MULSANNE INSURANCE COMPANY LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

As at 31 December 2018

1 Contents

Summary

Introduction

Mulsanne Insurance Company Limited ('MICL', 'Mulsanne' or 'the Company') is an insurance company licenced in Gibraltar, specialising predominantly in underwriting UK motor insurance business in niche segments of the market that generate higher than average premiums. Mulsanne carries out its functions via the Board of Directors, various Committees and carefully selected, experienced outsourced service providers.

The purpose of this report is to satisfy the public disclosure requirements under the Financial Services (Insurance Companies) (Solvency II Directive) Act ("the Solvency II Act in Gibraltar") including the Delegated Regulations of the European Parliament. The elements of the disclosure relate to business performance, governance, risk profile, solvency and capital management.

Business and Performance

During the year ended 31 December 2018, Mulsanne wrote £33.3 million (2017 – £35.5 million) of business after co-insurance and made an unaudited loss for the year of £2.9 million (2017 – profit £0.36 million). The Company's net assets at 31 December 2018 amounted to £11.8 million (2017 – £12.9 million) on a GAAP basis.

Underwriting produced a loss of £1.6 million (2017 - £0.75 million profit) and investment loss contributed £0.12 million (2017 – income £0.62 million) to the loss. The underwriting loss was predominantly driven by adverse development on the loss ratios for the prior underwriting years and a challenging start to 2018. Corrective action has been taken during 2018 to address these issues.

Mulsanne purchases both Excess of Loss and Quota Share reinsurance to protect the business against the impact of large losses and to assist with the effective management of capital. Excess of Loss retention is £1 million on the most recent underwriting years. During 2018 the Quota Share ceding percentage was increased such that for the most recent underwriting year the company retains 42% of each and every motor risk.

In December 2018, the Company received a capital injection of £1.95 million from Mulsanne Holdings Limited, the company's immediate parent. The capital injection was in the form of ordinary Tier 1 equity capital.

In April 2019 the Company purchased a Loss Portfolio Transfer (LPT) reinsurance contract in respect of the 2017 and prior underwriting years.. This contract replaced Adverse Development Cover and LPT contracts that were commuted at the end of 2018. The new LPT contract will protect the company against adverse future development on the prior underwriting years.

Systems of Governance

Mulsanne operates an outsourced business model and the Company's expenses reflect charges from its outsourced service providers. Day-to-day operational management is outsourced to Mulsanne's insurance manager in Gibraltar, Artex Risk Solutions (Gibraltar) Limited ("Artex"). This encompasses in particular financial accounting, assistance with risk management, Solvency II reporting, company secretarial and compliance services. In addition, other key outsourced services comprise policy administration, the provision of management information, and claims handling. These services are outsourced to other entities within the wider group.

The Company has in place systems of governance which are proportionate to the size and complexity of the operation. Such systems, and the underlying processes and procedures are subject to ongoing review to ensure any required improvements are made.

Over-arching responsibility for governance rests with Mulsanne's Board of Directors, which comprises four Executive Directors and two Non-Executive Directors, one of whom is independent. The Company also operates via two sub-

committees: Claims and Underwriting Committee and Investment Committee. Responsibility for audit oversight and risk management is retained by the Board.

Mulsanne complies with all requirements with regard to key functions and fitness and propriety, with full details provided in section B. There were no material changes to the Company's systems of governance during the period.

Risk Profile

Mulsanne has a strong risk management system, with close involvement of the entire Board. Risk is classified into strategic risk, insurance risk, investment risk, liquidity risk, credit risk, concentration risk, operational risk and reputational risk.

Key risks identified by management comprise:

- Risks being priced too low
- Undesirable market segments being written
- Errors in rating input software
- Incorrect proposal information provided for underwriting
- Exposure to ghost broking
- Exposure to terrorism
- Increase in frequency of claims
- Fraudulent claims that management fail to detect
- Increase in average cost of claims
- Risk of further Ogden rate movement
- CCG could lose significant business if one or more aggregators no longer wished to carry out business with it
- Largely monoline business concentrating on motor insurance
- Sabotage from internal sources, including viruses, loss of intellectual property, paralysis of systems
- Embezzlement - Fraud
- HMRC taking an increasing interest in the motor sector and whether the supply chain or outsourced service providers attract VAT
- Company falling below the capital requirement
- Breach of data security including GDPR requirements
- Bad publicity for jurisdiction due to adverse media, company failure or similar event
- Breach of GFSC or other regulatory requirements or expectations
- Potential breach of requirements in any jurisdictions by brokers/partners/outsource providers
- UK having decided to exit the EU

Full detail on risk management is provided in Section C.

Valuation for Solvency Purposes

Section D of this report sets out in detail the inputs, bases and methods of recognition and valuation of assets and liabilities, including a comparison between Solvency II and GAAP valuation. The main valuation differences arise from reclassifications and from differences in the valuation of technical provisions.

Capital Management

In April 2019, Mulsanne purchased retrospective Loss Portfolio Transfer cover to provide protection against adverse development of reserves on the 2017 and prior underwriting years. Following purchase of this cover, the Company had eligible own funds of £9.21 million (2017 – £12.4 million) compared to a Solvency Capital Requirement of £8.13 million (2017 – £11.4 million), giving a coverage ratio of 114.6% (2017 – 108.6%). As a further capital management measure the firm has sought to reduce it's net retained premiums on the motor book by increasing the reinsurer and co-insures share of premiums during 2019.

A Business and Performance

A.1 Business Information

A.1.1 Company Details

Mulsanne Insurance Company Limited
P.O. Box 1338
First Floor
Grant Ocean Plaza
Ocean Village
Gibraltar

Mulsanne Insurance Company Limited ("Mulsanne") is incorporated in Gibraltar and is a Company limited by shares. Mulsanne's registered number 101673.

This Solvency and Financial Condition Report covers Mulsanne on a solo basis. While Mulsanne is part of a Group, this is not an insurance group for Solvency II purposes.

A.1.2 Supervisory Authority

Mulsanne is regulated by:

Financial Services Commission (Gibraltar)
P.O. Box 940
Suite 3, Ground Floor
Atlantic Suites
Europort Avenue
Gibraltar

A.1.3 Auditor

Mulsanne's auditors are:

KPMG Limited
3B Leisure Island Business Centre
P.O. Box 1197
Ocean Village
Gibraltar

A.1.4 Ultimate Shareholders

Mulsanne is a 100% subsidiary of Mulsanne Holdings (Gibraltar) Limited, a company incorporated in Gibraltar.

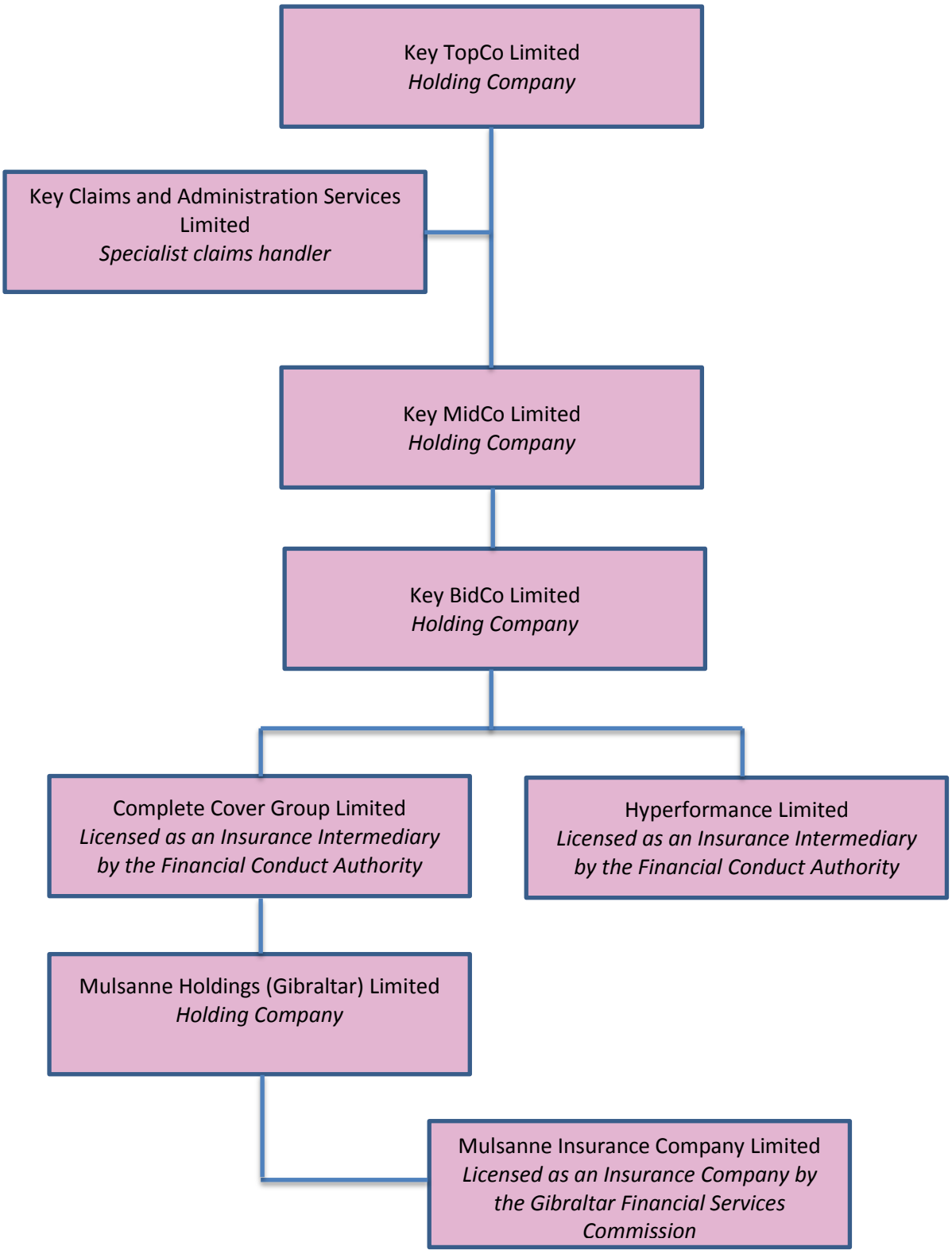
Direct and indirect holders of qualifying holdings in the Company are:

Name	Legal Form	Country	Direct / Indirect	Proportion of ownership interest
Mulsanne Holdings (Gibraltar) Limited	Company limited by shares	Gibraltar	Direct	100%
Complete Cover Group Limited ("CCGL")	Company limited by shares	United Kingdom	Indirect	100%
Key BidCo Limited	Company limited by shares	United Kingdom	Indirect	100%
Key MidCo Limited	Company limited by shares	United Kingdom	Indirect	79.23%
Key TopCo Limited	Company limited by shares	United Kingdom	Indirect	79.23%
Various individuals (no individuals hold more than 10% of the 21%)	N/A	N/A	Indirect	20.77%

Direct holders of qualifying holdings in ultimate holding company, Key Topco Limited, are as follows:

Name	Legal Form	Country	Direct / Indirect	Proportion of ownership interest
Darwin General Partner 1 Limited as General Partner of certain Funds managed by Darwin Private Equity LLP	Limited Liability Partnership	United Kingdom	Direct	62.18%
Anthony Allen	N/A	United Kingdom	Direct	15.94%
Various individuals (no individual holds more than 5% of the 22%)	N/A	United Kingdom	Direct	21.88%

A.1.5 Group Structure



A.1.6 Material Lines of Business and Geographical Areas

Mulsanne's main business is UK motor insurance. The following table shows the business by class for the year ended 31 December 2018. Motor premiums are shown below net of co-insurers share. All business has been conducted in the UK.

	As at 31 December 2018		As at 31 December 2017	
	Amount £'000	% of Total %	Amount £'000	% of Total %
Premium				
Gross written premiums				
Motor	32,211	97%	34,122	96%
Assistance	977	3%	1,148	3%
Miscellaneous Financial Loss	162	0%	199	1%
Total	33,351	100%	35,469	100%
Net Written Premium				
Motor	15,136	93%	20,845	94%
Assistance	977	6%	1,148	5%
Miscellaneous Financial Loss	162	1%	199	1%
Total	16,276	100%	22,192	100%

A.1.7 Significant Business or Other Events

On 23rd June 2016 the United Kingdom voted to withdraw from the European Union. The outcome of the negotiations on the UK's exit continues to remain uncertain. While Mulsanne writes business solely into the UK and it is anticipated that the ability of Gibraltar companies to write UK business will be retained, there is likely to be a period of economic and political uncertainty. As a result of continued Brexit uncertainty, during the current year the value of sterling against the Euro has seen periods of volatility and such volatility can have an adverse impact of the cost of vehicle repairs. The Board continues to be vigilant in respect of the impact that foreign exchange fluctuations can have on costs.

