Annual Information Disclosure Report

of

XL Insurance (China) Company Limited

(Year 2011)

2012-4-27

(Please note: English version for reference only.)

Preface

As per the Administrative Measures for the Information Disclosure of Insurance Companies promulgated by China Insurance Regulatory Commission and the relevant internal policies of the XL Insurance (China) Company Limited (hereinafter "XLICCL" or the "Company"), the 2011 Annual Information Disclosure Report of XLICCL is so disclosed as below:

I. Basic Information of the Company

A. Legal Name

XL Insurance (China) Company Limited

B. Abbreviation

XLICCL

C. Registered Capital

RMB 200 million

D. Registered Address

Unit 3305B, 33rd Floor, China Fortune Tower, located at No. 1568, Century Avenue Road, Pudong, Shanghai

E. Date of Incorporation

14th March, 2011

F. Business Scope and Business Territory

Business Scope: (1) property loss insurance, liability insurance, credit insurance, surety insurance and other property insurance; (2) short-term health insurance, personal accidental injury insurance; and (3) reinsurance of the afore-mentioned. The Company is not licensed to provide statutory insurance.

Business Territory: within the administration region of Shanghai and the provinces, the autonomous regions or the municipal cities with branch of the XL Insurance (China) Company Limited.

G. Legal Representative Person

Xie Zheqiang

H. Customer Service Number and Complaint Number

+86 21 6058 3988

II. Financial Accounting Information

A. Financial Statements

A) Balance Sheet (Unit: RMB Yuan)

Assets	Notes	31 DECEMBER 2011
Cash	6	78,925,519
Placements		-
Trading financial assets		-
Financial derivative assets		-
Securities purchased under agreements to resell		-
Interest receivable		1,270,063
Premium receivable	7	7,462,316
Subrogation receivable		-
Reinsurance receivable	8	1,190,217
Ceded out unearned premium reserve	16	1,364,329
Ceded out outstanding claims reserve	16	17,185
Ceded out reserve for life insurances		-
Ceded out reserve for long-term health insurances		-
Policy loans		-
Term deposits	9	68,546,568
Available-for-sale financial assets		-
Held-to-maturity financial assets		-
Long-term equity investments		-
Statutory capital deposits	10	40,955,850

Investment properties		-
Fixed assets	11	72,639
Intangible assets	12	18,667
Separate account assets		-
Deferred tax assets		-
Other assets	13	265,542
Total assets		**200,088,895**

LIABILITIES AND OWNER'S EQUITIES	**Notes**	**31 DECEMBER 2011**
LIABILITIES		
Short-term loans		-
Acceptances		-
Trading financial liabilities		-
Financial derivative liabilities		-
Securities sold under agreements to repurchase		-
Premium in advance		-
Commission and brokerage fee payable		1,638,095
Reinsurance payable		2,509,391
Accrued payroll and welfare	14	2,710,537
Taxes payable	15	310,791
Claims payable		-
Dividends payable to policy holders		-
Policyholder deposits		-

Unearned premium reserve	16	13,535,703
Outstanding claims reserve	16	4,313,823
Reserve for life insurance		-
Reserve for long-term health insurance		-
Long-term loans		-
Debt payable		-
Separate account liabilities		-
Deferred tax liabilities		-
Other liabilities	17	853,793
Total liabilities		**25,872,133**
OWNER'S EQUITIES		
Paid-in capital		200,000,000
Capital surplus		-
Less: Treasury stock		-
Surplus reserve		-
General reserves		-
Retained earnings		(25,783,238)
Total owner's equities		**174,216,762**
TOTAL LIABILITIES AND OWNER'S EQUITIES		**200,088,895**

B) Statements of Profit and Loss (Unit: RMB Yuan)

	Notes	Period from 14 March 2011 (Establishment Day) to 31 December 2011
TOTAL REVENUE		**(8,626,154)**
Earned Premium		1,102,770
Premium income	18	16,867,921
Including: Premium income assumed-in		1,724,011
Less: Premium ceded-out	19	(3,593,777)
Change of unearned premium reserve		(12,171,374)
Investment income	20	2,203,546
Including: Investment income from associates		-
Fair value change gains or losses		-
Foreign exchange losses		(13,233,135)
Other operation income	21	1,300,665
TOTAL OPERATING EXPENSES		**(19,160,969)**
Surrenders		-
Claims		-
Less: Claims ceded-out		-
Change of outstanding claims reserve	22	(4,314,897)
Less: Change of recoverable outstanding claims reserve	23	17,185
Dividends paid to policy holders		-
Reinsurance expenses	24	(445,091)
Business tax and other supplemental charges		(855,631)
Commissions and brokerage fees	25	(1,899,847)

Operating expenses	26	(11,686,780)
Less: Commission recovery	27	24,092
Other operation cost		-
Asset impairment loss		-
LOSSES FROM INSURANCE OPERATIONS		**(27,787,123)**
Add: Non-operating income	28	2,003,885
Less: Non-operating expenses		-
TOTAL LOSSES		**(25,783,238)**
Less: Income tax		-
NET LOSSES		**(25,783,238)**
OTHER COMPREHENSIVE INCOME		**-**
COMPREHENSIVE LOSSES		**(25,783,238)**

C) Statements of Cash Flows (Unit: RMB Yuan)

	Period from 14 March 2011 (Establishment Day) to 31 December 2011
1. Cash flows from operating activities	
Direct premium received	7,680,520
Cash received relating to other operating activities	3,304,550
Sub-total of cash inflows	**10,985,070**
Net amounts paid under reinsurance contracts	(971,591)
Brokerage fee and commission paid	(261,752)
Cash paid to and on behalf of employees	(4,589,353)
Taxes and levies paid	(564,560)
Statutory capital deposits paid	(40,955,850)
Cash paid relating to other operating activities	(3,689,460)
Sub-total of cash outflows	**(51,032,566)**
Net cash flows from operating activities	**(40,047,496)**
2. Cash flows from investing activities	
Proceeds from recovery of investments	67,504,500
Proceeds from investment income	933,483
Sub-total of cash inflows	**68,437,983**
Amounts paid for investment	(136,051,068)
Fixed assets, intangible assets and other long-term assets acquisitions	(180,765)
Sub-total of cash outflows	**(136,231,833)**
Net cash flows from investing activities	**(67,793,850)**
3. Cash flows from financing activities	

