CHAUCER INSURANCE COMPANY DAC

SOLVENCY & FINANCIAL CONDITION REPORT

FOR THE PERIOD ENDED 31ST DECEMBER 2019

Chaucer

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EXECUTIVE SUMMARY

Chaucer Insurance Company DAC ("CIC" or "the Company") is an Irish domiciled insurance company that writes non-life specialty insurance and reinsurance business with clients primarily in the European Economic Area (the "EEA"). CIC was incorporated on 16th August 2016 and is regulated by the Central Bank of Ireland ("CBI") following authorisation on 16th June 2017. The Company is committed to strong systems of governance, control and capital management. The Company invests in strongly rated US Treasury, government and corporate bonds. The Company has a current solvency ratio of 349% considerably above the Board approved risk appetite of 125%.

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

This Solvency & Financial Condition Report ("SFCR") is a requirement under the Solvency II regime, a harmonised EU-wide regulatory framework for insurance companies which came into effect on 1st January 2016.The purpose of the SFCR is to provide various stakeholders (including policyholders) of the Company an insight into the overall financial condition of the Company.

This report covers certain aspects of the Company's strategic and operating activities by discussing the Company's Business and Performance; System of Governance; Risk Profile; Valuation of Assets & Liabilities; and, Capital Management, which are summarised as follows.

BUSINESS & PERFORMANCE

CIC was established in August 2016, to enhance the existing international speciality capabilities offered by Chaucer. CIC obtained authorisation from the CBI on 16th June 2017 to underwrite non-life specialty insurance and reinsurance business in the EEA on a Freedom of Services basis and internationally on a non-admitted basis. CIC is rated "A (Excellent)" by AM Best and "A-" by Standard & Poor's("S&P").

CIC, headquartered in Ireland, has established branches in both the UK and Denmark, on a Freedom of Establishment basis. Both branches operate from the offices of affiliated Chaucer entities. Through outsourcing arrangements with these affiliates, the branches leverage the existing operational resources of Chaucer. The Prudential Regulatory Authority ("PRA") approved the UK Branch on 4th September 2017 whilst the Danish Financial Services Authority approved the Danish Branch on 21st May 2019, respectively.

CHANGES DURING PERIOD:

2019 represented a year in which the Company built upon the considerable progress made during the prior years to significantly grow across all lines of business, resulting in a broadly diversified portfolio of business, with Gross Premiums written increasing to $61.0 million (2018: $11.2 million), an increase of 444.6%.

The Company was acquired by CRICL on the 14th February 2019 from The Hanover Insurance Group ("THG"), a holding company for several US property and casualty insurance companies, following regulatory approval from the CBI. CRICL is a member of The China Reinsurance (Group) Corporation, ("China Re").

During 2019, the Company obtained an "A (Excellent)" rating from AM Best and also received confirmation from the National Association of Insurance Commissioners ("NAIC") that it can write excess and surplus ("E&S") lines insurance across the US. The NAIC has added the company to its Quarterly Listing of Alien Insurers eligible to write excess and surplus lines insurance, effective from 1st January 2020. These achievements place the Company in a strong position to achieve its growth targets in 2020 and beyond whilst expanding its client base.

There were no significant legal or regulatory issues or changes that impacted the business in the period under review. Monitoring of regulatory developments is part of the normal course of business and are reported to the Audit Committee on a quarterly basis to ensure the Company is wholly in compliance with current legislation and regulation and is positioned for expected changes in both legislation and regulation.

Uncertainty remains around the potential impact of Brexit on the Company. The Company has undertaken a comprehensive contingency plan and is confident that the Company is well positioned to overcome any challenges that may arise and take appropriate courses of action to protect our various stakeholders.

There has been no significant change to the Company's objectives.

Refer to Section A for further detail relating to Business and Performance.

SYSTEM OF GOVERNANCE

The Company is subject to the CBI's Corporate Governance Requirements for Insurance Undertakings 2015 ("the Code"). The Company has a clearly defined governance structure for risk management. The Board of Directors (the "Board") is responsible for strategic and operational oversight of the Company. The Board comprises a mix of executives, non-executives ("NEDs") and independent non-executive directors ("INED's"). This provides a balance of diverse thinking with extensive business knowledge and sectoral experience.

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

CHANGES DURING THE PERIOD:

Following China Re's acquisition of the Company from THG on 14th February 2019, Dr. Zuo Huiqiang of China Re was appointed to the Board of Directors whilst Mr Jeffrey. Farber of THG, resigned as a director, effective from the date of sale. The change in control did not have a material impact on the governance and risk management structure of CIC other than changes to the representation on the Company's Board of Directors

Refer to **Section B** for further detail on the Company's system of governance.

EXECUTIVE SUMMARY

RISK PROFILE

CIC is committed to a structured and disciplined approach to risk management which considers, evaluates and manages risks as an integral part of the day to day running of the business. The involvement of the Board in setting the direction, tone and nature of the business culture and the importance of effective risk management are fundamental parts of this.

The following is an overview of the key risks that the Company is exposed to:

- Underwriting risk;
- Market risk;
- Credit risk;
- Liquidity risk; and,
- Operational risk.

In addition to these risks, the Company's risk profile comprises other material risks such as strategic, legal and compliance, governance, solvency and emerging risks.

The Board of the Company oversees the investment policy which mandates investment in secure and liquid assets quoted on recognised markets. At the end of the year the Company was invested in Government and corporate bonds with 100% rated investment grade or better. The Company targets the holding of investments in currencies designed to match the liabilities.

CHANGES DURING THE PERIOD:

There has been no significant change to the Company's objectives or risk profile during the year. In addition to the key risks outlined above, the Company considers 'live' risks, being the risks that are specific to the business.

The Board has considered these risks in its approval of the Own Risk and Solvency Assessment ("ORSA") and considered that the processes in place for managing such risks are sufficient and the capital held is also sufficient.

Refer to **Section C** for further detail on the Company's risk profile.

VALUATION OF SOLVENCY II BALANCE SHEET

The Company's financial statements, including the balance sheet, has been prepared under the historical cost convention, as modified by the inclusion of certain investments at fair value and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and FRS 103 "Insurance Contracts" ("FRS 103") issued by the Financial Reporting Council and promulgated by Chartered Accountants Ireland, and comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015.

The valuation rules from the Solvency II Directive utilise International Financial Reporting Standards ("IFRS") in accordance with Regulation (EC) No 1606/2002 (IFRS as adopted by the EU) unless otherwise stated within Solvency II. FRS reporting framework is largely equivalent to the accounting principles applied under IFRS, although differences do exist. As at 31st December 2019, these framework differences do not impact the Company.

The valuation of assets and liabilities for FRS is the same as Solvency II except for:

- differences in the valuation of technical provisions and associated reinsurance recoverables; and
- additional deferred tax valued on the expected tax impact once the valuation adjustments from FRS to Solvency II unwind.

CHANGES DURING THE PERIOD:

There has been no change to the valuation methodology adopted by the Company during the year.

Refer to **Section D** for further detail on valuation for Solvency purposes.

CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

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

For Solvency II, Own Funds are divided into levels of quality, known as tiers, depending on their loss absorbency. The tiers are ranked from Tier 1 to Tier 3, whereby Tier 1 unrestricted and is not subject to a limit, is of the highest quality, whereas Tier 3 is the lowest form of Own Funds. The Company did not pay a dividend during the year and has no current plan to pay a dividend.

OWN FUNDS

The Company's own funds are as follows:

	Tier 1	Tier 2	Tier 3	Total
	US$000	US$000	US$000	US$000
Own Funds as at 31st December 2019	50,512	-	230	**50,742**
Own Funds as at 31st December 2018	26,830	-	351	**27,181**
Change during the year	23,682	-	(121)	**23,561**

EXECUTIVE SUMMARY

CHANGES DURING THE PERIOD

The change in Own Funds is driven by a receipt of an irrevocable capital contribution of $25.0 million from its direct parent CRICL during 2019. The purpose of this capital contribution was solely in relation to enhancing the commercial capabilities of the Company in accessing new markets.

This increase in Own Funds was reduced by $1.4 million due to a combination of the net loss of $0.3 million for the year end 31st December 2019 combined with the impact of the revaluation between the financial statements results and Solvency II Balance Sheet which totalled $1.1 million.

SOLVENCY CAPITAL REQUIREMENT

The calculation of the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") for CIC is based on the Standard Formula model as laid out within the Solvency II Delegated Acts and other Level 2 Solvency II guidelines. The Company does not use an Internal Model or undertaking specific parameters to calculate its SCR. The Company sets a strategic target SCR coverage ratio of 125% to ensure on-going compliance with the SCR requirements.
The total SCR and MCR, along with the respective coverage ratios, at 31st December 2019 and 2018 are as follows:

Capital Requirement	31st December 2019 US$000	31st December 2019 Ratio of Eligible Own Funds	31st December 2018 US$000	31st December 2018 Ratio of Eligible Own Funds
SCR	**14,540**	**349%**	5,442	499%
MCR	**4,127**	**1224%**	4,188	641%

CHANGES DURING THE PERIOD:

The Company's SCR has increased by $9.1 million, or 167%, during the year ended 31st December 2019. The growth in the capital requirement since year-end 2018 reflects the growth in CIC's business. CIC had gross written premium of $61.0 milllion in 2019 and $11.2 million in 2018, and the growth in SCR is driven by this growth.

The Company's MCR continues to be set at the absolute minimum of €3.7 million. The variation in the MCR for the year ended 31st December 2019 compared to the prior year is wholly due to foreign exchange movements. The Company's SCR and MCR are wholly covered by Tier 1 Own Funds. The Company was compliant with Solvency II requirements throughout the period.

The risk modules of the Company's SCR, as determined using the Standard Formula, at 31st December 2019 and 2018, are as follows:

SCR Calculation by Module	2019 US$000	2018 US$000
Market risk	2,147	1,260
Counterparty default risk	4,181	1,671
Health underwriting risk	2,262	560
Non-Life underwriting risk	8,568	3,706
Sum of risk components	**17,157**	**7,197**
Diversification effects	(4,616)	(1,828)
BSCR	**12,541**	**5,369**
SCR operational risk	1,999	73
SCR	**14,540**	**5,442**
Solvency II Own Funds	**50,742**	**27,181**
Ratio of Eligible Own Funds to SCR	**349%**	**499%**

Refer to Section E for further detail on Capital Management.

OUTLOOK FOR 2020

CIC is on a controlled growth trajectory, as a major driver for the international growth of China Re Group. The Company's strategy is expected to evolve to writing a more diverse portfolio, with an increasing focus on treaty reinsurance and US surplus lines insurance, with the flexibility to respond to prevailing market conditions. The Company is backed by the financial strength of China Re, which is a cornerstone of its capabilities to deliver this growth strategy.

EVENTS AFTER THE REPORTING DATE

There are no events that are material to the operations of the Company that have occurred since the reporting date which affect the Company's reported results for the year ended 31st December 2019.

It is too early to estimate the impact of the COVID-19 pandemic on the Company's future results. The risk management and underwriting teams are continuously assessing exposures, will monitor exposures and put in place mitigating actions where appropriate and possible. Current underwriting exposures are concentrated in the Company's Accident & Health portfolio which is protected by the Company's comprehensive reinsurance programme.

The Company has taken action to ensure appropriate measures are in place to protect staff and maintain a high quality service to clients.

FRS 102 defines an adjusting event as an event that provides evidence of conditions that existed at the reporting date. A non-adjusting event indicates conditions that arose after the reporting date. The situation at 31st December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. There was no explicit evidence of human-to-human transmission at that date. These are the conditions that existed at 31st December. The subsequent spread of the virus and its identification as COVID-19 does not provide additional evidence about the situation that existed at 31st December 2019, and it is therefore a non-adjusting event. As COVID-19 is a non-adjusting event, its post year end impact has not been taken account of in the recognition and measurement of the company's assets or liabilities at 31st December 2019.

At the time of writing, there are no material reported losses as a result of the virus directly or from the impact of the virus on the global economy.

A. BUSINESS & PERFORMANCE

This section of the report sets out the details of the Company with particular focus on business structure and financial performance.

A.1 BUSINESS AND EXTERNAL ENVIRONMENT

A.1.1 NAME AND LEGAL FORM OF UNDERTAKING

Chaucer Insurance Company Designated Activity Company ("CIC" or "the Company") is incorporated in Ireland as a single member Designated Activity Company, limited by shares and subject to Irish law. The Company's registered office address is 38 & 39 Baggot Street Lower, D02 T938, Dublin 2, Ireland.

A.1.2 NAME OF SUPERVISORY AUTHORITY RESPONSIBLE FOR FINANCIAL SUPERVISION OF THE UNDERTAKING

The Company is regulated by the Central Bank of Ireland ("CBI"). The CBI can be contacted at New Wapping Street, North Wall Quay, PO Box 559, Dublin 1, Ireland.

A.1.3 EXTERNAL AUDITOR OF THE UNDERTAKING

The Company's external auditor is PricewaterhouseCoopers ("PWC"). PWC is located at One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

A.1.4 HOLDERS OF QUALIFYING HOLDINGS IN THE UNDERTAKING

The Company is wholly owned by China Re International Company Limited ("CRICL"), a UK based entity that is also the Parent Company for Chaucer Syndicates Limited ("Chaucer"), the managing agent for Chaucer's syndicates operating in the Society Corporation of Lloyd's ("Lloyd's). The Company was acquired by CRICL on the 14th February 2019 from The Hanover Insurance Group ("THG"), a holding company for several US property and casualty insurance companies, following regulatory approval from the CBI. CRICL is a member of The China Reinsurance (Group) Corporation. ("China Re").

A.1.5 LEGAL STRUCTURE OF THE GROUP

China Re, headquartered in Beijing, is a Chinese insurance group and is listed on the Hong Kong stock exchange. Its largest shareholder is Central Huijin (71.56%) which is, in turn, owned by the Chinese sovereign wealth fund, China Investment Corporation. The Ministry of Finance of the People's Republic of China also holds 11.45% of China Re.

China Re's four main businesses are P&C reinsurance, life and health reinsurance, primary P&C insurance and asset management. China Re aims to be a leading global reinsurance player with strategic focus on international diversification. CIC is key contributor to the strategic international development of China Re. China Re Group has outstanding comprehensive strength, and is rated "A – Excellent" by A. M. Best and 'A' by S&P, respectively.

CIC was established in August 2016, to enhance the existing international speciality capabilities offered by Chaucer Syndicates. CIC obtained authorisation from the CBI on 16th June 2017 to underwrite non-life specialty insurance and reinsurance business in the EEA on a Freedom of Services basis and internationally on a non-admitted basis.

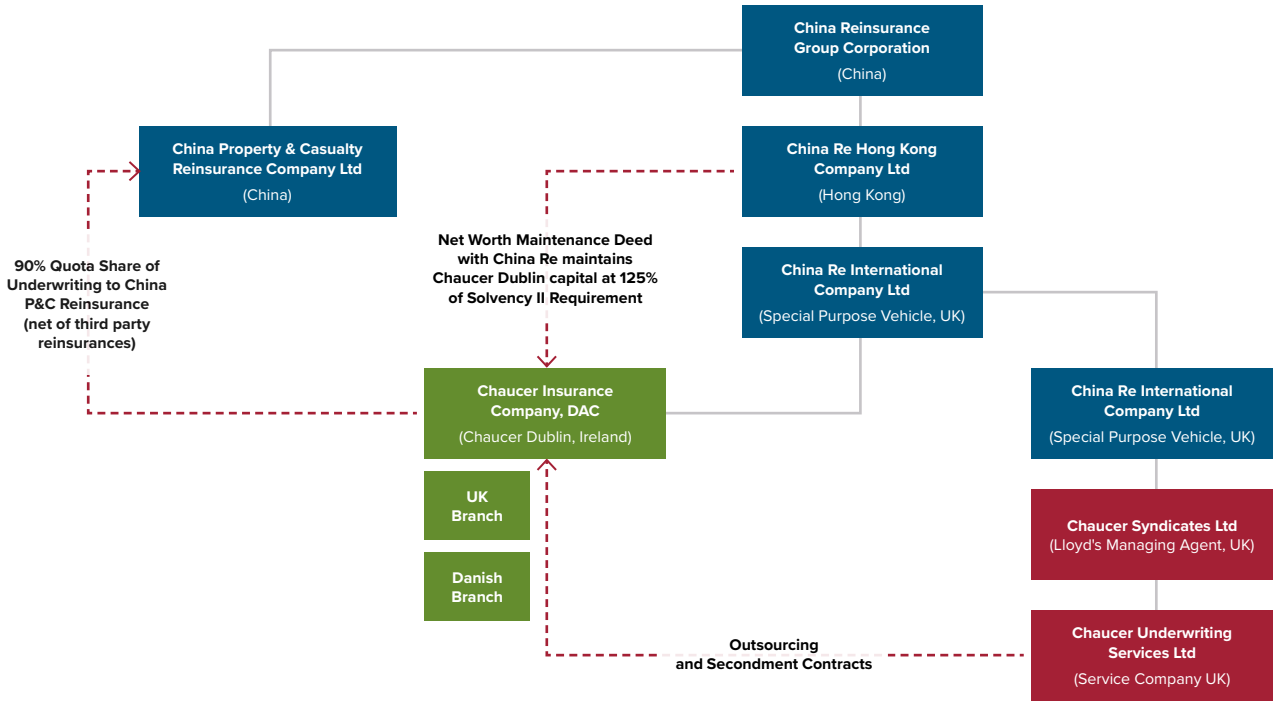
CIC, as a part of Chaucer, plays a key role in delivering China Re's strategic initiatives for international development. CIC represents an important source of continued growth by providing greater flexibility for Chaucer through increased commercial choice for customers and brokers. Through CIC, Chaucer is able to reduce its dependency on Lloyds whilst offering a lower cost platform. Furthermore, it also provides Chaucer's clients and brokers with alternative solutions for EEA risks in light of Brexit.

