2021

NHBC Solvency and Financial Condition Report

Raising Standards. Protecting Homeowners

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Executive summary

This is the Solvency and Financial Condition Report (SFCR) for National House-Building Council (NHBC) for the year ended 31 March 2021. The purpose of the SFCR is to meet public disclosure requirements as outlined in Chapter XII of Commission Delegated Regulation (EU) 2015/35.

The report presents different aspects of NHBC's solvency and financial condition. In particular it sets out NHBC's business and performance, risk profile, valuation methods used in preparation of its balance sheet on a Solvency II basis, and overview of its capital management.

The report should be read in conjunction with quantitative reporting templates presented in Section F of this report.

The table below shows NHBC's Standard Formula solvency position as at 31 March 2021.

£m	**2021**	2020
Eligible own funds	**587.7**	560.5
Solvency capital requirement	**381.1**	415.9
Solvency II surplus	**206.6**	144.6
Solvency ratio	**154%**	135%

Business and performance

NHBC is a provider of warranty and insurance for new homes. Its purpose is to work with its registered house builders to help build confidence in the construction quality of new homes for the benefit of new home buyers.

It has been a testing period: coping with the disruption of the pandemic whilst assessing the impact of UK's exit from the European Union; new legislation on building safety and climate change; and the ongoing focus from Government, the media and consumers on build quality and fire safety. Trading conditions for insurance and warranty providers have been challenging; however, thanks to the wide range of actions NHBC has undertaken, 2020/21 has been a profitable year following three consecutive years of losses.

System of governance

NHBC's Board recognises the importance of strong corporate governance and has the responsibility of ensuring NHBC's long-term sustainability. The Board is comprised of the Chair (a non-executive director (NED)), Chief Executive Officer, Chief Financial Officer, Commercial Director, and six further NEDs. To ensure that the Board's responsibilities are met, the Board has established a governance framework overseen and supported by a series of Board and Executive Committees.

NHBC's system of governance has not changed significantly during the reporting period.

David Campbell was appointed as Commercial Director, and Isabel Hudson, Chair, left NHBC with Alan Rubenstein being appointed the new Chair.

Section B of the report presents further information about NHBC's system of governance. The section describes NHBC's system of governance, risk management framework, approach to Own Risk and Solvency Assessment (ORSA), and key control functions.

Risk profile

Most of the risks that NHBC faces arise through the issue of insurance contracts through NHBC's core Buildmark product.

The primary basis used by NHBC to quantify the risks is the Solvency Capital Requirement (SCR) which is calculated as Solvency II Own Funds at risk in a 1-in-200-year loss event over a one-year time horizon.

Executive summary

The following table shows NHBC's diversified SCR by most significant components as at 31 March 2021.

£m	2021	2020
Non-life underwriting risk	**296.2**	343.1
Market risk	**120.2**	100.5
Other risks and adjustments	**38.4**	38.9
Diversification	**(73.7)**	(66.6)
SCR	**381.1**	415.9

Section C of the report describes NHBC's risk profile including how risks are assessed and mitigated, risk concentrations and risk sensitivity.

Valuation for solvency purposes

Solvency II requires an economic market consistent approach to the valuation of assets and liabilities. NHBC's valuation of its assets and liabilities on a Solvency II basis is broadly similar to valuations used in its financial statements prepared under UK Generally Accepted Accounting Practice (UK GAAP) although there are notable differences. As at 31 March 2021 the differences, summarised in the table below are:

£m	2021	2020
UK GAAP net assets	**430.0**	372.8
Valuation differences:		
Net technical provisions[1]	**169.3**	194.4
Deferred tax liabilities	**(11.6)**	(6.7)
Solvency II excess of assets over liabilities	**587.7**	560.5

Section D of the report describes the methods employed by NHBC in valuing assets and liabilities on a Solvency II basis, together with an explanation of differences arising between valuations performed on a UK GAAP and Solvency II basis, respectively.

Capital management

NHBC's capital objectives are to maintain sufficient capital to safeguard its ability to continue as a going concern, as well as to maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators.

NHBC aims to hold capital in excess of its regulatory capital requirement; the SCR. NHBC calculates its SCR in accordance with the Standard Formula prescribed in the Solvency II regulations and aims to maintain a capital level above 150% (the solvency ratio) of these minimum requirements over the medium term. At 31 March 2021, under Solvency II, NHBC's solvency ratio was 154% (2020: 135%).

NHBC also undertakes an ongoing Own Risk and Solvency Assessment (ORSA) which provides for the continual review of the business' risks, capital requirements and strategic direction. This ongoing assessment comprises a range of different activities, processes and reports, which the Board consider in addition to the Standard Formula measure when assessing capital projections.

NHBC's capital position is kept under constant review by the Board through the Board Risk Committee.

Section E of the report provides further information on NHBC's capital management objectives and policies. Additionally, Section E describes NHBC's structure of Own Funds and calculation of the SCR.

1 Including de-recognition of deferred acquisition costs (DAC)


Steve Wood
Chief Executive
NHBC

Directors' responsibility statement

We acknowledge our responsibility as directors of National House-Building Council (NHBC) for preparing the Solvency and Financial Condition Report (SFCR) in all material aspects in accordance with the PRA Rules and Solvency II Regulations.

We are satisfied to the best of our knowledge and belief that:

a) throughout the financial year to 31 March 2021, NHBC has complied in all material respects with the requirements of the PRA Rules and Solvency II Regulations as applicable to NHBC, and

b) it is reasonable to believe that in respect of the period from 31 March 2021 to the date of the publication of the SFCR, NHBC has continued so to comply, and will continue so to comply in future.

Signed by and on behalf of the Board of Directors

Paul Hosking
Chief Financial Officer
6 July 2021

Independent auditor's opinion

Report of the external independent auditor to the directors of National House-Building Council ('the Company') pursuant to rule 4.1 (2) of the External Audit chapter of the PRA Rulebook applicable to Solvency II firms Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 March 2021:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 March 2021, ('the Narrative Disclosures subject to audit')
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21, S.28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR
- Company templates S.05.01.02, S.05.02.01, S.19.01.21
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 March 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

In auditing the SFCR, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the SFCR is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's method to assess going concern, including the reasonableness of accommodating changes from the previous period and future plans following the impact of new reinsurance agreement entered into by the Company in the year
- challenging future profit forecasts and assessing the reasonableness of assumptions used including the sensitivity analysis of these assumptions

Independent auditor's opinion

- testing management's historic accuracy of previous forecasts and appropriateness of their assumptions against the actual performances specifically considering the impacts of COVID-19
- assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. The same responsibilities apply to the audit of the SFCR.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

Independent auditor's opinion

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR - these included Solvency II as implemented in the UK
- do not have a direct effect on the SFCR but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included Companies Act 2006 and related company law.

We discussed among the audit engagement team the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- The methodology and assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims:
  - We have gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of these relevant controls. We have also tested relevant controls over actuarial data reconciliations and claims controls. Additionally, we tied claims and policy data to source systems to assess the completeness and accuracy of the underlying data used in the Group's actuarial calculation.
  - Inspect NHBC's documentation and key reserving files to conclude on reasonableness of methodology applied.
  - For methodology changes in the year, challenge management on the trigger for change in methodology, including how the new methodology addresses that trigger and its impact on reserves.
  - Assess and challenge the HRCI assumption used within the calculation, leveraging observable market data to benchmark the assumption and assess reasonableness.
  - Assess and challenge the frequency and severity assumptions used for large and exceptional losses by reviewing management's analysis and expert judgements that support the selected assumptions, and challenging the justification for those assumptions in light of alternative assumptions available.
  - Inspect and challenge the peer review report prepared by management's external actuarial expert in order to identify any material issues with management's methodology or assumptions.
  - Assess the competence and objectivity of management's expert in their role as peer reviewer.
- The methodology and assumptions applied in valuing the IBNR provision for cladding claims:
  - Assess and challenge management's assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating the number of tower blocks returning to NHBC as a claim.
  - Considering any alternative assumptions which could reasonably be applied, including those considered by management and the impact of those on the result.
  - Assess whether the methodology used is appropriate and whether it has been applied accurately in the manual calculation process.
  - Recalculate Section 4 reserves to assess accuracy of the calculation.
  - On a sample basis, we tested the completeness and accuracy of the data underpinning the calculation by inspecting evidence; and assessed and challenged the key assumptions determined by management through benchmarking against third party evidence where available. Where third party benchmarking evidence is not available, which is the case for one of the key assumptions regarding builder self-repair only, we assessed the reasonableness of this assumption by reviewing the builder scorecards, as well as assessing the solvency position of the builders, and where possible highlighted any press releases from these developers on their responses to the cladding problem.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing the SFCR disclosures by testing supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud
- enquiring of management, in-house legal counsel about actual and potential litigation and claims, and instances of non-compliance with laws and regulations, reading minutes of meetings of those charged with governance, and reviewing correspondence with the PRA and FCA, reviewing internal audit reports.

Independent auditor's opinion

Report on other legal and regulatory requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of NHBC's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in relation to this matter.

Use of our report

This report is made solely to the Directors in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Claire Clough

Claire Clough (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
6 July 2021

A. Business and performance

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A. Business and performance

This section of the report describes NHBC's business structure, key operations, and financial performance over the reporting period.

A.1 Business

Name and legal form of NHBC

The National House-Building Council (NHBC) is a company limited by guarantee. NHBC is incorporated and domiciled in the United Kingdom. The address of NHBC's registered office is NHBC House, Davy Avenue, Knowlhill, Milton Keynes, Bucks, MK5 8FP.

Name and contact details of the supervisory authority responsible for financial supervision of NHBC

Prudential Regulation Authority

Email: **enquiries@bankofengland.co.uk**

Phone: **020 7601 4878**

Post: **Bank of England, Threadneedle St, London, EC2R 8AH**

Name and contact details of the external auditor

Claire Clough (Senior Statutory Auditor) for and on behalf of Deloitte LLP

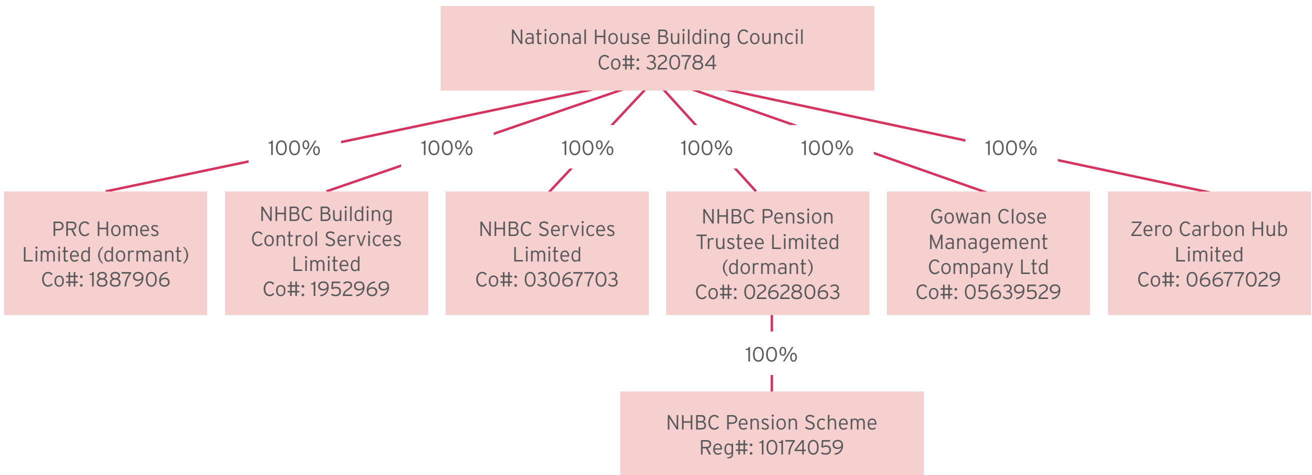
Deloitte LLP, Hill House, 1 Little New Street, London EC4A 3TR

Description of the holders of qualifying holdings in NHBC

NHBC is a company limited by guarantee (a limited guarantee provided by its council members) and as such it does not have share capital. Under the Articles of Association, the liability of each of the members is limited by guarantee to a maximum of £1.

