

CX Reinsurance Company Limited

Solvency Financial Condition Report

For the Year Ended 31 December 2018

CX Reinsurance Company Limited

Solvency and Financial Condition Report (SFCR) – 31 December 2018

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1. EXECUTIVE SUMMARY

This report has been prepared in accordance with statutes relating to supervisory reporting and public disclosure as set out in Articles 35 and 51-56 of Directive 2009/138/EC of the European Parliament and of the Council. It aims to provide the regulator, the policy holders and the public with an understanding of CX Reinsurance Company Limited's ('CX Re') solvency and financial position under Solvency II. It also provides a summary of the inherent risk profile of the business and the governance and risk management framework embedded within the organisation to manage the risk.

The principal activity of CX Re is the carrying out of insurance and reinsurance contracts written prior to August 2001, when the Company ceased underwriting new business and went into run off.

The Solvency II regime has been effective from 1 January 2016 and established a new set of EU-wide capital requirements, risk management and disclosure standards. The Company is required to measure its capital adequacy against the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR") which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Company calculates its MCR and SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Group's risk profile.

	2018	2017
	US\$000	US\$000
Available resources under Solvency II		
Total Eligible Own Funds	8,357	11,017
Minimum Capital Requirement	4,628	5,894
Excess	3,729	5,123
Solvency Capital Requirement	11,586	14,206
Deficit	(3,229)	(3,189)

CX Re has met its Minimum Capital Requirement by a margin of 181% (2017: 187%). For the Solvency Capital Requirement CX Re was at 72% (2017: 78%). It has a deficiency of \$3,229k (2017: \$3,189) on its Solvency Capital Requirement.

1.1 DIRECTORS' STATEMENT

The Directors are satisfied that:

- throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
- it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply, and will continue so to comply in future.

The report was considered by the Board and approved by the Board of Directors on 12 April 2019.

Signed on behalf of the Board of Directors



Simon Byrne
Director

2. BUSINESS AND PERFORMANCE

2.1 BUSINESS AND EXTERNAL ENVIRONMENT

CX Re is a UK registered private limited company (registered no: 01086556) and is regulated by the Prudential Regulation Authority and the Financial Conduct Authority (FRN: 202077).

From 1977 CX Re, formerly called CNA Reinsurance Company Limited, underwrote a diversified portfolio of US and international insurance and reinsurance risks including property, general casualty, medical malpractice, errors and omissions and directors and officers' lines of business.

At 31 October 2002, when Tawa plc (then called Tawa UK Limited) acquired CX Re, the portfolio was estimated to have over US\$2.2 billion in gross undiscounted liabilities, more than half of which were based in the United States. At that time CX Re was the largest solvent company runoff in the London company market, and one of the largest run offs in the insurance world.

Since 2002, the gross undiscounted claim liabilities of CX Re have reduced from US\$2.2 billion to US\$48 million at 31 December 2018 as a result of the successful implementation of a strategy of accelerated run-off. This approach has also led to a significant decrease in the (absolute) volatility of the reserves in CX Re. Tawa Associates Limited ("TAL") acquired CX Re as part of a restructuring of Tawa plc in 2014.

CX Re has put in place a system of governance designed to meet the relevant regulatory requirements. The Directors consider that the adopted system of governance and related Risk Management Framework is appropriate for CX Re's current status and related risk profile.

The routine claims handling, accounting and treasury management of the run-off all other business is performed by Pro Insurance Services Limited ('Pro'), a firm that has significant experience in the finalisation of run-off business. CX Re has its own management executive and also actuarial services.

Mazars LLP have been appointed as external auditors of CX Re under the Companies Act 2006. Their address is Tower Bridge House, St Katharine's Way London E1W 1DD.

2.2 OBJECTIVES AND STRATEGIES

The shareholder's objective is to finalise the run-off in an orderly manner. No obvious exit route is open to CX Re at the current time, and shareholders have therefore decided that for the immediate future CX Re should follow a strategy of continuing in solvent run-off while potential finality options are explored.

In the short term and given CX Re's SCR deficit there is no intention to pay a dividend or extract capital from CX Re.

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2. BUSINESS AND PERFORMANCE (continued)

2.3 PERFORMANCE FROM UNDERWRITING ACTIVITIES

The underwriting performance of CX Re is summarised below.

CX Re has not written any risks since 2001. The premium booked relates to reinstatement premium on its run off contracts, mainly on medical malpractice contracts.

	UK GAAP results 31-Dec-18 \$'000s	UK GAAP results 31-Dec-17 \$'000s	Solvency II results 31-Dec-18 \$'000s	Solvency II results 31-Dec-17 \$'000s
Net premiums written and earned	<u>59</u>	<u>(142)</u>	<u>59</u>	<u>(142)</u>

	UK GAAP results 31-Dec-18 \$'000s	UK GAAP results 31-Dec-17 \$'000s	Solvency II results 31-Dec-18 \$'000s	Solvency II results 31-Dec-17 \$'000s
Net claims incurred	<u>375</u>	<u>(1,610)</u>	<u>837</u>	<u>(1,067)</u>

Net claims incurred improvement, net of reinsurance, was \$375k (2017: loss \$1,610k). There was a 16.1% reduction in the net undiscounted outstanding losses and IBNR to \$39.6m (2017: \$47.2m).

2.4 PERFORMANCE FROM INVESTMENT ACTIVITIES

	UK GAAP results 31 Dec 18 \$'000s	UK GAAP results 31 Dec 17 \$'000s
Investment income and net realized gains	1,312	1,193
Unrealised net losses on investments	(819)	16
<u>Investment expenses and charges</u>	<u>(190)</u>	<u>(105)</u>
Total	303	1,104
Unwind of discount	78	(662)
Investment income in excess of discount unwind	381	442

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2. BUSINESS AND PERFORMANCE (continued)

Investment income earned increased from 2017 by \$119k. However, the interest on the debt purchase portfolio has actually increased by \$6k to \$496k (2017: \$490k). CX Re is no longer investing in this portfolio. There were no investment impairments recognised during the year (2017: \$nil).

Investment charges increased from \$105k in 2017 to \$190k in 2018.

The discount unwind is due to CX Re's accounts being discounted. The investment income should cover the unwind in the discount in each year. In 2018, there was an excess of \$50k (2017: excess \$734k).

2.5 OPERATING/OTHER EXPENSES

	UK GAAP Results 31-Dec-18 \$'000s	UK GAAP results 31-Dec-17 \$'000s	Solvency II results 31-Dec-18 \$'000s	Solvency II results 31-Dec-17 \$'000s
Other net Operating expenses	<u>(2,561)</u>	<u>(2,184)</u>	<u>(2,561)</u>	<u>(2,184)</u>

Other Operating expenses have increased in 2018 to \$2,561k (2017: \$2,184k). CX Re incurs its costs on a direct basis, the increase was due to the direct take on of staff and a reduced ULAE credit.

2.6 OTHER INCOME

	UK GAAP results 31-Dec-18 \$'000s	UK GAAP results 31-Dec-17 £'000s
Other income	<u>62</u>	<u>-</u>

Other income was \$62k in the year (2017: \$0k).

2.7 OTHER CHARGES

	UK GAAP results 31-Dec-18 \$'000s	UK GAAP results 31-Dec-17 \$'000s
Other Charges	<u>(1,683)</u>	<u>(1,840)</u>

The decrease in other charges relates to the legal expenditure of \$1,683k, primarily on the lead paint rescission cases. FX loss of \$14k during the period.

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2. BUSINESS AND PERFORMANCE (continued)

2.8 TAXATION

	UK GAAP results 31-Dec-18 <u>\$'000s</u>	UK GAAP results 31-Dec-17 <u>\$'000s</u>
Group relief income received	337	416

CX Re has received income relating to the sale of tax losses to an affiliated company.

2.9 LOSS IN THE FINANCIAL YEAR

	UK GAAP results 31-Dec-18 <u>\$'000s</u>	UK GAAP results 31-Dec-17 <u>\$'000s</u>	Solvency II results 31-Dec-18 <u>\$'000s</u>	Solvency II results 31-Dec-17 <u>\$'000s</u>
(Loss) / Profit for the financial year	(3,122)	(4,259)	(2,661)	(3,717)

