



GUIDELINE ON CAPITAL ADEQUACY REQUIREMENTS

**PROPERTY AND CASUALTY
INSURANCE**

OCTOBER 2010

INTRODUCTION

Guideline objective

An Act respecting insurance (R.S.Q., chapter A-32) (the “Act”) prescribes that every insurer must adhere to sound and prudent management practices.”¹ Moreover, under the Act, guidelines pertaining notably to the adequacy of capital may be given to insurers.²

The objective of these guidelines is essentially to increase the transparency and predictability of the criteria used by the Autorité des marchés financiers (the “AMF”) in assessing the quality and prudence of the management practices of the financial institutions for which those criteria are intended. The ability of these institutions to meet their obligations toward investors and policyholders is key to achieving this objective. This principle is reflected in the capital adequacy requirements for property and casualty (P&C) insurers (“damage insurers” in Québec) set forth in this guideline.

This guideline outlines the capital framework, using a risk-based formula for minimum capital required, and defines the capital that is available to meet the minimum standard. The Minimum Capital Test (MCT) determines the minimum capital required and not necessarily the optimum capital required.

Scope of application

The Guideline on Capital Adequacy Requirements applies to all P&C insurers constituted under federal law or under a law of a Canadian province or territory holding a licence to transact insurance in Québec in accordance with the Act.

For insurers operating in both P&C insurance and life and health insurance (“insurance of persons” in Québec), this guideline only applies to balance sheet items and off-balance-sheet instruments attributed by the insurer to the P&C insurance sector and to the accident and sickness class of insurance business.

Interpretation

Because the requirements set forth in this guideline are intended mainly as guidance for managers, the terms, conditions and definitions contained therein may not cover all situations arising in practice. The results of applying these requirements should therefore not be interpreted as being the sole indicator for assessing an insurer's financial position or the quality of its management. Insurers are expected to submit to the AMF beforehand, where applicable, any situation for which treatment is not covered in this guideline or for which the recommended treatment seems inadequate. This also applies with respect to any issue arising from an interpretation of the requirements set forth in this guideline.

¹ Section 275

² Sections 325.0.1 and 325.0.2

Reporting

The calculations required by this guideline and their results must be disclosed on pages 30.70, 30.71 and 70.38 of the P&C-1 Annual Return form. The form must be submitted to the AMF following the requirements of section 305 of the Act.

MINIMUM RATIO AND TARGET CAPITAL RATIO

The requirements in this guideline comprise three stages.

- determining the capital available to the insurer;
- establishing the risk-based minimum capital requirement;
- establishing the MCT requirements as a ratio of capital available to capital required.

In order to meet the 100% minimum ratio, capital available must be equal or superior to capital required.

Moreover, this ratio does not explicitly consider all risks that could occur. As a matter of fact, quantifying several of these risks using a standard approach for all insurers is not warranted at this time, given that, on the one hand, the level of exposure to these risks varies from one insurer to the other and, on the other hand, using a standard approach to measure them is difficult.

Consequently, the AMF requires that each insurer assess its overall capital adequacy based on its risk profile for the purposes of sound and prudent management. Insurers will therefore determine a target capital ratio that is superior to the minimum ratio.

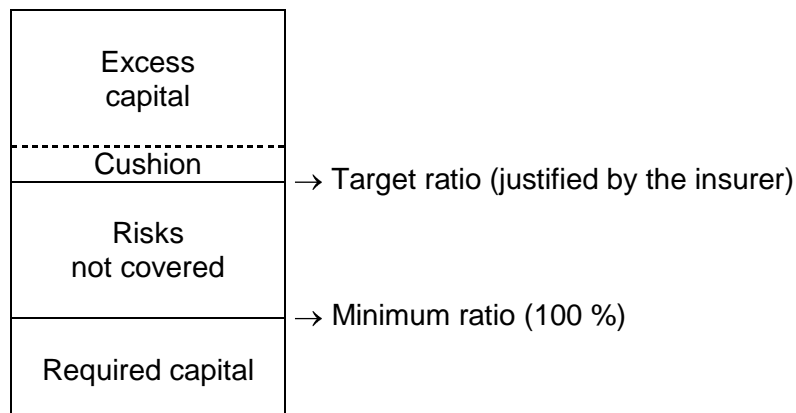
To establish this target ratio, insurers must determine the capital required to cover the risks related to their operations using various techniques such as sensitivity analyses based on various scenarios and simulations. Therefore, in addition to the other risks referred to in the calculation of the MCT ratio, the target capital ratio must also take into account at least the following risks:

- residual credit, market and insurance risk; for example, foreign exchange risk and certain risks related to risk transfers are types of market risk not covered in the calculation of the MCT ratio;
- operational risks;
- liquidity risks;
- concentration risk;
- legal and regulatory risks;
- strategic risks;
- reputation risk.

Insurers should then consider the risks specific to them when determining their respective target capital ratios. Most insurers can meet this requirement by drawing on dynamic capital adequacy testing (DCAT) scenarios, but considering relatively likely adverse scenarios (90th percentile or greater), as well as less likely adverse scenarios (99th percentile) but with high expected losses. The impact of the various scenarios should be tested on the target capital ratio instead of the insurer's actual capital ratio.

The AMF's expectations are specified in the diagram below.

Minimum ratio and target capital ratio



Based on the above diagram, insurers should also provide a capital amount (as shown by the cushion) to take into account the variable nature of the MCT ratio and the possibility that it could fall below their target ratio under their routine operating conditions due, among other reasons, to normal market volatility and insurance experience. Issues such as access to capital limitations should also be considered when determining this cushion.

In addition, the AMF expects insurers' level of capital to exceed the target ratio, to enable them to:

- maintain or attain a credit rating;
- innovate by, for example, developing new products;
- keep pace with business combination trends, in particular, opportunities to acquire portfolios or companies;
- be prepared for global industry-wide change, including standard-setting developments such as changes in accounting and actuarial standards.

The target capital ratio must be reported in the DCAT Report. At the AMF's request, insurers will be required to justify their target capital ratio and support their explanations with an appropriate calculation method and data. The AMF may require an insurer to establish a new target ratio if the justifications do not demonstrate to the AMF's satisfaction that the capital ratio submitted is relevant and sufficient.

Failure to comply with the target ratio will result in supervisory measures by the AMF commensurate with the circumstances and the corrective actions taken by the insurer to comply with the established target.

For consistency, the AMF uses this target capital ratio concept for both life and health insurers and P&C insurers.

REQUIREMENTS RELATED TO TREATMENT OF REINSURANCE

Registered reinsurance

Capital requirement calculations under the MCT reflect insurers' use of registered reinsurance in the course of their activities. A reinsurance agreement is deemed registered (registered reinsurance) if it was assumed by an insurer constituted under the laws of Québec, of another province, or the laws of Canada and in this case licensed by one or more provincial regulator. A reinsurance agreement is also deemed registered if it was assumed by the branch of a foreign company authorized by the federal authority, licensed by one or more provincial regulator, and the branch maintains assets which guarantee the fulfillment of its obligations in relation to the agreement.

Unregistered reinsurance

When a reinsurance agreement is not deemed registered (unregistered reinsurance), amounts receivable and recoverable from the agreement, as reported on the balance sheet, are deducted from capital available to the extent that they are not covered by deposits and letters of credit held as security from assuming reinsurers.