The reduction of the Ogden discount rate in February 2017 had a significant impact on the cost of larger catastrophic personal injury claims and as a result has impacted the cost of reinsurance purchased in 2018. As it is expected that the discount rate will by increased during 2019, allowance has been taken into account in setting the Company's reserves in 2018 moving from -0.75% to 0% discount rate.

The Company received capital injections from its parent totalling £1.95 million in December 2018.

In April 2019, Mulsanne entered into a Loss Portfolio Transfer ("LPT") reinsurance arrangement, applying retrospectively from 31 December 2018 with an A+ rated reinsurer, to protect against future adverse movement on claims incurred on business written up to 31 December 2017. This cover resulted in a significant element of risk

transfer and therefore assisted the Company in meeting its SCR. This contract replaced a previously incepted Adverse Development Cover that was entered into in the prior years.

A.2 Underwriting Performance

Mulsanne underwrote mainly motor business during the year, with a small amount of add-on products. All business was written in the United Kingdom.

The Company mitigates its risk through a mixture of co-insurance, Quota Share reinsurance and Excess of Loss reinsurance. This provides protection both against adverse performance from attritional losses and from large claims.

Mulsanne prepares its financial statements in accordance with Generally Accepted Accounting Principles in Gibraltar ("GAAP") and the underwriting performance information given in this section is therefore on a GAAP basis.

The following table summarises the technical account performance for the year ended 31 December 2018 with a comparison for 2017.

	As at 31 December 2018				
	Motor Liability	Other Motor	Miscellaneous Financial Loss	Assistance	Total
	£'000	£'000	£'000	£'000	£'000
Gross written premiums	30,436	1,775	162	977	33,351
Outward reinsurance premiums	(16,135)	(941)	-	-	(17,076)
Net written premiums	**14,301**	**834**	**162**	**977**	**16,276**
Earned premiums, net of reinsurance	**17,462**	**1,018**	**184**	**1,080**	**19,744**
Other technical income	**3,828**	**223**	**20**	**123**	**4,194**
Claims incurred - gross amount	(30,462)	(1,777)	(13)	(420)	(32,671)
Claims incurred - reinsurers' share	14,219	829	-	-	15,048
Claims incurred, net of reinsurance	**(16,243)**	**(947)**	**(13)**	**(420)**	**(17,623)**
Net operating expenses	(7,971)	(465)	(168)	(546)	(9,149)
Balance on the technical account	**(2,924)**	**(171)**	**24**	**237**	**(2,834)**

	As at 31 December 2017				
	Motor Liability £'000	Other Motor £'000	Miscellaneous Financial Loss £'000	Assistance £'000	Total £'000
Gross written premiums	32,432	1,690	199	1,148	35,469
Outward reinsurance premiums	(12,619)	(658)	-	-	(13,277)
Net written premiums	**19,813**	**1,032**	**199**	**1,148**	**22,192**
Earned premiums, net of reinsurance	**21,721**	**1,132**	**268**	**1,270**	**24,391**
Other technical income	**5,287**	**275**	**33**	**187**	**5,782**
Claims incurred - gross amount	(29,651)	(1,545)	(38)	(538)	(31,773)
Claims incurred - reinsurers' share	13,249	690	-	-	13,940
Claims incurred, net of reinsurance	**(16,402)**	**(855)**	**(38)**	**(538)**	**(17,833)**
Net operating expenses	(11,198)	(583)	(205)	(620)	(12,605)
Balance on the technical account	**(591)**	**(31)**	**57**	**300**	**(265)**

In 2018 the Company has focused on measures to improve the performance of the book using enhanced methods of statistical modelling. Poor performing segments of the book have been aggressively targeted or removed entirely in conjunction with improved point of quote validation techniques. The Group's in-house claims handler continues to employ robust anti-fraud measures.

A.3 Investment Performance

Mulsanne invests in a diversified portfolio comprising corporate and government bonds, together with some investment in collective investment schemes. In addition, the Company has deposits with banks to ensure appropriate diversification and liquidity.

2018 was a challenging year for investment returns with most asset classes posting negative returns. Brexit concerns along with the backdrop of an escalating trade war between the USA and China weighted on Bond markets and this contributed to the lower than expected returns. The company's investment portfolios remain defensively positioned to minimise the downside risks whilst seeking to achieve a conservative return.

The Company's investment portfolio comprises:

	As at 31 December 2018		As at 31 December 2017	
	Amount £'000	% of Total %	Amount £'000	% of Total %
Investible Assets				
Corporate bonds	14,644	35%	22,425	45%
Government bonds	2,973	7%	1,205	2%
Funds	6,538	15%	6,315	13%
Derivatives	15	0%	14	0%
Cash and Cash Equivalents	17,715	42%	19,254	39%
Land and buildings	540	1%	590	1%
Total	42,425	100%	49,804	100%

The Company's investment returns and expenses were:

	As at 31 December 2018		As at 31 December 2017	
	Amount £'000	% of Total %	Amount £'000	% of Total %
Investment Income				
Corporate bonds	205	-167%	17	3%
Government bonds	(35)	28%	424	68%
Funds	(238)	194%	331	53%
Derivatives	(29)	24%	(195)	-31%
Cash and Cash Equivalents	136	-111%	160	26%
Property income	(28)	23%	29	5%
Investment management expenses	(134)	109%	(144)	-23%
Total	(123)	100%	623	100%

Mulsanne uses the services of experienced investment managers to manage its portfolios and these investments are actively managed, with assets not necessarily held until maturity.

Mulsanne does not invest in securitisations and has not recognised any gains or losses directly to equity.

A.4 Performance of other Activities

Mulsanne receives co-insurance and reinsurance commission with respect to costs incurred by the Company. The table below shows the net amounts in the year. These value of commissions received are in part linked to the underlying underwriting result of the company. At 31st December 2018, the Company also received Profit Commissions in relation to the underwriting years 2016 and 2017.

	31/12/2018		31/12/2017
	£'000		£'000
Co-Insurance commission	653		2,908
Reinsurance commission	2,714		3,042
Reinsurance Profit Commissions	819		-
Total	**4,187**		**5,949**

A.5 Any other Information

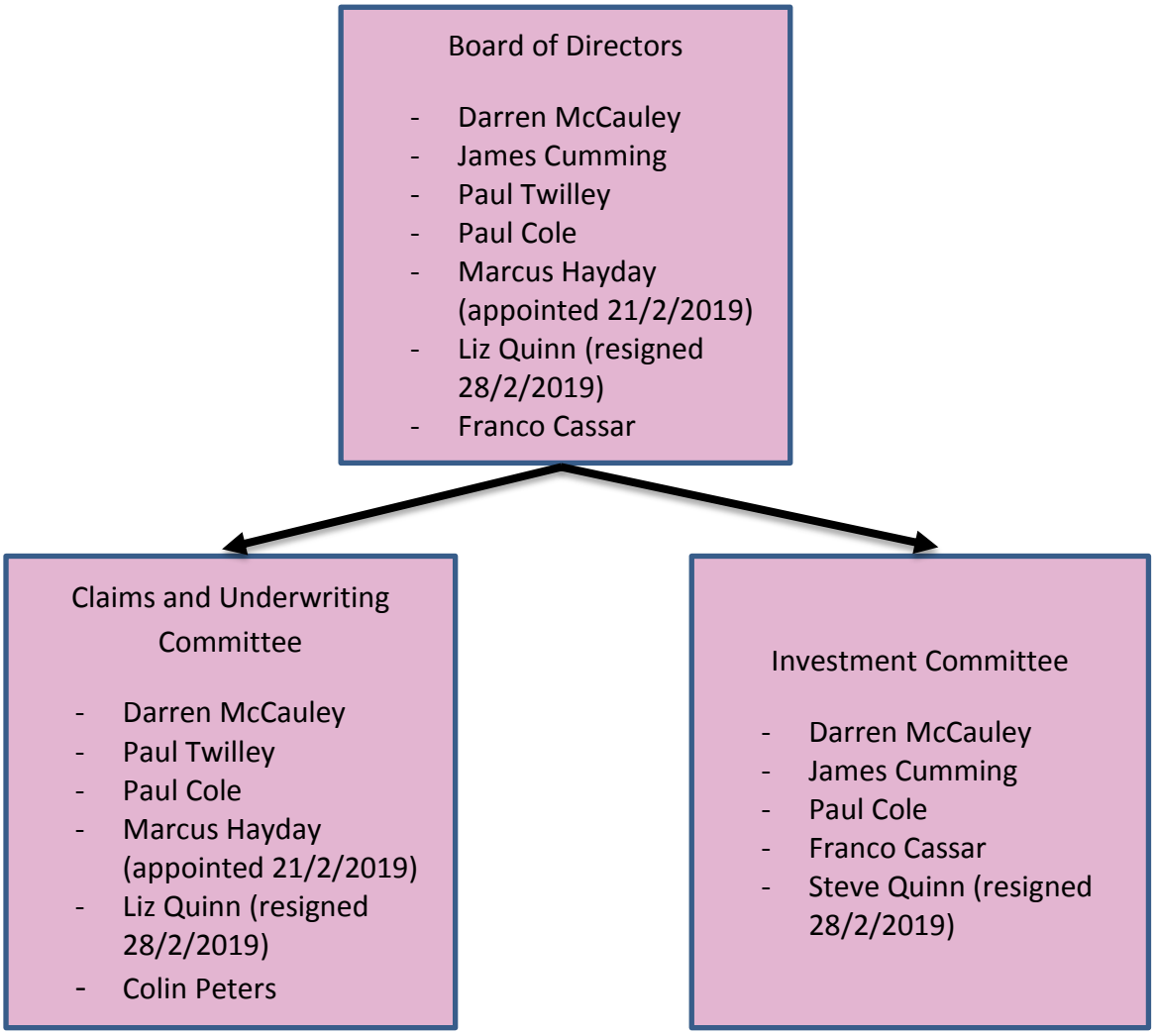
There are no other material matters with regard to the Company's performance.

B Systems of Governance

B.1 General Information on Systems of Governance

B.1.1 Structure of the Board and Committees

Mulsanne operates through a main Board and two Sub-Committees, with current membership as set out below:



Mulsanne's Company Secretary is Raphael Jacob Abergel.

The Company has decided not to establish an Audit and Risk Committee, with responsibility for these functions being retained by the Board.

The Board is responsible for overseeing the business of Mulsanne, for providing strategic direction and for supervising management. While the Board delegates certain function to Sub-Committees, this does not absolve the Directors of their responsibility to the Company.

The Board operates under agreed Terms of Reference which set out the following key responsibilities:

- Setting the strategic direction and objectives of the Company
- Ensuring the integrity and reliability of the Company's finances, including
    - Business planning
    - Capital and Solvency position
    - Directors' remuneration
    - Dividend policy
    - Accounting policies
    - Approval of public documents
- Approving, managing and monitoring the internal and external audit strategy and the performance and effectiveness of the external and internal auditors
- Establishing an appropriate internal control system and monitoring its effectiveness
- Approving the underwriting strategy and policy and monitoring its implementation
- Establishing an effective risk management framework including risk management strategies and policies and risk appetite and tolerance limits
- Overseeing the calculation of the SCR and technical provisions
- Overseeing, guiding and challenging the ORSA and approving the ORSA report
- Overseeing the completion of quarterly and annual QRTs, the SFCR and the RSR

The Company has in place a Claims and Underwriting Committee, which operates under agreed Terms of Reference approved by the Board. The key responsibilities of the Committee include:

- Implementing and overseeing the claims handling, reserving and settlement strategy and philosophy
- Overseeing the performance of all product lines and intermediaries/distributors
- Receiving, considering, reviewing, challenging and agreeing recommendations and proposals for changes to the underwriting and/or rating
- Considering business opportunities and underwriting proposals presented by management
- Assisting with the negotiation, placement, performance and monitoring of the reinsurance arrangements
- Providing input into the calculation of the SCR and technical provisions
- Providing input into the ORSA process
- Considering and advising on insurance risk management, including risk identification, controls, appetite and mitigation
- Monitoring and reporting on market trends and legislative or regulatory changes
- Reporting on all relevant matters to the Board

The Company has in place an Investment Committee, which operates under agreed Terms of Reference approved by the Board. The key responsibilities of the Committee include:

- Providing guidance on, managing and monitoring the investment and cash flow strategy
- Overseeing the performance of investments and investment managers
- Advising on investment risk strategy and policy and risk appetites and limits
- Providing input into the calculation of the SCR
- Providing input into the ORSA process

- Ensuring appropriate information is required for regulatory reporting purposes
- Reporting on all relevant matters to the Board

B.1.2 Key Functions

Mulsanne has in place the four key functions as required by the Solvency II Directive. These are:

- Risk Management
- Compliance
- Actuarial
- Internal Audit

These functions are responsible for providing oversight of the relevant area and providing assurance to the Board on the operation of the Company's risk management framework. All functions are overseen by Directors of the business, thus ensuring they have the appropriate authority to carry out their roles.