CIC is headquartered in Ireland and has established branches in both the UK and Denmark, on a Freedom of Establishment basis. Both branches operate from the offices of affiliated Chaucer entities and are managed by local branch managers. Through outsourcing arrangements with these affiliates, the branches leverage the existing operational resources of Chaucer. Furthermore, the Branch provides a platform for the Company to utilise Chaucer's distribution channels via existing relationships with major international and specialist brokers. The operational resources provided to the Company through the outsourcing arrangement with affiliate entities Chaucer Underwriting Services Ltd. ("CUSL") and Chaucer ApS enable the Company to fully leverage the existing operational resources of Chaucer including, but not limited to, staff, technology and processes.

The Prudential Regulatory Authority ("PRA") approved the UK Branch on 4th September 2017 whilst the Danish Financial Services Authority approved the Danish Branch on 21st May 2019, respectively.

A. BUSINESS & PERFORMANCE

The following diagram is a simplified group structure of the China Re Group following the completion of the acquisition of Chaucer, including CIC:



The following entities are materially related to CIC:

- China Re due to the Net Worth Maintenance deed;
- China Property & Casualty Reinsurance Company Limited ("China P&C Re") due to the provision of a 90% Quota share; and,
- CUSL due to the provision of outsourced services.

The Company's previously indirect parent, Opus Investment Management Inc. ("Opus"), continue to be the Company's investment managers following the sale of the Company to China Re, as a third-party service provider. The Company continues to use Bank of New York Mellon as independent custodian for its investment portfolio.

A.1.6 MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS

The Company's product offering mirrors that of Chaucer's Syndicate 1084 thereby enabling the Company to utilise the strengths and influence of Chaucer. The Company mitigates its exposure to the business written via extensive reinsurance arrangements with third party reinsurers and a 90% quota share, net of external reinsurance, to an affiliate entity China P&C Re.

The Company will be expanding into new markets in 2020. During 2019, the Company received confirmation from the National Association of Insurance Commissioners ("NAIC") that it can write excess and surplus lines insurance across the US. The NAIC has added the company to its Quarterly Listing of Alien Insurers eligible to write excess and surplus lines insurance, effective from 1st January 2020.

A.1.7 SIGNIFICANT BUSINESS EVENTS DURING THE REPORTING PERIOD

Other than noted above, no other significant events occurred during the reporting period.

A.2 PERFORMANCE FROM UNDERWRITING ACTIVITIES

2019 represented a year in which the Company built upon the considerable progress made during the prior years to significantly grow across all lines of business, resulting in a broadly diversified portfolio of business, with Gross written premiums increasing to $61.0 million (2018: $11.2 million), an increase of 444.6%. During the year, the Company experienced significant growth in Marine, Accident & Health ("A&H") and Casualty in particular. The growth experienced during the year is due to a number of factors including, but not limited to, new opportunities arising from political uncertainty associated with Brexit and challenges faced by London market competitors with regards to income constraints.

The level of growth was achieved as the Company benefitted from the highly efficient Chaucer operating model whilst also establishing a Danish branch to enhance the existing services being offered to clients in continental Europe. The following table shows the gross written premium by office location for the year ended 31st December 2019.

	2019 US$000	2018 US$000
Ireland	12,881	-
United Kingdom	46,999	11,201
Denmark	1,089	-
Total	60,969	11,201

A. BUSINESS & PERFORMANCE

The Company's growth in 2019 has been concentrated primarily on the UK and European markets as outlined in the following table.

	2019 US$000	2018 US$000
United Kingdom	41,017	4,446
Europe	16,495	409
Other	3,457	6,346
Total	**60,969**	**11,201**

The Company mitigates its exposure to the business written via extensive reinsurance arrangements with third party reinsurers and a 90% quota share, net of external reinsurance, with China P&C Re. The following table shows the Company's underwriting performance for the year's ended 31st December 2019 and 2018, prior to the allocation of investment return to the technical account.

For the Year Ended 31st December 2018	2019 US$000	2018 US$000
Gross written premium	60,969	11,201
Net premium written	5,086	676
Net premium earned	2,738	62
Net claims incurred	(1,340)	(45)
Expenses incurred, excluding investment expenses	(2,850)	(2,734)
Total underwriting result	**(1,452)**	**(2,717)**
Investment expenses	(57)	(34)
Underwriting result as reported in the QRT	**(1,509)**	**(2,751)**

UNDERWRITING PERFORMANCE BY SEGMENT

An analysis of the underwriting result before investment returns by division of business is set out below:

For the Year Ended 31st December 2019 **TOTAL**	Marine US$000	Casualty US$000	A&H US$000	Property & PV US$000	Credit & Political US$000	Other US$000	Total US$000
Gross written premium	22,817	11,166	12,947	5,406	2,655	5,978	60,969
Net premium written	2,306	1,289	716	364	100	311	5,086
Net premium earned	1,259	464	423	184	141	267	2,738
Net claims incurred	(682)	(171)	(231)	(97)	(54)	(105)	(1,340)
Net acquisition costs (excl. operating expenses)	850	255	167	132	131	291	1,826
Net underwriting profit before expenses	**1,427**	**548**	**359**	**219**	**218**	**453**	**3,224**
Expense allocation	(1,771)	(868)	(1,005)	(419)	(206)	(464)	(4,733)
Underwriting result as reported in the QRT	**(344)**	**(320)**	**(646)**	**(200)**	**12**	**(11)**	**(1,509)**

For the Year Ended 31st December 2019 **UNITED KINGDOM**	Marine US$000	Casualty US$000	A&H US$000	Property & PV US$000	Credit & Political US$000	Other US$000	Total US$000
Gross written premium	18,661	6,964	11,139	3,651	60	542	41,017
Net premium written	1,889	804	616	246	2	31	3,588
Net premium earned	1,111	260	347	106	45	18	1,887
Net claims incurred	(600)	(93)	(200)	(59)	(19)	(8)	(979)
Net acquisition costs (excl. operating expenses)	773	133	134	93	29	54	1,216
Net underwriting profit before expenses	**1,284**	**300**	**281**	**140**	**55**	**64**	**2,124**
Expense allocation	(1,451)	(541)	(865)	(283)	(5)	(42)	(3,187)
Underwriting result	**(167)**	**(241)**	**(584)**	**(143)**	**50**	**22**	**(1,063)**

A. BUSINESS & PERFORMANCE

For the Year Ended 31st December 2019	Marine	Casualty	A&H	Property & PV	Credit & Political	Other	Total
EUROPE	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Gross written premium	3,586	3,344	1,808	1,292	1,353	5,112	16,495
Net premium written	359	386	100	87	51	262	1,245
Net premium earned	135	141	76	64	17	240	673
Net claims incurred	(73)	(51)	(31)	(24)	(8)	(93)	(280)
Net acquisition costs (excl. operating expenses)	72	85	33	28	16	231	465
Net underwriting profit before expenses	**134**	**175**	**78**	**68**	**25**	**378**	**858**
Expense allocation	(276)	(260)	(140)	(100)	(105)	(397)	(1,278)
Underwriting result	**(142)**	**(85)**	**(62)**	**(32)**	**(80)**	**(19)**	**(420)**

For the Year Ended 31st December 2019	Marine	Casualty	A&H	Property & PV	Credit & Political	Other	Total
OTHER	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Gross written premium	570	858	-	463	1,242	324	3,457
Net premium written	58	99	-	31	47	18	253
Net premium earned	13	63	-	14	79	9	178
Net claims incurred	(9)	(27)	-	(14)	(27)	(4)	(81)
Net acquisition costs (excl. operating expenses)	5	37	-	11	86	6	145
Net underwriting profit before expenses	**9**	**73**	**-**	**11**	**138**	**11**	**242**
Expense allocation	(44)	(67)	-	(36)	(96)	(25)	(268)
Underwriting result	**(35)**	**6**	**-**	**(25)**	**42**	**(14)**	**(26)**

For the Year Ended 31st December 2018	Marine	Credit & Political	Other	Total
TOTAL	US$000	US$000	US$000	US$000
Gross written premium	1,915	7,857	1,429	11,201
Net premium written	181	430	65	676
Net premium earned	18	35	9	62
Net claims incurred	(17)	(20)	(8)	(45)
Net acquisition costs (excl. operating expenses)	29	31	6	66
Net underwriting profit before expenses	**30**	**46**	**7**	**83**
Expense allocation	(484)	(1,988)	(362)	(2,834)
Underwriting result	**(454)**	**(1,942)**	**(355)**	**(2,751)**

For the Year Ended 31st December 2018	Marine	Credit & Political	Other	Total
UNITED KINGDOM	US$000	US$000	US$000	US$000
Gross written premium	1,642	2,321	483	4,446
Net premium written	155	123	19	297
Net premium earned	7	10	(2)	15
Net claims incurred	(3)	(7)	-	(10)
Net acquisition costs (excl. operating expenses)	7	9	(2)	14
Net underwriting profit before expenses	**11**	**12**	**(4)**	**19**
Expense allocation	(415)	(587)	(123)	(1,125)
Underwriting result	**(404)**	**(575)**	**(127)**	**(1,106)**

A. BUSINESS & PERFORMANCE

For the Year Ended 31st December 2018 **EUROPE**	Marine US$000	Credit & Political US$000	Other US$000	Total US$000
Gross written premium	273	77	59	409
Net premium written	26	5	2	33
Net premium earned	11	3	(2)	12
Net claims incurred	(14)	(2)	-	(16)
Net acquisition costs (excl. operating expenses)	22	3	(3)	22
Net underwriting profit before expenses	**19**	**4**	**(5)**	**18**
Expense allocation	(69)	(20)	(15)	(104)
Underwriting result	**(50)**	**(16)**	**(20)**	**(86)**

For the Year Ended 31st December 2018 **OTHER**	Marine US$000	Credit & Political US$000	Other US$000	Total US$000
Gross written premium	-	5,459	886	6,345
Net premium written	-	302	44	346
Net premium earned	-	22	13	35
Net claims incurred	-	(11)	(8)	(19)
Net acquisition costs (excl. operating expenses)	-	19	11	30
Net underwriting profit before expenses	**-**	**30**	**16**	**46**
Expense allocation	-	(1,381)	(224)	(1,605)
Underwriting result	**-**	**(1,351)**	**(208)**	**(1,559)**

A.3 PERFORMANCE FROM INVESTMENT ACTIVITIES

A.3.1 INCOME AND EXPENSES ARISING BY ASSET CLASS

The Company's investment strategy is designed to ensure the safety of the principal investment, generating a reasonable total rate of return, whilst complying with the Company's risk appetite and investment guidelines. Accordingly, our funds are primarily invested in liquid, investment-grade fixed income securities which are designated at fair value through the profit and loss ("FVTP&L") in accordance with FRS 102 & FRS 103 issued by the Financial Reporting Council, and promulgated for use in Ireland by Chartered Accountants Ireland.

The following table outlines the investment income and expenses, before tax, for the period ended 31st December 2019 and 2018:

Investment income and related expenses	2019 US$000	2018 US$000
Investment income on fixed income securities	902	818
Other interest income	63	21
Net realized (losses)	(268)	(175)
Net unrealized gains (losses), before tax	864	(326)
Investment management expenses	(57)	(34)
Net return from investments	**1,504**	**304**

The following is a breakdown of the investment income, before expenses, by asset class for the year ended 31st December 2019. For the year end 31st December 2018, the quantum of investment income in this period is deemed immaterial and therefore the Company has not shown the split by asset class.

Return on investments by asset class before expenses	Investment Income US$000	Net realized losses US$000	Net unrealized losses US$000	Total US$000
Cash & cash equivalents	63	-	-	63
US Treasury	99	(2)	151	248
US agency bonds	228	(38)	170	360
Municipal bonds	38	(27)	24	35
Corporate bonds	537	(201)	519	855
Total Investment Income	965	(268)	864	1,561
Investment expenses				(57)
Net return on investments				**1,504**

A. BUSINESS & PERFORMANCE

The principle driver of the unrealized gains for the year ended 31st December 2019 was the impact of volatility of the US Treasury rate throughout the year as a result of monetary policy actions taken by the Federal Open Market Committee ("FOMC"). Overall, the Company's portfolio benefitted from rate cuts during the year. The Company typically maintains its portfolio to maturity and therefore expects that these unrealized gains will naturally unwind as the investments move toward maturity.

As the Company does not hold any non-USD fixed income securities, the Company does not have any foreign currency fluctuations in its fixed income securities portfolio.

A.3.2 GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY

The Company does not recognize any gains/losses relating to its investment portfolio in equity. As noted previously, the Company has designated its fixed income securities as FVTP&L. As a result, the net unrealized losses, relating to fluctuations in market price, and net realized losses are recognized in net income.

A.3.3 INVESTMENTS IN SECURITISATIONS

At 31st December 2019, the Company's fixed income portfolio included $10.5 million (23.9%) (2018: $3.7 million (15.1%)) in securitisations. The Company's exposure was exclusively to securitisations issued by US Government Sponsored Enterprises. As such these securitisations are highly rated and are amongst the most liquid of all securitisation types with an average credit rating of AA+ (excellent) (2018: AA+(excellent)), as rated by Standard & Poor's (or equivalent).

A.4 PERFORMANCE OF OTHER ACTIVITIES

There are no other activities to note for the year ended 31st December 2019. The Company does not expect any other material income or expenses outside the normal course of business over the planning horizon.

The Company has not entered into any material operating or finance leasing arrangements.

A.5 ANY OTHER DISCLOSURES

No further material information regarding the business or performance.

B. SYSTEM OF GOVERNANCE

The 'System of Governance' section of the report sets out details regarding the administration and management of the Company. The section also outlines the enterprise risk management framework, as well as the controls around fitness and probity and outsourcing arrangements.

B.1 GENERAL GOVERNANCE ARRANGEMENTS

B.1.1 ROLE AND RESPONSIBILITIES OF THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODY AND KEY FUNCTIONS

The Company is subject to the CBI's Corporate Governance Requirements for Insurance Undertakings 2015 ("the Code") and the Board is satisfied that the corporate structures and practices pertaining to corporate governance, as required by the Code, are operating effectively. This is reviewed annually.

The Board retains ultimate responsibility for strategic and operational oversight of the Company. The Board comprises a mix of executives, NEDs and INED's. This provides a balance of diverse thinking with extensive business knowledge and sectoral experience.

Whilst the Board has ultimate responsibility for the Company's oversight and governance, Committees have been established to support the Board in this regard. The Board has established the following committees:

- Risk & Capital Committee;
- Audit Committee;
- Underwriting Committee;
- Finance & Investments Committee; and,
- Operations Committee.

The Board has approved the terms of reference for each Committee. Each Committee includes at least one Board member which serves to enhance the Board's consideration of risk related issues. These committees have the power to carry out activities on behalf of the Board to the extent such activities have been delegated by the Board in the approved terms of reference.

In addition to the main board Committees, there are management committees and joint committees. These include the Product Oversight Committee ("POC") which approves, recommends and monitors matters in relation to conduct and consumer risk and product development, reporting to the Underwriting Committee, the Service Action Performance Group ("SAPG") which reviews the performance of the CUSL contractual services and reports to the Operations Committee, the joint Credit Committee and the Intermediary Remuneration Review Committee.

The authority, functions, membership and reporting lines of the Committees (including the POC) and their frequency, voting rights, and numbers to be quorate are all clearly detailed in their respective terms of reference. The terms of reference for each of the Committees are reviewed at least annually.

The Company's General Manager, who serves as an executive director and member of the Board, has responsibility for the day-to-day operations, compliance and performance of the Company. The General Manager is supported in her role by an Executive Committee comprising the senior management team.

The Company's key internal control functions of risk management, actuarial, internal audit and compliance all report into respective committees and are all supported by Chaucer, to varying degrees, under the terms of an outsourcing arrangement. This enables the Company to utilise the expertise, systems and processes of Chaucer.

A review of the System of Governance, which includes a review of the overall performance of the Board, its individual directors and the respective committees, is carried out on an annual basis. The composition of the Board is kept under regular review.

