NHBC Solvency and Financial Condition Report 2024

Contents

Executive summary

This is the Solvency and Financial Condition Report (SFCR) for National House-Building Council (NHBC) for the year ended 31 March 2024.

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 2024.

£m	2024	2023
Eligible own funds	843.9	700.3
Solvency capital requirement	322.4	327.1
Solvency II surplus	521.5	373.2
Solvency ratio	262%	214%

Business and performance

NHBC is a provider of warranty and insurance for new homes. Its core purpose is to work with its registered customers to raise standards in UK house building, champion high-quality homes and protect homeowners. for the benefit of the industry.

NHBC relies on retained earnings to bolster its capital base and ensure it can invest in the health of the business. Continued profitability brings stability, ensuring NHBC can meet future insurance obligations and support the delivery of its core purpose. NHBC posted a £150.2m pre-tax profit (2023: 63.0m profit) for the year ended 31 March 2024. The pre-tax profit is derived from improving underlying warranty claims experience and investment return on non-liability matching invested assets.

System of governance

NHBC's Board recognises the importance of strong corporate governance and has the responsibility to ensure NHBC's long-term sustainability. The Board is comprised of the Chair (a Non-Executive Director (NED)), Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and a number of NEDs. To ensure that the Board meets its responsibilities, there is 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.

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.

The following table shows NHBC's diversified SCR by most significant components as at 31 March 2024.

£m	2024	2023
Non-life underwriting risk	269.5	260.1
Market risk	103.9	92.7
Other risks and adjustments	13.1	32.6
Diversification	(64.1)	(58.3)
SCR	**322.4**	**327.1**

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. At 31 March 2024, the differences, summarised in the table below, are:

£m	2024	2023
UK GAAP net assets	687.1	564.8
Valuation differences:		
Net Technical Provisions	191.6	156.50
Deferred taxes	(34.8)	(21.0)
Solvency II excess of assets over liabilities	**843.9**	**700.3**

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 165% (the solvency ratio). At 31 March 2024, under Solvency II, NHBC's solvency ratio was 262% (2023: 214%).

NHBC also undertakes an ongoing Own Risk and Solvency Assessment (ORSA) which provides for the continual review of the business's 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.

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 Prudential Regulation Authority (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 2024, NHBC has complied in all material respects with the requirements of the PRA Rules and Solvency II Regulations as applicable to NHBC

(b) it is reasonable to believe that in respect of the period from 31 March 2024 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
25 June 2024

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 2024:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 March 2024, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.22.01.21, 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 2024 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:

- We evaluated management's method to assess going concern including an assessment of management's forward-looking business plan;
- We challenged future profit forecasts and management's underlying business plan to support key forward-looking assumptions such as future building registration volumes and inflation rate assumptions by performing sensitivity analysis of these assumptions;
- We evaluated how economic factors such as builder conduct and inflation fluctuations would affect the group's future capital position;
- We evaluated the historical accuracy of forecasts prepared by management by comparing previous forecasts against actual results achieved; and
- We assessed the appropriateness of 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.

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 and
- 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 regarding 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:

1) The assumptions applied in determining the actuarial best estimate for Section 2 attritional, Section 3 attritional, large and exceptional Loss claims:

We have gained an understanding of the end-to-end claims and reserving process and obtained an understanding of the relevant controls. We have tested the relevant controls over actuarial data reconciliations and claims controls. Additionally, we reconciled claims and policy data to source systems to assess the completeness and accuracy of the underlying data used in the group's actuarial calculation.

We worked with our actuarial specialists to:

- Inspect NHBC's documentation and key reserving files to conclude on reasonableness of assumptions applied;
- Assess and challenge the HRCI assumption used within the calculation, leveraging observable market data to benchmark the assumption and assess reasonableness;
- Assess the competence, capabilities and objectivity of the group's external actuarial expert and utilised their peer review to identify any significant differences in view; and
- Assess and challenge the frequency and severity assumptions used for large and exceptional losses by reviewing and challenging the analysis and expert judgements that support the selected assumptions and challenging the justification for those assumptions in light of historical estimates and alternative assumptions available.
- Perform a 'stand back' test to test the assumptions applied in determining the actuarial best estimate for Section 2 attritional, Section 3 attritional, large and exceptional Loss claims for indication of management bias.

2) The assumptions applied in valuing the incurred but not reported (IBNR) provision for Section 4 cladding claims.

We worked with our actuarial specialists to:

- Assess and challenge the assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating future claims;
- Consider any alternative assumptions which could reasonably be applied, including those considered by management and the impact of those on the result; and
- Inspect and challenge the builder self-repair assumptions by identifying relevant publicly available information and meeting with legal counsel and key management personnel to consider whether contradictory evidence exists.
- Perform a 'stand back' test to test the assumptions applied in valuing the IBNR provision for Section 4 cladding claims level for indication of management bias.

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 to 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 and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with the PRA and FCA.

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 National House-Building Council'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 insurer'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 (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
25 June 2024

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 3461 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