NHBC's position within the legal structure of the Group

NHBC belongs to a group and is the ultimate parent undertaking of that group. Below is the structure of the Group. All Group entities are registered in England and Wales.



A. Business and performance

NHBC's activities

NHBC's activities consist of two main segments within the United Kingdom: inspection activities primarily relating to the construction of new build housing; and insurance activities. The direct underwriting operations of NHBC consist primarily of two lines of business[2]: credit and suretyship insurance; and miscellaneous financial loss insurance.

The inspection activities consist predominantly of establishing a quality control process designed to ensure construction meets NHBC Standards.

The table below shows the analysis of the turnover by segment.

£m	2021	2020
Insurance activities	**105.1**	100.1
Inspection activities	**47.5**	56.7
Other	**6.2**	7.9

NHBC does not have operations outside of the United Kingdom.

NHBC's Buildmark product

The majority of the Group's insurance liabilities arise as a result of the sale of the Buildmark product. The Buildmark product, sold by NHBC, protects a homeowner in three separate ways which can be divided into three temporal periods.

Section 1

Prior to completion of the house purchase, Buildmark Section 1 provides insurance to a homeowner that covers losses caused by the builder, primarily insolvency of the builder, resulting in a loss of the homeowner's deposit.

Section 2

Buildmark Section 2 is concerned with the two-year period immediately following legal completion of the home, i.e. when the homeowner moves in. Firstly, Section 2 contains the Builder's Warranty period provided by the builder to the homeowner. NHBC is not a party to that bilateral contract. Secondly, Section 2 provides the NHBC Guarantee (a performance guarantee). This gives rise to a secondary liability on the part of NHBC in the event (and only in the event) that the builder fails to honour the Builder's Warranty.

Sections 3, 4 & 5

The policy periods for these Sections of Buildmark begin after the end of Section 2 for a period of eight years, i.e. years three to ten following legal completion. Like Section 1, these Sections are exclusively concerned with obligations undertaken by NHBC to the homeowner to provide an indemnity in the event of certain events.

Road and sewer bonds

NHBC offers a service to act as surety for builders providing bonds in favour of local authorities, water companies, urban development corporations and other public bodies in the United Kingdom and the Isle of Man, in relation to commitments to construct roads, sewers and open space areas. Income collected in relation to road and sewer bonds is classed as a credit and suretyship line of business.

Significant events that occurred over and after the reporting period

The following section provides a description of events that occurred during and after the reporting period that have had a material impact on NHBC and could have a material impact on NHBC's future performance and position.

Covid-19

The business reacted quickly to the unprecedented challenges of Covid-19. The NHBC Covid-19 response team met regularly throughout the year to monitor the Government's response to the pandemic and proactively identify any emerging risks to the business and implement operational changes as needed. On balance, there has been no material operational impact on NHBC, and the business adapted quickly to focus on ensuring core business activities were not interrupted. NHBC has taken steps to reduce the impact on its customers and policyholders and have established new ways of working remotely throughout the year. This includes communicating with customers through virtual meetings and conferences, and the ability to settle claims directly with policyholders, rather than carry out remedial work, where this is judged most appropriate.

There has also been significant focus over the year on ensuring employees have a safe working environment, both at home and out on building sites, and a number of actions have been implemented to support employees during this period. This included additional 'wellbeing days', where staff could take time out to focus on their own wellbeing, as well as a flexible approach to working for those employees juggling the demands of home-schooling and caring for others throughout lockdown.

2 For regulatory purposes

A. Business and performance

As the Government started to reduce lockdown restrictions, NHBC's focus has shifted to assessing what the office of the future will look like and reviewing its corporate policy on flexible working. The situation will continue to evolve as governments around the world move quickly to vaccinate their citizens and to contain new Covid-19 variants. NHBC will continue to monitor the situation and remain prepared to act as risks and opportunities are identified.

UK's departure from the EU

NHBC operates only in the UK, so is not exposed to the same level of operational challenges as cross-border entities. NHBC's main risks are those which could emerge as a result of the Brexit impact on the overall economy, particularly the investment and housing markets.

Following the referendum, NHBC established a working group which was tasked with the responsibility of identifying and managing the risks from the UK's departure from the EU. In addition, as the transition agreement was nearing its end, NHBC sought to manage this risk more closely with the support of a wider set of stakeholders from across the business.

Loss Portfolio Transfer (LPT) reinsurance

In the financial year, NHBC has entered into a quota share reinsurance agreement, the LPT. Under this agreement the reinsurer agreed to provide 75% quota share reinsurance with respect to certain Buildmark policies with registration dates between 1 April 2015 and 31 March 2019 (inclusive). The LPT delivered greater solvency headroom and balance sheet stability, and it increased NHBC's profit for the year by £25m and the standard formula solvency ratio by c.20 percentage points.

NHBC operated throughout the last year with a solvency ratio below the agreed risk appetite set by the Board, predominantly due to the valuation of claims provisions under Section 4 of the Buildmark policy relating to fire-safety claims incidence. In addition, the Board has increased that appetite to 150% for year ended 31 March 2021.

The placement of an LPT was considered the most viable option to increase the solvency ratio above NHBC's increased risk appetite threshold. The placement is also considered to be strategically important to NHBC, as it will increase its financial resilience to protect policyholders and continue providing important services to the UK home-building industry, allowing it to focus on its core purpose of raising standards in new home construction and protecting homeowners.

A.2 Underwriting performance

The table below shows an account of NHBC's underwriting performance:

£m	2021	2020
Net written premiums	**(156.0)**	89.0
Net earned premiums	**23.7**	52.9
Net claims incurred	**(43.5)**	(73.9)
Changes in unexpired risk reserve	**48.4**	(87.4)
Other	**(10.7)**	(9.8)
Underwriting result	**17.9**	**(118.2)**

Premium income

Plot registration volume (registrations) is an important driver of NHBC's premium and inspection income and is a proxy of exposure on NHBC's insurance technical account. Registration volumes were 126,141 in 2021 (2020: 156,164). The reduction in volumes was mainly due to the impact of Covid-19 on the new-build homes construction industry output.

Pre-LPT, net written premiums were £72.8m against £89.0m in prior year. Gross written premiums increased from £100.2m to £105.2m. Despite reduction in volumes sighted above, the average unit fees have improved following premium price increases on NHBC's Buildmark product range. Higher road and sewer bond income also contributed to the increase in the gross written premium. The gross written premiums improvements were more than offset by £32.5m of reinsurance premiums, a £21.3m increase on prior year, as NHBC entered into more quota share arrangements. The LPT premium was £228.7m, resulting in overall post-LPT negative net written premium of £156.0m (2020: positive £89.0m).

Pre-LPT, net earned premiums increased from £52.9m to £58.6m, mostly due the positive contribution from the road and sewer bond income, with Buildmark premium earnings slightly up and matched release of reinsurance premium broadly flat. Premiums (including reinsurance premiums) are earned according to an earnings profile, which follows the pattern of how claims are expected to emerge over the period of policy coverage. As earnings include over ten years of business, any Covid-19 effects are yet to feed through. Post-LPT the net earned premium was £23.7m as £34.9m LPT reinsurance premium was recognised in the year, matching the reinsurer's share of the claims provision.

A. Business and performance

Claims incurred

Gross claims incurred in the year were £61.9m against prior year of £149.3m. Prior year, claims incurred was driven by uncertainty around valuation of the Section 4 claims. Pre-LPT, reinsurers' share of the claims incurred reduced by £15.3m following updates to gross technical provisions at underwriting year level. The LPT transaction had the effect of increasing reinsurance recoveries against the claims provision by £33.7m.

Unexpired risk reserve

The unexpired risk reserve credit of £48.4m (2020: charge £87.4m). Favourable change generally represented by upward revision of net unearned premium reserve and reduction in premium provision following placement of the LPT.

A.2.1 Underwriting performance by Solvency II lines of business

The table below presents key performance measures by Solvency II lines of business as at 31 March 2021.

£m	Credit & suretyship	Credit & suretyship	Miscellaneous financial loss	Miscellaneous financial loss
	2021	2020	2021	2020
Net premiums written	14.1	11.8	(170.1)	77.2
Net premiums earned	13.3	13.6	10.4	39.3
Net claims incurred	(3.6)	(2.8)	(39.9)	(71.1)
Net changes in other technical provisions	11.9	(16.1)	36.5	(71.3)
Expenses incurred	(1.1)	(1.4)	(9.6)	(8.4)
Underwriting performance	**20.5**	**(6.7)**	**(2.6)**	**(111.5)**

Credit and suretyship

Credit and suretyship income improved following price increases. The unexpired risk reserve has been reassessed downwards leading to a favourable profit and loss movement, as likelihood of Covid-19 induced credit defaults in the construction industry has reduced.

Miscellaneous financial loss

Miscellaneous financial loss forms the core of NHBC's overall underwriting result. As such the commentary on the performance is consistent with commentary on the total underwriting result presented in the above section.

A.3 Investment performance

The table below provides a summary of the investment result in the year.

£m	**2021**	2020
Investment income	**31.1**	35.8
Realised gains	**(0.5)**	23.4
	30.6	59.2
Unrealised (losses) / gains	**29.3**	(37.0)
Investment expenses	**(2.8)**	(2.6)
Investment result	**57.1**	**19.6**

The total investment result was £57.1m (2020: 19.6m) and reflects £28.8m of capital gains (2020: losses of £13.6m). The positive investment result reflects positive investment performance across all asset classes, particularly NHBC's bond holdings which benefited from narrowing in spreads over the financial year.

A. Business and performance

Other investment information

NHBC holds investments in its 100% owned subsidiary companies. No significant change (2020: £0.5m increase) in the valuation of the subsidiaries has been recognised as a movement in other comprehensive income.

NHBC held £5.3m of collateralised securities at 31 March 2021 (2020: £4.1m).

A.4 Performance of other activities

Other income, which includes inspection, Building Control fees and income from NHBC Services Limited business (such as training and health and safety services), was £53.7m (2020: £64.6m). Lower registration and completion volumes on new-build homes, due to effects of Covid-19 on the construction industry, were the main drivers of the reduced income.

Other charges were £58.4m (2020: £65.2m) representing expenditure relating to NHBC's non-insurance operations. Lower staff related expenditure was the main driver of the reduction, mostly due to lower full-time equivalent, non-insurance staff employed in the year, 788 (2020: 835), which in turn was driven by reduced demand for some services as a result of Covid-19. Other factors such as reduction in travel and event hosting also contributed to the overall reduction in non-insurance operating expenditure.

NHBC has operating leases for its car fleet and one of its business premises. At 31 March 2021 NHBC had leasing commitments totalling £2.3m (2020 £4.9m) under these operating leases. NHBC has no finance leases.

A.5 Any other information

The information presented in Section A of this report provides a true and fair reflection of NHBC's business performance during the reporting period.


NHBC

B. System of Governance

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B. System of Governance

This section sets out information in relation to NHBC's system of governance. Details of NHBC's administrative, management or supervisory bodies are outlined together with information on the remuneration policy and practices regarding those bodies.

This section provides a description of NHBC's key functions as defined by Solvency II regulations (Risk Management, Compliance, Internal Audit, and Actuarial functions).

