



MULSANNE INSURANCE COMPANY LIMITED

SOLVENCY II ASSUMPTIONS AND JUDGEMENTS MANUAL

For the year ended 31 December 2024

Version Control

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#	Date	Changes	Prepared by	Reviewed by	Signed off by	Reported figures
1	Dec-24	Original preparation	Isidoro Manrique			Annual-24

1. Introduction and purpose

- 1.1 The purpose of this manual is to document all key judgements and valuation/recognition principles utilized in preparing the December - 24 Annual solvency returns of Mulsanne Insurance Company Limited ('MICL', 'the Company').
- 1.2 This document covers the key principles and judgements, including references to the relevant aspects of Solvency II and the Delegated Regulations, underpinning the following:
 - 1.2.1 SII Balance Sheet – Investment Assets
 - 1.2.2 SII Balance Sheet – Technical Provisions
 - 1.2.3 SII Balance Sheet – Other Assets and Liabilities
 - 1.2.4 SII Balance Sheet – Capital
 - 1.2.5 Solvency Capital Requirement
 - 1.2.6 Minimum Capital Requirement
- 1.3 The intention of this document is to consider the principles underlying the derivation of the SII balance sheet, the SCR and the MCR. The underlying assumptions on valuation principles are derived from Article 9 of the Delegated Regulations (Valuation methodology, general principles).
- 1.4 This document has been elaborated based on the annual figures submitted for Y24 Annual purpose and that feed into the Actuarial function report to which it gives support.
- 1.5 In accordance with Actuarial Practice Standard X2 published by the UK's Institute and Faculty of Actuaries (IFoA), this report has been duly peer reviewed.

2. Definitions

Term	Definition
Delegated Regulations	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 as amended
Company	Mulsanne Insurance Company Limited
ECR	Economic Capital Requirement
ECR Valuation	Valuation of assets and liabilities to meet the ECR
ENID	Events not in data. A combination of movements in latent claims and extreme events which we would not forecast based on the data we have available. The inclusion of ENIDs to best estimate moves from a valuation basis based on 'reasonably foreseeable' events to one based on 'all possible outcomes'.
GAAP	Gibraltar Generally Accepted Accounting Principles
GAAP Valuation	Valuation of assets and liabilities in accordance with GAAP, as presented in the financial statements
MCR	Minimum Capital Requirement, the capital requirement where a national regulatory would intervene
ORSA	Own Risk and Solvency Assessment
SCR	Solvency Capital Requirement, the capital requirement under Solvency II.
SII Valuation	Valuation of assets and liabilities to meet the SCR
Solvency II	Directive 2009/138/EC of the European Parliament (recast 31 March 2015)
Solvency II in Gibraltar	Services (Insurance Companies) Regulations 2020
BBNI	Bound but not incepted, business that the insurer is committed to at the valuation date but for which insurance cover has not yet commenced.
PRA	Prudential Regulation Authority ensures insurance firms are well-capitalised and managed properly, so they don't pose a risk to the UK's financial system.

3. Solvency II Balance sheet – Investment assets

3.1 The company holds a variety of investment assets as of 31st of December 2024 in its GAAP balance sheet. The following table shows how investments have been distributed:

Investments	£'000s	Asset class	SCR modules
JP Morgan Fund - Cachematrix	27,928	Collective Investment Fund - Debt funds	SCR Spread, SCR Concentration & SCR Interest
CCA Longevity fund	1,440	Collective Investment Fund - Debt funds	SCR Spread, SCR Concentration & SCR Interest
Pluto	1,938	Collective Investment Fund - Real Estate fund	SCR Spread, SCR Concentration & SCR Interest
Wolvercote loan	5,336	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
Avantus	3,087	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
Dayim	5,372	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
Hiyacar	200	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
HyperJar	972	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
Ibuyer	2,599	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
BFL Shares	4,341	Equity	SCR Equity, SCR Concentration & SCR Interest
8VC	6,543	Equity	SCR Equity, SCR Concentration & SCR Interest
Perceptive	743	Mortgages and loans	SCR Spread, SCR Concentration & SCR Interest
Deep discounted bonds	9,643	Bonds	SCR Spread, SCR Concentration & SCR Interest
Total	70,141		

3.2 The table below shows the overall distribution per asset class:

Asset Class	£'000s	% of Asset class
Collective Investment Funds	31,306	44.6%
Mortgages and loans	18,308	26.1%
Equity	10,884	15.5%
Bonds	9,643	13.7%
Total	70,141	100.0%

3.3 The company holds different cash accounts as of 31st of December 2024:

Cash at bank	£'000s	% of Asset class
RBS	-2,521	-25.0%
JSS	6,367	63.1%
JSS - Forward	-184	-1.8%
SG Hambros	6,385	63.3%
Barclays	37	0.4%
Total	10,085	100%

3.4 There's no adjustment or reclassification applied on these exposures for Solvency II Balance sheet purpose. They're subject to Counterparty Type 1 SCR following Article 189(2)(b) of delegated regulations.

3.5 The company holds a derivative position in the shape of a Forward asset to cover up for fluctuations in the investments whose original currency is denominated in USD. The Forward guarantees the conversion from USD to GBP as at December-24 at the level of £14m. This is stressed under SCR Counterparty type 1, factoring its mitigation capacity in the loss-given-default (LGD) of the instrument.

3.6 As at 31st December the company holds the following investments and bank accounts denominated in USD:

USD Investments & Bank accounts	£'000s
Dayim	5,372
8VC	6,543
CCA Longevity Fund	1,440
Perceptive	743
RBS USD account	142
JSS - Forward	-184
Total	14,057

3.7 As of December-24, the exposure to currency risk given by the excess of USD investments to the guaranteed GBP value by the forward derivative is £161k which is pretty close to the total USD exposure.

4. Solvency II Balance sheet – Technical provisions (Gross)

4.1. Structure and segregation

4.1.1 The following heads of damage are segregated into Solvency II Classes as follows:

SII Segments - Annex II	HoD
1 – Motor vehicle liability insurance	Property damage (PD) & Bodily Injury (TP)
2 – Other motor insurance	Accidental damage (AD) & Windscreen damage (WS)
8 – Assistance	Rescue
9 – Miscellaneous financial loss	Excess

4.1.2 For the purposes of the modelling, technical provisions are calculated based on the following constituent parts:

- Claims provision (excluding discounting, expenses, ENID adjustment and risk margin)
- Premium provision (excluding discounting, expenses, ENID adjustment and risk margin)
- ENID adjustment
- Cancellations adjustment
- Management load
- Run-off provision adjustment

- Insurance and reinsurance payables and receivables that are brought into the best estimate liability
- Discounting effect
- Risk margin

4.2. Contract boundaries

4.2.1 As at 31st of December 2024 the Company has collected £837k premium where the inception period had not yet commenced therefore the company is not obligated to cover at the valuation date and therefore not appearing in the accounts yet. These positive future expected cashflows (BBNI, Bound but not Incepted) must appear in the Solvency II Balance sheet and therefore an adjustment has been made reducing the gross premium provision.

4.2.2 The quantum of the allowance for BBNI is provided in the following table:

	GWP	BBNI - Gross	Unearned ULR - Gross	BBNI - Unexpired Claims	Net BBNI
Dec-24	837,109	837,109	81.6%	682,969	154,140

4.2.3 An allowance of £154k is recognized reducing the gross premium provision.

4.3. Claims provision (excluding discounting, run-off provision, ENID and risk margin)

4.3.1 Solvency II best estimate of claims provision coincides with GAAP Claims Outstanding and IBNR excluding any management loading or any margins of prudence:

(£'000s)	GAAP Valuation	SII Valuation	Comments
Claims OS Provision	188,576	188,576	
IBNR	17,254	17,254	
Management margin	6,000	0	
Total claims provision	211,830	205,830	

4.4. Premium provision (excluding discounting, run-off provision, ENID, risk margin and future premiums receivable)

4.4.1 The best estimate for premium provision is calculated as follows:

$$\text{BE of Premium Provision} = \sum_{\text{All Books}} ((\text{UEP} + \text{BBNI}) \times \text{ULR}_{\text{gross}})$$

Where:

- *Books* refers to separate books of business as identified for management accounts purposes.
- *UEP* refers to the unearned premium at the valuation date in respect of the book of business
- *BBNI* refers to adjustment for bound but not incepted business. This relates to claims expected to be payable in relation to policies bound but not incepted at the valuation date.
- *ULR_{gross}* relates to the unearned ultimate loss ratio expected for that book of business, gross of

non-proportional reinsurance.