Capital contributions received	200,000,000
Net cash flows from financing activities	**200,000,000**
4. Effect of foreign exchange rate changes on cash and cash equivalents	**(13,233,135)**
5. Net increase in cash and cash equivalents	**78,925,519**
Add: cash and cash equivalents at the beginning of the period	-
6. Cash and cash equivalents at the end of the period	**78,925,519**

D) Statement of Changes in Owner's Equity (Unit: RMB Yuan)

	Period from 14 March 2011 (Establishment Day) to 31 December 2011			
	Paid-in capital	**Capital surplus**	**Retained earnings**	**Total owner's equities**
1.Change in period from 14 March 2011 (Establishment Day) to 31 December 2011				
Capital contribution	200,000,000	-	-	200,000,000
Net losses	-	-	(25,783,238)	(25,783,238)
2.As at 31 December 2011	200,000,000	-	(25,783,238)	174,216,762

B. Annotations of Financial Statements

1 GENERAL INFORMATION

XL Insurance (China) Company Limited ("the Company") was established in Shanghai by XL Reinsurance (America) Company and XL Insurance Company Limited. The business scope of the Company covers general insurance in Shanghai in accordance with the Regulations on the Administration of Insurance Companies. The Company's registered capital was RMB 200 million. The aforementioned capital contribution was verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and a capital verification report PricewaterhouseCoopers Zhong Tian Yanzi [2010] No.383 was issued accordingly. The Company obtained its business license from the Administration for Industry and Commerce of Shanghai on 14 March 2011.

The financial statements are approved by management of the Company on 19 March 2012.

2 BASIS OF PREPARATION

The financial statements of the Company were prepared in accordance with *the Accounting Standards for Business Enterprises and 38 specific standards promulgated by the Ministry of Finance on 15 February 2006, the Application Guidance, the Interpretation for the Accounting Standards for Business Enterprises and other related regulations subsequently promulgated* ("CAS 2006").

3 ANNOUNCEMENT OF COMPLIANCE WITH CAS 2006

The Company has prepared the financial statements for the period from 14 March to 31 December 2011 in accordance with CAS 2006, which present fairly the financial position of the Company as of 31 December 2011, and its financial performance and its cash flows for the period from 14 March to 31 December 2011.

4 PRINCIPLE ACCOUNTING POLICIES AND ESTIMATIONS

(a) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December. The preparation of financial statements in current period starts on 14 March 2011 (establishment day) and ends on 31 December 2011.

(b) Reporting currency and foreign currency translation

The Company books foreign currency transactions under the original currency including Renminbi ("RMB") and US dollar ("USD"). Each trial balance in the original currency is regarded as formal accounting record. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the stipulated exchange rates at the balance sheet date. Exchange differences arising from these translations are expensed, except for those attributable to foreign currency borrowings that have been taken out specifically for the construction of fixed assets, which are capitalized as part of the fixed asset costs. Non-monetary assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates at the transaction date. Income statement items denominated in foreign currencies are translated into RMB at exchange rates approximate the rates at the transaction dates. The effect of foreign exchange rate fluctuation on cash and cash equivalent will be listed separately in cash flow statement.

(c) Cash and cash equivalents

For the purposes of the cash flow statement, cash refers to all cash in hand and call deposits. Cash equivalents refer to short-term and highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Financial instruments

(1) Classification of financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loan and receivables, available-for-sale and hold-to-maturity financial assets. The classification depends on the Company's purpose for which the investments were acquired and the ability to hold.

As at 31 December 2011, the Company does not have any financial assets at fair value through profit and loss, available-for-sale or hold-to-maturity financial assets.

(i) Loan and receivables

Loan and receivables are non-derivative financial assets which there are no quoted price in an active market but have fixed and measurable return of income, such as term deposits, interest receivable, premium receivable, reinsurance receivable and other receivables. The recognition and measurement of receivables are discussed in Note 4(e).

(2) Recognition and measurement

Financial assets are initially recognized at fair value as soon as the Company becomes one party of the financial contract. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the income statement. Other financial assets are initially recognized at fair value plus transaction cost.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value except for those equity investments without active market quotation or reliable fair value measurement which are carried at cost. Loan and receivables and hold-to- maturity financial assets are measured at amortized cost using the effective interest rate method.

Except for impairments and exchange gain or loss from financial assets dominated in foreign currencies, fair value changes of available-for-sale financial assets are recorded in owners' equities. When available-for-sale financial assets are derecognized, the accumulated fair value adjustments recognized in owners' equities are included in the income statements as realized gain or loss from financial assets. Interest from available-for-sale financial assets calculated using the effective interest rate method is recognized in the income statement. Dividends on available-for-sale financial assets are recognized in the income statement when it is declared.

(3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, the Company assesses at each balance sheet date whether there is objective evidence that financial assets not measured at fair value are impaired. If any such evidence exists, asset impairment loss is recognized. Factors applied by the Company to assess impairment of financial assets are not limited to following factors: (i) degree and timing in fair value impairment; (ii) financial status and prospect of the issuing institution.

If a significant or prolonged decline in the fair value of the available-for-sale financial assets occurred, the difference between the acquisition cost and the current fair value is removed from owners' equities and recognized in the income statement. The asset impairment loss is reversed through the income statement, if in a subsequent period the fair value of a debt instruments classified as available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the asset impairment loss was recognized in the income statement. The impairment loss is reversed through the owners' equities, if in a subsequent period the fair value of an equity instruments classified as available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the asset impairment loss was recognized in the owners' equities. If an asset impairment loss has been incurred on equity instruments without active market quotation or reliable measurement, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows applying current market return of similar financial assets. The impairment loss is not reversed for equity instruments without active market quotation nor reliable measurement even the value increases.