This section also describes the components of the system of governance which include discussions of the Risk Management Framework and an introduction to NHBC's internal control system which utilises the Three Lines of Defence model. The system of governance is adequate given the nature, scale and complexity of NHBC.

B.1 General information on the system of governance

The system of governance is detailed below. There have been no material changes to the system of governance in the reporting period.

NHBC Council

NHBC is a private company limited by guarantee. Its governing body comprises individual members, known collectively as the NHBC Council. Council members have each guaranteed the sum of £1.

Under the constitution, the duty and authority to run NHBC's affairs is vested in the Board of Directors. The Council does not become involved in day-to-day decisions, but it does receive the Directors' Report and Audited Accounts, and, at the AGM, Council members may question and challenge the Board on its running of the business.

The Council is also empowered to decide some matters which the directors may not. These include:

- alterations to NHBC's Constitution
- the appointment of the auditors
- the appointment of Council members.

Board of Directors

The NHBC Board is the primary governance body for the Company, with delegated authority to manage on the NHBC Council's behalf.

The Board's principal role is to develop and implement NHBC's strategy, to ensure that the necessary resources are in place to enable it to meet its objectives and that the financial controls and risk management procedures are suitably robust. The Board is also responsible for ensuring that NHBC maintains an appropriate standard of governance having regard to the constitution, the UK Corporate Governance Code and the regulatory framework in which the Company operates.

Balance of executive and non-executive directors at 31 March 2021	
Chair (Non-Executive)	1
Senior Independent Director (SID) (Non-Executive)	1
Other Non-Executive Directors	5
Executive Directors	3

Board committees

The Board has various committees reporting to it as outlined below.

Audit Committee

The key role of the Audit Committee is to review the system of internal control, as well as monitoring the integrity of the financial statements and reviewing significant financial reporting issues. The committee reviews and challenges the consistency of accounting policies, whether NHBC has followed appropriate accounting standards and made appropriate estimates and judgements, and the clarity of disclosures in NHBC's financial reports.

The Audit Committee is also responsible for reviewing the adequacy of the whistleblowing and fraud systems, approving the remit of the internal audit function, and making recommendations to the Board to be put to the Council at the AGM in relation to the appointment, reappointment, and removal of external auditors.

The members of the Audit Committee are all independent Non-Executive Directors. In addition to the members, the following routinely attend the Audit Committee meetings: the Chair; Chief Executive Officer; Chief Financial Officer; Head of Finance; Head of Actuarial; internal auditors Grant Thornton LLP; and external auditors Deloitte LLP.

Board Risk Committee (BRC)

The role of the BRC is to review and challenge NHBC's approach to the overall management of risk, capital and strategy through the Own Risk Solvency Assessment (ORSA).

B. System of Governance

The BRC considers and advises the Board on NHBC's overall risk appetite, tolerance and strategy. It also challenges the identification, assessment and mitigation of significant prudential and conduct risks as well as advising the Board on the current risk exposure.

The members of the BRC are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend the BRC meetings: the Chair; Chief Executive Officer; Chief Finance Officer; Chief Risk Officer; Head of Actuarial; and internal auditors BDO LLP.

Investment Committee

Following a review of the operation of Board Committees, the Investment Committee was disbanded with effect from 1 December 2020. With a strong framework in place, it was agreed that management responsibility would be passed to the Assets and Liabilities Committee (an internal, non-Board committee) in order to facilitate fast reactions to changing market circumstances. Overall responsibility and strategy remain with the Board. The control framework is now authorised by the Audit Committee and the risk framework is managed by the Board Risk Committee.

The role of the investment committee was to review the strategic asset allocation and make recommendations to the Board, review NHBC's investment managers and approve any changes, review and approve investment manager guidelines, and to oversee compliance with NHBC's investment strategy, investment policy and aspects of the market risk policy (set out in NHBC's market risk policy).

The members of the Investment Committee were all independent Non-Executive Directors. In addition to the members, the following routinely attended the Investment Committee meetings: the Chief Executive Officer; Chief Financial Officer; Chief Risk Officer; Head of Investments and Pensions; Head of Finance; and external investment advisers and managers when requested.

Nominations Committee

The role of the Nominations Committee is to review the size, structure and composition of the Board, to consider the succession plans for the Board and senior Executives, to identify and recommend candidates to the Board to fill vacancies as they arise, and to keep under review the leadership needs of NHBC, both Executive and Non-Executive, with a view to ensuring the continued ability of NHBC to operate and compete effectively in the marketplace.

The Committee makes recommendations to the Board in relation to the membership of its standing committees of the Board, in consultation with the respective Chair of those committees, and in relation to the re-appointment of Non-Executive Directors at the conclusion of their specified term of office, having regard to their performance and ability to contribute to the Board in light of the knowledge, skills and experience required.

All members of the Committee are independent non-executive directors. The Chief Executive Officer and the Head of Human Resources also attend the meetings, where appropriate.

Remuneration Committee

The principal role of the Remuneration Committee is to establish the approach to remuneration across NHBC and to review remuneration trends, agree the pay and benefits for employees, including any payments made under bonus schemes and any changes to employee benefit structures, and agree the pay and benefits of the Chief Executive Officer and the other Executive Directors as well as the fee paid to the Chair.

All members of the Committee are independent non-executive directors. The Chair, Chief Executive Officer, Head of HR, and other members of the management team also attend the meeting where appropriate.

Material changes in the system of governance during the period

There were no material changes to the general system of governance during the period.

As described above, the Investment Committee was disbanded from 1 December 2020. However, its functions still continuing but not at a Board Committee level.

At executive director level David Campbell joined the Board on 15 April 2020.

At non-executive director level, Isabel Hudson (Chair) and Sir Muir Russell left NHBC on 31 May 2020 Alan Rubenstein was appointed as NHBC Chair on 1 June 2020.

B. System of Governance

Remuneration policy

NHBC and the Remuneration Committee maintains a list of roles under the Solvency II guidance and ensure that the Committee has oversight of the roles' remuneration and that their remuneration arrangements, within the scope of this policy, are structured appropriately and include provision for:

- appropriate caps on variable pay
- deferral of variable pay
- due regard to all relevant regulatory guidance and the Group's risk framework; alignment with Group's business strategy and key priorities
- ensuring total bonus pool does not undermine the Group's capital base
- providing claw back facilities in bonus plans, operating a downward adjustment to bonus outcome in the event of a managerial or leadership failing, such as inappropriate risk management behaviours.

Remuneration of Non-Executive Directors (NEDs) and the Chair is based on fixed fees, with additional fixed fees for the Senior Independent Director and Chair of the Board Sub-Committees.

For all NHBC employees, excluding NEDs, there are four components of remuneration within NHBC, these are:

- fixed remuneration (typically base pay)
- performance based remuneration (bonus)
- pension
- other benefits e.g., life cover, healthcare, accommodation and vehicles.

The proportion of fixed and variable pay is dependent on a bonus award. Progressing down the organisation, from Executive Director level, the proportion of fixed remuneration increases, however, all employees have an element of variable pay in their remuneration.

The variable components of remuneration are derived with reference to individual as well as Company performance.

The annual bonus for Executive Directors and most senior management is similar in construction to other employees. However, for Executive Directors and senior management there is also a deferral element.

The deferred bonus element is released each year at a rate of 40% of the remaining balance, subject to a maximum value of £500,000. If the maximum remuneration value exceeds £500,000, the deferred bonus element is released each year at a rate of 33%.

Share options and shares are not available to employees at NHBC.

NHBC operates a defined contribution Group Personal Pension Plan (GPPP) for all employees via auto-enrolment. Any employees who exceed the lifetime allowance or annual limits can opt to take the employer contribution in cash. NHBC also operates a salary sacrifice scheme for pension contributions.

In addition, there is a closed defined benefit CARE pension scheme which some current employees are members, managed directly through NHBC Pension Trustee Ltd.

There are no supplementary pension or early retirement schemes in place for the NHBC Board or NHBC Council.

Although transactions exist between NHBC and an NHBC customer who has a Non-Executive Director representation on the Board of NHBC, it is considered that they do not have undue influence over NHBC.

NHBC is a PRA Category 3 firm and applies the Solvency II regulations applicable to that Category.

B.2 Fit and proper requirements

NHBC carries out assessments to establish whether Directors and Senior Managers satisfy the relevant requirements of the PRA and FCA's training and competence in relation to the Senior Management Functions and or the Prescribed and Key Responsibilities the person performs or is intended to perform.

This includes market knowledge; business strategy and model; risk management and control; financial analysis and controls; governance, oversight and controls; and regulatory framework and requirements.

As part of the recruitment process for Senior Managers, HR will ensure that a gap analysis of the candidate's technical competences and the requirements of the role is carried out, and a development plan is put in place to ensure candidates address gaps in their knowledge within a specific timeframe.

Human Resources and Company Secretarial functions carry out the due diligence on the candidate, which is then reviewed by Compliance, prior to the application being submitted to the PRA and FCA.

Application to PRA and FCA

Compliance ensures that the following information is provided to the PRA and FCA as part of the submission for approval: the responsibilities and competences required in the role; the method used by the Company to select a candidate; the due diligence conducted on the candidate; and the rationale for the Company's conclusions that the candidate is the right person for the job.

Due diligence on a candidate includes credit checks, criminal records checks, disqualified director checks and regulatory checks (checking PRA and FCA register for previous enforcement notices, disqualifications, regulatory references, etc.). Executive search reports or other assessments are also obtained, where needed.

B. System of Governance

B.3 Risk management system including the own risk and solvency assessment

NHBC's Risk Management Framework forms an integral part of management and Board processes and decision-making framework across the organisation. This section of the report provides a description of NHBC's risk management objectives and its internal control system including the Risk Management Framework and the Three Lines of Defence model.

Risk management system objective

The objective of the Risk Management Framework is to ensure risks are identified and managed which in turn influences the design and implementation of NHBC corporate objectives.

Scope

The Risk Management Framework applies to:

- all legal entities, business units and functions within NHBC
- all NHBC employees and agency workers, consultants and contractors, irrespective of their location, function, grade or standing.

External environment

The Risk Management Framework is designed to identify, evaluate and respond to external factors. These could include changes in regulation, competition and wider economic circumstances. External factors could impact NHBC's business model, corporate strategy and risk profile.

Overview

The Risk Management Framework is a set of inter-related business activities undertaken to design, implement, monitor, review and continually improve risk management throughout the organisation. These activities take place in every business area.

The Risk Management Framework is:

- owned by the business managers who are responsible for achieving the Company's objectives
- integral to and inseparable from the processes and controls performed to deliver these objectives.

Specifically, it records:

- the activities that NHBC undertakes to manage risk and the relationship between them
- the nature and frequency of the activities
- the responsibility for undertaking and overseeing the activities.

Risk management system components

NHBC's Risk Management Framework comprises the five inter-related activities illustrated below.

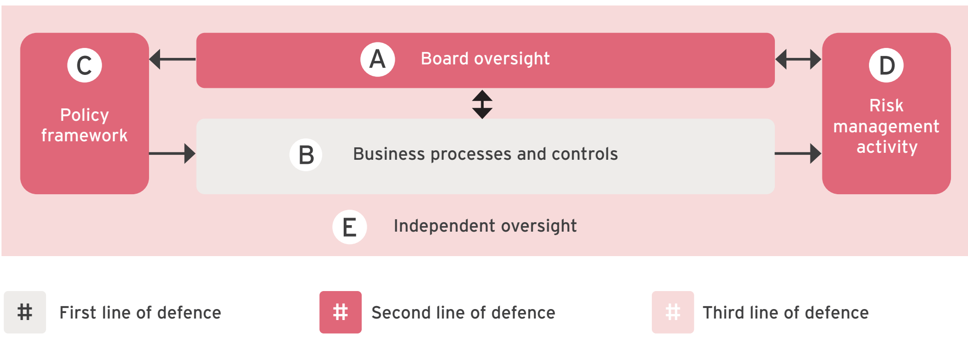

Illustration 1: Risk Management Framework Overview.

