating purposes – based on current year currency derivatives including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D5.10 Liabilities by Currency Types – total liabilities denominated in given currency.
- D5.11 Total ECR Requirement– based on three prior years ECR Requirement.

D5.12 Total Liabilities– based on three prior years Form 1SFS (Consolidated) line 39; total liabilitiesline.

| Currency | Assets Exposures Other than Derivatives | Long Exposures | | Short Exposures | | Liabilities |
|----------------------------------|--|---|---|---|---|--|
| | | Qualifying as Held for Risk Mitigation Purposes | Not Qualifying as Held for Risk Mitigation Purposes | Qualifying as Held for Risk Mitigation Purposes | Not Qualifying as Held for Risk Mitigation Purposes | |
| United States Dollars | Based on Sch. XXA, Col.(A), line 1 | Based on Sch. XXA, Col.(B), line 1 | Based on Sch. XXA, Col.(C), line 1 | Based on Sch. XXA, Col.(D), line 1 | Based on Sch. XXA, Col.(E), line 1 | Based on Sch. XXA, Col.(F), line 1 |
| Bermuda Dollars | Based on Sch. XXA, Col.(A), line 2 | Based on Sch. XXA, Col.(B), line 2 | Based on Sch. XXA, Col.(C), line 2 | Based on Sch. XXA, Col.(D), line 2 | Based on Sch. XXA, Col.(E), line 2 | Based on Sch. XXA, Col.(F), line 2 |
| Qatar Riyals | Based on Sch. XXA, Col.(A), line 3 | Based on Sch. XXA, Col.(B), line 3 | Based on Sch. XXA, Col.(C), line 3 | Based on Sch. XXA, Col.(D), line 3 | Based on Sch. XXA, Col.(E), line 3 | Based on Sch. XXA, Col.(F), line 3 |
| Hong Kong Dollars | Based on Sch. XXA, Col.(A), line 4 | Based on Sch. XXA, Col.(B), line 4 | Based on Sch. XXA, Col.(C), line 4 | Based on Sch. XXA, Col.(D), line 4 | Based on Sch. XXA, Col.(E), line 4 | Based on Sch. XXA, Col.(F), line 4 |
| Euro | Based on Sch. XXA, Col.(A), line 5 | Based on Sch. XXA, Col.(B), line 5 | Based on Sch. XXA, Col.(C), line 5 | Based on Sch. XXA, Col.(D), line 5 | Based on Sch. XXA, Col.(E), line 5 | Based on Sch. XXA, Col.(F), line 5 |
| Denmark Kroner | Based on Sch. XXA, Col.(A), line 6 | Based on Sch. XXA, Col.(B), line 6 | Based on Sch. XXA, Col.(C), line 6 | Based on Sch. XXA, Col.(D), line 6 | Based on Sch. XXA, Col.(E), line 6 | Based on Sch. XXA, Col.(F), line 6 |
| Bulgaria Leva | Based on Sch. XXA, Col.(A), line 7 | Based on Sch. XXA, Col.(B), line 7 | Based on Sch. XXA, Col.(C), line 7 | Based on Sch. XXA, Col.(D), line 7 | Based on Sch. XXA, Col.(E), line 7 | Based on Sch. XXA, Col.(F), line 7 |
| West African CFA Francs | Based on Sch. XXA, Col.(A), line 8 | Based on Sch. XXA, Col.(B), line 8 | Based on Sch. XXA, Col.(C), line 8 | Based on Sch. XXA, Col.(D), line 8 | Based on Sch. XXA, Col.(E), line 8 | Based on Sch. XXA, Col.(F), line 8 |
| Central African CFA Francs | Based on Sch. XXA, Col.(A), line 9 | Based on Sch. XXA, Col.(B), line 9 | Based on Sch. XXA, Col.(C), line 9 | Based on Sch. XXA, Col.(D), line 9 | Based on Sch. XXA, Col.(E), line 9 | Based on Sch. XXA, Col.(F), line 9 |
| Comorian Francs | Based on Sch. XXA, Col.(A), line 10 | Based on Sch. XXA, Col.(B), line 10 | Based on Sch. XXA, Col.(C), line 10 | Based on Sch. XXA, Col.(D), line 10 | Based on Sch. XXA, Col.(E), line 10 | Based on Sch. XXA, Col.(F), line 10 |
| UK Pounds | Based on Sch. XXA, Col.(A), line 11 | Based on Sch. XXA, Col.(B), line 11 | Based on Sch. XXA, Col.(C), line 11 | Based on Sch. XXA, Col.(D), line 11 | Based on Sch. XXA, Col.(E), line 11 | Based on Sch. XXA, Col.(F), line 11 |
| Canada Dollars | Based on Sch. XXA, Col.(A), line 12 | Based on Sch. XXA, Col.(B), line 12 | Based on Sch. XXA, Col.(C), line 12 | Based on Sch. XXA, Col.(D), line 12 | Based on Sch. XXA, Col.(E), line 12 | Based on Sch. XXA, Col.(F), line 12 |
| Japan Yen | Based on Sch. XXA, Col.(A), line 13 | Based on Sch. XXA, Col.(B), line 13 | Based on Sch. XXA, Col.(C), line 13 | Based on Sch. XXA, Col.(D), line 13 | Based on Sch. XXA, Col.(E), line 13 | Based on Sch. XXA, Col.(F), line 13 |
| Other currency 1 | Based on Sch. XXA, Col.(A), line 14 | Based on Sch. XXA, Col.(B), line 14 | Based on Sch. XXA, Col.(C), line 14 | Based on Sch. XXA, Col.(D), line 14 | Based on Sch. XXA, Col.(E), line 14 | Based on Sch. XXA, Col.(F), line 14 |

| | | | | | | |
|-------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Other currency 2 | Based on Sch. XXA, Col.(A), line 15 | Based on Sch. XXA, Col.(B), line 15 | Based on Sch. XXA, Col.(C), line 15 | Based on Sch. XXA, Col.(D), line 15 | Based on Sch. XXA, Col.(E), line 15 | Based on Sch. XXA, Col.(F), line 15 |
| Other currency 3 | Based on Sch. XXA, Col.(A), line 16 | Based on Sch. XXA, Col.(B), line 16 | Based on Sch. XXA, Col.(C), line 16 | Based on Sch. XXA, Col.(D), line 16 | Based on Sch. XXA, Col.(E), line 16 | Based on Sch. XXA, Col.(F), line 16 |
| Other currency 4 | Based on Sch. XXA, Col.(A), line 17 | Based on Sch. XXA, Col.(B), line 17 | Based on Sch. XXA, Col.(C), line 17 | Based on Sch. XXA, Col.(D), line 17 | Based on Sch. XXA, Col.(E), line 17 | Based on Sch. XXA, Col.(F), line 17 |
| Other currency 5 | Based on Sch. XXA, Col.(A), line 18 | Based on Sch. XXA, Col.(B), line 18 | Based on Sch. XXA, Col.(C), line 18 | Based on Sch. XXA, Col.(D), line 18 | Based on Sch. XXA, Col.(E), line 18 | Based on Sch. XXA, Col.(F), line 18 |
| Other currency 6 | Based on Sch. XXA, Col.(A), line 19 | Based on Sch. XXA, Col.(B), line 19 | Based on Sch. XXA, Col.(C), line 19 | Based on Sch. XXA, Col.(D), line 19 | Based on Sch. XXA, Col.(E), line 19 | Based on Sch. XXA, Col.(F), line 19 |
| Other currency 7 | Based on Sch. XXA, Col.(A), line 20 | Based on Sch. XXA, Col.(B), line 20 | Based on Sch. XXA, Col.(C), line 20 | Based on Sch. XXA, Col.(D), line 20 | Based on Sch. XXA, Col.(E), line 20 | Based on Sch. XXA, Col.(F), line 20 |
| Other currency 8 | Based on Sch. XXA, Col.(A), line 21 | Based on Sch. XXA, Col.(B), line 21 | Based on Sch. XXA, Col.(C), line 21 | Based on Sch. XXA, Col.(D), line 21 | Based on Sch. XXA, Col.(E), line 21 | Based on Sch. XXA, Col.(F), line 21 |
| Other currency 9 | Based on Sch. XXA, Col.(A), line 22 | Based on Sch. XXA, Col.(B), line 22 | Based on Sch. XXA, Col.(C), line 22 | Based on Sch. XXA, Col.(D), line 22 | Based on Sch. XXA, Col.(E), line 22 | Based on Sch. XXA, Col.(F), line 22 |
| Other currency 10 | Based on Sch. XXA, Col.(A), line 23 | Based on Sch. XXA, Col.(B), line 23 | Based on Sch. XXA, Col.(C), line 23 | Based on Sch. XXA, Col.(D), line 23 | Based on Sch. XXA, Col.(E), line 23 | Based on Sch. XXA, Col.(F), line 23 |