The key roles and responsibilities of the respective Committees include, but are not limited to, the following:

RISK & CAPITAL COMMITTEE

- Advising the Board on risk appetite, risk tolerance and risk strategy, taking account of the Board's overall strategy, and the current financial position of CIC;
- Drawing on the work of the Audit Committee and the internal auditors, overseeing the capacity of CIC to manage and control risks within the agreed strategy;
- Overseeing the risk management function, which is managed on a day to day basis by the Head of Risk & Compliance;
- Ensuring the development and on-going maintenance of a risk management system ("RMS") within CIC, which is effective and proportionate to the nature, scale and complexity of the risks inherent in the business; and
- Advising the Board on the effectiveness of risk management strategies and policies.

AUDIT COMMITTEE

- Monitoring the effectiveness and adequacy of CIC's internal controls processes and procedures and internal audit;
- Liaising with the external auditors;
- Reviewing the integrity of CIC's financial statements and ensuring that they provide a true and fair view of CIC's financial status;
- Reviewing financial reports and announcements and making recommendations to the Board on whether to approve CIC's annual accounts; and,
- Assessing the independence of auditors and the effectiveness of the audit process.
- Underwriting Committee
- Undertaking detailed reviews of the underwriting performance against plan and determining the reason for, and action to be taken in respect of, any deviations;
- Reviewing the framework for measuring, monitoring and controlling all aspects of underwriting and associated risk within CIC's underwriting portfolios; and

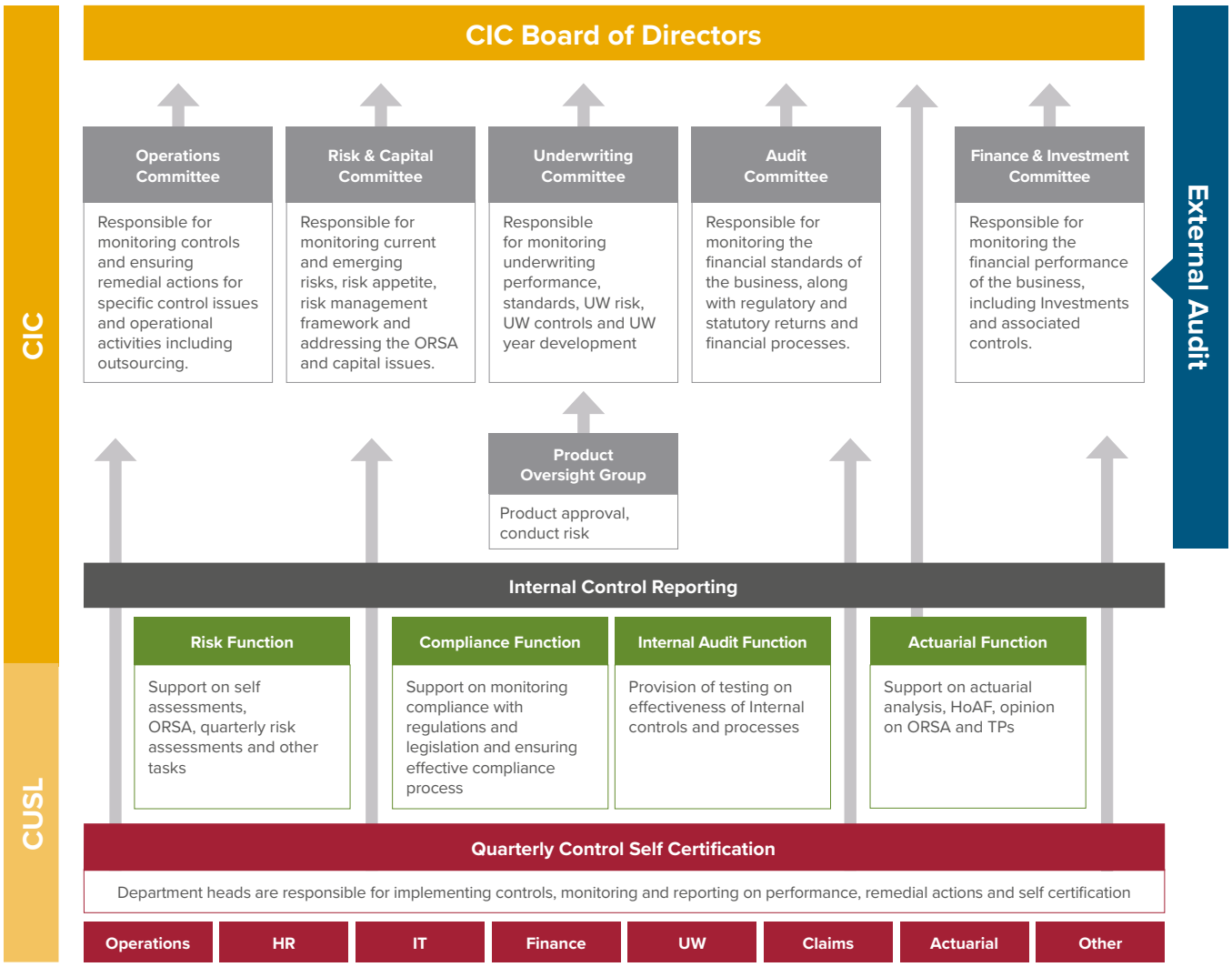
REVIEWING ANY NEW UNDERWRITING INITIATIVES.

- Finance & Investments Committee
- Overseeing CIC's material financial matters, including investment management arrangements, investment guidelines, investment asset allocations and financing activities;
- Overseeing CIC's financial and regulatory reporting, including the monitoring of the effectiveness of the financial control environment; and
- Overseeing CIC's tax obligations, reporting and compliance.

OPERATIONS COMMITTEE

- Providing assurance that CIC has a robust and effective control framework over all operational activities including any outsourced functions, and that all outsourced functions are managed effectively and in accordance with internal guidelines and regulatory expectations.
-

The following shows the structure of the Board, Committees and System of Governance of CIC:



B.1.2 MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE THAT HAVE TAKEN PLACE DURING THE REPORTING PERIOD

As part of the change of control of the company Mr Jeff Farber resigned as an executive director. He was replaced on the Board of Directors and Audit Committee by Dr. Zuo Huiqiang.

There have been no other material changes to the governance arrangements over the course of the year, though it should be noted, as a subsequent event, the change of control of the Company from THG to China Re was approved effective from 14th February 2019.

B.1.3 REMUNERATION POLICY FOR THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODY AND EMPLOYEES

The Company's Remuneration Policy is set by the Board and updated on annual basis. It is the intention of the Company to ensure that remuneration of its employees, officers and directors meets good practice standards as well as applicable regulatory requirements. It is the Board's intention to ensure that remuneration structures do not promote excessive risk taking. This aim is achieved through a suitable balance between fixed and variable remuneration, which varies depending on an individual's role and seniority.

The Board does not deem it necessary to establish a Remuneration Committee and believes it appropriate that such matters, on the basis of the proportionate size and risk profile of the Company, be addressed by the Board. If the Company deems it necessary, the Board will establish a Remuneration Committee and follow the requirements of the Corporate Governance Requirements for Insurance Undertakings 2015.

The Company provides a range of benefits to employees, including contractual salary, life cover, permanent health insurance and paid holiday arrangements. The Company pays contributions based on a percentage of salary determined by length of service into Personal Retirement Savings Accounts on behalf of its employees (defined contribution plans). Once the contributions have been paid, the Company has no further payment obligations. Employees contribute additional voluntary contributions to suit their circumstances.

The Company does not offer any bonuses or incentives related exclusively to revenue, premium growth or other metrics that might encourage undue risk taking. Therefore, its remuneration practices are considered to promote sound and effective risk management and does not promote or encourage excessive risk taking.

The Company operates an annual bonus plan for employees based on Company and individual performance, which is aligned with Chaucer's practices and in compliance with the Company's own Remuneration Policy. The Company does not offer any supplementary pension or early retirement scheme.

With regard to the remuneration of its INEDs, the Company's policy is that, in keeping with their duty of independence, they shall be remunerated by a fixed fee only, and no incentive-based payments will be made. It is the Company's policy that NEDs who are employees of the Group shall receive no remuneration for their duties as directors of the Company. Other than payment for services for those outsourced functions set out in B.7 of this report, and the salaries and benefits of contracted employees of the Company, there were no material transactions with persons who exercise a significant influence on the undertaking or with members of the administrative, management or supervisory body during the reporting period.

In addition, other than the transactions that occur with the shareholder in the normal course of business relating to the Quota Share, there were no other material transactions with the shareholder during the year.

Furthermore, there have been no dividends paid to the parent company during the reporting period.

There have been no significant changes to the entitlements of the members of the administrative, management and supervisory bodies during the year.

B.2 FITNESS AND PROBITY

B.2.1 REQUIREMENTS FOR SKILLS, KNOWLEDGE AND EXPERTISE

CIC is responsible for ensuring that individuals performing Controlled Functions (including Pre-Approval Controlled Functions ("PCF") meet the CBI's Fitness and Probity Standards, both prior to appointment and on an on-going basis. CIC is required to satisfy itself on reasonable grounds that all individuals performing PCF roles comply with the Fitness and Probity ("F&P") Standards and appropriate due diligence is performed in this regard, including in respect of the skills, knowledge and expertise required.

The Company has a Fitness and Probity Policy that is reviewed and approved annually by the Board. The policy is supported by detailed documented procedures. These processes and procedures, including an annual Fitness & Probity review, support the Company's annual confirmation to the CBI that the Company is in compliance with the relevant regulatory requirements under the CBI's Fitness and Probity Standards 2014 and associated CBI Guidance (the "F&P Standards") including updated F&P Guidelines and FAQs issued in 2018.

B.2.2 PROCESS FOR ASSESSING THE FITNESS AND THE PROPRIETY OF THE PERSONS WHO EFFECTIVELY RUN THE UNDERTAKING OR HAVE OTHER KEY FUNCTIONS

As part of the Company's fitness and probity processes, CIC operates a formal process to ensure all directors are considered by the CBI for pre-approval and that they continue to meet the requirements and obligations set by the CBI. Following a detailed due diligence exercise by the company to satisfy suitable fitness and probity of the proposed person, Individual Questionnaires ("IQs") are submitted to the CBI for approval in respect of each member of the Board or senior management who will be performing a PCF.

CIC ensures its on-going compliance obligations in respect of fitness and probity due diligence are met in line with the CBI's Guidance on Fitness and Probity Standards. This includes CIC's obligation to submit the Annual PCF Confirmation Return to the CBI and confirm therein that each PCF holder is compliant (and continues to agree to be compliant) with the Fitness and Probity Standards. CIC also ensures that all resignations of PCF holders are notified to the CBI without delay.

B.3 RISK MANAGEMENT SYSTEM INCLUDING OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 RISK MANAGEMENT SYSTEM

The Board believes that effective risk management forms a critical part of the governance framework and is a source of competitive advantage. Hence, the principles and framework adopted ensure a focus on effective risk controls and management process designed to identify, measure, monitor and control risks across all areas of the risk universe.

CIC has adapted Chaucer's existing ERM framework proportionately to the size, nature and complexity of CIC's business and in line with CBI requirements. In addition, the Company is supported by Chaucer's management team through our outsourcing agreements to ensure multi-dimensional oversight based on the following principles:

- Simple objectives;
- Clear risk appetite;
- Robust governance, controls and reporting; and,
- A strong culture and tone from the top which supports the underling key principles.

B. SYSTEM OF GOVERNANCE

B.3.2 IMPLEMENTATION OF THE RISK MANAGEMENT SYSTEM

The Company's RMS underpins the Board's strategy and operational plan. The primary objective of the RMS is to ensure that the business has a repeatable process for identifying risk, conducting risk assessments and reporting on risks related to the pursuit of strategic and business objectives and by ensuring that it is commercially effective and supporting senior management and Board level decision making.

The RMS is represented by the following key elements which are reinforced through the key internal controls and business management processes:

RISK STRATEGY, RISK GOVERNANCE & RISK APPETITE

- The RMS is owned by the Board with responsibility for oversight and development delegated to the second line Risk Management function via the Risk & Capital Committee;
- Responsibility for embedding lies with the first line business functions supported by risk oversight and reporting;
- The Risk and Audit functions provide assurance in terms of compliance with the key controls;
- The Risk Appetite defines categories of risk and quantum/tolerance within each category;
- The Risk Culture is integrated into the Remuneration Policy. People are not rewarded for excessive risk taking; and,
- Policy statements and business standards and procedures support adherence to the chosen appetite and set out the following:
  - Policy statements set out the parameters within which management may operate and define the standards that must be applied within the business;
  - They ensure businesses identify, measure, manage, monitor and control material risks and define the procedures which should be applied to the main risk classes; and
  - They are approved annually by the respective Committees and the Board.

RISK ASSESSMENT AND RISK REPORTING

- CIC has detailed risk assessment processes which assist management in identifying, assessing and monitoring risks whilst contributing to key decision making and assessing capital requirements by ensuring all risks are considered;
- The risk register and risk dashboard are core parts of the risk analysis and processes with the regular assessment of emerging risks both at Executive Committee, Risk & Capital Committee, and Board levels; and
- Risk reporting is led by the Head of Risk & Compliance, who reports to the Risk & Capital Committee and Board. This risk reporting includes the regular review of the risk appetite and Own Risk & Solvency Assessment ("ORSA").

B.3.3 OWN RISK & SOLVENCY ASSESSMENT

CIC has adapted Chaucer's ORSA process whereby a framework has been designed which emphasises the risk assessment, capital management and decision making processes that are operated on a continuous basis throughout the year and embedded within the business. Each of these activities has its own reporting requirements and supporting analysis that is demonstrable at one or more levels within the management and governance structure of the Company.

CIC's ORSA policy and framework brings together the RMS and capital management activity across the following five key business activities:

B. SYSTEM OF GOVERNANCE

The Board owns and governs the ORSA Framework and processes. Each activity within the ORSA process is, however, overseen by a relevant governance forum (the Risk and Capital Committee) prior to recommendation for approval to the Board. The Risk & Capital Committee, for example, reviews the effective functioning and outcomes from the ORSA processes during the year and recommends to the Board for approval.

The Head of Risk & Compliance is responsible for reviewing the ORSA policy and framework on at least an annual basis. The results of such review and any proposed changes are to be reported to the Risk & Capital Committee who will review and recommend for approval to the Board. The performance of the framework is reviewed on an ongoing basis and on an ad-hoc basis if certain ORSA trigger event occur.

The Board formally reviews and approves the ORSA on an annual basis, however, in the event of an ORSA trigger event(s), the Board will review and approve an interim ORSA as required. The Risk & Capital Committee considers whether there has been a trigger event as part of the quarterly review of the risk dashboard and register.

The following briefly describes how the main ORSA process brings together the ERM across the five key business activities:

BUSINESS STRATEGY:

- Assessment of risks to achieving strategy and risks to the associated business model;
- Forward looking risk profile assessment based on long-term strategy and short-term business plans under normal and stressed conditions; and
- Setting and validation of strategy/business plan or identification of management actions required to amend strategy or business plan.

RISK APPETITE, PROFILE & REPORTING:

- Setting and validation of risk appetite levels or identification of management actions required to amend risk appetite;
- Identification of risk sources and risk causes of profit and loss results (P&L Attribution); and
- Assessment of adequacy of risk management framework and identification of improvements.

RISK MITIGATION & ASSESSMENTS:

- Assessment of adequacy of risk mitigation techniques; and
- Review of risk assessments supporting key Board decision making.

CAPITAL & SOLVENCY:

- Assessment of adequacy of capital and liquidity contingency plans;
- Determination of CIC's economic capital requirements; and
- Assessment of accessibility to capital and funding arrangements.

STRESS & SCENARIO TESTING:

- Assessment of strategic scenarios considering various outcomes; and
- Assessment of potential earnings volatility and stresses to capital via a range of scenarios by risk category and reverse stress tests.

Solvency needs and the Solvency Capital Requirements ("SCR") are calculated using the Solvency II Standard Formula. However, additional tests are performed to determine the appropriateness of the Standard Formula and, in particular, the solvency and economic capital needs of the business based on the specific risk profile and business plan. This is done by analysing the risk dashboard and individual risks contained therein to assess the link with capital and solvency and determine whether additional requirements are necessitated in view of those risks.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 DESCRIPTION OF THE INTERNAL CONTROL FUNCTION

The Board has ultimate responsibility for the internal controls of the Company. The Committees with responsibilities for internal controls provide regular updates to the Board, which enables the Board to ensure that an appropriate framework is in place for identifying, assessing and monitoring the effectiveness of internal controls. CIC has adapted Chaucer's existing internal control system to ensure the prevention and detection of fraud and protection of the Company's resources. In addition, senior management, CIC's Risk Management function, and CIC's Internal Auditors also provide multi-disciplinary reviews and oversight of the ongoing management of the Company.

The Internal Control System, interlinked with both the Risk Management Framework and System of Governance, includes a range of tools, techniques and processes to ensure the application of appropriate controls. This includes the suite of Internal Control Policies that set out the company policies and specific requirements on a range of critical internal control matters.

B.4.2 IMPLEMENTATION OF THE COMPLIANCE FUNCTION

The Board of the Company has ultimate responsibility for its compliance objectives.