4.4.2 The following table shows the unearned premiums by underwriting year and class for each book of business:

UPR - Journals (£'000s)	SII Class	2024	Prior Years
UPR - Journals - GR	Motor total	24,161	-1,278
UPR - Journals - GR - AURR	Motor total	0	0
UPR - Journals - NR	Motor total	7,763	1,277
UPR - Journals - NR - AURR	Motor total	0	37
UPR - PUKKA	Motor total	0	0
UPR - PUKKA CV	Motor total	0	-1
UPR - Hedgehog	Motor total	2,302	9
UPR - Rescue	Assistance	3	0
UPR - Excess	Miscellaneous	0	0
Total		34,273	43

4.4.3 'GR' and 'NR' stand for gross and net rated business depending on whether contains the acquisition costs or not.

4.4.4 As of 31st December there is an additional unexpired risk reserve (AURR) for years 2022 and prior equal to £37k as amount required in excess of the UPR.

4.4.5 The following table shows the Unearned ULRs applied on the UPR to derive the unearned claims cashflows:

Unearned ULRs (%)	SII Class	2024	2023	2022
UPR - Journals - GR	Motor total	74.8%	8.2%	106.8%
UPR - Journals - GR - AURR	Motor total	0.0%	0.0%	0.0%
UPR - Journals - NR	Motor total	81.6%	92.5%	106.8%
UPR - Journals - NR - AURR	Motor total	0.0%	100.0%	100.0%
UPR - PUKKA	Motor total	0.0%	0.0%	0.0%
UPR - PUKKA CV	Motor total	0.0%	-264.4%	365.2%
UPR - Hedgehog	Motor total	83.3%	202.6%	115.8%
UPR - Rescue	Assistance	40.0%	0.0%	0.0%
UPR - Excess	Miscellaneous	40.0%	0.0%	0.0%

4.4.6 Unearned ULRs for the net rated business (NR) align with the values provided in the booking spreadsheet (reserve review) from Actuarial. For the gross rated business, the unearned ULR is derived by adjusting the net rated ULR to add back acquisition costs, which explains why the gross ULR appears lower. This adjustment is typically calculated in the Finance Summary (accounts working papers), with the original source data coming from the reserve review for the net rated business.

4.4.7 The following table shows the ~~future premium provision for~~ claims from unearned business as at Dec-24:

Commented [AB1]: Maybe better "future claims from unearned business" for this concept

Commented [IM2R1]: Corrected

UEP Claims (£'000s)	SII Class	2024	Prior Years
PP - Journals - GR	Motor total	18,075	-1,364
PP - Journals - GR - AURR	Motor total	0	0
PP - Journals - NR	Motor total	6,336	1,363
PP - Journals - NR - AURR	Motor total	0	37
PP - PUKKA	Motor total	0	0
PP - PUKKA CV	Motor total	0	-1
PP - Hedgehog	Motor total	1,917	14
PP - Rescue	Assistance	1	0
PP - Excess	Miscellaneous	0	0
Total	26,379	26,329	50

4.4.8 The 'Motor total' above is split between classes 'Motor vehicle liability' and 'Other motor' based on the incurred data received as of December-24 for the different heads of damage as broken down in paragraph 4.1.1. This data provided a distribution of 87% incurred claims for motor liability and 13% for other motor.

4.4.9 Applying the above percentages, the premium provision by Solvency II class of business would be distributed as follows:

SII Class	UEP Claims (£'000s)	2024	Prior Years
1 – Motor vehicle liability insurance	22,820	22,777	43
2 – Other motor insurance	3,557	3,551	7
8 – Assistance	1	1	0
9 – Miscellaneous financial loss	0	0	0
Total	26,379	26,329	50

4.5. ENID adjustment

4.5.1 Under the Solvency II Directive insurers are required to allow for all possible events when setting their technical provisions, including those that may not have been historically realized before. Such events not presented in a set of observable historical loss data are often called binary events to define loss generating events with low frequency and high severity impact. An alternative name, Events Not In Data (ENID), may also be used to denote a much broader set of unobservable loss events.

4.5.2 The ENID adjustment is provided and agreed annually by the all teams in the company and as at 31st December – 24 this is equal to £652k. As a proportion of the SII net best estimate this amount is at 1.66% (Disc).

4.5.3 As of Year ended 2024 there has been various discussions between Actuarial (Reserving), Finance and Risk/Capital areas and it was agreed to increase this to 1.5% (Undisc.) of Net Solvency II technical provisions which would be equivalent to a 35% uplift in the reserve risk motor liability standard deviation to allow for missing events in the underlying reserve distribution, based on the stochastic built in model.

4.5.4 This percentage selected (1.5%) is in line with other similar motor insurers and substantially above the Lloyd's ENIDs approximation 1 for a CoV of 20% and same return

period (1/200) which would be 0.75%.

4.5.5 This uplift has been considered adequate by all the areas involved given the level of variability in the underlying loss distribution which is below market benchmarks as well as all the events already faced by the Company throughout the year.

4.5.6 Overall, the amount of £652k is allocated to claims and premium provision by SII Class depending on their weightings.

4.6. Cancellations adjustment

4.6.1 The percentage of cancellations is provided by MICL reserving team. The adjustment is applied on the UPR as follows:

	£'000s
UPR (1)	34,236
NWP (2)	92,105
Dev NWP (3)	89,227
Cancellation	
rate (1-(3)/(2)) = (4)	3.13%
Cancellation Adj. (5) = (4)*(1)	1,070

4.7. Management load

4.7.1 As at 31st December 2024 there is £6m of gross margin of prudence allocated as £3.1m to year 2023 and £2.9m to year 2022.

4.8. Run-off Expense provision

4.8.1 This provision is derived in accordance with Article 31 of the Delegated Regulations and so allows for the costs of servicing bound obligations over their lifetime on the assumption that the company stops writing new business.

4.8.2 Expenses have been projected for a ten-year period in line with the nature of the business:

Run-off expenses (£'000s)	Total	1	2	3	4	5	6	7	8	9	10
Management Company Charges	216	216									
Employment costs	682	195	153	117	61	54	42	37	16	7	0
Legal and Professional Fees	0	0									
Actuarial/Audit Fees	525	150	118	90	47	42	32	29	12	5	0
Regulatory Fees	418	137	45	45	32	32	32	32	32	32	0
Licences and Memberships	202	58	46	35	18	16	12	11	5	2	0
Directors Fees	0	0									
Information Technology	265	76	60	45	24	21	16	15	6	3	0
Investment management fees	0	0									
MIB	2,142	2,142									
Claims Handling Expenses	602	301	301	0	0	0	0	0	0	0	0
Total	5,052	3,274	722	331	182	165	134	124	70	49	0

4.8.3 The amount of MIB levy is re-classified from the GAAP entry 'Other creditors' and brought into the run-off expense provision.

4.8.4 All the items included in the expense provision have been provided by the Finance Department.

4.9 Intermediary receivables brought into solvency II gross technical provisions

4.9.1 Future premiums receivable are cash inflows for the unearned business that can offset the future claim payments expected from the UPR. In the table below is shown the amounts offsetting:

Amount due from Intermediaries - Net	£'000s
Amounts due from Intermediaries re Premiums (net)	7,639

Commented [AB3]: Rewording "are cash in flows for the unearned business, premium provision"

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4.10. Discounting

4.10.1 The Solvency II discounted gross technical provisions is given by the following:

$$\text{Discounting} = \sum_{t=1}^n \frac{CF_t}{(1 + RFR_t)^{(t-0.5)}} - CF_t$$

Where:

- CF_t refers the gross undiscounted technical provision cash flows in year t.
- RFR refers to the GBP risk-free rates as published monthly by the PRA.

(£'000s)	GAAP Valuation	SII Valuation	Comments
Disc - claim prov		-19,728	
Disc - prem prov		-2,176	
Disc - RO Expense provision		-479	
Total Discounting		-22,383	

4.11. Future claims payment pattern assumptions

4.11.1 The claims payment patterns employed to determine the future cash flows have been estimated by line of business (amounts in percentages):

Claims paid pattern	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10
1 – Motor vehicle liability insurance	29%	20%	16%	12%	6%	6%	4%	4%	2%	1%
2 – Other motor insurance	98%	2%	0%	0%	0%	0%	0%	0%	0%	0%
8 – Assistance	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%
9 – Miscellaneous financial loss	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%

4.12. Risk Margin

4.12.1 The risk margin is intended to be the sum of all future SCRs, based on the designated

cost of capital at 4% in accordance with Article 37 of the Delegated Regulations.