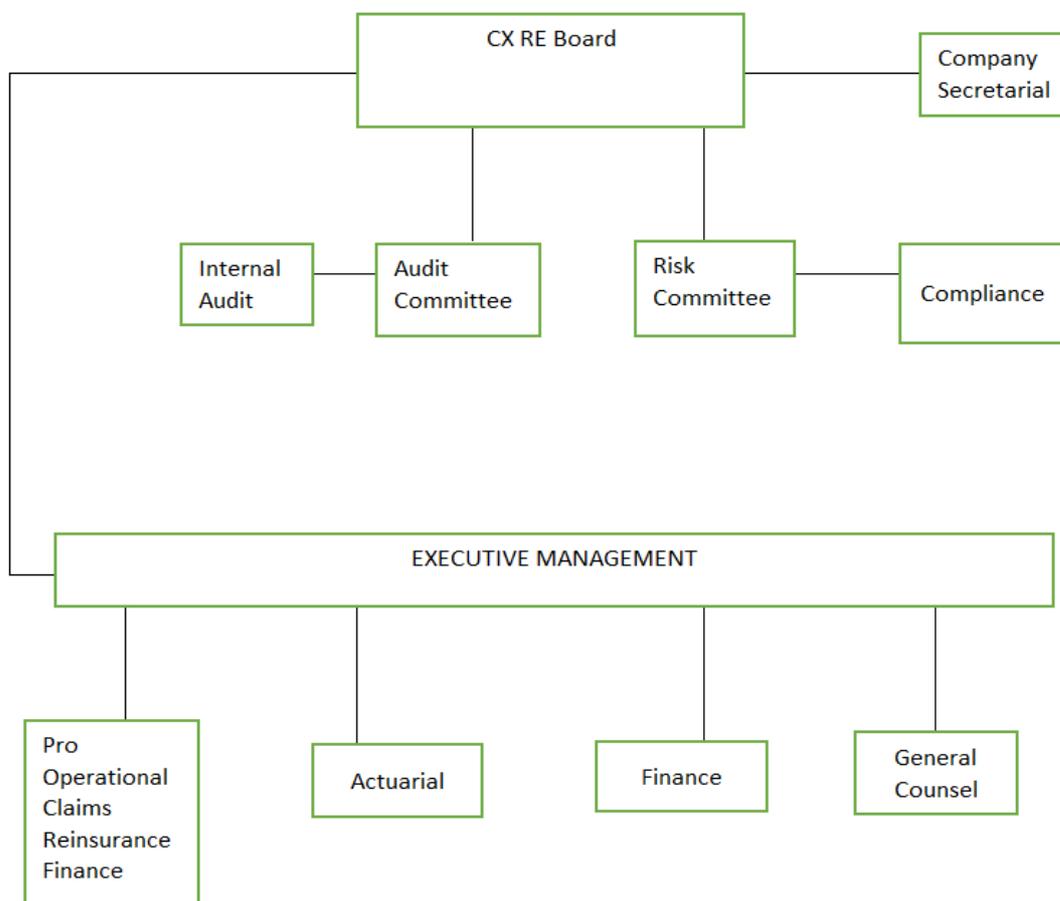
3. SYSTEM OF GOVERNANCE

3.1. GENERAL GOVERNANCE ARRANGEMENTS

The CX Re system of governance is designed to meet the relevant regulatory requirements and best practice governance in a proportionate manner to the scale of its operations and includes:

- An adequate and transparent organisational structure, with clear allocation and segregation of responsibilities, which enables effective transmission of information. See Appendix I
- Corporate policies defining key principles and rules for operation;
- Operating procedures detailing the activities and controls individuals and service providers are expected to perform; and
- A regular review of the system of governance.

The CX Re governance structure is illustrated below:



Pro are an outsourcer to CX Re

The Board is ultimately accountable for all of CX Re’s activities. The Board’s responsibilities are fully documented and are shown in Appendix II.

The Board has two operating Committees, Audit and secondly Risk. The purpose of these committees is to oversee and provide independent challenge to the firm’s audit and risk management functions and satisfy itself that adequate internal systems of control are in place and operating effectively and is responsible for overseeing and challenging the firm’s risk management and capital management activities. The responsibilities of each committee are detailed in [Appendix III](#).

There are no incentive based arrangements that are tied to CX Re’s financial performance.

3. SYSTEM OF GOVERNANCE (continued)

3.2. RISK MANAGEMENT

Where appropriate CX Re seeks to continuously enhance its risk management capabilities in line with the overall strategic objectives of the business. CX Re's risk appetite approved by the board can be found on Appendix IV

The approach and methodology adopted by CX Re in identifying, assessing, managing and reporting all material risks are documented in the Risk Management Policy and its Risk Appetite documents. It encompasses CX Re's approach to risk appetite and tolerance setting and monitoring. It also lists the suite of supplementary risk policies, procedures and registers that form an integral part of its risk management and facilitate the embedding of CX Re's risk culture within the firm.

Identified risks are documented in the risk register and fall into the categories listed below and the tolerance for each category is driven by its key stakeholders, including capital providers and regulators, and includes both qualitative and quantitative statements:

- Operational – regulatory compliance/ reputation (brand). There is zero tolerance to regulatory/ reputation breaches.
 - Compliance
 - Claims, Reinsurance & Commutations
 - Finance & Actuarial
 - Investments
 - Outsourcing
 - IT systems
-
- Other risks – the Board have considered the other risks facing the business but as CX Re has been in run-off for many years they have concluded that they are unable to set a meaningful risk appetite as all the material risks are outside of their control. They have instead implemented a monitoring process which involves a quarterly variance analysis of profit & loss movements to budget. An explanation of material variances is provided to the Chief Finance Officer.

As part of its overall risk management, CX Re monitors its risk profile on a periodic basis and this is reviewed at least annually by the Risk Committee. The results will be documented and discussed by the Board prior to being approved.

CX Re has an Executive Committee which supervises the day to day operations of the Company and ensures that the Board is kept up to date with the provision of minutes from all Executive meetings. The CX Re Board utilises a "Three Lines of Defence" model for risk governance.

First Line of Defence (First LOD)

The First LOD are those individuals undertaking any activity or making decisions on behalf of CX Re are responsible for managing the risk that is attached to that activity. Claims handling and finance are considered the 'first risk managers'.

It is an essential part of CX Re's risk policy that all parties, including its outsourcer Pro, view the management of risk and compliance with the procedures as an integral part of managing their business areas.

Central to this each risk area must:

- Comply with this and other relevant risk policies;
- Identify and evaluate the risks faced by their business function only taking those risks which are in line with CX Re's Board's expectations as defined in business plans, guidelines and policies;
- Implement and operate appropriate controls in accordance with guidelines and minimum standards;
- Embed risk management responsibilities within individuals' job descriptions and performance metrics; and
- Respond pro-actively to guidance issued and/or requests made by the Second LOD and Third LOD, and act in an open and cooperative manner; promptly disclosing to them anything that they would reasonably expect to be interested in.

3. SYSTEM OF GOVERNANCE (continued)

3.2 RISK MANAGEMENT SYSTEM (RMS) (continued)

Second Line of Defence (Second LOD)

The Second LOD functions are responsible for the provision of the risk management framework and policies within which the First LOD is expected to operate and who are responsible for providing assurance to the Board of adherence to that framework.

The LOD consists of those Committees, Functions and Individuals responsible for supporting the Board in the design, operation and oversight of risk management, namely, the Risk Committee and the Audit Committee. The Chairs of the above Committees are charged with verbal or formal reporting of the decisions and recommendations of their respective committees at Board meetings.

Third Line of Defence (Third LOD)

Oversight of the First LOD and Second LOD by the Board together with the Committees, Functions and Individuals responsible for providing independent assurance to the Board. Specifically, Internal Audit and External Audit.

The Boards responsibilities in relation to risk management are:

- Approval and effective oversight of risk management including all current and future risk exposures, risk appetite and tolerances;
- Proactive response to risk issues; and
- Promoting a risk aware culture.

The Audit and Risk Committees are independent committees, and each has specific oversight responsibilities for operational risk and the Internal Control System (ICS) and its specific responsibilities in relation CX Re's risk management is provided below:

Oversight and advice to the Board on current and future potential risk exposures for all risk categories, including:

- determination of risk appetite and tolerances;
- providing advice on and support in implementation of risk management and risk information
- promoting a risk aware culture; and
- reporting to the CX Re Board on risk, internal issues and recommendations.

The Internal Audit Function is structured to be independent from the influence of other functions and the CX Re executive body and has a direct reporting line into the Audit Committee. The Internal Audit Function provides reasonable assurance to the Board as to the adequacy or deficiencies within the CX Re. It has the specific responsibility to ensure that any deficiencies notified to the board are rectified in a timely manner.

3. SYSTEM OF GOVERNANCE (continued)

3.3. FIT AND PROPER

CX Re has a Fit and Proper Policy designed with the primary objective of ensuring the persons who effectively run CX Re or who have other key functions are “fit” and take account of the respective duties allocated to individuals to ensure that there is an appropriate diversity of qualifications, knowledge and experience to ensure that CX Re is managed and overseen in a professional manner.

A robust approach to managing the fitness and propriety of employees and service providers is important to ensure that they demonstrate the following attributes:

- That they have the necessary knowledge, skill and experience to undertake their intended roles and responsibilities competently, in an effective and efficient manner and, where relevant, can add value to the business.
- Are unlikely to undertake their activities for the purposes of financial crime, fraud, or any other criminal activity.
- Are unlikely to undertake their activities in a manner that will bring CX Re into disrepute.

In order for CX Re to ensure the fitness and propriety of its own staff, the following processes are implemented:

- recruitment process (if necessary);
- initial training and supervision;
- ongoing training and competence management;
- ongoing fitness and propriety checks; and
- governance and management reviews.

CX Re’s outsourcer, Pro, have their own “Fit and Proper” regime, this is audited through an internal audit by CX Re.

The application of the above processes will vary according to the nature of each employee’s role and responsibilities.

The Company Secretary is responsible for maintaining this Policy and ensuring the processes contained within it are up to date, relevant and adhered to.

Additionally, CX Re expects that its outsourcer, Pro, adopts the above requirements and on an annual basis confirms that it has undertaken a fit and proper review of its staff working on the CX Re.