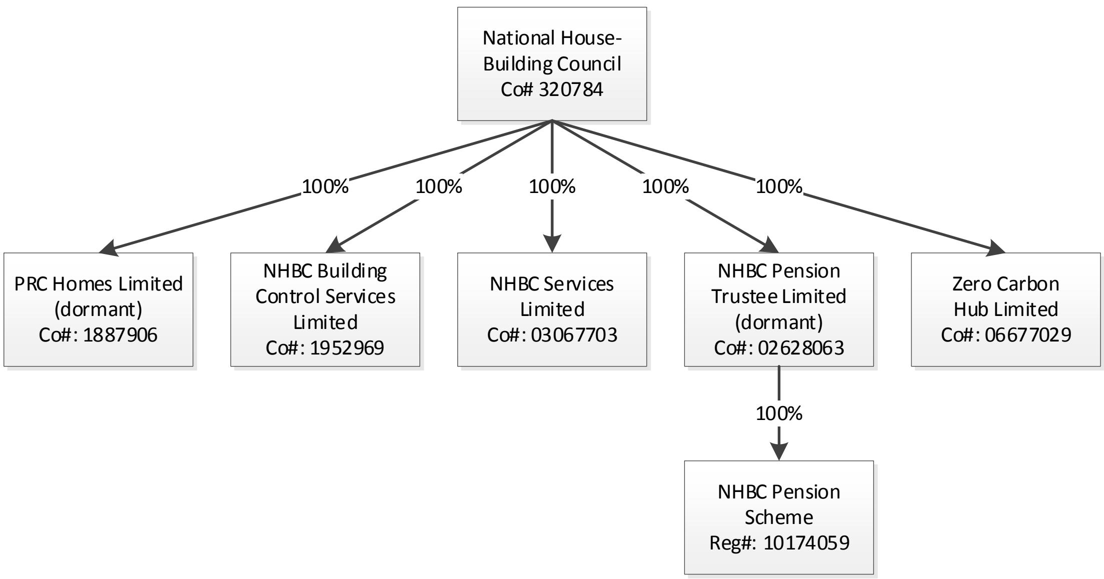
Deloitte LLP, Hill House, 1 New Street Square, London, EC4A 3HQ

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.



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: 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	2024	2023
Insurance activities	144.4	185.2
Inspection activities	52.5	50.8
Other	17.8	12.8

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 and Buildmark Choice products. The Buildmark product is NHBC's warranty and insurance product for newly-built or newly- converted homes. Buildmark Choice is specially designed to protect landlords of newly-built or newly- converted homes which are built to be rented out or for shared ownership in the private, affordable or social housing sectors. The Buildmark and Buildmark Choice products sold by NHBC, the Company, protect a homeowner in three separate ways that can be divided into three temporal periods.

Section 1

Prior to completion of the house purchase, 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

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; however, it does provide an independent resolution service should the builder not meet their obligations under Buildmark. 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 and 5

The policy periods for these sections of Buildmark and Buildmark Choice 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.

From 1 October 2019, NHBC no longer provided Section 4 cover as part Buildmark or Buildmark Choice products. Section 4 provided insurance for health and safety issues arising from a builder's failure to meet certain Building Regulations within years 3-10 of the policy.

Also from 1 October 2019, Section 5 of the Buildmark and Buildmark Choice products (cover for contaminated land) was deleted and instead formed part of the Section 3.

Note that Section 1 of the Buildmark Choice cover is optional.

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

There were no 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.

A.2 Underwriting performance

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

£m	2024	2023
Net written premiums	90.2	117.5
Net earned premiums	83.2	56.6
Net claims incurred	(59.2)	(101.6)
Changes in unexpired risk reserve	71.2	147.5
Other	(13.5)	(15.2)
Underwriting result	**81.7**	**87.3**

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 99,507 over the year ended 31 March 2024 (2023: 172,579). Prior year volumes were boosted by the Part L Building Regulation changes effective from June 2023. Together with customers bringing some registrations forward into prior year and a general slowdown in the construction sector, volumes in the financial year were notably lower than prior year.

Gross written premium was £144.4m (2023: £185.2m) reflecting the lower registration volumes but with some offset from higher average fees driven by the warranty price increase implemented in June 2023, as well as an increase in Road and Sewer Bond overrun fees.

Net written premiums were £90.2m (2023: £117.5m). Despite falling volumes, the reinsurance costs have stayed broadly steady as the cession on quota share treaty was increased.

Net earned premiums increased to £83.2m (2023: £56.6m). Despite lower volumes and premiums, we continue to earn though premiums relating to prior generations. Additionally, an update in earning profiles (lower duration of technical provisions) has resulted in release of unearned premium reserve provisions, contributing £11.3m to the overall increase in net earned premiums.

Claims incurred

Net claims incurred were £59.2m (2023: £101.6m). Lower net claims incurred was generally due to improving claims experience, particularly on the large loss claims (claims under £2.0m).

Unexpired risk reserve

The unexpired risk reserve credit of £71.2m (2023: £147.5m) was driven by improving claims experience, as well as updates to assumptions for probabilities of large builder insolvencies.

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 2024.

£m	Credit and suretyship 2024	Credit and suretyship 2023	Miscellaneous financial loss 2024	Miscellaneous financial loss 2023
Net premiums written	22.3	21.2	67.9	96.3
Net premiums earned	25.8	18.9	57.4	37.7
Net claims incurred	(1.6)	0.3	(57.6)	(101.9)
Net changes in other Technical Provisions	(60.6)	(1.6)	131.8	149.1
Expenses incurred	(3.2)	(2.0)	(10.3)	(13.2)
Underwriting performance	**(39.6)**	**15.6**	**121.3**	**71.7**

Credit and suretyship

Credit and suretyship income improved slightly due to higher road and sewer bond fees which were partly offset by lower premiums (lower volumes) relating to Section 1 cover. Claims incurred and other elements were higher relative to prior year due to a number of small and medium sized builder insolvencies under the Section 1 cover. Following adverse claims experience the reserves have been strengthened resulting in £83.1m change in other technical provisions.

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	2024	2023
Investment income	37.5	30.1
Realised gains	13.6	10.7
	51.1	**40.8**
Unrealised (losses) / gains	38.9	(52.4)
Investment expenses	(3.6)	(2.8)
Investment result	**86.4**	**(14.4)**

The total investment result was positive £86.4m (2023: negative £14.4m). Gilt yields have moved up over the financial year whilst spreads between gilts and corporate bonds have tightened. NHBC maintained a partial interest rate hedge on its non-liability matching investments, helping mitigate on some of the adverse changes, it has benefited significantly from the spread tightening. Note that the inflation and rates movements were partly offset, as part of the liability matching strategy, by changes in the inflation and discount assumption on the Technical Provisions.

Other investment information

NHBC holds investments in its 100% owned subsidiary companies. £4.7m increase (2023: £2.6m increase) in the valuation of the subsidiaries has been recognised as a movement in other comprehensive income.

NHBC held £8.8m of collateralised securities at 31 March 2024 (2023: £5.1m).