To help achieve this aim, the Board has established a Compliance Function, staffed by an appointed Compliance Officer, to supplement the responsibilities of the Board to ensure compliance with legislation, regulations and other applicable requirements.

The role of the Board appointed Compliance Officer is to:

- assist the Board with ensuring ongoing compliance with legislation, regulation and applicable requirements;
- enhance the Company's awareness of compliance matters;
- monitor the Company's compliance with legislation and applicable requirements and guidelines;
- document any breaches identified, how they are addressed and whether any third party reporting of the breach is required;
- ensure that the Board is kept informed of any amendment to the applicable regulations, legislation and guidelines or the addition of any new requirements and the potential impact on the Company;
- provide opinions, recommendations, supervision and independent controls; and,
- provide reasonable assessment of the effectiveness and consistency of the internal processes used to control the compliance of the Company's operations and protect its reputation.

The Compliance Officer presents a compliance report to the Audit Committee at each meeting which includes the following:

- Details of regulatory correspondence with the Company;
- Details of regulatory developments;
- Details of which controls were tested since the last report and the results of the tests; and
- Conclusions and recommendations on the Company's compliance with legislation and guidelines.

The Compliance Officer is also a member of the Risk & Capital Committee.

B.5 INTERNAL AUDIT FUNCTION

B.5.1 MPLEMENTATION OF THE INTERNAL AUDIT FUNCTION

The Company has established an Internal Audit function, with the Head of Internal Audit ("HIA") and internal audit resources being provided by CUSL under the outsourcing arrangement.

The Company's Internal Audit function assists the Board and senior management to protect the assets, reputation and sustainability of the organisation. The Internal Audit function assists in the achievement of this by assessing the significant risks to the business and assessing whether they are adequately monitored, controlled and mitigated. This includes challenging senior management to improve the effectiveness of governance, risk management and internal controls over business processes. The Company's Internal Audit function operates within the three lines of defence model, providing independent assurance over the effectiveness of processes in the first and second lines of defence.

B.5.2 INDEPENDENCE OF THE INTERNAL AUDIT FUNCTION

The Internal Audit function is independent of CIC's operational functions so as to ensure that the judgements essential to its proper conduct and impartial advice to the Audit Committee are unbiased. It reports directly to the Company's Audit Committee and to the Board, as required. The HIA confirms her organisational independence to the Audit Committee at least on an annual basis, in accordance with Audit Committee Terms of Reference.

B.6 ACTUARIAL FUNCTION

The work of the Actuarial Function is coordinated by one individual approved by the CBI to act in the Pre-Approval Controlled Function of Head of Actuarial Function ("HoAF") for CIC. The Actuarial Function services are provided under an outsourcing arrangement with CUSL and therefore the HoAF utilises the services of the actuarial staff from CUSL to carry out actuarial analyses for CIC.

The HoAF provides reports to the Board, the Audit Committee and the Risk & Capital Committee as may be required. The HoAF is responsible for producing an annual Actuarial Opinion on Technical Provisions to be submitted to the CBI in conjunction with the Solvency II annual quantitative reporting templates. In addition, the HoAF presents an annual Actuarial Report on Technical Provisions, an opinion on the ORSA, underwriting policy and on the Company's reinsurance adequacy to the Board. Furthermore, the HoAF contributes to the RMS of the Company.

The HoAF is a PCF holder under the CBI's Fitness and Probity regime. She is a Fellow of the Institute of Actuaries and an affiliate member of the Society of Actuaries in Ireland. The Actuarial function comprises of fellows/students of the Institute & Faculty of Actuaries and operates under the standards set out by the Institute & Faculty of Actuaries and the Board for Actuarial Standards (or equivalent). One of the roles of the Actuarial Function is to help maintain compliance with requirements and regulations issued by, inter alia, EIOPA, the CBI and Society of Actuaries in Ireland. The current structure of the Actuarial Function within the Company is considered to be appropriate in achieving the full intended aims of the function.

B.7 OUTSOURCING

The Board is responsible for ensuring that the outsourcing policy and the outsourcing arrangements comply with the relevant regulations and for ensuring that due skill, care and diligence is exercised when entering into, managing or terminating any arrangement for the outsourcing to a service provider that is deemed to be a critical or important function or activity ("CIFA") pursuant to Article 49 of the Solvency II Directive 2009/138/EC. The entering into, managing or terminating of all other outsourcing arrangements is delegated by the Board to the Operations Committee or Underwriting Committee to the extent it related to outsourcing of underwriting or claims activities.

B. SYSTEM OF GOVERNANCE

The Company requires service providers to cooperate with the relevant supervisory authorities in connection with any outsourced function or activity. The Company's staff, auditors and the relevant supervisory authorities have effective access to data related to the outsourced functions or activities and, where appropriate, the supervisory authorities would have effective access to the business premises of the service provider and would be able to exercise those rights of access.

The Outsourcing Policy covers the following areas:

- Objectives of the outsourcing policy;
- Organisational arrangements setting out the roles and responsibilities;
- The decision-making process;
- The selection process for outsourced service providers;
- The process for ongoing supervision and management of risks;
- Procedures for notification to the CBI upon outsourcing a material activity;
- Procedures for notification to the CBI in the event of an outsourced service provider's inability to meet its obligations under an agreement;
- Procedures for appropriate monitoring and assessment of the outsourced service provider's financial performance and changes to its organisational structure;
- Reporting arrangements and requirements;
- Business continuity requirements; and,
- The process and timelines for approval, review and updating of the outsourcing policy by the Board.

The Company outsources to affiliate entities CUSL, located in the UK and Chaucer Aps, located in Denmark, respectively. Both entities provide operational support and services to CIC including underwriting; risk management; legal and compliance; IT; finance; actuarial and internal audit sevices.

The Company also outsources the provision of underwriting and claims settlement services to Managing General Agents ("MGAs")/ Coverholders under the terms of delegated underwriting authority agreements.

All outsourcing arrangements are reviewed by the Operations Committee, or the Underwriting Committee if delegation of underwriting, and if deemed to meet the criteria of a critical and or important function or activity ("CIFA"), are presented to the Board for approval. Once the Board has approved the CIFA, the General Manager notifies the CBI. All CIFAs are closely monitored by the Company's General Manager and Operations Committee, Underwriting Committee or Finance & Investments Committee, as appropriate. All CIFA arrangements are reviewed at least annually and, where material, changes are brought to the Board for consideration and approval.

B.8 ASSESSMENT OF THE ADEQUACY OF THE SYSTEM OF GOVERNANCE TO THE NATURE, SCALE AND COMPLEXITY OF THE RISKS

The Company is committed to embedding a culture of compliance and excellence in all governance matters. To that end, the Company has:

- Appointed an experienced Board, comprising a mix of executives, group NEDs and INEDs, providing a balance of innovative thinking with in depth insurance industry and business knowledge and experience;
- Appointed a management team in Ireland directly responsible for ensuring that CIC operates an effective system of governance;
- Appointed a highly experienced UK Branch Manager and Danish Branch Manager; and
- Developed and embedded a committee structure to ensure challenging engagement with all areas of the business and segregated oversight by committees with appropriate authorities and responsibilities delegated from, but ultimately overseen by, the Board of Directors.

Taking all of the above into account, the Company's assessment is that its system of governance in respect of the oversight of branches and outsourcing is adequate for a company of its nature, scale and complexity.

B.9 ANY OTHER MATERIAL INFORMATION REGARDING THE SYSTEM OF GOVERNANCE OF THE COMPANY

There are no other material disclosures or relevant information to note.

C. RISK PROFILE

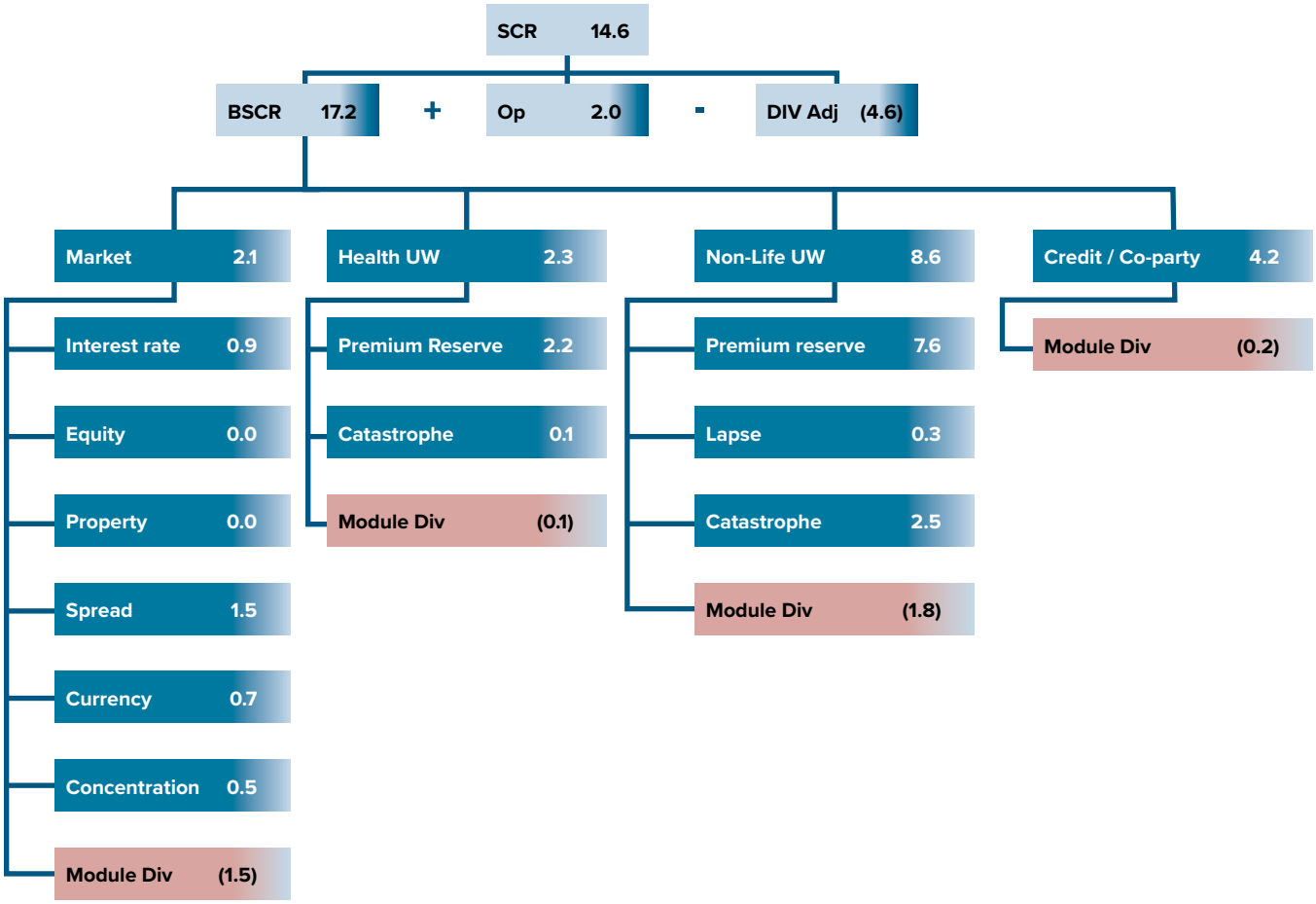
The 'Risk Profile' section of the report captures the nature of the overall risk status of the Company, taking into account all material risks to which the Company is exposed.

C.1 OVERVIEW

CIC is committed to a structured and disciplined approach to risk management which considers, evaluates and manages risks as an integral part of the day to day running of the business. The involvement of the Board in setting the direction, tone and nature of the business culture and the importance of effective risk management are fundamental parts of this. The aim of a stable, secure and efficient business is integrated with a transparent communication and engagement model which seeks to build a sustainable business model where financial value is developed over the long-term. The Board reviews the Company's risk profile on an ongoing basis (at least quarterly) via a risk dashboard and register. This allows it to see, understand and ensure mitigations are in place to oversee appropriate actions.

Additionally, as the Company uses the Solvency II Standard Formula for the purposes of assessing capital requirements, the Board must gain comfort that this approach is an appropriate method for the Company. The key assumptions underlying the Standard Formula have been assessed and consideration given to whether additional levels of capital are maintained. The Company performs stress and scenario testing to ensure the SCR position for each risk module is capable of withstanding extreme, unforeseen, or "shock" events. These tests, whilst extreme, are plausible occurrences. These have been selected based on the lines and classes of business, products and operational model of the Company.

The SCR arising from the Standard Formula is as follows.



The following sections contain further information on the key risks to which the Company is exposed in accordance with the Company's risk profile. These consider the exposure, concentrations, risk mitigations and stress testing applied under each of the main risk categories.

C.2 NON-LIFE UNDERWRITING RISK

C.2.1 RISK EXPOSURES

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

Underwriting risk includes the risk of loss to the Company as a result of inappropriate or ineffective underwriting processes, the risk of loss as a result of inappropriate or ineffective claims handling or the risk that the ultimate value of insurance liabilities prove to be greater than the estimated value, and the risk that inadequate pricing leads to unprofitable business.

C. RISK PROFILE

The Company takes a conservative approach to managing all aspects of underwriting risk. Policy limits are clearly defined within the Company's Risk Appetite Statement which is actively managed and reported to the Board on a quarterly basis. The maximum gross limit per risk is $75 million per risk and maximum net retention after RI is $1.25 million per risk. The appetite is supported by underlying internal control policies which define the standards to be followed by those involved in underwriting, claims, pricing and reserving. Underwriters have specific authority limits, which limit the extent to which they can bind business. The Company adopts a best estimate approach in determining its ultimate liability to policyholders.

Underwriting authorities are tightly managed and approved by the General Manager based on the knowledge and experience of the individual underwriter. The Company utilises the expertise and knowledge of the underwriters at Chaucer through its outsourcing arrangements.

As well as being able to meet its strategic and regulatory objectives, high quality management of its underwriting, claims, pricing and reserving risks enables the Company to make better informed decisions that explicitly consider the implications of underwriting and claims risk exposures and therefore better protect the Company and its sole shareholder against earnings volatility and capital erosion.

Material risk exposures will arise in all planned portfolios. In addition to being carefully underwritten the company has a reinsurance strategy that helps minimise the net exposures on individual risks and portfolios. This includes external excess of loss and proportional insurance contracts as well as an intragroup quota-share agreement.

Underwriting risk includes reserving and pricing risk. Reserving risk arises when actual claims experience differs adversely from the assumptions included in setting reserves, in large part due to the length of time between the occurrences of a loss, the reporting of the loss and the ultimate resolution of the claim. Provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. To the extent reserves prove to be insufficient to cover actual losses and adjustment expenses, the Company would have to recognise such reserve shortfalls and increase future reserves.

The Company's loss reserving methodologies continuously monitor the emergence of loss and loss development trends, seeking, on a timely basis, to both adjust reserves for the impact of trends shifts and to factor the impact of such shifts into the Company's underwriting and pricing on a prospective basis.

The HoAF assesses the adequacy of the Company's insurance liabilities on an annual basis. The actuary uses statistical projections at a given point in time of the Company's expectations of the ultimate claims settlement for losses which occurred in the current financial year and prior. Such statistical tools analyse and extrapolate the development of paid and incurred claims to ultimate.

The Company is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, investment income and expected profit in relation to unearned premiums.

Underwriting Risk includes Catastrophic ("Cat") risk. The Company is exposed to unpredictable Cat events arising from man-made or natural catastrophes that could significantly impact the operating results and financial condition of the Company. The Company manages its catastrophe-exposed risks through a cycle of planning, pricing, accumulation and post-event monitoring. Planning primarily involves determining how much capacity the Company can absorb using stress and scenario tests.

C.2.2 RISK CONCENTRATIONS

CIC offers a range of property and casualty (non-motor) products through professional intermediaries, brokers and cover-holders. Risk concentrations are managed in a number of ways, including but not limited to the following:

- Exposure management forms a key element of our underwriting process. We manage our portfolio "globally" and on a class-by-class basis using a variety of exceedance probability curves, realistic disaster scenarios and other deterministic scenarios. The Exposure Management team in CSL manage the reporting of the current position against risk appetites to the business, management and regulators. The team is also responsible for the day to day modelling service provided to the underwriting functions as well as the modellers involved in this process.
- Distribution concentrations, particularly around exposures to MGAs are managed through the approval process and reporting of distribution concentrations through the Underwriting Committee.

C.2.3 RISK MITIGATION

There are detailed underwriting and acceptance guidelines in place for all lines of business and products within those lines. Chaucer underwriters have extensive experience in these lines of business and products. Each underwriter has individual limits commensurate with their experience and the Company's risk appetite.

The scope of authority is issued by means of a Letter of Authority from the Company's General Manager, scheduling the Classes of Business that may be underwritten by any individual in accordance with the Business Plan for that Class. Letters of Authority are issued individually to underwriters who then sign and return them. The general limits of these authorities in terms of line size and exposure accumulation, consistent with the Business Plan, are set out in the Underwriting Controls Manual.