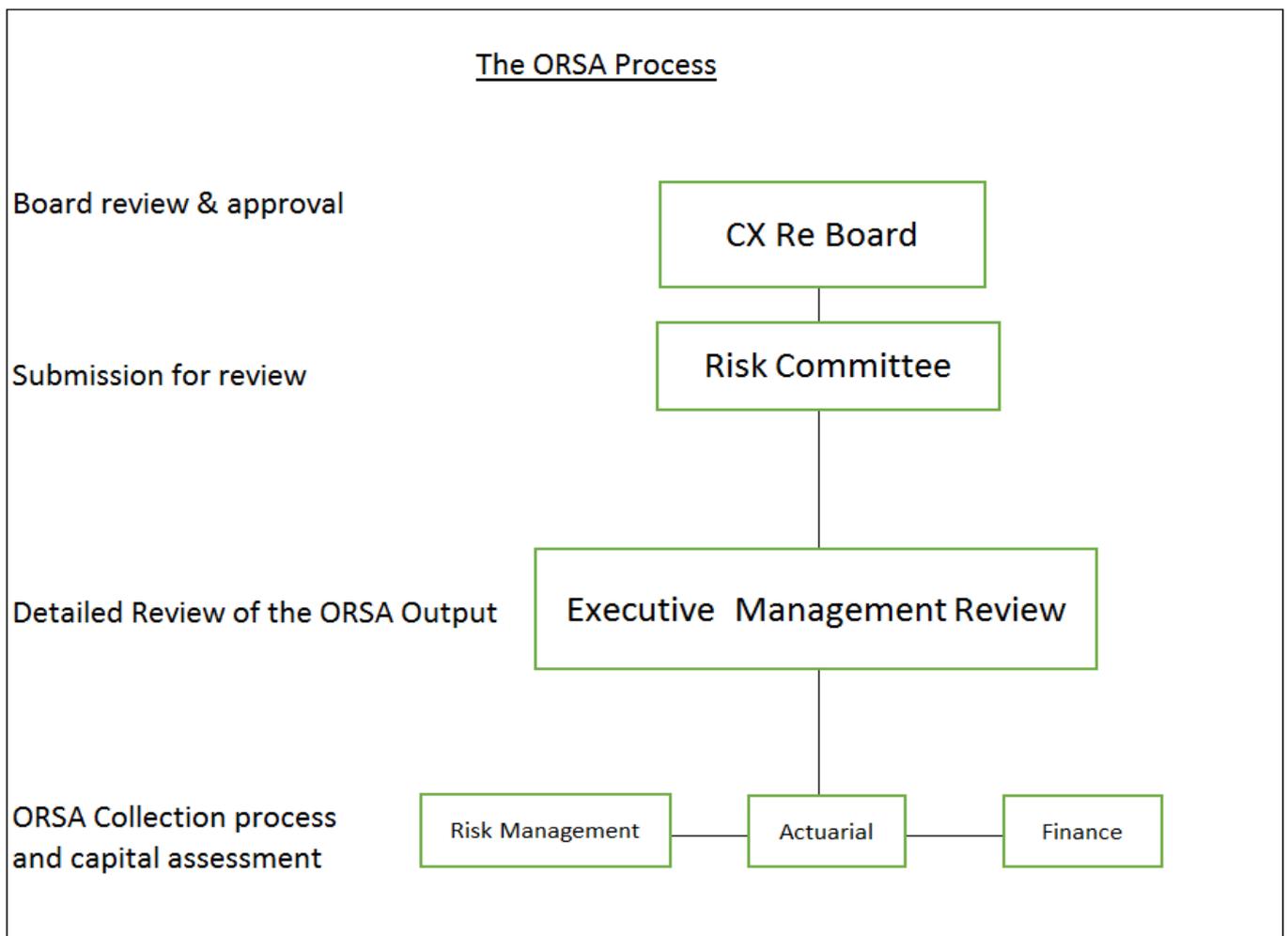
3. SYSTEM OF GOVERNANCE (continued)

3.4. ORSA PROCESS

The CX Re ORSA is a joint effort between various stakeholders and evidence of a positive culture towards risk management that includes:

- vertical escalation of concerns;
- transparency of the process; and
- appropriate sharing of information and communication.

The collation of the processes and risk and solvency assessment are subject to the ORSA governance structure illustrated in the figure below:



In managing the ORSA process the Board has set out to: -

- understand which risks CX Re is exposed to;
- maintain a framework through which the risks can be assessed and appropriately managed;
- maintain risk tolerances and supporting policies detailing the level of exposure to a particular risk or combination of risks;
- measure and monitor risk exposures and actively maintain oversight of CX Re’s overall risk and solvency positions; and
- set certain pre-defined tolerances and adhere to policies that limit the overall risk to which CX Re is exposed.

3. SYSTEM OF GOVERNANCE (continued)

3.5. INTERNAL CONTROL

The system of internal control plays a key role in the management of risks that are significant to fulfil CX Re's objectives. The Board is responsible for the establishment of internal controls and risk management through which to facilitate and provide reasonable assurance over the following:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with laws and regulations.

Ultimate accountability for ensuring that the firm has an adequate internal control framework rests with the CX Re Board.

The CX Re Board and Functions manage the key elements of its internal control framework through the:

- Governance framework;
- Corporate policies;
- Operating procedures;
- Risk governance structure; and
- Risk register.

The Senior Insurance Management Function (SIMF) roles in CX Re are shown in Appendix II, which also shows responsibilities between the executive and non-executive management

3.6. KEY INTERNAL CONTROL FUNCTIONS

The firm's key internal control functions are as follows:

- Compliance function;
- Risk Management function;
- Finance function;
- Actuarial function;
- External audit function; and
- Internal audit function.

Each of the above internal control functions reports to the Board.

The above structure has been designed to provide CX Re with a robust internal control framework that enables it to monitor on an on-going basis the appropriateness of its systems and controls, ensuring that they:

- support CX Re's business strategy and objectives, and enable the firm to deliver value to stakeholders;
- enable the firm to operate successfully within its risk environment and in accordance with its risk appetite; and
- remain adequate to enable the firm to adhere to applicable regulatory and legislative requirements.

3. SYSTEM OF GOVERNANCE (continued)

3.6 KEY INTERNAL CONTROL FUNCTIONS (continued)

The structure of the internal control framework enables each of the internal control functions to provide support to, interact with and monitor, as appropriate, the firm's operational activities and systems and controls. This structure aims to embed throughout the firm the internal control functions, and to also promote ownership and accountability of internal control measures and issues within the business itself.

Each of the internal control functions is independent from any of the firm's operational functions, thus ensuring that they are able to undertake their activities in an un-biased and objective manner. Furthermore, whilst each of the control functions will interact with each other, they are considered as individually distinct functions in their own right, thus ensuring that they are provided with adequate focus and resources to undertake effectively their intended roles. Each of the internal control functions has unrestricted access to all individuals and records throughout the business to ensure that they are able to investigate and understand fully the firm's activities and performance.

Compliance Function

The Compliance Function reports to the Board. The Compliance Function's primary role is to act in an advisory, oversight and assurance capacity to ensure that the business has the necessary systems and controls to enable it to adhere, on an ongoing basis, to regulatory and legislative requirements.

The Compliance Function's responsibility is to ensure that the Board and its service providers:

- are aware of applicable regulatory and legislative requirements;
- understand fully how regulatory and legislative requirements apply to the business; and
- have incorporated accurately and effectively regulatory and legislative requirements into Company standards, policies and procedures.

In order to achieve the above, the Compliance Function will:

- provide training and workshop sessions to relevant audiences in relation to regulatory and legislative requirements; and
- provide updates, as required, on any changes to regulatory and legislative requirements. Where any regulatory breaches are identified, the Compliance Function will notify the Board.

The Company Secretary is responsible for maintaining the relationship between the firm and the relevant regulatory, supervisory and legislative bodies. The Company Secretary will also be responsible for coordinating the firm's regulatory reporting activities.

3. SYSTEM OF GOVERNANCE (continued)

3.6 KEY INTERNAL CONTROL FUNCTIONS (continued)

Risk Management

The Risk Management function reports to the Risk Committee, and is responsible for development, maintenance and operation of an appropriate risk management system (RMS).

Risk Management Function provides regular Risk Management reports to the Risk Committee and its reporting enables the Risk Committee to:

- monitor the firm's overall risk profile;
- monitor the on-going impact of the firm's risk and control environment on its business objectives;
- apply risk-based considerations to decision making processes;
- monitor the on-going performance and suitability of mitigating controls;
- monitor emerging issues and their impact on the business;
- understand progress and business commitment to addressing identified weakness and issues;
- monitor the on-going effectiveness of risk management; and
- understand changes in regulatory or legislative requirements in relation to risk management.

Risk Management liaises with and provides risk-related reports and information to the Compliance and Internal Audit Functions with a view to assisting in the development of risk-based assurance and monitoring plans and it also liaises with the Compliance and Internal Audit Functions for the purposes of understanding any new emerging risks or control failures / inadequacies identified as a result of monitoring and assurance reviews.

Finance Function

CX RE's Chief Financial Officer has ultimate responsibility for the Finance Function. Pro provide the day to day financial processing, reporting and analysis by providing monthly reports on cash and investment balances and a quarterly balance sheet, profit & loss accounts etc.

The Finance Function has responsibility for ensuring that the firm has adequate financial systems and controls, for monitoring CX Re's financial health, and to provide it with accurate and up to date financial performance information. It will also provide advice and commentary to the Board on all relevant material financial matters. The Finance Function reports to the Board.

The Finance Function is responsible for developing its own systems and controls to ensure the adequate management of CX Re's financial risks and affairs, as well as ensuring the accurate reporting of financial information. However, the firm's other internal control functions will be responsible for undertaking independent monitoring and assurance reviews to ensure the on-going suitability and effectiveness of the firm's financial systems and controls, as well as contributing, both directly and indirectly, to determining the accuracy and reliability of the financial and non-financial information received by the Finance function and the information subsequently disseminated internally and externally.

3. SYSTEM OF GOVERNANCE (continued)

3.6 KEY INTERNAL CONTROL FUNCTIONS (continued)

Actuarial Function

The Actuarial Function is provided CX Re and its Chief Actuary. Periodically, CX Re undertakes an external actuarial review. This was last undertaken in the 3rd quarter 2017 by Willis Towers Watson.