Instructions Affecting Currency Risk

- a) The initials 'A' to 'J' on the column labeled 'Shock Otherwise χ_i ' shall be replaced by the following shock values:
- (i) 'A' by:
 - 1) '0%' if the reporting currency is the Bermuda Dollar or,
 - 2) '5.00%' if the reporting currency is the Qatari Riyal or,
 - 3) '1.00%' if the reporting currency is the Hong Kong Dollar or,
 - 4) '25%' otherwise.
 - (ii) 'B' by:
 - 1) '0%' if the reporting currency is the United States Dollar or,
 - 2) '25%' otherwise.
 - (iii) 'C' by:
 - 1) '5.00%' if the reporting currency is the United States Dollar or,
 - 2) '25%' otherwise.
 - (iv) 'D' by:
 - 1) '1.00%' if reporting currency is the United States Dollar or,
 - 2) '25%' otherwise.
 - (v) 'E' by:
 - 1) '0.39%' if the reporting currency is the Danish Krone or,
 - 2) '1.81%' if the reporting currency is the Bulgarian Lev or,
 - 3) '2.18%' if the reporting currency is the West African CFA Franc or,
 - 4) '1.96%' if the reporting currency is the Central African CFA Franc or,
 - 5) '2.00%' if the reporting currency is the Comorian Franc or,
 - 6) '25%' otherwise.
 - (vi) 'F' by:
 - 1) '0.39%' if reporting currency is the Euro or,
 - 2) '25%' otherwise.
 - (vii) 'G' by:
 - 1) '1.81%' if reporting currency is the Euro or,
 - 2) '25%' otherwise.
 - (viii) 'H' by:
 - 1) '2.18%' if reporting currency is the Euro or,
 - 2) '25%' otherwise.
 - (ix) 'I' by:
 - 1) '1.96%' if reporting currency is the Euro or,
 - 2) '25%' otherwise.
 - (x) 'J' by:
 - 1) '2.00%' if reporting currency is the Euro or,
 - 2) '25%' otherwise.
- b) All assets and liabilities (except the risk margin) whose value is subject to currency risk shocks shall be reported on a basis consistent with that used for purposes of economic balance sheet reporting. These assets and liabilities shall include currency risk exposures

determined by application of the 'look-through approach' calculated in accordance with criteria prescribed in section B6 for the following items:

- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets and liabilities;
 - (iii) Deposit asset and liabilities;
 - (iv) Assets and liabilities held by ceding insurers or under retrocession;
 - (v) Other sundry assets and liabilities; and
 - (vi) Derivatives.
- c) Where the reporting currency is the United States Dollar, the capital factor χ_i charge shall be reduced to:
- (i) 0.00% for Bermuda Dollar;
 - (ii) 5.00% for Qatari Riyal; and
 - (iii) 1.00% for Hong Kong Dollar.
- d) Where the reporting currency is Bermuda Dollar the capital factor χ_i charge shall be reduced to 0.00% for United States Dollar.
- e) Where the reporting currency is Qatari Riyal the capital factor χ_i charge shall be reduced to 5.00% for United States Dollar.
- f) Where the reporting currency is Hong Kong Dollar the capital factor χ_i charge shall be reduced to 1.00% for United States Dollar.
- g) Where the reporting currency is Euros, the capital factor χ_i shall be reduced to:
- (i) 0.39% for Danish Krone;
 - (ii) 1.81% for Bulgarian Lev;
 - (iii) 2.18% for West African CFA Franc;
 - (iv) 1.96% for Central African CFA Franc;
 - (v) 2.00% for Comorian Franc.
- h) Where the reporting currency is Danish Krone the capital factor χ_i charge shall be reduced to 0.39% for Euro.
- i) Where the reporting currency is Bulgarian Lev the capital factor χ_i charge shall be reduced to 1.81% for Euro.
- j) Where the reporting currency is West African CFA Franc the capital factor χ_i charge shall be reduced to 2.18% for Euro.

- k) Where the reporting currency is Central African CFA Franc the capital factor χ_i charge shall be reduced to 1.96% for Euro.
- l) Where the reporting currency is Comorian Franc the capital factor χ_i charge shall be reduced to 2.00% for Euro.
- m) Insurers are to report currencies representing at least 95% of their consolidated balance sheet liabilities; and
- n) Amounts are to be reported on an consolidated valuation basis.

D6. DIGITAL ASSET RISK

Background

- D6.1 The digital asset risk charge is based on all assets and liabilities denominated in digital assets and allocated by:
- all audited fiat backed stablecoins are to be included in the relevant line;
 - all other digital assets are to be allocated by market cap according to the table.

Digital Asset Capital Charge

- D6.2 The digital asset charge calculation can be summarised by the following formula:

$$C_{da} = \sum_i (\chi_i \times MNE_i)$$

with $MNE_i = \max(A_i, L_i, A_i - L_i) - AL_i^{offset}$

where $AL_i^{offset} = \max(0, \mu_i \times \min(A_i, L_i))$

- χ_i = the capital charge factor prescribed in Table 5 for each type of digital asset i;
 A_i = value of assets in each type of digital asset i;
 L_i = value of liabilities in each type of digital assets i; and
 μ_i = credit for asset-liability offset (nature hedge) for each type of digital asset i;

D7. CONCENTRATION RISK

Background

- D7.1 The concentration risk charge is based on asset counterparty exposures as reported on the Form 1EBS. It represents the risk of losses due to asset concentrations.
- D7.2 The charge is calculated by aggregating all the Asset Type, Bond/Mortgage Loan Type (if applicable), BSCR Rating (if applicable) and Asset Value together and assigning the values to the respective fixed income, equity, credit capital factor charge.

Concentration Risk Capital Charge

- D7.3 The concentration risk charge calculation can be summarised by the following formula:

$$C_{Concentration} = \sum_i \chi_i \times Concastclass_i \quad \text{Where—}$$

χ_i = the capital charge factors supplied by BMA for each type *Concastclass_i* of and

Concastclass_i = value of corresponding asset in Asset Class.