Any material changes or developments in lines, portfolios or products only occur after detailed analysis. Monitoring is provided via regular updates to the Underwriting Committee and Board.

The Company's reinsurance strategy is conservative, reflecting the start-up nature of CIC. This strategy is reviewed at least annually and is aligned to the both the level of capital and underwriting risk appetite in order to mitigate the underwriting risk and limit the risk of losses exceeding the Company's appetite.

CIC participates on a shared reinsurance programme with Chaucer Syndicates and has been endorsed onto all the reinsurance programs that Chaucer Syndicates has.

The impact of the reinsurance strategy (combing external and internal reinsurance) is to reduce the net retention to below 5% (on average).

Oversight arrangements in respect of additional MGA and coverholder arrangements comes under the remit of the POG (which is a subcommittee of the Underwriting Committee) and include detailed reporting on a range of management information and metrics.

C.2.4 STRESS AND SCENARIO TESTING

Using the Standard Formula, the SCR for Underwriting Risk (both Non-Life and Health) is $10.9 million (2018: $4.3 million) on pre-diversified basis, which is 63% (2018: 59%) of the Basic Solvency Capital Requirement ("BSCR") before diversification.

A number of stress and scenario tests are available for understanding how the Company risk profile would look under stressed conditions and for determining the associated impact on capital requirements.

Underwriting risk analysis includes scenarios such as a global financial crisis, Eurozone recession or disintegration of the EU, country specific bank runs or bank downgrades, corporate sector issues, a China slowdown or a mass accident event. These were translated into potential catastrophic and non-catastrophic scenarios based on the expected risk profile of the principal classes.

The stress and scenario testing concluded that the SCR for Underwriting risk, using the Standard Formula, sufficiently covers a 1:200 scenario.

C.2.5 OTHER MATERIAL INFORMATION

The Company also faces underwriting and reserving risk in respect of its non-life health underwriting risk, which is a separate module within the Standard Formula. The SCR for health underwriting is $2.3 million (2018: $0.6 million) which represents 13% (2018: 8%) of the undiversified BSCR. The same risk factors and mitigations apply to this sub-module as apply to non-life underwriting.

C.3 MARKET RISK

Market risk is the risk that changes in market prices, arising primarily from changes in interest rates and foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. Market Risk can be broken down into three broad categories with the following high level definitions:

Market Risk - The risk that arises from fluctuation and uncertainty of assets prices, interest rates, credit spreads and other macro-economic factors.

Currency Risk - The risk that arises from fluctuation of foreign exchange rates.

Asset Liability Matching Risk - The risk that arises from changes in macro-economic factors that impact net assets and liabilities differently due to a mismatch of asset and liability characteristics such as original currency and duration.

C.3.1 RISK EXPOSURES

CIC is exposed to, and manages, a variety of market risks that could prevent the achievement of business objectives. These risks arise as the Company invests funds designed to ensure the preservation of the principal while generating an investment return. The Company applies the prudent person principle to the management of its investments. Investments are managed for and on behalf of the Company by Opus. In accordance with the Company's conservative investment guidelines, the Company invests in liquid, high quality investment-grade fixed income securities. The Company's portfolio is comprised of predominantly USD assets, with cash balances held in Euro and Great British Pounds, respectively.

C.3.2 RISK CONCENTRATIONS

Concentration Risk is the risk that arises from large investment in individual counterparties and single name exposures. As at 31st December 2019, the Company's single largest exposure to an individual counterparty is through its US Treasury positions, representing 17.3% (2018: 23.1%) of its investment portfolio. This level of exposure to a single counterparty is in accordance with the Company's investment guidelines.

C.3.3 RISK MITIGATION

Market risk is mitigated by:

- Limits on duration, credit quality and concentration levels mitigate market risks and are embedded within the investment guidelines;
- Selection of knowledgeable and reliable investment managers who operate within the investment guidelines; and,
- Regular compliance monitoring and testing and permitted ranges to accommodate short-term expectations and objectives to the Board.

In order to ensure the effective management of currency risks, suitable processes and procedures are in place to monitor the net exposure (Assets – Liabilities) in original currency and the impact of potential exchange rate volatility is considered.

Net exposures in original currency are calculated on a quarterly basis and the expected return range is assessed based on the historical volatility of exchange rates against a predetermined tolerance band. Where the expected return is outside of the tolerance band the Company looks to rebalance net exposures and reduce overall currency risk.

C.3.4 STRESS TESTING

Using the Standard Formula, the SCR for market risk is $2.1 million (2018: $1.3 million), which is 12% (2018: 18%) of the BSCR before diversification.

The stress and scenario testing performed in respect of market risk considers the impact of extreme events on interest rates and fluctuations on exchange rates. As at 31st December 2019, if interest rates on debt securities had been 100bps higher/lower with all other variables held constant, shareholder's equity would have been lower by $1.2 million and higher by $1.0 million, respectively (2018: $0.6 million). This sensitivity does not take into account the offsetting impact on the change in valuation of Technical Provisions from a change in interest rates.

C. RISK PROFILE

The following table details the Company's sensitivity to a 10% increase and decrease in the US dollar against the relevant foreign currencies for the year end 31st December 2019. A 10% sensitivity rate is used when reporting foreign currency risk as it represents a reasonable possible change in foreign exchange rates. For each sensitivity, the impact of change in a single factor is shown, with other assumptions unchanged. The Company does not have significant exposure to non-USD currencies at the balance sheet date for the year ended 31st December 2018. The impact of strengthening or weakening of the US dollar to other currencies at 31st December 2018 is negligible. As a result, no comparative amounts are shown in the table below.

	Pre-Tax Profit 2019 US$000	Equity 2019 US$000
10% Strengthening in rates	451	375
10% Weakening in rates	(552)	(458)

The impact on investment counterparty risk (concentration) is assessed in section C.4 – Credit Risk.

C.3.5 OTHER MATERIAL INFORMATION

There are no other material disclosures or relevant information to note.

C.4 CREDIT / COUNTERPARTY RISK

Credit Risk is the risk that one party to a contract fails or fails to discharge an obligation, thereby causing financial loss to the other party.

C.4.1 RISK EXPOSURES

CIC is exposed to credit risk through its investment portfolio (including cash and cash equivalents) and through its exposure to reinsurance counterparties (i.e. companies with whom CIC places reinsurance and brokers/intermediaries). In the event that any of the counterparties fail, CIC may incur a loss of assets or reinsurance recoverables.

CIC has a low risk appetite and therefore a conservative approach to the selection of counterparties both on a short, medium and long terms basis.

The primary exposure is to CIC's affiliate entity China P&C Re, by virtue of the quota-share agreement which reinsures 90% of the net retentions of the Company. China P&C Re has an S&P credit rating of 'A' and the board believes the arrangement represents an effective mitigation of the underwriting exposures without presenting undue credit risk exposure to the business.

C.4.2 RISK CONCENTRATIONS

CIC participates on a shared reinsurance programmes with Chaucer Syndicates. As at 31st December 2019, over 90% of the Company's reinsurance counterparties are rated A (including A+/A-). In addition, the Company has entered into an agreement whereby the Company cedes an amount equal to 90%, net of inuring reinsurance, of its premiums, losses and loss adjustment expenses, commissions and any other costs incurred by the Company to affiliate entity China P&C Re, which has a Standard & Poor's credit rating of 'A' as at the reporting date.

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

	2019		2018	
Debt securities and other fixed incomes	US$000	%	US$000	%
AAA	19,471	48%	10,509	43%
AA	1,347	3%	1,470	6%
A	11,688	29%	6,856	28%
BBB	7,961	20%	5,442	22%
BB or lower	204	-%	202	1%
Total	**40,671**	**100%**	24,479	100%

Cash and Cash equivalents are held with banks and financial institution counterparties which are rated AA to BBB-, based on Standard & Poor's ratings, or equivalent. The following table shows the carrying value of assets that are neither past due or impaired and the ageing of the assets. No assets are impaired at the reporting date.

	Neither due nor impaired US$000	Up to three months US$000	Three to six months US$000	Greater than six months US$000	Total US$000
Reinsurers' share of claims outstanding	13,379	-	-	-	**13,379**
Debtors arising out of insurance operations	22,299	1,216	191	864	**24,570**
Other debtors	310	-	-	-	**310**
Total credit risk	**35,988**	**1,216**	**191**	**864**	**38,259**

C.4.3 RISK MITIGATIONS

The credit risk related to cash, cash equivalents and fixed maturities is primarily mitigated by placing constraints on the credit quality of the portfolio and managing the concentrations with single providers.

The credit risk related to reinsurers is primarily mitigated through robust reviews of all reinsurer counterparties with whom the Company wishes to conduct business and setting credit thresholds for the total potential recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing within the market. Thereafter, management of reinsurer credit risk follows active and regular review, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

Reinsurers and intermediaries are monitored closely by the Company's Credit Committee and the Company actively reviews its aged receivables in respect of each counterparty, recognizing a bad debt provision or impairment where appropriate.

In respect of mitigating the credit risk associated with brokers and intermediaries, the Company will only accept business from a broker or intermediary where a terms of business agreement is in place.

C.4.4 STRESS TESTING

Using the Standard Formula, the SCR for Credit/Counterparty Risk is $4.2 million (2018: $1.7 million), which is 24% (2018: 23%) of the BSCR before diversification.

The stress and scenario testing performed in respect of Credit/Counterparty Risk considers the impact of extreme events on our reinsurance counterparties and our investment counterparties.

Within the testing for reinsurance counterparty credit risk, we assessed the impact of the following:

- Default by China P&C Re during 2019;
- Downgrade of China P&C Re credit rating from A to BB; and,
- Default by other external parties.

The stress and scenario testing concluded that the Company holds sufficient levels of capital to absorb a 1:200 scenario.

C.4.5 OTHER MATERIAL INFORMATION

There are no other material disclosures or relevant information to note.

C.5 LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. In respect of catastrophic events, there is also a liquidity risk associated with the timing difference between gross cash out-flows and expected reinsurance recoveries.

C.5.1 RISK EXPOSURES

CIC seeks to avoid any situation where funds are not available to meet claims or any other financial obligations arising from a lack of sufficient liquidity. The Company recognises its duty to manage funds in order to settle claims and other obligations promptly and is mindful that, due to the nature of the Company's business, significant cash flow demands may arise in the event of single or multiple large claims or catastrophes. The approach to management of funds undertaken ensures the availability of sufficient funds from such adverse circumstances. Liquidity levels are reported to the Finance & Investments Committee with any exceptions reported to the Risk & Capital Committee as part of the Company's continuous risk appetite reporting processes.

C.5.2 RISK MITIGATIONS

Liquidity risk is assessed in the context of two dimensions, funding and asset liquidity.

In order to ensure the effective management of liquidity risks, processes and procedures are in place to ensure:

- Minimum liquidity requirements are being adhered to;
- Cash flow is being regularly forecasted and monitored;
- A cash-call provision incorporated in the internal group quota share agreement to ensure CIC remains within its liquidity limits;
- There is appropriate matching between the maturities of assets and liabilities; and,
- There is no unexpected outflow of funds.

Minimum liquidity limits are set at a level designed to ensure the Company has sufficient funds to meet obligations and is not forced to sell assets at a significant discount to true economic value.

C.5.3 STRESS TESTING

The Company does not perform any material stress tests on its liquidity risk as the Company holds a highly liquid investment portfolio and maintains at least 3% of its total investments and cash in cash balances to ensure there is sufficiently available funds to meet its obligations.

C.5.4 OTHER MATERIAL INFORMATION

The net expected profit in future premiums ("EPIFP") is $0.7 million (2018: $0.2 million).

The liquidity risk associated with EPIFP is not considered material.

C. RISK PROFILE

C.6 OPERATIONAL RISK

Operational risk is the risk of loss arising from processes, procedures, human or system inadequacy or failure, loss of key personnel, outsourcing relationship failures or other external events. It includes legal, regulatory and reputational risks (see C.7.2 below) in addition to technology and cyber risks. It extends to any ineffectiveness in internal controls which could have an adverse effect on the Company's business. Instances of ineffective internal control include but are not limited to, poor quality management information or the failure of IT systems to capture data and business performance; or, a potential lack of control over the actions of third parties operating on behalf of the Company.

C.6.1 RISK EXPOSURES

Using the Standard Formula, the SCR for Operational Risk is $2.0 million. Under the Standard Formula, Operational Risk is not a risk module within the BSCR.

CIC has a low risk appetite for operational failures that interrupt or hinder trading or adversely impacts on the reputation of the Company.

CIC manages this risk through a combination of operational risk management, supported by internal controls, control policies, processes and procedures, segregation of duties and the three lines of defence model. It is however recognised that achieving complete system and process resilience to ensure no losses is impractical and management seeks to balance the risk through the overall management system.

Legal, compliance and regulatory risk is a subset of operational risk and is an inevitable consequence of operating as a regulated financial services entity. CIC seeks to mitigate these risks by operating robust corporate governance and internal control processes and employing experienced personnel. Governance risk incorporates risks arising from the failure to ensure proper stewardship of the affairs of the entity and safeguard the assets of the Company and protect the overall interests of its stakeholders.

The Board regards a strong governance framework to be vital in achieving its objectives as well as providing transparency and accountability to its various stakeholders. A strong System of Internal Controls, robust System of Governance and the application of the "three lines of defence" model helps to mitigate these risks.

C.6.2 RISK CONCENTRATIONS

The Company is exposed to material concentration of operational risk through its outsourcing arrangements with Chaucer. In the event of a failure by Chaucer to deliver the services required by CIC, this could result in financial losses or regulatory sanction. This arrangement is managed in accordance with CIFA requirements under Solvency II.

C.6.3 RISK MITIGATION

In accordance with the Company's Business Continuity planning policies processes are in place to reduce the risk and impact of an external event on the Company, so the Company can continue its operations from an off-site location and maintain continuity of operations. The Company places a high priority on the management of contracts and the monitoring of services provided under those contracts, including the assessment of the third party outsourced service provider's ability to withstand an external event.

Procedures are in place to ensure the effective oversight of the Danish branch, including reporting through the CIC Operations Committee. These processes reflect the operational standards already in place in respect of the arrangements between CIC and CSL.

C.6.4 STRESS TESTING

There are no specific sensitivities but stress and scenario tests have been performed around individual events that would result in operational costs or losses to CIC. Individual events considered included the failure of a critical outsourcing relationship combined with a regulatory fine and subsequent loss of a key staff member.

The combined stress tests led to the board concluding the Operational Risk module of the SCR was sufficient to cater for the operational risks of the company. The Board concluded that the actual level of capital held by CIC was sufficient in aggregate over the plan period on a 1:200 basis.

C.6.5 OTHER MATERIAL INFORMATION

There are no other material disclosures or relevant information to note.

C. RISK PROFILE

C.7 OTHER MATERIAL RISKS

C.7.1 STRATEGIC RISK

Strategic risk arises from the failure to appropriately and sufficiently define and articulate the direction and objectives of the Company together with the resourcing and monitoring of the achievement of the same. This risk category considers the ability of the Company to respond to external factors, ability to write critical classes of business, outsourcing risk and other global economic factors such as the Brexit.

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

The Company's strategic risk is mitigated by ensuring a strong connection and relationship with both CIC's ultimate parent and affiliate Chaucer through membership of the CIC Board by senior China Re and Chaucer executives.

C.7.2 SOLVENCY RISK / CAPITAL MANAGEMENT

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

This risk is mitigated by the setting of a target capital ratio that is sufficiently conservative to ensure appropriate intervention and remedial activity well before the SCR is breached. Regular monitoring, forecasting and reporting are undertaken as the Company has no appetite for breaching its SCR.

Refer to Section E for further detail on Capital Management.

C.7.3 EMERGING RISKS

CIC has in place a process for monitoring the external environment to identify risks that may not previously have been considered material or present an emerging threat to the business environment, industry or Company. These are classified as emerging risks and are regularly discussed and reviewed by management and with the Board.

The Company has been actively engaged in monitoring, and taking actions to mitigate, Brexit risk. This has been reported to both the Underwriting Committee and the Board. Management believes that the company is well positioned to respond to the range of outcomes.

C.8 OTHER DISCLOSURES / OTHER INFORMATION

There are no other material disclosures or relevant information to note.

D. VALUATION FOR SOLVENCY PURPOSES

The 'Valuation for Solvency Purposes' section of the report describes the valuation of assets, technical provisions and other liabilities for both the FRS 102 basis and the Solvency II basis. This section also outlines the approach and methodology underlying the valuation.

In accordance with Article 75 of the Solvency II Directive, the Company's assets and liabilities, other than technical provisions, are measured in accordance with principles of an arm's length transaction between knowledgeable willing parties using market consistent valuation methods.

The Company's Solvency II balance sheet, valued using Solvency II rules, at 31st December 2019 and 2018, was as follows:

Solvency II Balance Sheet	Section	2019 US$000	2018 US$000
Financial Assets – Investments	D.1.1	40,922	24,666
Cash & Cash Equivalents	D.1.2.	20,668	1,909
Other Assets	D.1.2.	5,942	1,027
Total Assets		**67,532**	**27,602**
Net Non-life Technical Provisions	D.2.	14,930	394
Other Liabilities	D.3.	1,860	27
Total Liabilities		**16,790**	**421**
Excess of assets over liabilities		**50,742**	**27,181**

For a discussion of valuation bases, methods and assumptions for the Company's assets and liabilities see the following sections below.