The Actuarial Function is referred to as a control function to the extent that it undertakes many activities which strengthen the firm's Internal Control Framework, which enables management to undertake informed and risk-based decision-making processes (e.g. regulatory capital management and reporting, financial and non-financial data analysis and assessment, capital monitoring etc.).

The Actuarial Function is primarily responsible for the following:

- Performing reserve reviews to ensure adequate provisions are established for future claims activity;
- Monitoring actual vs. expected claim experience;
- Production, communication and embedding of Solvency Capital Requirement (SCR);
- Input to CX Re's Business Plan;
- Providing support to the Board in setting CX Re's risk appetite and ensuring that it complements the CX Re's business plans and objectives;
- Working with the Risk Management.

The specific responsibilities relating to the Actuarial Function are as follows.

- Coordinating the calculation of technical provisions;
- Ensuring appropriate methodologies and assumptions are used in technical provisions;
- Assessing the sufficiency and quality of data used in technical provisions;
- Comparing the best estimates against experience in technical provisions
- Reporting on the reliability and adequacy of technical provisions;
- Assisting in the valuation process for commutations;
- Overseeing technical provisions in cases where approximations might be required or a case-by-case approach needed, and
- Contributing to the effective implementation of the risk management system, in particular with respect to risk modelling for capital calculations for both SCR and ORSA purposes.

At least once a year, the Actuarial Function produces a report to the CX Re Board, setting out how the Actuarial Function has discharged its duties.

A review of the Actuarial Function's effectiveness will be undertaken by the Internal Audit Function in accordance with the Internal audit of at least once in every three years' audit cycle.

External Audit Function

The External Audit Function is responsible for undertaking the firm's statutory audits and reporting its findings to the Board. Mazars LLP have been appointed as external auditors of CX Re under the Companies Act 2006. Their address is Tower Bridge House, St Katharine's Way London E1W 1DD.

3. SYSTEM OF GOVERNANCE (continued)

3.6 KEY INTERNAL CONTROL FUNCTIONS (continued)

Internal Audit Function

Responsibility for the Internal Audit Function rests with the Head of internal audit, an Executive member who for this purpose reports directly to the Chair of the Audit Committee. The head of Internal Audit is responsible for conducting all internal audit reviews and, in conjunction with the Audit Committee, developing a rolling three year audit plan.

On this basis, the Internal Audit Function is considered independent from all other business functions and, therefore, is able to provide a truly objective opinion as to the adequacy of the internal control framework. The Audit Committee will oversee and provide challenge to the Internal Audit Function to satisfy itself that an adequate internal control system is in place and operating effectively.

The areas to be reviewed under the Internal Audit plan will be determined based on the risks to the business, consistent with those detailed within the firm's Risk Register.

The Internal Audit plan is reviewed and approved by the Audit Committee on an annual basis. The Internal Audit function is required to provide the Audit Committee with regular updates against the plan and submit detailed reports on completion of each internal audit review. The Internal Audit Function may, following the agreement of the Audit Committee, amend the Internal Audit Plan, where there have been significant changes to the firm's risk profile.

To develop each internal audit review report the Internal Audit Function is required to discuss and agree, with the relevant business areas, action points to address each issue, weakness or failure identified. The Audit Committee will review all agreed actions and challenge the suitability of these as necessary.

The Audit Committee is to provide to the Board, on a regular basis, reports outlining its progress against the Internal Audit Plan and also the key findings, risks and issues identified as a result of both internal and external audit reviews.

Data Governance

The data governance framework covers, as a minimum:

- Underwriting data, including associated management information; and
- Data used for technical provisions.

Responsibility for underwriting data and associated management information rests with the executive management.

Any material issues with data quality, timeliness or availability are reported to the Board and or the board's Risk and Audit Committees

Reporting

The internal control functions are responsible for undertaking monitoring activities and reviews to determine the accuracy and reliability of both financial and non-financial information being reported. A regular governance effectiveness review will be conducted and will review the on-going appropriateness of the information being supplied to and from the Board.

Further details as to the reporting responsibilities throughout the firm are included in other policies and procedures.

4. RISK MANAGEMENT

4.1 INSURANCE RISK

Insurance risk is the risk arising from insurance obligations in relation to the perils covered and the processes used in the conduct of business and includes uncertainty in the results related to existing insurance and reinsurance obligations.

Risk Exposure

CX Re ceased writing new business in 2001 and is no longer exposed to premium reserve risk or catastrophe risk. CX Re's insurance risk is driven primarily by claims reserves.

CX Re's class of business is a mix of liability and property. The perils in run-off insured by CX Re include Asbestos, Pollution, Health Hazard, Property, Product Liability, Professional Indemnity, Engineering, Contractors, Fire and Marine. The claims outstanding predominantly emanate from the United States of America.

CX Re have not explicitly allowed for changes in the values of claims due to inflation. Instead, the Company has generally assumed that past average levels of inflation will continue until all outstanding claims are paid.

There is always uncertainty in the estimation of future liabilities for general insurance business, as this involves making assumptions about future events which are themselves uncertain. In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premiums, claims and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. Although CX Re has made what is believed to be a reasonable allowance for the risk of adverse development, CX Re has not anticipated the emergence of major new types or classes of claims, nor the emergence of any major new reinsurance disputes. Refer to the relevant individual subsections below for uncertainties within each reserving group where applicable.

In particular, CX Re has material exposure to losses arising due to US asbestos, pollution and health hazard exposures. This is a significant area of uncertainty within the entire insurance market and forms a large part of the uncertainty within the CX Re book. The usual uncertainty associated with claim reserve estimates is greatly magnified in the case of asbestos, pollution and health hazard losses.

The Baltimore lead-paint claims are another area of uncertainty. These claims are subject to legal decisions and jury verdicts.

Due to the Market settlement in 2017, the World Trade Center claims are no longer a major area of uncertainty for CX Re.

An ongoing review of dormant claims has been taking place for many years. This has resulted in a history of reserve redundancy on several groups. Since 2014 year end, CX Re has allowed for this in its reserve projections.

Expenses represent a substantial portion of CX Re's liability due to the maturity of the run-off. This means that the pattern of claims expenses emerges somewhat independently from claims costs due to fixed operating costs that are not related to claim volumes.

CX Re's insurance reserve risk SCR calculated using the standard formula is \$8.74m. This represents approximately 75% of its total diversified SCR.

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Risk Mitigation

CX Re has \$4.9m of undiscounted reinsurance which represents 11.1% of the undiscounted gross reserves. The majority of reinsurance recoveries relates to the asbestos claims coverage (\$3.1m).

CX Re have been involved in a series of rescission actions related to the lead-paint based exposure claims. Other than the City Homes matter, all of the remaining rescission actions have been settled, although the B&R settlement is not yet finalized. These settlements will have resulted in a saving in reserve claims of \$1.975m. Reserves to the value of \$1.975m carried against the now rescinded insureds, Dackman, State Real Estate and Harris & Folick have now been taken down. Certain lead paint plaintiffs have filed a declaratory judgment action challenging the settlements in Maryland state court. The Company views the action as being without merit, but it presents legal risk, particularly since the venue is very plaintiff oriented. The settlements with MAR, Caplan, Kirson, Singer, Leader, and B&R leave the policies in place subject to reduced limits. CX Re remains confident that if the City Homes matter were tried CX Re would prevail resulting in rescission of the City Homes policies. Discussions of a possible settlement are on standstill until certain motion practice concludes in the City Homes rescission action.

Risk Concentration

The underwriting risk capital requirement is calculated as:

	Solvency II SCR 31-Dec-18 \$'000s	Solvency II SCR 31-Dec-17 \$'000s
Non-Life underwriting risk Reserve Risk	8,741	11,059

The SCR as at 31 December 2018 gives a capital requirement for insurance risk of \$8.74m (2017: \$11.06m). Due to the fact that CX Re is a mature run-off, no allowance has been made for premium risk and catastrophe risk. The insurance risk arises from claims outstanding reserves volatility and not underwriting risk.

Risk Sensitivity

Insurance risk is potentially sensitive to the development of a new latent claim, as evidenced by the scenario below:

A scenario that emulates the effect of a new latent claim for asbestos occurring on the pre1985 portfolio. Stress for the latent claims event is an increase in gross liabilities by a further \$2.0m and net liabilities of \$1.1m. The SCR increases by \$0.4m from the default position.

Events not in data (ENID)

Given the age of CX Re's book in that it went into run off in 2002, the chance of a new type of claim appearing is much more limited than in a live book. Whether any allowance is adequate is impossible to tell as by its very nature a brand new type of claim has no history and can affect the book in a quite small way or have a major effect. The newest year is 2001 and as the underlying risks for these new years tend to be claims made, CX Re believes the most likely place for an ENID to emerge is in the pre-1986 years. Also, for new types of claims the exposure is in our reserving groups 1977 to 1985 (Non Asbestos and Pollution) where CX Re has a total of \$7.9m of reserves.

For CX Re, the liability classes are projected using a curve fit through the data where favourable movements tend to be ignored. The Company also projects this curve beyond the oldest point in the data. Group PG09, Insurance liability, CX Re have focused on this group in order to derive the ENID allowance.

Given the age of the book, the chance of a new type of claim appearing is much more limited than in a new book. Whether any allowance is adequate is impossible to tell as by its very nature a brand new type of claim has no history and can affect the book in a quite small way or have a major effect. The newest year is 2001 and as the underlying risks for these new years tend to be claims

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made it is assumed that the most likely place for an ENID to hit is in the pre-1986 years. Also, for new types of claims the exposure is in reserving groups 1977 to 1985 (Non-Asbestos and Pollution) where CX Re has a total of \$7.0m of reserves.