Items

- a) Cash and Cash Equivalents

| Line Item | Description |
|-----------|---------------|
| 1 | BSCR rating 0 |
| 2 | BSCR rating 1 |
| 3 | BSCR rating 2 |
| 4 | BSCR rating 3 |
| 5 | BSCR rating 4 |
| 6 | BSCR rating 5 |
| 7 | BSCR rating 6 |
| 8 | BSCR rating 7 |
| 9 | BSCR rating 8 |

- b) Corporate & Sovereign Bonds

| Line Item | Description |
|-----------|---------------|
| 1 | BSCR rating 0 |
| 2 | BSCR rating 1 |
| 3 | BSCR rating 2 |
| 4 | BSCR rating 3 |
| 5 | BSCR rating 4 |
| 6 | BSCR rating 5 |
| 7 | BSCR rating 6 |
| 8 | BSCR rating 7 |

| Line Item | | Description |
|-----------|---------------|----------------------------------|
| 9 | BSCR rating 8 | Based on Schedule XXIA, column H |

c) Residential Mortgage-Backed Securities

| Line Item | | Description |
|-----------|---------------|----------------------------------|
| 1 | BSCR rating 0 | Based on Schedule XXIA, column H |
| 2 | BSCR rating 1 | Based on Schedule XXIA, column H |
| 3 | BSCR rating 2 | Based on Schedule XXIA, column H |
| 4 | BSCR rating 3 | Based on Schedule XXIA, column H |
| 5 | BSCR rating 4 | Based on Schedule XXIA, column H |
| 6 | BSCR rating 5 | Based on Schedule XXIA, column H |
| 7 | BSCR rating 6 | Based on Schedule XXIA, column H |
| 8 | BSCR rating 7 | Based on Schedule XXIA, column H |
| 9 | BSCR rating 8 | Based on Schedule XXIA, column H |

d) Commercial Mortgage-Backed Securities/Asset-Backed Securities

| Line Item | | Description |
|-----------|---------------|----------------------------------|
| 1 | BSCR rating 0 | Based on Schedule XXIA, column H |
| 2 | BSCR rating 1 | Based on Schedule XXIA, column H |
| 3 | BSCR rating 2 | Based on Schedule XXIA, column H |
| 4 | BSCR rating 3 | Based on Schedule XXIA, column H |
| 5 | BSCR rating 4 | Based on Schedule XXIA, column H |
| 6 | BSCR rating 5 | Based on Schedule XXIA, column H |
| 7 | BSCR rating 6 | Based on Schedule XXIA, column H |
| 8 | BSCR rating 7 | Based on Schedule XXIA, column H |
| 9 | BSCR rating 8 | Based on Schedule XXIA, column H |

e) Bond Mutual Funds

| Line Item | | Description |
|-----------|---------------|----------------------------------|
| 1 | BSCR rating 0 | Based on Schedule XXIA, column H |
| 2 | BSCR rating 1 | Based on Schedule XXIA, column H |
| 3 | BSCR rating 2 | Based on Schedule XXIA, column H |
| 4 | BSCR rating 3 | Based on Schedule XXIA, column H |
| 5 | BSCR rating 4 | Based on Schedule XXIA, column H |
| 6 | BSCR rating 5 | Based on Schedule XXIA, column H |
| 7 | BSCR rating 6 | Based on Schedule XXIA, column H |
| 8 | BSCR rating 7 | Based on Schedule XXIA, column H |
| 9 | BSCR rating 8 | Based on Schedule XXIA, column H |

f) Preferred Shares

| Line Item | | Description |
|-----------|---------------|----------------------------------|
| 1 | BSCR rating 1 | Based on Schedule XXIA, column H |
| 2 | BSCR rating 2 | Based on Schedule XXIA, column H |

| Line Item | | Description |
|-----------|---------------|----------------------------------|
| 3 | BSCR rating 3 | Based on Schedule XXIA, column H |
| 4 | BSCR rating 4 | Based on Schedule XXIA, column H |
| 5 | BSCR rating 5 | Based on Schedule XXIA, column H |
| 6 | BSCR rating 6 | Based on Schedule XXIA, column H |
| 7 | BSCR rating 7 | Based on Schedule XXIA, column H |
| 8 | BSCR rating 8 | Based on Schedule XXIA, column H |

g) Mortgage Loans

| Line Item | | Description |
|-----------|-------------------------------------|----------------------------------|
| 1 | Insured/Guaranteed Mortgages | Based on Schedule XXIA, column H |
| 2 | Other Commercial and Farm Mortgages | Based on Schedule XXIA, column H |
| 3 | Other Residential Mortgages | Based on Schedule XXIA, column H |
| 4 | Mortgages Not In Good Standing | Based on Schedule XXIA, column H |

h) Other Asset Classes

| Line Item | | Description |
|-----------|---|----------------------------------|
| 1 | Infrastructure | Based on Schedule XXIA, column H |
| 2 | Listed Equity Securities in Developed Markets | Based on Schedule XXIA, column H |
| 3 | Other Equities | Based on Schedule XXIA, column H |
| 4 | Strategic Holdings | Based on Schedule XXIA, column H |
| 5 | Duration Based | Based on Schedule XXIA, column H |
| 6 | Letters of Credit | Based on Schedule XXIA, column H |
| 7 | Advances to Affiliates – | Based on Schedule XXIA, column H |
| 8 | Policy Loans | Based on Schedule XXIA, column H |
| 9 | Equity Real Estate 1 | Based on Schedule XXIA, column H |
| 10 | Equity Real Estate 2 | Based on Schedule XXIA, column H |
| 11 | Collateral Loans | Based on Schedule XXIA, column H |

Instructions Affecting Concentration Risk

- a) *Concastclass_i* shall only apply to an insurers' ten largest counterparty exposures based on the aggregate of all assets relating to that counterparty;
- b) A counterparty exposure shall be reported on the valuation of individually underlying assets i.e. determined by application of the 'look through' approach (as described in B6) for all amounts reported on the balance sheet;
- c) A counterparty shall include all related or connected counterparties captured by either of the following criteria:
 - (i) Controller relationship: if a counterparty, directly or indirectly, has control of (as a result of its majority shareholding or effective management) which it is a subsidiary company; or
 - (ii) Economic interdependence: if one of the counterparties were to experience financial difficulties which directly or indirectly affect the ability of any or all of the remaining counterparties to perform their financial obligations (e.g., where a counterparty becomes unable to fund or repay certain financial contractual obligations, and as a result, other counterparties, are likely to be unable to fund or repay certain obligations imposed on them);
- d) Amounts are to be reported on an statutory consolidated valuation basis.

D8. PREMIUM RISK

Background

- D8.1 The premium risk charge is based on net premiums exposure measure for the following calendar year by predefined statutory lines of business, and if available, reporting net premiums exposure measure by predefined statutory geographic locations. Note that although net premiums exposure measure for Property Catastrophe business are inputted in this section, they do not enter the calculation of the premium risk charge. All capital requirements pertaining to catastrophe exposures are explicitly calculated in the Catastrophe Risk section.
- D8.2 The first step of the calculation applies a statutory line of business specific premium risk capital factor to the respective net premiums exposure measure amounts.
- D8.3 The second step of the calculation applies a sum squared diversification credit based on 18 geographic zones. Note that this is not a necessary requirement in the premium risk calculation and if used, this is not required for all lines of business.
- D8.4 In the Premium risk calculation, a correlation adjustment is determined to reflect the overall diversification of the premium risk. Finally, there is a further adjustment to reflect the fact that some of the lines of business premiums other than Property Catastrophe, include a loading for losses resulting from natural catastrophes. The appropriate risk charge for this portion of the premiums is calculated in the Catastrophe Risk section; the premium risk charge is reduced to avoid double counting.