A.4 Performance of other activities

Other income, which predominantly includes inspection and Building Control fees was £70.3m (2023: £63.6m). As income is earned with reference to stage of inspection completion it was not significantly impacted by falls in volumes. Other charges were £86.9m (2023: £73.4m) representing expenditure relating to NHBC's non-insurance operations, higher due to IT project spend, general inflation and increase in staff headcount, particularly in the overhead and compliance areas.

NHBC has operating leases for its car fleet and three of its business premises. At 31 March 2024 NHBC had leasing commitments totalling £9.9m (2023: £6.6m) 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.

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, and the NHBC Council, its governing body, comprises individual members drawn from a range of organisations which are interested in, or associated with, the house-building industry. In the event of the company's winding up, Council members may be required to contribute a nominal amount not exceeding £1 as specified in the Company's Memorandum of Association.

The Council is not involved in the day-to-day running of the Company which is overseen by the Board. It receives the Directors' Report and Audited Accounts and approves appointment of the auditors and Council members. Council members have the opportunity to question and challenge the Board on delivery of NHBC's purpose and strategic objectives at the Company's Annual General Meeting.

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 of directors (the Board) is collectively responsible for promoting the long-term success of NHBC. The Board ensures that NHBC maintains effective governance considering both its constitution and the regulatory frameworks in which it operates. This is delivered through agreeing and overseeing the implementation of NHBC's strategy, which promotes the collective vision of NHBC's purpose, culture and its long-term sustainability. The Board ensures the business has the appropriate framework to deliver this vision through a range of activities from reviewing resourcing to deliver strategic objectives, monitoring financial performance and ensuring suitably robust controls and risk management procedures are in place.

Balance of Executive and Non-Executive Directors at 31 March 2024

Chair (Non-Executive)	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executive Directors	6
Executive Directors	3

Board committees

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

Audit Committee

The Audit Committee assists the Board in overseeing NHBC's statutory and regulatory reporting by:

- assessing the integrity of its financial reporting and systems of internal control, reserving and investment management; and
- monitoring NHBC's whistleblowing policies; and the independence and performance of the internal audit function and the external auditors

Board Risk Committee (BRC)

The Board Risk Committee assists the Board in its oversight of risk by reviewing and assessing the ongoing appropriateness of NHBC's risk management framework, risk strategy, risk appetite and risk profile, the methodology for determining the capital requirements and stress and scenario testing of these requirements, NHBC's system of risk management; risk assessments on strategic or significant transactions, compliance with regulatory requirements, NHBC's exposure in managing financial risks from climate change and other relevant sustainability risks, and monitoring current and emerging risk exposures.

Consumer Committee

The Consumer Committee assists the Board in its oversight of consumer matters by reviewing and challenging consumer outcome-related definitions, metrics and insights that demonstrate how consumer understanding, differentiating consumer needs, consumer experience and fair value is considered in the consumer journey. The Consumer Committee monitors the regulatory landscape in respect of consumer matters with a focus on Consumer Duty requirements. The Committee also advises the Board's Remuneration Committee on whether remuneration and reward systems adequately support good consumer outcomes.

Nominations Committee

The Nominations Committee assists the Board in its oversight of both the Board and its committee's composition and structure ensuring they are effective and aligned to NHBC's strategic priorities; leading on Board and executive succession ensuring there is a formal, rigorous and transparent process for the appointment of Board members; talent development; culture, diversity, equity and inclusion initiatives supporting a diverse and inclusive company culture.

Remuneration Committee

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing and implementing the policy on remuneration and setting remuneration for the Board Chair, the Executive Directors members of Senior Management and individuals identified as Solvency II Staff. The Remuneration Committee ensures that the Remuneration Policy is aligned with the business strategy, as well as the risk management strategy and profile of NHBC. Oversight of remuneration across the wider employee population is also a key focus for the Remuneration Committee, including assessing the impact on all employee groups when making decisions on executive remuneration practices or outcomes.

Material changes in the system of governance during the period

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

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 their 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.

In the financial year, the Remuneration Committee has approved the implementation of a Long-Term Incentive Plan (LTIP) for Executive Directors and Executive Committee members.

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 Limited.

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

NHBC is a PRA Category 2 firm and applies the Solvency II regulations applicable to that Category.

B.2 Fit and proper requirements

NHBC has processes in place to ensure that individuals carrying out regulated roles, including directors, senior managers, and certified employees, are fit and proper to perform their roles. This includes assessing candidates' honesty, integrity and reputation, competence and capability, and financial soundness prior to joining NHBC and at least annually after that.

This process is managed by Human Resources and incorporates the elements below.

- Assessing a candidate's technical competence against relevant areas, such as market knowledge; business model and strategy; risk management framework; governance, oversight and controls; and regulatory framework and requirements. Where relevant, a development plan is put in place to address knowledge gaps within a specific timeline.
- Completing due diligence on a candidate, including 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.

Where applications are made to the PRA or FCA, NHBC's Risk and Compliance function reviews the assessment and rationale for concluding the candidate is fit and proper for the stated role ahead of submission to the regulatory authority.

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.

Overview

The Risk Management Framework establishes a consistent approach for the delivery of risk management activities throughout NHBC. The Risk Management Framework is:

- operated by business functions who are responsible for delivering the Company's business plan and objectives
- embedded in the processes and controls performed to deliver these objectives.

Risk strategy

NHBC's risk strategy is to take risk consistent with the Company's purpose and its facilitating objectives of protecting homeowners and championing high quality homes. The success of our business reflects our ability to manage risk and take opportunity in pursuit of our purpose consistent with our risk appetites and preferences. It places particular emphasis on maintaining sufficient capital even in severe but plausible scenarios, ensuring liquidity to meet its customer responsibilities, limiting volatility of returns and enhancing its reputation through strong consumer, customer, employee and societal outcomes. All employees are responsible for managing risk consistent with our risk appetite, values, and behaviours.