Tab 3-2 of this guideline provides additional guidance on capital deduction, the margin requirement on amounts recoverable from unregistered reinsurance and as to the limit on the use of deposits and letter of credit.

Insurance policies issued outside of Canada

For the purposes of this guideline, an unregistered reinsurance agreement can be considered registered reinsurance only if all policies reinsured under the agreement are issued outside of Canada and:

1. the subsidiary or branch of the issuing insurer is subject to solvency supervision by an Organisation for Economic Co-operation and Development ("OECD") country in respect of ceded risks and the reinsurance arrangement is recognized by the country's solvency regulator;

or

2. the reinsured risks are ceded by a subsidiary incorporated in a non-OECD country, the risks being reinsured cover residents of that country, and the reinsurance arrangement is recognized by the country's solvency regulator;

or

3. the insurer acts as a reinsurer in a country outside of Canada, the ceded reinsurance agreement (i.e., the retrocession agreement) is recognized by that country's solvency regulator and the assumed reinsurance agreement is deemed registered reinsurance by the solvency regulator. The insurer must have written documents issued by the solvency regulator confirming that:
 - a. the reinsurance arrangement assumed by the insurer qualifies as registered reinsurance; and
 - b. the retrocession arrangement also qualifies as registered reinsurance, or would qualify as registered reinsurance were the insurer subject to supervision by the regulator.

In each of the exceptions listed above, the AMF expects that a reinsurance agreement would normally be recognized by the solvency regulator based on conditions similar to those acceptable to the AMF, namely, that the reinsurer is regulated and subject to meaningful solvency supervision for the insurance risks set out in the agreement or that the reinsurer has fully collateralized the arrangement. Where a reinsurance agreement does not meet one of these conditions, it may only be treated as registered reinsurance with the prior authorization of the AMF.

MCT FOR CANADIAN PROPERTY AND CASUALTY INSURERS

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TAB 1

OVERVIEW AND CAPITAL AVAILABLE**Minimum Capital Test (MCT) for Canadian Property and Casualty Insurers**

This section provides an overview of the MCT for Canadian property and casualty insurers (P&C insurers). More detailed information on specific components of the calculation is contained in subsequent tabs.

Risk-Based Capital Adequacy Framework

The risk-based capital adequacy framework is based on an assessment of the riskiness of assets, policy liabilities, and structured settlements, letters of credit, derivatives and other exposures, by applying varying factors and margins. P&C insurers are required to meet a **capital available to capital required** test. The definition of capital to be used for this purpose is described below.

Capital Available

The three primary considerations for defining the capital of a financial institution for purposes of measuring capital adequacy are:

- its permanence;
- its being free of any obligation to make payments from earnings;
- its subordinated legal position to the rights of policyholders and other creditors of the institution.

The integrity of capital elements is paramount to the protection of policyholders. Therefore, these considerations will be taken into account in the overall assessment of a P&C insurer's financial condition.

Capital available includes instruments with residual rights that are subordinate to the rights of policyholders and will be outstanding over the medium term. It also includes an amount to reflect changes in the market value of investments.

Capital available is defined as the sum of the following, subject to requirements of the AMF:

1. Equity:
 - shares treated as equity under Generally Accepted Accounting Principles ("GAAP");
 - contributed surplus;
 - retained earnings;
 - reserves;
 - general and contingency reserves;
2. Subordinated indebtedness and preferred shares whose redemption is subject to the AMF's approval.

3. Certain components of Accumulated Other Comprehensive Income:
 - Accumulated net after-tax unrealized gains(losses) on available-for-sale equity securities;
 - Accumulated net after-tax unrealized gains (losses) on available-for-sale debt securities; and
 - Accumulated net after-tax foreign currency gains and losses, net of hedging activities.
4. Capital Available of Regulated Financial Institution Subsidiaries (reference Tab 2-4)..

Deductions/Adjustments

The following amounts are deducted from the Capital Available:

- Balance sheet amount of investments in subsidiaries including Regulated Financial Institution Subsidiaries (reference Tab 2-4).
- Investments in Affiliates (reference Tab 2-4).
- Amounts receivable and recoverable from unregistered reinsurance agreements to the extent that they are not covered by deposits and letters of credit held as security from assuming reinsurers (reference Tab 3-2).
- Deferred Policy Acquisition Expenses that are not eligible for either the 0% capital factor or the 35% capital factor.
- Future Income Tax Assets that are not eligible for the 0% capital factor.
- Goodwill and Other Intangible Assets.
- Other Assets, (reference Tab 2-3), in excess of 1% of Total Assets.
- Accumulated net after-tax fair value gains (losses) arising from changes in a company's own credit risk.

No asset factor is applied to items that are deducted from Capital Available.

Capital Required

Capital required is the sum of:

1. Capital for Assets (reference Tab 2);
2. Margins for Unearned Premiums, Premium Deficiencies and Unpaid Claims (Policy Liabilities - reference Tab 3);
3. Catastrophe Reserves and Additional Policy Provisions (reference Tab 3);
4. Margin for Reinsurance Ceded under Unregistered Reinsurance Agreements (reference Tab 3);

5. Capital for Structured Settlements, Letters of Credit, Derivatives and Other Exposures (reference Tab 4).
6. Total Capital Required of Regulated Financial Institution Subsidiaries (reference Tab 2-4).

Notwithstanding the stated requirements, in any case where the AMF believes that the capital treatment is inappropriate, a specific capital requirement may be determined.

Minimum Requirements

P&C insurers will be expected to maintain available capital equal to at least the minimum capital requirement. The AMF may prescribe a higher capital requirement, including for an individual P&C insurer, taking into account such factors as operating experience, diversification of the asset or insurance portfolios, and retention limits.

Application

The test applies to Canadian P&C insurers.

Interpretation of Results

The MCT measures the capital adequacy of a P&C insurer and is but one of several financial indicators used by the AMF to assess a P&C insurer's financial condition. It should not be used in isolation for assessing and rating a P&C insurer.

TAB 2

CAPITAL REQUIRED FOR ASSETS

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TAB 2-1

DESCRIPTION OF ASSET RISKS

The capital required for assets covers the potential losses resulting from asset default and the related loss of income, and the loss of market value of equities and the related reduction in income.

To determine the risk-based capital requirement for assets, P&C insurers must apply a factor to the balance sheet value of each asset. For loans, the factors are applied to amortized cost. (No asset factor is applied to assets deducted from Capital Available, refer to Tab 1). The total of these amounts represents the capital required for asset risks.

TAB 2-2**COUNTERPARTY RISK**

This Tab applies to assets (reference Tab 2) and to structured settlements, letters of credit, derivatives and other exposures (reference Tab 4).

The three rating categories used for assigning capital factors to assets, structured settlements, letters of credit, derivatives and other exposures, or where appropriate, movable hypothecs and guarantees, are:

1. Government Grade

Government grade securities include securities issued or guaranteed by, loans made or guaranteed by, and accounts receivable from:

- the federal government or an agent of the Crown;
- a provincial or territorial government of Canada or one of its agents;
- a municipality or school corporation in Canada;
- the central government of a foreign country where:
 - the securities are rated AAA, or
 - if not rated, the long-term sovereign credit rating of that country is AAA.

2. Investment Grade

A security is treated as Investment Grade if its rating (excluding securities that are included in the Government Grade category) meets or exceeds the rating listed in the table below. If a rating is not available, or where the rating of the security, or guarantor, is less than the rating listed in the table, it will be assigned a Not-Investment Grade factor.

