Raising Standards. Protecting Homeowners

NHBC Solvency and Financial Condition Report 2017

Contents

Executive Summary

This is the Solvency and Financial Condition Report (SFCR) for National House-Building Council (NHBC) for the year ended 31 March 2017. The purpose of the SFCR is to meet public disclosure requirements as outlined in Chapter XII of Commission Delegated Regulation (EU) 2015/35.

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

This is a solo report prepared on a consolidated basis and includes the assets and liabilities of NHBC's trading subsidiary companies, NHBC Services Limited and NHBC Building Control Services Limited. NHBC believes that providing a consolidated solo report is the most transparent and appropriate approach as it includes all the activities that contribute to the risk profile of the insurance company. It should be noted that the net assets of both subsidiary entities are not material in the context of the insurance company balance sheet. This approach was agreed with NHBC's previous auditors before the implementation of Solvency II. The basis of preparation is outlined in further detail in Section D of this report.

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

The table below shows NHBC's Standard Formula solvency position as at 31 March 2017.

	£m
Eligible own funds	580.0
Solvency capital requirement	377.5
Solvency II surplus	202.5
Solvency ratio	154%

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.

2016/17 has been a year of significant challenges and change for the business, and for the wider house-building and insurance industries. A period of considerable political and economic uncertainty, pre- and post-election, and, of course, Brexit negotiations have commenced with the outcome and impact on the UK economy not yet clear.

NHBC's position, performance and prospects are closely linked to the housing market which itself typically reflects the outlook for the wider economy. Also, and in particular, the tragic Grenfell Tower fire. The causes and implications of the fire have not yet been understood fully; however, it is likely that the consequences will be far-reaching across building regulations, construction standards and social policy. NHBC was not involved with the refurbishment of Grenfell Tower, but is an important participant in the broader housing sector. Therefore NHBC is committed to continue to work to support UK house builders to improve construction standards, and to bring more confidence to homeowners.

Against this backdrop NHBC's registrations rose by 3% to 158,184, a marginal increase indicative of further consolidation after the rapid growth of the house-building industry experienced over the last three years. This growth in registrations has led to a 5% increase in the number of homes completed in the year to 146,909. Based on NHBC's estimated UK market share, this suggests a total market of c.200,000 new UK homes registered in 2016/17, consistent with other industry sources. These housing figures represent progress against the Government's ambitions, but it is widely recognised that further growth is needed to address the housing supply gap.

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), Chief Executive, Chief Financial Officer (CFO), Operations Director, Business Development Director, and eight further Non-Executive Directors. To ensure that the Board's responsibilities are met, the Board has established a governance framework overseen and supported by a series of Board and Executive Committees.

Executive Summary

NHBC's system of governance has not changed significantly during the reporting period. However there were a number of changes in NHBC's Executive team, ultimately reflecting a refocusing of NHBC's strategy. In January 2017, NHBC announced the departure of its Chief Executive, Mike Quinton, after four years in the role. Following a comprehensive search process, the Board was delighted to appoint Steve Wood as Chief Executive in June 2017. In November 2016 NHBC also reported that the Commercial Director and CFO, Chris Rash, left NHBC. Paul Hosking was appointed soon after as successor in the role of CFO.

Section B of the report presents further information about NHBC's system of governance. The section describes NHBC's system of governance, risk management framework, approach to Own Risk 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 horizon.

The following table shows NHBC's diversified SCR by most significant components as at 31 March 2017.

	£m
Non-life underwriting risk	306.7
Market risk	154.9
Other risks and adjustments	2.1
Diversification	(86.2)
Solvency Captial Requirement	377.5

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 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 2017 the differences are summarised in the table below:

	£m
UK GAAP net assets	465.2
Valuation differences:	
Technical Provisions[1]	138.4
Deferred tax liabilities	(23.6)
Solvency II excess of assets over liabilities	580.0

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

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

Capital management

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

NHBC aims to hold capital in excess of its regulatory capital requirement; the SCR. NHBC calculates its SCR in accordance with the Standard Formula prescribed in the Solvency II regulations and aims to maintain a capital level in excess of 140% ("the solvency ratio") of these minimum requirements. At 31 March 2017, under Solvency II, NHBC's solvency ratio was 154%.

Executive Summary

NHBC also undertakes an ongoing Own Risk and Solvency Assessment (ORSA) which provides for the continual review of the businesses 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 consider in addition to the Standard Formula measure when assessing capital projections. This internal measure remains within Board risk appetite.

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

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

Directors' Responsibility Statement

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

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

(a) throughout the financial year to 31 March 2017, NHBC has complied in all material respects with the requirements of the PRA Rules and Solvency II Regulations as applicable to NHBC; and

(b) it is reasonable to believe that in respect of the period from 31 March 2017 to the date of the publication of the SFCR, NHBC has continued so to comply, and will continue so to comply in future.

Signed by and on behalf of the Board of Directors

Paul Hosking
Chief Financial Officer

25 July 2017

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 2017:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 March 2017, ('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;
- 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 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs UK and Ireland), and 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 APB's Ethical Standards, 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.

Conclusions relating to going concern

We are required 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.

Emphasis of Matter – Basis of Accounting

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

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.

Independent Auditor's Opinion

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 this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK and Ireland) 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 Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

This report is made solely to the Directors of National House-Building Council 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.

Report on Other Legal and Regulatory Requirements

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

We have nothing to report in this regard.

M. McQueen

Mark McQueen ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

25 July 2017

Appendix

Relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The relevant elements of the SFCR that are not subject to audit comprise:

- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on Technical Provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

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

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

Prudential Regulation Authority

Email: enquiries@bankofengland.co.uk

Phone: 020 7601 4878

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

Name and contact details of the external auditor

Mark McQueen (Senior Statutory Auditor) for and on behalf of Deloitte LLP

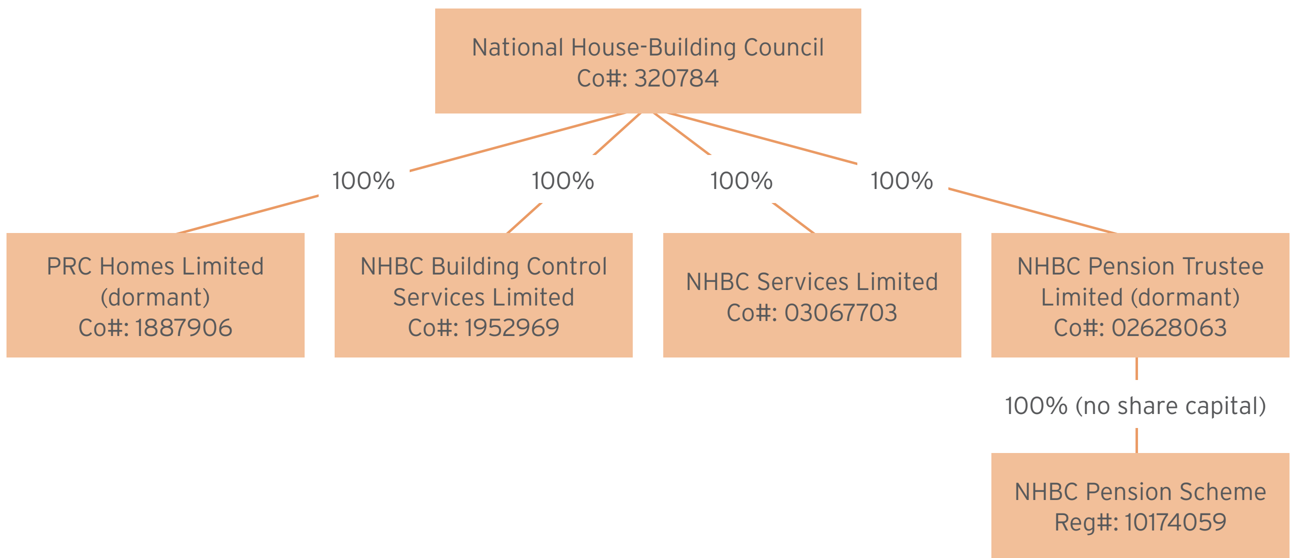
Deloitte LLP, Hill House, 1 Little New Street, London EC4A 3TR

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.