B. System of Governance

The following table provides a brief description of each Activity and its alignment with the Three Lines of Defence model which the Company has adopted to ensure independence and objectivity is maintained. The Three Lines of Defence model is described in Section B4 of this report.

Activity		Overview
A	Board oversight	Activities of the Board and committees including: the establishment of governance arrangements; the approval of risk strategy; and the approval of strategic risk appetites and policies.
B	Business processes and controls	Processes and controls operated by front line business functions that deliver and support the delivery of NHBC's services.
C	Policy framework	Policies confirming the minimum standards to which the management team must operate.
D	Risk management activity	Activities of the Risk Team in supporting and overseeing business functions and providing insight to the Board, senior committees, business management and business areas.
E	Independent oversight	Supervisory activities of the Internal Audit team, the Audit Committee, and the Board Risk Committee.

NHBC's Risk Management Framework and recognised international standards

A number of internationally recognised standards exist on which effective risk management regimes can be built. NHBC's Risk Management Framework was built based on ISO 31000: Risk Management – Guidelines (not accredited). The requirements of the principles and guidelines are integrated into the Risk Management Framework.

The NHBC Risk Universe

NHBC's Risk Universe is applied across the operation of the Risk Management Framework. The Universe has been developed to:

- support effective management of NHBC's risk profile
- ensure NHBC can monitor and report to stakeholders using recognised risk categories, including those stated within Solvency II requirements.

Capital modelling

The annual capital requirement (SCR) calculation was carried out on the Standard Formula (SF) basis and using an in-house developed Internal Model (IM) on various bases. For one year's written business, the capital requirement was assessed over a one-year time horizon and a to-Ultimate time horizon, allowing for complete run off of the liabilities. For the ORSA, the IM was used to assess the capital requirement for three years' written business on both three-year and to-Ultimate bases. Both the SF and IM capital calculations were used as integral parts of NHBC's risk management system, including monitoring its SF solvency ratio on a quarterly basis against risk appetite. In addition, the projected solvency position was used as part of the assessment of the robustness of the business plan.

NHBC is in the process of developing a completely new internal model capable of Solvency II and NHBC ORSA capital estimation; the work started in July 2017 with the build phase complete in 2018. During 2018 and 2019 the focus has been on the fine-tuning of assumptions, validation and model. This will continue through 2021. The old IM is no longer in use for business decision-making, and the new IM outputs are used in its place for some business decisions subject to the fact it is not fully developed and not fully up to date in terms of model valuation date.

Own risk and solvency assessment (ORSA)

The ORSA process is a set of processes which are undertaken by NHBC to assess its risk, capital and solvency position.

NHBC produces the ORSA report on an annual basis, however, the ORSA process is continuous, forward looking and the different assessments are carried out during the year. Ad hoc assessments may be required in the event of a material change in NHBC risk profile.

In addition, capital adequacy is assessed on a quarterly basis to allow the Board and Board Risk Committee (BRC) to monitor NHBC solvency on an ongoing basis.

ORSA reporting

Internal reporting

The results and conclusions of the annual ORSA are challenged by both the Executive Risk Committee (ERC) and the BRC before Board sign-off. Once the process and the results have been approved by the Board, the results and conclusions of the ORSA are communicated to all relevant staff and the PRA.

The information communicated to the Board is sufficiently detailed to enable its use in the strategic decision-making process and the information communicated to relevant staff will be sufficiently detailed to enable staff to take any necessary follow-up actions.

Ad hoc risk assessments and internal risk reports are reviewed by the ERC and BRC.

B. System of Governance

Reporting to the supervisor

The ORSA report is submitted to the PRA and may be provided to other regulators and supervisory authorities upon request.

Determining NHBC's solvency needs

NHBC's economic and regulatory solvency is determined using the Solvency II Standard Formula.

NHBC produces forward-looking capital projections on the Standard Formula over a three-year time horizon. This allows the business to monitor its solvency position against its agreed capital risk appetite, and to consider capital management actions as required.

As part of the Risk Management Framework, several economic and business-related scenarios are modelled to establish the impact on NHBC's solvency projections. These are assessed as part of NHBC's ORSA process and capital management actions are considered accordingly.

B.4 Internal control system

To promote understanding of responsibilities for internal controls across the organisation, NHBC uses a Three Lines of Defence model. This combines three separate but integrated elements which allow it to manage risk effectively and to support the achievement of its strategic objectives. These are described briefly below.

First line: Business units and operations

Operational staff have primary responsibility for the risks they take. Risk management practices and processes in place at this level constitute the 'first line of defence'.

Second line: Management assurance

The 'second line of defence' is maintained by specialised risk management functions. Their role is to design and oversee a consistent framework for managing risks. This covers the key functions of risk management as defined by Solvency II (risk management and compliance).

Third line: Independent assurance

Regular, independent, risk-based audits performed by the internal audit function provide reasonable assurance as to the relevance and correct operation of the system. This is the 'third line of defence'.

Compliance

NHBC operates a robust policy framework to ensure policies are aligned to key business risks. Their objective is to assist in the mitigation of those risks.

NHBC's Compliance team is part of the Risk & Compliance Function, within the Chief Risk Officer Directorate. Its responsibilities include:

- assisting the business in the identification and management of risks
- ensuring that NHBC meets the requirements of financial regulators and Information Commissioners Office
- managing NHBC's regulatory relationships
- identifying new regulatory requirements and ensuring they are effectively implemented.

The Compliance Function has an annual risk-based Compliance Monitoring Plan, which focusses on areas of the business that could pose the highest regulatory risk including consumer detriment. Findings from these compliance monitoring reviews are reported to the ERC and BRC.

B.5 Internal audit function

The role of Internal Audit is to assist the Board and executive management to protect the assets, reputation and sustainability of the organisation. Internal Audit provides independent and objective assurance over management's ability to implement and operate internal controls that mitigate material risks across NHBC. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit, in the discharge of its duties, is accountable to the Chief Executive Officer and the Board via the Audit Committee, providing:

- an annual assessment on the adequacy and overall effectiveness of governance, risk and the control framework of the organisation through the operating of an annual Internal Audit plan
- an analysis of themes and trends within the organisation and their impact on risk profile
- periodic information on the status and results of the Internal Audit plan
- co-ordination with other control and monitoring functions (specifically the ERC, the BRC, the Risk & Compliance Function and External Audit).

B. System of Governance

Internal Audit have unrestricted access to all functions, records, property, and personnel; full and free access to the Board and other key decision-making forums; freedom to allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and the ability to obtain the necessary assistance of personnel where they perform audits, as well as other specialised services from within or outside the organisation.

As defined in the Internal Audit Charter, Internal Audit reports as a function to the Audit Committee Chair (an independent Non-Executive Director) and administratively to the Chief Executive Officer. This dual reporting line ensures that Internal Audit operates with independence and objectivity at all times. Internal Audit will remain independent of Risk Management, Compliance and Finance at all times and will hold no responsibility over these functions. In addition, the Internal Audit function is outsourced to Grant Thornton, providing further independence from the business.

B.6 Actuarial function

Within NHBC, the activities of the Actuarial Function are the responsibility of the Head of Actuarial, who is an experienced General Insurance actuary. Activities of the Actuarial Function include work on reserving and pricing. The sections below provide further descriptions of some of the key responsibilities of the Actuarial Function.

Reserving and technical provisions

The calculation of the Solvency II (SII) Best Estimate provisions at 31 March 2021, compliant with SII standards, was undertaken by the actuarial function and validated internally by NHBC's risk department. It is also subject to an external review by actuarial consultants Willis Towers Watson LLP (WTW). The SII best estimates were audited by Deloitte LLP.

The UK GAAP Technical Provisions are based on the Solvency II Technical Provisions with a specific adjustment for non-UK GAAP items; a UK GAAP margin is then added, informed by the consideration of specific scenarios affecting such provisions. The UK GAAP Technical Provisions are subject to review by WTW.

NHBC has made several improvements to its reserving methodology, which enhance the robustness and reliability, reducing unnecessary complexity. The changes include:

- Introducing a capped and excess approach to the Section 2 and Section 3 projections. In addition, the large losses (amounts in excess of a £1m threshold) are now modelled using the same approach as the attritional, capped claims.
- Aligning the segmentation of the actuarial projections between the claims and premium provision. Previously, a more detailed segmentation was used for the premium provision, but this significantly increased the complexity of the modelling process. Using the same segments has allowed for simpler models without losing the ability to model key changes in mix of business.
- Several technical provisions components including large losses, ENIDs and reinsurance, were previously modelled stochastically. These have now been replaced with deterministic modelling on a best estimate basis, which is quicker, more robust and sufficient for reserving purposes.

Reporting

A process is in place for regular regulatory reporting, including quantitative reporting templates (QRTs) and other reports. The actuarial team also provide reports on ad hoc and thematic reviews by the PRA, most recently on the financial impact of Covid-19 and the developments regarding cladding and fire-stopping related claims.

Pricing

Actuarial function's pricing and profitability projections for the financial year ending 31 March 2022 were presented and discussed with the Technical Pricing Committee over the period of September 2020 to February 2021. A number of pricing actions were recommended and accepted by the Commercial Pricing Committee and were incorporated into the Group Business Plan, which the NHBC Board approved on 29 March 2021.

B. System of Governance

Reinsurance

The primary insurance risk mitigating action is the placement of reinsurance. The actuarial team contribute to the reinsurance process in a number of different ways, including:

- providing various reports to reinsurers including quota share bordereau, reserving updates and recovery calculations
- producing information for reinsurance renewal packs.

Recently, the actuarial team contributed data and analysis in support of the placement of a loss portfolio transfer, covering the 2016 to 2019 underwriting years.

B.7 Outsourcing

NHBC has a documented procurement and supplier governance policy owned by the Chief Financial Officer. This policy establishes a set of requirements for NHBC to meet its regulatory obligations and effectively manage the risks associated with outsourcing critical, important or key functions, services and activities, as per Article 49 of the Solvency II Directive.

The Policy takes into account the different types of outsourcing arrangements within NHBC and outlines NHBC's responsibilities and actions that must be followed when entering into an outsourcing arrangement from both a regulatory and best practice perspective.

NHBC has adopted the definition of the Solvency II Directive for key functions as those included in the systems of governance. Currently, the only key function that NHBC outsources is Internal Audit. Over the financial year the Internal Audit function was performed by Grant Thornton LLP and BDO LLP. Grant Thornton LLP and BDO LLP both operate within the United Kingdom.

B.8 Other information

The information presented in Section B of this report provides a true and fair reflection of NHBC's system of governance during the reporting period. No other material information to report.

C. Risk profile

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C. Risk profile

Overview

NHBC's risk profile is assessed through a combination of measures including Company and department specific risk registers, a risk appetite framework, the Solvency II Standard Formula Model and various economic and business-related scenarios.

NHBC is exposed to material underwriting and market risk (both directly and through its defined benefit pension scheme). A description of these risks, as well as other less material risks that NHBC is exposed to, is set out in the sub-sections below.

NHBC's assets are invested in both listed instruments (that are standard in nature) with an observable daily pricing source and unlisted instruments. Based on the existing strategy the NHBC portfolio contains a significant proportion of high quality and liquid assets.

NHBC employs an external manager to perform continuous asset-liability management. NHBC performs monitoring on a quarterly basis to review the appropriateness of the liability benchmarks used by the external manager. The assets held against the liabilities are predominately index-linked and nominal gilts, corporate bonds and cash, and are considered appropriate in both nature and duration with respect to the Company's liabilities.