B.1.2.1 Risk Function

The Board of Mulsanne retains full responsibility for the risk function. The function is overseen by Paul Cole.

The function holder is supported in his role by the outsourced service providers, including the Company's insurance manager and the third party administrator, who provide input into and assistance with risk management.

The Board has retained responsibility for risk management and the function therefore has the required authority to fill its role.

B.1.2.2 Compliance Function

Mulsanne outsources compliance services to its insurance manager, with the function overseen by Liz Quinn during the year. This was subsequently transferred to Marcus Hayday in 2019. The compliance team works closely with the wider group in providing compliance services to the Company.

The Board has approved a compliance monitoring programme, which is updated on an annual basis, and is intended to ensure that Mulsanne complies at all times with all relevant rules, regulations, legislation and guidance to which the Company is subject, both in Gibraltar and, where applicable, in the UK.

Being outsourced, the function is operationally independent from the other areas of the business and, while it reports to the Board, the Board is not able to influence the function or to exert other inappropriate pressures. The Compliance function is authorised to access all areas of the business and is therefore entitled to full and unrestricted access to all information, records, property, personnel and activities, including those residing with outsourced service providers.

The Compliance function formally reports to the Board on a quarterly basis.

B.1.2.3 Actuarial Function

The Actuarial Function has specific duties and responsibilities under Solvency II. Mulsanne outsources the actuarial function services to RTP Consultancy, under oversight of Darren McCauley as the Actuarial Function Holder. The outsourcing arrangement ensures that the actuarial function is operationally independent. Specific duties of the Actuarial Function include, but are not limited to:

- Coordinating the calculation of the firm's technical provisions
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions against the data quality standards as set in Solvency II
- Informing the Board of the reliability and adequacy of the calculation of technical provisions
- Expressing an opinion on the overall underwriting policy
- Expressing an opinion on the adequacy of reinsurance arrangements
- Contributing to the effective implementation of the risk management system
- Preparing the Actuarial Function Report for the Board at least annually

In addition, Mulsanne utilised the services of an external actuary, RPC Consulting, to carry out six monthly reserve reviews and provide an element of operational independence.

B.1.2.4 Internal Audit

Mulsanne's Internal Audit function is overseen by Liz Quinn during the year and subsequently in 2019 by Paul Cole. Internal Audit is responsible for evaluating the approach to risk management and governance, with particular emphasis on the internal control system.

Mulsanne outsources the Internal Audit function to PWC, who have the skills, knowledge and expertise to provide the services and are entirely independent from operational aspects of the business.

B.1.3 Changes during the Period

There were no changes during the period.

B.1.4 Remuneration Policy

Mulsanne does not have any employees other than the Directors of the Company. The Independent Non-Executive Director is the only individual to receive remuneration from the Company. All other Directors are remunerated elsewhere.

Due to the size of the Company and the simple remuneration arrangements, Mulsanne does not have a separate Remuneration Committee, with responsibility for this area being retained by the Board.

The Independent Non-Executive received a fixed fee and there were no variable or performance-related elements to the remuneration. The remuneration of other Directors is not linked directly to the performance of the Company and none of the Directors are entitled to share options or shares in the Company and do not have any entitlement to pensions from Mulsanne.

B.1.5 Material Transactions

During the year, Mulsanne paid a fee of £225,524 (2017 - £188,325) to its insurance manager for services provided. Two of the Directors are also Directors of the insurance manager. At 31 December 2018, the balance owed by Mulsanne was £18,908 (2017 - £15,630).

During the year the Company's parent subscribed for additional capital of £1.95 million in total in order to assist with Mulsanne's solvency position.

B.2 Fit and Proper Requirements

B.2.1 Requirements for Skills, Knowledge and Expertise

Mulsanne requires that members of the Board and Committees and those individuals carrying out other significant functions are fit to carry out their roles through the possession of the necessary skills, knowledge and experience and that all such individuals are of good repute and integrity. This ensures an appropriate spread of skills for managing the business.

The fitness requirements set out that collectively the Board and Committees cover at least the following areas:

- Knowledge of insurance and financial markets
- Understanding of the business strategy and the business model
- Understanding of the systems of governance
- Knowledge of financial matters, actuarial analysis and management information
- Understanding of the regulatory framework and requirements

B.2.2 Policies and Processes with regard to Fit Requirements

The Board will consider the skills, knowledge and experience required prior to any new appointment and assess whether the individual meets the requirements. On an ongoing basis, all individuals are required to ensure that their skills and knowledge are kept up-to-date and to confirm this annually. The fitness of key individuals is monitored and reported on by the compliance function.

B.2.3 Policies and Processes with regard to Proper Requirements

All individuals carrying out key or significant functions for Mulsanne are required to demonstrate that they meet the Company's proper requirements with regard to their reputation and character. In order to assess whether this requirement is met, the following factors will be considered:

- the individual's character;
- the individual's personal behaviour;
- the individual's business conduct;
- any criminal aspects;
- any financial aspects;
- any regulatory aspects.

Mulsanne's compliance function ensures that appropriate Notification Documents are prepared for all individuals carrying out notifiable functions and submitted for regulatory approval. The compliance function is responsible for checking propriety on an ongoing basis and to report to the Board at least annually.

B.3 Risk Management System including ORSA

B.3.1 Risk Management System

B.3.1.1 Overview

Mulsanne categorises its risks as follows:

- Strategic Risk
- Insurance Risk
- Investment Risk
- Liquidity Risk
- Credit Risk
- Concentration Risk
- Operational Risk
- Reputational Risk

Mulsanne's aim is to ensure that the business is managed at all times in a risk-focussed manner in order to achieve the Company's overall strategic objectives. The Company has in place policies, processes and procedures for each category of risk.

Risk management is the responsibility of the Board. However, due to the small size of the Company, it depends on assistance from individuals within its outsourced service provider, in particular its insurance manager and third party administrator.

The system of governance is based on the principle of proportionality, such that systems are proportionate to the nature, scale and complexity of Mulsanne's operations.

B.3.1.2 Risk Management Strategies, Objectives, Processes and Reporting

Mulsanne's risk management policy is intended to identify all material risks, minimise risks wherever possible and manage and control all significant risks within acceptable limits. The ultimate goal is to ensure policyholder protection, both now and in the future and for the company to achieve the Company's overall strategic objectives.

The Company sets risk appetite and tolerance limits for each category of risk and monitors performance on a monthly basis.

B.3.1.3 Identification, Measurement, Monitoring, Management and Reporting of Risks

Mulsanne's Board regularly discusses and considers actual or potential risks and utilises a risk register to do so. All risks identified are recorded and assessed as to their impact and the likelihood of their occurrence, both on an inherent basis (before controls and mitigations) and on a residual basis (after taking account of appropriate controls and mitigations).

The highest rated risks are reported to the Board on a regular basis by the Compliance function. In addition, at each Board meeting consideration is given to whether the Company's risk profile or risk exposure has changed due to decisions taken.

Risk events are reported to the Board when they occur and are recorded in the risk register, including their impact and resolution.

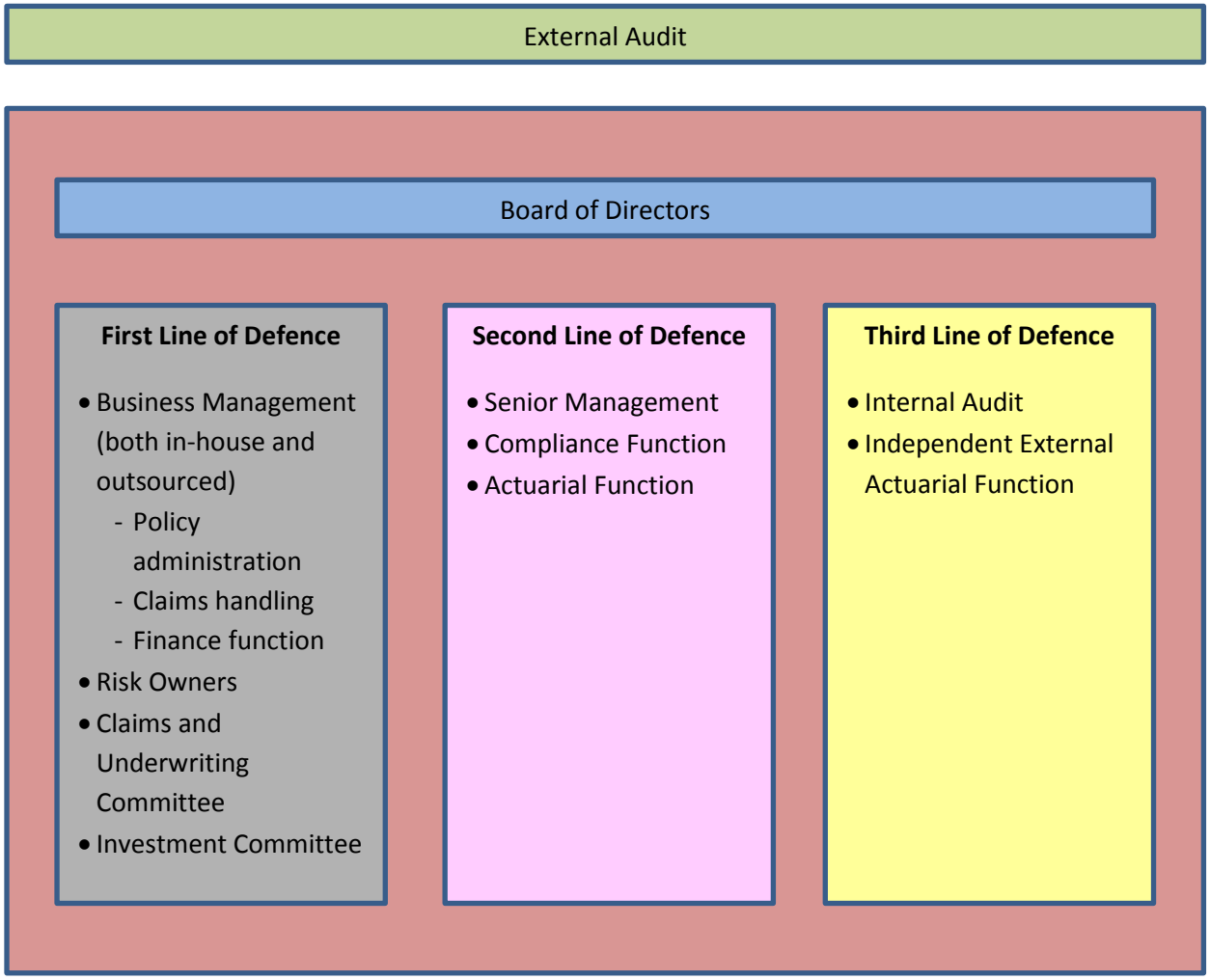
Risk management involves the Board as well as key outsourced providers. All forums and individuals involved in risk management have a duty to inform the Compliance, Internal Audit or Actuarial functions of any facts that may be relevant to these functions in performing their duties.

In addition, the Board will receive regular reports from the Internal Audit function as to the adequacy, effectiveness and efficiency of the internal controls.

B.3.1.4 Implementation of Risk Management Function

The Board of Mulsanne has retained responsibility for the risk management function. While the Company relies on its outsourced service providers for elements of the day-to-day operation of risk management, oversight and control remains with the Board. This ensures that risk management is fully integrated into Mulsanne's business and its decision-making processes.

Mulsanne operates a three-line of defence model as set out below:



First line of defence: Responsible for the day-to-day management and control of risk and the establishment and operation of appropriate internal control measures.

Second line of defence: Responsible for operation of the risk management framework and oversight of risk control and management. Has a level of independence from the day-to-day management and provides the Board with some assurance over the effectiveness of the risk management system.