For CX Re, the liability classes are projected using a curve fit through the data where favourable movements tend to be ignored. CX Re also project this curve beyond the oldest point in the data. CX Re has focused on group PG09 (Products) to derive the ENID allowance.

This group's incurred claims peaked in 2005 and since then have shown a downward trend. Because the projection method ignores favourable movements in the data the Company is projecting a positive IBNR with the fitted curve again going beyond the oldest point in the data. This class of business contained an IBNR of \$0.13m as at Q4 2017. CX Re have analysed the projection and re-projected the figures taking out some of the conservatism leaving a reserve that represents a best estimate without any allowance for ENIDs. This effectively reduced the IBNR to negative. This would allow for an inherent amount of \$0.23m in original best estimate to cover the ENID requirement.

In summary, implicit in the CX Re reserves at Q4 2018 is an allowance of \$0.23m (2017: \$0.13m) to cover the possibility that an event such as the appearance of a new type of latent claim will occur. However, it should be noted that the claims department have not seen such a claim for many years.

4. RISK MANAGEMENT (continued)

4.2 MARKET RISK

Market risk is the risk of adverse financial impact as a consequence of market movements in currency exchange rates and interest rates.

Risk Exposure

CX Re has considered market risk asset elements from the balance sheet and determined that it is exposed to market risk from the following sources:

- Interest rate risk;
- Spread risk;
- Currency risk.

CX Re does not invest in equities or property, therefore risk arising from these sources has not been considered.

Risk Mitigation

CX Re holds the majority of its surplus assets in US\$. CX Re reports in US\$ and the majority of the Company's claim liabilities are denominated in US\$. In order to reduce the SII currency charge the Company has sought to reduce the non-US\$ denominated currencies within the surplus funds. CX Re also seeks to align the durations of its assets and liabilities. CX Re does not hold any assets in quantities which would make the Company liable for any concentration risk. The reduction in concentration risk charge after addressing this error generally netted off the overall market risk charge with diversification with minimal net effect.

Risk Concentration

The market risk capital requirement is calculated as:

	Solvency II SCR 31-Dec-18 \$'000s	Solvency II SCR 31-Dec-17 \$'000s
Interest Rate Risk	0	30
Spread Risk	894	1,180
Concentration Risk	79	32
Currency Risk	544	790
Diversification	(358)	(440)
	1,159	1,591

Interest Rate Risk

The reduction in interest rate risk is generally in line with expectations. The SCR interest rate risk is affected by shifts in the yield curves and payment patterns. Interest Rate Risk exists for all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates. This relates, primarily, to fixed interest securities for assets and technical provisions for liabilities. This module applies scenarios to increase and decrease interest rates and assess the resulting impact upon the net asset value.

Spread Risk

Spread Risk looks at the values, ratings and modified duration of fixed interest securities, excluding EEA government issued bonds. In this module, US Treasury Bonds carry zero capital charge. The capital requirement decreased from \$1.2m in 2017 to \$0.9m in 2018. This reflects the mix in the assets held and the ratings attached to them. As at Q4 2018, CX Re's exposure to spread risk is 25% of the bond portfolio funds in spread products.

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Currency Risk

CX Re's liabilities are broadly currency matched with corresponding assets for all major currencies. It is CX Re's strategy to hold assets in a particular currency to cover its technical provisions (reserves and ULAE) and associated capital requirements. It is CX Re's policy to hold part of its surplus assets, i.e. those in excess of the technical provisions and capital requirements in Sterling, to cover any future potential adverse developments in ULAE. In the same way, the Company holds the balance of its surplus in US\$ for any potential reserve deterioration.

During the fourth quarter 2016, following discussions with the PRA, a decision was made to report in US\$ as opposed to Sterling. This decision has been brought about due to CX Re's statutory reporting and accounting being in US\$. Also, this reduces the issue of fluctuating exchange rates which can affect the Solvency II calculated numbers. Due to this decision, there has been a large reduction in the currency risk charge due to CX Re holding a greater proportion of the surplus assets in US\$ where no charge is now applicable. There is, however, now a charge on the held Sterling denominated surplus funds. The currency risk charge has also reduced over the year due to the fall in the surplus.

Risk Sensitivity

This charge has sensitivity to currency denomination within the surplus funds.

4.3 COUNTERPARTY DEFAULT RISK (CDR)

CDR arises from possible losses due to unexpected default or deterioration in the credit standing of counterparties and/or debtors of CX Re.

Risk Exposure

CX Re's CDR exposure arises from the following sources:

- Reinsurance credit risk – risk of bad debt from reinsurance claims;
- Deposit accounts with banks – risk of default of the bank;
- Debt purchase investment – risk of default on investment;
- Debtor balances from agents and brokers – risk of these third parties defaulting on obligations.

Risk Mitigation

During 2015, the Company ceased further investment in debt purchase assets.

The Company mitigates risks associated with its debtors due to an active program of debt reclamation performed by its outsourcer Pro Insurance Solutions.

Risk Concentration

As at the end of 2018, 55% of CX Re's recoverable reinsurance is A rated with the remaining 45% being below. CX Re's bank deposits amount to \$7.1m.

CX Re has \$1.1m of net debtors overdue by more than three months relating to insurers and reinsurers. This figure is smaller than the amount stated in the accounts. This is due to many counterparties being identified as creditors on the claims side as an offset.

The following table illustrates the split of total assets by rating:

Assets are split into either Type 1 (undiversified exposures) or Type 2 (diversified exposures) with the SCR determination being different for each category. For CX Re, Type I exposures include all reinsurance assets and bank /cash deposits whereas Type II exposures include all sundry agent and broker balances. The CDR capital requirement is calculated as:

	Solvency II SCR	Solvency II SCR
	31-Dec-18	31-Dec-17
	\$'000s	\$'000s
Type 1 Assets	1,316	1,447
Type 2 Assets	1,001	673
Diversification effects	(147)	(118)
	2,170	2,002

4. RISK MANAGEMENT (continued)

4.3 COUNTERPARTY DEFAULT RISK (CDR) (continued)

The CDR SCR charge has increased by \$0.2m, the main drivers being the increase in the Type 2 net debtors over the year.

Risk Sensitivity

The CDR is sensitive to the number of investment counterparties and ratings as evidenced by the scenario below:

The single largest cash entity (\$3.4m) relating to a bank is State Street. Were the rating of the bank to be reduced to BBB the total SCR would increase by \$0.2m (1.6%).

4. RISK MANAGEMENT (continued)

4.4 LIQUIDITY RISK

Liquidity Risk arises because, although a company may have a solvent balance sheet, it may either not have available sufficient financial resources to meet its obligations as and when they fall due or securing that comes at excessive cost.

A significant proportion of the Company's liabilities relate to US policyholders that are secured by US-based trust funds. The Company has reached agreement with the relevant US regulators to ease withdrawals from these trust funds in order to enhance the funds available to meet the claims of non-US policyholders. A liquidity charge is not considered necessary in relation to the US trust funds.

Due to the liquid nature of its assets and the expected liability payments CX Re is not exposed to any material Liquidity Risk.

4.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel, systems or external events. CX Re has a low tolerance for operational risk but understands that people, processes and systems are imperfect, and losses may arise from errors and ineffective operations.

As CX Re is in run-off with no new business being written and no premium risk, operational risk is derived solely from technical provisions. Operational risk is simply added to the basic SCR, i.e. no further diversification benefit with any other risk module.

In view of the maturity of the run-off and the low transaction volumes CX Re has assessed that the potential impact of operational risks is low. The principle operational risk of the Company is from failures in outsourced services, in particular failures of its principal outsourcer, Pro Insurance Solutions Limited, which provides services such as IT, support to Finance, and claims adjusting. CX Re controls that risk with regular audits and assessments

The impact of operational risk is \$1,206k (2017: \$1,504k) which is 10.4% of the total SCR. SCR operational risk has decreased by \$298k since 2017 in line with the change in gross liabilities.

During first half 2016, in line with the newly implemented Senior Insurance Managers Regime, the Company replaced the current indirect management set-up (through an affiliate, Tawa Management Limited) with executives who are directly employed by the Company and who undertake direct responsibility for the Company's activities. The Company conducts an Internal Audit program, supervised by the Audit Committee, whose reports are available to the CX Re Board to evaluate the controls and procedures employed.

A Risk Register comprises and ranks those material identified risks to which the Company, and its outsource providers, are exposed and are reviewed by the newly created Risk Committee; the Register is continually updated in the light of experience and Market conditions and issues.

4.6 OTHER

Group Risk is defined as risks of any nature whatsoever arising in or from membership of a corporate group. This risk is not explicitly modelled in the standard formula.

As CX Re does not have any shared capital, reinsurance arrangements nor shared platforms that require a capital provision with any other group companies a Group Risk charge was considered not to be material or necessary.

The following risk categories were excluded from the solvency capital requirement for the following reasons:

- Equity risk – no equity assets held (nor future intention to hold)
- Property risk – no property assets held (nor future intention to hold)
- (Non-Life) Catastrophe risk – no prospective insurance exposures

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5. VALUATION FOR SOLVENCY PURPOSES

5.1 OVERVIEW

The balance sheets below are presented on a Solvency II basis and on a UK GAAP basis.

The primary difference between the UK GAAP balance sheet and the Solvency II balance sheet is the Risk Margin. There is no Risk Margin under GAP, the Risk Margin is provided for under Solvency II.