If an asset impairment loss has been incurred on financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that may incur). If in a subsequent period, the amount of the impairment decreased and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized asset impairment loss is reversed and recognized in the income statement.

(4) Derecognition of financial assets

The financial asset is derecognized when it meets one of below conditions: (1) The right to collect the cash flow of financial asset is terminated, (2) The financial asset transferred, and the company transfer almost all risks and rewards of financial asset to the transferee, (3) The financial asset transferred, and the company gave up the control of financial asset though they didn't transfer or retain ownership of financial assets in nearly all of the risks and rewards.

When a financial asset is derecognized, the difference between consideration and book value together with accumulated fair value changes recorded in liabilities or owners' equities is recognized in income statement.

(5) Financial liabilities

Financial liabilities are initially classified as financial liabilities at fair value through profit or loss and other financial liabilities. The main financial liabilities of the Company are other financial liabilities.

When all or part of the current obligation for financial liabilities has been relieved, the dissolubility of financial liabilities or obligation should be derecognized. The difference between book value and consideration paid is recognized in the income statement.

(6) Fair value of financial instruments

Fair value represents amount paid by counterparty familiar with market situation in a fair transaction.

Fair value of financial instruments will be recognized according to the principle as follow:

(i) The fair value of financial instruments in an active market is determined by reference to market price on valuation date. When there is no deal on valuation date and there has been no significant change in economic circumstance, marker price of the most recent transaction date is deemed as fair value.

(ii) For a financial instrument that is traded in an active market, when there is no transaction on valuation date and economic circumstances have been changed significantly since the last transaction date, the market price of the most recent transaction date is adjusted by reference to current market prices of similar financial instruments and interest rate.

(iii) When there is no active market for a financial instrument, the Company establishes its fair value by using valuation techniques which are generally accepted by market participants and proved to be reliable by historical market prices. Valuation techniques include using discounted cash flow analysis, recent market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same with this instrument and option pricing models. When using valuation techniques, marker parameters are preferred to those parameters only be specific to the Company.

(e) Receivables

Receivables comprise interest receivable, premium receivable, reinsurance receivable and other receivables, and are initially recognized at fair value. Receivables are presented at actual amounts net of provision for bad debts.

For significant receivable items, when evidence exists that balances cannot be fully recovered, bad debts are assessed and provisions are recognized individually based on the differences between net book values and present values of future cash flows.

Insignificant receivable items are divided into several groups by credit risk together with significant items with no bad debts provided for. General bad debts are provided in accordance with actual loss ratio of the receivable items with similar credit risk in the previous years and the current situations.

(f) Fixed assets

Fixed assets include electronic equipments, office equipments, office furniture and motor vehicles, etc. Fixed assets are recognized when it is probable that the Company will benefit from the fixed assets in the future and the relevant costs can be reliably measured. Fixed assets purchased or constructed are recorded at costs.

Subsequent expenditures related to fixed assets are capitalized when it is probable that the Company will benefit from the subsequent expenditures in the future and the relevant costs can be reliably measured. The net book values of replaced fixed asset components are derecognized. Other subsequent expenditures are expensed as incurred.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, estimated residual values expressed as a percentage of cost and annual depreciation rates are as follows:

	Estimated useful live	Estimated residual value	Annual depreciation rate
Electronic equipments	3 years	0%	33.33%
Office equipments	5 years	0%	20%
Office furniture	5 years	0%	20%
Motor vehicles	5 years	0%	20%

The Company reviews the estimated useful lives, estimated residual values and depreciation methods annually and makes appropriate adjustments.

The fixed asset’s carrying amount is written down to its recoverable amount if the asset’s carrying amount is higher than its estimated recoverable amount (Note 4(i)).

Fixed assets are derecognized when there are few economic benefits can be expected from disposal or usage of them. When fixed assets are sold, transferred, disposed or damaged, gains or losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, adjusted by related taxes and expenses, and are included in non-operating income or expenses.

(g) Intangible assets

Intangible assets, including software, are presented at cost net of accumulated amortization and initially recorded at the actual price, and amortized on the straight-line basis over the estimated useful lives. The estimated useful lives and amortization methods are reviewed annually and adjusted as necessary.

Impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount (Note 4(i)).

(h) Other assets

Other assets comprise other receivables, prepayments and long term deferred expenses, etc.

The recognition and measurement principles of other receivables are stated in Note 4(e).

Long term deferred expenses are leasehold improvements and other prepayments that should be amortized for more than one year (excluding one year). It is amortized over the beneficial period and presented at actual costs net of amortization.

If the Company cannot benefit from the long term deferred expenses in future accounting periods，the remaining carrying amount will be wholly expensed in current period income statement.

(i) Asset impairment

Fixed assets, intangible assets and other assets are reviewed for impairment whenever event indicates the carrying amount may not be recoverable at the balance sheet date. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generate units).

The above impairment cannot be reversed once it is recognized even if the recoverable value increases.

(j) Employee benefits

Employee benefits are expenditures related to acquiring employee's service, including salary, bonus, allowance, welfare, social insurance, housing fund, union expense and education expense, and etc.

Employee benefits are recognized over the period when services are being rendered by employee and recorded as costs or expenses depending on the beneficial entities.

(k) Insurance contract reserves

(1) Measurement principle

Insurance contract reserves include unearned premium reserve and outstanding claims reserve.

(i) Measurement unit

The Company categorized the insurance contracts carried similar insurance risk as a measurement unit and measured it based on the reasonable estimation when the Company to take its obligations.

(ii) Estimation of future cash flow

Estimated expenditure for insurance obligation represents net cash flow of insurance contract. The estimated cash outflow includes: (i) guaranteed benefit according to insurance contract; (ii) non guaranteed but assuming benefit according to insurance contract; (iii) maintenance cost such as policy maintenance cost and claim handling expense etc. Estimated cash inflow represents the premium and other income when the Company carried its obligation related to insurance contract. The Company estimates the net future cash outflow on the basis of information on balance sheet date and different scenarios with possibility.