Third line of defence: Responsible for providing independent assurance on the effectiveness of the first and second lines of defence and over the risk management framework and system of internal controls.

B.3.2 Own Risk and Solvency Assessment

B.3.2.1 ORSA Process and Integration

Mulsanne has established a policy setting out the requirement to carry out an Own Risk and Solvency Assessment ("ORSA"). The purpose of the policy is to ensure that all material risks faced by Mulsanne are appropriately assessed and the level of capital required managing these risks or other risk mitigation measures are determined and put in place. The ORSA should provide the Board and management with a thorough understanding of the Company's risk profile and provide the information needed to make appropriate decisions.

The ORSA takes account of historic performance and future forecasts/budgets over the business planning horizon, which is a period of three years. Various members of the management team and relevant outsourced providers will carry out the ORSA. The Mulsanne Board maintains oversight and control at all times, steering how the assessment is performed and challenging the results to ensure they properly take account of the Company's material risks.

Mulsanne conducts at least an annual ORSA after which a formal report is prepared. This will take place during the final month of the company's financial year, thus ensuring that the timing is aligned with the business planning process.

As part of the ORSA process, management assess the risks to which the Company is exposed and their potential impact on the capital requirement together with any other relevant mitigating factors. This consists of both a quantitative assessment through appropriate stress and scenario tests, as well as a qualitative assessment of risks which may not be covered by capital. The outcome from the ORSA process is to determine the level of capital which the Board consider appropriate for the business.

A full reforecast and ORSA will be carried out on an annual basis, subject to there being no material changes in the business or its risk profile in the meantime. This will take place during the final month of the company's financial year, thus ensuring that the timing is aligned with the business planning process.

In addition to the above, the Board will formally assess on a regular basis whether any decisions taken, risk events, market factors or other similar items affect Mulsanne's risk profile, risk appetite, free reserves or other relevant matters. In such a case, the impact on the Company's own assessment of its capital needs will be considered and, if required, a further ORSA together with an SCR calculation will be carried out.

In particular, the following thresholds will require an automatic revision of the ORSA, regardless of other circumstances:

- Volumes increasing by more than 10% above budget, and the forecast performance of the business is such that management feel that this will continue
- Net Loss Ratio (Net of Excess of Loss reinsurance) in any underwriting year deteriorating by more than
    - 5 points compared to budget on the current UWY
    - 3 points compared to previous actuarial review on prior UWYs
- New material business lines (>£1m of premium) being entered into
- The solvency the buffer falling below 10%, and forecast performance of the business being such that management feel the SCR buffer will continue to be eroded post the 10% breach.

The ORSA is conducted by management, including outsourced service providers, with the Board maintaining oversight and control at all times and steering the assessment. The draft report produced is provided to the full Board for discussion, challenge and approval. This is applicable for each ORSA, whether annual or ad-hoc due to changes in the business.

B.3.2.2 Relationship between Solvency Needs, Risk Profile, Capital Management and Risk Management

The ORSA enables the Board to assess the Company's capital needs over the planning horizon, which is three years. The ORSA is carried out taking due account of Mulsanne's specific risk profile and includes both risks explicitly captured in the Standard Formula, as well as risks which are either not captured or not able to be mitigated through capital. All risks are taken into account in the ORSA process.

The capital management policy has been established to ensure that the Company has in place the appropriate levels and quality of capital both as required by the SCR calculation and as determined by the ORSA. The policy aims to ensure that appropriate plans are in place to enable the Company to meet its capital requirements both in the immediate and the medium-term future and that all items of own funds comply with the relevant rules, regulations and legislation.

The risk management function takes due account of the available capital, the Company's risk profile, future business plans and the outcome of the ORSA in an iterative cycle.

B.4 Internal Control System

B.4.1 Internal Control System

Mulsanne is committed to managing its business in a risk-focused manner. In order to achieve this, appropriate controls have been put in place to reduce risks where possible. Risk management and the adherence to the internal controls are an integral part of the business culture.

Responsibility for establishing an appropriate internal control environment rests with the Board as a whole and its Directors individually. The Company has established internal control systems which take due account of the nature

of the business. Responsibility for adherence to internal controls rests with all individuals involved in the management of the business.

The internal control policy is targeted at ensuring that:

- Processes and procedures exist for the identification and assessment of risks
- Appropriate processes and procedures are in place to control identified risks
- Individuals involved in the business are trained and aware of their role with regard to internal controls
- Appropriate monitoring and review processes are in place

Key controls that operate to mitigate risks are recorded in the appropriate risk register. The internal control framework for Mulsanne is subject to review by Mulsanne's internal audit function.

B.4.2 Compliance Function

B.4.2.1 Implementation of Compliance Function

The compliance function is an integral and significant element of Mulsanne's business, responsible for ensuring the Company complies with all relevant rules, regulations, guidance and legislation with regard to both Gibraltar and UK requirements. The compliance function also reports to the Board on any relevant changes in the legal environment in which the Company operates.

Mulsanne outsources its Compliance function to its insurance manager, with a named Compliance Officer having overall responsibility. The compliance function has established a Compliance Monitoring Programme which is approved by the Board on an annual basis. Compliance formally reports to the Board on a quarterly basis with regard to the tasks carried out during the quarter.

While the provision of compliance services has been outsourced, this remains under the oversight of the Mulsanne Board, in particular the function holder, and the Board retains full responsibility.

B.4.2.2 Independence and Authority of Compliance Function

Due to the outsourced nature of the compliance function, the function is operationally independent from the other areas of the business.

The compliance function is authorised to access all areas of the business and is therefore entitled to full and unrestricted access to all information, records, property, personnel and activities, including those residing with outsourced service providers.

The Board considers and approves the compliance monitoring programme on an annual basis to ensure that all relevant areas are captured and receives the quarterly compliance reports, but does not otherwise seek to instruct or influence the Compliance function.

B.5 Internal Audit Function

B.5.1 Implementation of the Internal Audit Function

Internal Audit is an objective and independent activity, whose role is to help management achieve the Company's objectives by constantly improving the effectiveness of the Company's operations. It is responsible for evaluating management's approach to risk management and governance, with particular emphasis on systems of internal control. It investigates the manner in which the Company's processes and controls operate in order to assess their effectiveness in ensuring compliance with strategy and policies.

Mulsanne's Internal Audit function covers all aspects of the Company's business. In particular, it will consider:

- Governance and business planning
- Underwriting and policy administration
- Claims handling and reserving
- Investment
- Finance/Accounting
- IT
- Compliance

Internal Audit produces a three-year plan to ensure that all relevant areas are covered within an appropriately determined timeframe, taking into account the relevant risks and uses this plan as the basis for the detailed annual plan. Internal Audit carries out its examination at least once per annum and as requested on an ad hoc basis on any additional areas.

Mulsanne outsources the Internal Audit function to an external accountancy firm.

A number of internal processes and procedures will be taken into account by the outsourced provider in discharging their duties:

- The Board, with the assistance of its insurance manager, carries out an internal review of the governance, risk management and business planning systems and processes, including its own procedures, on an annual basis
- Members of the CCGL team working for Mulsanne, together with Artex if required, carry out periodic audits of the claims handler and brokers and report to the Board, these audits to be conducted at least annually
- Internal Audit will liaise with and leverage the work of the external auditors

After each audit, appropriate reports are produced.

- An initial report is produced for discussion with management in the relevant area. The draft report should be produced no later than four weeks of the audit work finishing.
- Management's responses and proposed actions will be noted and an agreed final report will be issued. The final report should be issued no later than four weeks of the draft report being agreed.
- The final report will be submitted to the Board for review at the next meeting.

B.5.2 Independence and Objectivity of the Internal Audit Function

Internal Audit is outsourced to an external accountancy firm with the required skill set and experience and is not involved in any operational aspects of the business. This ensures that the function is independent, objective, and impartial and not subject to influence from the Board or management.

Internal Audit is authorised to review all areas of the Company and its business and is therefore entitled to have full and unrestricted access to all information, records, property, personnel and activities. Staff and management (even if not staff of the Company) have a duty to make all requested information available promptly and to assist with any enquiries.

The Board will approve the audit plan and is free to request additional areas to be reviewed by internal audit. In addition the Board receives and reviews the reports produced by the function. However, the Board does not otherwise seek to instruct or influence the Internal Audit team.

B.6 Actuarial Function

B.6.1 Implementation of Actuarial Function

The role of the Actuarial Function is to provide the Board with an independent perspective on key insurance aspects of the Company's operations. This will ensure that the Board is fully informed of matters that may impact the business.

Mulsanne's Actuarial Function covers all aspects of the business with regard to insurance risks. This encompasses:

- Underwriting
- Reinsurance
- Other risk mitigations
- Reserving
- Capital
- Data

Mulsanne outsources the Actuarial Function services to a qualified, external actuary who provides the services under oversight of the Actuarial Function Holder and ultimately the Board.

The Actuarial Function is responsible for the following areas:

- Oversight and validation of the calculation of technical provisions
- Assessment of the appropriateness of methodologies and assumptions used and consistency with Articles 76 to 83
- Explanation of any material changes in data, methodologies or assumptions
- Assessment of the sufficiency and quality of the data and consistency with data quality standards
- Recommendations to improve data quality where required
- Back-testing of best estimates against actual experience, reporting of material deviations and proposals to improve calculation
- Opinion on overall underwriting policy
- Opinion on adequacy of reinsurance arrangements

The Actuarial Function reports its findings to the Board at least annually, covering all areas for which it is responsible. The report should be appropriate to assist the Board in its decision-making process and to identify to the Board areas where improvements are required. The report should also identify any material uncertainty about data accuracy and explain the approach taken in light of this uncertainty.

B.7 Outsourcing

B.7.1 Outsourcing Policy

Outsourcing is defined as the contracting out of all or part of an internal process or internal activities to a third party provider on a continuous basis. Mulsanne has in place an outsourcing policy which ensures that all outsourcing will:

- Support Mulsanne's business strategy and key objectives
- Provide customers with an experience at least as good – or better – than an in-house alternative
- Enable Mulsanne to deliver a service experience to customers at a cost consistent with the Company's cost objectives/budget/business plan
- Enable Mulsanne to exercise control over outsourced service providers to ensure that any risks are properly identified, understood and appropriately mitigated
- Enable Mulsanne to demonstrate that its responsibilities in respect of outsourced activities are being effectively discharged

While Mulsanne outsources certain key activities, the Company retains all decision-making powers and ultimate responsibility for the outsourced services.

Mulsanne's outsourcing policy sets out the following:

- The definition of outsourcing
- Responsibility for implementation and operation of the policy and consequent controls and processes
- The criteria for outsourcing
- Due diligence on potential providers
- Establishment of appropriate contractual arrangements which clearly define responsibilities and allow adequate supervision and control
- Establishment of appropriate contingency planning, including terminating or exiting the arrangement
- Periodic audit requirements
- Records of outsourced arrangements
- The approval process
- Contract and legal requirements
- Risk assessment and risk mitigation measures
- Monitoring and on-going requirements

B.7.2 Outsourced Functions and Activities

The following table sets out the key functions outsourced by Mulsanne:

Function/Services	**Jurisdiction**
Policy administration and processing including provision of management information	United Kingdom
Claims handling, reserving and settlement	United Kingdom
Accounting and financial services	Gibraltar
Assistance with risk management	Gibraltar
Compliance services	Gibraltar United Kingdom
Company secretarial services	Gibraltar
Actuarial function services	United Kingdom
Internal audit	Gibraltar

Large loss reserving	Gibraltar

B.8 Any other Information

B.8.1 Adequacy of Systems of Governance

Mulsanne is a small company with the directors closely involved in all key aspects of the business. The Company is not complex, focussing mainly on a single line of business, with known and fully understood risks. The systems of governance have therefore been established taking due account of the principle of proportionality, being appropriate to the size, nature and scale of the operations.

The Board has in place a process of regularly evaluating the effectiveness of the systems of governance. In addition, governance falls within the remit of both internal and external audit and the risk management function continuously assesses relevant legislation, guidance, advice and best practice to ensure that the systems of governance are updated and maintained at all times.

B.8.2 Any other Material Information

There is no other material information to report as at 31 December 2018.

C. Risk Profile

Mulsanne's governance framework sets out the type and level of risk which the Company is willing to accept in the achievement of its strategic objectives. This framework provides both qualitative and quantitative measures and limits, which are taken into account in making key business decision.

Mulsanne's appetite is for the business to focus mainly on motor risks together with a small volume of ancillary, motor-related risks. All business is currently underwritten in the UK.

