NHBC Solvency and Financial Condition Report

2019

Raising Standards. Protecting Homeowners

01 Contents

02 Executive summary

This is the Solvency and Financial Condition Report (SFCR) for National House-Building Council (NHBC) for the year ended 31 March 2019. The purpose of the SFCR is to meet public disclosure requirements as outlined in Chapter XII of Commission Delegated Regulation (EU) 2015/35.

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

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

The table below shows NHBC's Standard Formula (SF) solvency position as at 31 March 2019.

£m	2019	2018
Eligible own funds	621.0	587.5
Solvency Capital Requirement	409.2	376.0
Solvency II surplus	211.8	211.5
Solvency ratio	152%	156%

Business and performance

NHBC is a provider of warranty and insurance for new homes. Its purpose is to work with its registered house builders to help improve the construction standards of new homes for the benefit of the industry and its homeowners.

Three key areas continue to dominate the landscape: the creation of a new regulatory framework following the Grenfell tragedy; an overhaul of redress for homeowners through the introduction of a New Homes Ombudsman; and the challenging operating environment driven by continued Brexit and broader political uncertainty. Despite this external environment, NHBC continues to deliver successfully on our core objectives: supporting the industry to deliver high-quality homes and protecting the homeowner with our 10-year Buildmark warranty.

In terms of performance, NHBC registration volumes increased by 3.5% in 2019 (2018: 2.0% decrease) to 160,461 units, mainly due to higher affordable housing registrations, which increased 16.3% from the prior year. The number of completions also increased, reflecting a similar pattern to registrations, with total completions increasing by 1.8% to 149,123 units (2018: 0.6% increase), supported by higher affordable residential volumes. Homes under cover at 31 March 2019 increased to 1,330,086 (2018: 1,315,335).

System of governance

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

NHBC's system of governance has not changed significantly during the reporting period. Neil Jefferson, the current Chief Operating Officer, is to leave NHBC in January 2020 to take on a new role at the Home Builders Federation.

The final meeting of the Consumer Committee was held in September 2018. Its responsibilities have been distributed to other governance bodies, including the Board.

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

Risk profile

The majority of the risks that NHBC faces arise through the issue of insurance contacts 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 the most significant components as at 31 March 2019.

£m	2019	2018
Non-life underwriting risk	350.4	318.9
Market risk	121.0	121.7
Other risks and adjustments	12.1	8.3
Diversification	(74.3)	(72.9)
SCR	**409.2**	**376.0**

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

Valuation for solvency purposes

Solvency II requires an economic market-consistent approach to the valuation of assets and liabilities. NHBC's valuation of its assets and liabilities on a Solvency II basis is broadly similar to valuations used in its financial statements prepared under UK Generally Accepted Accounting Practice (UK GAAP), although there are notable differences. As at 31 March 2019, the differences, summarised in the table below, were:

£m	2019	2018
UK GAAP net assets	454.7	461.6
Valuation differences:		
Net technical provisions[1]	180.7	142.0
Deferred tax liabilities	(14.4)	(16.1)
Solvency II excess of assets over liabilities	**621.0**	**587.5**

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

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

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 policy holders and regulators.

NHBC aims to hold capital in excess of its regulatory capital requirement: the SCR. NHBC calculates its SCR in accordance with the SF prescribed in the Solvency II regulations and aims to maintain a capital level at around 155% (the solvency ratio) of these minimum requirements over the medium term. At 31 March 2019, under Solvency II, NHBC's solvency ratio was 152% (2018: 156%).

NHBC also undertakes an ongoing ORSA, which provides for the continual review of NHBC's risks, capital requirements and strategic direction. This ongoing assessment comprises a range of different activities, processes and reports, including an internal capital solvency measure, which the Board considers in addition to the SF measure when assessing capital projections. This internal measure remains well within the Board's risk appetite.

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

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.

03 Directors' responsibility statement

We acknowledge our responsibility as directors of NHBC for preparing the SFCR in all material aspects in accordance with the PRA Rulebook and Solvency II regulations.

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

(a) Throughout the financial year to 31 March 2019, NHBC has complied in all material respects with the requirements of the PRA Rulebook and Solvency II regulations as applicable to NHBC

(b) It is reasonable to believe that, in respect of the period from 31 March 2019 to the date of the publication of the SFCR, NHBC has continued so to comply, and will continue to comply in future.

Signed by and on behalf of the Board of Directors.

Paul Hosking
Chief Financial Officer
26 June 2019

04 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 2019:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 March 2019, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21, S.28.01.01 ('the Templates subject to audit').

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

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

- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21; and
- 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 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rulebook 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', which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rulebook 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

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

We have nothing to report in relation to these matters.

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.

In connection with our audit of the SFCR, 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 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 or a material misstatement of the Other Information. 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 these matters.

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 Rulebook 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 Rulebook 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 Rulebook 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: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

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 Limited'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 of UK insurer preparing the Report 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.

Adam Addis (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
4 July 2019

A

Business and performance

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 UK. The address of NHBC's registered office is NHBC House, Davy Avenue, Knowlhill, Milton Keynes, Bucks, MK5 8FP.

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

Prudential Regulation Authority

Email: enquiries@bankofengland.co.uk

Phone: 020 7601 4878

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

Name and contact details of the external auditor

Adam Addis (Senior Statutory Auditor) for and on behalf of Deloitte LLP

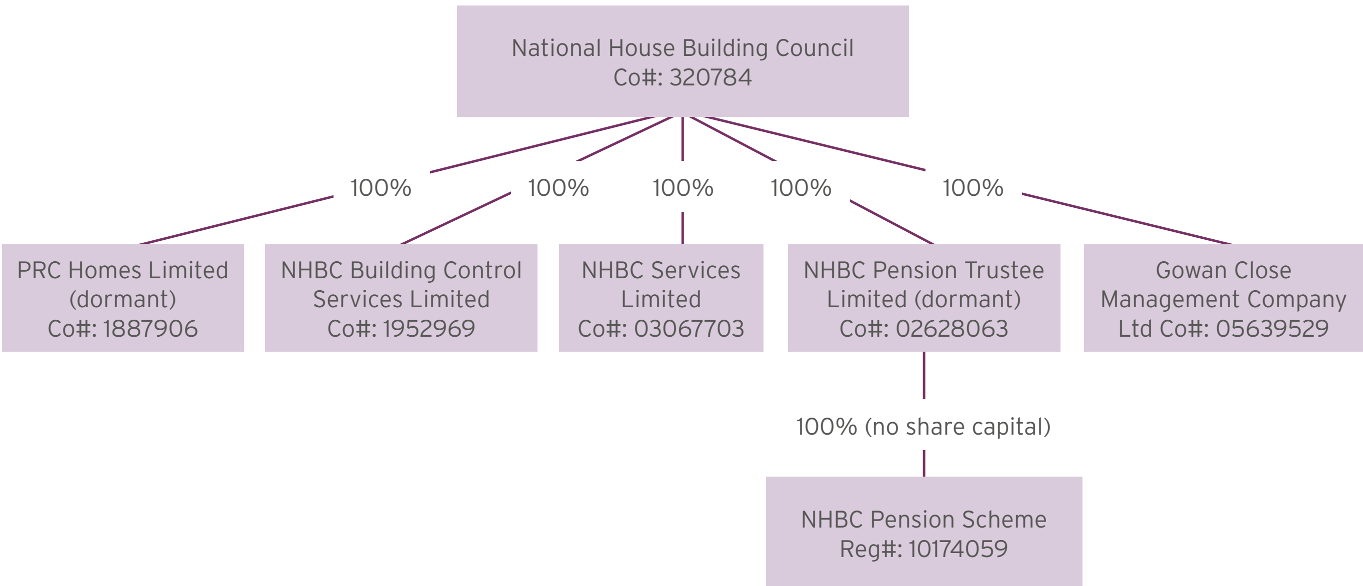
Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR

Description of the holders of qualifying holdings in NHBC

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

NHBC's position within the legal structure of the group

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



NHBC's activities

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

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

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

£m	2019	2018
Insurance activities	95.3	82.6
Inspection activities	56.8	55.4
Other	7.9	8.1

NHBC does not have operations outside of the UK.

