



Hiscox Société Anonyme

Solvency and Financial Condition Report 2023

April 2024

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Glossary of terms

Abbreviation	Details of abbreviations
ARC	Audit & Risk Committee
CAA	Commissariat aux Assurances
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COO	Chief Operating Officer
CUO	Chief Underwriting Officer
DAC	Deferred Acquisition Costs
EAL	Excess of assets over liabilities
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not In Data
EU	European Union
EUR	Euro
FTSE	Financial Times Stock Exchange
GBP	British Pound
HSA	Hiscox Société Anonyme
HSA Board or the Board	Board of Directors of Hiscox Société Anonyme
HIB	Hiscox Insurance Company (Bermuda) Ltd.
HIG	Hiscox Investment Group
Hiscox Board or Group Board	Board of Directors of Hiscox Ltd
Hiscox Group or the Group	Hiscox Ltd and its group of companies
HSA	Hiscox Société Anonyme
IBNR	Incurred but not reported
IELR	Initial Expected Loss Ratio
IFRS	International Financial Reporting Standards
Lux GAAP	Luxembourg Generally Accepted Accounting Principles
MD	Managing Director
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PDR	Performance and Development Review
Property insurance	Fire and other damage to property insurance
Quota share	Reinsurance agreement where the primary insurer and the reinsurer use a fixed percentage in sharing the amount of premiums and losses
QRTs	Quantitative Reporting Templates
ROE	Return on Equity
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
Solvency II Directive	DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
SPV	Special Purpose Vehicles
the Plan	Internal Audit Plan
UK	United Kingdom

Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report (SFCR) in all material respects in accordance with the Solvency II Regulations. We have approved the SFCR.

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued to comply subsequently and will continue to do so in future.

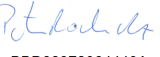
Signed on behalf of the Board of Directors on 8th of April 2024 by:

DocuSigned by:

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Robert Dietrich

Chief Executive Officer

DocuSigned by:

BBD82372064440A

Patricia Vaz Baptista

Chief Financial Officer

Executive summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide stakeholders with additional information over and above that contained in the annual financial statements. This SFCR is prepared in accordance with Article 82 of the Law of 7 December 2015 on the insurance sector, as amended, as well as Annex XX of the Commission delegated Regulation (EU) 2015/35 and EIOPA guidelines on reporting and public disclosure BoS-15-109.

The SFCR contains qualitative and quantitative information on the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management of Hiscox SA (HSA or the Company) together with standardised Quantitative Reporting Templates (QRTs) for 2023.

In 2023, there continued to be significant macroeconomic and geopolitical volatility and uncertainty. Loss estimates and their underlying assumptions continue to be reviewed on an ongoing basis. HSA stays vigilant of the potential impacts of direct and indirect exposures on the business.

Business and performance

HSA is a Luxembourg authorised insurer and is a wholly owned subsidiary of Hiscox Ltd, which is incorporated in Bermuda and has a FTSE 250 listing on the London Stock Exchange. HSA's operations form the vast majority of the European division of Hiscox Ltd.

As at 31st December 2023, HSA's principal activity is the transaction of general insurance business, in particular personal and commercial insurance. Personal insurance includes high-value households, fine art and collectibles as well as luxury motor vehicles. Commercial insurance is focused on small and medium sized businesses, particularly for professional indemnity and other liabilities such as cyber and technology, employment liability and property risk.

The most material Solvency II lines of business are estimated to be General Liability insurance and Fire and Other Damage to Property insurance (Property insurance) accounting for approximately 93% of GWP. HSA underwrites insurance risk in various locations including Germany, France, the Netherlands, Belgium, Spain, the Republic of Ireland, Portugal and the United Kingdom (UK). The material geographical areas where HSA underwrites business are Germany and France.

In 2023, the HSA's gross written premium increased by 9.5%. This increase is explained by a strong performance of Household and Commercial Property and Professional Indemnity lines.

The claims performance was even further improved compared to 2022 with a gross loss ratio of 34% (2022: 37%). With the reinsurance arrangements that HSA has in place, the net loss ratio was 67% (2022: 21%), mainly impacted by a hardening of the reinsurance market and by restructuring the QS with Hiscox Bermuda.

The operational expenses ratio of 19% (2022: 18%) remained stable, driven by a tight management control of expenses although some additional expenses were required to support growth.

HSA made an underwriting profit in 2023 of €2.2 million compared to a profit of €4.2 million in 2022, generating a combined ratio of 93% (2022: 96%).

No final dividend has been declared for the year ended 31 December 2023 (2022: nil).

Further details of HSA's business and performance during the reporting period are included in Section A of this report.

System of governance

HSA operates within an established system of governance with defined roles and responsibilities throughout the organization, which underpins its business model in accordance with the Group's governance framework and the Solvency II requirements.

The Board meets at least four times a year and is provided with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities, solvency, and regulatory compliance.

HSA operates in a three lines of defence model, which establishes clear risk roles and responsibilities that enables risk-reward decisions to be taken in a transparent and consistent manner, with an appropriate amount of challenge and oversight. The three lines of defence model provides a widely-understood system of risk management and internal control across the business, and a mechanism for assessing and monitoring its effectiveness.