D.1 ASSETS

D1.1 FINANCIAL INSTRUMENTS – INVESTMENTS

Under Solvency II, investments are measured using fair value principles in line with FRS 102. As this FRS standard is adopted in the Company's Annual Reports, no measurement differences arise on the valuation of the investment portfolio.

The Company is required to classify its investments using the Solvency II hierarchy as follows:

- Quoted market price in active markets for the same assets ("QMP");
- Quoted market price in active markets for similar assets ("QMPS");
- Alternative valuation methods ("AVM");
- Adjusted equity methods ("AEM") applicable for the valuation of the participations; and
- FRS 102 equity method ("IEM") applicable for the valuation of the participations.

Accordingly, the Company's investments under Solvency II at 31st December 2019 and 2018, by category and by valuation classification, are as follows:

Fair Value Categories at 31st December 2019	QMP US$000	QMPS US$000	Other US$000	Total US$000
Government Bonds	7,081	792	-	**7,873**
Corporate Bonds	-	22,524	-	**22,524**
Collateralised Securities	-	10,525	-	**10,525**
Total Fixed Income securities	**7,081**	**33,841**	**-**	**40,922**

Fair Value categories at 31st December 2018	QMP US$000	QMPS US$000	Other US$000	Total US$000
Government Bonds	5,676	1,366	-	**7,042**
Corporate Bonds	-	13,929	-	**13,929**
Collateralised Securities	-	3,695	-	**3,695**
Total Fixed Income securities	**5,676**	**18,990**	**-**	**24,666**

Bonds included within QMP are US Treasury issues that are highly liquid and for which quoted market prices are readily available. Bonds included within QMPS are securities valued using the available prices for similar securities and pricing models that incorporate observable inputs including, but not limited to, yield curves and issuer spreads.

The Company utilises a third-party pricing service for the valuation of the majority of its fixed maturity securities and receives one quote per security. When quoted market prices in an active market are available, they are provided by the pricing service as the fair value and such values are classified as QMP. Since fixed maturities other than US Treasury issues generally do not trade on a daily basis, the pricing service prepares estimates of fair value for those securities using pricing applications based on a market approach. The inputs into the fair value pricing method which is common to all asset classes include: benchmark US Treasury security yield curves; reported trades of identical or similar fixed maturity securities; broker/dealer quotes of identical or similar fixed maturity securities and structural characteristics such as maturity date, coupon, mandatory principal payment dates, frequency of interest and principal payments, and optional redemption features.

D. VALUATION FOR SOLVENCY PURPOSES

The inputs into the fair value applications that are unique by asset class include, for QMPS, but are not limited to the following:

GOVERNMENT BONDS:

Municipals – overall credit quality, including assessments of the level and variability of: sources of payment such as income, sales or property taxes, levies or user fees; credit support such as insurance; state or local economic and political base; natural resource availability; and susceptibility to natural or man-made catastrophic events such as hurricanes, earthquakes or acts of terrorism

CORPORATE BONDS:

Corporate fixed maturities – overall credit quality, including assessments of the level and variability of: economic sensitivity; liquidity; corporate financial policies; management quality; regulatory environment; competitive position; ownership; restrictive covenants; and security or collateral.

COLLATERALISED SECURITIES:

US government agencies - determination of direct versus indirect government support and whether any contingencies exist with respect to the timely payment of principal and interest.

The Company does not hold any investments that are priced or classified in the remaining Solvency II hierarchy.

The accrued interest is reclassified from other receivables under FRS 102 to the value of the underlying investment under Solvency II. This resulted in a change of $0.3 million in the value of investment on the Solvency II economic Balance Sheet as at 31st December 2019 (2018: $0.2 million).

D.1.2 OTHER ASSETS

This section outlines the valuation basis and comparison for other assets excluding Investments as at 31st December 2019 and 2018.

Other assets at 31st December 2019	Reference	Solvency II Balance Sheet US$000	FRS 102 Balance Sheet US$000	Variance US$000
Cash & cash equivalents	D.1.2.1	20,668	20,668	-
Net deferred acquisition costs	D.1.2.2	-	1,021	(1,021)
Insurance and intermediaries receivables	D.1.2.3	2,966	24,570	(21,604)
Reinsurance receivables	D.1.2.4	2,545	34,810	(32,265)
Deferred tax assets	D.1.2.5	410	710	(300)
Receivables (trade, not insurance)		21	270	(249)
Total other assets		**26,610**	**82,049**	**(55,439)**

Other assets at 31st December 2018	Reference	Solvency II Balance Sheet US$000	FRS 102 Balance Sheet US$000	Variance US$000
Cash & cash equivalents	D.1.2.1	1,909	1,909	-
Deferred acquisition costs	D.1.2.2	-	169	(169)
Insurance and intermediaries receivables	D.1.2.3	407	7,871	(7,464)
Reinsurance receivables	D.1.2.4	-	10,346	(10,346)
Deferred tax assets	D.1.2.5	374	389	(15)
Receivables (trade, not insurance)		245	252	(7)
Total other assets		2,935	20,936	(18,001)

The following notes describe the material Other assets in the table above:

D.1.2.1 CASH & CASH EQUIVALENTS

Cash & cash equivalents comprise cash on hand and demand deposits in banks. The carrying amounts of cash & cash equivalents are considered to equate to fair value under Solvency II.

D.1.2.2 DEFERRED ACQUISITION COST

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

Under Solvency II, cash flow projections used in the calculation of Solvency II technical provisions include acquisition costs. As a result, deferred acquisition costs are nil under the Solvency II valuation methodology.

D.1.2.3 INSURANCE AND INTERMEDIARIES RECEIVABLES

Insurance and intermediaires receivables comprise amounts owed to the Company from policyholders. The Reinsurance receviables is comprised of the reinsurers share of unearned premiums, reinsurers share of claims outstanding and debtors arising from reinsurance.

Under FRS, premium and commission receivable balances arising under insurance contracts are recognized when due and measured at cost. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows have been impacted.

Under Solvency II, premium and commission receivable balances not yet due are included in the technical provision best estimate calculations. A balance is deemed not yet due at the balance sheet date, if the receivable becomes due for settlement after the balance sheet date. Premium and commision receivables past due are recognized at fair value on the Solvency II Balance Sheet.

D.1.2.4 REINSURANCE RECEIVABLES

Under FRS, ceded premium advances and losses paid recoverable are recognized at cost with a provision for impairment where necessary.

Under Solvency II, similar to insurance and intermediaries receivables, balances deemed not yet due are included in best estimate calculations within the technical provisions and removed from the FRS reinsurance receivables balance.

D.1.2.5 DEFERRED TAX ASSETS

Deferred tax assets are recognised from the carry forward of unused tax losses and taxable timing differences as a result of the tax impact of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Solvency II rules, and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised, taking into account any time limits relating to the carry forward of unused tax losses. Deferred tax assets and liabilities are not discounted. The difference between the values of the Solvency II balance sheet deferred tax assets and liabilities and the FRS 102 values are due to the tax impact of valuation adjustments to other assets and liabilities on the balance sheet.

There is no expiry date on the Company's deferred tax assets.

D.2 TECHNICAL PROVISIONS

As required under Article 77 of the Solvency II EU Directive, the technical provisions are calculated as the sum of a best estimate of discounted future cash-flows and a risk margin.

The best estimate corresponds to a probability-weighted average of all future cash flows, discounted to allow for the time value of money using the relevant risk-free interest rate. This includes all policies for which the Company has a legal obligation as at the valuation date whether they have incepted or not. The cash flow projection includes all cash in-flows and out-flows required to settle the insurance and reinsurance obligations over their lifetime, including expenses.

The best estimate is split into a 'premium provision' and a 'claims provision'. The premium provision relates to the unearned exposures and the claims provision relates to earned exposures at a specific point in time. These provisions are calculated gross of reinsurance with an appropriate allowance for reinsurance recoveries.

The risk margin represents the risk premium that would be required by another insurance or reinsurance undertaking in order to take over and meet the insurance and reinsurance obligations.

The Company's technical provisions for the year end 31st December 2019 are summarised below.

Line of Business	Gross Best Estimate Liability	Risk Margin	Gross Technical Provisions (calculated as a whole)	Recoverables from Reinsurance Contracts and SPVs	Total Technical Provisions Net of Recoverables
Medical expense	746	71	817	307	1,124
Income protection	-	-	-	-	-
Workers' compensation	14	3	17	109	126
Marine, aviation and transport	4,275	226	4,501	(564)	3,937
Fire and other damage to property	822	54	876	182	1,058
General liability	3,362	92	3,454	1,741	5,195
Credit and suretyship	3,895	102	3,997	(1,863)	2,134
Legal expenses	-	-	-	-	-
Assistance	-	-	-	-	-
Miscellaneous financial loss	196	4	200	(4)	196
Non-proportional health re	(12)	1	(11)	8	(3)
Non-proportional casualty re	7	-	7	18	25
Non-proportional MAT re	314	15	329	(12)	317
Non-proportional property re	809	46	855	(34)	821
Total	**14,428**	**614**	**15,042**	**(112)**	**14,930**

D. VALUATION FOR SOLVENCY PURPOSES

D.2.1 VALUATION OF TECHNICAL PROVISIONS

The following describes the various components of the technical provisions and the valuation methodology employed by the Company on each component.

D.2.2 BASIS, METHODS AND ASSUMPTIONS

(I) BEST ESTIMATE

The starting point for the calculation of the claims provision component of the Solvency II technical provisions is the actuarial best estimate reserves as calculated in accordance with FRS 102. The best estimate reserves are calculated using standard actuarial techniques as appropriate, including loss ratios, development factor methods, the Bornhuetter-Ferguson method, earnings-based methods and frequency/severity analyses. The calculation of the best estimate reserves contains a high degree of expert judgment in selecting the reserving method and assumptions, including development factors and prior loss ratios.

The starting point for the calculation of the premium provision is the Unearned Premium Reserve ("UPR"), as determined in accordance with FRS 102. Under Solvency II, all future cash-flows associated with the UPR (future premium, future claims and expenses) need to be considered when calculating the discounted future cash-flows. The future claims element of the premium provision is calculated by applying loss ratios and reinsurance to gross ratios that are consistent with those used in the best estimate reserving process.

The following adjustments are applied to the premium and claims provisions in accordance with Solvency II valuation principles:

(A) ALLOWANCE FOR ENIDS (EVENTS NOT IN DATA)

Under Solvency II valuation principles, the Company is required to include an allowance within the technical provisions for events or circumstances that are not reasonably foreseeable (i.e. have very low probabilities) and/or are at levels not contained in historical data (i.e. have a very large severity or very low probabilities)

The Company separates ENIDs into two different components: extreme claims which impact the premium provisions and latent claims which impact the claims provisions. The scale of the type of events that have to be considered, and the lack of data on which to base estimates, means that this is a highly subjective element of the technical provisions where judgement is a fundamental requirement.

(B) ALLOWANCE FOR 'COMMITTED TO' BUSINESS

Allowance for 'committed to' business refers to contracts, which have not incepted at the valuation date, but to which the Company has a legal obligation.

The gross premiums from these policies are calculated and prior loss ratios are applied to obtain the gross claims allowance. The 'committed to' reinsurance recoveries are calculated by applying reinsurance to gross IBNR percentages from the best estimate reserving process.

For reinsurance premiums, the committed to allowance is calculated by applying a ratio to the gross premium allowance for non-excess of loss ("XL") reinsurance, whilst for XL, an allowance is made for any covers due to incept on the 1st day of the month following the valuation date.

Provisions for bad debt, expenses, ENIDs and discounting associated with these policies are assessed and calculated as per the methodology described in this document for these items.

There are no further contract boundary assumptions in the TPs or contracts that include significant renewals within existing business.

(C) ALLOWANCE FOR EXPENSES

Solvency II requires a provision be included to allow for all expenses that will be incurred in servicing insurance and reinsurance obligations. The Company allocates these expenses into four separate categories; direct, indirect, one-off and claims handling costs, which includes unallocated loss adjustment expenses. The future expenses are based on the Company's business plan, which includes a forecast for future calendar years. The estimated future cash outflows of these expenses are calculated and allocated to both the premium and claims provisions as appropriate.

(D) ALLOWANCE FOR BAD DEBT

There was no explicit allowance made for bad debt in the period, as this was deemed to be immaterial. Any bad debt on external RI recoveries are ceded 90% to the intragroup quota share. Bad debt on the intragroup quota share is outside the scope of the TPs and is mitigated by the cash flows due to the parent, the capital of CIC and the net worth maintenance deed. If a bad debt is required the methodology will be as follows: the best estimate reinsurance recoveries are allocated to individual reinsurers and applying a table of factors to derive a counterparty default allowance. The table of factors is derived from bond default rates and recoverability assumptions and varies depending on the credit rating of the reinsurer and the expected term of the recoverable.

(E) ALLOWANCE FOR DISCOUNTING

Under Solvency II, future cash flows are discounted for the time value of money. Yield curves are provided by EIOPA. A cashflow of future payments has been calculated and then discounted using EIOPA risk-free rates applied to all expected future cash flows by each individual class or sub-class. CIC's offering mirrors that of Chaucer Syndicate and its claims profile, including payment patterns, are expected to be consistent with those of Chaucer Syndicate 1084. There is insufficient claims experience to date to credibly calculate CIC-specific payment patterns. The application of discount factors is proportionate to the current magnitude and materiality of the amounts involved.

(F) ALLOCATION TO SOLVENCY II SEGMENT

Best estimate reserving is initially performed at homogeneous risk group levels. These risk groups generally follow the classes in which the Company manages the business, however in some instances, due to differing development characteristics, exposures, performance etc. certain risk groups are managed on a more granular basis. Premium, paid and outstanding claims data is available at a year of account, settlement currency, business unit, method of placement and risk code level. From this data, the allocation of internal classes to Solvency II classes can be derived. Items that are not calculated by class of business, e.g. overhead expenses, are allocated to classes of business within the TPs in line with gross written income.

(II) RISK MARGIN

The risk margin represents the risk premium that would be required by another insurance or reinsurance undertaking in order to take over and meet the insurance and reinsurance obligations. The risk margin is calculated on a total basis and is allocated to SII classes for reporting purposes only. The amount of eligible Own Funds required to support the obligations until run-off is calculated using the Standard Formula SCR, projected to each future year-end. The rate used in the determination of the cost of providing that amount of eligible own funds is called Cost-of-Capital and is set at 6% by EIOPA.

D.2.3 LEVEL OF UNCERTAINTY ASSOCIATED WITH THE TECHNICAL PROVISIONS

There are elements of uncertainty inherent in our estimates of the Solvency II technical provisions. As a result of this inherent uncertainty, there is a limitation on the accuracy of these estimates. This uncertainty is because the ultimate liability for claims, as determined at a specific point in time, may be significantly impacted by factors yet to occur.

The following is a list of potential factors that could impact the Solvency II technical provisions:

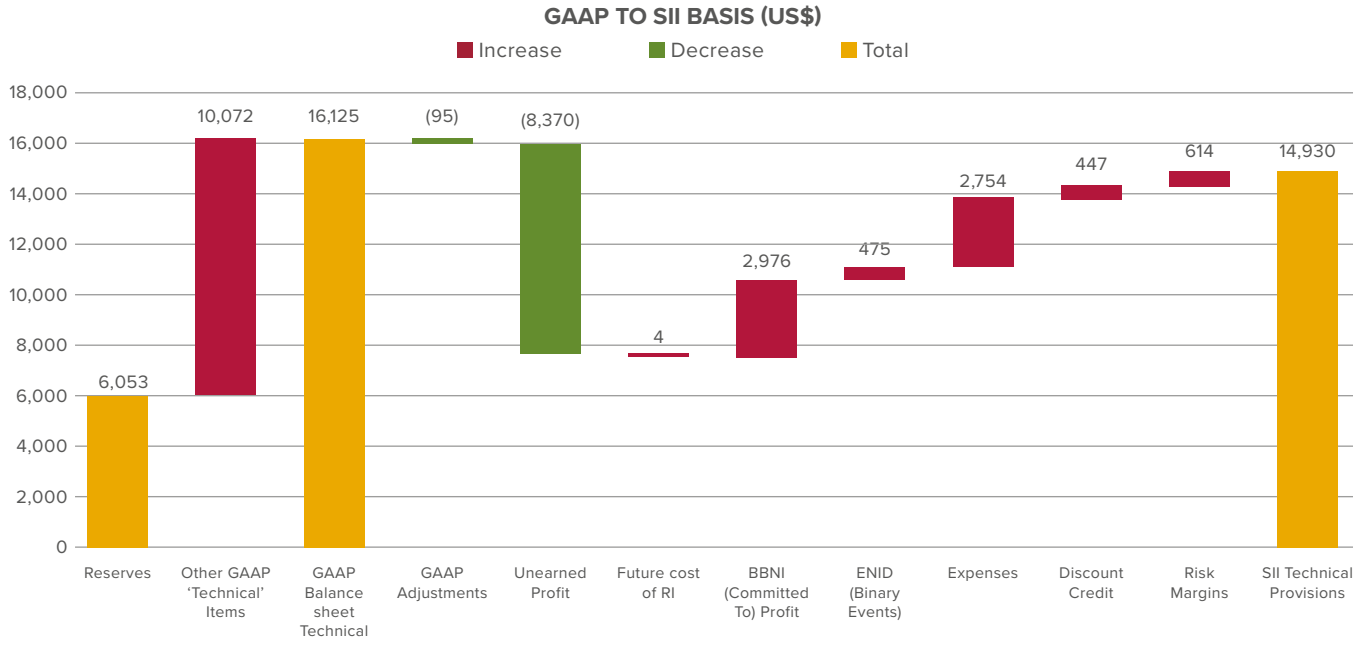
- As CIC is a developing company and there is particular uncertainty associated with the immaturity of the business;
- The lack of fully developed data specific to the risks written means that prior loss ratios, development curves and tail factors for the models are typically derived based on Chaucer Group, market, or other external, data;
- Legislative changes;
- The size of future court awards;
- Changes in claim reporting and settlement patterns;
- Future inflation;
- Emergence of new types of claims;
- Environmental factors such as climate change;
- Other social and economic changes;
- The estimation of the provision for ENIDs does, by nature, contain a high level of uncertainty;
- The estimation of future expenses introduces uncertainty as many factors could influence the size of these; and

The Company has employed techniques and assumptions that are deemed appropriate, given the information currently available, in determining the ultimate liability. However, it should be recognised that future premium and loss emergence is likely to deviate, perhaps materially, from our estimates.