With regard to investments, Mulsanne pursues to strategy which is focussed on capital preservation, thus adopting a careful and conservative investment policy.

Mulsanne's risk profile at 31 December 2018 is set out in the table below:

	2018		2017
Risk Category	**% of SCR**		**% of SCR**
Insurance Risk	44.3%		57.7%
Market Risk	21.4%		18.1%
Counterparty (Credit) Risk	11.2%		7.4%
Operational Risk	23.1%		16.7%

C.1 Underwriting Risk

C.1.1 Material Risks

Underwriting risk arises from the risk of loss from changes in insurance liabilities. This can arise from inadequate pricing or risk selection, inappropriate reserving, or other fluctuations in the timing, frequency and severity of insured events.

Mulsanne distributes all business via intermediaries in a highly competitive industry. Furthermore, the motor market has recently been subject to numerous regulatory and legislative changes and is highly sensitive to the economic environment, the behavior of policyholders and actions of other service providers to the industry, such as claimant lawyers and claims management companies.

The Company manages underwriting risks through regular review of performance information, encompassing loss ratios, frequency, and cost of claims by products and distribution channels.

The following are the key underwriting risks identified by management:

- Risks priced too low, resulting in unprofitable business being written
- Undesirable market segments targeted, resulting in unprofitable business being written
- Errors in rating input software resulting in financial loss to the company

- Incorrect proposal information provided, resulting in inappropriate pricing or undesirable segments being written
- Exposure to ghost broking, resulting in loss due to poor risks being written or reputational damage
- Increase in frequency and average cost of claims, resulting in financial loss
- Risk of further Ogden rate movement, resulting into financial loss and material solvency impact
- Fraudulent claims that management fail to detect resulting in higher claims cost

C.1.2 Material Risk Concentrations

The majority of Mulsanne's business comprises motor insurance, therefore leading to some risk concentration due to exposure to market factors. However, within this class of business, Mulsanne writes a variety of different categories of risks, including private cars, commercial vehicles and taxi business. In addition, distribution is through a number of intermediaries. The Directors therefore do not consider there to be any material underwriting risk concentration.

C.1.3 Risk Mitigations

Mulsanne mitigated underwriting risk through the purchase of reinsurance protection and the implementation of appropriate controls.

Mulsanne purchases Excess of Loss reinsurance to protect against the impact of large claims. In addition, the Company has in place co-insurance and Quota Share reinsurance arrangements to mitigate the impact of lower value, attritional losses.

In April 2018 and with effect from 1 January 2018, the Company purchased a new Adverse Development Cover for claims incurred on business written up to 31 December 2017, to protect against adverse claims performance. This replaced a similar cover which was purchased last year. During 2018 this contract was commuted and in April 2019 replaced with a Loss Portfolio Transfer reinsurance policy protecting the company from future losses attaching to the 2017 and prior underwriting years.

In addition, Mulsanne further mitigates underwriting risk through the following:

- Monthly review of performance information
- Systematic reviews of individual risks to ensure pricing is within agreed parameters
- Six monthly independent actuarial reviews and quarterly roll-forwards
- Regular audits of intermediaries
- Regular audits of the claims handler
- Regular updates of the risk register, including reporting of any risk events
- Stress testing of loss ratios as part of the ORSA process

C.1.4 Stress and Sensitivity Testing

Mulsanne carries out stress and sensitivity testing as part of the ORSA process, which is carried out at least annually. This considers stresses both with regard to business volumes, future loss ratios and the run off of existing reserves.

This showed that the greatest sensitivity arises from changes in future loss ratios driven by bodily injury or deterioration in existing reserves. This is entirely in line with expectations and aligns closely with the management focus on the profitability of new business.

Under extreme scenarios, the level of buffer and protection afforded by the recently purchased Loss Portfolio Transfer would not be sufficient to absorb this stress. Management is very much alive to the risks arising from inappropriate underwriting and continues to closely monitor this risk. Further to this the Board, as part of the ORSA process considers options available to it to recover from such extreme scenarios.

C.2 Market Risk

C.2.1 Material Risks

Market risk arises from changes in the income generated by investments or from changes in the value of such investments and includes:

- Interest rate risk
- Spread risk
- Equity risk
- Currency risk
- Property risk
- Concentration risk

Mulsanne pursues a conservative investment policy, focused on the preservation of capital. As a result, the Company has no investments in equities, only limited investment in property and aims to fully hedge any currency risk. Property investments are limited to a single property occupied under commercial terms by a related company.

Mulsanne uses the services of carefully selected and experienced investment managers who operate under an approved investment policy and within agreed guidelines. As well as setting limits with regard to the type of investments and the rating of counterparties, the policy sets a benchmark return and imposes limits on exposure to single counterparties. The Investment Committee meets on a regular basis to assess the performance of the portfolio and recommend any changes which may need to be made.

The main market risk to which the Company is exposed is a loss in the value of investments or categories of investments due to market factors.

C.2.2 Material Risk Concentrations

Mulsanne has in place a diversified investment portfolio and is therefore not exposed to any material market risk concentration with the investment portfolios. The firm holds a £9.2m terms deposit with a highly rated bank. In 2018 noticed was served to terminate this term deposit in order to further minimize the firms concentration risk.

With regard to the property held this represents a single property in the UK and therefore does not represent a risk concentration. Notwithstanding this, the property was sold to a third party in January 2019.

C.2.3 Risk Mitigations

Mulsanne mitigates market risk through the following mechanisms:

- Regular review of investment performance
- Use of more than one investment manager
- Investment policy with agreed limits
- Diversification within the investment portfolio

C.2.4 Prudent Person Principle

Mulsanne pursues a conservative investment policy, which ensures investments are limited to relatively standard and easily understood products, the performance of which the company is able to readily monitor and manage. The investment policy balances capital preservation with investment return and sets limits with regard to rating and other measures, taking into account the nature and duration of the Company's liabilities. In addition, the policy requires appropriate diversification of exposure within the portfolio.

Mulsanne only utilizes derivatives for hedging purposes and these are fully taken into account in the ongoing performance of the portfolio. With the exception of property and derivatives used for hedging purposes, the company's policy is to hold investments that are traded regularly and therefore have a ready market value and are highly liquid.

Occasionally, the Company may choose to invest in funds which themselves invest in more unusual or complex instruments, potentially including derivatives and securitised investments or other instruments. In such a case, the Company will carry out appropriate diligence on the investment or fund manager to ensure that they have the required skill, knowledge, understanding and experience to manage any additional risk which may arise from such investments.

Mulsanne does not directly undertake any unusual or non-routine investment activities. However, should any such investments be proposed, the Investment Committee will:

- Assess the impact on the Company's risk profile, consider whether a revised ORSA is required as a result and make the necessary recommendation to the Board;
- Ensure that appropriate skills are in place to manage and monitor the investment activity – either internally or within the investment manager;
- Demonstrate to the Board how the proposed investment activity will improve the portfolio as a whole.

C.2.5 Stress and Sensitivity Testing

Mulsanne includes stress testing of market risk in its ORSA process, in particular with regard to a shock to the risk free interest rate used to discount cash flows under Solvency II and a shock to the bond market resulting in a fall in value of the investments. While these stresses do not impact as greatly as loss ratio stresses, a severe shock has the potential to adversely affect the Company's capital position.

C.3 Credit Risk

C.3.1 Material Risks

Credit risk arises from the risk that parties who owe money to Mulsanne are unwilling or unable to pay the amounts due to the Company. Credit risk for Mulsanne arises from a number of sources:

- Banking counterparties
- Reinsurance counterparties
- Issuers of fixed income securities
- Premiums due from intermediaries

Mulsanne aims to minimise the credit risk arising from its operations through the careful section of counterparties and close management and control of amounts due to the Company.

C.3.2 Material Risk Concentrations

Mulsanne's credit risk exposures during the year were diversified as set out below:

- Funds were held with more than one banking counterparty
- Reinsurance exposure is diversified between more than one counterparty
- Mulsanne's bond portfolio is diversified between counterparties
- The Company uses a number of different intermediaries in distributing its products

C.3.3 Risk Mitigations

Mulsanne mitigates credit risk through a number of mechanisms:

- Ensuring distribution is via multiple intermediaries
- Carrying out periodic audits of brokers
- Establishing and monitoring credit terms for brokers
- Using an experienced reinsurance broker
- Ensuring reinsurance counterparties are appropriately rated
- Monitoring reinsurance recoveries
- Ensuring banking counterparties are appropriately rated

C.3.4 Stress and Sensitivity Testing

Mulsanne depends to a large extent on its reinsurance programme in mitigating risk. Hence the credit risk arising from these arrangements needs to be appropriately managed. The risk of reinsurers suffering a credit downgrade is therefore one of the stresses considered as part of the ORSA process. Due to the diversification of reinsurers, Mulsanne is relatively resilient to this risk.

C.4 Liquidity Risk

C.4.1 Material Risks

Liquidity risk is the risk of losses from an inability for Mulsanne to pay its liabilities as they fall due. The Company has a low level of liquidity risk, due to the nature of its investment portfolio and the amount of funds held with banks, with only a small amount invested in property and relatively low levels of surplus funds held on long term deposit. The Company therefore does not have any material liquidity risk exposure.

C.4.2 Material Risk Concentrations

There are no material liquidity risk concentrations due to the diversified nature of Mulsanne's investment portfolio.

C.4.3 Risk Mitigations

Liquidity risk is mitigated through the carefully structured and diversified investment portfolio and the funds held with banks.

C.4.4 Stress and Sensitivity Testing

Liquidity risk is not subject to separate stress and sensitivity testing as the risk is not considered to be material to Mulsanne.

C.4.5 Expected Profit in Future Premiums

The expected profit in future premium as at 31 December 2018 is £80,810 (2017 – £94,861).

C.5 Operational Risk

C.5.1 Material Risks

Operational risk arises from failed internal processes, procedures or controls, from personnel or systems failures, from external events or from a failure to comply with legislation, regulations or other obligations. Reputational risks have also been considered in this category.

Mulsanne has identified the following key operational risks:

- Sabotage from internal sources including viruses, loss of intellectual property, paralysis of systems
- Tax authority challenges, especially around VAT in the motor sector
- Mulsanne falling below the SCR
- Breach of data protection rules, especially once GDPR is implemented
- Bad publicity for jurisdiction due to adverse media, company failure or similar event
- Breach of FSC or other regulatory requirements or expectations
- UK having decided to exit the EU

In addition to these, the key operational risk faced by Mulsanne has been the need to replace the ADC/LPT reinsurance to ensure that the Company continued to meet its SCR. This contract is fairly complex and ensuring there is appropriate understanding of the risks, the required modelling and the placement consumed significant amounts of management time. In 2019 the company has purchase a less complex more traditional Loss Portfolio Transfer policy. The terms of the policy are such that the cover is designed to remain in force until the prior

underwriting year in question are completely closed or until such time the company decides the cover is no longer economically viable.

Operational risks are identified, assessed and set out in Mulsanne's risk register, along with appropriate controls. There is a process for regular reporting of risk events.

The risk register is discussed on a regular basis by the Mulsanne Board, with input from all relevant functions and activities within the business.

C.5.2 Material Risk Concentrations

There are not material risk concentrations.

C.5.3 Risk Mitigations

Mulsanne has a strong internal control framework to mitigate operational risk. This encompasses the following key controls in managing operational risk:

- Regular audits of key service providers
- Four-eyes controls over all key operational areas
- Appropriate Disaster Recovery and Business Continuity Plans
- Details analysis and review of monthly management information
- Oversight, monitoring and audit of the claims handler
- Establishment and maintenance of a conflicts of interest register
- Involvement of Directors in all key operational areas of the business
- Board discussion of all negative publicity
- Regular dialogue with key stakeholders, including regulators and intermediaries
- Monitoring limits on complaints
- Monitoring and reporting by the Compliance function

C.5.4 Stress and Sensitivity Testing

Operational risk is included in the Standard Formula, with an appropriate risk charge calculated. In addition, a number of operational risks would directly impact underwriting risk and are therefore also captured. As part of the ORSA process, Mulsanne also considers those risks which may not be fully captured in the Standard Formula, in particular the exposure to outsourced service providers and various reputational risks. These risks are managed through appropriate controls and other mitigating actions, such as close involvement of the Board in all key operational decision.

The key sensitivity, as outlined above, is that the Company could again fall below its SCR during 2019, resulting in the need for action to rectify the situation.