Scope

The Risk Management Framework applies to:

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

External environment

The Risk Management Framework is capable of identifying, assessing, and responding to external factors. These could include changes in regulation, competition and wider economic circumstances. External factors have the potential to impact NHBC's business model, corporate strategy and risk outcomes.

Risk Management Framework

NHBC's Risk Management Framework comprises several inter-related activities and elements which are organised into specific components.

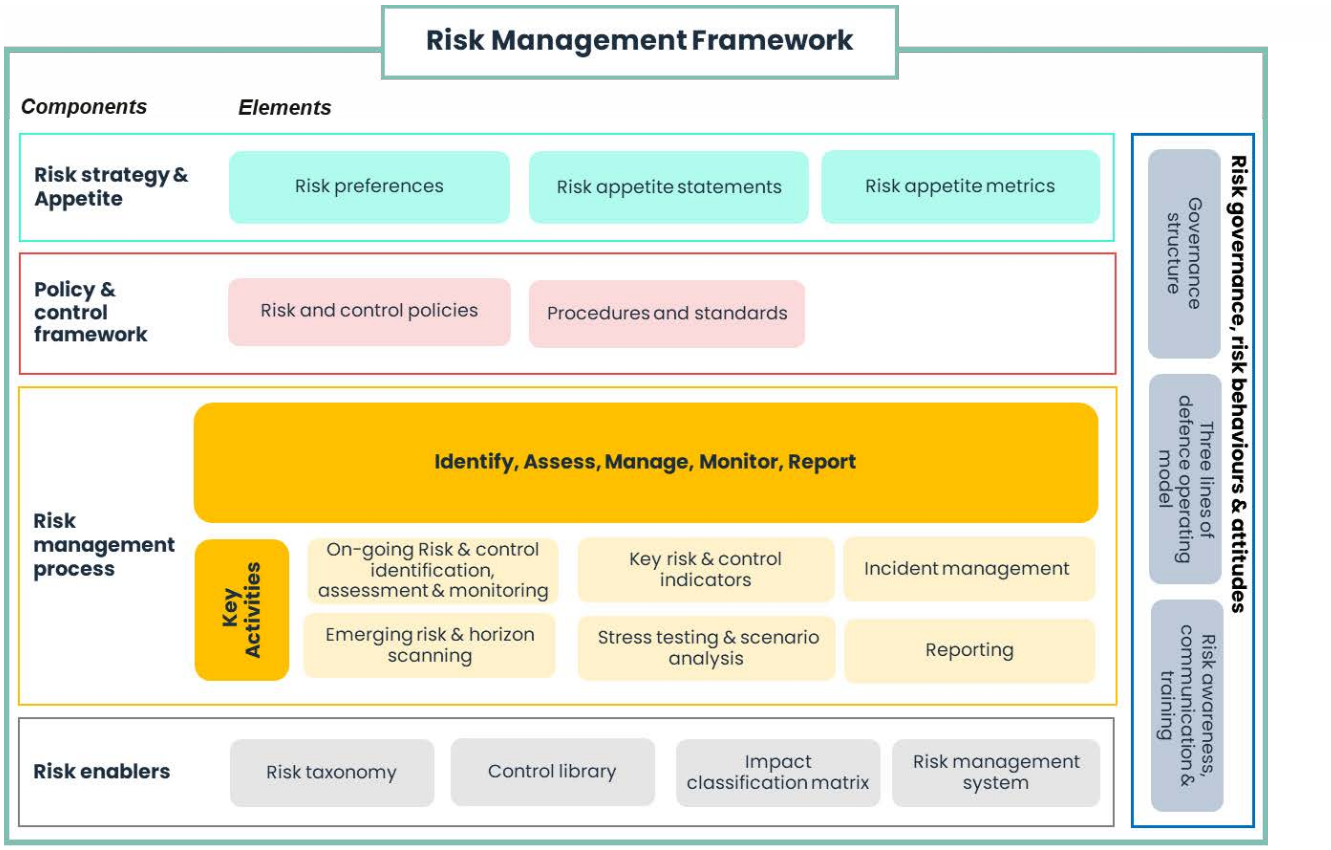


Illustration 1: Risk Management Framework components and elements Overview.

The following table provides a brief description of each theme.

Activity	Overview
Risk strategy and appetite	Risk preferences, risk appetite statements and metrics aligned to NHBC strategy to ensure there is clear alignment between our objectives and the risks we are willing to take (risk appetite).
Policy and control framework	To support an effective control framework NHBC maintains a range of risk and control policies. Policies set the high-level principles to achieve a desired outcome. Documented processes and procedures provide the detail to support their implementation.
Risk management process	Processes and activities that represent the core regular risk management activities operated across the organisation
Risk governance, risk behaviours and attitudes	Roles and responsibilities associated with management and oversight of risk throughout the organisation as well as required risk behaviours and attitudes to support effective risk management.
Risk enablers	Supporting tools to enact the implementation of the risk management framework.

Capital

The solvency capital requirement (SCR) calculation is carried out every quarter on the standard formula basis. NHBC continues to develop and refine its economic capital model (ECM) which is used to support decision making for identified use cases on both a one-year and ultimate view of risk.

Own Risk and Solvency Assessment (ORSA)

The ORSA consists of a series of processes to consider the risks to which NHBC is exposed under normal and stressed conditions and the amount of capital required to support these.

The annual ORSA report draws together the outcome of these processes and incorporates a current and forward-looking assessment of risk and associated capital needs.

The results and conclusions of the ORSA process are reviewed and challenged by both the ERC and the BRC before Board sign-off. Once approved by the Board, the ORSA report is communicated to all relevant colleagues. The ORSA report is also provided to the PRA to support their supervisory activities.

Determining NHBC's solvency needs

NHBC's 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 as part of the business planning process. This allows the business to consider the solvency position against risk appetite and to consider management actions as required.

Alternative economic and business-related scenarios are modelled to establish the impact on NHBC's solvency projections. These are assessed as part of several activities including business planning, the ORSA and Recovery and Resolution Planning (RRP).