[2]For regulatory purposes.

A Business and performance

NHBC's Buildmark product

The majority of NHBC's insurance income and liabilities arise as a result of the sale of the Buildmark[3] product, which protects homeowners in three separate ways that can be divided into three temporal periods.

Section 1:

Prior to completion of the house purchase, Buildmark Section 1 provides insurance to a homeowner that covers losses caused by the builder, primarily insolvency of the builder, resulting in a loss of the homeowner's deposit. NHBC classifies Section 1 of the Buildmark product as a credit and suretyship line of business for regulatory purposes.

Section 2:

Buildmark Section 2 is concerned with the two-year period immediately following legal completion of the home, i.e. when the homeowner moves in. Firstly, Section 2 contains the builder's warranty period provided by the builder to the homeowner. NHBC is not a party to that bilateral contract. Secondly, Section 2 provides the NHBC Guarantee. 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. NHBC classifies Section 2 of Buildmark as a miscellaneous financial loss line of business for regulatory purposes.

Sections 3, 4 and 5:

The policy periods for these sections of Buildmark begin after the end of Section 2 for a period of eight years, i.e. years three to 10 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. NHBC classifies Sections 3, 4 and 5 of the Buildmark product as a miscellaneous financial loss line of business for regulatory purposes.

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 UK 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.

[3]Including Buildmark Choice.

Significant events that occurred during and after the reporting period

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

UK's referendum on European Union membership

There continues to be an uncertain and changing political landscape following the UK vote to leave the European Union (EU) in June 2016 and the subsequent triggering of Article 50 in March 2017, the final impact of which still remains unclear. The impact on NHBC, and the wider construction and insurance industries, will be driven by changes in the regulatory and legal landscape over the coming years. NHBC has no operations outside the UK but is still exposed to movements in financial markets and the wider economy.

Settlement of legal claims

During the year, NHBC benefitted from an exceptional item, recognising the settlement in its favour of legal claims totalling £30m, which helped to mitigate the full impact of the poor trading result.

A Business and performance

A.2 Underwriting performance

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

£m	2019	2018
Net premiums written	81.4	73.2
Net premiums earned	67.0	48.9
Net claims incurred	(119.1)	(96.8)
Changes in unexpired risk reserve	(17.4)	39.9
Other	(12.5)	(5.3)
Underwriting result	**(82.0)**	**(13.3)**

Premium income

Plot registration volume (registrations) is a key driver of NHBC's premium and inspection income and is a proxy of exposure on NHBC's technical account. Registration volumes increased by 3.5% in 2019 (2018: 2.0% decrease) to 160,461 units, mainly due to higher affordable housing registrations, which increased 16.3% from the prior year. Private housing registrations remained consistent with last year.

Net premiums earned increased 37% to £67m (2018: 14.0% decrease). This was the result of higher registration volumes, as well as increased Buildmark additional deposit premiums and road and sewer bond product income. Warranty premiums are earned according to an earnings profile, which follows the pattern of how claims are expected to emerge over the period of warranty policy coverage. During the year, the time it took claims to emerge slightly decreased compared with previous years. As a result, more premium was recognised than in the prior year.

Claims incurred

Net claims incurred increased by 23% to £119.1m (2018: 8.1% increase), and was driven by both poor claims experience from the large losses emanating from the mid-2000s to 2012 generation years and the increased reserves for claims in respect of cladding and firestopping cover (Section 4). The claims paid in the year fell by 9.5% to £85.6m (2018: 11.6% increase), reflecting the improved underlying trend seen in recent years of smaller, attritional claims in respect of years three to 10 of the policy cover (Section 3). It is expected that claims paid will increase in the financial year ending 31 March 2020 as the large claims (between £1m and £20m) and cladding losses provisioned in 2018 and 2019 begin to be settled.

Unexpired risk reserve

The unexpired risk reserve charge of £17.4m (2018: release £39.9m) largely reflects the strengthening of the technical provisions to reflect the greater level of uncertainty surrounding the claims environment in relation to Buildmark Section 4 regarding building regulation insurance coverage for claims made following the Grenfell Tower fire in June 2017.

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 2019.

£m	Credit and suretyship 2019	Credit and suretyship 2018	Miscellaneous financial loss 2019	Miscellaneous financial loss 2018
Net premiums written	10.9	7.4	70.5	65.9
Net premiums earned	11.8	9.1	55.2	39.8
Net claims incurred	(4.5)	(2.4)	(114.6)	(70.5)
Net changes in other technical provisions	(8.0)	14.2	(9.4)	25.6
Expenses incurred	(1.7)	(1.8)	(10.8)	(28.6)
Underwriting performance	**(2.4)**	**19.1**	**(79.6)**	**(33.7)**

Credit and suretyship

NHBC has been successful in generating further premium income on expansion of its Section 1 cover for larger developments. Claims incurred has increased following a late development of a sizable claim. Together with some adverse claim development and greater economic uncertainty (relative to the prior year), the unexpired risk reserves have been strengthened.

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 the commentary on the total underwriting result presented in the above section.

A Business and performance

A.3 Investment performance

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

£m	2019	2018
Investment income	38.7	36.0
Realised gains	28.7	10.5
	67.4	**46.5**
Unrealised (losses)/gains	(15.2)	(36.6)
Investment expenses	(2.3)	(2.0)
Investment result	**49.9**	**7.9**

The total investment result was significantly higher at £49.9m (2018: £7.9m) and reflects £13.5m of capital gains (2018: losses of £26.1m). Strong equity performance in the year, as well as a fall in bond yields in the final quarter of the financial year, were the primary causes of the favourable performance.

Income on investments of £38.7m (2018: £36m) increased slightly on the prior year as yields picked up slightly.

Other investment information

NHBC holds investments in its 100% owned subsidiary companies. A net £0.7m increase (2018: £3.9m decrease) in the valuation of the subsidiaries has been recognised as a movement in other comprehensive income.

NHBC held £7.8m of collateralised securities at 31 March 2019 (2018: £nil).

A.4 Performance of other activities

Other income, which includes inspection, Building Control fees and income from NHBC Services Limited business (such as Training and Health & Safety Services) increased 2.2% to £78.6m (2018: £76.9m) following the higher registration and completion volumes.