(iii) Margin

The Company considers the margin and measured separately. The margin is amortized in income statement in a systematic and reasonable method during the insured period. The Company determines the margin based on internal historic data and relevant industry guideline. The Company does not recognize first day gain but first day loss in income statement.

(iv) Time value of money

Time value is also considered in determining the insurance contract reserves. The Company discounts the future cash flow if there is material impact from time value. The Company determines the discount rate based on the balance sheet date information.

The Company recognized the reinsurance reserve assets in the same period as insurance contract reserves, according to terms of reinsurance contracts together with cash flow of insurance contracts and reinsurance contracts. Insurance contract reserves recovered from reinsurers are recognized as reinsurance reserve assets.

(2) Unearned premium reserve

Unearned premium reserve represents reserve provided for unexpired non-life policies. The Company recognizes unearned premium reserve based on actuarial result when non-life premium is recognized.

(3) Outstanding claims reserve

Outstanding claims reserve represents reserve provided for unsettled claims of non-life policies. The Company provides outstanding claims reserve based on actuarial result.

Outstanding claims reserve includes reserve for claims reported but not paid, for claims incurred but not reported and for claim settlement expense. Reserve for claims reported but not paid is made for estimated payments for all claims notified but not settled at the balance sheet date. Any difference between the estimated payment and subsequent settlement of the claims is taken to income statement in the year in which the settlement takes place. The Company recognizes reserve for claims incurred but not reported and for claim settlement expense based on actuarial result at the year end.

(4) Insurance reserve adequacy test

At each balance sheet date, insurance reserve adequacy tests are performed to ensure the adequacy of unearned premium reserve and outstanding claims reserve.

The Company uses actuarial method to recalculate insurance contract reserves at the date of the insurance reserve adequacy test. If the recalculated insurance contract reserves are higher than the amounts the Company has already provided for, the Company will provide additional reserve to cover the deficiency. If the recalculated insurance contract reserves are lower than the amounts the Company has already provided for, no adjustment to insurance contract reserves will be made.

(l) Deferred tax assets and liabilities

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deductible tax loss is deemed as temporary difference and recognized as deferred tax asset. The estimated tax rates of deferred tax assets or liabilities when they are settled are used in the determination of deferred tax.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be recognized.

(m) Other liabilities

Other liabilities comprise other payables and insurance security fund etc. The insurance security fund is provided and paid according to “Rules on Administration of Insurance Security Fund” promulgated by CIRC. The Company provides and pays the fund to designated account.

(n) Revenue and cost of insurance policy

(1) Unbundling of insurance contract

The contracts written by the Company include direct insurance contracts and reinsurance contracts that transfer insurance risk or other risks, or both.

According to “Regulations on accounting treatment for insurance contracts” promulgated by Ministry of Finance (“MOF”), the Company unbundles hybrid contracts which transfer both insurance risk and other risks if they can be separately measured. The insurance risk component is recognized as insurance contract, and other risk components are recognized as investment contract or service contract. The Company performs significant insurance risk test for the contracts whose insurance risk cannot be unbundled or measured separately on a contract by contract basis on the inception of contract. The Company defines the contract as insurance contract if its insurance risk is significant; otherwise defines it as investment contract or service contract.

(2) Revenue of insurance contract

The Company recognizes premium income from direct insurance contracts and reinsurance contracts when the insurance risk significance tests are passed and the following conditions are met: (i) The insurance contract becomes effective and the related insurance responsibility has been assumed; (ii) The economic benefits related to the insurance contract can be received by the Company; (iii) The income and expense related to the insurance contract can be reliably measured.

If an insurance contract is cancelled prior to the expiration date, the Company shall, pursuant to the stipulations of the insurance contract, determine the refund to the insured as the refund premium and record it in the income statement of the current period.

(3) Cost of insurance contract

The cost of insurance contract is the economic and contractual benefits paid by the Company which are not related with profit distribution to the shareholders and will cause the decrease in the total owners’ equities. The cost of insurance policy includes premium ceded-out, commissions and brokerage fees, claims, change of unearned premium reserve and change of outstanding claims reserve. The recognition and measurement of insurance contract reserves are referred to in Note 4(k).

The Company calculates the premium ceded-out and reinsurance expense according to relevant reinsurance contract, and records it in the same period of the recognition of the premium. The Company calculates claims that should be recovered from the reinsurer in the period of the recognition of the claims and records them in the income statement to reduce reinsurance reserve assets.

Claims include the indemnity or payment made by the insurer, and relevant expenses such as the attorney's fee, litigation fee, loss inspection fee, wages and salaries of loss adjusters and subrogation, are recorded in the income statement, together with commissions and brokerage fees that are incurred for the insurance contract.

(o) Other revenue

Other revenue includes interest income and etc. Interest income is recognized on a time proportion basis of the amounts deposited and the effective interest rates.

(p) Operating leases

Leases of assets where all the risks and rewards incident to ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases.

Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

(q) Segment Reporting

The Company determines operation segment based on internal organization structure, management purpose and internal reporting and disclosure the segment information based on business segment.

Operation segment is the component which meets below conditions: (1) the component can produce income and expenditure in daily operation, (2) The Company's management can review the operation result and decide resource allocation, (3) The Company can obtain the accounting information such as financial position, operation result and cash flow. If two or more business segments have similar business characteristic, they would be combined as one segment.

(r) Critical accounting estimates and judgments

(1) Significant insurance risk test

(i) Insurance contract

The Company performs significant insurance risk test at the inception of contract and each balance sheet date during the insured period. The Company perform unbundling of insurance contract and significant insurance risk test according to the following process:

Risk ratio=(cash flows that would be paid if the insured event occurred - cash flows that would be paid if no insured event occurred) / cash flows that would be paid if no insured event occurred×100%

If risk ratio is larger than 5% once or more during the effective period, the contract is recognized as insurance contact.