A. Business and Performance

NHBC's activities

NHBC's activities consist of two main segments within the United Kingdom, being insurance activities and other activities relating to the construction of good-quality housing. 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 primarily of rendering of inspection and building control services. The Inspection service establishes a quality control process designed to ensure construction meets NHBC standards whilst the building control service is an optional service offered by NHBC which assists the builder customer in meeting Government-set Building Regulations.

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

£m	2017	2016
Insurance activities	89.1	83.4
Inspection activities	59.2	55.3
Other	14.4	14.1

NHBC does not have operations outside of the United Kingdom.

NHBC's Buildmark product

The majority of the 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 which can be divided into three temporal periods.

Section 1:

Prior to completion of the house purchase, Buildmark Section 1 provides insurance to a homeowner that covers losses caused by the builder, primarily insolvency of the builder, resulting in a loss of the homeowner's deposit. 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 (a performance guarantee). This gives rise to a secondary liability on the part of NHBC in the event (and only in the event) that the builder fails to honour the Builder's Warranty. NHBC classifies Section 2 of Buildmark as a miscellaneous financial loss line of business for regulatory purposes.

Sections 3, 4 & 5:

The policy periods for these Sections of Buildmark begin after the end of Section 2 for a period of eight years, i.e. years three to ten following legal completion. Like Section 1, these Sections are exclusively concerned with obligations undertaken by NHBC to the homeowner to provide an indemnity in the event of certain events. NHBC classifies Sections 3, 4 & 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 in providing bonds in favour of local authorities, water companies, urban development corporations and other public bodies in the United Kingdom and the Isle of Man, in relation to commitments to construct roads, sewers and open space areas. Any premiums collected in relation to Road and Sewer Bonds are classed as a credit and suretyship line of business.

Significant events that occurred over and after the reporting period

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

[2] For regulatory purposes
[3] Including Buildmark Choice

A. Business and Performance

UK's referendum on European Union membership

The year has been one of political change, with the UK voting to leave the European Union (EU) in June 2016, the true impacts of which remain unclear. A new Prime Minister formed a new Cabinet in July 2016, Article 50 was triggered in March 2017 and, after the year-end, an unexpected General Election was called for June 2017 which left the UK with a minority Conservative Government.

The immediate impact of UK's decision to leave the EU was a significant drop in the investment yields and weakening of the Great British Pound (GBP). The decrease in yields and weakening of the GBP resulted in NHBC's bond and equity investments appreciating in value significantly. Investment performance is discussed in further detail in Section A3 of this report.

Grenfell Tower fire

NHBC has no direct exposure to the 14 June 2017 Grenfell Tower fire. It is possible that there will be wider political, regulatory and legal outcomes which will emerge following the Government investigations into the fire. Given the significant uncertainty of the scope and ultimate conclusion of these investigations, it is not possible to determine what the ramifications, if any, of this event are for claims against the NHBC's insurance coverage and building control business.

Despite these uncertainties, NHBC's Solvency II best estimate Technical Provisions include an assessment of its insurance risks, which include events that are not in data[4]. In addition, NHBC has UK GAAP Technical Provisions which include an accounting margin over and above the Solvency II best estimate.

A.2 Underwriting performance

The technical account returned a profit of £79.7m (2015/16: £19.4m). The table below shows an account of NHBC's underwriting and investment performance:

£m	2017	2016
Net written premiums	78.5	71.6
Net earned premiums	57.7	124.9
Investment return	107.3	6.9
Net claims incurred	(89.7)	(89.5)
Changes in unexpired risk reserve	7.3	(18.5)
Other	(2.9)	(4.4)
Technical result	79.7	19.4

Premium income

Net written premiums were up 9.6% to £78.5m (2015/16: £71.6m). These increases reflected rising registration and completion volumes, modest fee increases, with net written premium also boosted by the non-reoccurrence of the cost of adverse development reinsurance cover purchased in May 2015.

Registration volumes rose by 3.1% (2015/16: 0.5% down) to 158,184 units and completions increased by 5.0% (2015/16: 7.0% up) to 146,909 units. This growth was reflected across both the private new build and affordable housing sectors which continue to represent over 99% of NHBC's volumes.

Earned premiums fell back to historic levels at £57.7m (2015/16: £124.9m). Prior year earned premiums were largely a consequence of a reassessment of earning pattern assumptions implemented last year and resulting in a net benefit of £27.7m. NHBC's premiums are earned in line with the expected claims profile over the period of cover. Claims are recognised at the date of first notification of loss and the shape of the earnings curve remains broadly unchanged from that of last year.

[4] Under Solvency II Best Estimate Technical Provisions must include an allowance for all possible outcomes, including latent and extremely low probability events.

A. Business and Performance

Investment income

Investment return of £107.3m (2015/16: £6.9m), was the dominating contributor to this year's profit and is discussed in more detail in the following section of this report.

Claims incurred and unexpired risk reserve

Net claims paid fell by 4.9% to £84.8m (2015/16: £89.2m) which reflects the impact of the lower volumes registered during the recession in NHBC's current paid claims experience.

Turning to the overall cost of claims, superstructure repairs such as external walls and render, remained the most common cause of claims in the year, accounting for 41% of claims reported. This was also the highest category of claims cost at £27.2m (2015/16: £26.5m).

The £2.5m movement in other Technical Provisions comprises the net impact of improved claims experience on Section 2 claims and more recent generations less a modest deterioration in Section 3 and large loss claims reserves arising mainly in the generation years immediately following the financial crisis.

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 2017.

£m	Credit and suretyship	Miscellaneous financial loss
Net premiums written	11.4	67.0
Net premiums earned	17.3	40.4
Claims incurred	(1.7)	(65.7)
Net changes in other Technical Provisions	(6.9)	14.2
Expenses incurred	(0.8)	(27.2)
Underwriting performance	7.9	(38.3)

Credit and suretyship

Recognition of incepted business in relation to major projects led to an increase in net premiums written and a marginal increase in net premiums earned. Related claims and expenses remained broadly flat year-on-year and resulted in a positive underwriting result expected for the year.

Miscellaneous financial loss

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

A.3 Investment performance

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

£m	2017	2016
Investment income	37.2	40.4
Realised gains	17.8	14.3
	55.0	54.7
Unrealised gains	55.1	(45.0)
Investment expenses	(2.8)	(2.8)
Investment result	107.3	6.9

Investment income and realised gains

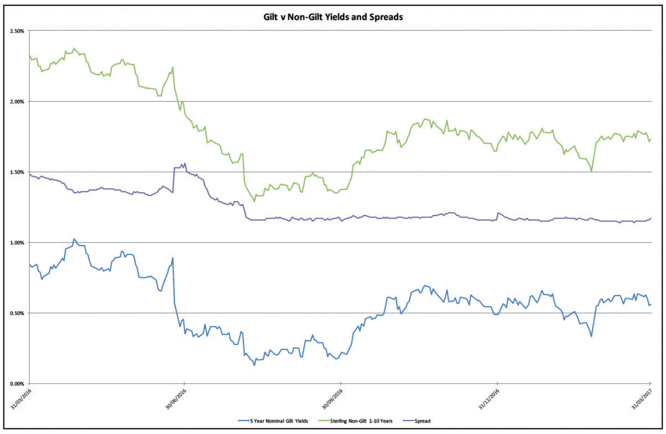
Gross interest income of £37.2m, (2015/16: £40.4m), before investment management expenses, was down 7.7% on prior year, reflecting the continued low bond yield environment, with bond yields falling further during the year. The average current yield on the bond portfolio was 2.5% (2015/16: 3.0%) while reinvestment rates on the bond portfolio at 31 March 2017 were approximately 1.2%.