A P&C insurer wishing to use the ratings of a rating agency other than those in the following table should seek the approval of the AMF.

Asset/Guarantor Ratings

Rating Agency	Commercial Paper	Bonds and Debentures	Preferred Shares
	At least as high as:		
Moody's Investor Service	P-1	A	Aa
Standard and Poor's Corporation	A-	A	AA
Dominion Bond Rating Service	R-1 (low)	A	Pfd-2

3. Not-Investment Grade

Includes any investment not included in the Government Grade or Investment Grade categories.

In the case of an asset or exposure backed by a movable hypothec or guarantee (reference Tab 2-5), the long-term issuer credit rating or, in the case of a government, the long-term sovereign risk rating, of the guarantor is used to determine the risk category. In all cases, when a credit rating is not available, the relevant Not-Investment Grade factor is applied.

TAB 2-3

ASSET FACTORS

0% Capital Factor

- Cash.
- The obligations³ of federal, provincial, territorial and municipal governments, and school corporations in Canada.
- Obligations of agents of the federal, provincial or territorial governments in Canada whose obligations are, by virtue of their enabling legislation, direct obligations of the parent government.
- Obligations of AAA-rated central governments and central banks, or obligations of organizations with the guarantee of the central government.
- Obligations backed by a Government Grade guarantor including, for example, residential mortgages insured under the NHA or equivalent provincial mortgage insurance program, and NHA mortgage-backed securities that are guaranteed by the Canada Mortgage and Housing Corporation.
- Future Income Tax Assets arising from discounting of claims reserves for tax purposes, or from unrealized capital gains, that are recoverable from income taxes paid in the three immediately preceding fiscal years.
- Income Tax Receivables.
- Deferred Premium Taxes.
- Instalment Premiums (not yet due).

0.5% Capital Factor

- Term deposits, bonds, and debentures (including commercial paper), rated Investment Grade, that mature or are redeemable or repayable in less than one year.
- Unearned Premiums recoverable from registered insurers (reference Tab 3-2).
- Receivables from registered insurers (reference Tab 3-2).
- Accounts Receivable from the Facility Association and the *Plan de répartition des risques* (P.R.R.).

³ Includes securities, loans and accounts receivable.

2% Capital Factor

- Term deposits, bonds, and debentures (including commercial paper), rated Investment Grade, that mature or are redeemable or repayable in one year or more.
- Investment income due and accrued.
- Unpaid Claims and adjustment expenses recoverable from registered insurers (reference Tab 3-2).

4% Capital Factor

- Term deposits, bonds, and debentures (including commercial paper), rated Not-Investment Grade, that mature or are redeemable or repayable in less than one year.
- Investment Grade preferred shares.
- Accounts Receivable, outstanding less than 60 days, from Agents, Brokers, Subsidiaries, Affiliates and Policyholders, including Instalment Premiums and Other Receivables.
- First mortgages on one- to four-unit residential dwellings.

8% Capital Factor

- Term deposits, bonds, and debentures (including commercial paper), rated Not-Investment Grade, that mature or are redeemable or repayable in one year or more.
- Accounts Receivable, outstanding 60 days or more, from Agents, Brokers, Subsidiaries, Affiliates and Policyholders, including Instalment Premiums and Other Receivables.
- Real-estate for an insurer's own use.
- Commercial mortgages.

10% Capital Factor

- Other loans.

15% Capital Factor

- Common shares.
- Preferred shares rated Not-Investment Grade.
- Investments in real estate (not for an insurer's own use).

- Mortgages secured by undeveloped land (e.g. construction financing), other than land used for agricultural purposes or for the production of minerals. A property recently constructed or renovated will be considered as "under construction" until it is completed and 80% leased.
- Other Recoverables (mainly salvage and subrogation) on Unpaid Claims.
- Other Investments, excluding derivative-related amounts. According to page 40.80 of P&C-1 Instructions, Other Investments includes investments **other than** term deposits, bonds and debentures, loans, shares, or investment in real estate. Capital requirements for derivative-related amounts included in Other Investments are set out in Tab 4 and are reported on page 30.70, with capital required for structured settlements, letters of credit, derivatives and other exposures.

35% Capital Factor

- Deferred premium commissions, net of an adjustment for Unearned Commissions. The 35% capital factor applies to this calculated net value and not to the book value entered on page 30.71. If the net value is negative, an amount of zero should be reported in column 3 of page 30.71. Indeed, any excess adjustment for Unearned Commissions cannot be recognized as capital.
- Other Assets (line 86, page 30.71) up to a limit of 1% of Total Assets. Any excess over the limit is included in the amount deducted from Capital Available, on line 07, page 30.70.

Variable Capital Factors

- Investments in securitized assets, mutual funds or other similar assets must be broken down by type of investment (bonds, preferred shares, etc., as per the P&C-1 Instructions), reported on the applicable lines of page 30.71, and assigned the appropriate capital factor. If the information available on an investment is not broken down, then the factor of the riskiest asset being securitized or held in the fund is assigned to the entire investment.

Derivatives

- Capital requirements for derivatives are set out in Tab 4.

General

- Where information is not available to determine the grade of the counterparty, the counterparty is deemed to be Not-Investment Grade.
- Where information is not available to determine the redemption/repayment/maturity of an asset, P&C insurers must use the category with the highest capital factor for that asset. For example, insurers must use the “deposits, bonds and debentures expiring or redeemable or repayable in more than one year” category where no information is available to determine the maturity of a given deposit, bond or debenture.
- New assets, not currently listed, will be categorized according to their inherent riskiness.
- The total reported on page 30.71 is equal to the total assets reported on the balance sheet.

TAB 2-4

INVESTMENTS IN SUBSIDIARIES, AFFILIATES, PARTNERSHIPS**Capital Required***Regulated Financial Institution Subsidiaries*

P&C insurers that hold a controlling interest in a regulated financial institution are required to include in their capital required an amount equal to the capital required for that subsidiary calculated using the applicable sectoral test of the Canadian parent insurer's jurisdiction.

The parent P&C insurer is required to include in capital available the capital available in its regulated financial institution subsidiaries calculated using the applicable sectoral test of the Canadian parent P&C insurer's jurisdiction, and deduct from capital available the balance sheet value of its investments in these subsidiaries.

Where a P&C parent insurer owns less than 100% of the regulated financial institution subsidiary, it includes its pro rata share of the subsidiary's capital available and capital required in the calculation.

Other Subsidiaries and Affiliates

For other subsidiaries and affiliates, the parent P&C insurer is required to hold capital for that subsidiary or affiliate equivalent to the book value of the investment in that subsidiary or affiliate, unless the insurer can demonstrate to the satisfaction of the AMF⁴ that these investments are not used to capitalize such an enterprise under the laws and regulations governing it. The capital required for such approved investments in subsidiaries or affiliates is calculated using a look-through approach to the underlying assets and the aggregate amount is reported as capital required for "other investments in subsidiaries and affiliates".

Application

The same treatment applies to subsidiaries and affiliates of the P&C insurer, whether held directly or indirectly.

Partnerships

Investments in partnerships are treated as direct investments by the P&C insurer. The approach is to "look through" the partnership (i.e., apply the same treatment used for subsidiaries and affiliates).