The Solvency II balance sheet as at year ended 31 December 2018 is presented together with a comparison to both prior years and the audited UK GAAP Balance Sheet at those same dates.

		Solvency II Balance Sheet 31-Dec-18 \$'000s	Solvency II Balance Sheet 31-Dec-17 \$'000s	UK GAAP Balance Sheet 31-Dec-18 \$'000s	UK GAAP Balance Sheet 31-Dec-17 \$'000s
Assets	Cash at bank and in hand	2,225	1,962	2,225	1,962
	Debtors	2,891	4,493	2,891	4,493
	Accrued interest income	1,750	419	1,750	419
	Other financial investments	49,541	62,108	49,541	62,108
	Total assets	56,407	68,982	56,407	68,982
		Solvency II Balance Sheet 31-Dec-18 \$'000s	Solvency II Balance Sheet 31-Dec-17 \$'000s	UK GAAP Balance Sheet 31-Dec-18 \$'000s	UK GAAP Balance Sheet 31-Dec-17 \$'000s
Liabilities	Insurance liabilities	45,177	55,556	40,201	50,119
	Creditors	2,873	2,408	2,873	2,408
	Sub-total	48,050	57,964	43,074	52,527
Capital	Share capital	513,226	513,226	513,226	513,226
	Retained earnings - prior years	(513,538)	(509,822)	(508,101)	(503,842)
	Share Premium Account	11,330	11,330	11,330	11,330
	Retained earnings - current year	(2,661)	(3,717)	(3,122)	(4,259)
	Excess assets	8,357	11,017	13,333	16,455
	Total liabilities	56,407	68,982	56,407	68,982

CX Re has total net assets as at 31 December 2018 on a Solvency II basis of \$8,357k, a decrease of \$2,660k since 2017.

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5. VALUATION FOR SOLVENCY PURPOSES (continued)

5.2 ASSETS

CX Re's assets excluding technical provisions (detailed in section 5.3) decreased by \$12,555k during the year.

		Solvency II Balance Sheet 31-Dec-18 \$'000s	Solvency II Balance Sheet 31-Dec-17 \$'000s	UK GAAP Balance Sheet 31-Dec-18 \$'000s	UK GAAP Balance Sheet 31-Dec-17 \$'000s
Assets	Cash at bank and in hand	2,225	1,962	2,225	1,962
	Debtors	2,891	4,493	2,891	4,493
	Accrued interest income	1,750	419	1,750	419
	RI Claims	3,809	4,672	3,809	4,672
	Other financial investments:				
	U.S Treasury Bonds	13,047	17,586	13,047	17,586
	SICAV	1,433	1,488	1,433	1,488
	German Government Bonds	4,042	5,000	4,042	5,000
	UK Government Bonds	3,963	9,107	3,963	9,107
	FNMA	1,749	1,252	1,749	1,252
	Chilean Bonds	194	203	194	203
	Polish Bonds	147	102	147	102
	Deposits and Cash mainly market funds	5,847	7,342	5,847	7,342
	GNMA	1,646	1,195	1,646	1,195
	Corporate Bonds	11,757	13,058	11,757	13,058
	Other	1,907	1,103	1,907	1,103
	Total assets	56,407	68,962	56,407	68,982

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less and are measured at cost.

Short term debtors with no stated interest rate and that are classified as receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be received, net of impairment. All the debtors are due within one year.

The financial investments are held in a managed portfolio administered by BlackRock. The portfolio comprised fixed income bonds cash deposits with a duration broadly matching that of the net liabilities.

All assets are therefore valued on a "fair value" basis in the UK GAAP balance sheet and Solvency II balance sheet.

5. VALUATION FOR SOLVENCY PURPOSES (continued)

5.3 TECHNICAL PROVISIONS		Solvency II Balance Sheet 31-Dec-18 \$'000s	Solvency II Balance Sheet 31-Dec-17 \$'000s	UK GAAP Balance Sheet 31-Dec-18 \$'000s	UK GAAP Balance Sheet 31-Dec-17 \$'000s
Liabilities	Insurance liabilities				
	<i>of which: Gross claims</i>	36,587	45,138	36,587	45,138
	<i>of which: Net risk margin</i>	4,976	5,437	0	0
	<i>of which: RI claims</i>	(3,809)	(4,672)	(3,809)	(4,672)
	<i>of which: Gross claims handling</i>	3,614	4,981	3,614	4,981
		41,368	50,884	36,392	45,447

All insurance liabilities are valued on a “best estimate” basis in the UK GAAP balance sheet and Solvency II balance sheet.

The net discounted claims have reduced from \$40,157k to \$32,778k, a movement of \$7,379k over the year. The risk margin has reduced from \$5,437k to \$4,976k. There has also been a reduction in the discounted ULAE reserve (claims handling) of \$1,367k

The Solvency II balance sheet Risk Margin is determined using a cost-of-capital approach and represents the cost of providing capital to support the run-off claims outstanding liabilities. Solvency II is set at 6% above the risk free rate.

The Risk Margin has decreased by \$461k since Q4 2017.

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6. CAPITAL MANAGEMENT

6.1. OWN FUNDS AND THEIR QUALITY

		Solvency II Balance Sheet 31-Dec-18 \$'000s	Solvency II Balance Sheet 31-Dec-17 \$'000s
Capital	Share capital	513,226	513,226
	Share premium Account	11,330	11,330
	Retained earnings - prior years	(513,538)	(509,822)
	Retained earnings - current year	(2,661)	(3,717)
	Excess assets	8,357	11,017

CX Re has two classes of ordinary shares which carry no right to fixed income.

6.2. MINIMUM CAPITAL REQUIREMENT AND SOLVENCY CAPITAL REQUIREMENT

Minimum Capital Requirements (“MCR”)

As the Solvency Capital Requirement is more than the Absolute Floor the MCR is therefore not based on the Absolute Minimum Capital Requirement of €3,200k. The MCR as at 31 December 2018 is therefore \$4,629k (2017: \$5,894k).

Solvency Capital Requirement (“SCR”)

CX Re has based its SCR calculations on the standard formula using the UK GAAP financial statements. The summary results of the SCR calculation are as set out below:

	Solvency II SCR 31-Dec-18 \$'000s	Solvency II SCR 31-Dec-17 \$'000s
Insurance Risk	8,741	11,059
Counterparty Default Risk	2,170	2,002
Market Risk	1,159	1,591
Operating Risk	1,206	1,516
SCR capital requirement before diversification	13,276	16,168
Diversification benefit	(1,690)	(1,948)
SCR capital requirement	11,586	14,220

The largest contributor to the SCR is insurance risk accounting for approximately 66% of the undiversified SCR and 75% of the diversified.

The table shows that the final SCR is \$11,586k and that the figure has decreased by \$2,634k during the year.

6. CAPITAL MANAGEMENT (continued)

6.2 MINIMUM CAPITAL REQUIREMENT AND SOLVENCY CAPITAL REQUIREMENT (continued)

Scenario testing

As CX Re has been in run-off for many years many of the material risks are outside of CX Re's control. CX Re has therefore selected risks posing the greatest threat to CX Re for scenario testing, these are:

- A 10% fall in bonds affecting CX Re's surplus only as it is matched on its asset/liability position. This demonstrates the effect of reducing the surplus by 10% with the corresponding effect on the SCR This scenario had the effect of increasing the SCR deficit position by \$1.1m.
- Lead paint claims deteriorate by \$1.1m, this had the effect of increasing the SCR deficit from the default position by further \$1.5m.

In addition to the quantitative testing above the impact of other risks was considered. In view of the maturity of the run-off and the low transaction levels (both in value and number) these are likely to have limited impact on SCR coverage.

6.3 USE OF INTERNAL MODEL

CX Re does not use an internal model. An exercise was carried out to identify deviations between CX Re's risk profile and the assumptions underlying the standard formula. It was concluded that the standard formula approach is appropriate for use by CX Re as the assumptions underlying the standard formula generally hold for CX Re or have no material risk impact.

6.4 COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND SIGNIFICANT NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