A. Business and Performance

Unrealised gains

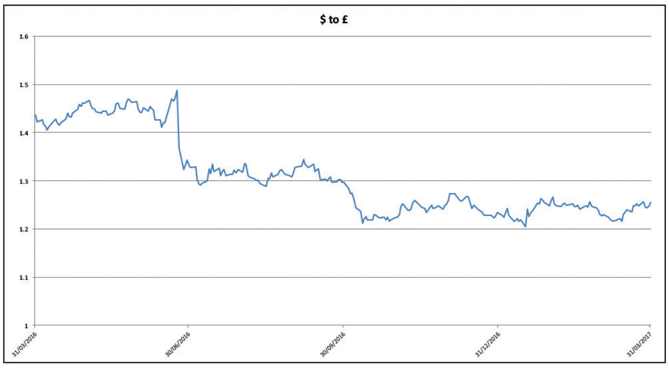
Unrealised gains of £19.0m on gilts (2015/16: losses of £18.9m) were driven by a combination of a cut in the Bank of England base rate following the UK's decision to leave the European Union and a further programme of quantitative easing. The yield on five year nominal gilts at 31/03/17 was 0.62% (2015/16: 0.84%).

Unrealised gains on corporate bonds were £10.8m (2016: losses of £17.7m). The quantitative easing programme announced in August 2016 also included purchase of corporate bonds. As such, the spreads[5] at 31 March 2017 have narrowed to 1.17% (2015/16: 1.48%).



Source: Bloomberg

NHBC has an indirect exposure to equities via diverse holdings of equity funds. The equity portfolio has performed particularly strongly, posting unrealised gains of £25.3m (2015/16: losses of £8.4m), a return[6] of 27.9% (2015/16: -4.96%). The UK's decision to leave the EU and the election of Donald Trump as President of the United States has significantly weakened the GBP against the US Dollar, with £1 closing at $1.256 on 31/03/17 (2016: $1.436). As a majority of NHBC's underlying equity holding is exposed to non-UK markets the value of NHBC's holding has increased.



Source: Bloomberg

Other investment information

No investment gains or losses were recognised directly in equity.

NHBC holds a number of bonds issued by companies specialising in property management. Some of these are classified as collateralised securities. At the year-end NHBC held £2.8m of such bonds (gross market value). All such investments are classified as investment grade as rated by S&P, Moody's or Fitch credit rating agencies.

During the year NHBC took steps to implement a new structure for the management of its liability matching bond portfolio. This followed a review of assets relative to liabilities which concluded that the most appropriate structure was one which allocated a proportion of the portfolio, mainly gilts, to provide cash flows that deliver a close match to the projected insurance liabilities. The remainder, the surplus assets, comprise predominantly equities and corporate bonds that will be actively managed to generate a higher rate of return, while remaining within NHBC's stated risk appetite.

[5] Five year nominal against sterling non-gilt 1-10 years.
[6] Before management fees.

A. Business and Performance

A.4 Performance of other activities

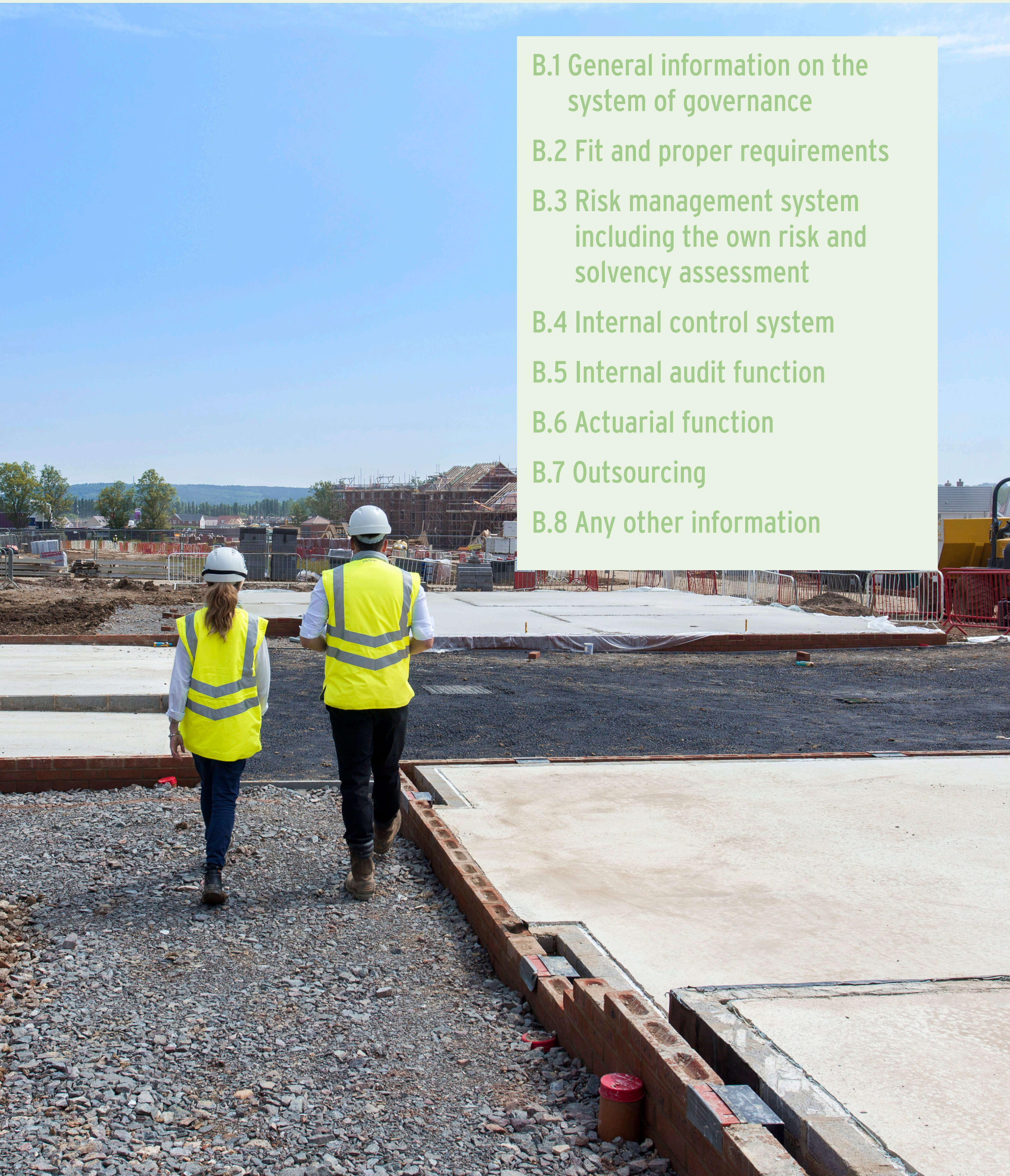
Non-insurance income, which includes inspection and building control fees, grew by 6.2% to £73.7m (2015/16: £69.4m) This reflects both the increase in volume of registrations and completions, and the modest average price increases.

Other expenditure, which represents all NHBC's non-insurance related costs, increased in the year by 7.1% to £86.2m (2015/16: £80.5m). The primary driver was increased resourcing costs associated with the continued investments in the technical resource and the London based Major Projects team, a multi-disciplined team focused on complex projects, including all those over seven storeys in height.

A.5 Any other information

The profit after tax was £65.1m (2015/16: £22.9m) and primarily reflects the impact of the significant unrealised investment gains on surplus assets.
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.1 General information on the system of governance

B.2 Fit and proper requirements

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

B.4 Internal control system

B.5 Internal audit function

B.6 Actuarial function

B.7 Outsourcing

B.8 Any other information

B. System of Governance

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

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

This section also describes the components of the system of governance which include discussions of the Risk Management Framework and an introduction to NHBC's internal control system which utilised the Three Lines of Defence model.

B.1 General information on the system of governance

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

NHBC Council

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

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

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

- Alterations to NHBC's Constitution;
- The appointment of the Auditors; 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 having regard to the constitution, the UK Corporate Governance Code and the regulatory framework in which the company operates.