B.4 Internal control system

The NHBC internal control system is designed to assist NHBC to:

- achieve its business objectives
- conduct well-ordered and efficient operations
- mitigate and respond to incidents
- conduct business in compliance with applicable laws, regulations, and rules.

The NHBC internal control system is organised across core components of the risk management process specifically:

- the identification and assessment of risk
- the monitoring and management of risk
- governance and reporting.

To support the understanding of responsibilities for internal controls across the organisation, NHBC uses a Three Lines of Defence model. These are described briefly below.

First line

Business functions have the primary responsibility for identifying and managing risk including the implementation of appropriate controls consistent with the overall risk strategy and appetite. Risk management practices and processes in place at this level constitute the 'first line of defence'.

Second line

The 'second line of defence' encompasses risk management and compliance. Its role is to design and oversee a consistent framework for managing risks. The team provides advice, guidance and challenge to business functions about their identification and management of risk. The Risk and Compliance function supports the Board in discharging its responsibilities in relation to risk management, regulatory compliance, data protection, fraud and financial crime requirements.

A risk-based Compliance Monitoring Plan is established on an annual basis, focussing on areas of the business that could pose the highest regulatory risk including the risk of delivering bad consumer outcomes. Findings from compliance monitoring activities are reported to the Executive Risk and Board Risk Committees alongside wider assurance reporting.

Third line

Regular, independent, risk-based audits performed by Internal Audit provide reasonable assurance as to the relevance and correct operation of the risk management system.

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, culture 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 Executive Risk Committee, the Board Risk Committee, the Risk and Compliance Function and External Audit).

Internal Audit has 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.

B.6 Actuarial function

Within NHBC, the activities of the Actuarial function are the responsibility of the Chief Actuary, who is an experienced general insurance actuary and Fellow of the Institute and Faculty of Actuaries. 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 2024, compliant with SII standards, was undertaken by the Actuarial function. It is subject to an external review by actuarial consultants Barnett Waddingham (BW). 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 peer review by BW.

Reporting

A process is in place for regular regulatory reporting, including quantitative reporting templates (QRTs) and other reports. The actuarial team also provide reports and responses on ad hoc and thematic reviews by the PRA, most recently, in relation to claims inflation.

Pricing

The Actuarial function's pricing and profitability projections for the financial year ending 31 March 2025 were presented and discussed with the Pricing Committee over the period of September 2023 to January 2024. 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 21 February 2024.

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.

Actuarial Function Report

The Actuarial Function is responsible for producing the annual Actuarial Function Report for the NHBC Board. This includes a report on Technical Provisions and Opinions on the Underwriting strategy and Reinsurance Strategy.

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.

For this report, 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 BDO LLP. BDO LLP 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

Overview

NHBC's risk profile is assessed through a combination of measures including reviews of the Group Strategy and Group Business Plan, department specific risk registers, the risk appetite framework, the Solvency II standard formula, and various economic and business-related scenarios.

NHBC is exposed to 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 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 significant 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.

Assumption	Change in assumption	Impact on solvency ratio
Change in house price inflation (HPI) in each year of the business plan	+2%	+2.6%
Change in house price inflation (HPI) in each year of the business plan	-2%	-2.7%
Change in business volumes in each year of the business plan	+10,000 units	-2.0%
Change in business volumes in each year of the business plan	-10,000 units	-2.2%
Change in the view of the long-term ABI/BCIS House Rebuilding Cost Index (HRCI) differential versus RPI over the life of the plan	+0.5%	-7.9%
Change in the view of the long-term ABI/BCIS House Rebuilding Cost Index (HRCI) differential versus RPI over the life of the plan	-0.5%	+7.8%

Stress and scenario testing

NHBC's business plan includes a range of assumptions about future events. The most significant are those outlined in the sensitivities above, plus changes in claims experience and the expected returns from our surplus asset portfolio.

As part of NHBC's most recent business planning activity alternative economic and business-related scenarios have been modelled to assess their impact on NHBC's Solvency II solvency ratio over a three-year horizon, including:

- the impact of a severe economic downturn incorporating a wider inflation wedge (HRCI vs RPI), falling house prices, low volumes and lower investment returns on non-liability matching assets.
- a change in the customer dynamics and market growth, where technical provisions strengthen are accompanied by volume increases and a higher HRCI "wedge".

The results of stress and scenario testing demonstrates NHBC maintains sufficient own funds over the 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.

Some underlying risks contributing to the overall underwriting risk include:

- failure to identify and manage significant changes in the propensity for builders to self-repair building defects
- failure to identify significant issues with a building system or widely used building component, resulting in significant consumer dissatisfaction and claims costs
- failure to adequately monitor and manage exposure to the insolvency of one or more large builder clients, resulting in significant claims costs
- failure to price risks accordingly, taking into consideration experience and potential future risk trends.

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 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 2024 on a standard formula measure was £269.5m (2023: £260.1m).

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.

The Company'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 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 at 31 March 2024 on a standard formula measure was £103.9m (2023: £92.7m).

NHBC has an internal Investment Function to deliver a better understanding and ownership of market risk internally.

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 proportion 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 at 31 March 2024 on a standard formula measure was £5.7m (2023: £5.7m).

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.

NHBC anticipates around £0.2m (2023: £0.1m) 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 loss resulting from inadequate or failed processes, people, systems, failure to comply with regulatory requirements or from external events. NHBC accepts that operational risks are inherent in its business model, but seeks to minimise these where appropriate, subject to cost/benefit considerations. It also accepts that in some instances operational risk drivers are outside of its control. All operational risks are expected to have mitigating controls identified to reduce the residual risk exposure, consistent with the Risk Management Framework, to seek to manage exposure within Board Risk Appetite. In the case of operational risks that have been assessed as outside appetite, additional actions are in place with the aim of reducing the level of exposure back to within appetite at the earliest opportunity.

To support the effective management of operational risk, risk owners are expected to monitor and report on their risk and control environment, including reviewing metrics such as Key Risk Indicators (KRI), Key Control Indicators (KCI) and Key Performance Indicators (KPI). The outcome from these assessments forms the basis for risk profiles that are discussed at relevant business senior leadership meetings on a regular cadence and flow into Group risk reporting.

