Uzbekinvest International Insurance Company Limited

Own Risk Solvency Assessment 2023

Document Sponsor	Mr. Hasanjon Mamadjonov
Document Owner	Mr. Hasanjon Mamadjonov
Chief Executive Officer	Mr. Hasanjon Mamadjonov
Sign-Off Date	29 July 2024

Contents

1. EXECUTIVE SUMMARY

Uzbekinvest International Insurance Company Limited ('the Company') plays an integral part in stimulating trade and investment flow into Uzbekistan by offering a range of insurance services aimed to protect the business and assets of foreign companies investing or doing business in the Republic of Uzbekistan. The insurance policies issued by the Company provide cover for investment transactions and trade financing projects against certain political risks in Uzbekistan, such as CEN (confiscation, expropriation, and nationalization), CR (contract repudiation) and WCG (wrongful calling of guarantees) risks.

The Company's products and services are in stable demand by foreign companies involved into implementation of projects in various industries, mainly in banking, energy, mining, agri-foods, and transport sectors of Uzbekistan.

This Own Risk and Solvency Assessment (ORSA) provides details of the Company's current and forward-looking risk profile as at Year End 2023 ("Y/E 2023"). The ORSA process and this report have been developed to draw together the suite of risk management activity carried out at the entity to ensure the most material risks the firm faces are identified, assessed, monitored, managed and mitigated.

This report specifically highlights to the entity's senior management the set of current and emerging risks faced by the Company and the steps being taken to address these.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management. Compliance with regulations, legal and ethical standards is a high priority for the Company. The Risk Register is reviewed internally by the Company on a constant basis and by the Board on an annual basis. The Company conforms to a proper internal control framework which exists to manage financial risks and ensures that controls operate effectively.

Through this process the Company identifies the risks to which it is exposed and assesses their impact on economical capital. This process is risk based to manage the Company's capital requirements and ensure it has the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders, regulators and business partners.

In particular, the Company is vulnerable to various political or economic events within the Republic of Uzbekistan, which if triggered could result in insurance claims.

In addition, the Company is exposed to financial risks through its financial assets, financial liabilities and policyholder liabilities. In particular, the Company is exposed to interest rate risk, credit risk and liquidity risk.

The principal risks and uncertainties of the Company is financial and insurance risk through its financial assets, financial liabilities and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations as they fall due. The major components of financial risk are market risk, credit risk and liquidity risk. The Company primarily faces interest rate risk due to the nature of its investments.

The Company's overall risk management programme focuses on the risks of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company is prudent in its approach to investment and this is reflected in the agreements it has with its investment manager. The Company advocates capital preservation and therefore requires investment in high quality, fixed interest bonds. There are regular investment meetings, and the Company reviews the monthly investment reports provided by the investment manager as a mean of actively managing its exposure to identified investment positions.

Insurance Risk

Insurance Risk refers to fluctuation in timing, frequency, and severity of insured events relative to the expectations of the time of expectations of the time of underwriting. Insurance risk can also refer to fluctuations in the timing and amount of claims settlements and reserves.

Insurance Risk is historically the single most significant risk area within the Company. It is split between four principal key risks (failure of pricing, ineffective strategy, failure to manage risk aggregation) which are all managed through the application of controls by both an outsourcing partner and the Board review of each enquiry and policy issued.

Market Risk

The Company's Market Risk profile is managed through the "Investment Guidelines" set by the Discretionary Asset Management Service Agreement with a new asset managing company Bank J. Safra Sarasin (Gibraltar) Ltd. ("the Bank"). The Company has a low tolerance for Market Risk with a focus on minimising credit and currency exposures. The Company holds a diversified and prudent investment portfolio consisting of high-rated (A-AAA & BBB) government bonds, corporate bonds, fiduciary short-term deposits, and cash at banks.