Balance of Executive and Non-Executive Directors	
Chairman	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	5
Other Non-Executives	2
Executives	4

Board committees

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

Audit Committee

The role of the Audit Committee is to monitor the integrity of the financial statements and review 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.

B. System of Governance

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 Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; Chief Financial Officer; Head of Finance; Company Actuary; Internal Auditors Grant Thornton LLP; and External Auditors Deloitte LLP.

Board Risk Committee (BRC)

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

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 Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; Chief Finance Officer; Chief Risk Officer; Company Actuary; and Internal Auditors Grant Thornton LLP.

Consumer Committee

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

The Committee monitors and reviews complaints, including the outcomes and actions of any cases referred to the Financial Ombudsman Service. The Committee is also responsible for reviewing any proposal to amend or introduce products that are provided directly or indirectly to consumers and homeowners, or projects that may have a direct influence on NHBC's relationship with them.

The Committee is comprised of Non-Executive Directors and independent external advisors including three NHBC Buildmark policy holders. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; and the Business Development Director.

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 to oversee compliance with NHBC's investment strategy, investment policy and aspects of the market risk policy (set out in NHBC's market risk policy).

The members of the Committee are all independent Non-Executive Directors. In addition to the members, the following routinely attend Committee meetings: the Chief Executive; Chief Financial Officer; Chief Risk Officer; Head of Investments and Pensions; Head of Finance; 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 market place.

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

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

B. System of Governance

Remuneration Committee

The 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. It makes recommendations to the Board in relation to: the pay and benefits of the Chief Executive and the other Executive Directors; the fee paid to the Chairman; and any major changes to employee benefit structures across NHBC.

All members of the Committee are Non-Executive Directors. 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. However there have been a number of significant changes in the NHBC Board, including the announcement in January 2017 of the departure of the Chief Executive, Mike Quinton, after over four years in the role. Following Mike Quinton's departure, the Business Development Director, Neil Jefferson, became Managing Director, while the Chairman took on the role of Executive Chairman. This helped to ensure stability and continuity whilst a new Chief Executive was recruited. Following a comprehensive search process, the Board was delighted to appoint Steve Wood as Chief Executive.

Paul Hosking was announced as successor to Chris Rash in the role of Chief Financial Officer in November 2016 and joined the Board in January 2017.

At Non-Executive Director level, Stewart Baseley stepped down from the Board in March 2017 and, as reported last year, Greg Fitzgerald left NHBC in July 2016, and has since joined Bovis as Chief Executive. NHBC welcomed three new Non-Executive Directors to the Board during the year: Stephen Stone, CEO of Crest Nicholson; Kate Davies, CEO of Notting Hill Housing; and Paul Bishop, a former Partner at KPMG with over 30 years' experience in the financial services industry. These appointments add to the strength and diversity of the Board and position NHBC well for the future.

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 Group's business strategy and key priorities;
- ensuring total bonus pool does not undermine the Group's capital base; and
- providing claw back facilities in bonus plans, operating a downward adjustment to bonus outcome in the event of a managerial or leadership failing, such as inappropriate risk management behaviours.

Remuneration of Non-Executive Directors and the Chairman is based on fixed fees, with additional fixed fees the Senior Independent Director and Chairman of the Board Sub-Committees.

In addition to the principles highlighted above there are four components of remuneration within NHBC, these are:

- Fixed remuneration (typically base pay);
- Performance based remuneration (bonus);
- Pension; and
- Other benefits e.g. life cover, healthcare 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 30% variable. Progressing further down the organisation the proportion of fixed remuneration increases, however, all employees have an element of variable pay in their remuneration.

B. System of Governance

The variable components of remuneration are derived with reference to individual as well as company performance. In the more junior roles personal performance represents a larger proportion of variable pay award relative to company performance. As the seniority of the role progresses so does the relative importance of company performance to personal performance in deciding the variable pay award for a given period.

The annual bonus for Executive Directors and some senior management is similar in construction as other employees. However the company performance represents the majority of the award and 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.

All employees are eligible to participate in the Group Personal Pension Plan (GPPP). Executive Directors receive a contribution towards GPPP, a personal pension or they may opt to receive the contribution in cash, if they are impacted by the relevant lifetime or annual limits. NHBC operates a salary sacrifice scheme for pension contributions.

In addition there is a closed CARE pension scheme which some current employees are members. This scheme is indexed linked in line with CPI.

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

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

B.2 Fit and proper requirements

NHBC carries out assessments to establish whether Directors or key function holders satisfy the relevant requirements of the PRA and FCA's training and competence in relation to the controlled function and or the Key Function 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 Executive Directors and Significant Management Functions and other holders of key functions, HR 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.

HR also carry out due diligence on the candidate prior to submitting all the information collected, to the Company Secretary and Compliance Manager the case of Executive Directors or Compliance in the case of Significant Management Functions who carry out the application to the PRA and FCA. For holders of key functions that do are not required to be pre-approved the Compliance Manager sends the appropriate notification to the PRA.

Non-Executive Directors

In the case of Non-Executive Directors, the Nominations Committee should consider the overall makeup of the Board in assessing the competencies needed from the candidate.

The Company Secretary ensures 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.

HR carry out due diligence on the candidate prior to submitting all the information collected to the Company Secretary. The Company Secretary passes this information to the Compliance Manager who carries out the application to the PRA and FCA for relevant individuals, e.g. the Chairs of Board Committees such Audit, Remuneration and Board Risk Committee. For other Non-Executive Directors that do not require to be pre-approved the Compliance Manager sends the appropriate notification to the PRA.

Application to PRA and FCA

The Compliance Manager 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 records checks, disqualified director checks and regulatory checks (checking PRA and FCA register for previous enforcement notices, disqualifications, regulatory references from authorised firms etc). Executive search reports or other assessments are also obtained, where relevant.

If the PRA or FCA grants approval to the candidate they inform the NHBC Compliance Manager who advises the Company Secretary who informs the candidate. If the PRA or FCA refuses approval it discusses its concerns with the NHBC.

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

NHBC's Risk Management Framework forms an integral part of management and Board processes and decision-making framework across the organisation. This section of the report provides a description of NHBC's risk management objectives, 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 the NHBC; and
- 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 and every employee is involved in undertaking them.

The Risk Management Framework is:

- Owned by the business managers who are responsible for achieving the company's objectives; and
- 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; and
- The responsibility for undertaking and overseeing the activities.

Risk management system components

NHBC's Risk Management Framework comprises the six inter-related Activities illustrated below.

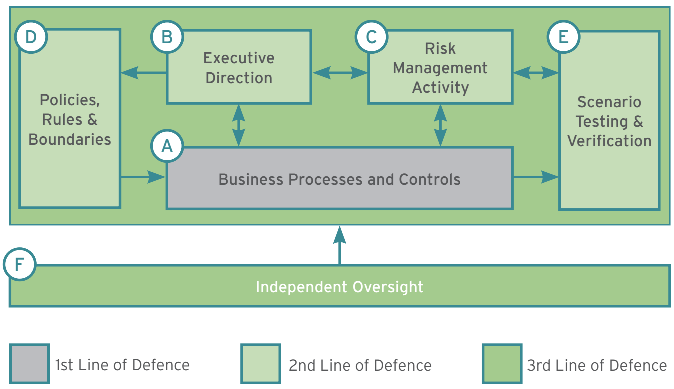


Illustration 1: Risk Management Framework Overview. October 2016

B. System of Governance

The following table provides a brief description of each activity and its alignment with the Three Lines of Defence model which NHBC has adopted to ensure independence and objectivity is maintained. The Three Lines of Defence model is described in section B.4 of this report.

