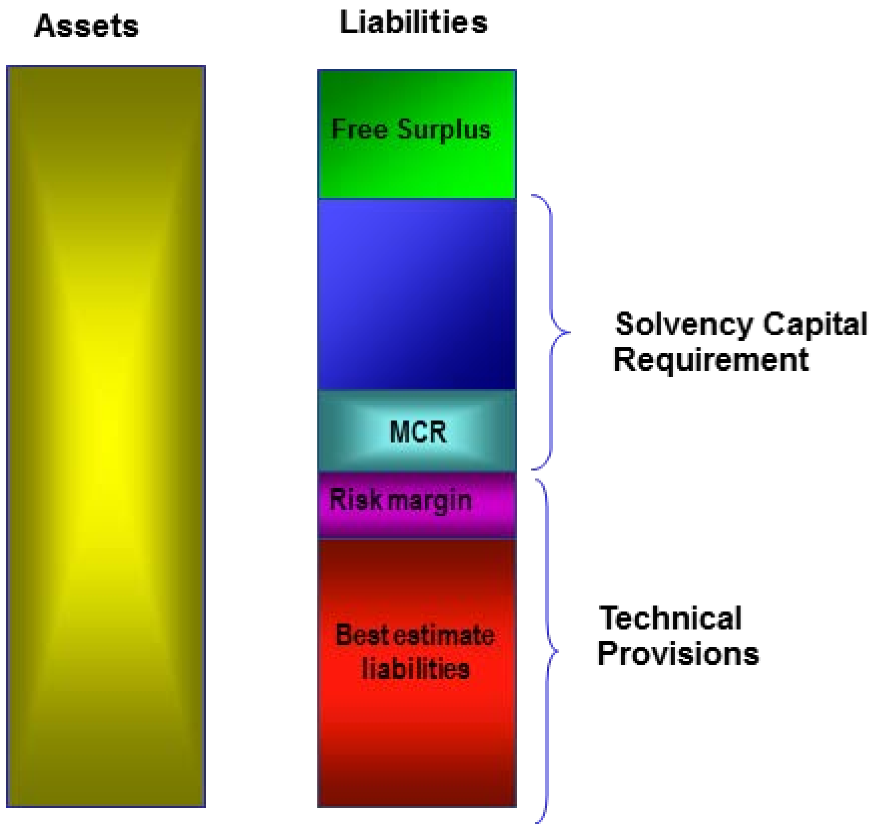

On the asset side of the balance sheet, non-insurance assets are recorded using the measurement approach under International Financial Reporting Standards (IFRS). Reinsurance assets are measured in the same way as insurance liabilities. On the liability side of the balance sheet, the technical provisions consist of the discounted best estimate of the liabilities and their associated risk margin. These are meant to represent the fair market value of the insurance liabilities, and although principles based, the approach to calculating them is fairly prescriptive. The best estimate of the liabilities is the expected value of the cash flows discounted using a risk-free rate plus an illiquidity premium. The risk margin is calculated using a cost of capital method with the cost of capital above the risk-free rate (R-i from Chapter 23) equal to 6%. The required capital at each point in time is the SCR.

The SCR is defined as the amount of capital required to limit the probability of ruin over the forthcoming year to 0.5%, i.e., a one-year 99.5% Value at Risk (VaR). A company whose capital falls below the SCR will be subject to regulatory intervention. If it falls even further below the MCR, the company will not be permitted to operate. Critics have noted that the one-year 99.5% VaR is not an adequate measure for bearing the risk to ultimate settlement. Solvency II requires consideration of recapitalization based on adverse development in each future annual period, yet doesn't assume you need to hold sufficient capital from inception to settlement without raising capital. Therefore, critics of Solvency II believe using one-year