Other charges were £76.4m (2018: 86m). The reduction is made up of several moving parts: primarily lower operating costs and the higher allocation of costs attributable to the underwriting account.

Total operating expenditure fell by 2.5% (2018: 2.8% increase) as NHBC focused on managing its operating costs carefully as volumes increased. The major drivers of reduced operating costs were lower full-time equivalent staff costs, consultancy fees, and realising benefits achieved from productivity and efficiency improvement programmes.

In the financial year ended 31 March 2019, NHBC received £30m in proceeds from the settlement of legal claims. These relate to disputes that have been settled on confidential terms.

NHBC has operating leases for its car fleet and one of its business premises. At the year end, NHBC had leasing commitments totalling £5.2m (2018: £5.6m) under these operating leases. NHBC has no finance leases.

A.5 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

B System of governance

This section sets out information in relation to NHBC's system of governance. Details of NHBC's administrative, management and 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).

It also describes the components of the system of governance, including the risk management framework and an introduction to NHBC's internal control system, which uses 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

There have been no material changes to the system of governance in the reporting period.

NHBC Council

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

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

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

- Alterations to NHBC's constitution
- The appointment of the auditors; and
- The appointment of Council members.

Board of Directors

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

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

Balance of executive directors and NEDs at 31 March 2019	
Chairman (Non-Executive)	1
Senior Independent Director (SID) (Non-Executive)	1
Other NEDs	5
Executive directors	3

Board committees

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

Audit Committee

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

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

The members of the Committee are all NEDs, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; CFO; Head of Finance; Chief Risk Officer; Company Actuary; internal auditors Grant Thornton; and external auditors Deloitte.

Board Risk Committee (BRC)

The role of the BRC is to review and challenge NHBC's approach to the overall management of risk, capital and strategy through the ORSA.

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

The members of the Committee are all NEDs, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; CFO; Chief Risk Officer; Company Actuary; and internal auditors Grant Thornton.

Consumer Committee

The final meeting of the Consumer Committee was held in September 2018. The decision to disband the Committee was due to a higher focus on consumer matters by management and increasing visibility of these matters at Board level.

The role of the Consumer Committee was to monitor and review NHBC's management information and performance in relation to conduct risk and provide comfort to the BRC that this area is subject to rigorous scrutiny. The Committee monitored adherence to the conduct risk appetites, tolerances and measures, including making suggestions to the BRC regarding enhancements to the framework and challenging the dashboard.

The Consumer Committee was comprised of NEDs and independent external advisors. In addition to the members, the following routinely attended Consumer Committee meetings: the Chairman of the Board; Chief Executive; and the Claims & Commercial Director.

System of governance

Investment Committee

The role of the Investment Committee is to review the strategic asset allocation and make recommendations to the Board, review NHBC's investment managers and approve any changes, review and approve investment manager guidelines, and oversee compliance with NHBC's investment strategy, investment policy and aspects of the market risk policy.

The members of the Committee are all independent NEDs. In addition to the members, the following routinely attend Committee meetings: the Chief Executive; CFO; Chief Risk Officer; Head of Investments and Pensions; Head of Finance; and external investment advisers and managers when requested.

Nominations Committee

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

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

All members of the Committee are independent NEDs. The Chief Executive and the Head of HR also attend the meetings, where appropriate.

Remuneration Committee

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

All members of the Committee are independent NEDs. The Chairman, Chief Executive, Head of HR and other members of the management team also attend the meeting where appropriate.

Material changes in the system of governance during the period

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

At executive director level, Neil Jefferson, the Chief Operating Officer, is to leave NHBC in January 2020 to take on a new role at the Home Builders Federation. At NED level, Dame Helena Shovelton (Chair of the Consumer Committee) stepped down after serving for six years.

The Consumer Committee disbanded in September 2018.

Remuneration policy

NHBC and the Remuneration Committee maintain 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 the group's business strategy and key priorities
- A total bonus pool that does not undermine the group's capital base
- Clawback 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 NEDs and the Chairman is based on fixed fees, with additional fixed fees for the SID and Chairman of the Board sub-committees.

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

- 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. 'On-target earnings' for the Chief Executive would provide a ratio of 70% fixed to 30% variable pay. Progressing further down the organisation, the proportion of fixed remuneration increases; however, all employees have an element of variable pay in their remuneration.

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

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

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

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

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

In addition, there is a closed defined benefit pension scheme, of 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.

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

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

B System of governance

B.2 Fit and proper requirements

NHBC carries out assessments to establish whether directors and senior managers satisfy the relevant requirements of training by the PRA and FCA, and competence in relation to thesenior management functions and/or the prescribed and key responsibilities the person performs or is intended to perform.

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

As part of the recruitment process for senior managers, HR will ensure that a gap analysis of the candidate's technical competences and the requirements of the role is carried out, and a development plan is put in place to ensure that the candidate gains any skills which are lacking.

In conjunction with the risk function, HR will also carry out due diligence on the candidate prior to submitting all the information collected to the PRA and FCA.

In the case of a NED, the same process is followed, but with greater involvement of the company secretary.

Application to PRA and FCA

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

Due diligence on a candidate includes credit checks, criminal record checks, disqualified director checks and regulatory checks (checking the Financial Services Register for previous enforcement notices, disqualifications, regulatory references from authorised firms, etc.). Executive search reports or other assessments are also obtained, where relevant.

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 the decision-making framework across the organisation. This section of the report provides a description of NHBC's risk management objectives, the risk management framework and the three lines of defence system of internal control.

Risk management system objective

The objective of the risk management framework is to increase the likelihood that NHBC delivers its corporate objectives within its risk appetite.

Scope

The risk management framework comprises and applies to:

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

Entities outside the scope of the risk management framework

The actions of external entities and events occurring in NHBC's markets influence NHBC's corporate strategy, risk appetite and internal risk management regime. These influencing factors include changes in regulation, competitor actions and economic circumstances.

The risk management framework is designed to identify, evaluate and respond to external factors, but these factors are not in themselves part of the framework.

Overview

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

The risk management framework is:

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

Specifically, it records:

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

Risk management system components

NHBC's risk management framework comprises the five inter-related activities illustrated below.