⁴ The AMF will consider such requests only when all the voting shares of the subsidiary or affiliate are held directly or indirectly by the parent P&C insurer and all or substantially all the funding of the subsidiary or affiliate is provided directly or indirectly by the parent P&C insurer.

TAB 2-5

CAPITAL REQUIRED - MOVABLE HYPOTHECS AND GUARANTEES

This Tab applies to assets, and to structured settlements, letters of credit, derivatives and other exposures.

Movable Hypothecs

Recognition of movable hypothecs in reducing the capital required for assets, structured settlements, derivatives and other exposures, is limited to cash or securities meeting the Government Grade or Investment Grade criteria (reference Tab 2-2). Where a rating is not available for the asset, exposure, or counterparty where applicable, no reduction in capital required is permitted.

Any movable hypothec must be held throughout the period for which the asset is held or for which the exposure exists. Only that portion of an obligation that is covered by an eligible movable hypothec will be assigned the weight given to the movable hypothec.

Guarantees

Investments (principal and interest) or exposures that have been explicitly, irrevocably and unconditionally guaranteed by a guarantor whose long-term issuer credit rating or, in the case of a government, the long-term sovereign credit rating, satisfies the Government Grade or Investment Grade rating criteria, may attract the capital factor allocated to a direct claim on the guarantor where the effect is to reduce the risk. Guarantees provided by a parent or an affiliate are not eligible for this treatment on the basis that guarantees within a corporate group are not considered to be a substitute for capital.

Where a rating is not available for the investment, exposure, or guarantor where applicable, no reduction in capital required is permitted.

To be eligible, guarantees should cover the full term of the instrument and be legally enforceable.

Where the recovery of losses on a loan, financial lease agreement, security or exposure is partially guaranteed, only the part that is guaranteed is to be weighted according to the capital factor of the guarantor (see examples below).

Example One: Asset (reference Tab 2)

To record a \$100,000 Investment Grade bond due in 10 years that has a government guarantee of 90%, the insurer would report a book value of \$90,000 ($\$100,000 \times 90\%$) on the Government Grade line and a book value of \$10,000 ($\$100,000 - \$90,000$) on the Investment Grade line on page 30.71 under Term Deposits, Bonds and Debentures, Expiring or redeemable in more than one year. The Capital Required on the Government Grade line is \$0 ($\$90,000 \times 0.0\%$). The Capital Required on the Investment Grade line is \$200 ($\$10,000 \times 2.0\%$) for a total capital requirement of \$200. An example of the calculation, assuming no other assets, is provided in the chart below.

	Factor (%)	Book Value	Capital Required
Investments:			
Term Deposits, Bonds and Debentures expiring or redeemable in more than one year			
Government Grade	0.0%	\$90,000	\$0
Investment Grade	2.0%	\$10,000	\$200
Not-Investment Grade	8.0%		
Total		\$100,000	\$200

Example Two: Type 1 Structured Settlement (reference Tab 4)

To record a \$3,000 Structured Settlement rated Not-Investment Grade, backed by a movable hypothec or by a guarantee of \$2,000 from an Investment Grade counterparty, the insurer would report a Possible Credit Exposure of \$3,000 and a Movable Hypothec and Guarantees of negative \$2,000 on the Not-Investment Grade line, and a Movable Hypothec and Guarantees of \$2,000 on the Investment Grade line under Structured Settlements in Appendix A-2.

The Capital Required on the Not-Investment Grade line is \$20 $(\$3,000 - \$2,000) \times 50\% \times 4\%$. The Capital Required on the Investment Grade line is \$5 $(\$2,000 \times 50\% \times .5\%)$ for a total capital requirement of \$25. An example of the calculation, assuming no other exposures, is provided in the chart below.

	Possible Credit Exposure	Movable Hypothec and Guarantees	Credit Conversion Factor (%)	Capital Factor (%)	Capital Required
	(01)	(02)	(03)	(04)	(05)
Structured Settlements					
Government Grade					
Investment Grade		\$2,000	50%	0.5%	\$5
Not-Investment Grade	\$3,000	(\$2,000)	50%	4.0%	\$20
Total					\$25

TAB 3

CAPITAL REQUIRED FOR POLICY LIABILITIES

Description of Risks for Policy Liabilities	3-1
Margins for Unearned Premiums, Premium Deficiencies and Unpaid Claims	3-1
Catastrophes	3-1
Reinsurance Receivables and Recoverables	3-2

TAB 3-1

DESCRIPTION OF RISKS FOR POLICY LIABILITIES

This risk component reflects the insurer's risk profile by its individual classes of insurance and results in specific margin requirements on policy liabilities. For the MCT, the risk associated with policy liabilities is divided into four parts:

- variation in claims provisions (Unpaid Claims);
- possible inadequacy of provisions for Unearned Premiums;
- possible inadequacy of provisions for premium deficiencies;
- occurrence of catastrophes (Earthquake and Other).

MARGINS FOR UNEARNED PREMIUMS, PREMIUM DEFICIENCIES AND UNPAID CLAIMS

Given the uncertainty that balance sheet provisions will be sufficient to cover underlying liabilities, margins are added to cover the potential shortfall. The margins have been established in order to ensure a balance between the recognition of varying risks associated with different classes of insurance and the administrative necessity to minimize the test's complexity.

From the AMF's perspective, these margins are included to take into account possible abnormal negative variations in the provision amounts, given the fact that the margins added by actuaries in their valuation are primarily intended to cover expected variations.

Margins on Unpaid Claims and Unearned Premiums are applied by class of insurance to the net amount at risk (i.e., net of reinsurance, Salvage and Subrogation, and Self Insured Retentions). The Unearned Premiums margin is applied to the greater of the net Unearned Premiums or 50% of the net written premiums in the past 12 months.

The margins are as follows:

Class of Insurance	Margin on Unearned Premiums	Margin on Unpaid Claims
Personal property and commercial property	8%	5%
Automobile - Liability and personal accident	8%	10%
Automobile – Other	8%	5%
Liability	8%	15%
Mortgage	Consult the AMF.	
Accident and sickness	See Appendix A-1	See Appendix A-1
All other classes	8%	15%

A margin of 8% applies to premium deficiencies.

Accident and Sickness Insurance

For this class, refer to the calculation of the margin requirement set forth in Appendix A-1. The amount of this margin requirement is to be included in the amount of the Capital Required for Unearned Premiums/Unpaid Claims (page 30.70, line 22).

Mortgage Insurance

Consult the AMF.

Reinsurance

It should be noted that specific capital factors are also applied to reinsurance amounts (Tabs 2-3 and 3-2).

CATASTROPHES

Refer to the AMF earthquake exposure sound practices guidelines.

TAB 3-2

REINSURANCE RECEIVABLES AND RECOVERABLES*Registered Reinsurance*

The risk of default for recoverables from reinsurers arises from both credit and actuarial risk. Credit risk relates to the risk that the reinsurer will fail to pay the insurer what it is owed. Actuarial risk relates to the risk associated with assessing the amount of the required provision.

The capital factor applied to recoverables from registered reinsurance agreements is treated as a combined weight under the MCT, reflecting both the credit risk and the risk of variability or insufficiency of Unpaid Claims and Unearned Premiums. A 2% capital factor is to be applied to Unpaid Claims recoverable from registered reinsurance agreements and a 0.5% capital factor is to be applied to Unearned Premiums recoverable. A 0.5% capital factor is also to be applied to all receivables from registered reinsurance agreements (i.e., Unpaid Claims and Unearned Premiums).