2. ENTITY OVERVIEW

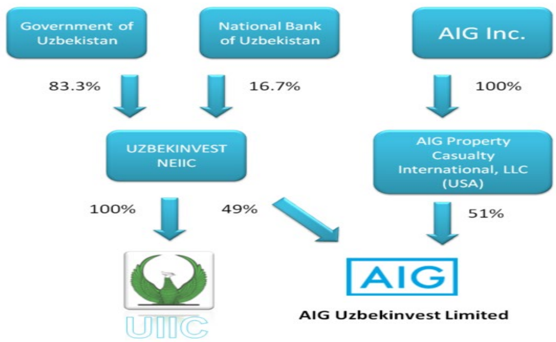
2.1 Organisational Overview

The immediate parent undertaking is Uzbekinvest National Export-Import Insurance Company. The ultimate parent undertaking and controlling party is Uzbekinvest National Export-Import Insurance Company, a company incorporate in the Republic of Uzbekistan.

The Company depends on AIG Uzbekinvest Limited who acts as its agent for business development and manages the outsourcing arrangements with AIG UK Services Limited such as accounting, actuarial, claims, company secretary, risk management and underwriting. The investment managers and custodian of the asset portfolio is outsourced to Bank J.Safra Sarasin (Gibraltar) Ltd. respectively.

The Company has two employees as per the organisation chart below. The Chief Executive Officer manages the operations and outsourcing activities of the Company and sits on the Board of Directors. The Service Manager of Investment projects reports directly to the Chief Executive Officer.

The governance structure has been designed to ensure that the Chief Executive Officer is able to provide the appropriate levels of oversight to business development and outsourcing arrangements.



2.2 Business Overview

Uzbekinvest International Insurance Company Limited (the Company) was set up in November 29, 1994 to offer political risk insurance to potential and existing investors, thereby removing many of the uncertainties of investing in an unknown market. The main objective of the company is to offer political risk insurance to encourage new foreign investment in the infrastructure, natural resource development and industrial production in Uzbekistan.

2.3 Line of Business Overview

The Company writes one line of business - political risk. For Solvency II purposes, political risk falls under credit and suretyship insurance line of business. Premium levels are low and are expected to remain relatively consistent in the short term.

Consistent with prior years no claims have been notified in 2023. The directors are of the view that no additional potential claims were incurred but not reported during the year. As a result, no reserve for outstanding claims or IBNR has been established.

The Company intends to continue offering insurance policies designed to protect the business and assets of foreign companies investing or doing business in the Republic of Uzbekistan.

The target list and potentials of the Company is based on the projects that cover agriculture sector, textile, transport, oil & gas industries, energy sector, auto and machinery, as well as the trade credit facilities between Uzbek state-owned and foreign commercial banks.

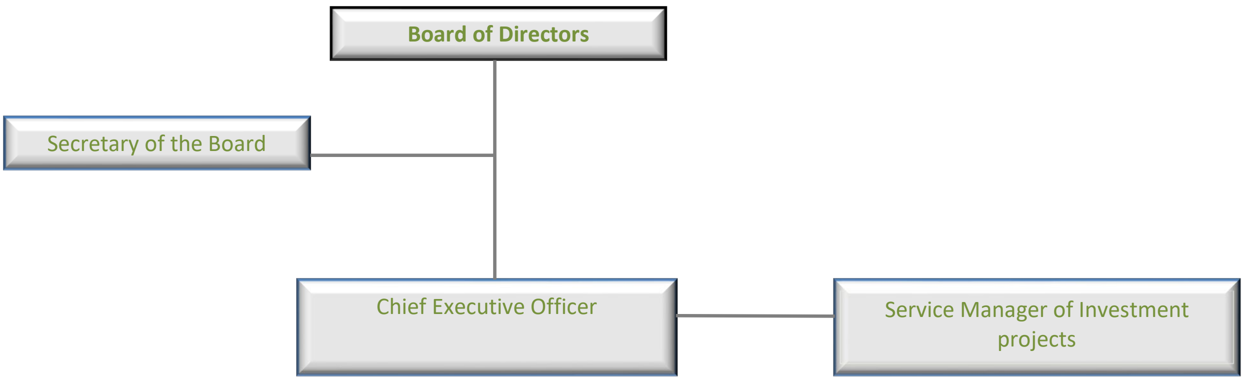
2.4 Distribution Overview

The Company transacts political risk insurance for foreign investors in infrastructure, natural resource development and industrial production, as well as for foreign commercial banks providing trade credit facilities for the state-owned banks in the Republic of Uzbekistan.