	Activity	Overview		Line of Defence
A	Business Processes and Controls	Processes and controls operated by: Front line business functions that deliver and support the delivery of NHBC's services. Operational committees and forums.	1st	Operational staff have primary responsibility for the risks associated with their activities and the risk management practices and processes undertaken to mitigate them.
B	Executive Direction	Activities of the Board, Board Risk Committee and Executive Risk Committee.	2nd	The 'second line of defence' is maintained by specialist risk management functions. Their role is to design, coordinate and manage a consistent framework for taking risks. It covers the key functions of risk management as defined by Solvency II (risk management, internal control and compliance).
C	Risk Management Activity	Activities of the Risk & Compliance Team in supporting and overseeing business functions and providing insight to the Board and senior committees.		
D	Policies, Rules and Boundaries	Policies, rules and boundaries confirming the parameters within which the business and its employees must operate.		
E	Scenario Testing and Verification	Activities to identify model and evaluate business scenarios and financial stresses to which NHBC may be subjected.		
F	Independent Oversight	Supervisory activities of the Internal Audit team and the Audit Committee.	3rd	Regular, independent, risk based audits performed by the Internal Audit function provide reasonable assurance as to the adequacy and effectiveness of the risk management regime.

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 utilises ISO 31000: Risk Management – Principles and Guidelines to Risk Management. The requirements of the principles and guidelines are integrated into the Risk Management Framework.

The NHBC Risk Universe

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

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

Own risk and solvency assessment (ORSA)

The ORSA process 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 annual scheduled formal ORSA report is considered appropriate, as the long tail nature of NHBC's liabilities and the likely slow pace of 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 an ORSA 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.

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 internal ORSA report is also used as a supervisory report.

Determining NHBC's solvency needs

NHBC assesses its own solvency needs through the use of its bespoke ORSA capital model. This model produces a range of simulated outcomes for the 20 year period it would take to run-off the existing insurance liabilities and one year of new business. It is an economic measure of capital, as opposed to a regulatory measure, and is based on the previous ICAS capital reporting requirements. The ORSA capital requirement is equivalent to the amount of own funds (capital) NHBC would need today to be 99.5% confident that its assets will cover its liabilities at the end of the 20 year run-off period, allowing for the investment return that would be earned over the period. The design of the ORSA model is specific to NHBC, as opposed to generic like the Solvency II Standard Formula Model. It also includes risks not captured under the Standard Formula, such as longevity risk associated with NHBC's defined benefit pension scheme, although this is not considered a material risk to NHBC. The company risk register is used to ensure that all material risks within the risk profile are captured within the ORSA model.

NHBC produces forward looking capital projections on both Standard Formula and ORSA bases over five 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, a number of economic and business related scenarios are modelled to establish the impact to each of the Standard Formula and ORSA capital projections. These are assessed as part of NHBC's ORSA process and capital management actions considered accordingly.

B.4 Internal control system

To promote understanding of authorities for action and responsibilities 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'.

B. System of Governance

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

NHBC's Compliance Function forms part of the Risk and Compliance department, within the Chief Executive Directorate. Its responsibilities include:

- Assisting 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 Information Commissioners Office; and
- Managing NHBC's regulatory relationships.

A key part of the Compliance function's deliverables is to make the business aware of key regulatory changes and these are reported via the Executive Risk and the Board Risk Committees.

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

B.5 Internal audit function

The Board and executive management are responsible for setting an appropriate corporate culture, maintaining effective governance and oversight, implementing a robust risk management framework, the reputation of the organisation and compliance with regulatory requirements.

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 on the adequacy and overall effectiveness of governance, risk and the control framework of the organisation and an annual Internal Audit plan that is aligned to this;
- an analysis of themes and trends within the organisation and their impact on risk profile;
- A report of significant issues related to the processes for controlling the activities of the organisation, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Periodic information on the status and results of the Internal Audit plan; and
- Co-ordination with other control and monitoring functions (specifically Risk Committee, Risk Management, Compliance and External Audit).

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

As defined in the Internal Audit Charter, Internal Audit reports as a function to the Audit Committee Chair (an independent Non-Executive Director) and administratively to the Chief Executive. 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 pricing, reserving and development of capital models. The sections below provide further descriptions of some of the key responsibilities of the Actuarial Function.

Reserving and Technical Provisions

The calculation of the Solvency II Best Estimate provisions at 31 March 2017 compliant with Solvency II standards, was undertaken by the Actuarial Function and validated internally by the capital department within the Actuarial team at NHBC; the Solvency II best estimates were audited by Deloitte LLP.

The UK GAAP Technical Provisions are now 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 consideration of scenarios affecting such provisions.

Prior year UK GAAP Technical Provisions were developed in-house, although outside the Actuarial Function as defined in this report, with less material aspects of the Solvency II provisions relying on UK GAAP output. Due to a change in methodology the historic UK GAAP Technical Provisions have been restated so that they are on consistent basis with the current UK GAAP Technical Provisions.

For the 31 March 2017 provisions, the methodology for the major reserving classes (Sections 2 and 3) was substantially redeveloped introducing much more granularity and the use of more traditional actuarial techniques with a view to introducing more transparency as well as enabling more frequent robust calculations.

In addition, given NHBC's long-tail exposure and potential for adverse future events, the calculation of the Events Not In Data (ENID) provision was substantially enhanced. The Risk Margin methodology was also revisited to allow more appropriately for the runoff Solvency Capital Requirement (SCR).

The introduction of much greater transparency has meant that the Executive and Board members have been increasingly engaged in the technical review, calculations enhancing significantly the understanding and challenge of the related assumptions.

Capital

The annual capital (SCR) calculation was carried out on the Standard Formula (SF) basis and also on an ICA basis which is used as the base for the ORSA report. Capital and solvency projections were also developed for the next five years.

Work was undertaken in liaison with investment managers to enhance the "look-through" data for investments; as this data was made available enhancements to the Standard Formula calculation basis were necessary.

In addition, the methodology to project future SCRs was developed both to generate future solvency ratios but also to improve the Risk Margin calculation.

The annual capital model run was deferred for three months while its robustness was assessed. It had previously been identified that the model had inherent weaknesses and was not sufficiently transparent and user-friendly to be usable, but this exercise was focussed on identifying more clearly the limitations. As a consequence, a better understanding of the model was achieved and a high-level view of the potential value of the limitations identified.

Simultaneously work on the new model development was instigated with the assistance of a third party and, after interviewing interested Executives and Board members, a specification was produced which generated a Request for Proposal[7] (RFP) which was submitted to three model vendors. As a result NHBC has decided to develop a completely new model on a two-phase basis, the first being a specification phase and the latter a build and test phase, targeting a mid-2018 completion date. Both the SF and ORSA 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.

[7] RFP is a type of bidding solution

B. System of Governance

Reporting

Aligned with the production of Technical Provisions and solvency position is the development of regular regulatory reporting, both in the form of quantitative reporting templates (QRTs) as well as in the form of reports. These continue to be developed from last year in particular the semi-automation of the QRTs type reporting.

The Actuarial Function Report itself generated a number of recommendations which support the risk management framework.

Pricing

NHBC carries out an annual pricing exercise with the intention of ensuring the adequacy of premium rates for the next year and understanding sensitivities in order to manage the risk.

The Insurance Pricing Committee (IPC) signs off on key pricing and profitability related assumptions informed by analysis undertaken by the Actuarial team using the Solvency II technical provision calculation results as a start point. The Actuarial team undertakes modelling work to produce liability cost recommendations for the Pricing Working Group (PWG) and ultimately the Board to approve prior to implementation.

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.

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

B.7 Outsourcing

NHBC has a documented Outsourcing Policy owned by the Chief Financial Officer. This policy establishes a set of requirements for NHBC to meet its regulatory obligations and effectively manage the risks associated with outsourcing critical, important or key functions, services and activities, as per Article 49 of the Solvency II 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. Internal Audit function is performed by Grant Thornton LLP. Grant Thornton LLP operates within the United Kingdom.

B.8 Any 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.

C. Risk Profile

C. Risk Profile

This section of the report provides information on NHBC's risk exposure. A description of material risks is provided along with measures used to asses these risks and how they are mitigated.