Unregistered Reinsurance

The capital deduction and margin requirement for receivables and recoverables from unregistered reinsurance agreements are calculated on page 70.38 of the P&C-1.

Amounts receivable and recoverable from unregistered reinsurance agreements, as reported on the balance sheet, are deducted from capital available to the extent that they are not covered by deposits and letters of credit held as security from assuming reinsurers. Amounts payable to assuming reinsurers may be deducted from amounts receivable and recoverable only where there is a legal and contractual right of offset. The deduction is calculated on page 70.38 of the P&C 1, and reported on the line "Assets with a Capital Requirement of 100%" on page 30.70.

The margin for unregistered reinsurance is calculated on page 70.38 and reported on the "Reinsurance Ceded to Unregistered Insurers" line on page 30.70. The margin is 10% of the ceded unearned premiums under unregistered reinsurance agreements and 10% of the outstanding losses recoverable from such agreements. The margin requirement for each unregistered reinsurance agreement may be reduced to a minimum of 0 by letters of credit and by deposits held as security that are in excess of the amounts receivable and recoverable from unregistered reinsurance agreements. The amount of letters of credit and excess deposits must be divided by 1.5 before being applied to the margin.

The limit on the use of letters of credit to obtain credit for unregistered reinsurance is 30% of ceded unearned premiums under unregistered reinsurance agreements and 30% of the outstanding losses recoverable from such agreements. The limit is applied in the aggregate and not against individual reinsurance exposures. Letters of credit for unregistered reinsurance are considered a direct credit substitute and are subject to a capital charge as per Tab 4.

TAB 4

**CAPITAL REQUIRED FOR STRUCTURED SETTLEMENTS, LETTERS OF CREDIT,
DERIVATIVES AND OTHER EXPOSURES**

Description of Risks for Structured Settlements, Letters of Credit, Derivatives and Other Exposures	4-1
Possible Credit Exposure	4-2
Credit Conversion Factors	4-3
Risk Factors	4-4

TAB 4-1

DESCRIPTION OF RISKS FOR STRUCTURED SETTLEMENTS, LETTERS OF CREDIT, DERIVATIVES AND OTHER EXPOSURES

This section applies to counterparty risk exposures not covered by the treatment for assets.

The risk to a P&C insurer associated with structured settlements, letters of credit, derivatives and other exposures and the amount of capital required to be held against this risk is:

1. The value of the instrument (Possible Credit Exposure; reference Tab 4-2) at the reporting date;
2. Less: the value of the eligible movable hypothec or guarantees (Movable Hypothecs and Guarantees; reference Tab 2-5);
3. Multiplied by: a factor reflecting the nature and maturity of the instrument (Credit Conversion Factor; reference Tab 4-3);
4. Multiplied by: a factor reflecting the risk of default of the counterparty to a transaction (Credit Risk; reference Tab 4-4).

Refer to Appendix A-2, Worksheet for Capital Required for Derivatives, Structured Settlements, Letters Of Credit, And Other Items.

TAB 4-2

POSSIBLE CREDIT EXPOSURE

The possible credit exposure related to structured settlements, letters of credit, derivatives and other exposures varies depending on the type of instrument.

Structured Settlements

The possible credit exposure for a Structured Settlement is the current cost of the instrument.

Instruments included in this section are primarily “Type 1” Structured Settlements that are not recorded as liabilities on the balance sheet. For details on the types of Structured Settlements, refer to *Special Topics*, section IV of the Instructions to the P&C-1.

Letters of Credit

The possible credit exposure for a Letter of Credit is the face value of the instrument.

Letters of credit may include, for example:

- i) LOCs serving as direct credit substitutes backing financial claims where the risk of loss to the insurer is directly dependent on the financial soundness of the counterparty;
- ii) LOCs acting as transaction-related contingencies associated with the ongoing business activities of a counterparty where the risk of loss to the P&C insurer depends on the occurrence of a future event that is independent of the financial soundness of the counterparty.

Derivatives

The possible credit exposure for derivatives is the positive replacement cost (obtained by marking to market) plus an amount for potential future credit exposure (an “add-on” factor).

Derivatives include forwards, futures, swaps, purchased options, and other similar contracts. Insurers are not exposed to credit risk for the full face value of these contracts (notional principal amount), only to the potential cost of replacing the cash flow (on contracts showing a positive value) if the counterparty defaults. Instruments traded on exchanges are excluded where they are subject to daily receipt and payment of cash variation margins.

The possible credit exposure depends on the maturity of the contract and the volatility of the underlying instrument. It is calculated by adding:

- i) the total replacement cost (obtained by marking to market) of all contracts with positive values, and
- ii) an amount for potential future credit exposure (or “add-on”). This is calculated by multiplying the notional principal amount by the following factors.

Derivative “Add-On” Factors

Residual Maturity	Interest Rate	Exchange Rate	Equity	Other Instruments
<i>One year or less</i>	0.0%	1.0%	6.0%	10.0%
<i>Over one year</i>	0.5%	5.0%	8.0%	12.0%

For contracts that are structured to settle outstanding exposures following specified payment dates, and where the terms are reset so that the market value of the contract is zero on these specified dates, the residual maturity is considered to be the time until the next reset date. In the case of interest rate contracts with residual maturities of more than one year that also meet the above criteria, the add-on factor is subject to a floor of 0.5%.

The notional principal amount is:

- the stated notional amount, except where the stated notional amount is leveraged or enhanced by the structure of the transaction. In these cases, insurers must use the actual or effective notional amount when determining potential exposure;⁵
- nil, where the credit exposure on single currency floating/floating interest rate swaps would be evaluated solely on the basis of their marked-to-market value;
- for contracts with multiple exchanges of principal, the sum of the remaining payments.

Contracts not covered by columns 2 to 4 in the above table are to be treated as “other instruments” for the purpose of determining the add-on factor.

Other Exposures

This section includes any other exposures not covered above. Some examples are provided below.

Commitments

A commitment involves an obligation (with or without a material adverse change clause or similar clause) of the insurer to fund its customer in the normal course of business should the customer seek to draw down the commitment. This includes:

- 1) extending credit in the form of loans or participations in loans, lease financing receivables, mortgages, letters of credit, guarantees or loan substitutes,
- 2) purchasing loans, securities, or other assets.

Normally, commitments involve a written contract or agreement and a commitment fee or some other form of consideration.

⁵ For example, if a stated notional amount is based on a specified parameter (e.g. LIBOR), but has actual payments calculated at two-times that parameter, the amount for potential future credit exposure is based on twice the stated notional amount.

Maturity

The maturity of a commitment should be measured from the date when the commitment was accepted by the customer, regardless of whether the commitment is revocable or irrevocable, conditional or unconditional, until the earlier of the following two dates:

- 1) the date on which the commitment is scheduled to expire; or
- 2) the date on which the insurer can, at its option, unconditionally cancel the commitment.

Repurchase and Reverse Repurchase Agreements

A securities repurchase (repo) is an agreement whereby a transferor agrees to sell securities at a specified price and repurchase the securities on a specified date and at a specified price. Since the transaction is regarded as a financing for accounting purposes, the securities remain on the balance sheet. Given that these securities are temporarily assigned to another party, the factor accorded to the asset should be the higher of the factor of the security and the factor of the counterparty to the transaction (net of any eligible movable hypothec).