- 4.12.2 The Company uses a calculation method based on Method 1 of Guideline 61 of EIOPA's "Guidelines on the valuation of technical provisions". Future SCRs are approximated by estimating the underwriting, counterparty default and operational risk capital requirements at each future date:

$$RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t)}{(1 + r(t + 1))^{t+1}}$$

Where:

- SCR(t) denotes the Solvency Capital Requirement after t years
- r(t + 1) denotes the basic risk-free interest rate for the maturity of t + 1 years
- CoC denotes the Cost-of-Capital rate (4%)

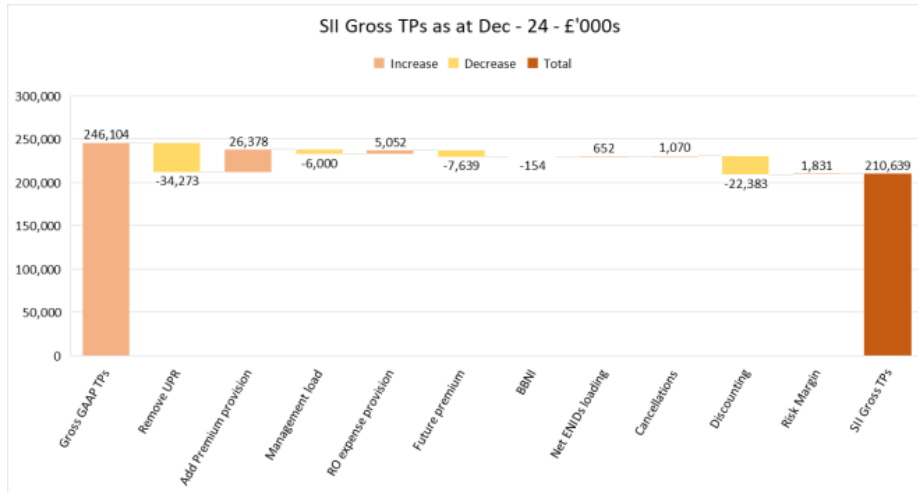
- 4.12.3 There is no assessment of market risk as this is considered fully diversified.

- 4.12.4 The production of the above SCR components over the period to ultimate is carried out using a proportionate approach applied to the applicable SCR components at time t=0. The proportions used are gross technical provisions for the underwriting and operational risk elements and reinsurance technical provisions for the counterparty default.

£'000s	GAAP valuation	SII valuation	Comments
Risk Margin		1,831	
Total		1,831	

4.13. GAAP to SII Gross TPs reconciliation

- 4.13.1 The waterfall for SII technical provisions broken down throughout section four is given below:



5. SOLVENCY II BALANCE SHEET – TECHNICAL PROVISIONS (REINSURANCE)

5.1. Structure and segregation

5.1.1 The heads of damage are segregated into Solvency II Classes as follows:

SII Segments - Annex II	HoD
1 – Motor vehicle liability insurance	Property damage (PD) & Bodily Injury (TP)
2 – Other motor insurance	Accidental damage (AD) & Windscreen damage (WS)

5.1.2 For the purposes of the modelling, reinsurance share of technical provisions are calculated based on the following constituent parts:

- Reinsurance share of claims provisions (excluding discounting and default deduction)
- Reinsurance share of premium provisions (excluding discounting and default deduction)
- Reinsurance net payables brought into Solvency II Reinsurance Technical Provisions
- Cancellations adjustment
- Quota-share sliding scale commission
- Default deduction

- Discounting

5.2. Reinsurance share of claims provisions (excluding discounting and default deduction)

5.2.1 Solvency II best estimate of reinsurance claims provision coincides with GAAP Reinsurance Claims Outstanding and IBNR excluding any management loading or any margins of prudence:

£'000s	GAAP Valuation	SII Valuation	Comments
RI Claims OS Provision	150,752	150,752	
RI IBNR	16,098	16,098	
Provision for Claims - LPT	-56	-56	
Management margin	1,500	0	
Total RI claims provision	168,294	166,794	

5.3. Reinsurance share of premium provisions (excluding discounting and default deduction)

5.3.1 The best estimate for reinsurance share of premium provisions is calculated as follows:

$$\text{RI share of Prem. Provisions} = \sum_{\text{All Books}} ((\text{RI_UEP} + \text{RI_BBNI}) \times \text{ULR}_{\text{net}} + \text{XOL})$$

Where:

- Books refers to separate books of business as identified for management accounts purposes
- RI_UEP refers to proportional reinsurance share of unearned premium at the valuation date in respect of the book of business
- RI_BBNI refers to adjustment for proportional reinsurance share of bound but not incepted business. This relates to claims expected to be payable in relation to policies bound but not incepted at the valuation date.
- ULRnet relates to the ultimate loss ratio expected for that book of business, net of non-proportional reinsurance. Where a separate ultimate loss ratio in relation to unearned exposures is available this will be used, else the ultimate loss ratio selected will match that of the most recent year of account for the book of business
- XOL refers to any amounts expected to be recoverable from non-proportional reinsurance treaties.

5.3.2 The derivation for the SII balance sheet of the expected recoverables from unearned business ~~RI Premium provision~~ is set out in detail in the following tables, first by deriving the unearned ULRs:

Unearned ULRs (%)	2024	2023	2022
ULR - XoL - Pukka - GR	0.00%	0.00%	0.00%
ULR - XoL - Pukka - NR	0.00%	0.00%	0.00%
ULR - XoL - Pukka CV - GR	0.00%	-37.01%	29.52%
ULR - XoL - Pukka CV- NR	0.00%	0.00%	0.00%
ULR - XoL - Standard - GR	11.49%	1.14%	8.63%
ULR - XoL - Standard - GR - AURR	0.00%	0.00%	98.21%
ULR - XoL - Standard - NR - AURR	0.00%	0.00%	98.13%

Commented [AB5]: Maybe better "Expected recoverables from unearned business"

Commented [IM6R5]: Corrected

ULR - XoL - Standard - NR	12.54%	12.94%	8.63%
ULR - XoL - Hedgehog - GR	12.79%	28.36%	9.36%
ULR - XoL - Hedgehog - NR	0.00%	0.00%	0.00%
ULR - Pukka fronting - GR	0.00%	0.00%	0.00%
ULR - Pukka fronting - NR	0.00%	0.00%	0.00%
ULR - R&V - GR	65.11%	207.13%	1111.61%
ULR - R&V - NR	65.11%	207.13%	1111.61%
ULR - Trans RE - GR	65.11%	207.13%	1111.61%
ULR - Trans RE - NR	65.11%	207.13%	1111.61%
ULR - New RE - GR	65.11%	207.13%	1111.61%
ULR - New RE - NR	65.11%	207.13%	1111.61%
ULR - Allianz - GR	65.11%	207.13%	1111.61%
ULR - Allianz - NR	65.11%	207.13%	1111.61%
ULR - Swiss RE - GR	63.94%	0.00%	0.00%
ULR - Swiss RE - NR	69.08%	0.00%	0.00%

5.3.3 XoL Unearned ULRs are determined as the difference between the Gross of XoL Unearned ULRs and net of XoL unearned ULRs, which is also performed in the finance summary and can be traced back to the reserve review.

5.3.4 QS Unearned ULRs are calculated as the difference between Gross and net of XoL Unearned ULRs.

5.3.5 The following table establishes the reinsurance UPR subject:

RI UPR (£'000s)	Total	2024	2023	2022
UPR - Journals - Pukka - GR	0	0	0	0
UPR - Journals - Pukka - NR	0	0	0	0
UPR - Journals - Pukka CV - GR	-1	0	0	-1
UPR - Journals - Pukka CV - NR	0	0	0	0
UPR - Journals - Standard - GR	22,883	24,161	0	-1,278
UPR - Journals - Standard - GR - AURR	0	0	0	0
UPR - Journals - Standard - NR - AURR	0	0	0	0
UPR - Journals - Standard - NR	9,040	7,763	0	1,277
UPR - Journals - Hedgehog - GR	2,311	2,302	5	3
UPR - Journals - Hedgehog - NR	0	0	0	0
UPR - Pukka fronting - GR	0	0	0	0
UPR - Pukka fronting - NR	0	0	0	0
UPR - R&V - GR	6,847	6,845	1	1
UPR - R&V - NR	0	0	0	0
UPR - Trans RE - GR	3,423	3,423	1	0
UPR - Trans RE - NR	0	0	0	0
UPR - New RE - GR	7,092	7,089	2	1
UPR - New RE - NR	0	0	0	0
UPR - Allianz - GR	3,423	3,423	1	0
UPR - Allianz - NR	0	0	0	0
UPR - Swiss RE - GR	2,460	2,460	0	0