C.6 Other Material Risks

In June 2016 the United Kingdom voted to leave the EU and, without transitional provisions, as at the time of writing the final date and terms for leaving the EU are still unknown. The outcome of the negotiations on the UK's exit continues to remain uncertain in the meantime. While Mulsanne writes business solely into the UK and it is anticipated that the ability of Gibraltar companies to write UK business will be retained, there is likely to be a period of economic and political uncertainty. This has the potential to impact Mulsanne operationally, for example through the issuance of Green Cards and the Protection of Visitors under the EU 4th Insurance Directive..

The Board continues to monitor developments as they occur to ensure that actions are taken to mitigate any potential adverse impact as far as possible.

D. Valuation for Solvency Purposes

D.1 Assets

The following bases, methods and assumptions have been used in valuing each material class of assets of Solvency II purposes.

The material classes of assets as at 31 December, except for reinsurance technical provisions, are as set out in the table below:

Description	2018		2017	
	Solvency II Value	GAAP Value	Solvency II Value	GAAP Value
	£'000	£'000	£'000	£'000
Intangible Asset	-	261	-	377
Property	540	540	590	590
Government Bonds	2,973		1,205	-
Corporate Bonds	14,644	23,893	22,425	29,645
Collateralised securities	-	-	-	-
Collective Investment Undertakings	6,538		6,315	-
Derivatives	15	6,426	14	7,489
Deposits other than cash equivalents	9,469	9,409	12,913	-
Insurance and Intermediaries Receivables	846	4,080	702	3,281
Reinsurance Receivables	2,544	2,250		
Receivables (trade, not insurance)	361	361	353	353
Cash and cash equivalents	8,246	4,511	6,341	15,386
Deferred Acquisition and Processing Costs	-	1,666	-	3,215
Any Other Assets	-	397	-	419

D.1.1 Intangible Asset

At 31 December 2018, Mulsanne held an intangible asset valued at £260,827 (2017 – £376,703) under GAAP, representing software acquisition and development costs. For GAAP purposes, this asset has been valued on an amortised cost basis, and no significant estimated or judgements have been used.

As the asset is used within the group, it will not result in a cash flow, does not have a readily ascertainable market value and no active market exists, no value has been ascribed to it for Solvency II valuation purposes. There have been no changes in recognition and valuation bases during the year.

D.1.2 Property

As at 31 December 2018, Mulsanne held property valued at £540,000 (2017 – £590,000). This property was held for use by a related company and was sold on 7 January 2019.

The property is valued at open market value, with the basis being the selling price at 7 January 2019 and the same value is used for Solvency II and GAAP purposes. No significant estimates or judgements have been made in arriving at the valuation.

D.1.3 Bonds

At the year end, Mulsanne had a total of £17,616,815 (2017 – £23,630,351), inclusive of accrued interest, invested in government and corporate bonds. The Company's investment portfolios are managed by external investment managers with monthly reporting to Mulsanne setting out the composition and the performance of the portfolio.

Investments are valued at fair value, being the market prices for identical assets in active markets, and the valuations are the same for GAAP and Solvency II purposes, although GAAP valuations exclude accrued interest. No significant judgements or estimates are used, and there has been no change in the basis of recognition and valuation.

D.1.4 Collective Investment Undertakings

At 31 December 2018 Mulsanne held £6,538,012 (2017 – £6,315,002) in collective investment schemes. These are funds which are actively traded and therefore have readily ascertainable market values and assets are valued at market value both for GAAP and for Solvency II, with no significant estimate or judgements being utilised. There has been no change in the valuation and recognition basis during the year. For GAAP purposes, these investments were included in the same category as bonds and other fixed income investments.

D.1.5 Derivatives

At 31 December 2018 the company held a short position in UK Gilt Futures with a March 2019 expiry with a nominal value of £3,200,000 and a market value of £3,749,889. This position is used to hedge the interest rate risk arising from holding corporate bonds in the investment portfolio and is fully matched by a margin account. These futures are actively traded and therefore have readily ascertainable market values and assets are valued at market value both for GAAP and for Solvency II, with no significant estimate or judgements being utilised. There has been no change in the valuation and recognition basis during the year.

On 19 December the company entered into a forward sale of US$3,422,000 to buy £2,690,971 for settlement on 20 March 2019 as the investment managers sought to ensure the currency exposure of the firm was closely matched. As at 31 December 2018 the net value of the forward was £2,675,799. The currency forward is used to eliminate the currency exposure that arises as a result of the company holding an investment in a fund that is valued in US$.

The investment policy of the company is such that the currency forward positions are rolled forward prior to settlement date. The currency forward counterparty is a highly rated bank. The currency forward market is an active and liquid market and therefore the forward has a readily ascertainable market value for GAAP and for Solvency II, with no significant estimate or judgements being utilised. There has been no change in the valuation and recognition basis during the year.

For GAAP purposes, derivative assets and liabilities are shown gross, whereas for Solvency II purposes a net position has been reported, representing Mulsanne's exposure.

D.1.6 Deposits, Cash and Cash Equivalents

At the year end, Mulsanne held £17,715,129 (2017 – £19,254,158) either in term deposits, or in cash and cash equivalents, inclusive of accrued interest, with banking counterparties. All amounts are held in GBP and either in the UK or in Gibraltar.

Deposits, cash and cash equivalents are valued at fair value, based on the actual balances held, and Mulsanne receives monthly statements.

The valuation of these assets is the same for GAAP and Solvency II and no estimates or judgements have been used. For GAAP purposes accrued interest is reported separately. There has been no change in the basis on which these items are valued and recognised.

D.1.7 Insurance and Intermediaries Receivables

Insurance and intermediaries receivable items on a GAAP basis represent premiums owed to Mulsanne from its brokers, less commission and including IPT and including the amount owed to its coinsurance partner. At the year end, the Company was owed £4,080,049 (2017 – £3,280,899). Contracts with the brokers set out payment terms. As at 31 December 2018 amounts were overdue in respect of business written through an MGA that entered into administration during the year. Whilst strenuous efforts were made to recover the amounts due, and the company continues to work with the administrator of the MGA, the Board decided to make a provision of £100,000 in respect the amounts that may not be recovered This recoverable amount has not been included in the firms eligible own funds for solvency purposes of the firms net assets in the financial statements.

Premiums receivable are valued at fair value, being the amounts recoverable, and as no other amounts are overdue, there have been no significant estimates or judgements made in arriving at the valuation. There has been no change in the valuation and recognition basis during the year.

While the assets are valued on a consistent basis both for GAAP and Solvency II, for Solvency II valuation purposes premium debtors net of the premium relating to Mulsanne's coinsurance partner are set against technical provisions to the extent that they are not overdue. The remaining balance under Solvency II represents the net coinsurance balance.

D.1.8 Reinsurance receivables

Reinsurance receivables balance on GAAP basis amounting to £2,250,000 comprises the deposit due from the reinsurer under the ADC contract. This was repaid on the 9th January 2019.

Balance ascribed in Solvency II basis includes amounts due from reinsurers for settled claims above excess of loss retention amounting to £294,098.

D.1.9 Receivables (trade, not insurance)

	2018	2017
Intercompany receivable	91,958	8,362
Taxation debtor	268,742	285,841
Other debtors	-	59,011
	360,700	353,213

These items are valued at fair value, being amounts recoverable and significant estimates or judgements are required. There are no differences in valuation for GAAP and Solvency II purposes and there has been no change in the valuation and recognition during the year.

D.1.10 Deferred Acquisition and Processing Costs

Deferred acquisition and processing costs represent commission, policy administration and similar expenses directly related to the acquisition and processing of policies, which are deferred over the period relating to the underlying unearned premiums. At 31 December 2018, Mulsanne had £1,332,603 (2017 – £2,844,934) of deferred acquisition costs and £333,523 (2017 – £370,301) of deferred processing costs. During the latter part of 2017 the firm moved to a basis of provided net underwriting rates, and as a result the value of deferred acquisition costs has fallen in 2018.

The Solvency II balance sheet is prepared on the basis of best estimates of future cash flows. Deferred acquisition costs do not result in future cash flows and these amounts are therefore excluded from the Solvency II balance sheet. There has been no change in the recognition and valuation basis during the year.

D.1.11 Other Assets

Other assets of £396,966 (2017 – £419,427) on a GAAP basis represent accrued interest and prepayments. On a Solvency II valuation basis, accrued interest is allocated to the relevant investment to which it relates. Prepayments do not result in cash flows and therefore do not have a Solvency II value.

D.2 Technical Provisions

Technical Provisions represent the insurance liabilities as at the reporting date. Mulsanne's gross and net Technical Provisions by business line are set out in the table below:

2018	Motor Liability	Other Motor	Miscellaneous Financial Loss	Assistance	Total
	£'000	£'000	£'000	£'000	£'000
Gross Best Estimate Technical Provisions	71,013	960	35	100	72,108
Risk Margin	1,103	19	1	4	1,127
Total Gross Technical Provisions	72,115	979	36	104	73,234
Reinsurance Recoverables	(40,973)	(441)	-	-	(41,414)
Net Technical Provisions	31,142	539	36	104	31,820

2017	Motor Liability	Other Motor	Miscellaneous Financial Loss	Assistance	Total
	£'000	£'000	£'000	£'000	£'000
Gross Best Estimate Technical Provisions	62,884	454	77	287	63,702
Risk Margin	1,034	10	3	9	1,056
Total Gross Technical Provisions	63,919	464	80	296	64,758
Reinsurance Recoverables	(31,293)	(150)	-	-	(31,443)
Net Technical Provisions	32,626	314	80	296	33,315

D.2.1 Bases, Methods and Assumptions

D.2.1.1 Best Estimate

The starting point for the valuation of technical provisions is the best estimate of claims costs, both on earned and on unearned exposure, for all business written at the valuation date. This assessment is carried out by the independent, external actuary.

Management then apply payment patterns to the actuarial best estimate, based on historical information and reasonable assumptions and judgements, to convert the best estimate to future cash flow.

D.2.1.2 Expenses

The cost of running of the existing insurance obligations is estimated, on the basis that the company will continue to write other business. This is based on the current levels of expenditure and takes due account of decreasing activity in the existing business lines.

D.2.1.3 Events Not in Data

There may be possible future events which are not reflected in the historical data of the Company or the market. Such events are referred to as Events Not in Data ("ENIDs").

Mulsanne considers a number of scenarios and events which could occur and assesses their potential impact. Where this assessment concludes that the negative impact of ENIDs (i.e. increasing reserves) is greater than the potential positive impact (i.e. decreasing reserves), the Company makes provision for such events.

At 31 December 2018, management made a provision for ENIDs of £43,000 (2017 - £130,000) based on the recommendation of the independent Actuarial Function Holder services provider.

D.2.1.4 Bound but not Incepted

Mulsanne may be contractually obligated to write certain business at the year end, although the risks will not incept until the following year. For example, renewal business for January 2019 will be invited prior to 31 December 2018. This may, however, be wholly or partially offset through future cancellations of existing business.

Provision has been made in the current year for bound but not incepted risks, although these are not material.

D.2.1.5 Discounting

Cash flows are discounted using the risk free interest rate structure as provided on a monthly basis by EIOPA.

D.2.1.6 Risk Margin

The risk margin is calculated using simplification method 3. This assumes that future SCRs is proportional to the best estimate technical provisions over time and projects future SCRs at this rate. A cost of capital rate of 6% is applied to each SCR estimate and discounted back using EIOPA yield curves.

D.2.1.7 Allocation to Lines of Business

Best estimates and cash flows are calculated separately for each line of business. However, the majority of Mulsanne's business comprises motor, which is required to be split for Solvency II purposes into motor liability and other motor. It is not normal practice in the UK market to rate motor business on this basis, and Mulsanne therefore needs to apply a different methodology to calculate this split.

The Company uses claims heads of damage to split its motor business into the Solvency II classes. Bodily injury and third party property damage are allocated to motor liability, with accidental damage, windscreen, fire and theft being allocated to other motor.

D.2.1.8 Reinsurance Recoverables

Mulsanne has reinsurance recoverables arising from its Excess of Loss and Quota Share arrangements. Such items are calculated on a consistent basis with gross technical reserves, reflecting best estimates of both expired and unexpired risks, converted to cash flows and discounted at the appropriate risk free rate.

Amounts due from and payments due to reinsurers are included in the technical provision to the extent they are not overdue. The calculation also makes allowance for the possibility of insurer default, based on the counterparty's rating and the level of exposure.

D.2.1.9 Simplifications

No material simplifications have been used in the calculation of technical provisions.