A reverse repo agreement is the opposite of a repo agreement, and involves the purchase and subsequent sale of a security. Reverse repos are treated as collateralized loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure to the counterparty. Where the asset temporarily acquired is a security that attracts a lower factor, this would be recognized as collateral and the factor would be reduced accordingly.

Guarantees Provided in Securities Lending

In securities lending, insurers can act as principal to the transaction by lending their own securities or as agent by lending securities on behalf of clients. When the insurer lends its own securities, the risk factor is the factor related to the instrument lent. When the insurer, acting as agent, lends securities on behalf of a client and guarantees that the securities lent will be returned or the insurer will reimburse the client for the current market value, the credit risk is based on the counterparty credit risk of the borrower of the securities.

For details on how to record these and other such exposures, contact the AMF. In addition, insurers should refer to any other applicable guidelines.

TAB 4-3

CREDIT CONVERSION FACTORS

Separate credit conversion factors exist for structured settlements, letters of credit, derivatives and other exposures.

For Letters of Credit and Other exposures, the weighted average of the credit conversion factors, described below, for all of these instruments held by the insurer, should be entered in the appropriate cell in the Worksheet for Derivatives, Structured Settlements, Letters Of Credit, And Other Items (Appendix A-2).

100% Factor

- Guarantees, letters of credit, or other similar irrevocable obligations used as financial guarantees. Generally, these are considered direct credit substitutes where the risk of loss to the insurer is directly dependent on the financial soundness of the counterparty.
- Commitments that mature in one year or more, where the insurer cannot cancel or withdraw the commitment at any time without notice and where their drawdown is certain.
- Derivatives such as forwards, futures, swaps, purchased options (including options purchased over the counter) and other similar derivative contracts, including:
 - i) Interest rate contracts (single currency interest rate swaps, basis swaps, forward rate agreements and products with similar characteristics, interest rate futures, interest rate options purchased, and similar derivative contracts based on specific parameters or on indices, etc.);
 - ii) Equity contracts (forwards, swaps, purchased options, and similar derivative contracts based on specific parameters or on indices, etc.);
 - iii) Exchange rate contracts (gold contracts, cross-currency swaps, cross-currency interest rate swaps, outright forward foreign exchange contracts, currency futures, currency options purchased, and similar derivative contracts based on specific parameters or on indices, etc.);
 - iv) Precious metals (except gold) and other commodity contracts (forwards, swaps, purchased options, and similar derivative contracts based on specific parameters or on indices, etc.);
 - v) Other derivative contracts based on specific parameters or on indices (such as Catastrophe Insurance Options and Futures).
- Forward Asset Purchases including a commitment to purchase a loan, security or other asset at a specified future date, usually on prearranged terms.
- Sale and repurchase agreements.

- All other exposures not contemplated elsewhere (provide details).

50% Factor

- Structured settlements that are not recorded as liabilities on the balance sheet (refer to Section IV, *Special Topics*, of the P&C-1).
- Performance-related and non-financial guarantees such as performance-related standby letters of credit (e.g. representing obligations backing the performance of non-financial or specific commercial contracts or undertakings, but not financial obligations in general). Performance-related guarantees exclude items relating to non-performance of financial obligations.
- Commitments that mature in one year or more, where the insurer cannot cancel or withdraw the commitment at any time without notice and where their drawdown is uncertain.

0% Factor

- Commitments that mature in less than one year and other commitments where the insurer has full discretion to unconditionally cancel or withdraw the commitment at any time without notice.⁶

⁶ Other than any notice required under legislation or court rulings that require notice.

TAB 4-4

CAPITAL FACTORS

Structured settlements, letters of credit, derivatives and other exposures are assigned a capital factor ranging from 0% to 8.0%, subject to their counterparty risk rating (reference Tab 2-2). The factors to be applied are:

0% Factor

- Exposures rated Government Grade.

0.5% Factor

- Structured Settlements rated Investment Grade.
- Letters of Credit rated Investment Grade.
- Derivatives rated Investment Grade.

2% Factor

- “Other Items” rated Investment Grade.

4% Factor

- Structured Settlements not rated Government Grade or Investment Grade.
- Letters of Credit not rated Government Grade or Investment Grade.
- Derivatives not rated Government Grade or Investment Grade.

8% Factor

- “Other Items” not rated Government Grade or Investment Grade.

APPENDIX A-1

Instructions – Capital Required – Accident and Sickness Business

Mortality/morbidity risk for accident and sickness insurance is the risk that assumptions about mortality and morbidity will be wrong.

To compute the mortality/morbidity component, a factor is applied to the measure of exposure to risk. The resulting values are added to arrive at the Unearned Premium and Unpaid Claims margin requirement.

The factors used in deriving the risk component vary with the guaranteed term remaining in the exposure measure. The measure of the exposure to risk is as follows:

Risk	Measure of Exposure (before reinsurance)	Applicable Guaranteed Term
Disability Income, New Claims Risk	Annual net earned premiums	The length of the premium guarantee remaining
Disability Income, Continuing Claims Risk	Disability income net reserves relating to claims of prior years	The length of the benefit period remaining
Accidental Death and Dismemberment	Net amount at risk = the total face amount of insurance less policy reserves (even if negative)	The period over which the mortality cost cannot be changed (limited to the remaining period to expiry or maturity)

1) Disability Income Insurance

The additional risks associated with non-cancellable guaranteed premium business should be recognized. As well, significant volatility is characteristic of disability income insurance, as compared with medical and dental insurance.

New Claims Risk

The unearned premium component relates to claims arising from the current year's coverage, and includes the risks of incidence and claims continuance. The factor applied to the measure of exposure is as follows:

Percentage of Annual Earned Premiums ⁷		Length of Premium Guarantee Remaining
Individually Underwritten	Other	
12%	12%	less than or equal to 1 year
20%	25%	greater than 1 year, but less than or equal to 5 years
30%	40%	greater than 5 years

Continuing Claims Risk

The unpaid claims component covers the risk of claims continuance arising from coverage provided in prior years. The factor applies to disability income claim reserves related to claims incurred in prior years, including the portion of the provision for incurred but unreported claims.

The factor applied to the measure of exposure is as follows:

Duration of Disability			Length of Benefit Period Remaining
Less than or equal to 2 years	Greater than 2 years but less than or equal to 5 years	Greater than 5 years	
4.0%	3.0%	2.0%	less than or equal to 1 year
6.0%	4.5%	3.0%	greater than 1 year but less than or equal to 2 years
8.0%	6.0%	4.0%	greater than 2 years or lifetime

⁷ For travel insurance, annual earned premiums should be considered revenue premiums.

2) Accidental Death and Dismemberment

To compute the components for Accidental Death and Dismemberment, the following factors are applied to the net amount at risk:

Type		Factor	Guaranteed Term Remaining
Participating	Group	0.015%	less than or equal to 1 year
	All other	0.030%	all
Non-participating <i>Individual</i>	Adjustable	0.030%	all
	All other	0.015%	less than or equal to 1 year
		0.030%	greater than 1 year but less than or equal to 5 years
		0.060%	greater than 5 years, whole life, and all life insurance continued on disabled lives without payment of premiums
Non-participating <i>Group</i>	All	0.015%	less than or equal to 1 year
		0.030%	greater than 1 year but less than or equal to 5 years
		0.060%	greater than 5 years, whole life, and all life insurance continued on disabled lives without payment of premiums

For participating business without meaningful dividends, and participating adjustable policies where mortality adjustability is not reasonably flexible, the factors for all other non-participating business should be used.