UPR - Swiss RE - NR	718	718	0	0
Total	58,197	58,184	9	4

5.3.6 The following table shows the reinsurance premium provision as of Dec-24:

RI PP (£'000s)	Total	2024	2023	2022
PP - XoL - Pukka - GR	0	0	0	0
PP - XoL - Pukka - NR	0	0	0	0
PP - XoL - Pukka CV - GR	0	0	0	0
PP - XoL - Pukka CV - NR	0	0	0	0
PP - XoL - Standard - GR	2,666	2,776	0	-182
PP - XoL - Standard - GR - AURR	0	0	0	0
PP - XoL - Standard - NR - AURR	0	0	0	0
PP - XoL - Standard - NR	1,084	973	0	182
PP - XoL - Hedgehog - GR	296	294	1	0
PP - XoL - Hedgehog - NR	0	0	0	0
PP - Pukka fronting - GR	0	0	0	0
PP - Pukka fronting - NR	0	0	0	0
PP - R&V - GR	4,466	4,457	2	9
PP - R&V - NR	0	0	0	0
PP - Trans RE - GR	2,233	2,228	1	5
PP - Trans RE - NR	0	0	0	0
PP - New RE - GR	4,630	4,616	3	16
PP - New RE - NR	0	0	0	0
PP - Allianz - GR	2,232	2,228	1	2
PP - Allianz - NR	0	0	0	0
PP - Swiss RE - GR	1,573	1,573	0	0
PP - Swiss RE - NR	496	496	0	0
Total	19,684	19,642	9	32

5.4. Reinsurance share of ENID adjustment

5.4.1 ENID adjustment had been provided on a net basis and is included in Gross SII Technical provisions.

5.5. Reinsurance net payables brought into Solvency II Reinsurance Technical Provisions

5.5.1 Reinsurance net payables brought into Solvency II Reinsurance Technical Provisions:

Net RI technical payables	£'000s
Creditors arising out of Reinsurance Operations - XOL	11,853
Creditors arising out of Reinsurance Operations - QS	-5,299
Creditors arising out of Reinsurance Operations - LPT	460
Coinurance debtor	-4,037
Total	2,976

5.6. Cancellations adjustment

5.6.1 The cancellation rate calculated in paragraph 4(6)(1) at the level of 3.13% is applied on the reinsurance UPR, resulting in a cancellation of £952k.

5.7. Quota-share sliding scale commission

5.7.1 Future reinsurance expected technical cashflows such as profit or sliding scale commissions are allowed as part of the Reinsurance best estimate. This was provided by finance and was estimated at the level of £2m as of December-24.

5.8. Reinsurance default adjustment

5.8.1 The default adjustment is calculated as follows:

$$\text{Default adjustment} = (CP + PP) - \sum_{t=1}^N (CF_t \times ((1 - P(\text{default}))^t \times 50\% + 50\%))$$

Where:

- CP refers to the reinsurance claims provisions without discounting, or ENIDs.
- PP refers to the RI premium provisions without discounting or ENIDs.
- CF_t refers to the cash flow (CP + PP) in year t
- N refers to the number of years that technical provisions cash flows are expected to be payable
- P(default) refers to the weighted probability of default of the reinsurance profile, calculated as follows:

$$P(\text{default}) = \sum_{\text{All reinsurers}} \text{Max}(\text{RI exposure}; 0) \times P(\text{rating})$$

Where:

- RI exposure is the total exposure to each reinsurer net of any collateral held
- P(rating) is the probability of default based on the ECAI rating as per Article 199(2) or the probability of default based on the solvency coverage in accordance with 199(3) (where applicable) of the Delegated Regulations.

5.8.2 The approach taken to estimate the allowance for reinsurance bad debt is based on parameters that underlie the calculation of counterparty default risk under the Standard Formula. These parameters are calibrated on a 1-in-200-year basis over a one-year time horizon. Notwithstanding this point, the approach is considered to be proportionate:

	GAAP Valuation	SII Valuation	Comments
Default deduction	0	-61	

5.9. Reinsurance discounting

5.9.1 The discounted reinsurance share of gross technical provisions is given by the following:

$$\text{Discounting} = \sum_{t=1}^n \frac{RI_CF_t}{(1 + RFR_t)^{(t-0.5)}} - RI_CF_t$$

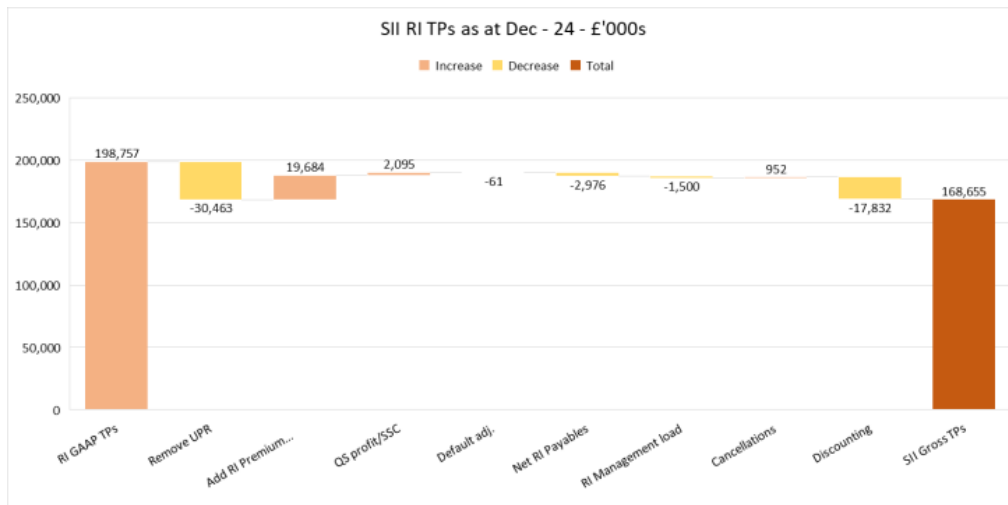
Where:

- RI_CF_t refers the reinsurance share of undiscounted technical provision cash flows in year t.
- RFR refers to the GBP risk-free rates as published monthly by the Bank of England.

£'000s	GAAP Valuation	SII Valuation	Comments
Disc - RI Clm Prov	0	-16,143	
Disc - RI Prem Prov	0	-1,687	
Total RI Discounting	0	-17,831	

5.10. GAAP to SII Reinsurance TP's reconciliation

5.10.1 The waterfall for SII reinsurance technical provisions broken down throughout section five is given below:



6. SOLVENCY II BALANCE SHEET – OTHER ASSETS AND LIABILITIES

6.1. Deferred tax

6.1.1 Deferred tax is considered based on the movement between the GAAP and SII balance sheet. More specifically, since a loss occurs as we move from GAAP to SII, we assume that an asset can be recognized to the extent of the overall movement multiplied by 12.5% which is the prevailing rate of corporation tax in Gibraltar as of December-24.

6.1.2 For AQRT purpose, movement through the year in GAAP Own Funds has been -£7.2m and -£1.9m on a Solvency II basis. The net temporary difference of -£5.3m would arise a deferred tax asset of +£662k, however, for prudence, this hasn't been factored in.

6.2. Other assets

6.2.1 Other assets included in the Solvency II balance sheet are shown below:

£'000s	GAAP Valuation	SII Valuation	Comments
Prepayments	451		Removed from SII
Deferred Acquisition Costs - Gross Amount	1,965		Removed from SII
Deferred Processing Costs - Gross Amount	1,246		Removed from SII
Deferred MIB costs	778		Removed from SII
Other Debtors - A-tech & OHL	3,202	3,202	
Other Debtors - KCASL	130	130	
Due from MHGL	0	0	
Total Other Assets	7,772	3,332	

6.2.2 Entries that do not represent an expected future cash-flow are not included in the SII Balance sheet.

6.3. Other liabilities

6.3.1 Other liabilities included in the Solvency II balance sheet are shown below:

£'000s	GAAP Valuation	SII Valuation	Comments
Accruals	1,445	1,445	
Other creditors including taxation and social security - IPT Creditor	1,612	1,612	
Other creditors including taxation and social security - Claims Handling Costs	0	0	
Legal/Bad Debt provision	8,130	8,130	
Total	11,187	11,187	

7. SOLVENCY II BALANCE SHEET – CAPITAL

7.1. Tier 1 capital

7.1.1 The share capital of the Company is as follows:

Capital	Available Tier 1
Ordinary share capital (gross of own shares)	173,011
Share premium account related to ordinary share capital	82,931,335
Reconciliation reserve	-51,072,292
Total	32,032,054

7.2. Tier 2 capital

7.2.2 The Company has no tier 2 capital.

7.3. Tier 3 capital

7.3.1 The Company has no tier 3 capital.

8. SOLVENCY CAPITAL REQUIREMENTS (SCR)

8.1. Use of External Credit Assessment Institutions (ECAIs)

8.1.1 The standard formula places significant reliance on the use of ratings issued by ECAIs. The criteria for deciding on the applicable rating to use are as follows in accordance with Article 4 of the Delegated Regulations:

8.1.2 Where only one credit assessment is available, the Company will use that credit assessment unless the single rating relates to a securitisation position in which case the capital requirement should be derived as though no credit rating were available in accordance with Article 6 of the Delegated Regulations.