All business insured by the Company is accepted on its behalf by an underwriting agency – AIG Uzbekinvest Limited, established for this purpose. The use of such an agency enables the company to be established in a cost-effective way and to employ the considerable world-wide resources of AIG to assist in the production of business. Underwriting process, claim handling and other insurance issues are affected in the United Kingdom. AIG Uzbekinvest Limited is a member company of AIG UK.

2.5 Governance Structure

Organisation chart



The governance structure of the Company for year 2023/24:

1. **Chief Executive Officer**
    - Mr. Hasanjon Mamadjonov
2. **Service Manager of Investment Projects**
    - Mr. Mirkobul Miromonov
3. **Secretary of the Board**
    - Ms. Kate Hillery
4. **Board of Directors**
    - Mr. Sardor Umurzakov (Chairman)
    - Mr. Shukhrat Vafaev (resigned 24 January 2024),
    - Mr. Hasan Mamadjonov
    - Mr. Rustam Khalikov
    - Mr. Shahruh Abdurashidov

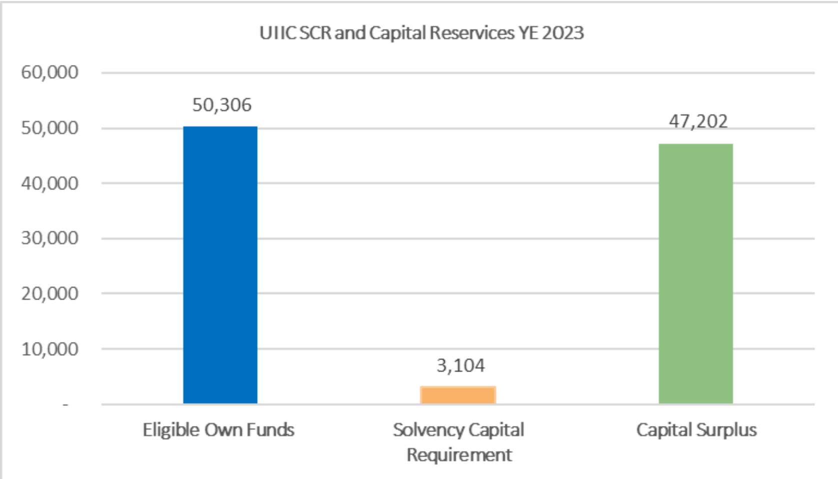
3. Solvency & Capital Assessment

The ratio of eligible own funds for SCR and MCR calculated using the standard formula as of 31 December 2023 amounts to 1,621% and 1,755% respectively. The Company is steadfast in its approach in maintaining a strong capital position and thus safeguarding the solvency level.

The Company advocates capital preservation. The Company identifies the risks to which it is exposed and assesses their impact on own funds over the business planning period. This process is risk based to manage the Company's capital requirements and ensure it has the financial strength and capital adequacy to support the growth of the business.

	Actual Y/E 2023 USDk
SCR	3,104
MCR	2,867
Ratio of eligible own funds to SCR	1,621%
Ratio of eligible own funds to MCR	1,755%

Based on Y/E 2023, UIIC's capital resources stand at USD 50,306k. This capital position delivers surplus capital of USD 47,202k over the Solvency Capital Requirement of USD 3,104k.



3.1 Solvency Capital Requirement (SCR)

The SCR is the amount of funds that the Company is required to hold in line with the Solvency II Directive. The SCR calculation is a formula based figure calibrated to ensure that all quantifiable risks are taken into account.