If current premium rates are significantly less than the maximum guaranteed premium rates, the guarantee term used is that applicable to the current rates.

Additional adjustments are accorded group insurance. They are as follows.

- The above factors may be multiplied by 50% for any group benefit that carries one of the following features: 1) a “guaranteed no risk”; 2) deficit repayment by policyholders, or 3) “hold harmless” agreement where the policyholder has a legally enforceable debt to the insurer.
- No component is required for “Administrative Services Only” group cases where the insurer has no liability for claims.

Only “all cause” policies solicited by mail should be included in this section for automobile and common carrier accidental death and dismemberment. Specific accident perils accidental death and dismemberment in policies solicited by mail, and “free” coverages on premium credit card groups, should be included in the “Other Accident and Sickness Benefits” section.

3) Other Accident and Sickness Benefits

New Claims Risk

The component requirement is 12% of annual earned premiums.

Continuing Claims Risk

The component requirement is 10% of the provision for unpaid claims relating to prior years. The use of prior years avoids a double component requirement for unpaid claims arising from coverage purchases by premiums paid in the current year.

Special Policyholder Arrangements

For group insurance policies, deposits in excess of liabilities may be used to reduce the component requirement to a minimum of zero. Such deposits must be: made by policyholders; available for claims payment (e.g. claim fluctuation and premium stabilization reserves, and accrued provision for experience refunds); and returnable, net of applications, to policyholders on policy termination.

MINIMUM CAPITAL TEST
(\$'000)

		Current Year (01)	Prior Year (02)
Capital Available			
Total Equity less Accumulated Other Comprehensive Income	02		
Add:			
Subordinated Indebtedness and Redeemable Preferred Shares	03		
Accumulated Other Comprehensive Income (Loss) on:			
Available for Sale Equity Securities	04		
Available for Sale Debt Securities	06		
Foreign Currency (Net of Hedging Activities)	08		
Included in Capital Available of Regulated FI Subsidiaries	10		
.....	30		
Capital Available reported by Regulated FI Subsidiaries	11		
Less:			
Accumulated net after-tax fair value gains (losses) arising from changes in the company's own credit risk	12		
.....	13		
Balance Sheet Value of Investments in Regulated FI Subsidiaries	14		
Assets with a Capital Requirement of 100%	17		
Total Capital Available	19		
Minimum Capital Required			
Balance Sheet Assets	20		
Unearned Premiums/Unpaid Claims/Premium Deficiencies	22		
Catastrophes	24		
Reinsurance Ceded to Unregistered Insurers	26		
Capital Required reported by Regulated FI Subsidiaries	27		
Structured Settlements, Letters of Credit, Derivatives and Other Exposures	28		
Minimum Capital Required	29		
Excess Capital Available over Minimum Capital Required (line 19 minus line 29)	89		
Line 19 as a % of line 29	90		

MINIMUM CAPITAL TEST
(Explanatory supplement to Page 30.70)

		Data Sources		
		Page (P)	Line (L)	Column (C)
Capital Available				
Total Equity less Accumulated Other Comprehensive Income	02	(P20.20 L49 C1) - (P20.20 L46 C1)		
Add:				
Subordinated Indebtedness and Redeemable Preferred Shares	03	Refer to Guideline		
Accumulated Other Comprehensive Income (Loss) on:				
Available for Sale Equity Securities	04	P20.42 L44 C1		
Available for Sale Debt Securities	06	P20.42 L43 C1		
Foreign Currency (Net of Hedging Activities)	08	P20.42 L46 C1		
Included in Capital Available of Regulated FI Subsidiaries	10	P20.42 L47 C1		
.....	30			
Capital Available reported by Regulated FI Subsidiaries	11	Refer to Guideline		
Less:				
Accumulated net after-tax fair value gains (losses) arising from changes in the company's own credit risk	12	TBD by insurer		
.....	13			
Balance Sheet Value of Investments in Regulated FI Subsidiaries	14	TBD by insurer		
.....				
Assets with a Capital Requirement of 100%	17	P30.71 L33+L78+L81+L85+eligible portion of L86 (refer to Guideline Tab 2-4) + P70.38 L89 C14		
Total Capital Available	19	P30.70 Total L02 to L11 - Total L12 to L17		
Minimum Capital Required				
Balance Sheet Assets	20	P30.71 L89 C3		
Unearned Premiums/Unpaid Claims/Premium Deficiencies	22	Refer to Guideline		
Catastrophes	24	Refer to Guideline		
Reinsurance Ceded to Unregistered Insurers	26	P70.38 L89+L95 C17		
Capital Required reported by Regulated FI Subsidiaries	27	Refer to Guideline		
Structured Settlements, Letters of Credit, Derivatives and Other Exposures	28	Refer to Guideline		
Minimum Capital Required	29	P30.70 Total L20 to L28		
Excess Capital Available over Minimum Capital Required (line 19 minus line 29)	89	P30.70 L19 - L29		
Line 19 as a % of line 29	90	P30.70 L19 / L29 X 100		

**MINIMUM CAPITAL TEST
CAPITAL REQUIRED FOR BALANCE SHEET ASSETS
(\$'000)**

		Factor (%) (01)	Balance Sheet Value (02)	Capital Required (03)
Cash	01	0,00%		
Investment Income Due and Accrued	02	2,00%		
Investments:				
Term Deposits, Bonds and Debentures:				
- Expiring or redeemable in one year or less:				
Government Grade	03	0,00%		
Investment Grade	04	0,50%		
Not-Investment Grade	05	4,00%		
- Expiring or redeemable in more than one year:				
Government Grade	10	0,00%		
Investment Grade	11	2,00%		
Not-Investment Grade	12	8,00%		
Loans (at amortized cost):				
Government Grade	13	0,00%		
Investment Grade Loans, and Residential Mortgages	14	4,00%		
Commercial Mortgages	15	8,00%		
Other	18	10,00%		
Adjustment to reflect difference between amortized cost and Balance Sheet value of loans	19			
Preferred Shares:				
Investment Grade	21	4,00%		
Not-Investment Grade	22	15,00%		
Common Shares	27	15,00%		
Investment in Real Estate	30	15,00%		
Investment in Subsidiaries, Affiliates, Partnerships:				
Regulated FI Subsidiaries	32	Note		
Other	33	Note		
Other Investments	35	Note		
Receivables:				
Government Grade	50	0,00%		
Facility Association and the "P.R.R."	51	0,50%		
Agents, Brokers, Policyholders, Subsidiaries, Affiliates, Partnerships and Other Receivables:				
- Instalment Premiums (not yet due)	54	0,00%		
- Outstanding less than 60 days	55	4,00%		
- Outstanding 60 days or more	56	8,00%		
Insurers				
- Registered	57	0,50%		
- Unregistered	58			
Recoverable from Reinsurers:				
- Registered - Unearned Premiums	60	0,50%		
- Unpaid Claims	61	2,00%		
- Unregistered	63			
Other Recoverables on Unpaid Claims	65	15,00%		
Real Estate for Insurer's own use	75	8,00%		
Deferred Policy Acquisition Expenses:				
Premium Taxes	76	0,00%		
Commissions	77	Note		
Other	78	Note		
Future Income Taxes:				
Discounted Reserves and Unrealized Gains	80	0,00%		
Other	81	Note		
Other Assets:				
Goodwill and Other Intangibles	85	Note		
Other Assets (net of Goodwill and Other Intangibles)	86	Note		
TOTAL	89			