Overview

NHBC's risk profile is assessed through a combination of measures including; company and department specific risk registers, the Solvency II Standard Formula Capital Model, NHBC's ORSA 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 considered to be 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.
Table below represents NHBC asset allocation as at 31 March 2017:

Asset class total	Actual allocation (%)	Strategic asset allocation (%)	Liability matching (L)/ Surplus(S)
Index linked Gilts	40	42	L
Fixed Interest Gilts	10	10	L
Sterling Investment Grade Corporate Bonds	37	41	L / S
Developed Market Investments	5	4	S
Emerging Market Equity Investments	3	2	S
Cash	5	-	L
Total	100	100	

NHBC employ asset and liability monitoring on a quarterly basis. The assets held against the liabilities are predominately 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 allocation is invested in pooled index tracking funds.

The non-gilt fixed income holdings have limits embedded in the guidelines to control the duration, the credit quality of the portfolio and the maximum exposure to any one issuer. There are also asset allocation limits monitored against the strategic benchmark set by the Board (and Board Investment Committee). The use of derivatives is currently prohibited in segregated bond mandates.

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

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

The nature of NHBC's business model means it is subject to a concentration of insurance risk. The UK house building industry is dominated by a relatively small number of very large builders and this means that NHBC not only has a concentration of risk in the building industry, but also a concentration of risk with a small number of builders too. Further information is provided in Section C.6 on page 32.

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 complimented by another excess of loss policy that spans a number of these generation years. There are other less material reinsurance arrangements in place, and NHBC is also considering taking out quota share reinsurance in the future. NHBC's reinsurance arrangements are assessed annually by its Underwriting function, and presented to the Board Risk Committee for approval.

C. Risk Profile

Some of NHBC's investments are subject to foreign exchange risk e.g. overseas equities. Some of this risk is mitigated through the use of currency hedging techniques. The process is carried out by expert external fund managers and is monitored as part of the on-going administration of NHBC's funds under management.

Stress tests

NHBC's UK GAAP business plan has been produced using a number of prudent assumptions. The most material are judged to be product price and house price inflation. A +1% increase in each assumption would individually generate an additional £1m profit over year one, £7m over years one to three, and £18m over years one to five. In addition, if NHBC's investment yield was to fall by 0.25% this would lead to a loss of around £4m. Changes in assumed reductions in claims leakage, FTE numbers and salary inflation were considered but are less sensitive.

Scenario testing

As part of NHBC's ORSA process a number of economic and business related scenarios have been modelled.

NHBC utilises the external expertise of actuarial consultants Willis Towers Watson (WTW) to provide it with a range of economic scenarios that have been produced by its investment experts. NHBC selected a number of these scenarios and modelled their impact to its Solvency II and ORSA solvency ratios over a five year horizon.

Based on scenarios modelled as part of the most recent ORSA process (2016) it is estimated that:

- a medium severity recession might reduce NHBC's own funds (capital) by up to £100m at its worst point – although the scenario saw this reduce to around £40m at the end of five years after a period of recovery; and
- a sustained period of global stagflation (stagnant growth and high inflation) might reduce NHBC's own funds (capital) by up to £130m by the end of the five year period.

We have also considered a number of business related scenarios, with the most material being:

- the insolvency of a major builder leading to losses of up to £160m; and
- the systemic failure of a building system or component leading to losses of up to £75m.

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, and
- Cover that provides a performance guarantee to primarily Local Authorities 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 that NHBC has a good appetite for risk, providing it is aligned to its 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 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 NHBCs aims of raising new house-building standards to protect homeowners, through fewer defects.

C. Risk Profile

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 2017 on a Standard Formula measure was £306.7m.

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 £0.9 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 predominately insurance-related, although it is also liable for meeting the obligations of its defined benefit pension scheme (closed to new members and future accrual of benefits).

NHBC manages its exposure to market risk on its investments by outsourcing it to specialist fund managers and ensuring that there are policies in place to control what action the fund managers can take. Fund managers must be authorised by the PRA and their performance is reviewed regularly. NHBC currently utilises the expertise of external consultants to assist it in its investment management but during the year has recruited a Head of Investments and Pensions to acquire more internal specialist knowledge in this area.

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

NHBC is also indirectly exposed to market risk on the pension scheme's assets and liabilities. The pension scheme's investments also consist mainly of equities, government bonds and corporate bonds but the scheme has, however, recently embarked upon a process of reducing the level of market risk it is exposed to – a process known as 'de-risking'. The scheme also tries to minimise its market risk by selecting investments that match the characteristics of its liabilities.

NHBC holds capital to absorb market value fluctuations in its assets and liabilities and the amount of capital held against market risk at 31 March 2017 on a Standard Formula measure was £154.9m.

C.3 Credit risk

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

NHBC is exposed to credit risk from a variety of different sources, with the main source being the risk of reinsurer default. NHBC manages 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 we have adopted. The reinsurers are financially robust and are required to have a minimum credit rating of A-, which is continuously 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 2017 on a Standard Formula measure was £2.4m.

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 having to pay out for claims and therefore providing this is invested in relatively liquid funds the exposure to liquidity risk is relatively immaterial.

The nature of the insurance business underwritten by NHBC also contributes to low liquidity risk as building defect claims can take a number of months to settle, giving advanced notice of impending cash flow increases 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 £2.6m 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.

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[8], supported by a number of qualified risk professionals to assist the business in managing these risks and also utilises the services of a range of external consultants where it believes this is appropriate. 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 2017 on a Standard Formula measure was £23.2m.

C.6 Other material risks

Concentration risk

The nature of NHBC's business model means it is subject to a concentration of insurance risk. It is predominately focused on providing warranty cover for 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 account of within its underwriting risk capital.

Pension risk

NHBC is liable for meeting the obligations of its defined benefit pension scheme, although the scheme is now closed to new members and future accrual of benefits. This exposes NHBC to 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 this risk as part of its pension scheme obligations and, whilst it is not required to hold capital against this risk under the Solvency II Standard Formula, holds capital under its Own Risk and Solvency Assessment.

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

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 to challenge and help develop the business's strategic plans. Where necessary the business's strategic plans will be reviewed and changed in response to unexpected market conditions.

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

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

C.7 Any other information

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

D. Valuation for Solvency Purposes

D. Valuation for Solvency Purposes

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

D.1 Assets

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

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

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

The following table presents NHBC's valuation of assets at 31 March 2017 on Solvency II basis.

Assets	£m
Property, plant and equipment for own use	11.6
Investments	1,575.9
Reinsurance recoverable from non-life excluding health	2.7
Insurance and intermediaries receivable	2.0
Receivables (trade, not insurance)	6.4
Cash and cash equivalents	33.7
Any other assets not elsewhere shown	2.5
Total assets	1,634.8

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

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

Investments

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

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

Deferred tax assets

The method for calculation of deferred tax asset is consistent between financial statements and Solvency II basis of preparation. Any additional deferred tax liability arising from differences between assets or liabilities that would result in tax timing differences under UK GAAP and Solvency II balance sheets follow the provisions of Article 15.

D. Valuation for Solvency Purposes

Reinsurance

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

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

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

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

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

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

Other assets

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

Reconciliation of UK GAAP and Solvency II assets

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

- **Technical Provisions** – Under UK GAAP the Technical Provisions are valued in line with FRS 103 – Insurance Contracts. The amounts involved are material to NHBC's balance sheet. Under Solvency II the valuation of Technical Provisions is calculated on a best estimate plus a risk margin basis;
- **Deferred tax** – Deferred tax results from the difference between net assets (primarily Technical Provisions) between the UK GAAP and Solvency II balance sheets multiplied by the applicable rate of tax;
- **Deferred acquisition costs (DAC)** – NHBC recognises DAC under UK GAAP. Under Solvency II DAC is not recognised; and
- **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 2017.