The assessment of the SCR using the standard formula approach is based on a modular approach consisting of; non-life, market, and counterparty default risks with associated sub-modules. These are aggregated in the standard formula using correlation matrices, both at the sub-module and the main module level. The operational risk component and adjustments for risk absorbing effect of future profit sharing and deferred taxes are then allowed for, to give the overall SCR.

The table below highlights the capital requirements for each risk module:

	Actual Y/E 2023 USD k
Market risk	2,971
Counterparty default risk	261
Non-life underwriting risk	127
Diversification	(273)
Intangible asset risk	-
Basic Solvency Capital Requirement	**3,086**
Operation Risk	18

Loss-absorbing capacity of technical provisions	-
Loss-absorbing capacity of deferred taxes	-
Diversification effect due to RFF in SCR aggregation for article 304	-
Solvency Capital Requirement	**3,104**

3.2 Minimum Capital Requirement (MCR)

The Company uses the Standard Formula to calculate its Minimum Capital Requirement (MCR). The amount of the MCR for the reporting period is USD 2,867k.

	Actual Y/E 2023 USD k
Linear MCR	36
SCR	3,104
MCR cap	1,397
MCR floor	776
Combined MCR	776
Absolute floor of the MCR	2,867
Minimum Capital Requirement	**2,867**

4. Risk Profile & Assessment of Risk Exposure

This section of the ORSA details the major risks to which UIIC is exposed. In each case the business activity which drives the risk set out, alongside the risk management and mitigation UIIC has implemented to control the risk and finally a forward looking assessment of the risk area is provided in line with the business plan.

The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability.

The Company's Solvency Capital Requirement (SCR) is calculated using the Standard Formula.

Capital Requirement for each risk module (Standard Formula)	Standard Formula USD K	SCR Components
Counterparty default risk	261	8%
Market risk	2,971	96%
Non-life underwriting risk	127	4%
Diversification	(273)	(9%)
Operational Risk	18	1%
Solvency Capital Requirement	**3,104**	**100%**

4.1 Risk Profile

The Company's Risk Management Framework supports the identification, measurement, management, monitoring and reporting of the three major risk groupings the Company is exposed to, including:

- Underwriting Risk;
- Market Risk;
- Counterparty Default Risk;
- Operational Risk.

The major risk areas to which UIIC is exposed are detailed below:

Risk Category	Risk Type	Drivers of Risk
Insurance Risk	Premium Risk	Premium risk arises from the failure of pricing, product or strategy. It encompasses the risk of loss due to the potential timing, frequency and severity of covered loss events differing from that assumed at the time of underwriting and pricing a risk.
	Reserve Risk	Reserve risk arises from adverse reserve development through failing to set sufficient cash reserves or through failing to adopt a robust and consistent reserve strategy offered to insureds and countries. It represents the difference between the actual versus expected variability in the timing or amount (size/severity and count/ frequency) of loss costs including indemnity, legal and loss adjustment expenses.
	Catastrophe Risk	Man Made Catastrophe Risk arises from failure to manage risk aggregation or accumulation that may result in increased exposure to man-made catastrophe losses (e.g. terrorism, explosion, systemic financial losses, latent disease, pandemic etc).
Market Risk	Interest Rate Risk	The potential financial loss arising from the reduction in the value of the investment portfolio and liabilities due to changes in the level of interest rates.
	Currency Risk	The potential financial loss arising from the change in value of currency exchange rates or from closing out a currency position at a loss due to adverse movements in exchange rates.
	Spread Risk	The potential financial loss due to the increase in the spread that an asset trades at relative to a comparable government bonds hence a decrease in the asset's market value.
Liquidity Risk	Liquidity Risk	Liquidity risk refers to the ability to generate sufficient cash resources to meet the Company's payment obligations. It is defined as unencumbered cash and assets that can be monetized in a short period of time at a reasonable cost in both normal and stressed market conditions.
Credit Risk	Credit Risk	Credit Risk concentration is associated with any single exposure or group of exposures with the potential to produce large losses to threaten the Company's core operations. It may arise in the form of single name concentration.
Operational Risk	Operational Risk	Operation Risk SF-SCR is mainly driven by premiums.