Premium Risk Capital Charge

$$C_{Premium} = \sqrt{\sum_{i,j} CorrPrem_{i,j} \times C_i \times C_j} - avgpremcap \times \frac{avgannloss}{catlossratio}$$

Where—

- $CorrPrem_{i,j}$ = the correlation factors of the premium risk module correlation matrix;
- i,j = the sum of the different terms should cover all possible combinations of i and j ; and
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{premium_i}$, $C_{premium_j}$ by BMA supplied premium risk capital charge;
- $avgpremcap$ = weighted average premium risk capital charge factor for $BaseExp_i$, as defined below, (excluding the Property Catastrophe line of business and after correlation adjustment and

$avgannloss$ = allowing for geographic diversification);
 $catlossratio$ = average annual loss estimated with catastrophe models;
 = expected industry average catastrophe loss ratio;

$$C_{premi} = [(\chi_i^1 \times BaseExp_i) + (\chi_i^2 \times FPEexisting_i) + (\chi_i^3 \times FPFfuture_i)] \frac{ExposureMeasure_i}{geolinepremi}; \text{ where—}$$

χ_i^1 = individual $BaseExp_i$ risk capital charge factor;
 $BaseExp_i$ = the greater of premium written in reporting period and the estimate of the net premiums to be earned by the insurer during the next 12-month accounting period;
 $geolinepremi$ = geographic diversification of premium exposure measure for line of business i ;
 χ_i^2 = individual $FPEexisting_i$ risk capital charge factor;
 $FPEexisting_i$ = expected present value of premiums to be earned by the insurer after the next 12-month reporting period for existing qualifying multi-year insurance policies for line of business i ;
 χ_i^3 = individual $FPFuture_i$ risk capital charge factor;
 $FPFuture_i$ = expected present value of net premiums to be earned by the insurer after the next 12-month reporting period for qualifying multi-year insurance policies where the initial recognition date falls in the following 12-months for line of business i ;
 $ExposureMeasure_i$ = the sum of $BaseExp_i$, $FPEexisting_i$ and $FPFuture_i$

Items

- a) Lines of Business – as categorised by the 24 predefined statutory lines of business.

| Line | Item | Description |
|------|-----------------------------------|--|
| 1 | Gross Premium Exposure Measure | Column (1): Gross premium exposure measure by predefined statutory line of business and geographic zone, as reported on Schedule IVD, column (G), lines (1) to (24). |
| 2 | Net Premium Exposure Measure | Column (2): Net premium exposure measure by predefined statutory line of business and geographic zone, as reported on Schedule IVD, column (F) lines (1) to (24). |
| 3 | Geo Diversified Written | Column (3): Net premium exposure measure by predefined statutory line of business and geographic zone, as reported on Schedule IVE, lines (1) to (24). |
| 4 | Geo Diversified SCALAR | Column (4) Geographic Diversified Written (3) divided by Net Premium Exposure Measure (2) |
| 5 | Geo Diversified Net Base Exposure | Column (5) Net base exposure by predefined statutory line of business as reported on Schedule IVD column (C) lines (1) to (24), multiplied by Geo Diversified SCALAR (4) |

| Line Item | | Description |
|-----------|------------------------------------|--|
| 6 | Geo Diversified Net FP (Existing) | Column (6) Net FP (Existing) by predefined statutory line of business as reported on Schedule IVD column (D) lines (1) to (24), multiplied by Geo Diversified SCALAR (4) |
| 7 | Geo Diversified Net FP (Future) | Column (7) Net FP (Future) by predefined statutory line of business as reported on Schedule IVD column (E) lines (1) to (24), multiplied by Geo Diversified SCALAR (4) |
| 8 | Capital Factor 1 Net Base Exposure | Column (8): Supplied by BMA; premium charge factors for individual lines of business. |
| 9 | Capital Factor 2 Net FP (Existing) | Column (9): Supplied by BMA; premium charge factors for individual lines of business. |
| 10 | Capital Factor 3 Net FP (Future) | Column (10): Supplied by BMA; premium charge factors for individual lines of business. |
| 11 | Required Capital | Column (11): Calculated using [column (5) x column (8)]+[column (6) x column (9)]+[column (7) x column (10)]; premium charge amounts for individual lines of business. |

- b) Correlation Adjustment Calculation – Calculates a factor that determines how much credit is given for diversification of premium risk across all lines of business other than Property Catastrophe.

| Line Item | | Description |
|-----------|----------------------------------|---|
| 1 | Required Capital | Row(i): Total from (a) column 11 above |
| 2 | Correlation Adjustment | Row(ii): Reduction from Correlation Matrix for diversified premiums |
| 3 | Capital Charge After Correlation | Row(iii): Calculated using [line 1 less line 2] |

- c) Catastrophe Premium Adjustment Calculation – Calculation reflects a reduction to the required premium risk capital for the ‘catastrophe-exposed’ portion of the premium that is otherwise contemplated within the catastrophe risk capital charge. See Catastrophe Risk section for further information.

| Line Item | | Description |
|-----------|--|---|
| 1 | Average Annual Loss Excluding Property Catastrophe (AAL) | Row (i): Pulled from Catastrophe Risk section; the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all risks and perils other than those relating to the Property Catastrophe line of business. See Catastrophe Risk section for further information. |
| 2 | Industry Catastrophe Loss Ratio | Row (ii): Pulled from Catastrophe Risk section; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe. See Catastrophe Risk section for further information. |
| 3 | Average Capital Factor | Row (iii): Calculated using X / Total from (a) column (5) above; where X is the ‘Capital Charge After Correlation’ in (b) Row (iii) but with the Required Capital in (b) Row (1) recalculated as [(a) column (5) x (a) column (8)] |

| Line Item | | Description |
|-----------|--------------------------------|---|
| 4 | Catastrophe Premium Adjustment | Row(iv): Calculated using [Row (i) / Row (ii) x Row (iii)]. |

- d) Required Capital Charge Adjusted for Catastrophe Premium – Calculated using [(b) - (c)]; the premium risk capital charge (after correlation factor and catastrophe adjustment) is carried to the Summary section.