HSA's Own Risk and Solvency Assessment (ORSA) process is an integral part of the risk management system. The ORSA process covers business planning, assessing, and monitoring the risk profile, validating outputs used to inform capital decisions and conducting solvency assessments. The ORSA process is evidenced during the course of the year as part of risk monitoring and reporting presented to the HSA Board and HSA Audit & Risk Committee. The ORSA report is approved annually by the HSA Board.

HSA's system of governance is reviewed regularly to ensure appropriateness with the development of HSA and regulatory requirements. In 2023, there has been no material change to HSA's system of governance, risk management approach and internal control systems. There was though, an evolution of the Risk and Compliance operating model that includes a new Chief Risk Officer position for HSA. The Chief Risk Officer sits on the European Management Team to provide strategic input, advice, and challenge. The new model uplifts the function – enhancing the team's abilities to provide independent challenge, specialist expertise, and strategic risk management, whilst ensuring a clear delineation between first- and second-line support.

Further details of HSA's system of governance are included in Section B of this report.

Risk profile

HSA calculates its regulatory Solvency Capital Requirement (SCR) using the standard formula, which is based on four risk types: non-life underwriting risk; market risk; credit risk and operational risk. Material risk exposures are mitigated through the operation of controls to reduce the likelihood or impact of risks occurring; the holding of capital; and through the purchase of reinsurance to limit HSA's exposure to losses.

A snapshot of HSA's pre-diversified risk profile composition for the year ended 31 December 2023 and comparison with prior year is shown in Figure 1. The risk profile is produced using the Solvency II standard formula framework.

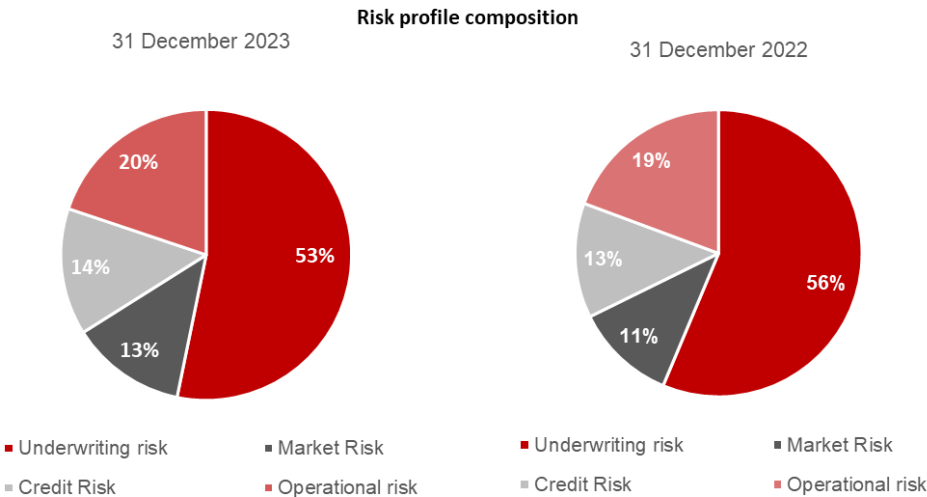


Figure 1

Underwriting risk (including reserve risk) remains the most significant risk that HSA is exposed to, representing 53% of its pre-diversified risk profile which is assumed mainly through the underwriting process.

The second largest risk type is **operational risk**, making up 20% of the overall pre-diversified risk profile.

The third largest risk is **credit risk**, which amounted to 14%. The inherent credit risk exposure for HSA is material with the quota share agreement in place with Hiscox Insurance Company (Bermuda) Ltd. This risk is mitigated by holding collateral through a funds withheld structure and limiting the amount of exposure to reinsurers based on their credit rating.

The remaining type is **market risk**. The pre-diversified SCR for market risk amounted to 13% at YE 2023. HSA invests in accordance with the Solvency II Prudent Person Principle to protect the security, quality, liquidity, and profitability of the portfolio and ensure that assets are available to the company in the relevant currency as required.

All risk types are actively managed as part of the risk management framework.

Although there are links between underwriting, market, and credit risk, it is unlikely that the most extreme losses in each category will be incurred at the same time. To recognise this, HSA's SCR is less than the sum of the individual capital requirements for each risk, reflecting the impact of this diversification benefit. Further details of HSA's risk profile, including analysis of HSA's diversified capital standard formula SCR are included in Section C of this report.

Valuation for solvency

Assets and liabilities have been valued for solvency purposes in accordance with the Solvency II Directive (as implemented in Luxembourg) and the Solvency II Regulations.