The following sections detail UIIC's current and future exposure to each of the above risk areas and sets out the risk processes and controls which have been implemented to manage and maintain the firm's risk profile within appetite.

4.2 Insurance Risk

Insurance Risk encompasses the risks stemming from UIIC's underwriting activity. UIIC's Insurance Risk exposure is broadly split into the following areas:

- Premium Risk – covers the risk of loss to UIIC due to the potential timing, frequency and severity of covered loss events differing from that assumed at the time of underwriting and pricing of a risk. It also contemplates the risk that reserves set aside for the current accident year will not be high enough to cover future claims and that all expenses are appropriately included.

  For illustration purposes, please refer to the sub-module components of the Non-Life Underwriting Risk.

- Reserve Risk - represents the difference between the actual versus expected variability in the timing or amount (size/severity and count/ frequency). Reserves are subject to a high level of management judgment and are estimated based on both internal experience and external factors which are both subject to change.

For illustration purposes, please refer to the sub-module components of the Non-Life Underwriting Risk.

- Catastrophe Risk – the UIIC portfolio has some exposure to man-made catastrophes. Historic performance for the book has been stable with no notified claims.

4.3 Market Risk

Description and Sources of Risk

Market Risk quantifies the adverse impact on the Company due to broad, systemic movements in one or more market risk factors. The Market Risk component of SF-SCR is driven by risks inherent within the Company's assets and liabilities portfolio:

Market Risk	Standard Formula, USD k
Spread risk	1,268
Currency risk	-
Interest rate risk	2,687
Concentration risk	-
Diversification within market risk module	(984)
Market Risk	**2,971**

- Interest Rates – Interest rate risk is the potential for loss due to a change in interest rates. Interest rate risk is measured in terms of impact on both assets (fixed income investments) and liabilities (discounted technical provisions).

  Interest Rate Risk is driven by exposures to fixed income securities. For illustration purposes, please refer to the sub-module components of the Non-Life Underwriting Risk.

- Foreign Exchange Rates – Changes in foreign exchange rates can affect the valuation of a broad range of balance sheet and income statement items.

  Foreign Exchange risk is mainly driven by exposure of the Company's assets and liabilities denominated in foreign currencies. For illustration purposes, please refer to the sub-module components of the Non-Life Underwriting Risk.

- Credit Spreads – Credit spread risk is the potential for loss due to a change in the spread that an asset trades at relative to the risk free rate.

  For illustration purposes, please refer to the sub-module components of the Non-Life Underwriting Risk.

As can be seen from the table below, UIIC's investment portfolio is focused towards high quality, liquid assets.

Asset Type	Actual Y/E 2023 USD k
Short Term Investments and Cash at Bank	1,866
Collective Investments Undertakings	370
Government and Corporate Bonds	47,393

Risk Management and Mitigation

UIIC's risk profile is managed through the "Investment Guidelines" set by Discretionary Asset Management Service Agreement with the asset managing company Bank J.Safra Sarasin (Gibraltar) Ltd. The document sets out investment guidelines for the entity's assets. In line with the prudent investment approach most of the bonds have investment grade A or greater which is highlighted in the below rating overview. In both cases asset allocation is limited to highly liquid sovereign bonds, short term deposits or cash denominated in USD.

Bonds – Investment Grade	Actual Y/E 2023 USD K	% of Portfolio
AAA	13,623	28.7%
AA	3,967	8.4%
A	18,443	38.9%
BBB	11,360	24.0%
Total	**47,393**	**100%**

Forward Looking Assessment of Risk

No change to the UIIC asset allocation thresholds and limits are expected moving forward.

4.4 Liquidity Risk

The company has a large portfolio of very liquid and marketable assets in relation to the size of the liability on the balance sheet. UIIC's asset portfolio is predominantly composed of government bonds, corporate bonds, short term deposits and cash at bank.

Description and Sources of Risk

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations.