Instructions Affecting Premium Risk

D8.4a All reported net premium exposure measures as prescribed in Schedule IVD that are subject to capital charges within the premium risk charge shall be included;

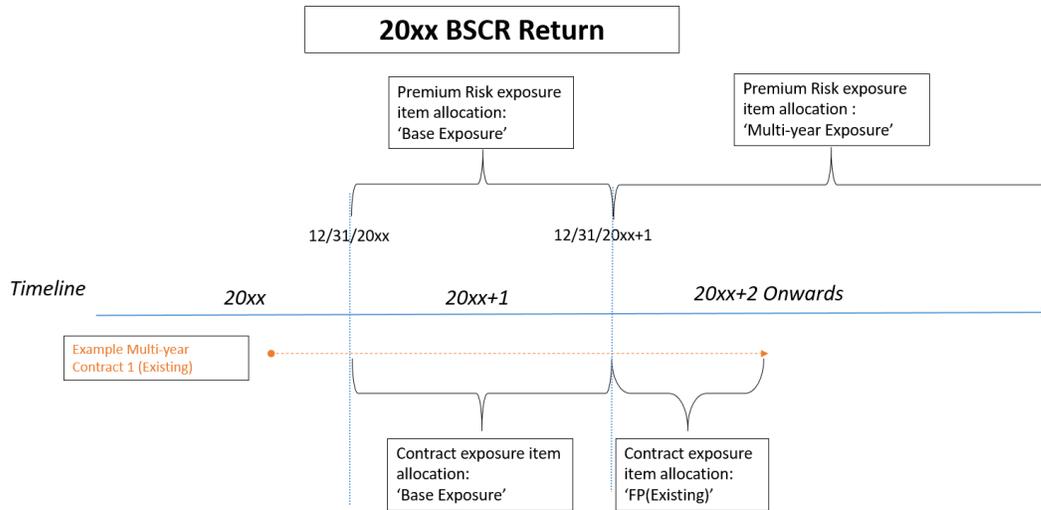
D8.4b ‘Qualifying multi-year insurance policies’ means those insurance policies with (an earning) term longer than twelve months after allowing for the criteria prescribed by the Authority;

D8.4c All net premium exposure measures by statutory line of Business shall be reported on a basis consistent with that prescribed in Schedule IVD;

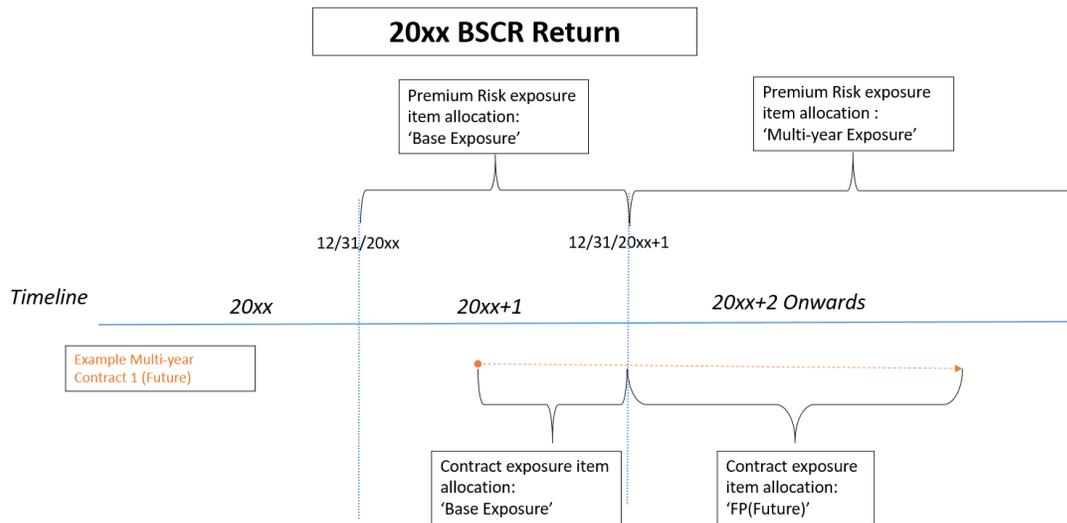
D8.4d An insurer may provide net premium exposure measures for all statutory lines of General Business, or for particular statutory lines of General Business, split by geographic zone as set out in Table 6D. $geolineprem_i$ is then derived from the total premium for that line of Business by reducing the total by 25% times $\frac{\sum x_i^2}{(\sum x_i)^2}$ where x_i = the net premium exposure measure in the line of Business for $Zone_i$; and where the summation covers all zones; and

D8.4e Amounts are to be reported on a consolidated basis.

D8.4f A graphical example of the earned premium allocation of a hypothetical existing qualifying multi-year contract is provided below. Premium earned during the next 12 months is classified as ‘Base Exposure’ while premium earned after the next 12-month period is classified as ‘FP (Existing)’.



D8.4g A graphical example of the earned premium allocation of a hypothetical future qualifying multi-year contract is provided below. Premium earned during the next twelve months is classified as 'Base Exposure' while premium earned after the next twelve-month period is classified as 'FP (future)'.



D9. RESERVE RISK

Background

- D9.1 The reserve risk charge is based on the consolidated statutory net loss and loss expense provisions by predefined statutory lines of business, and if available, reporting net loss provision by predefined statutory geographic locations.
- D9.2 The first step of the calculation applies a line of business specific reserve risk capital factor to the respective reserve amounts.
- D9.3 In the second step of the calculation applies sum squared diversification credit based on 18 geographic zones. Note that this is not a necessary requirement in the reserve risk calculation and if used, this is not required for all lines of business.
- D9.4 In the Reserve risk calculation, a correlation adjustment is determined to reflect the overall diversification of the reserve risk.

Reserve Risk Capital Charge

- D9.5 The reserve risk charge calculation can be summarised by the following formula:

$$C_{reserve} = \sqrt{\sum_{i,j} Corr Reserve_{i,j} \times C_i \times C_j}$$

Where—

- $Corr Reserve_{i,j}$ = the correlation factors of the reserve risk module correlation matrix;
- i,j = the sum of the different terms should cover all possible combinations of i and j;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{reserve_i}$, $C_{reserve_j}$ by BMA supplied reserve risk capital charge;

$$C_{reserve_i} = \beta_i \times geolinersvs_i$$

Where—

- β_i = individual $geolinersvs_i$ risk capital charge factor;
- $geolinersvs_i$ = geographic diversification of reserves for individual Lines of Business i ;

Items

a) Lines of Business – as categorised by the 24 predefined statutory lines of business.

| Line Item | | Description |
|-----------|--|--|
| 1 | Gross Loss and Loss Expense Provisions | Column (1): Gross loss and loss expense provisions by predefined statutory line of business, as reported on Schedule III, lines (1) to (24). Total must tie to the Gross Loss and Loss Expense Provisions of the statutory balance sheet (Form 1SFS (Consolidated), line 17 (a). |
| 2 | Net Loss and Loss Expense Provisions | Column (2): Net loss and loss expense provisions by predefined statutory line of business and geographic zone, as reported on Schedule IIIA, lines (1) to (24). Total must tie to the Net Loss and Loss Expense Provisions of the statutory balance sheet (Form 1SFS (Consolidated), line 17(d) and should be input on an undiscounted basis. |
| 3 | Geo Net Loss and Loss Expense Provisions | Column (3): Net loss and loss expense provisions by predefined statutory line of business and geographic zone, as reported on Schedule IIIA, lines (1) to (24). Total must tie to the Net Loss and Loss Expense Provisions of the statutory balance sheet (Form 1SFS (Consolidated), line 17(d) and should be input on an statutory balance sheet basis. |
| 4 | Capital Factor | Column (4): Supplied by BMA; reserve charge factors for individual lines of business. |
| 5 | Required Capital | Column (5): Calculated using [column (3) x column (4)]; reserve charge amounts for individual lines of business. |

b) Correlation Adjustment Calculation – Calculates a factor that determines how much credit is given for diversification of reserve risk across all lines of business.

| Line Item | | Description |
|-----------|----------------------------------|--|
| 1 | Required Capital | Total from (a) column 5 above |
| 2 | Correlation Adjustment | Reduction from Correlation Matrix for diversified reserves |
| 3 | Capital Charge After Correlation | Calculated using [line 1 less line 2] |

c) Required Capital Charge – Calculated using [(Total of column (5) of (a)) - (Correlation Adjustment)]; the reserve capital charge (after correlation adjustment) is carried to the Summary section.