The bond portfolio is invested in funds run exclusively for NHBC (segregated mandates) which account for the majority of NHBC's investments. The illiquid and dynamic asset allocation overlay funds are invested in pooled funds.

The non-gilt fixed income holdings have limits embedded in the guidelines to control the duration, the credit quality of the portfolio and the maximum exposure to any one issuer. There are also asset allocation limits monitored against the strategic benchmark set by the Board. The use of derivatives is permitted for the purpose of hedging interest rate, inflation and currency exposures within the segregated bond mandates. Listed equity futures and options are also permitted for equity risk hedging purposes only.

Some of NHBC's investments are subject to foreign exchange risk. The bond related currency exposure within segregated mandates is hedged using derivatives. There may be currency exposures within the multi asset, multi region dynamic allocation fund.

NHBC limits its market risk exposures to modest levels in terms of both complexity and capital volatility of the instruments held. All NHBC investments map to an appropriate Standard Formula market risk module, with a solvency capital requirement calculated for these risks.

In helping to assess and better understand the market risk exposures on the balance sheet, investment reporting and analysis is supplied by all external managers on a look-through basis and metrics such as tracking error and performance attribution is also available.

The nature of NHBC's business model means it is subject to a concentration of insurance risk. The UK house-building industry is dominated by a relatively small number of very large builders and this means that NHBC not only has a concentration of risk to the building industry, but also a concentration of risk with a small number of builders too. Further information is provided in Section C6 below.

NHBC uses reinsurance to transfer some of its underwriting risk to a panel of reinsurers. This includes:

- primarily an excess of loss reinsurance cover taken out to insure against unusually high losses arising for properties registered in a given underwriting year, however in recent underwriting years this has been replaced by a quota share reinsurance (on an underwriting year basis)
- cross-generational excess of loss policy that spans several of these historic underwriting years.
- loss portfolio transfer spanning several other historical underwriting years
- other less material reinsurance arrangements, including quota share reinsurance on certain lines of business. NHBC's reinsurance arrangements are assessed annually by its Underwriting function and presented to the Board Risk Committee for approval.

Sensitivity analysis

NHBC performs sensitivity analysis alongside its business planning activities and related stress and scenario testing in order to understand the impact of significant assumptions on NHBC's profitability and Solvency II solvency ratio.

The following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities are non-linear, and the reader should not interpolate/extrapolate smaller or larger impacts from results below.

The table below shows the change in solvency ratio under each sensitivity at the end of NHBC's three-year group business plan. For example, a +1% change represents a change from 159% to 160% solvency ratio.

C. Risk profile

Assumption	Change in assumption	Impact on solvency ratio
Change in House Price Inflation (HPI) in each year of the business plan	+1%	-0.31%
Change in House Price Inflation (HPI) in each year of the business plan	-1%	+0.23%
Change in business volumes in each year of the business plan	+10,000 units	-2.36%
Change in business volumes in each year of the business plan	-10,000 units	+2.46%
Change in the view of the long term HRCI differential versus RPI over the life of the plan	+0.5%	-3.60%
Change in the view of the long term HRCI differential versus RPI over the life of the plan	-0.5%	3.44%

Stress and scenario testing

NHBC's business plan has been produced using a number of assumptions. The most significant are judged to be a worsening claims experience, a fall in the expected return on the surplus asset portfolio, a fall in house price inflation, a fall in volumes and an increasing divergence between RPI and HRCI measures of inflation.

As part of NHBC's ORSA and business planning processes a range of economic and business-related scenarios have been modelled. NHBC selected a number of these scenarios and modelled their impact to its Solvency II solvency ratio over a three-year horizon, including:

- the impact of recession scenarios (minor recession and severe recession) on NHBC's Profit, Own Funds, SF SCR, and SF Solvency Ratio; these scenarios reflect the uncertainty in the UK's economic recovery following Covid-19 and its potential impact on NHBC
- the impact of business scenarios ('major builder insolvency', 'unintended consequences of TRM', 'claims deterioration due to an MMC system failure', 'changes in Building Control' and 'cyber event') on profit and Standard Formula Solvency Ratio, where material.

The results of stress and scenario testing demonstrate that through use of management actions, NHBC can maintain sufficient own funds over SCR to withstand the severe scenarios and stresses outlined above.

C.1 Underwriting risk

Underwriting risk refers to the potential cost of deviations in the expected timing, frequency and severity of insured events relative to expectations at the time of underwriting (premium risk) and deviations in the timing and cost of settling existing insurance liabilities (reserve risk). This may also include the cost of administering insurance policies and claims.

NHBC underwrites insurance in two Solvency II classes of business – Credit and Suretyship and Miscellaneous Financial Loss.

Credit and Suretyship is:

- cover that provides protection to potential homeowners for loss of deposit when purchasing a property
- cover that provides a guarantee for builders where NHBC stands as surety on road and sewer bonds.

Miscellaneous Financial Loss is all remaining cover, i.e. the building defect cover.

Underwriting is NHBC's largest area of risk exposure. This is an area in which NHBC actively takes risk in the belief it is suitably rewarded by its managed use, aligned to the strategy of raising standards for new build homes. NHBC believes that by taking underwriting risks, and therefore paying to remedy building defect claims, it will increase its understanding in this area and be able to further raise standards for future builds.

NHBC manages its underwriting risk by requiring all builders offering its warranty products to register with the Company and to build to its Standards. NHBC monitors the quality of builders' work and adjusts the premium it charges accordingly. This ensures that builders are financially incentivised to build quality homes.

NHBC provides an inspection service throughout various stages of the build process (in accordance with NHBC Rules) to builder customers who benefit from the Buildmark product. This service supports NHBC's aims of raising new house-building standards to protect homeowners, through fewer defects.

Lastly, NHBC also purchases various reinsurance treaties to transfer some of the underwriting risk to other parties. Whilst this reduces NHBC's underwriting risk it creates a credit risk which is considered further in the credit risk section below.

NHBC holds capital to absorb unexpected insurance losses and the amount of capital held against underwriting risk as at 31 March 2021 on a Standard Formula measure was £296.2m (2020: £343.1m).

C. Risk profile

C.2 Market risk

Market risk refers to changes in the value of NHBC's assets and liabilities as a result of fluctuations in their market value.

NHBC has approximately £1.7 billion of assets under management and approximately £1.0 billion of Solvency II liabilities, meaning the business's exposure to market risk is material. NHBC's investment portfolio consists largely of government and investment grade corporate bonds. Its liabilities are predominately insurance-related, although it is also liable for meeting the obligations of its defined benefit pension scheme (closed to new members and future accrual of benefits).

NHBC manages its investments by outsourcing it to specialist fund and portfolio managers and ensuring that there are mandates, guidelines and policies in place to control what action the fund managers can take. NHBC's investment related policies embed controls and management consistent with the Prudent Person Principle directive. They ensure that sufficiently diversified appropriate assets, traded on regulated markets are held and all derivative exposures are held for risk reduction and efficient portfolio management purposes. Fund managers must be authorised by the regulator and their performance is reviewed regularly.

NHBC is exposed to the risk that changes in interest rates and/or inflation adversely affect the value of its investments and liabilities. The Company seeks to minimise this risk by trying to select investments that match the characteristics of its liabilities.

NHBC is also indirectly exposed to market risk on the pension scheme's assets and liabilities. The pension scheme's investments also consist mainly of equities, government bonds and corporate bonds. The scheme also tries to minimise its market risk by selecting investments that match the characteristics of its liabilities.

NHBC holds capital to absorb market value fluctuations in its assets and liabilities and the amount of capital held against market risk as at 31 March 2021 on a Standard Formula measure was £120.2m (2020: £100.5m).

NHBC has an internal Investment Function in order to deliver a better understanding and ownership of market risk internally. NHBC retain the use, in a reduced capacity, of external investment consultants for additional support when required.

C.3 Credit risk

Credit risk refers to losses arising from a counterparty failing to meet its financial obligations when due.

NHBC is exposed to credit risk from a variety of different sources, with the main source being the risk of reinsurer default. NHBC manages reinsurance credit risk by ensuring its reinsurers are financially robust with a minimum credit rating of A-. In addition, NHBC spreads its reinsurance between a number of counterparties, although the unique nature of its insurance means some counterparties have a relatively large proportions of its insurance risks.

NHBC is also exposed to credit risk through its cash on deposit and through its trade debtors, both of which are deemed to be a relatively immaterial credit risk to the Company as they are reasonably diversified, and the amount of exposure is relatively small.

Although linked to credit risk, the risk of default on government and corporate bond holdings is considered within market risk, and the provision of insurance cover for deposit guarantee or suretyship is considered within underwriting risk.

NHBC holds capital to absorb losses arising from counterparty defaults and the amount of capital held against credit risk as at 31 March 2021 on a Standard Formula measure was £7.7m (2020: £8.1m).

C.4 Liquidity risk

Liquidity risk refers to the risk that NHBC, whilst remaining solvent, does not have sufficiently liquid resources available to meet its financial obligations as they fall due, or it can only secure such resources at an excessive cost.

NHBC manages its liquidity risk by investing in a range of cash and cash equivalents, as well as highly liquid government bonds and to a lesser degree, corporate bonds. The Company, as with most insurers, generally receives premium income in advance of having to pay out for claims and therefore providing this is invested in relatively liquid funds the exposure to liquidity risk is relatively immaterial.

The nature of the insurance business underwritten by NHBC also contributes to low liquidity risk as building defect claims can take several months to settle, giving advanced notice of impending cash out-flows should they arise.

NHBC does not hold capital specifically to absorb losses arising from liquidity risk as the risk is considered immaterial. It does, however, consider liquidity as part of its risk management and reporting framework and cash management process.

C. Risk profile

NHBC anticipates around £0.4m (2020: £1.4m) in expected profit included within future premiums, which principally relates to premiums charged for providing cover for longer durations under Section 1 of the Buildmark product.

NHBC has a Board approved Liquidity Risk Policy in place with risk appetite metrics monitored through appropriate governance committees on a quarterly basis.

C.5 Operational risk

Operational risk refers to the risk of losses arising as a result of failures in systems, people, processes used to manage the business or external events.

The Company employs a Risk Management Framework[3], supported by a number of qualified risk professionals to assist the business in managing these risks. The business makes use of a number of risk management techniques including the ongoing assessment of risks through department specific risk registers and scenario modelling.

NHBC holds capital to absorb losses arising from operational risks and the amount of capital held against this risk as at 31 March 2021 on a Standard Formula measure was £30.8m (2020: £24.1m).

C.6 Other material risks

Concentration risk

The nature of NHBC's business model means it is subject to a concentration of insurance risk. It is predominately focused on providing warranty cover for building defects and, cover that provides protection to potential homeowners for loss of deposit when purchasing a property, and to local authorities where NHBC stands as surety on road and sewer bonds. This means that the Company does not benefit from a diversification of insurance risks, but it does, however, mean that it is able to become highly specialised which brings many other benefits.

The UK house-building industry is dominated by a relatively small number of very large builders and this means that NHBC not only has a concentration of risk in the building industry, but also a concentration of risk with a small number of builders too.

These are risks that NHBC chooses to underwrite in order to fulfil its objective of raising the standard of new build homes. The capital that NHBC holds to cover losses arising from these risks is taken account of within its underwriting risk capital.

Pension risk

NHBC is liable for meeting the obligations of its defined benefit pension scheme, although the scheme is now closed to new members and future accrual of benefits. This exposes NHBC to additional market risk, as discussed in C.2 but also longevity risk and operational risk.