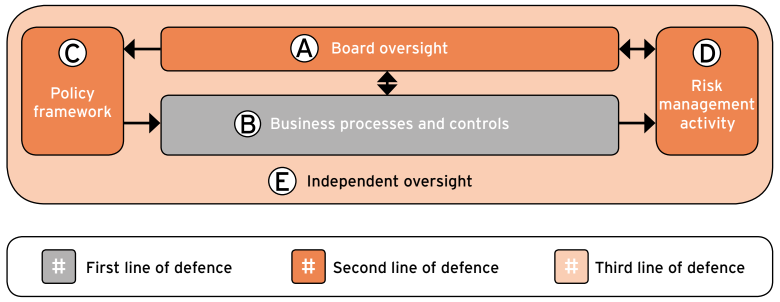
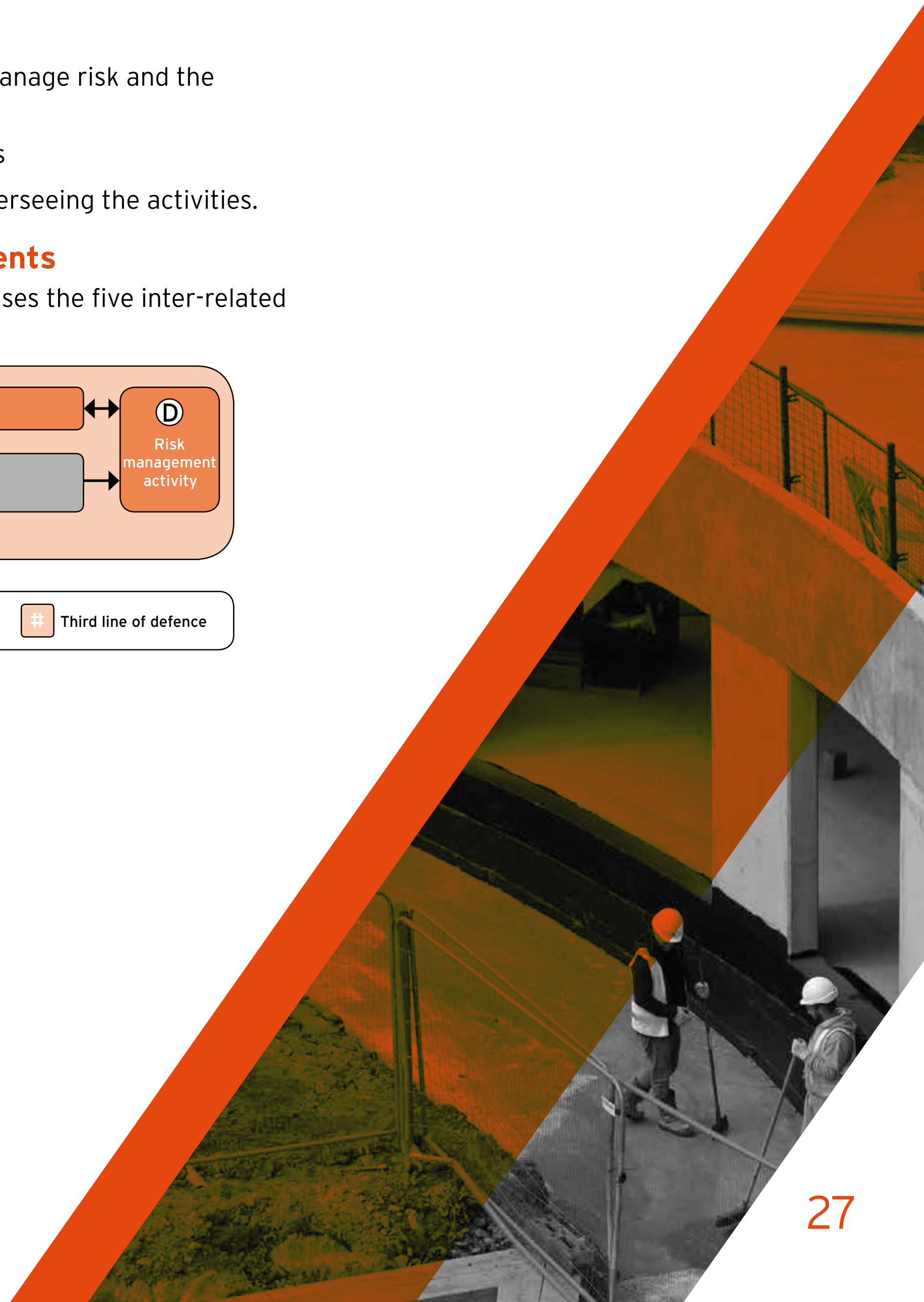


Illustration 1: risk management framework overview.



System of governance

The following table provides a brief description of each activity and its alignment with the three lines of defence model which NHBC has adopted to ensure independence and objectivity is maintained. The three lines of defence model is described in Section B4 of this report.

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

NHBC's risk management framework and recognised international standards

A number of internationally recognised standards exist on which effective risk management regimes can be built. NHBC uses (not accredited) ISO 31000:2018 Risk management – Guidelines. The requirements of the principles and guidelines are integrated into the risk management framework.

NHBC Risk Universe

NHBC Risk Universe is applied across the operation of the risk management framework. The Risk Universe has been developed to:

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

Capital modelling

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

NHBC is in the process of developing a completely new IM capable of Solvency II and NHBC ORSA capital estimation; the work started in July 2017 and the build phase was completed in 2018. During 2018 and 2019, the focus has been the regular production of results and associated documentation, the validation of the model, and the development of the model to remediate issues and limitations identified through validation or use. This will continue through 2019.

ORSA

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

NHBC carries out an ORSA at least annually at the financial year end and additionally during the financial year in the event of a material change in its risk profile. However, in the absence of a material change to the risk profile, an annually scheduled formal ORSA report is considered appropriate, due to the long-tail nature of NHBC's liabilities and the likely slow pace of the development of insurance risk. That said, while the ORSA is only formally conducted annually, there are quarterly assessments of capital adequacy that allow the Board and BRC to maintain an ongoing focus on risk and capital.

ORSA reporting

Internal reporting

The results and conclusions of the ORSA are presented in a report to both the ERC and the BRC by the Chief Risk Officer before presentation to the NHBC Board. Once the process and the results have been approved by the Board, the results and conclusions of the ORSA are communicated to all relevant staff and the PRA.

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

Reporting to the supervisor

The ORSA report is also used as a supervisory report.

Determining NHBC's solvency needs

NHBC assesses its own solvency needs using its bespoke IM. This model produces a range of simulated outcomes on a few different bases as described in the section 'Capital modelling'. These are both economic measures of capital and a regulatory measure. The design of the IM is specific to NHBC, as opposed to generic like the SF. It also includes risks not captured under the SF, such as longevity risk associated with NHBC's defined benefit pension scheme.

NHBC produces forward-looking capital projections on both SF and IM bases over three-year time horizons. This allows the business to monitor its solvency position against its agreed capital risk appetite and to consider capital management actions as required. This is particularly important to NHBC due to its limited ability to raise capital cost-effectively.

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

B System of governance

B.4 Internal control system

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

First line: business units and operations

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

Second line: management assurance

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

Third line: independent assurance

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

To ensure that policies are aligned to key business risks, NHBC also operates a robust policy framework which assists in the mitigation of those risks.

NHBC's Compliance team is part of the Risk and Compliance department, within the Chief Executive directorate. Its responsibilities include:

- Helping the business to identify risks that may arise as a result of any new business initiatives
- Working with the business to periodically review risks which are documented on risk registers
- Ensuring that NHBC meets the requirements of financial regulators and the Information Commissioner's Office
- Managing NHBC's regulatory relationships
- Making the business aware of key regulatory changes which are reported via the Executive Risk Committee and the BRC.

The Compliance team has an annual risk-based compliance monitoring plan, which focuses on areas of the business that could pose the highest regulatory risk, including consumer detriment. Findings from these compliance monitoring reviews are reported to the Executive Risk Committee and the BRC.