Instructions Affecting Reserve Risk

- D9.5a All reported net loss and loss expense provisions for the relevant year by statutory Line of Business as prescribed in this Schedule are subject to capital charges within the reserve risk charge and shall be included;
- D9.5b All reported net loss and loss expense provisions by statutory Line of Business shall be reported on a basis consistent with that used for purposes of statutory financial reporting;
- D9.5c An insurer may provide loss and loss expense provisions exposure for all statutory Lines of General Business, or for particular statutory Lines of General Business, split by geographic zone as set out in Table 6D. $geolinesvs_i$ is then derived from the total loss and loss expense provisions for that Line of Business by reducing the total by 25% times $\frac{\sum x_i^2}{(\sum x_i)^2}$ where x_i = best estimate net loss and loss expense provisions in that line of business for $Zone_i$; and where the summation covers all zones; and
- D9.5d Amounts are to be reported on a statutory consolidated basis

D10. CREDIT RISK

Background

D10.1 Credit risks are partitioned into four categories: accounts and premiums receivable, all other receivables, particulars of reinsurance balances (current and future), and counterparty default risk for over-the-counter derivatives.

D10.2 Particulars of reinsurance balances is based on the greater of:
 a) Current reinsurance balances receivable (as reported on Form 1SFS (Consolidated) lines 11(c) Reinsurance Balances Receivable, 12(c) Funds Held by Ceding Reinsurers, which are not reported on Schedule IIA, and 17(c) Total Reinsurance Recoverable Balance); and
 b) Future reinsurance balances receivable (as calculated on the Credit Risk Schedule).

This approach allows for new insurers that have not had claims and allows for a more reflective approach of reinsurance exposures in stressed circumstances.

D10.3 Where applicable, the amounts must reconcile to the appropriate line(s) of the insurer’s Form 1SFS (Consolidated) or to the schedules prescribed by or under the Prudential Standard Rules.

Credit Risk Capital Charge

D10.4 The credit risk charge calculation can be summarised by the following formula:

$$C_{credit} = \sum_i \delta_i \times debtor_i \times \mu_r + CCROTC$$

- δ_i = BMA supplied credit risk capital charge factor for type of *debtor_i*;
- debtor_i* = receivable amount from *debtor_i* net of any collateral in favour of the insurer;
- μ_r = additional diversification adjustment factor applied to reinsurance balances only taking into consideration diversification by number of reinsurers, equal to 40%.
- CCROTC = counterparty default risk for over-the-counter derivatives calculated as per the following formula:

$$CCROTC = \sum_i \text{Max}(0, MVDerivativeP_i - (1 - \beta_i) \text{Min}(MVderivativeP_i, MVCollateral_i)) \times \alpha_i$$

- MVDerivativeP_i* = market value of over-the-counter derivatives with positive market values and BSCR rating *i*,
- β_i = BMA supplied collateral factor;
- α_i = BMA supplied capital factor for the BSCR rating *i*;
- MVCollateral* = market value of collateral of over-the-counter derivatives with positive market values and BSCR rating *i*.

Items

Receivables from Clearing Brokers

- a) All Other Receivables

| Line Item | | Statement Source – |
|-----------|--|---|
| 1 | Accrued investment income | Based on Form 1SFS (Consolidated), line 9. |
| 2 | Balances Receivable on Sale of Investments | Based on Form 1 SFS (Consolidated), line 13(b). |

- b) (i) Particulars of reinsurance balances by BSCR rating - (i) amounts receivable on account of policies of reinsurance from any person, whether an affiliate or not, should be included; (ii) any amount included in ‘Accounts and Premiums Receivable’ and ‘Digital Assets Held in Custody for Clients’ should not be included; (iii) all uncollectible amounts, as determined by the insurer, should be deducted.

| Line Item | | Statement Source – The Rules |
|-----------|----------------------------------|----------------------------------|
| 1 | BSCR rating 0 | Based on Schedule XVIII column E |
| 2 | BSCR rating 1 | Based on Schedule XVIII column E |
| 3 | BSCR rating 2 | Based on Schedule XVIII column E |
| 4 | BSCR rating 3 | Based on Schedule XVIII column E |
| 5 | BSCR rating 4 | Based on Schedule XVIII column E |
| 6 | BSCR rating 5 | Based on Schedule XVIII column E |
| 7 | BSCR rating 6 | Based on Schedule XVIII column E |
| 8 | BSCR rating 7 | Based on Schedule XVIII column E |
| 9 | BSCR rating 8 | Based on Schedule XVIII column E |
| 10 | Less: Diversification adjustment | Based on Schedule XVIII column E |
| 11 | Total | Sum of c(i) 1 to 10 |

- c) (ii) Particulars of reinsurance balances for future premiums by BSCR rating

| Line Item | | Statement Source – The Rules | |
|-----------|-------------------------------------|--|--|
| 1 | Premium Risk Capital Charge (Gross) | Based on Premium Risk Capital Charge calculated on a gross basis, in line with the prescription in (f) | |
| 2 | Premium Risk Capital Charge (Net) | Based on Premium Risk Capital Charge as calculated in section D7 | |
| 3 | Premium Risk Capital Charge (Ceded) | Calculated using [line 1 less line 2] | |
| Line Item | | Statement Source – The Rules | Debtor Allocation |
| 4 | BSCR rating 0 | c(i)1 BSCR Rating 0 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 5 | BSCR rating 1 | c(i)1 BSCR Rating 1 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 6 | BSCR rating 2 | c(i)1 BSCR Rating 2 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 7 | BSCR rating 3 | c(i)1 BSCR Rating 3 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 8 | BSCR rating 4 | c(i)1 BSCR Rating 4 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |

| Line Item | | Statement Source – The Rules | |
|-----------|----------------------------------|---|--|
| 9 | BSCR rating 5 | c(i)1 BSCR Rating 5 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 10 | BSCR rating 6 | c(i)1 BSCR Rating 6 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 11 | BSCR rating 7 | c(i)1 BSCR Rating 7 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 12 | BSCR rating 8 | c(i)1 BSCR Rating 8 / c(i) Total of BSCR Rating 0 – 8 | Based on row (3) Premium Risk Capital Charge (Ceded) |
| 13 | Less: Diversification adjustment | | Based on Schedule VIII column E |

Instructions Affecting Credit Risk

D10.5 All accounts and premiums receivable and all other receivables that are subject to capital charges within the credit risk charge shall be included;

D10.6 All accounts and premiums receivable, other receivables from digital asset business, all other receivables, and reinsurance recoverable balances shall be reported on a basis consistent with that used for purposes of statutory financial reporting;

D10.7 ‘Collateralized balances’ for the purposes of this paragraph shall mean assets pledged in favor of the insurer relating to accounts and premiums receivable as prescribed by the BMA Capital charge factors for *debtor_i* ;

D10.8 Particulars of reinsurance balances shall be the greater of paragraphs D9.9 and D9.10 below

D10.9 Particulars of reinsurance balances for current year by BSCR rating are as follows:

- a) the net qualifying exposure which is comprised of reinsurance balances receivable and reinsurance balances recoverable, less the corresponding reinsurance balances payable and other payables less the qualifying collateral issued in favor of the insurer in relation to the reinsurance balances;
- b) The ‘net qualifying exposure’ referenced in paragraph D9.9(A) above shall be subject to the BMA prescribed credit risk capital factor;
- c) The total capital requirement relating to the reinsurance balances shall be reduced by a diversification adjustment of up to a maximum of 40%;
- d) The ‘diversification’ adjustment’ referenced in paragraph D9.9(C) above shall be determined by calculating 40% multiplied by 1 minus the ratio of the largest net reinsurance exposure, on an individual reinsurer basis, to total net reinsurance exposure;