Longevity risk refers to the risk of losses arising as a result of scheme members and beneficiaries living longer than expected, and therefore NHBC having to make benefit payments for longer than expected.

NHBC accepts longevity risk as part of its pension scheme obligations and, whilst it is not required to hold capital against this risk under the Solvency II Standard Formula, holds capital under its Own Risk & Solvency Assessment.

NHBC has a Board approved Pension Risk Policy in place.

Strategic risk

Strategic risk refers to the risk arising from NHBC failing to adapt to changes which in turn undermine its ability to deliver its business objectives.

The Company manages this risk by carrying out strategic reviews and engaging external management consultants, when needed, to challenge and help develop the business's strategic plans. Where necessary the business's strategic plans will be reviewed and changed in response to unexpected market conditions.

NHBC is also exposed to risks from its subsidiary companies and these risks are managed by ensuring directors from the parent company are present on the boards of subsidiary companies, and that there is a robust governance framework in place.

Whilst NHBC is not required to hold capital against this risk under the Solvency II Standard Formula, it holds capital under its Own Risk & Solvency Assessment within its operational risk capital.

C.7 Any other information

The information presented in Section C of this report provides a true and fair reflection of NHBC's risk profile during the reporting period.

NHBC has no material exposure to off-balance sheet positions and does make use of, or transfer risk to, any special purpose vehicles.

No other material information to report.

3 As outlined in Section B of this report.

D. Valuation for Solvency Purposes

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D. Valuation for Solvency Purposes

This section of the report provides a description of the bases, methods and main assumptions employed in the valuation of NHBC's assets and liabilities. This section also provides an explanation of material differences between valuations presented in NHBC financial statements under UK Generally Accepted Accounting Practice (UK GAAP) and Solvency II valuations.

D.1 Assets

NHBC's Solvency II assets are valued in accordance with Article 75 of Directive 2009/138/EC, it assumes NHBC is a going concern and are valued independently of the liabilities.

NHBC prepares its financial statements under UK GAAP on a going concern basis under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, in accordance with the Companies Act 2006 and provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410") relating to insurance groups. Financial statements and Solvency II basis of preparation produce consistent valuations for the majority of assets.

The Solvency II balance sheet uses the NHBC Company balance sheet prepared for the Annual Report and Accounts under the UK GAAP framework as its basis of preparation.

The following table presents NHBC's valuation of assets at 31 March 2021 on a Solvency II basis.

Assets £m	2021	2020
Property, plant and equipment for own use	**13.4**	16.7
Investments	**1,666.3**	1,592.8
Reinsurance recoverable from non-life excluding health	**122.9**	155.6
Insurance and intermediaries receivable	**2.3**	4.0
Receivables (trade, not insurance)	**5.1**	5.9
Cash and cash equivalents	**24.1**	41.6
Any other assets not elsewhere shown	**6.2**	4.7
Total assets	**1,840.3**	**1,821.3**

Material classes of assets

Land and buildings included in property, plant and equipment for own use

The valuation approach is consistent between the basis of preparation of the financial statements and Solvency II resulting in equal valuations.

In the absence of quoted market prices in active markets for NHBC's land and buildings the default valuation method set out in Article 10(2) is not possible.

Following the hierarchy of valuation methods in accordance with Article 10 NHBC's land and buildings are valued individually.

NHBC values its land and buildings using a market approach as outlined in Article 10(7).

NHBC includes the value of right of use asset associated with property occupied under operating leases.

Investments

The valuation approach is consistent between basis of preparation of the financial statements and Solvency II resulting in equal valuations.

Under Solvency II NHBC applies the default valuation method as per Article 10(2). NHBC values its financial investments using quoted market prices in active markets for the same assets.

Investments are considered to be in active markets where they are actively traded with live prices available.

D. Valuation for Solvency Purposes

Related undertakings

NHBC holds investments in 100% owned subsidiaries which qualify as related undertakings under Article 13. There is no material difference in the valuations under Solvency II and UK GAAP.

In the absence of quoted market prices in active markets the related undertakings are valued using the adjusted equity method, as per Article 13(3), under Solvency II.

Deferred tax assets

The method for calculation of deferred tax asset is consistent between financial statements and Solvency II basis of preparation. NHBC's deferred tax asset is primarily driven by the NHBC defined benefit pension deficit and trading losses carried forward. A deferred tax asset is recognised when its recoverability is likely. Deferred tax assets are offset against deferred tax liabilities where right of offset exists.

Any additional deferred tax liability arising from differences between assets or liabilities that would result in tax timing differences under UK GAAP and Solvency II balance sheets follow the provisions of Article 15.

Reinsurance

The reinsurance balance is discussed in Section D2 of this report.

Receivables and cash and cash equivalents included within reinsurance recoverable from non-life excluding health, insurance and intermediaries receivable, and Cash and cash equivalents

Article 16 specifically prohibits valuation of assets at cost or amortised cost.

NHBC is of the opinion that the carrying value of debtors, cash and deposits with credit institutions in the financial statements is equal to the valuation achieved through application of valuation techniques as prescribed in Articles 9 and 10.

The valuation of these assets is not above cost. NHBC carries out regular impairment reviews on all the asset classes. Using past historic information over recoverability of the assets and credit rating information NHBC is able to accurately measure the realisable value of the assets which results in assets valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

In accordance with the guidelines, current insurance debt (debt that falls within agreed credit terms) is reclassified as part of technical provisions.

Other assets

NHBC has operating leases for one property and various motor vehicles. These assets, and the corresponding liabilities, are included on the SII balance sheet. At 31 March 2021 NHBC had leasing commitments of £2.3m (2020: £4.9m) recognised on the SII balance sheet.

NHBC does not consider plant and equipment for own use or any other assets not elsewhere shown (typically prepayments) to be material classes of assets.

Reconciliation of UK GAAP and Solvency II assets

The balance sheet valuation under UK GAAP is, in many cases the same as that required for Solvency II. Where the Solvency II requirements and basis of valuation differ from the accounting basis, adjustments are made to reflect the Solvency II requirements. The main areas of balance sheet valuation differences between UK GAAP and Solvency II for NHBC are listed below; the two main material items are the valuation of the Technical Provisions and the resulting Deferred Tax Liability:

- Technical Provisions – under UK GAAP the Technical Provisions are valued in line with FRS 103 – Insurance Contracts. The amounts involved are material to NHBC's balance sheet. Under Solvency II the valuation of Technical Provisions is calculated on a best estimate plus a risk margin basis. Note that under Solvency II, NHBC also applies the volatility adjustment.
- Deferred tax – deferred tax results from the difference between net assets (primarily Technical provisions) between the UK GAAP and Solvency II balance sheets multiplied by the applicable rate of tax.
- Deferred acquisition costs (DAC) – NHBC recognises DAC under UK GAAP. Under Solvency II DAC is not recognised.
- Reclassification of balance sheet items – for Solvency II purposes certain balance sheet items have been reclassified and now form part of Technical Provisions.

D. Valuation for Solvency Purposes

The table below provides reconciliation between assets as disclosed in UK GAAP financial statements and Solvency II as at 31 March 2021.

Assets (£m)	UK GAAP value	Adjustment to technical provisions	Reversal of DAC	Right of use adjustment	Deferred tax adjustment	Balance reclassification	Solvency II value
Deferred acquisition costs	14.3	-	(14.3)	-	-	-	-
Deferred tax assets	11.6	-	-	-	(11.6)	-	-
Property, plant and equipment for own use	11.1	-	-	2.3	-	-	13.4
Investments	1,656.2	-	-	-	-	10.1	1,666.3
Reinsurance recoverable from non-life excluding health	546.3	(423.4)	-	-	-	-	122.9
Insurance and intermediaries receivable	9.1	-	-		-	(6.8)	2.3
Receivables (trade, not insurance)	5.1	-	-	-	-	-	5.1
Cash and cash equivalents	34.2	-	-	-	-	(10.1)	24.1
Any other assets not elsewhere shown	9.4	-	-	-	-	(3.2)	6.2
Total Assets	**2,297.3**	**(423.4)**	**(14.3)**	**2.3**	**(11.6)**	**(10.0)**	**1,840.3**

D.2 Technical provisions

The following table presents NHBC's valuation of net technical provisions at 31 March 2021 on a Solvency II basis.

Technical provisions (£m)	Credit and suretyship insurance[4]	Miscellaneous financial loss	Total Non - Life obligation
Gross best estimate	(66.7)	1,093.7	1,027.0
Risk margin	0.5	86.9	87.4
Technical provisions	(66.2)	1,180.6	1,114.4
Reinsurance recoverable	(1.5)	(121.4)	(122.9)
Technical provisions less recoverable from reinsurance	**(67.7)**	**1,059.2**	**991.5**

4 The gross best estimate for credit and surety insurance line of business includes future road and sewer bond fees.

D. Valuation for Solvency Purposes

Technical provisions basis and methodology

Solvency II Technical Provisions are made up of the sum of a best estimate and a risk margin calculated in accordance with the requirements of the Solvency II Directive (Directive 2009/138/EC).

The best estimate corresponds to the probability-weighted average of future cash flows, taking account of the time value of money (expected present value of future cash flows), using the Bank of England volatility adjusted risk-free interest rate term structure at 31 March 2021.

The cash flow projection used in the calculation of the best estimate takes into account all the cash inflows and outflows required to settle the insurance and reinsurance obligations over the lifetime of the liabilities. These are subdivided into claim and premium provision components.

The Solvency II Technical Provisions are calculated directly for the claims and premium provisions and incorporate a mixture of deterministic and stochastic methodologies as identified below.

The Solvency II Technical Provisions are used to inform the UK GAAP Technical Provisions.

Risk groups

For the home warranty product (the Buildmark Product) NHBC broadly applies risk groupings aligned to the sections of coverage as outlined in Section A1.

Claims provisions

The claims provision represents the estimated cost of claims incurred but not settled as at the balance sheet date. The provision includes an allowance for claims management and claims handling expenses.

The claims provision for the majority of the reserves (Sections 1 to 4 of Buildmark Product, excluding Section 4 claims relating to high-rise flats post the-Grenfell Tower Fire) are estimated using triangulation methods and consider inflated incurred and paid claim development tables. The claims provision for Section 4 high-rise flats claims are based on claims reported to date. Road and sewer bonds are based on an assessment of the level of individual outstanding bonds should a particular builder become insolvent.

Premium provision

The premium provision represents the estimated cost of future claims and expenses arising from the current and incepted insurance contracts, net of future premium receipts. The premium provision is the expected present value of all future cash flows relating to risk exposure after the valuation date.

The premium provision relating to the Buildmark Product, excluding Section 4 claims relating to high-rise flats post the Grenfell Tower fire tragedy, are calculated by Underwriting Year, based on the estimated cost per home, the number of policies and the percentage unearned of those policies. The premium provision for Section 4 high-rise flats claims post the Grenfell Tower tragedy is based on an exposure model considering the number of properties on risk, the likelihood of a claim arising and the estimated cost per claim. The premium provision for road and sewer bonds utilises a mixture of deterministic and stochastic methodology based on the probability of builder insolvency.

Events not in data

Events not in data are a category of potential losses that need to be considered within the Solvency II Technical Provisions and which, by their nature are sparsely represented within the experience data and typically represent low-frequency, high severity events.

Reinsurance

In the financial year, NHBC has entered into a quota share reinsurance agreement, the LPT. Under this agreement the reinsurer agreed to provide 75% quota share reinsurance with respect to certain Buildmark policies with registration dates between 1 April 2015 and 31 March 2019 (inclusive).

For the 2019/20 and prior underwriting years, NHBC's primary reinsurance cover is an aggregate excess of loss cover protecting against total losses per underwriting year. In addition, there is a cross-generational cover providing protection against the aggregate retained losses on the combined 2005/06 to 2014/15 underwriting years.