The reinsurance protection in place means that the level of uncertainty that the Company is exposed to is significantly reduced. However, the selection of ceded loss ratios in respect of outwards non-proportional reinsurances is also a key area of uncertainty given that the ultimate frequency and severity of losses impacting these protections is also inherently uncertain.

D.2.4 MATERIAL DIFFERENCES BETWEEN FRS 102 AND SOLVENCY II TECHNICAL PROVISIONS

Reserves held under the GAAP basis at 2019 Q4 are $16.1 million. Under Solvency II basis, the reserves calculated are $14.9 million, 93% of the GAAP basis reserves. The following chart illustrates the translation from GAAP reserves to Solvency II reserves for CIC:



D. VALUATION FOR SOLVENCY PURPOSES

The drivers of the change from GAAP to SII are:

- Unearned Profit replaces the Unearned Premium Reserve. It consists of profits on the unearned business (future premiums expected to receive on unearned business less future claim payments on unearned business)
- BBNI Committed To increases TPs due to cash outflow associated with the 1/1 Reinsurance program
- ENIDs increase TPs by $0.5 million;
- Expenses under Solvency II have to include all expenses incurred in running-off the existing business; they increase TPs by $2.7 million;
- Discount Credit effect increases TPs, which is unusual. Excluding the quota share with China P&C Re, the discounted TPs are lower. For the quota share with China P&C Re, although we are anticipating higher future recovery cashflows than future premium payments, the recoveries are settled at a much slower rate and so benefit from a greater discounting impact than the premiums. This results in the swing in the discounting impact.
- Risk Margin increase TPs by $0.6 million

D.2.5 MATCHING ADJUSTMENT, VOLATILITY ADJUSTMENT OR TRANSITIONAL MEASURES

The Solvency II technical provision calculations do not apply a matching adjustment, a volatility adjustment or the transitional risk-free interest rate term structure as these adjustments are not applicable to the types of business written by the Company.

D.2.6 RECOVERABLES FROM REINSURANCE AND SPVS ("SPECIAL PURPOSE VEHICLE")

The reinsurance recoveries, included within the Solvency II technical provisions, are calculated primarily using the methodology used under FRS 102, however exceptions to this are the inclusion of separate reinsurance recovery provisions within the technical provisions for "committed to" business and ENIDs (see D.2.2 above).

In determining the reinsurance recoveries, for non-XL reinsurance contracts, the ceded loss ratio is set equal to the gross loss ratio. The calculated recoveries for the proportional reinsurance take account of any over-rider premiums payable, where applicable.

For XL reinsurance recoveries, the ceded loss ratio is derived at layer level and is based on a combination of modelled output, where available, output from underwriter rating models, where applicable, and judgemental picks provided by underwriters. The ceded loss ratios are used to calculate reinsurance to gross ratios that are applied to future gross claims to obtain the corresponding future reinsurance recoveries.

Reinsurance recoveries for known large losses are calculated separately by applying the applicable reinsurance programme to the gross loss to obtain the reinsurance recovery.

Finally, CIC has not purchased reinsurance through any SPVs or similar structures.

D.2.7 MATERIAL CHANGES IN ASSUMPTIONS SINCE LAST YEAR

There are no material changes to assumptions in the technical provisions the previous reporting period.

D.2.8 SIGNIFICANT SIMPLIFICATIONS USED IN THE CALCULATION OF TECHNICAL PROVISIONS

CIC uses the cost of capital set at 6% by EIOPA when calculating the technical provisions risk margin. This is not a simplification, rather a prescribed assumption. There are no significant simplifications used in the calculation of the technical provisions.

D.3 OTHER LIABILITIES

This section outlines the valuation basis and comparison for other liabilities excluding technical provisions as at 31st December 2019 and 2018.

Other liabilities at 31st December 2019	Reference	Solvency II Balance Sheet US$000	FRS 102 Balance Sheet US$000	Variance US$000
Provision for unearned premium	D.3.1	-	37,849	(37,849)
Creditors arising out of reinsurance operations	D.3.2	-	29,266	(29,266)
Other liabilities	D.3.3	1,860	2,895	(1,035)
Total other liabilities		**1,860**	**70,010**	**(68,150)**

Other liabilities at 31st December 2018	Reference	Solvency II Balance Sheet US$000	FRS 102 Balance Sheet US$000	Variance US$000
Provision for unearned premium	D.3.1	-	9,977	(9,977)
Creditors arising out of reinsurance operations	D.3.2	-	7,699	(7,699)
Other liabilities	D.3.3	27	719	(692)
Total other liabilities		27	18,395	(18,368)

D. VALUATION FOR SOLVENCY PURPOSES

D.3.1 PROVISION FOR UNEARNED PREMIUM

Under Solvency II, provisions for unearned premiums are recognized in technical provisions. Under FRS, unearned premiums represent the proportion of the gross premiums written that relate to unexpired risks under contracts in force at the period end date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

D.3.2 CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

Under FRS, creditors are recognized at cost. A provision for impairment is established when there is objective evidence that as a result of one or more events that occurred after initial recognition, the estimate future cash flows have been impacted.

Similar to Insurance balances receivable, under Solvency II, balances not yet due for payment are removed and recognized in technical provisions.

D.3.3 OTHER LIABILITIES

Under FRS, the carrying amount of Other Liabilties is historical cost which is considered to equate to the fair value due to the short term nature of these liabilities. The effect of movement in own credit risk on the valution is not expected to be material, therefore no adjustment to the FRS 102 values are needed. Under Solvency II, any other liabilities are are recognized at fair value included in the technical provision where applicable.

The Company has deferred tax liabilities arising on the expected future profits on future premiums and also due to the tax impact of the difference between the values ascribed to assets recognised and valued in accordance with Solvency II rules, and the values ascribed to assets under FRS 102.

D.3.4 OTHER

The Company does not have any leasing arrangements or other obligations than noted above as at 31st December 2019 (2018: $nil). In addition, the Company does not hold any intangible assets as at 31st December 2019 (2018 $nil).

With regards to employees benefits, the Company participates in a defined contribution pension plan whereby the assets are held in a separate trust-administered fund. The pension plan is funded by payments from both the Company and its employees. For the defined contribution plan, once the contributions have been paid, the Company has no further payment obligations. For the year ended 31st December 2019, the total expense to the Company was $0.1 million (2018 $0.1 million).

No judgements, other than noted in D.1 and D.2 above, or other sources of estimation uncertainty would materially impact the values noted in this section.

D.4 ALTERNATIVE METHODS FOR VALUATION

As all of the Company's investments are deemed to meet the criteria for QMP and QMPS under Solvency II hierarchy guidelines, the Company does not use AVM.

D.5 ANY OTHER INFORMATION

The information presented in Section D provides a true and fair view of the valuation for Solvency II purposes of the Company during the reporting period.

E. CAPITAL MANAGEMENT

The "Capital Management" Section of the report describes the internal operational procedures underlying capital management within the Company. The Company's capital position is considered over a three year planning horizon. This three year planning horizon is updated at least annually, or more frequently, if a material change occurs to the Company's risk profile, business strategy, overall business plan, or if regulatory feedback warrants a change.

The Company's objectives when managing capital are:

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

The capital position of the Company is monitored by the local management team, supported by the CUSL Capital management team, and is reported to the Risk & Capital Committee, as well as the Board, on a quarterly basis. The local management team is supported by certain functions at Chaucer, through the outsourcing arrangements, who conduct regulatory stress and scenario testing.

Any dividend payments must be approved by the Board and take account of the short-term and long-term interests of the Company whilst ensuring due consideration is taken regarding the interests of shareholders and other key stakeholders. The Company did not pay any dividends during the period. The Company has no current plan to pay a dividend.

E.1 OWN FUNDS

E.1.1 OWN FUNDS

The Company's Own funds comprise of items on the balance sheet which are referred to as Basic Own Funds and ("BOF"). The following table shows the Own Funds composition of the Company as at 31st December 2019 and 2018:

	2019				2018
	Tier 1	Tier 2	Tier 3	Total	Total
Own Funds	US$000	US$000	US$000	US$000	US$000
Basic					
Ordinary share capital	1,000	-	-	**1,000**	1,000
Share premium account	55,000	-	-	**55,000**	30,000
Reconciliation reserve	(5,488)	-	-	**(5,488)**	(4,170)
Amount equal to the value of net deferred tax	-	-	230	**230**	351
Total own funds	**50,512**	**-**	**230**	**50,742**	27,181

E.1.2 OWN FUNDS ANALYSED BY TIERS

The Company's Tier 1 BOF comprise of the following:

- 1,000,001 Ordinary shares that the Company was issued at a nominal value of $1 per share;
- A reconciliation reserve at 31st December 2019 of $(5.5) million (2018: $(4.2) million). This reconciliation reserve is made up of the FRS 102 retained earnings, and the valuation differences between FRS 102 and Solvency II; and,
- During 2019, the Company received an irrevocable capital contribution of $25.0 million from the Company's parent company CRICL. In 2017, the Company received capital contributions from its then parent Company, The Hanover Insurance Company ("HIC"). All contributions received are to fund the insurance operations. The Company has received approval from the CBI to classify all contributions as Tier 1 Own Funds.

The Company's Tier 3 BOF relates to net Deferred Tax assets and liabilities as outlined in Section D.

The Company does not hold any Tier 2 or Ancillary Own Funds at 31st December 2019 or 2018.

E.1.3 ELIGIBLE AMOUNT OF OWN FUNDS TO COVER THE SCR

The Company's Tier 1 BOF of $50.5 million (2018: $26.8 million), are wholly eligible to meet the Company's SCR of $14.5 million (2018: $5.4 million).

E.1.4 ELIGIBLE AMOUNT OF OWN FUNDS TO COVER THE MINIMUM CAPITAL REQUIREMENT ("MCR")

The Company's Tier 1 BOF of $50.5 million (2018: $26.8 million), are wholly eligible to meet the Company's MCR of $4.1 million (2018:$4.2 million).

E.1.5 RECONCILIATION OF FRS 102 SHAREHOLDERS EQUITY TO SOLVENCY II OWN FUNDS

The following table compares the shareholder's equity from the Company's FRS 102 financial statements to the Solvency II Own Funds:

	2019	2018
Reconciliation Reserve comparison	US$000	US$000
FRS 102 Shareholder's Equity	51,860	27,165
Revaluation of Reserves	(638)	54
Revaluation of Other Assets and Liabilities	(480)	(38)
Solvency II Own Funds	**50,742**	**27,181**
Change in Equity	**(1,118)**	**16**

- See section D.1 For further details of the valuation basis of investments.
- See section D.2.1 of this report for a detailed explanation of the differences in valuation of non-life technical provisions.
- The difference between other assets and liabilities primarily arises from the difference in deferred tax balances due to the tax impact of the other valuation adjustments. See section D.1.2. and D.3, respectively, for further details of the valuation basis for other assets and other liabilities. A detailed line by line Solvency II balance sheet is provided in Annex 1 (S.02.01.02 template) to this report.

During the year ended 31st December 2019, no capital instruments were issued or redeemed. In addition, there were no restrictions on Own Funds due to ring fencing or other commitments.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The SCR and MCR section of this report aims to provide a comprehensive view to assess the adequacy of the Company's capital in line with regulatory requirements.

E.2.1 SCR REQUIREMENTS

The SCR is the amount of funds that the Company is required to hold in accordance with the Solvency II Directive. The Company's SCR is determined using the Standard Formula approach. The assessment of the SCR, using the Standard Formula approach, is based on certain risk modules. These risk modules are aggregated in the Standard Formula using correlation matrices. The result of this is the BSCR. An operational risk component and adjustments for the risk absorbing effect of deferred taxes are then allowed for, to give the overall SCR at the period end.

The following table shows the components of the SCR (using the Standard Formula) for each risk module as at 31st December 2019 and 2018:

SCR Calculation by Module	2019 US$000	2018 US$000
Market risk	2,147	1,260
Counterparty default risk	4,181	1,671
Health underwriting risk	2,262	560
Non-Life underwriting risk	8,568	3,706
Sum of risk components	**17,157**	**7,197**
Diversification effects	(4,616)	(1,828)
BSCR	**12,541**	**5,369**
SCR operational risk	1,999	73
SCR	**14,540**	**5,442**
Solvency II Own Funds	**50,742**	**27,181**
Ratio of Eligible Own Funds to SCR	**349%**	**499%**

The calculation of the SCR for CIC is based on the Standard Formula model and parameters as laid out within the Solvency II Delegated Acts and other Level 2 Solvency II guidelines. No material adjustments have been made to the Standard Formula parameters or assumptions.

The following simplifications have been used by the Company:

- Non-life underwriting risk: The Delegated Acts allow for a 20% reduction in the premium risk standard deviation for Fire & Property, General Liability and proportional classes. It has assumed this reduction applies in all classes;
- Market Risk: Interest rate risk on assets has been calculated using accumulated cash flows at currency level rather than individual asset level; and,
- Counterparty Risk: The Delegated Acts permits the application of a simplification for risk mitigating effects of reinsurance. The simplification calculation derives a gross underwriting risk SCR from which the net underwriting risk SCR is deducted to estimate the allowance of reinsurance on the SCR. This amount is then apportioned across the current reinsurance exposures in line with the outstanding recoverables.

The Company has not used any undertaking-specific parameters in calculating the SCR. Furthermore, the Company does not hold any capital add-ons.

E.2.2 MCR REQUIREMENTS

The Company also uses the Standard Formula to calculate the MCR. Please refer to Annex 1 (S.28.01.01 template) to this report for a further breakdown of the MCR calculation. The following table outlines the components of the MCR as at 31st December 2019 and 2018:

MCR Calculation	2019 US$000	2018 US$000
Linear MCR	2,185	121
SCR	14,540	5,442
MCR cap	6,543	2,449
MCR floor	3,635	1,361
Combined MCR	3,635	1,361
Absolute floor of the MCR	4,127	4,188
MCR	**4,127**	**4,188**

The Company's Linear MCR is lower than the absolute floor for the year-end 31st December 2019 and 2018. As a result, the Company's MCR defaults to the absolute floor.

E. CAPITAL MANAGEMENT

E.2.3 MATERIAL MOVEMENTS IN MCR OR SCR OVER THE YEAR AND THE REASONS FOR SUCH CHANGES

The Company's SCR has increased by $9.1 million, or 167%, during the year ended 31st December 2019. The growth in the capital requirement since year-end 2018 is primarily driven by increases in the Non-Life Underwriting and Health Underwriting modules and reflects the growth in CIC's business. CIC had Gross Written Premium of $61.0 milllion in 2019 and $11.2 million in 2018, and the growth in SCR is driven by this growth. Market Risk shows an increase over the period in line with an increase in the size of the investment portfolio which is primarily driven by the proceeds from the capital injection of $25.0 million during the year. The increase in Counterparty Default Risk is driven by the accumulation of recoveries, particularly on the China P&C Re Quota Share. Operational risk increases in line with the premium volume.

E.3 USE OF THE DURATION–BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company does not use the duration-based equity risk submodule as the Company does not hold any equities.

E.4 INTERNAL MODEL INFORMATION

For the calculation of the regulatory capital requirement, the Company uses the Standard Formula and does not use an internal model.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND SIGNIFICANT NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

There were no instances of non-compliance with the MCR or SCR during the reporting period. In addition, there is no reasonably foreseeable risk of non-compliance with the MCR or SCR by the Company.