Risk Management and Mitigation

UIIC has very limited exposure to liquidity risk due to the previously articulated investment portfolio the Company holds and detailed in the "Investment Policy and Guidelines". Considering the investment portfolio, the Board of Directors believe that the Company is likely to face minimal liquidity risk, taking into account the investment portfolio.

UIIC's investment portfolio is made up of a combination of cash at bank, short term deposits, government bonds and corporate bonds, all of which could be realized within a short period of time.

Forward Looking Assessment of Risk

UIIC will continue to manage its liquidity risk profile through holding a conservative and liquid investment portfolio.

4.5 Credit Risk

UIIC's most material credit risk concentration relates to type 2 exposure of Cash at Bank on the balance sheet that amounts to USD 1,866k as at 31st December 2023.

Counterparty Listing	Standard Formula, USD K
Credit Suisse Bank	1,437
Citi Bank	386
JSS	43
Total	**1,866**

Description and Sources of Risk

Credit risk is defined as the risk that our counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of counterparty's credit ratings.

UIIC's primary sources of credit risk stem from our reinsurance arrangements, broker receivables and banking counterparties (cash at bank).

Risk Management and Mitigation

Alongside controlling UIIC's Market and Liquidity risk, the entity's "Investment Strategy & Guidelines" also sets out the approved list of banking counterparties and custodians the firm can utilise.

The Company's maximum exposure to Credit risk is generally reflected in the carrying amount of financial assets in the financial statements. The impact of possible netting of assets and liabilities to reduce potential credit risk is insignificant.

Forward Looking Assessment of Risk

Given the size of the investment portfolio, counterparty credit risk remains one of the most material contributor to the SF SCR.

4.6 Operational Risk

Description and Sources of Risk

Operational Risk is defined as the risk of Loss or other adverse consequences resulting from inadequate or failed internal processes, people, systems, or from external events.

Operation Risk SF-SCR amounts to USD 18k, which is mainly driven by premiums.

Operational Risk	Standard Formula, USD K
Operational risk	18

Risk Management and Mitigation

The Board of Directors believe that the Company is likely to face minimal liquidity risk, taking into account the level of gross written premium.

5. Conclusion

Business Environment

Economic growth in Uzbekistan has remained strong in 2023. The Government of Uzbekistan has continued implementation of structural reforms, notably state-owned enterprises (SOEs)' restructuring and privatization, and high energy sector investment. The economy grew by 6 percent (in 2022 GDP's growth was 5.7 percent), supported mainly by growth of investment, private consumption, and exports (Source: World Bank). Growth remained robust at 6.2 percent year-on-year in the first quarter of 2024.

The global rating agencies confirmed a stable credibility of Uzbekistan economy by updating the credit ratings for 2023 accordingly: The international rating agency S&P Global Ratings has confirmed Uzbekistan's sovereign credit rating in foreign and national currencies at "BB-/B" with a stable outlook; Fitch Ratings has affirmed Uzbekistan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook, while the international rating agency Moody has increased the sovereign credit rating of Uzbekistan from B1 to Ba3 with a stable outlook.

Due to global economic uncertainty and a sharp slowdown in global economic growth, as well as geo-economic spillovers and commodity price volatility, Foreign Direct Investment (FDI) inflows to Uzbekistan during 2023 were relatively low in comparison with the previous two years. The volume of FDI in 2023 fell to US$2.2 billion and declined by 16% in compare with 2022.

(Source: Central Bank of Uzbekistan). Going forward, it’s expected that FDI inflows will rise gradually due to influence of the above mentioned external and internal factors on the economy.

As part of a strategy to increase the Country's exports and improve investment attractiveness, Uzbekistan has also continued its efforts to join the World Trade Organization (WTO). As a result of the institutional changes made last year to strengthen the governance and coordination of the accession process the Uzbek authorities have managed to complete negotiations with several WTO member countries as part of the accession to the WTO, following with signing protocols on completing negotiations on market access. Uzbekistan intends to join the World Trade Organization by 2026.