The Group also undertakes operational risk stress and scenario testing, to help validate capital calculations, and carries out activity to identify actions to demonstrate its ability to remain within Important Business Service Impact tolerances as part of work on Operational Resilience.

NHBC holds capital to absorb losses arising from operational risks and the amount of capital held against this risk at 31 March 2024 on a standard formula measure was £23.7m (2023: £26.9m).

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 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 accept 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, captures the risk as part of its economic view of capital including within the Own Risk and 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 and 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.

D. Valuation for solvency purposes (Audited)

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 provisions 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 2024 on a Solvency II basis.

Assets £m	2024	2023
Pension benefit surplus	1.8	7.7
Property, plant and equipment for own use	20.0	17.1
Investments	1,520.9	1,461.0
Reinsurance recoverable from non-life excluding health	293.6	333.1
Insurance and intermediaries receivable	3.7	3.8
Receivables (trade, not insurance)	6.2	9.7
Cash and cash equivalents	28.3	16.8
Any other assets not elsewhere shown	4.9	5.1
Total assets	**1,879.4**	**1,854.3**

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 has operating leases for three properties and various motor vehicles. These assets, and the corresponding liabilities, are included on the Solvency II balance sheet. At 31 March 2024, NHBC had leasing commitments of £9.9m (2023: £6.6m) recognised on the Solvency II balance sheet.

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.

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 the deferred tax asset is consistent between financial statements and Solvency II basis of preparation. NHBC's deferred tax asset is primarily driven by the 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

Carrying value of debtors, cash and deposits with credit institutions in the financial statements is equal to the valuation for Solvency II purposes.

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 three properties and various motor vehicles. These assets, and the corresponding liabilities, are included on the SII balance sheet. At 31 March 2024, NHBC had leasing commitments of £9.9m (2023: £6.6m) 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.

The table below provides reconciliation between assets as disclosed in UK GAAP financial statements and Solvency II as at 31 March 2024.

Assets (£m)	UK GAAP value	Adjustment to Technical Provisions	Reversal of DAC	Right of use adjustment	Deferred tax adjustment	Investment balance reclassification	Balance reclassification	Solvency II value
Deferred acquisition costs	19.8	-	(19.8)	-	-	-	-	-
Deferred tax assets	18.5	-	-	-	(18.5)	-	-	-
Pension benefit surplus	1.8	-	-	-	-	-	-	1.8
Property, plant and equipment for own use	10.1	-	-	9.9	-	-	-	20.0
Investments	1,487.5	-	-	-	-	33.4	-	1,520.9
Reinsurance recoverable from non-life excluding health	484.1	(175.6)	-	-	-	-	(14.9)	293.6
Insurance and intermediaries receivable	8.8	-	-		-	-	(5.1)	3.7
Receivables (trade, not insurance)	6.2	-	-	-	-	-	-	6.2
Cash and cash equivalents	61.7	-	-	-	-	(33.4)	-	28.3
Any other assets not elsewhere shown	7.7	-	-	-	-	-	(2.8)	4.9
Total assets	**2,106.2**	**(175.6)**	**(19.8)**	**9.9**	**(18.5)**	**-**	**(22.8)**	**1,879.4**

D.2 Technical Provisions

The following table presents NHBC's valuation of net Technical Provisions at 31 March 2024 on a Solvency II basis.

Technical Provisions (£m)	Credit and suretyship insurance[1]	Miscellaneous financial loss	Total non-life obligation
Gross best estimate	(33.1)	823.3	790.2
Risk margin	8.6	47.2	55.8
Technical Provisions	**(24.5)**	**870.5**	**846.0**
Reinsurance recoverable	(20.1)	(273.5)	(293.6)
Technical Provisions less recoverable from reinsurance	**(44.6)**	**597.0**	**552.4**

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 2024.

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 products), 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 reported 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 3) are estimated using triangulation methods and consider inflated incurred and paid claim development tables. The claims provision for Section 4 claims are based on case reserves for claims notified to date, with an allowance for IBNER. Road and Sewer Bonds are based on an assessment of the level of individual outstanding bonds should a particular builder become insolvent.

Premium provisions

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, 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 is calculated by extrapolating recent notification trends. The premium provision for Road and Sewer Bonds is based on the probability of builder insolvency.

1 The gross best estimate for credit and surety insurance line of business includes future Road and Sewer Bond fees.

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

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.

The underwriting years from 2015/16 to 2018/19 are subject to a Loss Portfolio Transfer (LPT), i.e., a back-book quota share with a 75% cession.

The underwriting years 2020/21 onwards are protected by Whole Account Quota Share treaties.

NHBC has bought quota share reinsurance for major projects from the 2017/18 underwriting year. This inures to the LPT. There is also quota share cover for additional S1 cover exposures for 2019/20 and prior, and an excess of loss treaty providing protection for the Road and Sewer Bonds.

The reinsurance recoveries are estimated by directly calculating the recoveries due on the gross best estimate losses for each reinsurance programme. Reserves for reinsurer dispute and insolvency 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.

For NHBC, however, the registration of a policy is triggered by the builder's payment of the fees. The customer service representative registers the policy in Fusion (NHBC's policy administration system). NHBC is 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 the plot registration process, NHBC can choose to decline the risk at any time if the building does not meet NHBC's Standards.

For major developments, while there is normally more discussion over terms, 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 '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 policy holder behaviour.

Expenses

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

- Allocated Loss Adjustment Expenses (ALAE): these include the cost of technical investigations to arrive at validity decisions, legal expenses and ex-gratia payments. Note that ALAE is also allowed as part of claims indemnity spend.
- Claims Management Expenses: these include the costs of the claims handling department and the associated overhead costs as well as an allocation of general overheads.
- Investment Management Expenses: these are 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-tail 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.

The Technical Provisions also include an allowance for Section 4 claims relating to combustible cladding and other fire-safety issues, following the Grenfell Tower tragedy in June 2017. Developments, such as government action designed to make the major UK builders carry the cost of cladding remediation, increases the uncertainty of this Technical Provision 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.