B.5 Internal audit function

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

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

- An annual assessment of the adequacy and overall effectiveness of governance, risk and the control framework of the organisation through the operating of an annual internal audit plan
- An analysis of themes and trends within the organisation and their impact on the risk profile
- Periodic information on the status and results of the internal audit plan
- Coordination with other control and monitoring functions (specifically the Executive Risk Committee, the BRC, the Risk and Compliance department 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 NED) and administratively to the Chief Executive. This dual reporting line ensures that internal audit operates with independence and objectivity at all times. Internal audit will remain independent of risk management, compliance and finance at all times and will hold no responsibility over these functions. In addition, the internal audit function is outsourced to Grant Thornton, providing further independence from the business.

B.6 Actuarial function

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

Reserving and technical provisions

The calculation of the Solvency II best estimate provisions at 31 March 2019, compliant with Solvency II standards, was undertaken by the actuarial function and validated internally by NHBC's Risk and Compliance department. It is also subject to an external review by actuarial consultants Willis Towers Watson LLP (WTW). The Solvency II best estimates were audited by Deloitte.

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

NHBC has made several improvements to its reserving methodology that enhance its robustness and reliability, and reduce unnecessary complexity. Key changes include the introduction of the Bornhuetter-Ferguson method and a reduction of the granularity of the attritional reserving segments. The boundary between large losses and events not in data (ENIDs) has moved from £10m to £20m, reflecting the fact that NHBC's back book now contains several actual losses which are larger than £10m, and losses in the range of £10m to £20m are no longer ENIDs.

Reporting

Work has been undertaken on providing further transparency to executive directors and Board members of the reserving approach via improved reporting to relevant committees.

A process is in place for regular regulatory reporting, including quantitative reporting templates (QRTs) and other reports.

Pricing

The remit of the actuarial function's pricing work for the year ending 31 March 2020 was much broader than the annual pricing work the actuarial function undertook for NHBC previously and covered both insurance and non-insurance services. The analysis of expected costs on the insurance side has become much more sophisticated with the use of generalised linear modelling (GLM). The actuarial function's pricing and profitability assessments for year ending 31 March 2020 were presented and discussed with the Technical Pricing Committee during the period from September 2018 to February 2019. They were discussed further in the context of commercial viability by the Commercial Pricing Committee and shaped the pricing recommendations presented to NHBC's Board on 20 March 2019 by the CFO.

Reinsurance

The primary insurance risk mitigating action is the placement of reinsurance. Given the nature of NHBC's exposures, the primary protection is by means of an annual aggregate cover and a multiple year cover.

The Actuarial team provides input to the reinsurance placement exercise by means of profitability analysis and providing supporting information required by reinsurers and brokers.

B.7 Outsourcing

NHBC has a documented procurement and supplier governance policy owned by the CFO. 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 regulations.

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

NHBC has adopted the definition of the Solvency II Directive for key functions as those included in the systems of governance. Currently, the only key function that NHBC outsources is internal audit. This is performed by Grant Thornton LLP, which operates within the UK.

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. There is no other material information to report.

C

Risk profile

C Risk profile

Overview

NHBC's risk profile is assessed through a combination of measures, including company and department-specific risk registers, a risk appetite framework, the Solvency II SF capital model and various economic and business-related scenario models.

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

NHBC's assets are invested in listed instruments (that are standard in nature) with an observable daily pricing source. Based on the existing strategy, the NHBC portfolio contains a significant proportion of high-quality and liquid assets. The table below represents NHBC's asset allocation as at 31 March 2019:

Asset class total	Actual allocation (%)	Strategic asset allocation (%)	Liability matching (L) /surplus (S)
Index-linked gilts	47	42	L
Fixed interest gilts	6	10	L
Sterling investment grade corporate bonds	38	39	L/S
Developed market equity investments	2	4	S
Emerging market equity investments	1	2	S
Dynamic	3	3	S
Cash	3	-	L/S
Total	**100**	**100**	

NHBC employs an external manager to perform continual 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 predominantly index-linked gilts, nominal gilts and cash, and are considered appropriate in both nature and duration with respect to the Company's liabilities.

The bond portfolio is invested in segregated mandates which account for the majority of NHBC's investments. The equity and dynamic asset allocation overlay funds are invested in pooled vehicles.

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 (and Board Investment Committee). The use of derivatives is permitted for the purpose of currency hedging any overseas investments within the segregated bond mandates. Listed equity futures and options are also permitted for equity risk hedging purposes only; however, no such positions were in place at 31 March 2019.

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 SF market risk module, with an SCR 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 are also available.

The nature of NHBC's business model means it is subject to a concentration of insurance risk. The UK house-building industry is dominated by a relatively small number of very large builders, and this means that NHBC not only has a concentration of risk in 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 primarily includes excess of loss reinsurance cover taken out to insure against unusually high losses arising for properties registered in a given generation year. This is also complemented by another excess of loss policy that spans a number of these generations. There are other less material reinsurance arrangements in place, including quota share reinsurance on certain lines of business. NHBC's reinsurance arrangements are assessed annually by its underwriting function and presented to the BRC for approval.

Some of NHBC's investments are subject to foreign exchange risk. The bond-related currency exposure within segregated mandates is hedged using derivatives. There is no currency hedging performed for emerging market equities. There may be currency exposures within the multi-asset, multi-region dynamic allocation vehicle.

Stress tests

NHBC's business plan has been produced using several assumptions. The most material are judged to be the expected return on the surplus asset portfolio (consisting of mostly corporate bonds and equities) and expected future claims inflation. In addition, house price inflation, product price inflation, salary inflation and the number of registrations of new homes were assessed but are much less material.

Scenario testing

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

- The impact of two economic scenarios ('UK centric downturn' and 'Global financial crisis') on NHBC's own funds, SF SCR and SF solvency ratio
- The impact of two business scenarios (the top 20 builder insolvency and an unexpected increase in the pension scheme deficit) on NHBC's own funds, SF SCR and SF solvency ratio.

C Risk profile

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 that it is suitably rewarded by its managed use, aligned to the strategy of raising standards for new build homes. NHBC believes that, by taking underwriting risks, and therefore paying to remedy building defect claims, it will increase its understanding in this area and be able to further raise standards for future builds.

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

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

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

NHBC holds capital to absorb unexpected insurance losses, and the amount of capital held against underwriting risk at 31 March 2019 on the SF measure was £350.4m (2018: £318.9m).

C.2 Market risk

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

NHBC has approximately £1.6 billion of assets under management and approximately £1 billion of Solvency II liabilities, meaning the business's exposure to market risk is material. NHBC's investment portfolio consists largely of government and investment-grade corporate bonds, and exposure to equities. Its liabilities are predominantly 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 exposure to market risk on its investments by outsourcing it to specialist fund 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 PRA, 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 consist mainly of equities, government bonds and corporate bonds. The scheme 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 2019 on the SF measure was £121m (2018: £121.7m).

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

C.3 Credit risk

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

NHBC is exposed to credit risk from a variety of different sources, the main one being the risk of reinsurer default. NHBC manages this risk by spreading the reinsurance between panels of reinsurers, although the unique nature of the insurance cover means there are some panel members that hold relatively large proportions because of their specialist knowledge and the partnership approach NHBC has adopted. The reinsurers are financially robust and are required to have a minimum credit rating of A-, which is continually monitored through NHBC's reinsurance brokers.