D.2.2 Uncertainty

Technical provisions require judgement and estimations and therefore contain an element of uncertainty. Key areas of uncertainty in Mulsanne's technical provisions are:

- Outstanding reserves: Reserves on reported claims are based on reasonable estimates, reflecting information known at the balance sheet date. Ultimate settlement of these claims may differ from estimates.
- Future losses: Future losses arise on both expired and unexpired risks and the estimation of these losses is based on actuarial assumptions. Such assumptions will take account of past performance and known or anticipated future changes, and may ultimately prove to differ from actual experience.
- Other estimates: Technical provisions include assumptions as to expenses, events not in data and bound but not incepted risks. While these assumptions are prepared on a best estimate basis, reflecting historical experience where appropriate, they could ultimately prove to be inappropriate.
- Legislative and market factors: The UK motor market has been subject to material changes in the past, encompassing legislative, economic and behavioural changes. Similar changes in the future are difficult to predict, but could ultimately impact best estimates and future cash flow.

Mulsanne seeks to minimise the level of uncertainty through a robust process involving external actuarial advice. Claims performance is closely monitored to ensure that changes in trends are identified and appropriately reflected in future projections.

D.2.3 Differences between Solvency II and GAAP Valuation

The starting point for both Solvency II and GAAP valuation of technical provisions is the actuarial best estimate reserves. Key difference between the valuation bases are:

- GAAP valuation of gross reserves may include a margin above best estimate. Solvency II valuation is required to be at best estimate and any margin is removed
- GAAP valuation includes unearned premium, being the premium which reflects the unexpired risk exposure. Under Solvency II, the unearned premium is replaced by future claims expected to arise on this unearned exposure
- GAAP reserves do not include run-off expenses
- GAAP reserves to not include events not in data
- GAAP reserves do not make allowance for bound but not incepted business
- GAAP reserves are calculated without a risk margin
- Insurance and intermediaries receivables are set against total gross technical provisions for Solvency II valuation purposes, to the extent that they are not overdue, while they are shown as a separate item on the balance sheet for GAAP reporting
- Reinsurance receivables and payables are set against technical provision reinsurance recoverables for Solvency II valuation purposes, to the extent that they are not overdue, while they are shown as a separate items on the balance sheet for GAAP reporting

The table below shows the movement from GAAP technical provisions to Solvency II technical provisions.

2018	Gross Technical Reserves	Reinsurance Recoverables	Total
	£'000	£'000	£'000
GAAP Reserves	94,474	62,634	31,840
Remove Unearned Premium	(11,146)	(5,641)	(5,505)
Claims on Unexpired Risks	9,952	4,939	5,013
Receivables/Payables	(2,436)	(787)	(1,649)
Run-off Expenses and Other Adjustments	(15,409)	(16,931)	1,523
Effect of Discounting	(3,327)	(2,799)	(528)
Risk Margin	1,127		1,127
Solvency II Technical Provisions	73,234	41,414	31,820

2017	Gross Technical Reserves £'000	Reinsurance Recoverables £'000	Total £'000
GAAP Reserves	73,556	38,530	35,026
Remove Unearned Premium	(14,500)	(5,526)	(8,974)
Claims on Unexpired Risks	10,136	3,820	6,317
Receivables/Payables	(1,678)	(1,224)	(454)
Run-off Expenses and Other Adjustments	577	4	573
Effect of Discounting	(4,389)	(4,161)	(228)
Risk Margin	1,056		1,056
Solvency II Technical Provisions	64,758	31,443	33,315

D.2.4 Transitional adjustments

Mulsanne has not used any transitional adjustments with regard to the matching adjustment, volatility adjustment, transitional risk free interest rate term structure or transitional deduction.

D.2.5 Changes over the Period

There have been no changes in the assumptions made since the previous period, other than the fact that the LPT contract has been replaced on similar, but not identical terms in April 2019.

D.3 Other Liabilities

The following bases, methods and assumptions have been used in valuing each material class of liabilities for Solvency II purposes.

The material classes of liabilities as at 31 December 2018, except for gross technical provisions, are as set out in the table below:

Description	2018		2017	
	Solvency II Value £'000	GAAP Value £'000	Solvency II Value £'000	GAAP Value £'000
Insurance & intermediaries payables	-	378	-	107
Reinsurance payables	-	927	-	1,460
Derivatives	3,750	6,426	3,796	7,475
Payables (trade, not insurance)	1,301	1,301	1,352	1,352
Deferred acquisition cost - reinsurer's share	-	207	-	-
Deferred Co-insurance commisison	-	89	-	1,272
Deferred Reinsurance commisison	-	788	-	1,192

D.3.1 Insurance and Intermediaries Payables

Mulsanne cedes premium to a co-insurance partner under a co-insurance agreement. Settlements with the co-insurance partners are made on a monthly basis, and this item represents the net amount due for settlement, being

premiums owed less claims, less commission due to Mulsanne. At 31 December 2018 Mulsanne owed £377,861 (2017 – £106,796).

The balance is valued at fair value, being the amount that is due for settlement. The key estimate in deriving the balance is the actuarial best estimate loss ratio, as this drives the commission receivable, which varies depending on the performance of the business.

The valuation basis is the same for GAAP and Solvency II purposes; although for Solvency II purposes the premium debtors not yet collected owed to the co-insurance partner have been set against the amount owed. The resulting balances are included in insurance and intermediaries receivable. There have been no changes in the valuation approach during the year.

D.3.2 Reinsurance Payables

At 31 December 2018 Mulsanne had £927,008 (2017 – £1,459,971) of reinsurance payables on a GAAP basis, being payments due under the Quota Share and Excess of Loss arrangements. The amount due under the Excess of Loss arrangement represents premium above the deposit premiums paid during the year. The amount due under the Quota Share arrangement represents the reinsurer's share of premiums net of claims and commission to Mulsanne which has not yet been settled. Settlements are made in arrears on a monthly basis.

These amounts are valued at fair value, being the actual amounts payable. The key estimate in deriving the Quota Share balance is the actuarial best estimate loss ratio, as this drives the commission due to Mulsanne, which varies with the performance of the business.

There have been no changes in the valuation and recognition basis during the year, and there are no difference in the underlying valuation for GAAP and Solvency II. However, for Solvency II purposes these items, to the extent they are not considered overdue, are set against technical provisions reinsurance recoverables, whereas under GAAP they are shown separately on the balance sheet.

On a Solvency II basis, the Company has to take into account the impact of the reinsurance arrangement it entered into in April 2019, as this provides a solvency benefit at 31 December 2018. This amount has been valued for Solvency II purposes at the cost of purchasing the cover.

D.3.3 Derivatives

As set out under assets, the Company's derivative position have been reported gross for GAAP purposes, but are netted for Solvency II reporting.

D.3.4 Payables (trade, not insurance)

Other payable comprise certain costs, including taxes, due at 31 December 2018 as set out below:

	2018	2017
Insurance premium tax payable	876,021	947,627
Amount due to Related Party	30,698	38,172
Claims Handling Cost Provision	95,911	89,752
Other creditors	18,013	8,610
Accruals	280,803	267,865
	1,301,446	**1,352,026**

These items are valued at fair value, being the amounts payable, and are valued consistently under Solvency II and GAAP. There have been no estimates or judgements and no changes in the recognition and valuation basis.

D.3.5 Deferred acquisition cost – reinsurer's share

Deferred acquisition costs – reinsurer's share is the portion related to reinsurer's share of the commission and similar expenses directly related to the acquisition of policies, which are deferred over the period relating to the underlying unearned premiums. At 31 December 2018, Mulsanne had £206,742 (2017 – £nil) of deferred acquisition costs.

The Solvency II balance sheet is prepared on the basis of best estimates of future cash flows. Deferred acquisition costs do not result in future cash flows and these amounts are therefore excluded from the Solvency II balance sheet. There has been no change in the recognition and valuation basis during the year.

D.3.6 Deferred Co-insurance and Reinsurance Commission

Mulsanne receives commission from its co-insurance and reinsurance partners. This is earned in line with the underlying premium and commission relating to premium unearned at the reporting date is deferred to future periods. At 31 December 2018, Mulsanne had a total of £877,116 (2017 – £2,463,564) deferred commission.

The Solvency II balance sheet is prepared on the basis of best estimates of future cash flows. Deferred co-insurance and reinsurance commissions do not result in future cash flows and these amounts are therefore excluded from the Solvency II balance sheet. There has been no change in the recognition and valuation basis during the year.

E. Capital Management

E.1 Own funds

E.1.1 Management of Own Funds

E.1.1.1 Objectives, Policies and Processes in Managing Own Funds

Mulsanne has in place a Capital Management Policy to ensure that the Company has the appropriate levels and quality of capital to meet both the SCR and the internal view of capital as determined by the ORSA. The intention is for capital requirements to be met in both the immediate and medium-term future.

While Mulsanne's ORSA process is carried out formally on an annual basis, the capital requirements and own funds to meet these requirements are considered at least quarterly as part of the quarterly regulatory reporting process. The Board discusses the Company's capital position at all meetings as part of its risk management processes and monitors ongoing performance through monthly management accounts.

Unusual products which may be considered to improve the capital position, such as the LPT purchased in April 2019 and ADC contracts previously purchased in April 2018 and in May 2017, will undergo a thorough review, discussion and challenge by the Board and Regulator to assess their appropriateness given the Company's risk profile and appetite.

There have been no changes in capital management policies or processes during the period.

E.1.1.2 Time Horizon for Business Planning and Material Changes

Mulsanne's business planning period for capital management encompasses a three year time horizon, with emphasis on the current and next year. Given the unpredictability and historic volatility of the UK motor market, a longer time horizon would not be realistic. There have been no changes in the planning time horizon over the year.

E.1.2 Description of Own Funds

E.1.2.1 Structure, Amount and Quality of own funds

Mulsanne currently only has basic own funds and no ancillary own funds. Own funds are comprised entirely of Share Capital, Share Premium and the Reconciliation Reserve and therefore all qualify as Tier 1 funds. The table below set

out Mulsanne's own funds at 31 December 2018, together with movements during the period:

2018	Share Capital	Share Premium	Reconciliation Reserve	Total Own Funds
	£'000	£'000	£'000	£'000
At 1 January 2018	42	7,158	5,196	12,396
Capital Injections during the year	1	1,949		1,950
Movement in the Reconciliation Reserve			(5,041)	(5,041)
At 31 December 2018	43	9,107	155	9,305

2017	Share Capital	Share Premium	Reconciliation Reserve	Total Own Funds
	£'000	£'000	£'000	£'000
At 1 January 2017	42	7,158	2,315	9,515
Capital Injections during the Period	-	-	-	-
Movement in the Reconciliation Reserve	-	-	2,881	2,881
At 31 December 2017	42	7,158	5,196	12,396

The Company's Reconciliation Reserve effectively represents retained earnings on a Solvency II valuation basis. There are no foreseeable dividends.

E.1.2.2 Terms and Conditions of Own Funds

Mulsanne's own funds are fully comprised of Tier 1 funds and have no terms or conditions attached and there are no restrictions affecting the availability and transferability of the Company's Own funds. The own funds are not redeemable and do not carry any guaranteed dividend or other return.

E.1.2.3 Difference in Own Funds between Financial Statements and Solvency II Valuation

The difference in the valuation of own funds as shown in the Financial Statements compared to the Solvency II valuation is due to the valuation differences in the underlying assets and liabilities, as set out in the table below:

	2018	2017
	Own Funds £'000	Own Funds £'000
Own Funds per Financial Statements	11,838	12,872
Difference in Valuation of net Technical Provisions	(1,615)	698
Removal of Deferred Acquisitions and Processing Costs	(1,666)	(3,215)
Removal of Intangible Assets	(261)	(377)
Removal of Prepayments	(75)	(46)
Removal of Deferred Commissions	1,084	2,464
Own Funds per Solvency II Valuation	9,305	12,396

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR and MCR

Mulsanne's SCR and MCR coverage is set out below:

	2018	2017
Own Funds	9,304,564	12,395,528
Solvency Capital Requirement	8,120,728	11,410,687
SCR Coverage	114.6%	108.6%
Minimum Capital Requirement	3,654,328	4,837,474
MCR Coverage	254.6%	256.2%

All capital is Tier 1 and therefore fully eligible to cover the SCR and MCR.