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 2024.

Technical Provisions net of reinsurance (£m)	Credit and suretyship insurance	Miscellaneous financial loss	Total
Solvency II technical provisions excluding risk margin	(53.2)	549.8	496.6
Solvency II elements not applicable for UK GAAP	125.4	(13.0)	112.4
Discounting basis difference	(0.8)	5.0	4.2
UK GAAP margin	35.6	136.9	172.5
UK GAAP adjustments	-	(75.3)	(75.3)
UK GAAP Technical Provisions	**107.0**	**603.4**	**710.4**

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 represent differential between Solvency II (fair value) and UK GAAP accounting basis (accruals) and primarily relate to reinsurance assets and the deferred acquisition costs. With respect to reinsurance, the difference 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 provisions 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)	2024	2023
Technical Provisions – non-life calculated as a whole	846.0	985.8
Deferred tax liabilities	16.3	-
Derivatives	11.9	9.5
Insurance & intermediaries payable	30.8	30.7
Payables (trade, not insurance)	45.2	34.8
Any other liabilities, not elsewhere shown	85.3	93.2
Total liabilities	**1,035.5**	**1,154.0**

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

Any pension benefit obligation is recognised net of pension scheme assets and liabilities.

The defined pension benefit pension scheme assets are measured at fair value.

The defined benefit pension scheme liability 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.

Where the assets of the scheme are greater than the liabilities, a surplus is recognised. The rules of the scheme allow NHBC, as a sole sponsoring employer, to recover surplus assets following winding up of the scheme.

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 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.

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 2024.

Liabilities (£m)	UK GAAP value	Deferred acquisition income	Adjustment to Technical Provisions	Right of use adjustment	Deferred tax adjustment	Balance reclassification	Solvency II value
Technical Provisions	1,194.5	-	(352.5)	-	-	4.0	846.0
Deferred tax liabilities	-	-	-	-	-	-	16.3
Derivatives	11.9	-	-	-	-	-	11.9
Insurance & intermediaries payable	37.9	-	-	-	-	(7.1)	30.8
Payables (trade, not insurance)	38.6	-	-	9.9	-	(3.3)	45.2
Any other liabilities, not elsewhere shown	136.2	(34.5)	-	-	-	(16.4)	85.3
Total liabilities	**1,419.1**	**(34.5)**	**(352.5)**	**9.9**	**16.3**	**(22.8)**	**1,035.5**

D.4 Alternative methods for valuation

NHBC does not apply alternative methods of valuation.

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 (Audited)

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 the NHBC's risk profile and the regulatory requirements of its business.

The 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 Asset and Liability Committee is responsible for day-to-day monitoring of NHBC's capital position. The Asset and Liability Committee ultimately feeds into 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

At 31 March 2024, 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 2024, NHBC's Tier 1 and total own funds were £843.9m (2023: £700.3m). The own funds supported the solvency capital requirement of £322.4m (2023: £327.1m) resulting in a solvency ratio of 262% (2023: 214%). The minimum capital requirement (MCR), a minimum level below which the amount of financial resources should not fall, was £113.1m (2023: £131.7m) providing a ratio to eligible own funds to meet the MCR of 746% (2023: 532%).

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 at 31 March 2024.

£m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
Total eligible own funds to meet the SCR	843.9	-	-	-	843.9
Total eligible own funds to meet the MCR	843.9	-	-	-	843.9

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.

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	843.9
Asset valuation differences	204.0
Liability valuation differences	(360.8)
UK GAAP net assets	**687.1**

Movement in own funds

The movement in own funds during the financial year ended 31 March 2024 is analysed below:

Eligible own funds	£m
At 1 April 2023	700.3
UK GAAP result for the year	
- Profit after tax	128.3
- Other comprehensive income	(5.9)
Movement in valuation differences	21.3
At 31 March 2024	**843.9**

The £143.6m increase in own funds is driven by the UK GAAP 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 2024.

£m	2024	2023
Market risk	103.9	92.7
Counterparty default risk (credit risk)	5.7	5.7
Non-life underwriting risk	269.5	260.1
Diversification	(64.1)	(58.3)
Base solvency capital requirement	**315.0**	**300.2**
Operational risk	23.7	26.9
Loss-absorbing capacity of deferred taxes	(16.3)	-
Total solvency capital requirement	**322.4**	**327.1**

The solvency capital requirement (SCR) has decreased since last year by £4.7m.

£11.2m increase in the market risk due to increases in interest rate, spread, and equity risks. The sensitivity of investment portfolio and related liabilities to interest rate risk has increased as duration of the Technical Provisions has reduced, as a consequence of recent reprojections, relative to the matching investment portfolio. Spread risk has increased as valuations have increased. Equity exposure also increased as dynamic asset fund's allocation to equities has increased.

Non-life underwriting risk increased by £9.4m mainly due to update to the earning profiles. As the earnings profile duration has shortened, we now expect more premiums to be earned over next year, resulting in increase in the non-life underwriting risk.

Operational risk reduced by £3.2m as gross Technical Provisions (a notable input) reduced following the Technical Provision reprojections.

As deferred tax liability is being recognised, NHBC is taking £16.3m credit for loss absorbing capacity of deferred taxes (LACDT).

Net increases in risks (before LACDT) resulted in increase in the diversification benefit by £5.6m.

The MCR at 31 March 2024 was £113.1m (2023: £131.7m).

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

NHBC is using the standard formula approach to capital adequacy.