Assets (£m)	UK GAAP value	Adjustment to Technical Provisions	Reversal of DAC	Balance reclassification	Solvency II value
Deferred acquisition costs	11.6	-	(11.6)	-	-
Property, plant and equipment for own use	11.6	-	-	-	11.6
Investments	1,575.9	-	-	-	1,575.9
Reinsurance recoverable from non-life excluding health	76.9	(74.2)	-	-	2.7
Insurance and intermediaries receivable	5.0	-	-	(3.0)	2.0
Receivables (trade, not insurance)	6.4	-	-	-	6.4
Cash and cash equivalents	33.7	-	-	-	33.7
Any other assets not elsewhere shown	8.3	-	-	(5.8)	2.5
Total Assets	1,729.4	(74.2)	(11.6)	(8.8)	1,634.8

D. Valuation for Solvency Purposes

D.2 Technical Provisions

The following table presents NHBC's valuation of net Technical Provisions at 31 March 2017 on Solvency II basis.

Technical Provisions (£m)	Credit and suretyship insurance[9]	Miscellaneous financial loss	Total Non-Life obligation
Gross best estimate	(23.5)	796.1	772.6
Risk margin	3.6	103.2	106.8
Technical Provisions	(19.9)	899.3	879.4
Reinsurance recoverable	1.2	(4.0)	(2.8)
Technical Provisions less recoverable from reinsurance	(18.7)	895.3	876.6

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 2017.

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

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

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

Risk groups

For the home warranty product (the Buildmark Product) NHBC broadly applies risk groupings aligned to the sections of coverage as outlined in Section A.1.

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 Buildmark Product) are estimated using triangulation methods and consider inflated incurred and paid claim development tables. The claims provision for the remaining sections are set based on the case reserve estimates and in the case of Road and Sewer Bonds are set based on an assessment of the level of individual outstanding bonds should a particular builder become insolvent.

Premium provisions

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

The premium provision relating to Section 2 and Section 3 of the Buildmark Product (gross and builder recoveries separately) are 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 insolvency.

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

D. Valuation for Solvency Purposes

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 £10m) and Events Not In Data (ENID). ENID 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 is also a quota share placement providing cover on the additional Section 1 cover provided 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 these to the reinsurance programmes. 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 Service representative for that site registers the policy in Fusion (NHBC's policy administration system). NHBC are not obligated to provide cover until a policy number is created (registered) in Fusion. Even if the quote was accepted by the builder and the fees were paid, NHBC can still change its mind and is not obligated to register the policy. Even after plot registration process, NHBC can choose to decline the risk if the building does not meet NHBC's Standards.

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

There are no renewals; cover is provided from inception mainly for ten 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 to these, there are instances where additional premium might be receivable. These may include additional Section 1 premiums, premium adjustments and income generated by future policy holder behaviour.

Expenses

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

- 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 on-going 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; and

D. Valuation for Solvency Purposes

- 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 ten 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 to 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.

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 2017.

UK GAAP Technical Provisions are calculated by adding a UK GAAP margin (to allow for the concept of being reasonably foreseeable) to the strict 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,

Technical Provisions net of reinsurance (£m)	Credit and suretyship insurance	Miscellaneous financial loss	Total
Solvency II TPs excluding risk margin	(22.3)	792.1	769.8
Solvency II elements not applicable for UK GAAP	50.2	(14.0)	36.2
UK GAAP margin	33.7	171.8	205.5
UK GAAP Technical Provisions net of DAC	61.6	949.9	1,011.5

investment and administration expenses as well as future premiums. The future income relating to the Credit and Surety lines; Section 1 and in particular Road and Sewer Bonds are significant which is why excluding them results in a significant adjustment.

UK GAAP margin is approved 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.

Other information

This is the first year in which NHBC is required to prepare the SFCR. NHBC does not apply counter-cyclical premiums. NHBC does not apply matching premiums. NHBC is not using the transitional provisions.

D.3 Other liabilities

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

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

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

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

Liabilities (£m)	Solvency II value
Technical Provisions – non-life calculated as a whole	879.4
Provisions other than Technical Provisions	65.4
Pension benefit obligations	47.9
Deferred tax liabilities	23.6
Insurance and intermediaries payable	30.0
Payables (trade, not insurance)	8.5
Total Liabilities	1,054.8

Material classes of liability

Technical Provisions – non-life calculated as a whole

Technical Provisions are discussed in Section D.2 above.

Provisions other than Technical Provisions

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

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

Pension benefit obligations

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

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

Deferred tax liabilities

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

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

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

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

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 initially recognised value is 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

Refer to Section D.1 of this report for description of material differences between UK GAAP and Solvency II liabilities.

The table below provides reconciliation between liabilities as disclosed in UK GAAP financial statements and Solvency II as at 31 March 2017.

D.4 Alternative methods for valuation

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

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

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

D.5 Any 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.

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	1,100.0	(224.2)	-	3.6	879.4
Provisions other than Technical Provisions	70.7	-	-	(5.3)	65.4
Pension benefit obligations	47.9	-	-	-	47.9
Deferred tax liabilities	-	-	23.6	-	23.6
Insurance and intermediaries payable	34.9	-	-	(4.9)	30.0
Payables (trade, not insurance)	10.8	-	-	(2.3)	8.5
Total Liabilities	1,264.3	(224.2)	23.6	(8.9)	1,054.8

E. Capital Management

E. Capital Management

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

E.1 Own Funds

Capital management objectives, policies and processes

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

The NHBC's objectives in managing its capital are:

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

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

Capital management is embedded with the risk management framework outlined in the earlier sections of this document (see Section B.3 for further information on NHBC risk management processes).

The Capital Working Group is responsible for day-to-day monitoring of NHBC capital position and preparing recommendations to the Capital Modelling & Reporting Committee and Assets & Liability Committee.

The Capital Modelling & Reporting Committee and Asset & Liability Committee ultimately feed into Executive Risk Committee, Board Risk Committee and the Board.

NHBC's capital and finance teams prepare quarterly capital positions (under Standard Formula and ORSA basis) for consideration of various committees. NHBC capital modelling team prepare capital projections to inform the NHBC's Board. NHBC's capital modelling team focuses on medium term projection with five-year horizon being typical.

This is the first reporting period. As such comparative information is not available.

Own funds

As at 31 March 2017 virtually 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's recognises a deferred tax asset on its Solvency II balance sheet it classifies it as Tier 3 own funds in accordance with Article 76 of Solvency II Directive (Directive 2009/138/EC).

At 31 March 2017 NHBC's Tier 1 and total own funds were £580.0m. The own funds supported the Solvency Capital Requirement of £377.5m resulting in a solvency ratio of 154%. The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall, was £156.8m providing a ratio to eligible own funds to meet the MCR of 370%.

The table below presents how funds are allocated to support SCR and MCR respectively as at 31 March 2017. This is the first reporting period. As such comparative information is not available.

£m	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
Total eligible own funds to meet the SCR	580.0	-	-	-	580.0
Total eligible own funds to meet the MCR	580.0	-	-	-	580.0

E. Capital Management

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

Refer to Section D.1 of this report for description of material differences between UK GAAP and Solvency II assets and liabilities that ultimately drive the excess of assets over liabilities as calculated for solvency purposes.

The following table provides reconciliation between UK GAAP and Solvency II excess of assets over liabilities [10].