8.1.3 Where two credit assessments are available, the Company will use the lower credit assessment which generates the higher capital requirement.

8.1.4 Where more than two credit assessments are available, the Company will use the credit rating which generates the second lowest capital requirement.

8.1.5 The scales in relation to the major credit rating agencies are as follows:

SII	Model	S&P	Fitch	AM Best	Moody's
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Level	input				
0	AAA	AAA	AAA	A++/A+	Aaa
1	AA	AA	AA	A/A-	Aa
2	A	A	A	B++/B+	A
3	BBB	BBB	BBB	B/B-	Baa
4	BB	BB	BB	C++/C+	Ba
5	B	B	B	C/C-	B
6	CCC or lower	CCC	CCC	D	Caa/Ca/C

8.2. Market risk – Interest rate risk

- 8.2.1 Interest rate risk arises from the mismatch between the durations and cash flows of assets and liabilities. The interest rate risk is modeled by applying prescribed stresses (shocks) to the risk-free interest rate curve. The insurer must calculate the change in the net asset position (difference between assets and liabilities) under both upward and downward interest rate shocks, considering the worst-case scenario.
- 8.2.2 The interest rate risk capital charge is the difference between the net present value of assets and liabilities after applying the upward and downward shocks. The larger of the two resulting shortfalls (if any) is taken as the capital requirement for interest rate risk.
- 8.2.3 The interest rate risk sub-module considers the assets stressed within the spread risk sub-module (i.e. bonds and loans) and the technical provisions as those assets and liabilities are exposed to movements in the term structure of interest rates.
- 8.2.4 Potentially, the annual cash flows associated with bonds and loans are subject to the movements in the term structure of interest rates as set out in Articles 166 and 167 of the Delegated Regulations.
- 8.2.5 The net technical provisions are calculated based on the net expected claims settlements given the claims settlement patterns detailed in Section 4.11.
- 8.2.6 Intermediary receivables are also subject to timing and interest rate risk changes.
- 8.2.7 Reinsurance payables, mostly XoL premium creditors are not subject to interest rate fluctuations as they're normally short-term cashflows.
- 8.2.8 SCR interest calculations are broken down in the following tables:

Net liability cashflows	£'000s
Undisc. Net BE	-42,617
Disc. Net BE	-38,455
Shock up	-36,401
Shock down	-40,408
Mortgages, bonds & loans cashflows	£'000s
Undisc. cashflows	62,694
Discounted cashflows	60,132
Shock up	58,642
Shock down	61,662

Net assets	£'000s
Discounted	21,676
Shock up	22,241
Shock down	21,254

Movement in Net assets	£'000s
Shock up	565
Shock down	-422
SCR interest	-422

8.2.9 SCR interest as of December-24 is the absolute value of the shock that result in the lowest possible deterioration of net assets which is given by £422k.

8.3. Market risk – Spread risk

8.3.1 Spread risk refers to the risk of changes in the market price of financial instruments due to fluctuations in credit spreads. In essence, it measures the potential loss from the deterioration of the credit quality of issuers of bonds or other fixed-income securities held by the insurer.

8.3.2 It impacts assets such as corporate bonds, loans, asset-backed securities, credit derivatives and other debt instruments with credit risk. As of 31st December the company holds £58.1m in assets subject to spread risk SCR.

8.3.3 SCR for a general bond, mortgage or loan is summarized as follows:

$$SCR_{bml} = \text{Duration} \cdot \text{Risk factor(Rating)} \cdot \text{Market value}$$

8.3.4 If the asset is collateralized, the risk factor is halved.

8.3.5 The risk factor depends on the credit rating of the asset. For assets with duration lower than 5 years and unrated, the risk factor is 3% (Commission Delegated regulations, Art.176(4)).

8.3.6 The following table displays the summary of the assets subject to spread risk:

Spread assets	£'000s	Rating	Aver.Duration	Collateralised
CCA longevity	1,440	NR	1.75	No
JP Morgan Fund	26,813	AAA	1.00	No
Horizon	0	NR	1.00	No
Pluto	1,938	NR	1.00	Yes
Avantus	3,087	NR	1.75	No
Dayim	5,372	NR	1.75	No
Colchis	0	NR	1.00	No
Hiyacar	200	NR	1.00	No
HyperJar	972	NR	1.00	No
Ibuyer	2,599	NR	1.00	No
Perceptive	743	NR	1.00	No
Wolvercote loan	5,336	NR	2.81	No
Deep Discounted bonds	9,643	NR	2.67	Yes
Total	58,142			

8.3.7 Spread risk assets can not have a duration lower than one year based on Art.176(2) of Commission Delegated.

8.3.8 For the cases where the duration wasn't available, the term of the asset was used which represents the worst case scenario for spread risk.

8.3.9 SCR spread risk at December-24 was £1.5m.

8.4. Market risk – Equity risk

8.4.1 Equity risk refers to the risk of loss resulting from fluctuations in the value of equity investments, including publicly traded shares, private equity, and other forms of ownership in companies. The company holds £10.88m in equities as of 31st December 2024 distributed as follows:

Equity	Rating	Strategic	Equity Type	Value (£'000s)	Base shock (Regul.)	Symmetric Adj. (Dec-24)	Capital Charge (%)	Capital Charge (£'000s)
Beverley Funerals	NR	Yes	1	4,340.81	22%	0.00%	22.00%	955
BVC - Fund 1	NR	No	2	900.18	49%	3.06%	52.06%	469
BVC - Fund 1	NR	No	2	754.22	49%	3.06%	52.06%	393
BVC - Fund 1	NR	No	2	353.89	49%	3.06%	52.06%	184
BVC - Fund 1	NR	No	1	280.92	39%	3.06%	42.06%	118
BVC - Fund 1	NR	No	2	237.24	49%	3.06%	52.06%	123
BVC - Fund 1	NR	No	2	193.10	49%	3.06%	52.06%	101
BVC - Fund 1	NR	No	1	14.13	39%	3.06%	42.06%	6
BVC - Fund 1	NR	No	2	365.26	49%	3.06%	52.06%	190
BVC - Fund 1	NR	No	2	365.26	49%	3.06%	52.06%	190
BVC - Fund 1	NR	No	2	365.26	49%	3.06%	52.06%	190
BVC - Entrepreneurs Fund	NR	No	2	204.72	49%	3.06%	52.06%	107
BVC - Entrepreneurs Fund	NR	No	1	2.06	39%	3.06%	42.06%	1
BVC - SPV 1	NR	No	2	625.35	49%	3.06%	52.06%	326
BVC - SPV 1	NR	No	2	631.87	49%	3.06%	52.06%	329
BVC - SPV 1	NR	No	2	84.49	49%	3.06%	52.06%	44
BVC - SPV 1	NR	No	2	1,164.98	49%	3.06%	52.06%	606
Total				10,883.73			Total	4,331.23

8.4.2 Type 1 equities include equities listed in developed markets. A standard 39% downward shock is applied to the market value of these equities. If they're considered strategic, the base shock is 22%.

8.4.3 Equity investment in Beverley Funerals (leading independent UK provider of funeral services) meets the criteria set out in Article 171 of Delegated Regulations for strategic equity and therefore receiving a 22% shock.

8.4.4 Type 2 equities include equities in emerging markets and private equity. A 49% downward shock is applied to reflect the higher volatility and risk of these investments.

8.4.5 Solvency II includes a symmetric adjustment mechanism for equity risk, which adjusts the size of the equity shock based on recent market performance. If equity markets have been performing well over time, the shock applied will be increased to reflect the possibility of a sharp reversal. If equity markets have been underperforming, the shock applied will be lower. This mechanism ensures that the equity risk capital charge adjusts dynamically with market conditions, reducing pro-cyclicality.