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

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.22.01.21	Impact of long-term guarantees measures and transitionals
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	1,838
R0060	Property, plant & equipment held for own use	20,033
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,520,918
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	16,369
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	1,086,088
R0140	*Government Bonds*	316,315
R0150	*Corporate Bonds*	730,006
R0160	*Structured notes*	30,986
R0170	*Collateralised securities*	8,782
R0180	*Collective Investments Undertakings*	407,105
R0190	*Derivatives*	10,336
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	1,020
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:	293,568
R0280	*Non-life and health similar to non-life*	293,568
R0290	*Non-life excluding health*	293,568
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	3,667
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	6,175
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	28,314
R0420	Any other assets, not elsewhere shown	4,853
R0500	**Total assets**	1,879,367

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	845,956
R0520	*Technical provisions - non-life (excluding health)*	845,956
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	790,020
R0550	*Risk margin*	55,936
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	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	16,317
R0790	Derivatives	11,874
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	30,806
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	45,215
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	85,293
R0900	**Total liabilities**	1,035,460
R1000	**Excess of assets over liabilities**	843,907

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

		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									25,001			119,444					144,445
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share									2,644			51,583					54,228
R0200	Net									22,356			67,861					90,217
	Premiums earned																	
R0210	Gross - Direct Business									25,483			117,942					143,424
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share									-379			60,556					60,177
R0300	Net									25,861			57,386					83,247
	Claims incurred																	
R0310	Gross - Direct Business									1,138			-434					704
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share									1,465			-30,771					-29,306
R0400	Net									-327			30,336					30,010
	Changes in other technical provisions																	
R0410	Gross - Direct Business									-79,240			187,665					108,425
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share									-18,657			54,043					35,386
R0500	Net									-60,582			133,622					73,040
R0550	**Expenses incurred**									5,354			40,604					45,958
R1200	**Other expenses**																	
R1300	**Total expenses**																	45,958

S.05.02.01

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

		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
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	144,445						144,445
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	54,228						54,228
R0200	Net	90,217						90,217
	Premiums earned							
R0210	Gross - Direct Business	143,424						143,424
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	60,177						60,177
R0300	Net	83,247						83,247
	Claims incurred							
R0310	Gross - Direct Business	704						704
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	-29,306						-29,306
R0400	Net	30,010						30,010
	Changes in other technical provisions							
R0410	Gross - Direct Business	108,425						108,425
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share	35,386						35,386
R0500	Net	73,040						73,040
R0550	**Expenses incurred**	45,958						45,958
R1200	**Other expenses**							
R1300	**Total expenses**							45,958

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									-38,444			487,993					449,548
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									18,699			151,647					170,347
R0150	**Net Best Estimate of Premium Provisions**									-57,144			336,346					279,202
	Claims provisions																	
R0160	Gross									5,239			335,233					340,472
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									1,411			121,811					123,221
R0250	**Net Best Estimate of Claims Provisions**									3,829			213,422					217,250
R0260	**Total best estimate - gross**									-33,205			823,226					790,020
R0270	**Total best estimate - net**									-53,315			549,767					496,452
R0280	**Risk margin**									8,625			47,310					55,936
	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**									-24,580			870,536					845,956
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**									20,110			273,458					293,568
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**									-44,690			597,078					552,388

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Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											27,985	27,985	27,985
R0160	-9	0	156	502	1,916	1,812	2,106	2,559	3,155	21,464	7,041		7,041	40,710
R0170	-8	0	21	418	660	1,007	878	2,350	4,667	6,602			6,602	16,604
R0180	-7	2	108	301	554	527	833	3,654	3,157				3,157	9,136
R0190	-6	0	20	257	1,799	837	2,793	2,178					2,178	7,884
R0200	-5	0	128	19	411	2,223	1,745						1,745	4,527
R0210	-4	0	0	80	1,285	687							687	2,052
R0220	-3	0	7	141	2,177								2,177	2,326
R0230	-2	3	20	490									490	513
R0240	-1	0	45										45	45
R0250	0	0											0	0
R0260												Total	52,109	111,781

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											217,237	197,561
R0160	-9	0	0	0	0	0	0	0	0	24,127	29,354		26,019
R0170	-8	0	0	0	0	0	0	0	28,655	25,246			22,127
R0180	-7	0	0	0	0	0	0	20,364	22,102				19,293
R0190	-6	0	0	0	0	0	21,212	20,983					18,242
R0200	-5	0	0	0	0	15,833	20,341						17,592
R0210	-4	0	0	0	12,986	17,156							14,822
R0220	-3	0	0	8,697	10,989								9,429
R0230	-2	0	8,528	8,954									7,577
R0240	-1	7,145	5,381										4,396
R0250	0	3,833											3,415
R0260												Total	340,472

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Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	845,956	0	0	7,136	0
R0020	Basic own funds	843,907	0	0	-3,335	0
R0050	Eligible own funds to meet Solvency Capital Requirement	843,907	0	0	-3,335	0
R0090	Solvency Capital Requirement	322,448	0	0	2,332	0
R0100	Eligible own funds to meet Minimum Capital Requirement	843,907	0	0	-3,335	0
R0110	Minimum Capital Requirement	113,062	0	0	948	0

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Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	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	843,907	843,907			
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**	843,907	843,907	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	843,907	843,907	0	0	0
R0510	Total available own funds to meet the MCR	843,907	843,907	0	0	
R0540	Total eligible own funds to meet the SCR	843,907	843,907	0	0	0
R0550	Total eligible own funds to meet the MCR	843,907	843,907	0	0	
R0580	**SCR**	322,448				
R0600	**MCR**	113,062				
R0620	**Ratio of Eligible own funds to SCR**	261.72%				
R0640	**Ratio of Eligible own funds to MCR**	746.41%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	843,907				
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**	843,907				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	246				
R0790	**Total Expected profits included in future premiums (EPIFP)**	246				

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	103,851		
R0020	Counterparty default risk	5,668		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	269,504		
R0060	Diversification	-63,959		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	315,065		

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 reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	23,701
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-16,317
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**	322,448
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	322,448
	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	No

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	-16,317
R0650	LAC DT justified by reversion of deferred tax liabilities	-16,317
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	113,062

		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	22,356
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	549,767	67,861
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	113,062
R0310	SCR	322,448
R0320	MCR cap	145,102
R0330	MCR floor	80,612
R0340	Combined MCR	113,062
R0350	Absolute floor of the MCR	3,495
R0400	**Minimum Capital Requirement**	113,062