(ii) Reinsurance contract

For reinsurance contract, the Company assesses the significance of insurance risk transfer based on a comprehensive understanding of the nature and other relevant agreements. The Company recognizes the contract as reinsurance contract directly, if the reinsurance policy meets the conditions of the significant insurance risk transfer obviously. For the other reinsurance policies, the Company uses the insurance risk ratio of reinsurance policies to measure significance of insurance risk transfer.

Reinsurance contract risk ratio=(Σ Present value of the net loss of the reinsurer when net loss incurs × Probability of occurrence)/ Present value of the premium the reinsurer expected ×100%.

If reinsurance contract risk ratio exceeds 1%, the contract is defined as reinsurance contract.

(2) Liability of insurance contract

(i) Risk margin and surplus margin

The Company recognizes unearned premium reserve and outstanding claims reserve based on reasonable assessment of future cash flow and risk margin. The Company assesses risk margin based on contract portfolio with similar nature of insurance risk and keeps the consistence during the insured period.

The Company's risk margin of net non-life insurance reserves are as follows:

	31 December 2011
Unearned premium reserve	3.0%
Outstanding claims reserve	2.5%

(ii) First-day costs

The Company considers the impact of first-day costs when assesses the unearned premium reserve. First-day costs are the incremental costs that directly related to the sale of contracts, including commissions and brokerage fees, business tax and other supplemental charges, insurance security fund, CIRC supervision fee and reinsurance expenses and etc.

(iii) Discount rate

When considering the impacts of the time value, the Company uses "the insurance reserve standard measurement yield curve" published on the website of Chinabond as a base, and considering the liquidity premium, taxation and other factors which affect the assumption of discount rate on the balance sheet date, to apply to the amortization of the surplus margin.

(r) Critical accounting estimates and judgments

(3) Fair value of financial instruments

Fair value is defined as the amount at which the financial assets and liabilities could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, rather than in a forced or liquidation sale. The methods and assumptions used by the Company in estimating the fair value of the financial assets and liabilities are:

- Debt securities: fair values are generally based upon market prices on valuation date. Where market prices on valuation date are not readily available, fair values are estimated using either market price observed in last transactions, values obtained from market prices of similar financial investments and valuation techniques when the market is not active.
- Equity securities: fair values are based on market prices on valuation date. If no market price on valuation date is available, fair value can be determined by the market price observed in last transaction, market prices observed in last transaction of similar financial investment, or using valuation techniques when the market is not active. For stocks whose trading has been suspended for a long time, price is determined based on average P/E ratio of comparative companies.
- Term deposit, wealth management products, buying securities and return sale and matched sale of repo: carrying amounts of these assets in the balance sheet approximate its fair values.

(4) Income tax

Under normal business operations, there are many transactions and events that the Company engaged in have inherent uncertainties regarding their tax consequences. The Company needs to make judgment to determine its income tax expenses. The Company estimates income tax liabilities for additional tax payments that may result from future tax authority examination. If future examination results differ from the Company's initial estimation, the difference will impact income tax expense and deferred tax for the period when the final tax settlement occurred.

5 TAXATION

The main tax category and tax rates that applied to the Company are as below:

Tax	Tax base	Rate
Corporate income tax	Taxable income	25%
Business Tax	Taxable revenue	5%

6 CASH

	31 December 2011	
	In original currency	RMB equivalent
Cash on hand		

RMB	7,437,220	7,437,220
USD	2,544,636	16,033,500
Subtotal		23,470,720
Time deposits within 3 months		
RMB	36,552,099	36,552,099
USD	3,000,000	18,902,700
Subtotal		55,454,799
Total		
RMB	43,989,319	43,989,319
USD	5,544,636	34,936,200
Subtotal		78,925,519

7 PREMIUM RECEIVABLE

	31 December 2011
Premium receivable	7,462,316
Less: Provision for bad debts	-
	7,462,316

The aging of premium receivable and related provisions for bad debts are analysed below:

31 December 2011

	Amount	% of balance	Provision	% of balance
Within 3 months (including 3 months)	6,138,561	82%	-	-
Between 3 months to 1 year (including 1 year)	1,323,755	18%	-	-
	7,462,316	100%	-	-

8 REINSURANCE RECEIVABLE

	31 December 2011
Reinsurance receivable	1,190,217
Less: Provision for bad debts	-
	1,190,217

The aging of reinsurance receivable and related provision for bad debts are analysed below:

	31 December 2011			
	Amount	% of balance	Provision	% of balance
Within 3 months (including 3 months)	1,190,217	100%	-	-

9 TERM DEPOSITS

	31 December 2011	
	In original currency	RMB equivalent

RMB	36,564,250	36,564,250
USD	5,075,833	31,982,318
Subtotal		68,546,568

The due dates are analysed below:

	31 December 2011
Between 3 months to 1 year (including 1 year)	68,546,568

10 STATUTORY CAPITAL DEPOSITS

As at 31 December 2011, the Company placed statutory deposit in the amount of USD 6,500,000 (RMB 40,955,850 in equivalent) with China Merchants Bank in the form of one year term deposit.

11 FIXED ASSETS

	Electronic equipments
Cost	
Current period additions	77,500
31 December 2011	77,500
Accumulated depreciation	
Current period depreciation	4,861
31 December 2011	4,861
Carrying amount	

31 December 2011	72,639

12 INTANGIBLE ASSETS

	Computer software
Cost	
Current period additions	24,000
31 December 2011	24,000
Accumulated amortisation	
Current period amortisation	5,333
31 December 2011	5,333
Carrying amount	
31 December 2011	18,667

13 OTHER ASSETS

	31 December 2011
Prepayments	207,001
Long-term deferred expenses (a)	49,541
Other receivables	9,000
	265,542

(a) Long-term deferred expenses

Leasehold improvement

Current period addition	79,265
Current period amortization	(29,724)
Balance as at 31 December 2011	49,541

14 SALARY AND WELFARE PAYABLE

	31 December 2011
Accrued bonuses	2,710,537

15 TAXES PAYABLE

	31 December 2011
Business taxes and levies payable	310,791

16 INSURNCE CONTRACT RESERVES

(a) Insurance contract reserves movement:

		Current period deduction				
	Current period addition	Claims	Early release	Others	Subtotal	31 December 2011
Gross reserves						
Unearned premium reserve (c)	13,535,703	-	-	-	-	13,535,703
Outstanding claims reserve (d)	4,313,823	-	-	-	-	4,313,823
	17,849,526	-	-	-	-	17,849,526

Reinsurance reserves						
Unearned premium reserve	1,364,329	-	-	-	-	1,364,329
Outstanding claims reserve	17,185	-	-	-	-	17,185
	1,381,514	-	-	-	-	1,381,514
Net reserves						
Unearned premium reserve	12,171,374	-	-	-	-	12,171,374
Outstanding claims reserve (e)	4,296,638	-	-	-	-	4,296,638
	16,468,012	-	-	-	-	16,468,012

(b) The insurance reserve analyzed by contract due date is as below:

	31 December 2011		
	Within 1 year	Above 1 year	Total
Gross reserves			
Unearned premium reserve	13,535,703	-	13,535,703
Outstanding claims reserve	4,313,823	-	4,313,823
	17,849,526	-	17,849,526

	31 December 2011		
	Within 1 year	Above 1 year	Total
Reinsurance reserves			
Unearned premium reserve	1,364,329	-	1,364,329
Outstanding claims reserve	17,185	-	17,185
	1,381,514	-	1,381,514

	31 December 2011		
	Within 1 year	Above 1 year	Total
Net reserves			
Unearned premium reserve	12,171,374	-	12,171,374
Outstanding claims reserve	4,296,638	-	4,296,638
	16,468,012	-	16,468,012

(c) Unearned premium reserve

Unearned premium reserve by line of business is analyzed as below:

	31 December 2011
Liability	13,386,028
Enterprise property	149,675
	13,535,703

Ceded out unearned premium reserve by line of business is analyzed as below:

	31 December 2011
Liability	1,256,179
Enterprise property	108,150
	1,364,329

(d) Outstanding claims reserve

Outstanding claims reserve by line of business is analyzed as below:

	31 December 2011
Liability	4,291,587
Enterprise property	22,236
	4,313,823

Ceded out outstanding claims reserve by line of business is analyzed as below:

	31 December 2011
Enterprise property	17,185

(e) Net outstanding claims reserve by nature is analyzed as below:

	31 December 2011
Reserve for claims reported but not paid	81,912
Reserve for claims incurred but not reported	4,048,693
Reserve for claim settlement expense	166,033
	4,296,638

17 OTHER LIABILITIES

	31 December 2011
Accrued expenses	659,998
Insurance security fund	121,151
CIRC supervision fee	21,242
Others	51,402
	853,793

18 PREMIUM INCOME

	Period from 14 March 2011 (Establishment Day) to 31 December 2011
Direct premium income (a)	15,143,910
Premium income assumed-in (b)	1,724,011
	16,867,921

(a) Direct premium income

Direct premium income refers to premium income from direct insurance business. Breakdown by line of business is as follows:

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Liability	14,951,481
Enterprise property	192,429
	15,143,910

(b) Premium income assumed-in

Premium income assumed-in refers to premium income obtained from reinsurees under inward reinsurance agreements. Breakdown by line of business is as follows:

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Liability	1,724,011

19 PREMIUM CEDED-OUT

Premium ceded-out refers to premium paid to reinsurers under ceded-out reinsurance agreements.

Breakdown by line of business is as follows:

	Period from 14 March 2011 (Establishment Day) to 31 December 2011
Liability	3,431,369
Enterprise property	162,408
	3,593,777

20 INVESTMENT INCOME

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Interest income of term deposits over 3 months	2,203,546

21 OTHER OPERATING INCOME

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Interest income of current deposits and term deposits within 3 months	1,300,665

22 CHANGE OF OUTSTANDING CLAIMS RESERVE

(a) Change of outstanding claims reserve are analysed as below:

Period from 14 March 2011(Establishment Day)

	to 31 December 2011
Changes of outstanding claims reserve	4,314,897

(b) Change of outstanding claims reserve by nature are analysed as below:

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Changes of reserve for claims reported but not paid	82,986
Changes of reserve for claims incurred but not reported	4,065,878
Changes of reserve for claim settlement expense	166,033
	4,314,897

23 CHANGE OF OUTSTANDING CLAIMS RESERVE RECOVERABLE

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Changes of outstanding claims reserve recoverable	17,185

24 REINSURANCE EXPENSE

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Liability	445,091

25 COMMISIONS AND BROKERAGE FEES

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Liability	1,899,847

26 OPERATING EXPENSES

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Salaries and welfare expenses	6,829,524
Office rental & management expenses	787,389
Consulting fee	669,408
Promotion expenses	538,315
Audit fee	510,000
Travelling expenses	498,125
Social insurance and housing fund	470,366
Electronic equipments' upgrade and maintenance expenses	397,984
Insurance association membership	220,000
Vehicle usage fee	167,709
Insurance security fund	121,151
Entertainment expenses	104,490
Post and telecommunication expenses	70,058
Utilities expenses	54,916
Depreciation and amortization expenses	39,918
Printing expenses	38,960
CIRC supervision fee	21,242

Miscellaneous taxes	19,720
Others	127,505
	11,686,780

The total salary and welfare of the company's key management personnel in 2011 is RMB 2,335,300.