8.4.6 Once the above capital charges for each asset has been calculated, it is necessary to factor in the diversification and correlation effects for the final SCR equity capital charge (Art.168(4) of Commission Delegated Regulations):

$$SCR_{equity} = \sqrt{eq_1^2 + 2 \cdot 0.75 \cdot eq_1 \cdot eq_2 + eq_2^2} = \sqrt{£1m^2 + 2 \cdot 0.75 \cdot £1m \cdot £3.25m + £3.25m^2} = £4.12m$$

Where:

- Eq(1) is the SCR for type 1 equities.

- Eq(2) is the SCR for type 2 equities.

8.5. Market risk – Currency risk

- 8.5.1 Currency risk is the risk that the value of assets or liabilities denominated in foreign currencies will fluctuate due to changes in exchange rates.
- 8.5.2 The company holds £14m in assets (investments and cash) whose original currency is USD as broken down in paragraph 3.7.
- 8.5.3 The company also holds a forward derivative to cover up for fluctuations in the rate of exchange for these assets.
- 8.5.4 As of 31st December-24 the amount of USD equivalent in GBP which is in excess of the guaranteed value of the forward and therefore is the actual risk exposure to currency risk is given by the following expression:

$$\text{Risk exposure} = \text{Net assets}_{\text{USD/GBP}} - \text{Market value of the Forward}_{\text{GBP}} = £14.06\text{m} - £13.89\text{m} = £161\text{k}$$

- 8.5.5 SCR currency risk is a 25% of the risk exposure (Art.188(3)(4) of Commission Delegated):

$$\text{SCR}_{\text{ccy}} = 25\% \cdot £161\text{k} = £40\text{k}$$

8.6. Market risk – Property risk

- 8.6.1 The company does not hold any properties as of December-24.

8.7. Market risk – Concentration risk

- 8.7.1 Concentration risk measures the potential for financial loss arising from an overexposure to a single counterparty, issuer, or group of related counterparties. It specifically looks at the risk of significant losses if an insurer's assets are concentrated in a small number of entities or counterparties, meaning that adverse events affecting these entities could lead to disproportionately large losses for the insurer.
- 8.7.2 Market concentration risk applies to exposures to individual counterparties or groups of related counterparties. These exposures typically include:
- Corporate bonds
 - Mortgages and loans
 - Equities
 - Properties
- 8.7.3 All the assets above comprise the assets in scope of SCR concentration which are summarized below:

Asset class	£'000s
Mortgages, bonds & loans	58,142
Equities	10,884
Properties	0
Total Assets in scope	69,026

8.7.4 Solvency II sets a threshold above which exposures are considered concentrated. The concentration threshold is typically defined as 1.5% of the insurer's total assets in scope for non-rated investments (the majority). Any exposure to a single counterparty that exceeds this threshold must be included in the concentration risk calculation.

8.7.5 Exposures below this threshold are assumed to be sufficiently diversified and are not included in the concentration risk charge.

8.7.6 Given the total assets in scope of £69.03m and the threshold of 1.5%, in monetary figures the threshold is £1.03m. Any counterparty beyond £1.03m is subject to concentration risk and this amount in excess is subject to a concentration risk factor 73% for non-rated investments to derive each specific asset concentration charge.

8.7.7 In the table below it is shown the concentration risk for each asset:

Largest concentration exposures (£'000s)						
Order	Asset name	Asset value	Threshold	Excess over the Threshold	Risk Factor for Conc. Risk (Not-rated)	SCR concentration (i)
1	DayimLoan	5,372	1,035	4,337	73%	3,165.74
2	WIL Loan	5,336	1,035	4,301	73%	3,139.47
3	Wolvercote - BFL	4,341	1,035	3,305	73%	2,412.96
4	AuctusLoanNotes	3,087	1,035	2,052	73%	1,497.68
5	Secured series A3 Bonds	1,929	1,035	893	73%	652.05
6	Secured series A4 Bonds	1,929	1,035	893	73%	652.05
7	Secured series A5 Bonds	1,929	1,035	893	73%	652.05
8	Secured series A1 Bonds	1,446	1,035	411	73%	300.08
9	Secured series A2 Bonds	1,446	1,035	411	73%	300.08
10	8VC - SPV 1	1,165	1,035	130	73%	94.60

8.7.8 Once the concentration risk has been determined for each counterparty (i), the final charge factors in the correlation and diversification between assets following formulae:

$$SCR_{conc} = \sqrt{\sum_i Conc_i^2} = £5.42m$$

Where:

- The sum covers all single name exposures i
- Conc(i) denotes the capital requirement for market risk concentration on a single name exposure i

8.8. Counterparty risk – Type 1

8.8.1 Type 1 counterparties are generally those with high credit quality and where the exposure is typically large but well-monitored.

8.8.2 The exposures covered under Type 1 include:

- Reinsurance recoverables: Amounts that the insurer expects to recover from its reinsurers, either due to claims already paid by the insurer or in anticipation of future claims.
- Cash and equivalents held with banks or financial institutions.

- Derivatives: Financial derivatives such as swaps, options, or futures where the insurer is exposed to the counterparty's ability to honor the contract.
- Securities lending and repurchase agreements (repos): Transactions involving temporary transfer of securities or cash.

Bank	Rating	Level Selected	Exposure (£'000s)
RBS	A+ (S&P, Sep 2024) A1 (Moody's, May 2024) A+ (Fitch, Nov 2024)	A (2)	-3,212
JSS	A (S&P, Jan 2024)	A (2)	6,367
JSS - Forward	A (S&P, Jan 2024)	A (2)	-184
SG Hambros	A (S&P, Aug 2024) A1 (Moody's, Jun 2024) A (Fitch, Oct 2024)	A (2)	6,385
Barclays	A+ (S&P, Oct 2024) A1 (Moody's, March 2025) A+ (Fitch, July 2023)	A (2)	602
JP Morgan Fund - Cash	A+ (S&P, July 2024) Aa1 (Moody's, Nov 2023) AA (Fitch, Dec 2024)	A (2)	1,115
HSBC	A+ (S&P, NA) A1 (Moody's, NA) AA- (Fitch, Aug 2024)	A (2)	126
Total			11,199

8.8.3 Loss-given-default (LGD) for Counterparty default risk is 100% in all instances in accordance with Article 192(6) of Delegated Regulation.

8.8.4 The LGD for the future derivative is calculated in accordance with Article 192(3c) of Commission Delegated Regulation:

$$LGD_{Future} = \max(90\% \cdot (\text{Derivative} + RM_{fin}) - F^{int} \cdot \text{Collateral}; 0)$$

Where:

- Derivative denotes the value of the derivative
- RM denotes the risk mitigation effect on market risk of the derivative

- Collateral denotes the risk adjusted value of the collateral in relation to the derivative
- F''' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty

8.8.5 The risk mitigation element is obtained by calculating what the SCR market risk (through currency risk) would be in the case of the forward not existing. There is no knowledge of a collateral arrangement existing for this contract.

8.8.6 Given the above expression the LGD for the future derivative would be:

$$LGD_{Future} = \max(90\% \cdot (-£184k + £1.36m); 0) = £1.05m$$

8.8.7 The reinsurer's exposures stressed in the counterparty type 1 risk module are as follows:

Reinsurer	Rating	Exposure (£'000s)
Amlin AG	A	4,755
Arch	A	6,153
Aspen	A	2,179
Axis RE	A	3,693
Everest RE	A	10,512
Lloyds	A	12,682
Qatar RE	A	5,609
R&V	AA	23,925
SCOR	A	3,259
Tokio RE	A	3,659
Watford RE	A	5,592
Swiss RE	AA	4,161
New RE	AA	46,439
Peak RE	A	585
Munich Re	AA	731
Korean Re	A	175
Toa Re	A	146
QBE	A	146
Unipol RE	A	2,765
Transatlantic RE	A	18,258
Allianz	AA	13,223
Total		168,655

8.8.8 Exposure subject to counterparty default type 1 coincides with the reinsurance best estimate in the Solvency II Balance sheet.

8.8.9 Reinsurers risk Mitigation effect on underwriting risk (RM) as part of the recoveries LGD is intended to consider the level of reinsurance reliance in accordance with Article 192(2)(b) of the Delegated Regulations.

8.8.10 The total Risk Mitigation capacity of reinsurers (RM) is calculated by reperforming the calculations for underwriting risk not factoring reinsurance recoveries, then calculate it again on a net of reinsurance basis. Risk mitigation capacity is the difference between the two underwriting charges (not factoring RI minus factoring RI).

£'000s			
SCR Module	Net basis	Gross basis	Risk mitigation
Premium and Reserve risk	11,613	68,538	56,925
Catastrophe	560	6,703	6,143
Lapse	0	0	0
Diversification	-407	-4,728	-4,320
Total	11,765	70,513	58,748

8.8.11 Based on proportionality, the total difference between gross and net is then allocated on a pro-rata basis to the exposures by reinsurer as listed above (parag.,8.8.7) which is the simplification set out in Article 107 of the Delegated Regulations.