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 2019 on the SF measure was £2.4m (2018: £2m).

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 equities and, to a lesser degree, corporate bonds. The Company, as with most insurers, generally receives premium income in advance of paying 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 outflows 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 cash management process.

NHBC anticipates around £2.3m (2018: £1.8m) in expected profit included within future premiums, which 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 Risk profile

C.5 Operational risk

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

The Company employs a risk management framework[4], supported by a number of qualified risk professionals to help the business manage these risks. The business makes use of a number of risk management techniques, including the ongoing assessment of risks through company and department-specific risk registers.

NHBC holds capital to absorb losses arising from operational risks, and the amount of capital held against this risk at 31 March 2019 on the SF measure was £24.1m (2018: £22.5m).

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 predominantly focused on providing warranty cover for builder defects and, to a lesser degree, cover that provides protection to potential homeowners for loss of deposit when purchasing a property, and to local authorities where NHBC stands as surety on road and sewer bonds. This means that the Company does not benefit from a diversification of insurance risks but it does, however, mean that it is able to become highly specialised, which brings many other benefits.

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

These are risks that NHBC has to accept in order to fulfil its objective of raising the standard of new build homes. The capital that NHBC holds to cover losses arising from these risks is taken into account 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 market risk, as discussed in C.2, but also longevity risk.

Longevity risk refers to the risk of losses arising as a result of pensioners 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 SF, holds capital under its ORSA.

NHBC now 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 that 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 SF, it holds capital under its ORSA within its operational risk capital.

C.7 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.

There is no other material information to report.

[4]As outlined in Section B of this report.

D

Valuation for solvency purposes

Valuation for solvency purposes

This section of the report provides a description of the bases, methods and main assumptions employed in the valuation of NHBC's assets and liabilities. This section also provides an explanation of material differences between valuations presented in NHBC financial statements under UK 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 the assets 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 and, in accordance with the Companies Act 2006 and provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) relating to insurance groups. Financial statements and are 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 & Accounts under the UK GAAP framework as its basis of preparation.

The following table presents NHBC's valuation of assets at 31 March 2019 on a Solvency II basis.

Assets £m	2019	2018
Property, plant and equipment for own use	12.3	11.7
Investments	1,629.2	1,567.4
Reinsurance recoverable from non-life, excluding health	23.9	(5.2)
Insurance and intermediaries receivable	1.8	2.8
Receivables (trade, not insurance)	3.9	5.8
Cash and cash equivalents	16.6	14.2
Any other assets not shown elsewhere	4.8	2.3
Total assets	**1,692.5**	**1,599.0**

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).

Investments

The valuation approach is consistent between the 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 deferred tax assets is consistent between financial statements and the Solvency II basis of preparation. NHBC's deferred tax asset is primarily driven by the NHBC defined benefit pension deficit and trading losses carried forward. No net deferred tax asset is recognised in the financial statements or Solvency II due to uncertainty over future recovery of the asset.

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 follows 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.

Cash and cash equivalents

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

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

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

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

Other assets

NHBC has operating leases for one property and various motor vehicles. These assets, and the corresponding liabilities, are not included on the balance sheet.
At 31 March 2019, NHBC had leasing commitments of £5.2m (2018: £5.6m).

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

D Valuation for solvency purposes

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, 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
- **Deferred tax** – this 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 2019.

Assets (£m)	UK GAAP value	Adjustment to Technical Provisions	Reversal of DAC	Investment re-analysis	Balance reclassification	Solvency II value
DAC	11.7	-	(11.7)	-	-	-
Property, plant and equipment for own use	12.3	-	-	-	-	12.3
Investments	1,619.2	-	-	10.0	-	1,619.2
Reinsurance recoverable from non-life, excluding health	90.9	(67.0)	-	-	-	23.9
Insurance and intermediaries receivable	5.4	-	-	-	(3.6)	1.8
Receivables (trade, not insurance)	3.9	-	-	-	-	3.9
Cash and cash equivalents	26.6	-	-	(10.0)	-	16.6
Any other assets not shown elsewhere	9.5	-	-	-	(4.7)	4.8
Total assets	**1,779.5**	**(67.0)**	**(11.7)**	**-**	**(8.3)**	**1,692.5**

D.2 Technical Provisions

The following table presents NHBC's valuation of net Technical Provisions at 31 March 2019 on a Solvency II basis.

Technical Provisions (£m)	Credit and suretyship insurance[5]	Miscellaneous financial loss	Total non-life obligation
Gross best estimate	(52.4)	856.4	804.0
Risk margin	3.9	106.2	110.1
Technical Provisions	(48.5)	962.6	914.1
Reinsurance recoverable	1.8	(25.7)	(23.9)
Technical Provisions less reinsurance recoverable	**(46.7)**	**936.9**	**890.2**

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 European Insurance and Occupational Pensions Authority (EIOPA) risk-free interest rate term structure at 31 March 2019.

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.

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.

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

Risk groups

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

Claims provisions

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

The claims provision for the major part of the attritional reserves (Section 2 and Section 3 of the Buildmark product) is estimated using triangulation methods and considers inflated incurred and paid claim development tables. The claims provision for the remaining sections is set based on the case reserve estimates and, in the case of road and sewer bonds, is set based on an assessment of the level of individual outstanding bonds, should a particular builder become insolvent.

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

D Valuation for solvency purposes

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 Section 2 and Section 3 of the Buildmark product (gross and builder recoveries separately) is calculated from Underwriting Year by First Notification Year incurred claim per home development tables at a detailed level of granularity. The premium provision for the remaining sections of the Buildmark product is based on frequency severity methods and, in the case of road and sewer bonds, a mixture of deterministic and stochastic methodology based on the probability of builder insolvency.

Stochastic reserving

Certain elements of the provisions are modelled, at least in part, using stochastic distributions. These include large losses (claims costing between £1m and £20m) and ENIDs, which 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

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. There are also quota share placements in place providing cover on additional Section 1 cover and on major projects.

There is a separate excess of loss treaty providing protection of the road and sewer bonds.

The reinsurance recoveries are estimated stochastically via a simulation exercise which models the gross claims and applies the reinsurance programmes accordingly. Reinsurance bad debt provisions are also included.

Contract boundaries

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

For NHBC, however, the registration of a policy is triggered by the builder's payment of the fees. The Customer Services representative for that site registers the policy in 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 plot registration process, NHBC can choose to decline the risk at any time if the building does not meet NHBC's standards.

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

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

No allowance for 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

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, there are instances where additional premiums 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:

- Claims management expenses, which include the costs of the claims handling department and the associated overhead costs, as well as an allocation of general overheads. In addition, these expense amounts include internal legal and engineering costs incurred when handling claims/potential claims
- Administration expenses are those required in order for NHBC to manage its ongoing operations for the insurance element of NHBC's activities. Given the nature of the business, these are relatively small, and relate generally to a small number of cancellations and builder customer and policyholder queries
- Investment management expenses are those incurred in the management of NHBC's investment portfolio of assets which are held to support the insurance liabilities.

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

Uncertainty

NHBC's core home warranty insurance product provides cover for 10 years and, as such, the requirement to project exposures for this period leads to the need to make a number of subjective assumptions, which in turn leads to uncertainties in the best estimate provisions.