NHBC has bought quota share reinsurance for major projects from the 2017/18 underwriting year and on a whole account basis from 2020/21. There is also quota share cover for additional Section 1 cover exposures and an excess of loss treaty providing protection for the road and sewer bonds.

The reinsurance recoveries are estimated deterministically by directly calculating the recoveries due on the gross best estimate losses for each reinsurance programme. Reinsurance bad debt provisions are also included.

Contract boundaries

Solvency II requires that the Technical Provisions include the best estimate of all future insurance cash flows associated with committed insurance obligations. This should allow for expected policyholder actions. The regulations are concerned with business known as Bound But Not Incepted (BBNI) where an obligation exists but the contract has not yet incepted and hence may not be present within data records used for the technical provision calculations. Solvency II regulations requires that such contracts are included within the valuation.

D. Valuation for Solvency Purposes

For NHBC, however, the registration of a policy is triggered by the builder's payment of the fees. The Customer Service representative for that site registers the policy in Fusion (NHBC's policy administration system). NHBC are not obligated to provide cover until a policy number is created (registered) in Fusion. Even if the quote was accepted by the builder and the fees were paid, NHBC can still change its mind and is not obligated to register the policy. Even after plot registration process, NHBC can choose to decline the risk at any time if the building does not meet NHBC's Standards.

For some major developments, while there is normally more discussion over terms, again the risk is not bound until the registration details have been provided.

There are no renewals; cover is provided from inception mainly for 10 years after completion.

No allowance for Bound But Not Incepted (BBNI) premiums or claims is required as only business registered and hence incepted is within scope of the valuation for technical provisions.

Future premium income and outgoings

Many road and sewer bonds are kept in place beyond the original term and NHBC charges so-called 'overrun fees' for them. These form the bulk of NHBC's future premium income.

A small number of major builder customers do have modest credit terms. These (UK GAAP) balance sheet accruals are included within Solvency II technical provisions and classified as premium provisions, since the earned exposure (which only relates to Section 1 cover) is de-minimis.

In addition to these, there are instances where additional premium might be receivable. These may include additional Section 1 premiums, premium adjustments and income generated by future policyholder behaviour.

Expenses

There are two categories of expenses which are included in the calculation of the cash flows for Technical Provisions:

- Claims Management Expenses which include the costs of the claims handling department and the associated overhead costs as well as an allocation of general overheads. In addition, these expense amounts include internal legal and engineering costs incurred when handling claims/potential claims.
- Investment Management Expenses are those incurred in the management of NHBC's investment portfolio of assets which are held to support the insurance liabilities.

A number of expense items (e.g., IPT accrual, VAT accruals relating to insurance business) which are included in the UK GAAP balance sheet are explicitly transferred to the Solvency II Technical Provisions.

Uncertainty

The key uncertainty in estimating NHBC's technical provisions relates to the long-tailed nature of the Buildmark policy. This means that a significant portion of the reserve relates to future 'unearned' exposures which will be affected by many uncertain factors including general economic conditions, the state of the construction industry in the UK and individual builder behaviours.

Data relating to what are potentially the largest risks faced by NHBC - exceptional losses, changes in builder behaviour towards voluntarily undertaking their own Section 3 repairs or major builder insolvency - is very limited. This increases the reliance on expert judgement and the uncertainty within the estimates.

As at 31 March 2021, there is ongoing uncertainty relating to the Covid-19 pandemic and the impact this will have on future claims to NHBC. An allowance has been made using claims experience from the previous recession as a guide. However, at this stage the extent of any recession, impact on the housing market and subsequent knock-on effects on builder insolvency and self-repair rates are difficult to predict.

The technical provisions also include an allowance for Section 4 claims relating to combustible cladding and other fire safety issues, following the Grenfell Tower fire tragedy in June 2017. Ongoing investigations and other developments, such as mortgage providers' requests to see fire safety certificates prior to lending, increases the uncertainty of this technical provisions component and of the technical provisions overall.

No other extraordinary changes to the legal, social or economic environment that might affect the cost, frequency or future reporting of claims are anticipated. In addition, other than in the Events Not in Data (ENID) provision, NHBC has made no allowance for potential future claims arising from loss causes or types of coverage that are not represented in the historical data.

D. Valuation for Solvency Purposes

Reconciliation of UK GAAP and Solvency II net technical provisions

The table below provides reconciliation between net technical provisions as disclosed in UK GAAP financial statements and Solvency II as at 31 March 2021.

Technical provisions net of reinsurance (£m)	Credit and suretyship insurance	Miscellaneous financial loss	Total
Solvency II technical provisions excluding risk margin	(68.2)	972.3	904.1
Solvency II elements not applicable for UK GAAP	113.2	(248.3)	(135.1)
Discounting basis difference	(0.6)	4.4	3.8
UK GAAP margin	13.8	145.8	159.6
UK GAAP adjustments	(2.4)	(4.7)	(7.1)
UK GAAP technical provisions	**55.8**	**869.5**	**925.3**

The UK GAAP Technical Provisions are calculated by adding a UK GAAP margin (to allow for the concept of being reasonably foreseeable) to the best estimate provisions derived as part of the Solvency II technical provisions. Elements of the technical provisions which are specific to Solvency II are removed from the calculation. This includes balance sheet adjustments, investment and administration expenses as well as future premiums.

The UK GAAP margin is selected by Management and is informed by a suite of scenarios which estimate additional provisions that would be required to be added to the Solvency II best estimates (after UK GAAP adjustments) to reflect reasonably foreseeable events.

The UK GAAP adjustments primarily relate to the service potential of reinsurance assets and the deferred acquisition costs. Due to the nature of certain reinsurance policies held by NHBC a service potential is recognised above the estimated recoveries under UK GAAP. This represents the amortised cost, in excess of expected recoveries, of reinsurance policies which have been obtained to create additional capacity within NHBC's risk appetite, or to protect the capital position against tail events outside the UK GAAP margin.

Other information

NHBC does not apply counter-cyclical premiums or matching premiums. NHBC is not using the transitional provisions.

D.3 Other liabilities

NHBC's Solvency II liabilities are valued in accordance with Article 75, assuming NHBC is a going concern, and are valued independently of the assets.

NHBC prepares its financial statements under UK GAAP on a going concern basis under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, in accordance with the Companies Act 2006 and provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups. Financial statements and Solvency II basis of preparation produce consistent valuations for majority of liabilities.

The Solvency II balance sheet uses the NHBC Company balance sheet prepared for the Annual Report and Accounts under the UK Generally Accepted Accounting Practice (UK GAAP) framework as its basis of preparation.

The table below highlights the valuation of the liabilities in the preparation of the Solvency II balance sheet.

Liabilities (£m)	**2021**	2020
Technical provisions – non-life calculated as a whole	**1,114.4**	1,133.9
Provisions other than technical provisions	**63.1**	61.3
Pension benefit obligations	**21.7**	16.0
Derivatives	**2.2**	1.3
Insurance and intermediaries payable	**26.0**	26.7
Payables (trade, not insurance)	**25.2**	21.6
Total Liabilities	**1,252.6**	**1,260.8**

D. Valuation for Solvency Purposes

Material classes of liability

Technical provisions – non-life calculated as a whole

Technical provisions are discussed in Section D2 above.

Provisions other than technical provisions

Provisions such as accruals (and contingent liabilities) are recognised on NHBC's balance sheet where it is probable that any future economic benefit associated with the item will flow from NHBC and the item has a cost or value that can be measured reliably.

There are no differences between measurement and recognition between UK GAAP and Solvency II. Provisions for cash flows that can be directly attributed to insurance activities are reallocated to the technical provisions.

Pension benefit obligations

The defined benefit obligation is calculated using the projected unit credit method. On an annual basis, NHBC engages independent actuaries to assist in calculating the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments.

An updated recovery plan was agreed in the year with annual payments of £8m due from 2020 to 2024, intended to eliminate the deficit.

The basis of preparation of financial statements and Solvency II produce equal valuations.

Deferred tax liabilities

A deferred tax liability is recognised in respect of all timing differences at the reporting date.

A deferred tax liability is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

The method for calculation of deferred tax liability is consistent between financial statements and Solvency II basis of preparation.

As per the accounting basis, Solvency II recognises the deferred tax liability arising from the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Articles 75 to 86 of Directive 2009/138/EC and the values ascribed to assets and liabilities as recognised and valued for tax purposes. Deferred tax assets are offset against deferred tax liabilities where right of offset exists.

Any additional deferred tax liability arising from differences between assets or liabilities which would result in tax timing differences under UK GAAP and Solvency II balance sheets follow the provisions of Article 15.

Insurance and intermediaries payable and payables (trade, not insurance)

Basic financial liabilities, including trade and other payables are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Under UK GAAP debt instruments are subsequently carried at amortised cost, using the effective interest rate method. However, NHBC's payables are current and are not carried at amortised cost. Due to the current nature of the payables it is considered that the initially recognised value is an appropriate measurement of their fair value.

As such there are no differences between measurement and recognition between UK GAAP and Solvency II. Provisions for cash flows that can be directly attributed to insurance activities are reallocated to the technical provisions.

D. Valuation for Solvency Purposes

Reconciliation of UK GAAP and Solvency II liabilities

Please refer to Section D1 of this report for description of material differences between UK GAAP and Solvency II liabilities.

The table below provides reconciliation between liabilities as disclosed in UK GAAP financial statements and Solvency II as at 31 March 2021.

Liabilities (£m)	UK GAAP value	Deferred acquisition income	Adjustment to technical provisions	Right of use adjustment	Balance reclassification	Solvency II value
Technical provisions – non-life calculated as a whole	1,471.6		(602.2)	-	245.0	1,114.4
Provisions other than technical provisions	309.1	(4.8)	-	-	(241.2)	63.1
Pension benefit obligations	21.7		-	-		21.7
Derivatives	2.2		-	-		2.2
Insurance & intermediaries payable	36.5		-	-	(10.5)	26.0
Payables (trade, not insurance)	26.2		-	2.3	(3.3)	25.2
Total Liabilities	**1,867.3**	**(4.8)**	**(602.2)**	**2.3**	**(10.0)**	**1,252.6**

D.4 Alternative methods for valuation

Following the hierarchy of valuation methods in accordance with Article 10, NHBC's land and buildings are valued individually.

NHBC values its land and buildings using quoted market prices in active markets for similar assets with adjustments to reflect differences as per Article 10(3) or one of the alternative valuation methods as outlined in Article 10(7).

The value of each of the properties is assessed in accordance with the relevant parts of RICS Valuation – Professional Standards 2014. In particular, Fair Value of each of the properties has been determined in accordance with UKVS 1.1. Under these provisions, the term "Fair Value" means "The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction".

D.5 Other information

The information presented in Section D of this report provides a true and fair reflection of NHBC's valuation methods employed for its solvency purposes during the reporting period. No other material information to report.

E. Capital Management

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E. Capital Management

This section of the report provides information on NHBC's own funds and Solvency Capital Requirement (SCR).

E.1 Own funds

Capital management objectives, policies and processes

NHBC is exclusively funded through retained earnings and maintains a capital structure consistent with NHBC's risk profile and the regulatory requirements of its business.

NHBC's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to maintain financial strength to support new business growth
- to satisfy the requirements of its policyholders and regulators
- to retain financial flexibility by maintaining strong liquidity
- to allocate capital efficiently to support growth.

NHBC considers not only the traditional sources of capital funding but also alternative sources of capital, including reinsurance, when assessing its deployment and usage of capital. NHBC manages as capital all items that are eligible to be treated as capital for regulatory purposes.

Capital management is embedded with the Risk Management Framework outlined in the earlier sections of this document (please Section B3 for further information on NHBC risk management processes).