In accordance with the Solvency II standard formula a firms SCR Non-Life underwriting risk is predominantly a function of firm's volume measure for premium and reserve risk. Such volume measures are determined by taking the higher of the premium and reserve risk volume for the previous 12 months or following 12 months as at the calculation date. Such volume measures are the amounts net of reinsurance. In 2018 the company entered into additional reinsurance contracts such that the premium and reserve risk volume measures will fall significantly in 2019 when compared to 2018. Given the significantly reduced volume measures, the Company has adopted an approach of calculating the volume measure in accordance with Article 116 paragraph 3 of the Solvency II regulations and the Company has duly notified the Gibraltar Financial Service Commission of the intention to use Article 116 paragraph 3 in arriving at the SCR requirement.

As at 31 December 2018, Mulsanne complied with both its SCR and its MCR.

E.2.2 SCR by Risk Module

The following table sets outs Mulsanne's SCR broken down by risk module:

	2018	2017
SCR Risk Category	**£**	**£**
Market Risk	2,216,232	2,498,231
Counterparty Risk	1,164,123	1,025,896
Non-Life Underwriting Risk	4,587,109	7,970,825
Diversification	(1,720,751)	(1,995,328)
Basic Solvency Capital Requirement	**6,246,714**	**9,499,624**
Operational Risk	1,874,014	1,911,063
Solvency Capital Requirement	**8,120,728**	**11,410,687**

E.2.3 Simplifications

No simplified calculations have been used in applying the standard model and no undertaking specific parameters have been used.

E.2.4 Inputs used to Calculate the MCR

The following inputs have been used to calculate the Company's MCR:

2018	Net (of reinsurance) best estimate technical provisions	Net (of reinsurance) written premiums in the last 12 months
	£'000	£'000
Motor Vehicle Liability	30,039	14,301
Motor Vehicle Other	519	834
Assistance	100	977
Miscellaneous Financial Loss	35	162
		£'000
Linear MCR		4,127
SCR		8,121
Combined MCR		3,654
Absolute Floor of the MCR		3,288
Minimum Capital Requirement		3,654

2017	Net (of reinsurance) best estimate technical provisions	Net (of reinsurance) written premiums in the last 12 months
	£'000	£'000
Motor Vehicle Liability	31,591	19,813
Motor Vehicle Other	304	1,032
Assistance	287	1,148
Miscellaneous Financial Loss	77	199
		£'000
Linear MCR		4,837
SCR		11,411
Combined MCR		4,837
Absolute Floor of the MCR		3,251
Minimum Capital Requirement		4,837

E.2.5 Changes over the Period

There has been no material change to the Company's SCR or MCR during the period.

E.3 Non-Compliance with Minimum Capital Requirement or Solvency Capital Requirement

In October 2018, Pursuant to Article 46(1) of the Financial Services (Insurance Companies) (Solvency II Directive) Act, the company formally notified the Gibraltar Financial Services Commission ("GFSC") that there was a risk of non-compliance with the Solvency Capital Requirement in the following three months from notification date. This risk arose primarily as a result of deterioration in the projected ultimate loss ratios. In response to this notification the Company was requested by the GFSC to provide a Recovery plan setting out how the firm would restore the solvency position of the firm by no later than 31 October 2018. The plan was duly provided within the agreed timetable and since this date the Board has been working closely with the GFSC to deliver the agreed steps within the plan. In November 2018 the firms Q3 2018 QRT reported solvency position was 93% of the Solvency Capital Requirement (SCR) and 240% of the Minimum Capital Requirement (MCR). As a result of implementing the measures set out in the recovery plan, the firm is in a position to report a solvency surplus as at 31 December 2018 of 114.6% of the SCR and 254.6% of the MCR.

P.02.01.02 - Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	34,179
R0080	Property (other than for own use)	540
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	17,617
R0140	Government Bonds	2,973
R0150	Corporate Bonds	14,644
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	6,538
R0190	Derivatives	15
R0200	Deposits other than cash equivalents	9,469
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	0
R0270	Reinsurance recoverables from:	41,414
R0280	Non-life and health similar to non-life	41,414
R0290	Non-life excluding health	41,414
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	846
R0370	Reinsurance receivables	2,544
R0380	Receivables (trade, not insurance)	361
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	8,246
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	87,590
		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	73,234
R0520	Technical provisions – non-life (excluding health)	73,234
R0530	TP calculated as a whole	0
R0540	Best Estimate	72,108
R0550	Risk margin	1,127
R0560	Technical provisions - health (similar to non-life)	0
R0570	TP calculated as a whole	0
R0580	Best Estimate	0
R0590	Risk margin	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	3,750
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	1,301
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	78,286
R1000	**Excess of assets over liabilities**	9,305

P.05.01.02.01 - Premiums, claims and expenses by line of business - Table 1

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				Total
		Motor vehicle liability insurance	Other motor insurance	Assistance	Miscellaneous financial loss	
		C0040	C0050	C0110	C0120	C0200
	Premiums written					
R0110	Gross - Direct Business	30,436	1,775	977	162	33,351
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0
R0130	Gross - Non-proportional reinsurance accepted					0
R0140	Reinsurers' share	16,135	941	0	0	17,076
R0200	Net	14,301	834	977	162	16,276
	Premiums earned					
R0210	Gross - Direct Business	33,489	1,953	1,080	184	36,705
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0
R0230	Gross - Non-proportional reinsurance accepted					0
R0240	Reinsurers' share	16,026	935	0	0	16,961
R0300	Net	17,462	1,018	1,080	184	19,744
	Claims incurred					
R0310	Gross - Direct Business	28,770	1,678	381	6	30,836
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0
R0330	Gross - Non-proportional reinsurance accepted					0
R0340	Reinsurers' share	14,219	829	0	0	15,048
R0400	Net	14,551	849	381	6	15,787
	Changes in other technical provisions					
R0410	Gross - Direct Business	484	28	0	0	512
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0
R0430	Gross - Non- proportional reinsurance accepted					0
R0440	Reinsurers'share	0	0	0	0	0
R0500	Net	484	28	0	0	512
R0550	**Expenses incurred**	7,889	460	501	156	9,006
R1200	**Other expenses**					-2,727
R1300	**Total expenses**					6,279

P.05.02.01 - Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
R0010			GB	0	0	0	0	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	0	33,351	0	0	0	0	33,351
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0140	Reinsurers' share	0	17,076	0	0	0	0	17,076
R0200	Net	0	16,276	0	0	0	0	16,276
	Premiums earned							
R0210	Gross - Direct Business	0	36,705	0	0	0	0	36,705
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0240	Reinsurers' share	0	16,961	0	0	0	0	16,961
R0300	Net	0	19,744	0	0	0	0	19,744
	Claims incurred							
R0310	Gross - Direct Business	0	30,836	0	0	0	0	30,836
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0340	Reinsurers' share	0	15,048	0	0	0	0	15,048
R0400	Net	0	15,787	0	0	0	0	15,787
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	512	0	0	0	0	512
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non- proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers'share	0	0	0	0	0	0	0
R0500	Net	0	512	0	0	0	0	512
R0550	**Expenses incurred**	0	9,006	0	0	0	0	9,006
R1200	**Other expenses**							-2,727
R1300	**Total expenses**							6,279

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
R1400			0	0	0	0	0	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	0	0	0	0	0	0	0
R1420	Reinsurers' share	0	0	0	0	0	0	0
R1500	Net	0	0	0	0	0	0	0
	Premiums earned							
R1510	Gross	0	0	0	0	0	0	0
R1520	Reinsurers' share	0	0	0	0	0	0	0
R1600	Net	0	0	0	0	0	0	0
	Claims incurred							
R1610	Gross	0	0	0	0	0	0	0
R1620	Reinsurers' share	0	0	0	0	0	0	0
R1700	Net	0	0	0	0	0	0	0
	Changes in other technical provisions							
R1710	Gross	0	0	0	0	0	0	0
R1720	Reinsurers' share	0	0	0	0	0	0	0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	0	0	0	0	0	0	0
R2500	**Other expenses**							0
R2600	**Total expenses**							0

P.17.01.02 - Non-Life Technical Provisions

		Direct business and accepted proportional				Total Non-Life obligation
		Motor vehicle liability insurance	Other motor insurance	Assistance	Miscellaneous financial loss	
		C0050	C0060	C0120	C0130	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0	0	0
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	Gross	8,054	7	52	23	8,137
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,884	54	0	0	3,938
R0150	Net Best Estimate of Premium Provisions	4,170	-47	52	23	4,198
	Claims provisions					
R0160	Gross	62,958	953	48	12	63,971
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	37,089	386	0	0	37,476
R0250	Net Best Estimate of Claims Provisions	25,869	567	48	12	26,495
R0260	**Total Best estimate - gross**	71,013	960	100	35	72,108
R0270	**Total Best estimate - net**	30,039	519	100	35	30,693
R0280	**Risk margin**	1,103	19	4	1	1,127
	Amount of the transitional on Technical Provisions					
R0290	Technical Provisions calculated as a whole	0	0	0	0	0
R0300	Best estimate	0	0	0	0	0
R0310	Risk margin	0	0	0	0	0
	Technical provisions - total					
R0320	Technical provisions - total	72,115	979	104	36	73,234
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	40,973	441	0	0	41,414
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	31,142	539	104	36	31,820

P.19.01.21 - Non-life Insurance Claims Information
(simplified template for the public disclosure)

Total Non-Life Business

Z0020	Accident year / Underwriting year	**Z0020**	Underwriting year [UWY]

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	**Prior**											0	0	0
R0160	**N-9**	0	0	0	0	0	0	0	0	0	0		0	0
R0170	**N-8**	22	1,085	555	332	180	280	65	-150	0			0	2,370
R0180	**N-7**	1,246	4,254	2,394	1,086	576	556	235	10				10	10,359
R0190	**N-6**	1,068	4,625	2,654	974	799	362	12					12	10,494
R0200	**N-5**	1,542	6,164	2,439	908	544	572						572	12,168
R0210	**N-4**	2,334	6,865	2,966	1,504	1,002							1,002	14,671
R0220	**N-3**	3,695	8,776	3,754	2,572								2,572	18,796
R0230	**N-2**	4,119	9,371	4,008									4,008	17,498
R0240	**N-1**	3,678	8,460										8,460	12,138
R0250	**N**	4,940											4,940	4,940
R0260												**Total**	21,576	103,434

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	**Prior**											0	0
R0160	**N-9**	0	0	0	0	0	0	0	0	0	0		0
R0170	**N-8**	0	0	0	0	0	0	-152	0	0			0
R0180	**N-7**	0	0	0	0	0	378	77	63				63
R0190	**N-6**	0	0	0	0	538	96	74					73
R0200	**N-5**	0	0	0	2,719	2,733	3,341						3,308
R0210	**N-4**	0	0	6,398	4,690	3,448							3,395
R0220	**N-3**	0	21,741	17,870	12,969								11,893
R0230	**N-2**	15,740	22,038	16,291									15,585
R0240	**N-1**	11,218	17,779										17,035
R0250	**N**	12,912											12,619
R0260												**Total**	63,971

Mulsanne insurance

P.23.01.01 - Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of					
R0010	Ordinary share capital (gross of own shares)	43	43		0	
R0030	Share premium account related to ordinary share capital	9,107	9,107		0	
R0040	Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	155	155			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290	**Total basic own funds after deductions**	9,305	9,305	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	9,305	9,305	0	0	0
R0510	Total available own funds to meet the MCR	9,305	9,305	0	0	
R0540	Total eligible own funds to meet the SCR	9,305	9,305	0	0	0
R0550	Total eligible own funds to meet the MCR	9,305	9,305	0	0	
R0580	**SCR**	8,121				
R0600	**MCR**	3,654				
R0620	**Ratio of Eligible own funds to SCR**	1.1458				
R0640	**Ratio of Eligible own funds to MCR**	2.5462				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	9,305
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	9,150
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	155
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	81
R0790	**Total Expected profits included in future premiums (EPIFP)**	81

P.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	2,216		
R0020	Counterparty default risk	1,164		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	4,587		
R0060	Diversification	-1,721		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	6,247		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,874
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	8,121
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	8,121
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

P.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCRNL Result	4,127

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expenses insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	30,039	14,301
R0060	Other motor insurance and proportional reinsurance	519	834
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	100	977
R0130	Miscellaneous financial loss insurance and proportional reinsurance	35	162
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		0

Overall MCR calculation

		C0070
R0300	Linear MCR	4,127
R0310	SCR	8,121
R0320	MCR cap	3,654
R0330	MCR floor	2,030
R0340	Combined MCR	3,654
R0350	Absolute floor of the MCR	3,288

		C0070
R0400	**Minimum Capital Requirement**	3,654