Uzbekistan's economy has continued to show its resilience to outcomes from the Ukraine-Russia conflict and global sanctions imposed on Russia. Within the banking sector, Uzbek authorities have increased enforcement of Western sanctions on pertinent Russian individuals and companies. Although the risk of secondary US and EU sanctions against Uzbek companies doing business with Russia remains, the government is trying hard to comply with sanctions requirements.

Business Strategy

The Company’s strategic mission to be an integral part of the national system for promotion of foreign trade and support of Foreign Direct Investments (FDI) inflows into Uzbekistan remains unchanged.

To support the above strategy the Company will continue to maintain outsourcing arrangements with the local business partner American International Group UK Limited (“AIGUK”). This mutually beneficial cooperation enables the Company to operate in a cost-effective way and to employ the considerable world-wide resources of AIG to assist in the production of business.

To adapt to current market trends and business environment, the Company will continue to work closely with the local business partners and brokers whilst expanding cooperation with the foreign and Uzbek banks which provide trade financing and investment project support in Uzbekistan.

Since the existing asset management arrangements with Credit Suisse was terminated by the latter’s decision in September 2023, followed with the closure of the client relationship from October 2023, albeit the Credit Suisse was holding some assets by end of year end due to complicated process of transferring funds to a new asset manager. The Company has conducted a selection among the investment service providers. The main criteria of selection process were based on the principles of continuity the Company’s existing investment guidelines and strategy, as well as meeting the requirements for the cost of services, regulatory compliance, and financial stability. After UIIC had completed all necessary due diligence, background checks and held meetings with all the proposed service providers, it was recommended to the Board to approve Bank J. Safra Sarasin (Gibraltar) Ltd. (“the Bank”) as a new asset manager and custody service provider.

Despite the change in asset management, the Company’s Investment Risk Profile remains moderate. To minimize a risk of insufficient funds required to cover the operating expenses, as well as to prevent a liquidity risk, the Investment Strategy has returned to Fixed income from Mixed Portfolio with a focus on capital preservation and income generation. Following the market situation and conditions, the Company will adjust the strategy in due order.

Investment portfolio will remain as a key matter of monitoring and control by both Executive and Board with discretionary management of the assets by portfolio managers from Bank J. Safra Sarasin (Gibraltar) Ltd.

Future Developments

The Company will continue to be one of a highly valued and reliable partner for AIGUK to support their business portfolio of the Uzbek risks and projects through the reinsurance arrangements existing between the companies whilst being a loyal to other business partners and complying with the regulatory environment.

The Company’s 2023 Business Plan and budgeting process covers a 2-year strategy. The vision of the business remains committed to being the specialised insurer for foreign companies investing with or having business in the Republic of

Uzbekistan, differentiating our value to customers through a unique and tailored underwriting and claims capabilities of our local outsourcing partner AIGUK, as well as client servicing excellence.

In line with prior years, the vision for the Company is to remain the niche-market insurer in the UK marketplace, with the target to maintain its volume of business within the range of the previous years. Our expectation is driven by the following external and internal factors:

- The stable and positive economic growth of Uzbekistan with increase of investment inflows into the economy for the next few years, as well as the continued implementation of structural reforms, liberalizing certain economic sectors and enhancing the private sector's prospects are to be considered as a main driver of growth of business opportunities for the Company.

- Further integration of Uzbekistan into the global trade and economy through WTO accession should intensify implementation of investment and foreign trade projects, that gives more opportunities for foreign commercial banks which are interested in supporting these projects.

- The company retains close coordination and affiliation with the Ministry of Investment, Industry and Trade of Uzbekistan (MIIT) and the Ministry of Finance (MOF), as well as with the biggest Uzbek commercial bank – National Bank of Uzbekistan (NBU). That gives the Company a better position on the Uzbek market to provide services to foreign investors and business partners.

In general, the Company will continue to make sure that the framework and procedures used are robust and that its risk management measures are adequate to the nature, scale, and complexity of the risks it is exposed to.