The Capital Modelling & Reporting Committee is responsible for day-to-day monitoring of NHBC capital position. The Capital Modelling & Reporting Committee ultimately feeds into the Executive Risk Committee, Board Risk Committee and the Board.

NHBC's capital and finance teams prepare quarterly capital positions and long-term projections for consideration of various committees as well as feeding into core processes such as business planning.

Own funds

As at 31 March 2021 all NHBC's own funds consist of items that are available to fully absorb losses on a going-concern basis, as well as in the case of winding-up, meeting all criteria of Article 94 of Directive 2009/138/EC to be classified as Tier 1 own funds. All NHBC's Tier 1 funds are unrestricted.

When NHBC recognises a deferred tax asset on its Solvency II balance sheet it classifies it as Tier 3 own funds in accordance with Article 76 of Solvency II Directive (Directive 2009/138/EC).

At 31 March 2021 NHBC's Tier 1 and total own funds were £605.2m (2020: £560.5m), comprised entirely of the reconciliation reserve. The own funds supported the Solvency Capital Requirement of £381.1m (2020: £415.9m) resulting in a solvency ratio of 159% (2020: 135%). The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall, was £171.5m (2020: £183.1m) providing a ratio to eligible own funds to meet the MCR of 353% (2020: 306%).

The reconciliation reserve is comprised of the Company's retained earnings on a UK GAAP basis, adjusted for the asset and liabilities differences under Solvency II.

The table below presents how funds are allocated to support SCR and MCR respectively as at 31 March 2021.

£m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
Total eligible own funds to meet the SCR	587.7	-	-	-	587.7
Total eligible own funds to meet the MCR	587.7	-	-	-	587.7

The Solvency II balance sheet uses the NHBC Company balance sheet prepared for the Annual Report and Accounts under the UK Generally Accepted Accounting Practice (UK GAAP) framework as its basis of preparation.

Please refer to Sections D1 and D3 of this report for description of material differences between UK GAAP and Solvency II assets and liabilities that ultimately drive the excess of assets over liabilities as calculated for solvency purposes.

E. Capital Management

The following table provides reconciliation between UK GAAP and Solvency II excess of assets over liabilities.

£m	Total
Solvency II excess of assets over liabilities	587.7
Asset valuation differences	447.0
Liability valuation differences	(604.7)
UK GAAP excess of assets over liabilities	**430.0**

Movement in own funds

The movement in own funds during the financial year ended 31 March 2021 is analysed below:

Eligible own funds	£m
As at 1 April 2020	560.5
UK GAAP result for the year	
- Loss after tax	66.4
- Other comprehensive income	(9.2)
Movement in valuation differences	(30.0)
As at 31 March 2021	**587.7**

The £44.7m increase in own funds is driven by the financial results in the year, adjusted for SII valuation differences. There were no distributions or capital instruments issued or redeemed in the year.

Other information about own funds

NHBC has not made use of transitional arrangements with respect to its basic own funds as referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC.

NHBC does not have ancillary own funds.

NHBC has not made any deductions from its own funds. There are no restrictions affecting the availability and transferability of own funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

NHBC uses the Standard Formula to calculate its regulatory capital requirements. The following table shows the Standard Formula capital requirement, which is still subject to regulatory review, at 31 March 2021.

£m	**2021**	2020
Market risk	**120.2**	100.5
Counterparty default risk (credit risk)	**7.6**	8.1
Non-life underwriting risk	**296.2**	343.1
Diversification	**(73.7)**	(66.6)
Base Solvency Capital Requirement	**350.3**	385.1
Operational risk	**30.8**	30.8
Total Solvency Capital Requirement	**381.1**	**415.9**

The Solvency Capital Requirement (SCR) has decreased since last year by £34.8m. This is primarily driven by a £46.9m decrease in non-life underwriting risk and £7.1m diversification benefit, offset by a £19.7m increase in the market risk.

Non-life underwriting risk has reduced by £46.9m primarily as a result of net claims provision being lower following placement of back-book quota share reinsurance cover.

Market risk has increased by £19.7m over the year. The primary driver was the increase in equity risk by £20.9m as equity exposure increased slightly in the year and the symmetric adjustment was updated from negative 10.00% at 31 March 2020 to positive 3.33% at the end of the financial year.

E. Capital Management

The MCR at 31 March 2021 was £171.5m (2020: £183.1m).

The MCR is based on applying the appropriate factors to the Technical Provisions (excluding risk margin) and net written premium for the two Solvency II classes of business written by NHBC, being Miscellaneous Financial Loss and Credit and Surety.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

NHBC is a General Insurer and thus the duration-based equity risk sub-module is not applicable. NHBC does not make use of any equity transitional measures.

E.4 Differences between the standard formula and any internal model used

As stated above, NHBC is using the Standard Formula approach to capital adequacy. Although an internal model is being developed, this element of the regulations is not applicable to NHBC at this point.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

NHBC had no non-compliance with either the MCR or the SCR during the reporting period.

E.6 Other information

The information presented in Section E of this report provides a true and fair reflection of NHBC's capital management during the reporting period. No other material information to report.

F. Quantitative reporting templates

F. Quantitative reporting templates

The following quantitative reporting templates are included in this section:

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Monetary amounts are in GBP thousands

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	13,383
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,666,347
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	6,383
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	1,470,692
R0140	*Government Bonds*	696,885
R0150	*Corporate Bonds*	728,988
R0160	*Structured notes*	39,470
R0170	*Collateralised securities*	5,348
R0180	*Collective Investments Undertakings*	187,070
R0190	*Derivatives*	2,202
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	122,879
R0280	*Non-life and health similar to non-life*	122,879
R0290	*Non-life excluding health*	122,879
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,290
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	5,077
R0390	Own shares (held directly)	
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	24,087
R0420	Any other assets, not elsewhere shown	6,250
R0500	**Total assets**	1,840,312

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,114,365
R0520	*Technical provisions - non-life (excluding health)*	1,114,365
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	1,026,978
R0550	*Risk margin*	87,387
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*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	63,144
R0760	Pension benefit obligations	21,650
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	2,230
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	25,963
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	25,206
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,252,559
R1000	**Excess of assets over liabilities**	587,754

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business									15,681			89,304					104,985
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share									1,618			259,365					260,984
R0200	Net									14,063			-170,062					-155,999
	Premiums earned																	
R0210	Gross - Direct Business									14,824			49,203					64,026
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share									1,543			38,813					40,356
R0300	Net									13,281			10,390					23,670
	Claims incurred																	
R0310	Gross - Direct Business									1,424			27,383					28,807
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share									19			8,119					8,138
R0400	Net									1,405			19,264					20,669
	Changes in other technical provisions																	
R0410	Gross - Direct Business									-3,024			59,552					56,528
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share									-589			25,761					25,172
R0500	Net									-2,435			33,791					31,356
R0550	**Expenses incurred**									4,767			43,256					48,024
R1200	**Other expenses**																	
R1300	**Total expenses**																	48,024

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
0110	Gross - Direct Business	104,985						104,985
0120	Gross - Proportional reinsurance accepted							0
0130	Gross - Non-proportional reinsurance accepted							0
0140	Reinsurers' share	260,984						260,984
0200	Net	-155,999						-155,999
	Premiums earned							
0210	Gross - Direct Business	64,026						64,026
0220	Gross - Proportional reinsurance accepted							0
0230	Gross - Non-proportional reinsurance accepted							0
0240	Reinsurers' share	40,356						40,356
0300	Net	23,670						23,670
	Claims incurred							
0310	Gross - Direct Business	28,807						28,807
0320	Gross - Proportional reinsurance accepted							0
0330	Gross - Non-proportional reinsurance accepted							0
0340	Reinsurers' share	8,138						8,138
0400	Net	20,669						20,669
	Changes in other technical provisions							
0410	Gross - Direct Business	56,528						56,528
0420	Gross - Proportional reinsurance accepted							0
0430	Gross - Non-proportional reinsurance accepted							0
0440	Reinsurers' share	25,172						25,172
0500	Net	31,356						31,356
0550	**Expenses incurred**	48,024						48,024
1200	**Other expenses**							
1300	**Total expenses**							48,024

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**									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 calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross									-73,983			735,944					661,961
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									1,445			61,353					62,798
R0150	**Net Best Estimate of Premium Provisions**									-75,428			674,591					599,163
	Claims provisions																	
R0160	Gross									7,260			357,757					365,017
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									19			60,062					60,081
R0250	**Net Best Estimate of Claims Provisions**									7,242			297,695					304,936
R0260	**Total best estimate - gross**									-66,723			1,093,701					1,026,978
R0270	**Total best estimate - net**									-68,187			972,286					904,100
R0280	**Risk margin**									518			86,869					87,387
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**									-66,205			1,180,570					1,114,365
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**									1,464			121,415					122,879
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**									-67,669			1,059,155					991,486

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											32,691	32,691	32,691
R0160	2012	24	251	800	1,636	2,171	2,859	2,382	3,354	16,239	9,918		9,918	39,633
R0170	2013	0	97	1,118	1,383	2,050	1,752	1,664	3,386	1,783			1,783	13,233
R0180	2014	0	104	1,003	1,777	3,033	2,432	1,534	3,670				3,670	13,553
R0190	2015	0	156	502	1,916	1,812	2,106	2,559					2,559	9,051
R0200	2016	0	21	418	660	1,007	878						878	2,984
R0210	2017	2	108	301	554	527							527	1,492
R0220	2018	0	20	257	1,799								1,799	2,076
R0230	2019	0	128	19									19	148
R0240	2020	0	0										0	0
R0250	2021	0											0	0
R0260												Total	53,845	114,861

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											176,701	173,614
R0160	2012	0	0	0	0	0	0	0	0	43,345	40,781		40,099
R0170	2013	0	0	0	0	0	0	0	30,698	30,601			29,995
R0180	2014	0	0	0	0	0	0	24,590	28,580				27,972
R0190	2015	0	0	0	0	0	17,513	25,999					25,419
R0200	2016	0	0	0	0	16,321	22,566						22,033
R0210	2017	0	0	0	10,077	14,977							14,614
R0220	2018	0	0	13,017	10,939								10,684
R0230	2019	0	5,897	8,961									8,773
R0240	2020	3,524	7,281										7,133
R0250	2021	4,721											4,682
R0260												Total	365,017

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial 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	587,754	587,754			
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
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				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	587,754	587,754	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	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				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	587,754	587,754	0	0	0
R0510	Total available own funds to meet the MCR	587,754	587,754	0	0	
R0540	Total eligible own funds to meet the SCR	587,754	587,754	0	0	0
R0550	Total eligible own funds to meet the MCR	587,754	587,754	0	0	
R0580	**SCR**	381,134				
R0600	**MCR**	171,510				
R0620	**Ratio of Eligible own funds to SCR**	154.21%				
R0640	**Ratio of Eligible own funds to MCR**	342.69%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	587,754
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	587,754
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	392
R0790	**Total Expected profits included in future premiums (EPIFP)**	392

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	120,199		
R0020	Counterparty default risk	7,580		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	296,178		
R0060	Diversification	-73,632		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	350,325		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	30,809
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
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**	381,134
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	381,134
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Not applicable

		LAC DT
	Calculation of loss absorbing capacity of deferred taxes	C0130
R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

S.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	MCR_{NL} Result	182,434

		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 expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	14,063
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	972,286	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_{L} 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		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

		C0070
R0300	Linear MCR	182,434
R0310	SCR	381,134
R0320	MCR cap	171,510
R0330	MCR floor	95,284
R0340	Combined MCR	171,510
R0350	Absolute floor of the MCR	3,338
R0400	**Minimum Capital Requirement**	171,510


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