27 COMMISSION RECOVERY

This represents expense recoveries from ceded-out business paid by reinsurance companies according to agreement. Breakdown of reinsurance expense by line of business is as follows:

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Enterprise property	24,092

28 NON-OPERATING INCOME

	Period from 14 March 2011(Establishment Day) to 31 December 2011
Government subsidy	2,000,000
Personal income tax refund	3,885
	2,003,885

29 NOTES TO CASH FLOW STATEMENTS

(a) Reconciliation from net losses to operational cash flow

Period from 14 March 2011(Establishment Day)

	to 31 December 2011
Net Losses	(25,783,238)
Add: Depreciation of fixed assets	4,861
Amortization of intangible assets	5,333
Amortization of long-term deferred expenses	29,724
Increase in unearned premium reserve	12,171,374
Increase in outstanding claims reserve	4,296,638
Investment income	(2,203,546)
Increase of statutory capital deposits	(40,955,850)
Increase of operating receivables	(8,868,534)
Increase of operating payables	8,022,607
Exchange loss	13,233,135
Net cash flows from operating activities	(40,047,496)

(b) Net increase in cash and cash equivalents

	Period from 14 March 2011 (Establishment Day) to 31 December 2011
Cash at the end of period	78,925,519
Less: Cash at beginning of period	-
Net increase in cash and cash equivalent	78,925,519

(c) Cash and cash equivalents

Period from 14 March 2011(Establishment Day)

to 31 December 2011

Current deposits	23,470,720
Term deposits within 3 months	55,454,799
Cash and cash equivalents	78,925,519

30 SEGMENT INFORMATION

(a) According to internal structure, management purpose and internal reporting, the Company has the following operation segments:

(i) Enterprise property insurance provides insurance products related to enterprise property;

(ii) Liability insurance provides insurance products related to insurers' liability;

(iii) Cargo insurance provides insurance products related to cargo;

(iv) Others include insurance contracts other than the lines mentioned above and daily operational activities. Assets not separately managed and non-reserve liabilities belong to this segment.

Segment information for year ended 31 December 2011

	Operating revenue	Operating expenses	Operating losses	Total assets	Total liabilities
Enterprise property	150,903	1,500,758	(1,349,855)	317,764	171,911
Liability	4,545,644	17,540,173	(12,994,529)	8,526,067	17,677,615
Cargo	-	120,038	(120,038)	-	-
Others	(13,322,701)	-	(13,322,701)	191,245,064	8,022,607
	(8,626,154)	19,160,969	(27,787,123)	200,088,895	25,872,133

31 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSATIONS

(a) Related parties that control the Company:

Name of Company	Principal business	Relationship with the Company	Type of enterprise	Chairman of the board
XL Reinsurance (America) Company	Reinsurance	Holding Company	Foreign Company	John P. Welch
XL Insurance Company Limited	Insurance	Holding Company	Foreign Company	Eileen McCusker

(b) Registered Capital and its change of related party that controls the Company

	31 December 2011
XL Reinsurance (America) Company	USD 5,000,000
XL Insurance Company Limited	GBP200,000,000

(c) Equity shares proportion and voting right proportion held by the Company's investor which has a controlling interest in the Company.

Name of Company	Holding ratio	Voting ratio
XL Reinsurance (America) Company	51%	51%
XL Insurance Company Limited	49%	49%

(d) Related parties that do not control the Company:

Name of related party	Relationship with the Company	Transaction description

XL Insurance (Bermuda) Company Limited	Controlled by the same ultimate parent Company	Reinsurance

(e) Significant related party transactions

	Period from 14 March 2011 (Establishment Day) to 31 December 2011
Premium ceded-out: XL Insurance (Bermuda) Company Limited	895,978
Commission recovery: XL Insurance (Bermuda) Company Limited	24,092

(f) Receivables from and payable to related parties

(1) Reinsurance receivable

	31 December 2011
XL Insurance (Bermuda) Company Limited	24,092

(2) Reinsurance payable

	31 December 2011
XL Insurance (Bermuda) Company Limited	902,908

C. Independent Auditor's Report

Auditor's Report

PwC ZT Shen Zi (2012) No. 21779

To the Board of Directors of XL Insurance (China) Company Limited,

We have audited the accompanying financial statements of XL Insurance (China) Company Limited (hereinafter "the Company"), which comprise the balance sheet as at 31 December 2011, and the income statement, the statement of changes in owners' equity and the cash flow statement for the period from 14 March 2011 (establishment day) to 31 December 2011, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and their financial performance and cash flows for the period from 14 March 2011 (establishment day) to 31

December 2011 in accordance with the requirements of Accounting Standards for Business Enterprises.
PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Shanghai , the People's Republic of China

19 March 2012

III. Risk Management Information

A. Risk Identification and Evaluation

a) Underwriting Risk

Underwriting risk refers to the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and reserving assumptions. Underwriting and reserving risk includes the fluctuations in the timing, frequency and severity of insured events, relative to the expectations of XLICCL at the time of underwriting and insurance risk also includes the risk of lapse of business and can also refer to fluctuations in the timing and amount of claims.

In 2011, the material underwriting risk exposures were deemed to be pricing inadequacy risk and reserving adequacy risk.

Major assumptions affecting underwriting risks include:

- Loss ratio
- Expense ratio
- Risk margin
- Interest rate

The net profit/loss and solvency of XLICCL is sensitive to the change of loss ratio factor. The control activities taken by the Company include:

- Adopting a conservative pricing philosophy and providing an appropriate safety margin;
- Performing periodical experience studies to monitor the variance between pricing assumptions and actual underwriting results. Actions to modify or suspend the product are implemented if gaps are noted.
- Performing regular reserve adequacy tests on IBNR and UPR;
- According to the Company's business strategy, arranging and adjusting the risk retained through reinsurance arrangements; and
- Arranging reinsurance by using a high grade, selection criteria for reinsurance companies that include: financial strength, service, policies in place, claims efficiency and price.

b) Market Risk

Market risk refers to the risk of loss or adverse change in the financial situation resulting, directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, and financial instruments

In 2011, the most material market risk exposure was FOREX risk.

Major assumptions affecting market risks are:

- Time deposit interest rate
- Foreign exchange rate

The net profit/loss and solvency of XLICCL is sensitive to the change of foreign exchange rate of USD/RMB. The control activities taken by the Company include:

- Adopting a strict foreign currency matching policy when writing business in foreign currency; and
- Monitoring the solvency ratio to closely monitor the effects from foreign exchange loss.

Asset-liability mismatching risk refers to the risk of mismatch of assets and liabilities in terms of investment yield, currency and duration.