For non-large claims (Section 2 and 3 attritional claims and claims handling), reliance is placed on past data to inform future claim development; which, given the long-term exposures, is not likely to be a perfect assumption, with actual outcomes being potentially different from those predicted.

In addition, there are several key assumptions regarding builder behaviour, inflation and the incidence of exceptional losses that need to be made despite sparse experience data being available.

For this reason, NHBC has introduced an expert judgement policy under which these judgements are informed by relevant experts and are then reviewed and challenged through the relevant governance framework. While this process can ensure that evidencing the selected assumptions is robust, it cannot reduce the level of uncertainty over purely subjective assumptions impacting future exposures.

Valuation for solvency purposes

Reconciliation of UK GAAP and Solvency II net Technical Provisions

The table below provides reconciliation between net Technical Provisions as disclosed in UK GAAP financial statements and Solvency II as at 31 March 2019.

Technical Provisions net of reinsurance (£m)	Credit and suretyship insurance	Miscellaneous financial loss	Total
Solvency II Technical Provisions, excluding risk margin	(50.6)	830.7	780.1
Solvency II elements not applicable for UK GAAP	81.9	(8.2)	73.7
UK GAAP margin	24.6	190.0	214.6
UK GAAP adjustments	(2.6)	9.3	6.7
UK GAAP Technical Provisions	**53.3**	**1,021.8**	**1,075.1**

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

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

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

Other information

NHBC does not apply countercyclical premiums, matching premiums, or volatility adjustments. NHBC is not using the transitional provisions.

D.3 Other liabilities

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

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

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

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

Liabilities (£m)	2019	2018
Technical Provisions – non-life calculated as a whole	914.1	857.8
Provisions other than Technical Provisions	66.1	61.5
Pension benefit obligations	33.1	32.0
Deferred tax liabilities	14.4	16.1
Derivatives	-	0.8
Insurance and intermediaries payable	25.2	27.6
Payables (trade, not insurance)	18.6	15.8
Total liabilities	**1,071.5**	**1,011.6**

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 in 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 Provision.

Pension benefit obligations

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

An updated recovery plan was agreed in the year with annual payments of £8m due from 2019 to 2024, intended to eliminate the deficit.

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

Deferred tax liabilities

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

A deferred tax liability is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date and 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 the 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.

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.

D Valuation for solvency purposes

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 a 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 2019.

Liabilities (£m)	UK GAAP value	Adjustment to Technical Provisions	Deferred tax adjustment	Balance reclassification	Solvency II value
Technical Provisions – non-life calculated as a whole	1,166.0	(259.4)	-	7.5	914.1
Provisions other than Technical Provisions	74.6	-	-	(8.5)	66.1
Pension benefit obligations	33.1	-	-	-	33.1
Deferred tax liabilities	-	-	14.4	-	14.4
Insurance and intermediaries payable	29.7	-	-	(4.5)	25.2
Payables (trade, not insurance)	21.4	-	-	(2.8)	18.6
Total liabilities	**1,324.8**	**(259.4)**	**14.4**	**(8.3)**	**1,071.5**

D.4 Alternative methods for valuation

Following the hierarchy of valuation methods in accordance with Article 10 of Directive 2009/138/EC, NHBC's land and buildings are valued individually.

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

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

D.5 Other information

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

E

Capital management

E Capital management

This section of the report provides information on NHBC's own funds and the SCR.

E.1 Own funds

Capital management objectives, policies and processes

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

NHBC's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business
- To maintain financial strength to support new business growth
- To satisfy the requirements of its policy holders 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 within the risk management framework outlined in the earlier sections of this document (see Section B3 for further information on NHBC's risk management processes).

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

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

Own funds

As at 31 March 2019, 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 Directive 2009/138/EC.

At 31 March 2019, NHBC's Tier 1 and total own funds were £621m (2018: £587.5m), comprised entirely of the reconciliation reserve. The own funds supported the SCR of £409.2 (2018: £376m), resulting in a solvency ratio of 152% (2018: 156%). The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall, was £164.3m (2018: £156.2m), providing a ratio to eligible own funds to meet the MCR of 378% (2018: 376%).

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 the SCR and MCR respectively as at 31 March 2019.

£m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
Total eligible own funds to meet the SCR	621.0	-	-	-	621.0
Total eligible own funds to meet the MCR	621.0	-	-	-	621.0

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

Please refer to Sections D1 and D3 of this report for a 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	621.0
Asset valuation differences	78.7
Liability valuation differences	(245.0)
UK GAAP excess of assets over liabilities	**454.7**

Movement in own funds

The movement in own funds during the financial year ended 31 March 2019 is analysed below.

Eligible own funds	£m
As at 1 April 2018	587.5
UK GAAP result for the year	
- Loss after tax	(3.1)
- Other comprehensive income	(3.8)
Movement in valuation differences	40.4
As at 31 March 2018	**621.0**

The £33.5m increase in own funds is driven by the financial results in the year, adjusted for Solvency II 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 Capital management

E.2 Solvency Capital Requirement and Minimum Capital Requirement

NHBC uses the SF to calculate its regulatory capital requirements. The following table shows the SF capital requirement, which is still subject to regulatory review, at 31 March 2019.

£m	2019	2018
Market risk	121.0	121.7
Counterparty default risk (credit risk)	2.4	1.9
Non-life underwriting risk	350.4	318.9
Diversification	(74.3)	(72.9)
Base SCR	**399.5**	**369.6**
Operational risk	24.1	22.5
Loss-absorbing capacity of deferred taxes	(14.4)	(16.1)
Total SCR	**409.2**	**376.0**

The SCR has increased since last year by £33.2m. This was primarily driven by a £31.5m increase in non-life underwriting risk.

Market risk has decreased marginally (£0.7m) over the year. However, this is due to several underlying offsetting movements. Interest rate risk has increased by £11.8m throughout the year, largely due to the interest rate risk module being updated to stress the leveraged cash flows associated with bonds held within the pension scheme. The lower interest rate environment also increases the charge arising from the interest rate risk stress. Equity risk has decreased by £11m, largely due to the movement of assets from equities to a Royal London multi-asset fund. The currency risk decrease of £4.5m has been driven by a global equity portfolio restructure. Spread risk increased by £4.6m throughout the year. A model change to correct the risk charge for callable bonds resulted in an increase to the spread risk.

The Minimum Capital Requirement at 31 March 2019 was £164.3m (2018: £156.2m).

The MCR is based on applying the appropriate factors to the Technical Provisions (excluding risk margin) and net premiums written for the two Solvency II classes of business written by NHBC (miscellaneous financial loss, and credit and suretyship).

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 therefore not applicable. NHBC does not make use of any equity transitional measures.

E.4 Differences between the Standard Formula and any internal model used

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

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

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

E.6 Other information

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

F

Quantitative reporting templates

The following QRTs are included in this section:

Monetary amounts are in GBP thousands.