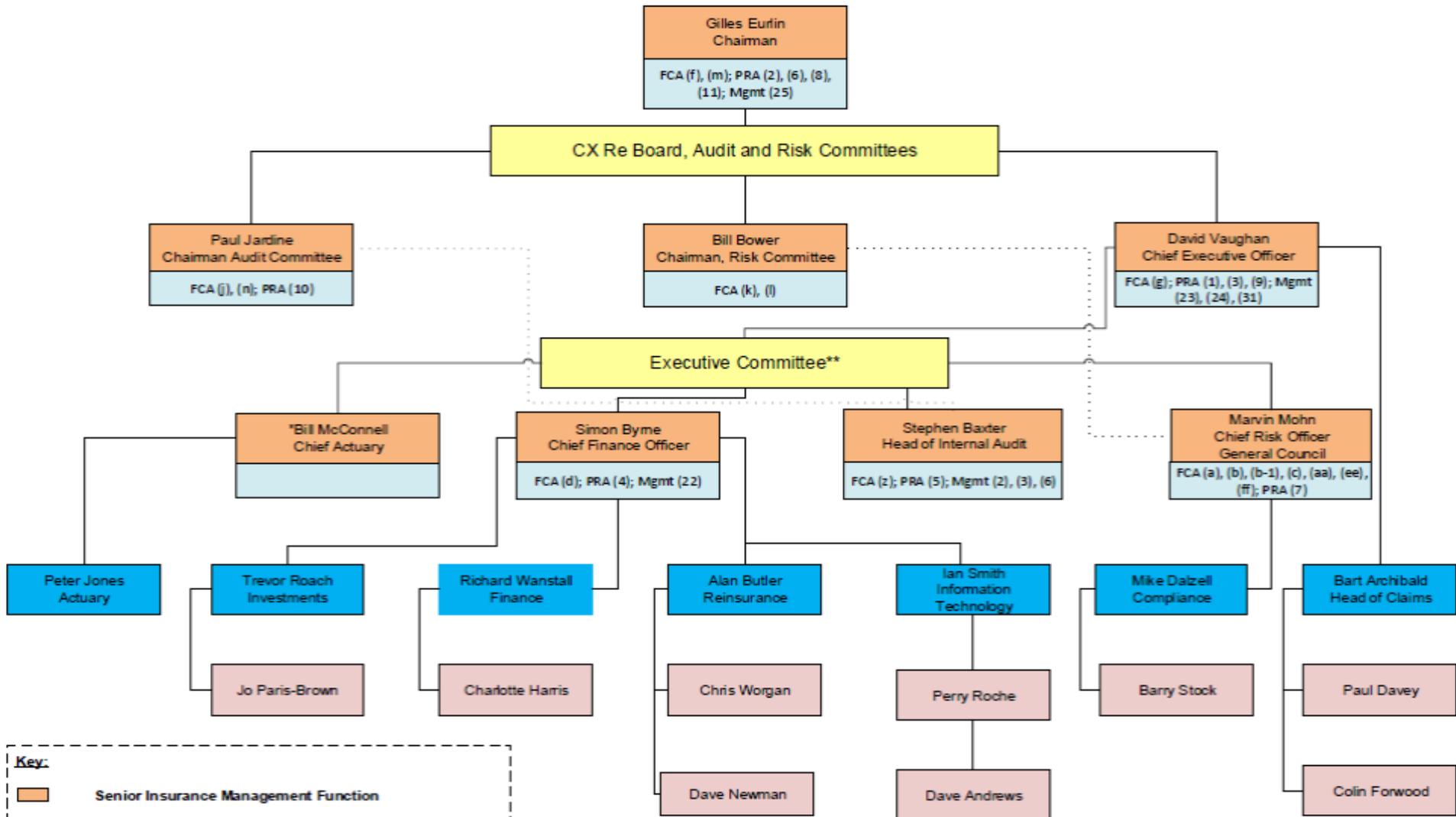
The comparison of these capital requirements to CX Re's own funds is set out below:

		Solvency II SCR 31-Dec-18 \$'000s	Solvency II SCR 31-Dec-17 \$'000s
Capital	Share Capital	513,226	513,226
	Total Eligible Own Funds	8,357	11,017
Solvency Capital Requirement ("SCR")		11,586	14,206
Minimum Capital Requirement ("MCR")		4,629	5,894
Capital Surplus (vs SCR)		(3,229)	(3,189)

As at 31 December 2018, on a Solvency II basis CX Re has eligible own funds of \$8,357k (2017: \$11,017k). CX Re's SCR (after diversification) is \$11,586k (2017: \$14,206k), giving a deficit under SCR of \$3,229k (2017: \$3,189k). CX Re therefore has a SCR coverage ratio of 0.72 (2017:0.78) calculated as total net assets divided by final SCR.

While the Own Funds falls below the SCR, the Company is above their MCR with a coverage ratio of 181%. No events have occurred between 31 December 2018 and the compilation date of this report which materially impact this figure.

CX Re Governance Map



Key:

- Senior Insurance Management Function
- Function Holder (Pro, excluding P Jones & T Roach)
- Pro

** All Exec Committee members report to David Vaughan

Appendix I

- a. Gilles Erulin -- FCA (f), (m); PRA (2), (6), (8), (11); Mgmt (25)
- b. Paul Jardine – FCA (j), (n); PRA (10) (“Whistleblower” contact)
- c. Bill Bower – FCA (k), (l)
- d. David Vaughan – FCA (g); PRA (1), (3), (9); Mgmt (23), (24), (31)
- e. Bill McConnell – None
- f. Simon Byrne – FCA (d); PRA (4); Mgmt (22)
- g. Stephen Baxter – FCA (z); PRA (5); Mgmt (2), (3), (6)
- h. Marvin Mohn – FCA (a), (b), (b-1), (c), (aa), (ee), (ff); PRA (7)

APPENDIX II – THE BOARD’S RESPONSIBILITIES

The Board’s responsibilities include:

- Approval of CX Re’s strategy, annual business plan and any individual large or complex transactions;
- Monitoring operating performance against the business plan;
- Ensuring sufficient capital is held to maintain CX Re’s ongoing solvency;
- Oversight of the Risk Management System, including setting CX Re’s risk appetite and tolerances (see the Risk Policy for further details);
- Setting and oversight of the effectiveness of CX Re’s Governance Structure and Internal Control System as detailed within this policy;
- Setting and oversight of adherence to corporate policies;
- Oversight of the out-sourced service providers; and
- Ensuring CX Re meets minimum regulatory requirements.

The Board is composed of six directors one of whom acts as Chairman.

All Board members are PRA / FCA Approved Persons and are subject to annual fitness and propriety checks in accordance with the firm’s Fit and Proper Policy.

The Board is to meet at least quarterly or more frequently as detailed within the TOR, or as considered necessary.

So that it may monitor the performance of the firm, monitor performance against the firm’s risk appetite, assess its risk profile and environment, and apply an informative and risk based approach to decision making the Board are to be provided with timely, accurate and reliable information from its service providers on:

- Financial performance – claims, investment and expense;
- Performance against business plan;
- Analysis on large unexpected claims and / or investment losses;
- Reserving information – rationale for reserve levels, detail on adverse deteriorations;
- Material risk issues; and
- Regulatory compliance and conduct issues.

APPENDIX III – AUDIT COMMITTEE & RISK COMMITTEE RESPONSIBILITIES

CX Reinsurance Company Limited

Audit Committee

Terms of Reference

Definitions

Board	The board of Directors of the Company
Committee	The board audit Committee of the Company
Company	CX Reinsurance Company Limited

1 Principal Function

The Committee is authorised by the Board to advise the Board on audit and Internal control issues.

2 Membership and Attendance

The Committee shall be appointed by the Board. The Committee shall comprise Paul Jardine as Chair and Bill Bower, the CFO and the Head of Internal Audit

The Chairman of the Committee shall be an independent Non-Executive Director

3 Frequency of Meetings

Meetings will be held not less than two times each year normally in the March and September board meetings, and at such other times as the Chairman of the Committee may require.

4 Responsibilities

Its principal responsibilities are:

- Advise the Board on external audit matters, including:
 - The appointment or re-appointment of the external auditor;
 - The audit fee;
 - The external auditor's management letter, and the management response;
 - The provision of any non-audit audit services by the external auditors;
 - The Committee's evaluation of the performance and effectiveness of the external auditors;
- To review the Company's internal control and financial reporting systems (including financial, operational, compliance and risk management) and to make recommendations to the Board.
- To consider, and discuss with the external auditors where applicable:
 - The nature and scope of the audit, before the audit begins;
 - The Directors' report, strategic report and financial statements;
 - The auditors' report;

5 Authority

The Board authorises the Committee to:

Seek any information that it requires from any director, employee or third party service provider

Delegate any of its duties as is appropriate to such persons or person as it thinks fit whilst retaining responsibility and oversight for any and all actions taken.

6 Reporting Responsibilities

The Committee Chairman shall formally report to the Board on its proceedings after each meeting; The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

The Committee shall review its Terms of Reference at least on an annual basis and recommend any changes it considers necessary to the Board and shall also review the effectiveness of its own performance on an annual basis.

CX Reinsurance Company Limited

Risk Committee

Terms of Reference

Definitions

Board	The board of Directors of the Company
Committee	The board Risk Committee of the Company
Company	CX Reinsurance Company Limited

1 Principal Function

The Committee is authorised by the Board to advise the Board on risk management issues, recommend the Company framework of risk limits and risk appetite to the Board for approval and oversee the risk management arrangements of the Company. The Committee ensures that the material risks facing the Company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

2 Membership and Attendance

The Committee shall be appointed by the Board. The Committee shall comprise an independent non-executive director, the CEO, the CFO and the Risk & Compliance Director.

The Chairman of the Committee shall be an independent Non-Executive Director

The Company's external auditor may request to attend Committee meetings and the Chairman may authorise this

3 Frequency of Meetings

Meetings will be held not less than two times each year normally in the March and September board meetings, and at such other times as the Chairman of the Committee may require.

4 Responsibilities

Risk Management

Recommend and maintain up to date the Company's framework of risk limits and risk appetite to the Board for approval;
Review the quantum of the Solvency II Standard Model capital requirements at least annually including the review of the overall assumptions, results, key changes and the conclusions for the model validation process and if satisfied, make recommendations to the Board;

Review reports on any material breaches of risk limits from ops? and the adequacy of proposed actions and assess any impact on ORSA;

Regularly identify, review and monitor any emerging risks;

Regularly review Stress and Scenario Testing results and actions proposed or taken to address any identified risks;

Ensure the risk profile adequately represents any issues relating to the Company's control environment and that mitigating actions are in place;

Present a profile of the Company's key risks and associated mitigation to the Board at least annually

Regularly review and maintain up to date the Company's risk management system

Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

Risk Function

Consider and approve the remit of the Company's Risk Function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee shall also ensure the Risk Function has adequate independence

Investigate any matters within its terms of reference and make any recommendations which it deems appropriate on any area within its remit

5 Authority

The Board authorises the Committee to:

Seek any information that it requires from any director, employee or third party service provider

Delegate any of its duties as is appropriate to such persons or person as it thinks fit whilst retaining responsibility and oversight for any and all actions taken.