D10.10 Particulars of reinsurance balances for future premium by BSCR rating are as follows:

- a) The Premium Risk Capital Charge (Gross), as prescribed in D9.10(B) less the Premium Risk Capital Charge (Net), as prescribed in D7, shall be referred to as ‘Premium Risk Capital Charge (Ceded)’. Such amount shall be allocated to the type of debtor (*debtor_i*) by BSCR rating Net Qualifying Exposure Measure as reported on Schedule XVIII;
- b) The Premium Risk Capital Charge (Gross) is calculated in the same manner as Premium Risk Capital Charge (Net) using the Gross Premium Exposure Measure (Schedule IVD, column G) rather than the Net Premium Exposure Measure (Schedule IVD, column F) as the input *ExposureMeasure_i*. *ExposureMeasure_i* is allocated to *BaseExp_i*, *FPExisting_i* and *FPFuture_i* for the Premium Risk Capital Charge (Gross) calculation in the same proportions as in the Premium Risk Capital Charge (Net) calculation;
- c) The Premium Risk Capital Charge (Ceded) shall be subject to the BMA prescribed credit risk capital charge factor;
- d) The total capital requirement relating to the reinsurance balances shall be reduced by a diversification adjustment of up to a maximum of 40%; and
- e) The ‘diversification’ adjustment’ referenced in paragraph D20.10(D) above shall be determined by calculating 40% multiplied by 1 minus the ratio of the largest net reinsurance exposure, on an individual reinsurer basis, to total net reinsurance exposure; and

D10.11 Amounts are to be reported on an statutory consolidated valuation basis

D11. CATASTROPHE RISK

Background

- D11.1 The catastrophe risk charge is based on insurer-specific catastrophe risk modelling output. All exposures and premiums used in the Probable Maximum Loss (PML) and Average Annual Loss (AAL) calculations should include amounts for second, third, and subsequent events or losses following the initial loss event. Modeled losses should include demand surge, storm surge, fire following earthquakes and secondary uncertainty.
- D11.2 The calculated catastrophe risk charge has two components. The first component is the average premium shortfall for the top 1% worst case scenarios (i.e. at the 99.0% TVaR
- D11.3 level). The second component is a credit risk charge for reinsurance recoverables under the 1% worst case scenarios. Since the PML calculations use annual aggregate exposure for all risks the formula uses an imputed Total Catastrophe Premium in its calculation of

the premium shortfall component. In addition to actual Property Catastrophe Premiums, this imputed Total Catastrophe Premium is based on the AAL divided by the industry catastrophe loss ratio as determined by the BMA.

Catastrophe Risk Capital Charge

D11.4 The catastrophe risk charge calculation can be summarised by the following formula:

$$C_{catastrophe} = NetPML - Netcatprem + CR_{PML}; \text{ Where —}$$

NetPML = Net Probable Maximum loss;

Netcatprem = Property catastrophe premium + (modeled AAL) / (estimated industry catastrophe loss ratio of 40.0%) for Class 4 and 3B insurers; or Property catastrophe premium only for Class 3A insurers; and

CR_{PML} = Credit Risk charge associated with reinsurance recoveries of ceded catastrophe losses is calculated as {(Gross PML; minus Net PML; minus arrangements with respect to property catastrophe recoverables); times (Credit risk charge, equal to 10%, associated with reinsurance recoveries of ceded catastrophe losses)}:

- a) All reported Net PML, Gross PML, AAL excluding property catastrophe, property catastrophe premium and arrangements with respect to property catastrophe recoverables that are subject to capital charges herein shall be included; and
- b) The amount of collateral and other funded arrangements with respect to property catastrophe recoverables shall be reported and reduced by 2% to account for the market risk associated with the underlying collateral assets.

a) “”columnlineGross Probable Maximum Loss – based on the insurer’s catastrophe model; probable maximum gross natural catastrophe loss (prior to reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all related risks and perils, including reinstatement premiums, for the year following the ‘relevant year’.

b) Net Probable Maximum Loss – based on the insurer’s catastrophe model; probable maximum net natural catastrophe loss (after reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all related risks and perils, including reinstatement premiums, for the year following the ‘relevant year’.

c) Property Catastrophe Premium – copied from Premium Risk section; net base exposure for Property Catastrophe line of business as reported on Schedule IVD, column (C), line (1).

- d) Credit Risk Capital Factor – supplied by BMA; credit risk factor applied to ceded catastrophe losses at the 99.0% TVaR level equal to 10.0%.
- e) Arrangements with Respect to Property Catastrophe Recoverables – copied from Schedule V, line (k)(v).
- f) Credit Risk Charge – calculated using $[(a) - (b) - ((e) * 98\%) \times (d)]$; ceded catastrophe losses times the catastrophe credit risk capital factor.
- g) Catastrophe Capital Charge – calculated using $[(b) - (c) + (f)]$; the catastrophe capital charge is carried to the Summary section.

D12. CAPITAL ADJUSTMENT

Background

The capital adjustment charge represents

- a) the capital requirements for regulated non-insurance financial operating entities and shall comprise the capital adjustment;
- b) adjustment for loss absorbing capacity of technical provisions; and
- c) adjustment for absorbing capital of deferred taxes

which is added to the BSCR (after correlation adjustment) to arrive at the BSCR. The BSCR will be used to determine an insurer's ECR for the relevant year, as reported in the Summary section of the BSCR model.

Capital Adjustment – Non-Insurance Financial Operating Entities

D12.1 The capital adjustment charge calculation for regulated non-insurance financial operating entities can be summarised by the following formula:

$C_{regulatoryadj}$ = Regulatory capital requirement for regulated non-insurance financial operating entities.

Items

D12.2 Regulatory capital requirement for regulated non-insurance financial operating entities – this capital adjustment charge shall be determined in accordance with Schedule XVI, where this amount shall be equal to the sum of the insurer's proportionate share of each registered entity's regulatory capital in accordance with the applicable solvency rules of the jurisdiction where the entity was licenced or registered.

Capital Adjustment – Management Actions

D12.3 The capital adjustment charge calculation for loss absorbing capacity of technical provisions due to management actions can be summarised by the following formula:

$$Adj_{TP} = - \max(\min(Basic\ BSCR - Basic\ nBSCR, FDB), 0)$$

Where—

$$Basic\ BSCR = \sqrt{\sum_{i,j} CorrBBSCR_{i,j} \times C_i \times C_j}$$

$$Basic\ nBSCR = \sqrt{\sum_{i,j} CorrBBSCR_{i,j} \times nC_i \times nC_j}$$

$CorrBBSCR_{i,j}$ = the correlation factors of the Basic BSCR correlation matrix as determined by Table A in section D1;

C_i = risk module charge i which are replaced by the following:

C_{Market} , $C_{P\&C}$, C_{Credit} ;

C_{Market} = market risk module charge as determined by section D1.4;

$C_{P\&C}$ = P&C risk module charge as determined by section D1.5; and

C_{Credit} = credit risk module charge as determined by section D9.

nC_i = net risk module charge i which are calculated the same way as C_i but by allowing the future discretionary benefits

to change and by allowing managements actions to be performed in accordance to with the criteria prescribed in section B5 and which are replaced by the following:

$FDB = nC_{Market}, nC_{P\&C}, nC_{Credit}$;
 = net present value of future bonuses and other discretionary benefits.