8.8.12 The loss-given-default (LGD) on a reinsurance arrangement in accordance with Article 192(2) of the Delegated Regulations shall be equal to the following:

$$LGD = \max[50\% \cdot (REcoverables + 50\% \cdot RM_{re}) - F \cdot Collateral; 0]$$

Where:

- REcoverables denotes the best estimate of amounts recoverable from the reinsurance arrangement.
- RM_{re} denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement.
- F denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement in case of any credit event related to the counterparty.

£'000s					
Reinsurer	Rating	Exposure	Risk Mitigating effect	Collateral	LGD
Amlin AG	A	4,755	1,656	0	2,792
Arch	A	6,154	2,143	0	3,613
Aspen	A	2,179	759	0	1,279
Axis RE	A	3,694	1,287	0	2,169
Everest RE	A	10,512	3,662	0	6,171
Lloyds	A	12,682	4,418	0	7,445
Qatar RE	A	5,609	1,954	0	3,293
R&V	AA	23,925	8,334	0	14,046
SCOR	A	3,260	1,136	0	1,914
Tokio RE	A	3,659	1,275	0	2,148
Watford RE	A	5,592	1,948	0	3,283
Swiss RE	AA	4,161	1,449	0	2,443
New RE	AA	46,440	16,176	0	27,264
Peak RE	A	586	204	0	344
Munich Re	AA	732	255	0	430
Korean Re	A	176	61	0	103
Toa Re	A	146	51	0	86
QBE	A	146	51	0	86
Unipol RE	A	2,765	963	0	1,623
Transatlantic RE	A	18,259	6,360	0	10,719
Allianz	AA	13,224	4,606	0	7,763
Total		168,655	58,748	0	99,015

8.9. Counterparty risk – Type 2

8.9.1 Type 2 exposures consist of all credit exposures which are not covered in the spread risk sub-module, and which are not type 1 exposures, including the following:

- Receivables from intermediaries
- Policyholder debtors
- Mortgage loans which meet the requirements in Article 191(2) to (13)
- Deposits with ceding undertakings, where the number of single name exposures exceeds 15
- Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid as referred to in paragraph 2(d)

8.9.2 The capital requirement for counterparty default risk on type 2 exposures shall be equal to the loss in the basic own funds that would result from an instantaneous decrease in value of type 2 exposures by the following amount:

$$90\% \cdot \text{LGD}_{\text{receivables} > 3 \text{ months}} + \sum_i 15\% \cdot \text{LGD}_i$$

Where:

- $\text{LGD}_{\text{receivables} > 3 \text{ months}}$ denote the total losses-given-default on all receivables from intermediaries which have been due for more than three months.

- The sum is taken on all type 2 exposures other than receivables from intermediaries which have been due for more than three months.
- LGD_i denotes the loss-given-default on the type 2 exposure i.

8.9.3 A periodical aging debtors study is received to calibrate which debtors are or not on credit terms. As of December-24 this SCR for counterparty default risk type two equals:

$$SCR_{type\ 2} = 90\% \cdot £316k + \sum_i 15\% \cdot £1.84m = £560k$$

8.10. Non-life underwriting risk – Premium and Reserves

8.10.1 The non-life premium and reserve risk sub-module is based on the following in accordance with Article 115 of the Delegated Regulations:

$$\text{Non - life Premium and Reserve Risk} = 3 \times \sigma \times V$$

8.10.2 The volume measure, V, is calculated in accordance with Article 116(2) of the Delegated Regulations, subject to the following:

- Books have been segmented into homogeneous segments in accordance with Annex II of the Delegated Regulations on a consistent basis as that detailed in Section 4.1.
- The geographical diversification factor is assumed to be 1 on the basis that all retained premiums are written in the UK. Fronted books have nil impact on the volume measure although there are no fronted books.

8.10.3 The premium volume measure for above V, V_{prem} , is calculated as follows:

$$V_{prem} = \max[P_s, P_{last}] + FP_{existing} + FP_{future}$$

- The measure P_s has been determined based on the forecasted earned premiums in the next year per the latest business plan.
- The measure P_{last} denotes the premiums earned in the last year.
- The measure $FP_{existing}$ relates to the portion of premiums earnings for books that are beyond 12 months, where applicable.
- The measure FP_{future} relates to premiums earning beyond 12m for BBNI policies.
- For all books, premium volumes have been selected net of reinsurance premiums in accordance with Article 116(5) of the Delegated Regulations.
- For books with reinsurance arrangements with counterparties in non-EEA and non-equivalent jurisdictions, reinsurance premiums can be deducted from the premium volume measures on the basis that collateral arrangements are in place in accordance with Article 213 of the Delegated Regulations.

£'000s				
HoD	SII Segment	P(last, segment)	Ps	V(prem, segment)
Property damage (PD) & Bodily Injury (TP)	1 – Motor vehicle liability insurance	8,800	10,070	10,070
Accidental damage (AD) & Windscreen damage (WS)	2 – Other motor insurance	870	735	870
Rescue	8 – Assistance	682	434	682
Excess	9 – Miscellaneous financial loss	79	72	79
Total		10,433	11,312	11,702

8.10.4 The reserve volume measure for V_{res} , is estimated as follows:

$$V_{res} = \sum_{s=1}^n (Res_{net,s} + Exp_s)$$

where:

- $Res_{net,s}$ is the discounted net claims OS & IBNR excluding management loads, including Earned ENIDs and QS/Sliding scale commission adjustment for segment s.
- Exp_s is the earned discounted share of expenses allocated to segment s based on proportionality.

£'000s				
HoD	SII Segment	Net Discounted Claims OS & IBNR	Disc. RO expense provision (earned)	V(res,s)
Property damage (PD) & Bodily Injury (TP)	1 – Motor vehicle liability insurance	32,416	4,342	36,758
Accidental damage (AD) & Windscreen damage (WS)	2 – Other motor insurance	1,131	138	1,271
Rescue	8 – Assistance	-23	-0.5	0
Excess	9 – Miscellaneous financial loss	18	0.4	18
Total		33,567	4,480	38,047

8.10.5 The standard deviation in paragraph 8.10.1, σ , is based on Article 117 and Annex II of the Delegated Regulations, subject to the adjustment factor for non-proportional reinsurance applied to the premium volumes for Motor Vehicle Liability (segment 1) which bring the standard deviation for this segment from 10% to 8%, on the basis that there is non-proportional reinsurance for these books.

8.10.6 There are no other non-proportional reinsurance arrangements in place for any other classes.

$$\text{Non - life Premium and Reserve Risk} = 3 \times \sigma \times V = 3 \cdot 7.78\% \cdot (11.70m + 38.05m) = 11.61m$$

8.11. Non-life underwriting risk – Catastrophe

8.11.1 The Company is exposed to the natural and man-made modules of the catastrophe risk charge.

8.11.2 The natural catastrophe risk charge shall consist on the following sub-modules (Article 120 of Delegated Regulations):

- Windstorm risk sub-module
- Earthquake risk sub-module
- Flood risk sub-module
- Hail risk sub-module
- Subsidence risk sub-module

8.11.3 The capital requirement for the natural risk sub-module shall be equal to the following:

$$SCR_{natCAT} = \sqrt{\sum_i SCR_i^2} = \text{£}560k$$

NatCat sub-module	SCR _{gross}	Mitigation RI	SCR _{net}
Windstorm	0	0	0
Flood	866	0.519	0.346
Earthquake	0	0	0
Hail	0	0	0
Subsidence	0	0	0
Total	866	0.519	0.346
Diversified perils for CATNat	866	0.519	0.346

8.11.4 Risk Mitigation element equals 60% of the QS treaty present for Motor.

8.11.5 The man-made catastrophe risk charge shall consist on the following sub-modules (Article 128 of Delegated Regulations):

- Motor vehicle-liability risk sub-module
- Marine risk sub-module
- Aviation risk sub-module
- Fire risk sub-module
- Liability risk-submodule
- Credit and suretyship risk sub-module

8.11.6 Within the man-made charge, the only risk applicable to the Company is the motor vehicle liability risk sub-module.