6 Reporting Responsibilities

The Committee Chairman shall formally report to the Board on its proceedings after each meeting; The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

The Committee shall review its Terms of Reference at least on an annual basis and recommend any changes it considers necessary to the Board and shall also review the effectiveness of its own performance on an annual basis.

APPENDIX IV

CX Re Risk Appetite

1. Insurance Risk
 - a. The Company accepts that existing insurance risk is largely beyond the Company's control, although it takes active measures where possible and appropriate including litigation, policy buy-backs, commutations, and inspections to mitigate such risk.
 - b. The Company has no appetite for new insurance risks.
 - c. The Company has no appetite for a failure of information allowing timely assessment of risks and adoption of mitigation strategies as appropriate.
 - d. The Company has some appetite for increased insurance risk that results from commuting its outwards reinsurance on the basis that the benefits of descaling the overall book justify the increased risk but has no appetite for such commutations being done without a risk assessment relating to the possible consequences.
2. Credit Risk
 - a. The Company has a low appetite for investment failures (i.e., investments becoming worthless)
 - b. The Company has a low appetite for invested assets rated below S&P BBB
 - c. The Company accepts that existing reinsurance risk is largely beyond the Company's control, although where possible and appropriate it takes appropriate measures such as commutations to mitigate such risk.
 - d. The Company has no appetite for delays in reporting on bad debt that prevent mitigation of loss.
3. Market Risk
 - a. The Company has no appetite for inadequate management information.
4. Operational Risk
 - a. The Company has no appetite for losses incurred that are not a result of claims deterioration and reinsurance failures (over which the Company as noted has limited control and ability to mitigate).
 - b. The Company has no appetite for failures by its outsourced service provider, Pro Insurance Solutions Limited.
 - c. The Company has no appetite for data or IT failures.
5. Compliance/Regulation Risk
 - a. The Company has no appetite for missed regulatory filings.
 - b. The Company has no appetite for regulatory violations other than inadequate regulatory capital.
 - c. The Company has no appetite for failures to comply with applicable law and regulation.
6. Liquidity Risk
 - a. The Company has no appetite for being unable to pay its debts as they come due.
 - b. The Company recognises that it has liquidity issues that will be worked through as part of the run off.

APPENDIX V

P.02.01.02

Balance sheet

	Solvency II value	
	C0010	
Assets	R0030	
Intangible assets	R0040	
Deferred tax assets	R0050	
Pension benefit surplus	R0060	
Property, plant & equipment held for own use	R0070	45,732
Investments (other than assets held for index-linked and unit-linked contracts)	R0080	
Property (other than for own use)	R0090	
Holdings in related undertakings, including participations	R0100	
Equities	R0110	
Equities - listed	R0120	
Equities - unlisted	R0130	37,989
Bonds	R0140	22,774
Government Bonds	R0150	8,555
Corporate Bonds	R0160	4,753
Structured notes	R0170	1,907
Collateralised securities	R0180	
Collective Investments Undertakings	R0190	
Derivatives	R0200	5,847
Deposits other than cash equivalents	R0210	1,896
Other investments	R0220	
Assets held for index-linked and unit-linked contracts	R0230	
Loans and mortgages	R0240	
Loans on policies	R0250	
Loans and mortgages to individuals	R0260	
Other loans and mortgages	R0270	3,809
Reinsurance recoverables from:	R0280	3,809
Non-life and health similar to non-life	R0290	3,809
Non-life excluding health	R0300	
Health similar to non-life	R0310	
Life and health similar to life, excluding health and index-linked and unit-linked	R0320	
Health similar to life	R0330	
Life excluding health and index-linked and unit-linked	R0340	
Life index-linked and unit-linked	R0350	1,357
Deposits to cedants	R0360	67
Insurance and intermediaries receivables	R0370	642
Reinsurance receivables	R0380	
Receivables (trade, not insurance)	R0390	
Own shares (held directly)	R0400	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0410	2,225
Cash and cash equivalents	R0420	2,575
Any other assets, not elsewhere shown	R0500	56,407
Total assets		

P.02.01.02 (Continued)**Balance sheet**

	Solvency II value	
	C0010	
Liabilities		
Technical provisions – non-life	R0510	45,177
Technical provisions – non-life (excluding health)	R0520	45,177
TP calculated as a whole	R0530	
Best Estimate	R0540	40,201
Risk margin	R0550	4,976
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	814
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	2,059
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	48,050
Excess of assets over liabilities	R1000	8,357

P.17.01.02

Non-life Technical Provisions

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance		
	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance
	C0080	C0090	C0100	C0150	C0160	C0170
Technical provisions calculated as a whole	R0010					
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050					
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	R0060					
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140					
Net Best Estimate of Premium Provisions	R0150					
Claims provisions						
Gross	R0160	415	28,413	675	9,608	589
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	81	3,073	7	603	23
Net Best Estimate of Claims Provisions	R0250	334	25,340	667	9,005	566
Total Best estimate - gross	R0260	415	28,413	675	9,608	589
Total Best estimate - net	R0270	334	25,340	667	9,005	566
Risk margin	R0280	46	3,465	91	10,839	77
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	R0290					
Best estimate	R0300					
Risk margin	R0310					
Technical provisions - total						
Technical provisions - total	R0320	461	31,878	766	12,771	666
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	81	3,073	7	603	23
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	380	28,804	759	10,236	643

P.19.01.21.UY
Non-life Insurance Claims Information
Total Non-Life Business

Accident year /
Underwriting year

Z0010	Underwriting year [UWY]
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Gross Claims Paid (non-cumulative)
 (absolute amount)

Year	Development year										
		1	2	3	4	5	6	7	8	9	10 & +
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100										7,597
N-9	R0160										
N-8	R0170										
N-7	R0180										
N-6	R0190										
N-5	R0200										
N-4	R0210										
N-3	R0220										
N-2	R0230										
N-1	R0240										
N	R0250										

	In Current year	Sum of ye (cumulati	
	C0170	C0180	
Prior	R0100	7,597	7,597
N-9	R0160		
N-8	R0170		
N-7	R0180		
N-6	R0190		
N-5	R0200		
N-4	R0210		
N-3	R0220		
N-2	R0230		
N-1	R0240		
N	R0250		
Total	R0260	7,597	7,597

Gross undiscounted Best Estimate Claims Provisions
 (absolute amount)

Year	Development year										
		1	2	3	4	5	6	7	8	9	10 & +
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100										48,379
N-9	R0160										
N-8	R0170										
N-7	R0180										
N-6	R0190										
N-5	R0200										
N-4	R0210										
N-3	R0220										
N-2	R0230										
N-1	R0240										
N	R0250										

	Year end (discounted data)	
	C0360	
Prior	R0100	40,201
N-9	R0160	
N-8	R0170	
N-7	R0180	
N-6	R0190	
N-5	R0200	
N-4	R0210	
N-3	R0220	
N-2	R0230	
N-1	R0240	
N	R0250	
Total	R0260	40,201

P.23.01.01

Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

- Ordinary share capital (gross of own shares)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

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

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

Deductions

- Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

- Unpaid and uncalled ordinary share capital callable on demand
- Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on demand
- Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

- Total available own funds to meet the SCR
- Total available own funds to meet the MCR

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	513,226	513,226			
R0030	11,330	11,330			
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	-516,198	-516,198			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	8,357	8,357			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	8,357	8,357			
R0510	8,357	8,357			

P.23.01.01 (Continued)

Own funds

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

R0540	8,357	8,357			
R0550	8,357	8,357			
R0580	11,586				
R0600	4,629				
R0620	0.7214				
R0640	1.8057				

	C0060	
R0700	8,357	
R0710		
R0720		
R0730	524,556	
R0740		
R0760	-516,198	
R0770		
R0780		
R0790		

P.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

MCR_{NL} Result

	C0010
R0010	4,629

- Medical expense insurance and proportional reinsurance
- Income protection insurance and proportional reinsurance
- Workers' compensation insurance and proportional reinsurance
- Motor vehicle liability insurance and proportional reinsurance
- Other motor insurance and proportional reinsurance
- Marine, aviation and transport insurance and proportional reinsurance
- Fire and other damage to property insurance and proportional reinsurance
- General liability insurance and proportional reinsurance
- Credit and suretyship insurance and proportional reinsurance
- Legal expenses insurance and proportional reinsurance
- Assistance and proportional reinsurance
- Miscellaneous financial loss insurance and proportional reinsurance
- Non-proportional health reinsurance
- Non-proportional casualty reinsurance
- Non-proportional marine, aviation and transport reinsurance
- Non-proportional property reinsurance

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
R0020		
R0030		
R0040		
R0050		
R0060		
R0070		
R0080	334	
R0090	25,340	
R0100	667	
R0110		
R0120		
R0130		
R0140		
R0150	9,005	
R0160	566	
R0170	480	

Linear formula component for life insurance and reinsurance obligations

MCR_L Result

	C0040
R0200	

- Obligations with profit participation - guaranteed benefits
- Obligations with profit participation - future discretionary benefits

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
R0210		
R0220		

P.28.01.01 (Continued)

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Total capital at risk for all life (re)insurance obligations

R0230		
R0240		
R0250		

Overall MCR calculation

Linear MCR
 SCR
 MCR cap
 MCR floor
 Combined MCR
 Absolute floor of the MCR
 -

	C0070
R0300	4,629
R0310	11,586
R0320	5,214
R0330	2,897
R0340	4,629
R0350	4,188
-	C0070
R0400	4,629

- -

Minimum Capital Requirement

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