E.6 ANY OTHER INFORMATION

No additional information to be disclosed.

GLOSSARY OF TERMS

AEM	Adjusted Equity Methods
AVM	Alternative valuation methods
BSCR	Basic Solvency Capital Requirement
BOF	Basic Own Funds
CBI	Central Bank of Ireland
Chaucer	Chaucer Holdings Ltd
China Re	China Reinsurance "Group" Corporation
China Re P&C	China Property & Casualty Reinsurance Company Limited
CIC	Chaucer Insurance Company DAC
CIFA	Critical or Important function or activity
CRHK	China Re Hong Kong Company
CRICL	China Re International Company Limited
CRIHL	China Re International Holdings Limited
CUSL	Chaucer Underwriting Services Ltd.
EEA	European Economic Area
ENID	Events not in data set
FRS	Financial Reporting Standards issued by the Financial Reporting Council
FVTP&L	Fair value through profit and loss
HIA	Head of Internal Audit
HIC	The Hanover Insurance Company
HoAF	Head of Actuarial function
INED	Independent Non-executive director
IEM	FRS Equity Method
IQ	Individual Questionnaires
Lloyds	Society and Corporation of Lloyds (Lloyds of London)
MCR	Minimum Capital Requirements
NYSE	New York Stock Exchange
Opus	Opus Investment Management Inc.
ORSA	Own risk and Solvency Assessment
PCF	Pre-Approval Controlled Function
PRA	Prudential Regulatory Authority
POG	Product Oversight Group
PWC	PricewaterhouseCoopers
QMP	Quoted Market Price in active markets for the same asset
QMPS	Quoted market price in active markets for similar assets
RMS	Risk Management System
SFCR	Solvency and Financial Condition Report
SCR	Solvency Capital Requirements
SPV	Special Purpose Vehicle
THG	The Hanover Insurance Group
UPR	Unearned Premium Reserve
XL	Excess of loss

F. ANNEX 1 QUANTITATIVE REPORTING TEMPLATES

SOLO QRT	DESCRIPTION
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-life Insurance Claims Information
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement- for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement- Only life or only non-life insurance or reinsurance activity

F. ANNEX 1 S.02.01.02 BALANCE SHEET

		Solvency II value
Assets		**C0010**
Intangible assets	R0030	0
Deferred tax assets	R0040	410
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	40,922
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	0
Equities - listed	R0110	0
Equities - unlisted	R0120	0
Bonds	R0130	40,922
Government Bonds	R0140	7,873
Corporate Bonds	R0150	22,524
Structured notes	R0160	0
Collateralised securities	R0170	10,525
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	0
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	112
Non-life and health similar to non-life	R0280	112
Non-life excluding health	R0290	537
Health similar to non-life	R0300	-424
Life and health similar to life, excluding index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	2,966
Reinsurance receivables	R0370	2,545
Receivables (trade, not insurance)	R0380	21
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	20,668
Any other assets, not elsewhere shown	R0420	0
Total assets	**R0500**	**67,645**

F. ANNEX 1 S.02.01.02 BALANCE SHEET

		Solvency II value
Liabilities		**C0010**
Technical provisions - non-life	R0510	15,043
Technical provisions - non-life (excluding health)	R0520	14,220
TP calculated as a whole	R0530	0
Best Estimate	R0540	13,681
Risk margin	R0550	539
Technical provisions - health (similar to non-life)	R0560	823
TP calculated as a whole	R0570	0
Best Estimate	R0580	747
Risk margin	R0590	75
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0
Technical provisions - health (similar to life)	R0610	0
TP calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	0
TP calculated as a whole	R0660	0
Best Estimate	R0670	0
Risk margin	R0680	0
Technical provisions - index-linked and unit-linked	R0690	0
TP calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	180
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	1,654
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	26
Subordinated liabilities	R0850	0
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	0
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	**R0900**	**16,903**
Excess of assets over liabilities	**R1000**	**50,742**

F. ANNEX 1 S.05.01.02 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS NON-LIFE

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Premiums written										
Gross - Direct Business	R0110	12,955	0	258			23,704	4,869	9,037	3,697
Gross - Proportional reinsurance accepted	R0120	0	0	0			0	868	0	152
Gross - Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	11,874	0	237			22,522	4,463	8,283	3,528
Net	R0200	1,081	0	22			1,182	1,274	754	321
Premiums earned										
Gross - Direct Business	R0210	5,484	0	62			13,375	2,512	3,866	2,317
Gross - Proportional reinsurance accepted	R0220	0	0	0			0	631	0	76
Gross - Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	5,041	0	57			12,876	2,309	3,554	2,200
Net	R0300	443	0	5			499	834	312	193
Claims incurred										
Gross - Direct Business	R0310	2,343	0	37			7,352	1,209	2,089	1,202
Gross - Proportional reinsurance accepted	R0320	0	0	0			0	183	0	28
Gross - Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	2,157	0	34			6,937	1,113	1,923	1,133
Net	R0400	186	0	3			415	279	166	98
Changes in other technical provisions										
Gross - Direct Business	R0410									
Gross - Proportional reinsurance accepted	R0420									
Gross - Non-proportional reinsurance accepted	R0430									
Reinsurers' share	R0440									
Net	R0500	0	0	0			0	0	0	0
Expenses incurred	R0550	477	0	16			1,173	452	306	194
Other expenses	R1200									
Total expenses	R1300									

F. ANNEX 1 S.05.01.02 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS NON-LIFE

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				
		Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	Total
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross - Direct Business	R0110			160					54,680
Gross - Proportional reinsurance accepted	R0120			0					1,020
Gross - Non-proportional reinsurance accepted	R0130				14	16	965	4,274	5,269
Reinsurers' share	R0140			147	13	14	885	3,917	55,883
Net	R0200			13	1	1	81	356	5,086
Premiums earned									
Gross - Direct Business	R0210			80					27,696
Gross - Proportional reinsurance accepted	R0220			0					707
Gross - Non-proportional reinsurance accepted	R0230				14	16	654	4,828	5,512
Reinsurers' share	R0240			73	13	14	601	4,438	31,177
Net	R0300			6	1	1	53	390	2,738
Claims incurred									
Gross - Direct Business	R0310			117					14,350
Gross - Proportional reinsurance accepted	R0320			0					211
Gross - Non-proportional reinsurance accepted	R0330				11	11	427	1,836	2,286
Reinsurers' share	R0340			108	10	10	393	1,690	15,508
Net	R0400			9	1	1	34	146	1,340
Changes in other technical provisions									
Gross - Direct Business	R0410								0
Gross - Proportional reinsurance accepted	R0420								0
Gross - Non- proportional reinsurance accepted	R0430								0
Reinsurers'share	R0440								0
Net	R0500			0	0	0	0	0	0
Expenses incurred	R0550			5	1	1	54	228	2,907
Other expenses	R1200								
Total expenses	R1300								2,907

F. ANNEX 1 S.05.02.01 PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY NON-LIFE

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
Premiums written		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Gross - Direct Business	R0110	2,590	37,270	3,415	1,580	1,157	585	46,596
Gross - Proportional reinsurance accepted	R0120	48	695	64	29	22	11	869
Gross - Non-proportional reinsurance accepted	R0130	250	3,591	329	152	111	56	4,490
Reinsurers' share	R0140	2,647	38,090	3,491	1,614	1,182	598	47,622
Net	R0200	241	3,466	318	147	108	54	4,334
Premiums earned								
Gross - Direct Business	R0210	1,441	20,732	1,900	879	643	325	25,920
Gross - Proportional reinsurance accepted	R0220	27	387	35	16	12	6	483
Gross - Non-proportional reinsurance accepted	R0230	139	1,998	183	85	62	31	2,498
Reinsurers' share	R0240	-1,477	-21,250	-1,947	-901	-659	-334	-26,568
Net	R0300	3,083	44,367	4,066	1,880	1,377	696	55,469
Claims incurred								
Gross - Direct Business	R0310	635	10,128	558	232	321	144	12,017
Gross - Proportional reinsurance accepted	R0320	9	149	8	3	5	2	177
Gross - Non-proportional reinsurance accepted	R0330	101	1,613	89	37	51	23	1,914
Reinsurers' share	R0340	686	10,945	603	250	347	156	12,987
Net	R0400	59	945	52	22	30	13	1,121
Changes in other technical provisions								
Gross - Direct Business	R0410	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0
Expenses incurred	R0550	138	1,981	182	84	61	31	2,477
Other expenses	R1200							
Total expenses	R1300							2,477

F. ANNEX 1 S.17.01.02 NON-LIFE TECHNICAL PROVISIONS

		Direct business and accepted proportional reinsurance								
		Medical expense insurance	Income protection insurance	Workers' compen-sation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions calculated as a whole	R0010	0	0	0			0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	0	0	0			0	0	0	0
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross	R0060	101	0	-1			-1,567	310	1,937	2,487
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-379	0	-132			-283	-349	-2,577	496
Net Best Estimate of Premium Provisions	R0150	480	0	131			-1,283	658	4,514	1,991
Claims provisions										
Gross	R0160	645	0	14			5,841	512	1,425	1,408
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	72	0	23			848	167	836	1,367
Net Best Estimate of Claims Provisions	R0250	573	0	-9			4,994	346	589	41
Total Best estimate - gross	R0260	746	0	14			4,275	822	3,362	3,895
Total Best estimate - net	R0270	1,053	0	123			3,710	1,004	5,104	2,032
Risk margin	R0280	71	0	3			226	54	92	102
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	R0290	0	0	0			0	0	0	0
Best estimate	R0300	0	0	0			0	0	0	0
Risk margin	R0310	0	0	0			0	0	0	0
Technical provisions - total	R0320	817	0	17			4,501	876	3,454	3,997
"Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total"	R0330	-307	0	-109			564	-182	-1,741	1,863
Technical provisions minus recoverables from reinsurance/ SPV and Finite Re - total	R0340	1,124	0	126			3,937	1,058	5,195	2,134

F. ANNEX 1 S.17.01.02 NON-LIFE TECHNICAL PROVISIONS

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010			0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050			0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	R0060			91	-24	3	7	-525	2,821
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140			-45	-3	-23	-104	-276	-3,674
Net Best Estimate of Premium Provisions	R0150			136	-21	27	111	-250	6,495
Claims provisions									
Gross	R0160			105	12	4	307	1,334	11,607
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240			49	-5	5	116	310	3,787
Net Best Estimate of Claims Provisions	R0250			56	17	-2	191	1,025	7,821
Total Best estimate - gross	R0260			196	-12	7	314	809	14,428
Total Best estimate - net	R0270			192	-4	25	302	775	14,316
Risk margin	R0280			4	1	0	15	46	614
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	R0290			0	0	0	0	0	0
Best estimate	R0300			0	0	0	0	0	0
Risk margin	R0310			0	0	0	0	0	0
Technical provisions - total	R0320			200	-11	7	329	855	15,043
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330			4	-8	-18	12	34	112
Technical provisions minus recoverables from reinsurance/ SPV and Finite Re - total	R0340			195	-3	25	317	821	14,930

F. ANNEX 1 S.19.01.21 NON-LIFE INSURANCE CLAIMS

Total Non-Life Business

Accident year / Underwriting year	Z0020	Underwriting year

Gross Claims Paid (non-cumulative)

(absolute amount)

		Development year												
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		In current year	Sum or years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
R0100	Prior											0	R0100	0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0		R0160	0	0
R0170	2011	0	0	0	0	0	0	0	0	0			R0170	0	0
R0180	2012	0	0	0	0	0	0	0	0				R0180	0	0
R0190	2013	0	0	0	0	0	0	0					R0190	0	0
R0200	2014	0	0	0	0	0	0						R0200	0	0
R0210	2015	0	0	0	0	0							R0210	0	0
R0220	2016	0	0	0	0								R0220	0	0
R0230	2017	0	0	0									R0230	0	0
R0240	2018	10	495										R0240	495	505
R0250	2019	2,992											R0250	2,992	2,992
R0260												**Total**	R0260	**3,487**	**3,497**

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

		Development year												
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
R0100	Prior											0	R0100	0
R0160	2010	0	0	0	0	0	0	0	0	0	0		R0160	0
R0170	2011	0	0	0	0	0	0	0	0	0			R0170	0
R0180	2012	0	0	0	0	0	0	0	0				R0180	0
R0190	2013	0	0	0	0	0	0	0					R0190	0
R0200	2014	0	0	0	0	0	0						R0200	0
R0210	2015	0	0	0	0	0							R0210	0
R0220	2016	0	0	0	0								R0220	0
R0230	2017	0	0	0									R0230	0
R0240	2018	625	5,717										R0240	5,641
R0250	2019	6,136											R0250	5,966
R0260												**Total**	R0260	**11,607**

F. ANNEX 1 S.23.01.01 OWN FUNDS

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	1,000	1,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	-5,488	-5,488			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	230				230
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	55,000	55,000	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions for participations in financial and credit institutions	R0230	0				
Total basic own funds after deductions	R0290	50,742	50,512	0	0	230
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0				
Unpaid and uncalled preference shares callable on demand	R0320	0				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0				
Other ancillary own funds	R0390	0				
Total ancillary own funds	R0400	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	50,742	50,512	0	0	230
Total available own funds to meet the MCR	R0510	50,512	50,512	0	0	
Total eligible own funds to meet the SCR	R0540	50,742	50,512	0	0	230
Total eligible own funds to meet the MCR	R0550	50,512	50,512	0	0	
SCR	R0580	14,540				
MCR	R600	4,127				
Ratio of Eligible own funds to SCR	R0620	349.00%				
Ratio of Eligible own funds to MCR	R640	1223.94%				

F. ANNEX 1 S.23.01.01 OWN FUNDS

		Total
		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	50,742
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Other basic own fund items	R0730	56,230
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	-5,488
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	0
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	5,065
Total Expected profits included in future premiums (EPIFP)	R0790	5,065

F. ANNEX 1 S.25.01.21 SOLVENCY CAPITAL REQUIREMENT – FOR UNDERTAKINGS ON STANDARD FORMULA

		Gross solvency capital requirement C0110	USP C0090	Simplifications C0120
Market risk	R0010	2,147		
Counterparty default risk	R0020	4,181		
Life underwriting risk	R0030	0		
Health underwriting risk	R0040	2,262		
Non-life underwriting risk	R0050	8,568		
Diversification	R0060	-4,616		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	12,541		

CALCULATION OF SOLVENCY CAPITAL REQUIREMENT

		Gross solvency capital requirement C0100
Operational risk	R0130	1,999
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	14,540
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	14,540

OTHER INFORMATION ON SCR

		Gross solvency capital requirement C0100
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

APPROACH TO TAX RATE

		Gross solvency capital requirement C0109
Market risk	R0590	0

CALCULATION OF LOSS ABSORBING CAPACITY OF DEFERRED TAXES

		LAC DT C0130
LAC DT	R0640	0
LAC DT justified by reversion of deferred tax liabilities	R0650	0
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	0

USP KEY

FOR LIFE UNDERWRITING RISK:

1 Increase in the amount of annuity benefits

9 None

FOR HEALTH UNDERWRITING RISK:

1 Increase in the amount of annuity benefits

2 Standard deviation for NSLT health premium risk

3 Standard deviation for NSLT health gross premium risk

4 Adjustment factor for non-proportional reinsurance

5 Standard deviation for NSLT health reserve risk

9 None

FOR NON-LIFE UNDERWRITING RISK:

4 Adjustment factor for non-proportional reinsurance

6 Standard deviation for non-life premium risk

7 Standard deviation for non-life grosspremium risk

8 Standard deviation for non-life reserve risk

9 None"

F. ANNEX 1 S.28.01.01 MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

LINEAR FORMULA COMPONENT FOR NON-LIFE INSURANCE AND REINSURANCE OBLIGATIONS

		C0110
MCR_{NL} Result	R0010	2,185

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	1,053	1,081
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	123	22
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	3,710	1,182
Fire and other damage to property insurance and proportional reinsurance	R0080	1,004	1,274
General liability insurance and proportional reinsurance	R0090	5,104	754
Credit and suretyship insurance and proportional reinsurance	R0100	2,032	321
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	192	13
Non-proportional health reinsurance	R0140	0	1
Non-proportional casualty reinsurance	R0150	25	1
Non-proportional marine, aviation and transport reinsurance	R0160	302	81
Non-proportional property reinsurance	R0170	775	356

LINEAR FORMULA COMPONENT FOR LIFE INSURANCE AND REINSURANCE OBLIGATIONS

		C0040
MCR_{L} Result	R0200	0

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	0	
Total capital at risk for all life (re)insurance obligations	R0250		0

OVERALL MCR CALCULATION

		C0070
Linear MCR	R0300	2,185
SCR	R0310	14,540
MCR cap	R0320	6,543
MCR floor	R0330	3,635
Combined MCR	R0340	3,635
Absolute floor of the MCR	R0350	4,127
Minimum Capital Requirement	**R0400**	**4,127**

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