Quantitative reporting templates

S.02.01.02

Balance sheet

	Assets	Solvency II value
		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	12,250
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,629,191
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	5,860
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	1,466,259
R0140	*Government Bonds*	851,395
R0150	*Corporate Bonds*	607,027
R0160	*Structured notes*	0
R0170	*Collateralised securities*	7,838
R0180	*Collective Investments Undertakings*	157,072
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	23,920
R0280	*Non-life and health similar to non-life*	23,920
R0290	*Non-life excluding health*	23,920
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	1,838
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	3,931
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	16,530
R0420	Any other assets, not elsewhere shown	4,808
R0500	**Total assets**	1,692,469

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Balance sheet

	Liabilities	Solvency II value
		C0010
R0510	Technical provisions - non-life	914,046
R0520	*Technical provisions - non-life (excluding health)*	914,046
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	803,968
R0550	*Risk margin*	110,078
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	66,170
R0760	Pension benefit obligations	33,088
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	14,413
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	25,220
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	18,581
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,071,517
R1000	**Excess of assets over liabilities**	620,951

S.05.02.01

Premiums, claims and expenses by country

Non-life

	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
	C0010	C0020	C0030	C0040	C0050	C0060	C0070
R0010							
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
R0110 Gross - Direct Business	95,284						95,284
R0120 Gross - Proportional reinsurance accepted							0
R0130 Gross - Non-proportional reinsurance accepted							0
R0140 Reinsurers' share	13,887						13,887
R0200 Net	81,397	0	0	0	0	0	81,397
Premiums earned							
R0210 Gross - Direct Business	75,712						75,712
R0220 Gross - Proportional reinsurance accepted							0
R0230 Gross - Non-proportional reinsurance accepted							0
R0240 Reinsurers' share	8,762						8,762
R0300 Net	66,951	0	0	0	0	0	66,951
Claims incurred							
R0310 Gross - Direct Business	118,890						118,890
R0320 Gross - Proportional reinsurance accepted							0
R0330 Gross - Non-proportional reinsurance accepted							0
R0340 Reinsurers' share	27,359						27,359
R0400 Net	91,531	0	0	0	0	0	91,531
Changes in other technical provisions							
R0410 Gross - Direct Business	-32,601						-32,601
R0420 Gross - Proportional reinsurance accepted							0
R0430 Gross - Non-proportional reinsurance accepted							0
R0440 Reinsurers' share	-15,337						-15,337
R0500 Net	-17,264	0	0	0	0	0	-17,264
R0550 **Expenses incurred**	61,008						61,008
R1200 **Other expenses**							
R1300 **Total expenses**							61,008

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																	
R0110 Gross - Direct Business									13,173			82,111					95,284
R0120 Gross - Proportional reinsurance accepted																	0
R0130 Gross - Non-proportional reinsurance accepted																	0
R0140 Reinsurers' share									2,225			11,662					13,887
R0200 Net									10,949			70,448					81,397
Premiums earned																	
R0210 Gross - Direct Business									12,875			62,837					75,712
R0220 Gross - Proportional reinsurance accepted																	0
R0230 Gross - Non-proportional reinsurance accepted																	0
R0240 Reinsurers' share									1,045			7,717					8,762
R0300 Net									11,831			55,120					66,951
Claims incurred																	
R0310 Gross - Direct Business									3,663			115,227					118,890
R0320 Gross - Proportional reinsurance accepted																	0
R0330 Gross - Non-proportional reinsurance accepted																	0
R0340 Reinsurers' share												27,359					27,359
R0400 Net									3,663			87,869					91,531
Changes in other technical provisions																	
R0410 Gross - Direct Business									-6,069			-26,532					-32,601
R0420 Gross - Proportional reinsurance accepted																	0
R0430 Gross - Non-proportional reinsurance accepted																	0
R0440 Reinsurers' share									1,882			-17,219					-15,337
R0500 Net									-7,952			-9,312					-17,264
R0550 **Expenses incurred**									2,449			38,621					41,070
R1200 **Other expenses**																	
R1300 **Total expenses**																	41,070

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

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

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											43,098	43,098	43,098
R0160	2010	1	333	1,761	2,059	2,261	3,841	2,863	3,363	3,844	5,722		5,722	26,048
R0170	2011	6	300	1,536	2,838	3,759	3,575	1,125	3,100	3,605			3,605	19,845
R0180	2012	24	251	800	1,636	2,171	2,859	2,382	3,354				3,354	13,476
R0190	2013	0	97	1,118	1,383	2,050	1,752	1,664					1,664	8,064
R0200	2014	0	104	1,003	1,777	3,033	2,432						2,432	8,348
R0210	2015	0	156	502	1,916	1,812							1,812	4,386
R0220	2016	0	21	418	660								660	1,100
R0230	2017	2	108	301									301	411
R0240	2018	0	20										20	20
R0250	2019	0											0	0
R0260												Total	62,667	124,795

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											188,702	183,256
R0160	2010	0	0	0	0	0	0	0	0	17,746	17,254		16,727
R0170	2011	0	0	0	0	0	0	0	16,962	20,592			20,046
R0180	2012	0	0	0	0	0	0	20,394	42,760				42,108
R0190	2013	0	0	0	0	0	12,341	18,190					17,616
R0200	2014	0	0	0	0	12,249	15,548						15,162
R0210	2015	0	0	0	10,654	12,029							11,691
R0220	2016	0	0	6,345	13,533								13,147
R0230	2017	0	3,325	6,684									6,512
R0240	2018	5,356	1,994										1,934
R0250	2019	4,639											4,611
R0260												Total	332,810

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									-60,313			531,471					471,158
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									-1,813			7,080					5,267
R0150	**Net Best Estimate of Premium Provisions**									-58,500			524,392					465,892
	Claims provisions																	
R0160	Gross									7,878			324,932					332,810
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default												18,653					18,653
R0250	**Net Best Estimate of Claims Provisions**									7,878			306,279					314,156
R0260	**Total best estimate - gross**									-52,435			856,403					803,968
R0270	**Total best estimate - net**									-50,623			830,671					780,048
R0280	**Risk margin**									3,927			106,151					110,078
	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**									-48,508			962,554					914,046
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**									-1,813			25,733					23,920
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**									-46,695			936,821					890,126

E Quantitative reporting templates

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	121,046		
R0020	Counterparty default risk	2,372		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	350,365		
R0060	Diversification	-74,292		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	399,491		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	24,119
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-14,413
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**	409,197
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	409,197
	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

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

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	620,951	620,951			
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**	620,951	620,951	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	620,951	620,951	0	0	0
R0510	Total available own funds to meet the MCR	620,951	620,951	0	0	
R0540	Total eligible own funds to meet the SCR	620,951	620,951	0	0	0
R0550	Total eligible own funds to meet the MCR	620,951	620,951	0	0	
R0580	**SCR**	409,197				
R0600	**MCR**	164,337				
R0620	**Ratio of Eligible own funds to SCR**	151.75%				
R0640	**Ratio of Eligible own funds to MCR**	377.85%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	620,951
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**	620,951
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	2,253
R0790	**Total Expected profits included in future premiums (EPIFP)**	2,253

Quantitative reporting templates

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	164,337

		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	10,949
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	830,671	70,448
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	164,337
R0310	SCR	409,197
R0320	MCR cap	184,139
R0330	MCR floor	102,299
R0340	Combined MCR	164,337
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	164,337

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