Capital Adjustment – Deferred Taxes

D12.4 The capital adjustment charge calculation for loss absorbing capacity of deferred taxes can be summarised by the following formula:

$$C_{otheradj} = \text{Min}(((Basic\ BSCR + C_{operational} + C_{regulatoryadj} + Adj_{TP}) \times t, Limit, (Basic\ BSCR + C_{operational} + C_{regulatoryadj} + Adj_{TP}) \times 20\%))$$

Where —

- Basic BSCR = Basic BSCR risk module charge as determined by section D1;
- $C_{operational}$ = operational risk charge as determined by section D1.7;
- $C_{regulatoryadj}$ = regulatory capital requirement for regulated non-insurance financial operating entities as determined by section D11.2;
- Adj_{TP} = adjustment for the loss-absorbing capacity of technical provisions as determined by section D11.4;
- t = insurer’s standard federal tax rate;
- $Limit$ = $PastLAC + CurrentLAC + FutureLAC$;
- $PastLAC$ = Loss Carryback Provision multiplied by t ;
- $CurrentLAC$ = Current Deferred Tax Liabilities minus Current Deferred Tax Assets;
- $FutureLAC$ = Risk Margin as reported on Form 1SFS line 18 multiplied by t ;

E. APPENDIX A - GLOSSARY

Act – Means the Insurance Act 1978.

Approved Internal Capital Model – means a model approved under paragraph 5 of the Rules.

Available Statutory Capital and Surplus – Available Statutory Capital and Surplus is defined as Total Statutory Capital and Surplus including subsequent Capital Contribution including ‘Deductions’. All capital contributions are to be approved by the BMA, and all adjustments are determined at the discretion of the BMA.

Average Annual Loss (AAL) – based on insurer Cat models; mean expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all related risks and perils other than those relating to the Property Catastrophe line of business for the year following the ‘relevant year’ as reported on Schedule V. The AAL should be calculated from the same underlying loss distribution used to determine the Gross PML and Net PML (excluding the property catastrophe component).

Bermuda Monetary Authority (BMA or Authority) – the BMA is the integrated regulator of the financial services sector in Bermuda. Established under the Bermuda Monetary Authority Act 1969, the Authority supervises, regulates and inspects financial institutions operating in or from within the jurisdiction. It also issues Bermuda’s national currency; manages exchange control transactions; assists other authorities in Bermuda with the detection and prevention of financial crime; and advises the Government and public bodies on banking and other financial and monetary matters. The Authority develops risk-based financial regulation that it applies to the supervision of Bermuda’s banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses, corporate service providers, insurance companies digital asset business and digital asset issuance. It also regulates the Bermuda Stock Exchange.

Bermuda Solvency Capital Requirement (BSCR) – establishes a measure of solvency capital that is used by the BMA to monitor the capital adequacy of IIGB insurers domiciled in Bermuda. The BSCR is determined by combining the calculated capital for each risk category (excluding operational risk) and applying a covariance adjustment with the square root rule, which is further adjusted to include insurer-specific operational risk and capital add-on

BSCR Ratio – the BSCR Ratio is the ratio of the Available Statutory Capital and Surplus to the BSCR (after covariance adjustment)

Capital and Solvency Return – means such return relating to the insurer’s risk management practices and to the information used by the insurer to calculate its ECR as may be prescribed by or under Rules made under section 6A

CAT – abbreviation of the word catastrophe

Catastrophe Risk – means the risk of a single catastrophic event or series of catastrophic events that lead to a significant deviation in actual claims from the total expected claims

Concentration Adjustment Factor – the concentration adjustment factor is used in relation to the premium risk and the reserve risk. It is based on the ratio of the largest individual line of business amount to total amount. The Factor will decrease as the number of lines of business increases to a minimum value of 60%

Concentration Risk – means the risk of exposure to losses associated with inadequate diversification of portfolios of assets or liabilities

Credit Risk – includes the risk of loss arising from an insurer's inability to collect funds from debtors

Enhanced Capital Requirement (ECR) – establishes a measure of solvency capital that is used by the BMA to monitor the capital adequacy of IIGB insurers domiciled in Bermuda. It is equal to the higher of an insurer's approved internal capital model/BSCR or MSM

ECR Ratio – the ECR Ratio is the ratio of Available Statutory Capital and Surplus to the ECR

Form 1SFS – Statutory balance sheet as defined by the BMA

Form 2SFS – Statutory statement of income as defined by the BMA

Form 8SFS – Statutory statement of capital and surplus as defined by the BMA

Insurance (Technical Standards) (Class IIGB Insurer Solvency Requirement) Rules 2020, including any amendments thereto (Prudential Standard Rules) – under section 6A of the Act, the BMA may make Rules prescribing prudential standards in relation to (a) ECR, (b) Capital and solvency returns, (c) Insurance reserves, and (d) Eligible capital that must be complied with by Class IIGB insurers

Legal Risk – means the risk arising from (a) an insurer's failure to comply with statutory or regulatory obligations; or (b) failure to comply with its bye-laws; or (c) failure to comply with any contractual agreement

Liquidity Risk – means (a) the risk arising from an insurer's inability to meet its obligations as they fall due or (b) an insurer's inability to meet such obligations except at excessive costs

Market Risk – means the risk arising from fluctuations in values of, or income from, assets or in interest rates or exchange rates

Non-Proportional Insurance – means coverage of risk that is not shared at a given layer or that attach above an insured layer

Non-Rated Bonds – bonds that have not been rated by AM Best, Standard & Poor's, Moody's, Fitch or equivalent agencies

Operational Risk – means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk

Quoted – Assets that are carried at fair value quoted on an exchange or a determinable market.

PML – see Probable Maximum Loss definition

Premium Risk – means the risk that premium is insufficient to meet future obligations

Probable Maximum Loss (PML) – based on insurer Cat models; probable maximum loss is the anticipated maximum loss that can occur with a certain level of probability. The BSCR utilizes a probable maximum natural catastrophe loss at a 99.0% TVaR level for annual aggregate exposure to all related risks and all perils, including reinstatement premiums

Rated Bonds – bonds rated with respect to the latest available AM Best, Standard & Poor's, Moody's, Fitch or equivalent agencies

Regulatory Action Level – defined by BMA's regulatory action guidelines

Relevant Year – in relation to an insurer, this means its financial year

Reputational Risk – includes risk of adverse publicity regarding an insurer's business practices and associations

Required Capital and Surplus – see Enhanced Capital Requirement

Retrocessional Contracts – Reinsurance contract whereby one reinsurer transfers all or part of the reinsurance risk that it has assumed or will assume to another reinsurer

Schedule III – Schedule of Loss and Loss Expense Provisions by Line of Business as defined by the BMA

Schedule IV – Schedule of Premium Written by Line of Business as defined by the BMA.

Schedule V – Schedule of Risk Management as defined by the BMA

Schedule VI – Schedule of Fixed Income Securities as defined by the BMA

Schedule IX – Schedule of Commercial Insurer's Solvency Self-Assessment as defined by the BMA

Schedule X – Catastrophe Risk Return as defined by the BMA

Strategic Risk – means the risk of an insurer's inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment

Tail Value-at-Risk (TVaR) – means the conditional average potential given that the loss outcome exceeds a given threshold