The material asset-liability mismatching risk identified in 2011 was:

All assets were invested in the time deposit with deposit term ranges from 3 months to 1 year. Most of the GWP in 2011 were from liability products with average duration of reserve longer than 1 year. Asset-liability mismatching risk caused by duration gap is not fully monitored and migrated in 2011.Since the Company started writing business in July of 2011, the Company kept all assets in time deposits below one year to gain better liquidity of the Company's fund. The Company shall further analyze the assets-liability mismatching risk and improve the controls to manage the risk when the business portfolio reaches a suitable size.

c) Credit Risk

Credit risk refers to the risk of loss due to unexpected default, or deterioration in the credit standing of the counterparties or debtors in relation to risk mitigating contracts, such as reinsurance arrangements and receivables from intermediaries, as well as any other credit exposures.

In 2011, the material credit risk exposure included exposure to the insured, internal and external reinsurers and bank deposits.

The Company chose business counterparties with good ratings grade, and the grades of the banks and reinsurer did not change in 2011. Sensitivity to changes in credit rating grades does not have a material effect on the solvency position of the business.

Aging of over 80% of premium receivables is below 3 months, and premium receivables are 3.73% of total assets. Sensitivity to changes in aging of premium receivable does not have a material effect on the solvency position of the business.

The control activities taken by the Company include:

- establishing appropriate credit risk management processes, exposure limits and associated reporting processes;
- monitoring credit aggregation across all credit risk categories; and
- strictly following the counterparty selection criteria and choosing bank/reinsurers with a good credit grade.

d) Operational Risk

Operational risk refers to the risk of loss, resulting from inadequate or failed internal processes, or from people and systems, or from external events.

Operational risk excludes strategic and business cost risk.

The material operational risks identified in 2011 include Data & System Support on Business Operations, Management Information and Succession Planning

The control activities taken by the Company include:

- Using the Genius system to centralize the management of underwriting, claims, and reinsurance management;
- Generating Management information reports by using the Genius Reporting Tool to monitor operating errors and ensure operation quality; and
- Setting up underwriting guidelines and a Claims Handbook to ensure segregation of authority and responsibility.

e) Other Risk

A strategic risk we identified in the Company was concentration risk.

Concentration risk refers to the risk due to a large single exposure caused by uneven distribution of business in underwriting line of business, geographic regions and the transaction counterparties.

The material concentration risk identified in 2011 was:

The risk portfolio written in 2011 was heavily focused on one professional lines product; Directors & Officers Insurance (D&O). In 2011, the GWP income from the D&O product accounts contributed over 88% of the Company's total GWP. This key dependency makes the Company vulnerable to the fluctuations in the profitability of this market.

B. Risk Control

a) Risk Management Organization

XLICCL has established a risk management system for which the Board of Directors is ultimately responsible. The CEO is responsible for oversight of the risk management activities. XLICCL set up a Risk Monitoring Committee (RMC) in 2011. The RMC is an operational committee responsible for ensuring effective implementation of the risk management system of the Company. Under the direction of the CEO, the RMC oversees the implementation of the Company's risk strategy and monitoring of risks including responses to risks arising. The Head of Risk Management, and heads of all function and lines of business in XLICCL are members of the RMC, but authority lies with the Committee itself, and not with any specific individual.

b) Overall Risk Management Strategies

XLICCL's risk management strategy supports the business objectives, business strategy and business plans. The risk management strategy requires that there is an integrated risk management system in place that ensures the timely and periodic assessment of risk, that facilitates the management and monitoring of risk by lines of business or functional departments, and that encourages regular reporting on the status of risk management by lines of business or functional departments to ensure a solid solvency position.

c) Implementation of Overall Risk Management Strategies

Based on the Company's strategy and after a series of analysis on the severity and frequency of risks faced in 2011, XLICCL maintains a detailed risk register including the top 10 risks.

For each risk in the identified risk register, the Company relies upon quantitative and qualitative analytical methods to assess the likelihood and potential impact of risk events and the current key controls in place to address those risks. Taking into account risk management treatment including risk aversion, risk reduction, risk transfer and risk retention, the residual risk is compared to the Company's risk appetite. If the residual risk is not in line with the target risk, an action plan is prepared to minimize the gap.

The Company organizes the implementation of risk solutions to ensure that all risks are under effective control with assigned risk owners, with agreed risk management responsibilities.

In 2011, XLICCL implemented an annual risk assessment process to analyze the risks faced by the business operation. The Company has set up its operation risks register and key risk rating and periodically assesses and reports on these risks. XLICCL utilises the following processes to manage risk in the Company:

Objective Setting – Objectives must exist before management can identify potential events affecting their achievement. The Company's management has in place a process to set objectives which ensures that the chosen objectives support and are aligned with the Company's mission and are consistent with its risk appetite.

Event Identification – Internal and external events that could affect achievement of the Company's objectives are identified, distinguishing between risks and opportunities.

Risk Assessment – Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.

Risk Response – Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the Company's risk tolerances and risk appetite.

Control Activities – Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

Information and Communication – Relevant information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

Monitoring – The entirety of the risk management process is monitored and modifications made as necessary.

Quarterly Review – A review of the process is undertaken in order to keep in line with emerging risks.

IV. Operation Information of Top 5 Lines of Business in terms of Premium Income in 2011 (Unit: RMB Yuan)

Line of Business	Insured Amount	Premium Income	Claim Payment	Unearned Premium Reserves	Outstanding Claims Reserves	Underwriting Profits
Enterprise Property	323,049,578	192,429	-	41,526	5,051	(1,512,263)
Liability	1,493,058,579	16,675,492	-	12,129,848	4,292,662	(16,425,897)

(Note: The Company only conducted business and made insurance premium in two lines in 2011.)

V. Solvency Information (Unit: RMB 10000 Yuan)

Period	Actual Capital	Minimum Capital	Capital Surplus / Deficit	Solvency Ratio
2011-12-31	17,134	224	16,910	7649%

- Reasons for Change in Solvency Ratio.

N/A, as the Year 2011 is the Company’s first year of operation.

(End)