Assets (£m)	UK GAAP value	Adjustment to Technical Provisions	Reversal of DAC	Deferred tax adjustment	Balance reclassification	Solvency II value
Deferred acquisition costs	11.6	-	(11.6)	-	-	-
Property, plant and equipment for own use	11.6	-	-	-	-	11.6
Investments	1,575.9	-	-	-	-	1,575.9
Reinsurance recoverable from non-life excluding health	76.9	(74.2)	-	-	-	2.7
Insurance and intermediaries receivable	5.0	-	-	-	(3.0)	2.0
Receivables (trade, not insurance)	6.4	-	-	-	-	6.4
Cash & cash equivalents	33.7	-	-	-	-	33.7
Any other assets not elsewhere shown	8.3	-	-	-	(5.8)	2.5
Total assets	1,729.4	(74.2)	(11.6)	-	(8.8)	1,634.8

Liabilities (£m)	UK GAAP value	Adjustment to Technical Provisions	Reversal of DAC	Deferred tax adjustment	Balance reclassification	Solvency II value
Technical Provisions – non-life calculated as a whole	1,100.0	(224.2)	-	-	3.6	879.4
Provisions other than Technical Provisions	70.7	-	-	-	(5.3)	65.4
Pension benefit obligations	47.9	-	-	-	-	47.9
Deferred tax liabilities	-	-	-	23.6	-	23.6
Insurance and intermediaries payable	34.99	-	-	-	(4.9)	30.0
Payables (trade, not insurance)	10.8	-	-	-	(2.3)	8.5
Total liabilities	1,264.3	(224.2)	-	23.6	(8.8)	1,054.8
Excess of assets over liabilities (£m)	465.1	150.0	(11.6)	(23.6)	-	580.0

[10] Note that casting errors as possible due rounding convention employed

E. Capital Management

Other information about own funds

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

NHBC uses the Standard Formula to calculate its regulatory capital requirements. The following table shows the Standard Formula capital requirement, which is still subject to regulatory review, at 31 March 2017.

	£m
Market risk	154.9
Counterparty default risk (credit risk)	2.5
Non-life underwriting risk	306.7
Diversification	(86.2)
Base Solvency Capital Requirement	377.9
Operational risk	23.2
Loss-absorbing capacity of deferred taxes	(23.6)
Total Solvency Capital Requirement	377.5

The Minimum Capital Requirement at 31 March 2017 was £156.8m.

No simplifications are used; however NHBC does not have complete investment look-through data and, where it does not, has calculated the SCR on a conservative basis. No Undertaking Specific Parameters are used.

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

This is the first reporting period. As such comparative information is not available.

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

NHBC is a General Insurer and thus the duration-based equity risk sub-module is not applicable. However, an equity transitional arrangement similar to the sub-module has been granted by the PRA and NHBC makes use of this arrangement. At 31 March 2017, the impact of this arrangement reduces the capital requirement by £5.6m.

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

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

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

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

E.6 Any 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.

F. Quantitative Reporting Templates

F. Quantitative Reporting Templates

The following quantitative reporting templates are included in this section:

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

Monetary amounts are in GBP thousands

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	10
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	11,623
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,575,883
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	1,382,473
R0140	*Government Bonds*	794,109
R0150	*Corporate Bonds*	585,488
R0160	*Structured notes*	0
R0170	*Collateralised securities*	2,876
R0180	*Collective Investments Undertakings*	193,410
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:	2,740
R0280	*Non-life and health similar to non-life*	2,740
R0290	*Non-life excluding health*	2,740
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,046
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	6,426
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	33,674
R0420	Any other assets, not elsewhere shown	2,451
R0500	**Total assets**	1,634,853

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	879,422
R0520	*Technical provisions - non-life (excluding health)*	879,422
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	772,618
R0550	*Risk margin*	106,804
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	65,406
R0760	Pension benefit obligations	47,899
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	23,553
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	30,030
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	8,503
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**	1,054,814
R1000	**Excess of assets over liabilities**	580,040

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business									15,867			73,186					89,053
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share									4,447			6,139					10,586
R0200	Net									11,420			67,047					78,467
	Premiums earned																	
R0210	Gross - Direct Business									19,768			42,535					62,303
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share									2,515			2,127					4,642
R0300	Net									17,253			40,407					57,661
	Claims incurred																	
R0310	Gross - Direct Business									1,728			65,706					67,433
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share												4					4
R0400	Net									1,728			65,702					67,430
	Changes in other technical provisions																	
R0410	Gross - Direct Business									4,975			-16,865					-11,889
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share									-1,928			-2,689					-4,617
R0500	Net									6,904			-14,176					-7,272
R0550	**Expenses incurred**									708			27,205					27,913
R1200	**Other expenses**																	
R1300	**Total expenses**																	27,913

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	89,053						89,053
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	10,586						10,586
R0200	Net	78,467	0	0	0	0	0	78,467
	Premiums earned							
R0210	Gross - Direct Business	62,303						62,303
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	4,642						4,642
R0300	Net	57,661	0	0	0	0	0	57,661
	Claims incurred							
R0310	Gross - Direct Business	67,433						67,433
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	4						4
R0400	Net	67,430	0	0	0	0	0	67,430
	Changes in other technical provisions							
R0410	Gross - Direct Business	-11,889						-11,889
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share	-4,617						-4,617
R0500	Net	-7,272	0	0	0	0	0	-7,272
R0550	**Expenses incurred**	27,913						27,913
R1200	**Other expenses**							
R1300	**Total expenses**							27,913

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									-31,177			538,255					507,078
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									-1,224			3,964					2,740
R0150	**Net Best Estimate of Premium Provisions**									-29,953			534,291					504,338
	Claims provisions																	
R0160	Gross									7,687			257,853					265,540
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0250	**Net Best Estimate of Claims Provisions**									7,687			257,853					265,540
R0260	**Total best estimate - gross**									-23,490			796,107					772,618
R0270	**Total best estimate - net**									-22,266			792,144					769,878
R0280	**Risk margin**									3,590			103,214					106,804
	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**									-19,900			899,321					879,422
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**									-1,224			3,964					2,740
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**									-18,676			895,357					876,681

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010	Accident year / underwriting year	Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											38,725	38,725	38,725
R0160	N-9	2	340	2,400	3,526	6,317	5,502	6,533	11,702	9,996	10,834		10,834	57,152
R0170	N-8	26	366	1,124	2,531	4,693	3,222	5,237	5,825	2,958			2,958	25,983
R0180	N-7	1	333	1,761	2,059	2,261	3,841	2,863	3,363				3,363	16,482
R0190	N-6	6	300	1,536	2,838	3,759	3,575	1,125					1,125	13,140
R0200	N-5	24	251	800	1,636	2,171	2,859						2,859	7,740
R0210	N-4	0	97	1,118	1,383	2,050							2,050	4,647
R0220	N-3	0	104	1,003	1,777								1,777	2,884
R0230	N-2	0	156	502									502	658
R0240	N-1	0	21										21	21
R0250	N	2											2	2
R0260												Total	64,216	167,435

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											149,746	146,643
R0160	N-9	0	0	0	0	0	0	0	0	0	38,738		37,936
R0170	N-8	0	0	0	0	0	0	0	0	22,900			22,356
R0180	N-7	0	0	0	0	0	0	0	12,104				11,803
R0190	N-6	0	0	0	0	0	0	14,897					14,542
R0200	N-5	0	0	0	0	0	9,985						9,768
R0210	N-4	0	0	0	0	9,905							9,698
R0220	N-3	0	0	0	6,887								6,792
R0230	N-2	0	0	4,904									4,855
R0240	N-1	0	1,103										1,093
R0250	N	56											56
R0260												Total	265,540

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	465,185	465,185			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	114,844	114,844			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	10				10
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**	580,040	580,030	0	0	10
	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	580,040	580,030	0	0	10
R0510	Total available own funds to meet the MCR	580,030	580,030	0	0	
R0540	Total eligible own funds to meet the SCR	580,040	580,030	0	0	10
R0550	Total eligible own funds to meet the MCR	580,030	580,030	0	0	
R0580	**SCR**	377,530				
R0600	**MCR**	156,809				
R0620	**Ratio of Eligible own funds to SCR**	153.64%				
R0640	**Ratio of Eligible own funds to MCR**	369.90%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	580,040
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	465,195
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	114,844
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	2,573
R0790	**Total Expected profits included in future premiums (EPIFP)**	2,573

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	154,914		
R0020	Counterparty default risk	2,503		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	306,736		
R0060	Diversification	-86,248		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	377,905		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	23,179
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-23,553
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**	377,530
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	377,530
	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

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	156,809

		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	11,420
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	792,144	67,047
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	156,809
R0310	SCR	377,530
R0320	MCR cap	169,889
R0330	MCR floor	94,383
R0340	Combined MCR	156,809
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	156,809

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