8.11.7 For this charge, it is used the largest sum insured by postal code, net SCR being £440k.

8.11.8 The capital requirement for the man-made risk sub-module shall be equal to the following:

$$SCR_{mmCAT} = \sqrt{\sum_i SCR_i^2} = £440k$$

8.11.9 The final catastrophe charge in accordance with Article 119 of the Delegated Regulations is as follows:

$$\begin{aligned} SCR_{Cat} &= \sqrt{(SCR_{natCat})^2 + SCR_{Man-made}^2} \\ &= \sqrt{£346k^2 + £440k^2} \\ &= £560k \end{aligned}$$

8.12. Non-life underwriting risk – Lapse

8.12.1 The non-life lapse risk is the loss in basic own funds of the insurance or reinsurance undertaking resulting from a combination of the following instantaneous events:

- The discontinuance of 40% of the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin.
- Where reinsurance contracts cover insurance or reinsurance contracts that will be written in the future, the decrease of 40% of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.

8.12.2 No charge is being applied at the moment as an assumption around cancellations is being made in the SII Balance sheet Net TPs.

8.13. Operational risk

8.13.1 Operational risk is calculated in accordance with Article 204 of the Delegated Regulations, as follows:

$$SCR_{Operational} = \text{Min}(0,3 \times BSCR; \text{Max}(Op_{Prem}; Op_{Prov})) \text{ where:}$$

- **BSCR** is the Basic Solvency Capital Requirement in accordance with Article 87 of the Delegated Regulations
- $Op_{Prem} = 3\% \times GEP_{CY} + \text{Max}[0,3\% \times (GEP_{CY} - 1.2 \times GEP_{PY})]$ where GEP_{CY} is the gross earned premium in the past 12 months and GEP_{PY} is the gross earned premiums in the 12 months preceding the past 12 months. The purpose of this is to ensure that growth in the premium volumes attracts an operational risk capital charge.
- $Op_{Prov} = 3\% \times \text{Max}[0, TP_{Non-Life}] + 0.45\% \times \text{Max}[0, TP_{Life}]$ where $TP_{Non-Life}$ are the technical provisions recorded in the non-life underwriting module and TP_{Life} are the technical provisions recorded in the life underwriting module.

8.13.2 Given the Company's business profile, the operational risk is based on BSCR rather than premiums or technical provisions.

GEPcy	GEPpy	TP non-life
96,755	165,391	208,807

OP prem	OP prov	30% BSCR
2,903	6,264	5,373

SCR op
5,373

8.14. Diversification

8.14.1 The Basic Solvency Capital Requirement is subject to diversification adjustments in accordance with Article 87 of the Delegated Regulations, and in particular, with reference to the correlation factors provided in Annex IV of Solvency II.

8.14.2 The total diversification benefit for the Company as of 31st December is £5.25m.

8.15. SCR Add-ons

8.15.1 There are two capital add-ons imposed by the regulator on the investments side as at December-24 and an additional add-on which is meant to kick in on the third quarter of year 2025 around the quota-share profit/sliding scale commission adjustment.

8.15.2 The two investment add-ons are established in regards of the following aspects of the risk profile of the assets of the company:

- 1- Inappropriateness of the Standard Formula to represent the risk profile of the investment assets. For all those assets whose total Market SCR is less than 5%, a floor of 5% charge to their respective balances is applied, this is meant to represent the average standard charge of £1m hold in cash in any A-rated bank.
- 2- The second add-on is meant to capture the illiquid profile of the investment assets considered illiquid (basically all that is non-cash/money market funds). This add-on has been established by the regulator through different charge tranches and the tolerance level to total illiquid assets gets lowered as at every December with the objective of the company moving towards a more market standard type of investments, this was provided by Finance and is updated on a quarterly basis.

8.15.3 As at December-24, the 5% floor charge equals to £1.09m and the illiquidity add-on equals to £0.125m (Total, £1.216m)

9. MINIMUM CAPITAL REQUIREMENTS (MCR)

9.4.1 The MCR is calculated in accordance with Article 248 of the Delegated Regulations as follows:

$$MCR = \text{MAX}(\text{£3.5m}, \text{Min}(\text{Max}(MCR_{\text{Linear}}, 25\% \times SCR), 45\% \times SCR)) \quad \text{where:}$$

$$MCR_{\text{Linear}} = \left[\sum_{s=1}^n \alpha_s \times TP_{\text{Non-Life},s} + \beta_s \times NWP_s \right] + \text{Max}(0; 2.1\% \times TP_{\text{Life}}) \quad \text{where:}$$

- α and β are factors as per Annex XIX of the Delegated Regulations

- $TP_{Non-Life, s}$ is the technical provisions without risk margin in the non-life underwriting risk module relating to segment s
- TP_{Life} is the technical provisions without risk margin in the life underwriting risk module
- NWP_s is the net written premium for the previous 12 months in respect of segment s

9.4.2 The measure for $TP_{Non-Life, s}$ excludes any amounts in relation reinsurers based in non-EEA and non-equivalent jurisdictions (unless rated BBB or better) for which collateral arrangements are not in place.

9.4.3 The measure for $TP_{Non-Life, s}$ thus reconciles to R270 of S.17.01.01 after elimination of negative balances on reserves and collateral shortfalls on the reserves are taken into account.

$$MCR = \text{MAX}(\text{£}3.50\text{m}, \text{Min}(\text{Max}(\text{£}4.41\text{m}, 25\% \cdot \text{£}24.50\text{m}), 45\% \cdot \text{£}24.50\text{m}))$$

$$MCR = \text{£}6.12\text{m}$$

10. AREAS TO REVIEW

~~10.1.1 At the moment of elaboration of the document some areas around calculations and assumptions may require further confirmation and finessing.~~

~~10.1.2 One capital add-on has been included in the July 24 submission to reflect the illiquid investments profile of the company but there is still an area open around the Sliding scale commission SII credit in the reinsurance assets. Different modelling treatments have been discussed getting to a likely solution for it which would entail including it as higher net Vres reserve volume measure, however, this is not going to kick in until 2025 per recent conversations.~~

~~10.1.3 Improvements around the Solvency II Model:~~

~~10.1.3.1 Getting more precise information from investment manager around the layering or grouping of different counterparties (single names exposures) that comprise each investment need to be refreshed, we're using legacy weightings from the previous insurance manager. This would affect SCR Market concentrations risk.~~

~~10.1.3.2 Premium allocation criteria to each Solvency II line of business still uses legacy weightings.~~

~~10.1.3.3 Next 12 months Premium volumes assumption, a new budget is being prepared ahead of the upcoming ORSA at the moment of elaboration of this document (impacts UW risk).~~

~~10.1.3.4 Getting a more precise distribution of Reinsurance reserves by reinsurer for counterparty default risk, at the moment using legacy weightings, however, should not be material as the panel is A rated or above overall.~~

~~10.1.4 Reporting and disclosure:~~

~~10.1.4.1 Ideally, to prepare at least a quarterly solvency report for the board providing more information around the movements in Solvency. The task is challenging given the normal tight deadlines and late changes, however, it is something we monitor as an area for~~

improvement.

10.1.5 In terms of GAAP accounts, a working file to understand the movement in IBNR is in the final stages. This will help validate and understand the ULR inputs and how they flow in the accounts.

10. ANNEX I – ASSUMPTIONS LOG

#	Assumption	Provider/Owner	Areas impacted for SII	Last update	Next update	Comments
1	Unearned ULRs	JM	SII Own Funds - Premium provision	Monthly	Monthly	
2	Next 12 months Premiums	Finance	UW Risk / SII OF (Risk margin)	NA	24 ORSA	
3	Run-off expense provision	Finance	UW Risk / SII OF (BE)	NA	Dec-25	
4	Claims paid pattern	JM	UW Risk / SII OF (BE)	Dec-24	Quarterly	
5	Yield Curve & Symmetric Adj.	PRA	UW & Market Risk / SII OF (BE)	Dec-24	Monthly	
6	Management loads	Finance	UW Risk / SII OF (BE)	Dec-24	Monthly	
7	ENIDs	JM	UW Risk / SII OF (BE)	Dec-24	Dec-25	
8	SSC/QS Commission	MK/PC/AB	UW/Ctpty Risk / SII OF	Dec-24	Monthly	
9	BBNI	Finance	SII OF	Dec-24	Monthly	
10	Sum Insured by postal code area	Kclaims	Cat risk/SII OF	Dec-24	Dec-25	
11	Banks and RI ratings	Finance	Cpty risk - SII OF	Dec-24	Dec-25	
12	Aged debtors	Finance	Cpty risk T2	Monthly	Monthly	
13	Cancellations	JM	SII OF	Dec-24	Dec-25	
14	Review of policies lapsing	SRS/MICL Finance	Lapse SCR/SII OF	NA	NA	Review how this relates to the above 13
15	Investments single name exposures of counterparties weightings - Look-through	CW/Finance	Market SCR/Add-on	Sep-21		Area to review

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