Note: See Section VI and IX of the P&C-1 Instructions

**MINIMUM CAPITAL TEST
CAPITAL REQUIRED FOR BALANCE SHEET ASSETS
(Explanatory supplement to Page 30.71)**

		Data Sources for Book Value (Note 2)		
		Page (P)	Line (L)	Column (C)
Cash	01	P20.10	L1	C1
Investment Income Due and Accrued	02	P20.10	L2	C1
Investments:				
Term Deposits, Bonds and Debentures:				
- Expiring or redeemable in one year or less:				
Government Grade	03		*	
Investment Grade	04		*	
Not-Investment Grade	05		*	
- Expiring or redeemable in more than one year:				
Government Grade	10		*	
Investment Grade	11		*	
Not-Investment Grade	12		*	
Loans (at amortized cost):				
Government Grade	13		*	
Investment Grade Loans, and Residential Mortgages	14		*	
Commercial Mortgages	15		*	
Other	18		*	
Adjustment to reflect difference between amortized cost and Balance Sheet value of loans	19		TBD by insurer	
Preferred Shares:				
Investment Grade	21		*	
Not-Investment Grade	22		*	
Common Shares	27	P20.10	L8	C1
Investment in Real Estate	30	P20.10	L9	C1
Investment in Subsidiaries, Affiliates, Partnerships:				
Regulated FI Subsidiaries	32	P30.70	L14	C1
Other	33	(P20.10 L40 C1) - (P30.70 L14 C1)		
Other Investments	35		Refer to Guideline	
Receivables:				
Government Grade	50	P20.10	L26	C1
Facility Association and the "P.R.R."	51	P20.10	L24	C1
Agents, Brokers, Policyholders, Subsidiaries, Affiliates, Partnerships and Other Receivables:				
- Instalment Premiums (not yet due)	54		TBD by insurer	
- Outstanding less than 60 days	55	(P20.10 L20+21+22+25+27 C1) - (P30.71 L54+L56)		
- Outstanding 60 days or more	56	(P50.20 L49 C2) + (P50.40 L89 C9)		
Insurers - Registered	57	P50.30		
- Unregistered	58	P50.30		
Recoverable from Reinsurers:				
- Registered - Unearned Premiums	60	(P20.10 L30 C1) - (unregistered)		
- Unpaid Claims	61	(P20.10 L31 C1) - (unregistered)		
- Unregistered	63	P70.38		
Other Recoverables on Unpaid Claims	65	P20.10	L37	C1
Real Estate for Insurer's own use	75	P20.10	L41	C1
Deferred Policy Acquisition Expenses:				
Premium Taxes	76		Refer to Guideline	
Commissions	77		Refer to Guideline	
Other	78		Refer to Guideline	
Future Income Taxes:				
Discounted Reserves and Unrealized Gains	80		Refer to Guideline	
Other	81	(P20.10 L44 C1) - (P30.71 L80)		
Other Assets:				
Goodwill and Other Intangibles	85		TBD by insurer	
Other Assets (net of Goodwill and Other Intangibles)	86		Refer to Guideline	
TOTAL	89	= P20.10 L89 C1		

Note: See Section VI and IX of the P&C-1 Instructions

- Note: (1) Including Treasury Bills and Commercial Paper.
(2) The data sources listed are for guidance only; in some cases a specific datapoint in the current edition of the P&C-1 may be sufficient, or it may require adjustment. The most important cross-check is that the Total on line 89 is equal to Total Assets on page 20.10, line 89, column 01.
* For investments listed on lines 03 - 22, sources in addition to the applicable datapoints on pages 40.10 - 40.90 may need to be accessed.

Insurer

Year

REINSURANCE CEDED TO UNREGISTERED INSURERS
(\$'000)

Name of assuming insurer	Premiums ceded to assuming insurer (02)	Claims incurred by assuming insurer (03)	Unearned premiums ceded to assuming insurer (04)	Outstanding losses recoverable from assuming insurer (05)	10% margin on unearned premiums and outstanding losses recoverable (06)	Receivable from assuming insurer (07)	Payable to assuming insurer (08)	Non-owned deposits held as security from assuming insurer (12)	Recoverables in excess of Non-owned Deposits (04+05+07-08-12) where positive (14)	Deposits available to apply to margin (12-(04+05+07-08)) where positive (15)	Letters of credit held as security from assuming insurer (16)	Margin Required (06-(15+16)/1.5) where positive (17)
Affiliated												
Total affiliated	49											
Non-affiliated												
Total Non-affiliated	69											
TOTAL BUSINESS	89											

Insurer

Year

MCT APPENDIX A-1

WORKSHEET - CAPITAL REQUIRED: ACCIDENT AND SICKNESS BUSINESS

(\$'000)

(thousands of dollars)

	01	02	03
	Earned Premiums	Factor	Margin
A. Unearned Premium Margin			
(i) Disability Income Insurance			
Length of premium guarantee remaining			
Individually underwritten < 1 year		12,0%	
1-5 years		20,0%	
> 5 years		30,0%	
Other < 1 year		12,0%	
1-5 years		25,0%	
> 5 years		40,0%	
(ii) Accidental Death and Dismemberment		Note	
(iii) Other Accident and Sickness Benefits		12,0%	
Total Unearned Premiums Margin			

	01	02	03
	Unpaid Claims Relating To Prior Years	Factor	Margin
B. Unpaid Claims Margin			
(i) Disability Income Insurance			
Duration of Disability < 2 years			
Length of benefit period remaining			
< 1 year		4,0%	
1-2 years		6,0%	
> 2 years		8,0%	
Duration of Disability 2-5 years			
Length of benefit period remaining			
< 1 year		3,0%	
1-2 years		4,5%	
> 2 years		6,0%	
Duration of Disability > 5 years			
Length of benefit period remaining			
< 1 year		2,0%	
1-2 years		3,0%	
> 2 years		4,0%	
(ii) Accidental Death and Dismemberment		Note	
(iii) Other Accident and Sickness Benefits		10,0%	
Other adjustments			
Total Unpaid Claims Margin			

Insurer

Year

MCT APPENDIX A-2

**WORKSHEET - CAPITAL REQUIRED: DERIVATIVES, STRUCTURED SETTLEMENTS, LETTERS OF CREDIT AND OTHER ITEMS
(\$000)**

	Possible Credit Exposure (01)	Movable Hypothechs and Guarantees (02)	Credit Conversion Factor (%) (03)	Capital Factor (%) (04)	Capital Required Col. (01- 02) x 03 x 04 (05)
Structured Settlements:					
Government Grade	01		50%	0,0%	
Investment Grade.....	02		50%	0,5%	
Not Investment Grade.....	03		50%	4,0%	
Letters of Credit:					
Government Grade	10		Note	0,0%	
Investment Grade.....	11		Note	0,5%	
Not Investment Grade.....	12		Note	4,0%	
Derivatives:					
Government Grade	20		100%	0,0%	
Investment Grade.....	21		100%	0,5%	
Not Investment Grade.....	22		100%	4,0%	
Other Items:					
Government Grade	30		Note	0,0%	
Investment Grade.....	31		Note	2,0%	
Not Investment Grade.....	32		Note	8,0%	
TOTAL	99				

Appendix A-2