Table 1 shows the differences between HSA's shareholders' equity (as presented in the financial statements prepared under Lux GAAP) and the Solvency II balance sheet shown in Appendix A of this report:

Differences between HSA's shareholders' equity and the Solvency II balance sheet (€000):		
	2023	2022
Shareholders' equity as shown in the financial statements	143,730	113,771
Solvency II valuation adjustments to assets (Note i)	(1,008,656)	(859,617)
Solvency II valuation adjustments to technical provisions (Note ii)	243,801	224,734
Solvency II valuation adjustments to other liabilities (Note iii)	728,226	603,069
Solvency II EAL	107,101	81,957

Table 1

The differences between shareholders' equity and Solvency II EAL are due to valuation adjustments as explained below:

i. Valuation of assets under Solvency II

Valuation adjustments to assets relate primarily to adjustments to remove deferred acquisition costs, intangible assets and insurance and reinsurance receivables not yet due as these are taken into account in the valuation of technical provisions under Solvency II. Adjustments have been made to the valuation of investments for the purposes of Solvency II as they are valued on a market value basis, however under Lux GAAP, the collective investments are valued at lower of historical acquisition cost and market value, and the debt securities are valued at amortised cost or acquisition cost. Additionally, for Solvency II purposes IFRS 16 was applied, resulting in differences to Lux GAAP.

ii. Valuation of technical provisions under Solvency II

Adjustments have been made to statutory technical provisions and reinsurance recoverables (consistent with the adjustments to valuation of assets) to reflect Solvency II valuation requirements. Solvency II requires the technical provisions ("claims provisions" plus "premium provisions") to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin. The best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to claim events prior to the valuation date, as well as the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date.

iii. Valuation of other liabilities

Valuation adjustments to other liabilities relate primarily to adjustments to remove deferred acquisition costs payable in the financial statements (relating to reinsurance ceded) and insurance and reinsurance payables not yet due as these are taken into account in the valuation of reinsurance recoverables under Solvency II. Additionally, for Solvency II purposes IFRS 16 was applied, resulting in differences to Lux GAAP.

Further details of HSA's valuation of assets and liabilities for solvency purposes are included in Section D of this report.

Capital management summary

The solvency position of an insurer under Solvency II is determined by comparing eligible own funds with the Solvency II SCR. Insurers are required to meet the SCR at all times and are required to rectify any breach within six months (though this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement (MCR) is required to be rectified within three months.

On 31 December 2023, HSA's Solvency II eligible own funds were €107.1 million, compared to a standard formula SCR of €69.3 million, representing an SCR coverage ratio of 155%. HSA's MCR was €31.2 million.

HSA's eligible own funds		
	2023	2022
Solvency II EAL (€000)	107,101	81,957
Eligible own funds (Tier 1 & Tier 3) (€000)	107,101	81,957
Minimum capital requirement (€000)	31,178	30,241
Solvency capital requirement (€000)	69,285	67,201
Solvency capital requirement ratio	155%	122%
Table 2		

There are no restrictions on the availability or transferability of HSA's own funds (e.g. no existence of ring-fenced funds). The majority of the eligible own funds are unrestricted Tier 1 items (i.e. ordinary share capital, related share premium and reconciliation reserve), with the exception of a deferred tax asset amounting to €7.7 million which is Tier 3 assets not eligible to cover the MCR.

HSA has not requested and therefore does not have in place approvals to use the matching adjustment, volatility adjustment, transitional interest rate term structure or the transitional deduction on technical provisions. Therefore, no adjustments have been made relating to these transitional measures.

HSA regularly reviews the suitability of the Solvency II standard formula that has been assessed as appropriate.

Decisions on optimal capital levels are an integral part of HSA's business planning and forward-looking assessment of risk processes which cover a three year time horizon. HSA manages its own funds in such a way that it will ensure it holds sufficient capital to meet its regulatory and business requirements. In the event of an estimated solvency ratio below the risk appetite, a capital injection from the parent company is envisaged.

There were no instances of non-compliance with the SCR or MCR. Further details of HSA's capital management approach are included in Section E of this report.

A. Business and performance

A.1. Business

A.1.1. Name and legal form of the undertaking

Hiscox S.A. is a private company limited by shares.

At the 31st of December of 2023 the registered office was 35F Avenue John F. Kennedy, L-1855 Luxembourg. At the 15th of January of 2024 Hiscox S.A. officially moved offices, and the registered office is now 35, Avenue Monterey, L-2163 Luxembourg.

A.1.2. Supervisory authority responsible for the financial supervision of HSA

HSA is supervised by the Commissariat aux Assurances
Commissariat aux Assurances
11, rue Robert Stumper
L-2557 Luxembourg

A.1.3. External auditor

The external auditor of HSA is PricewaterhouseCoopers, Société coopérative.

PricewaterhouseCoopers, Société coopérative
2 rue Gerhard Mercator
L-2182 Luxembourg

A.1.4. Holders of qualifying holdings in HSA

Hiscox Ltd, a company incorporated in Bermuda and listed on the London Stock Exchange, owning 100% of the ordinary share capital of HSA.

The registered office of Hiscox Ltd is Chesney House, 96 Pitts Bay Road, Pembroke HM08, Bermuda.

A.1.5. Details of HSA’s position within the legal structure of the group and related undertakings

The simplified group structure in Figure 2 shows HSA’s position within the legal structure of Hiscox Ltd and its group of companies.

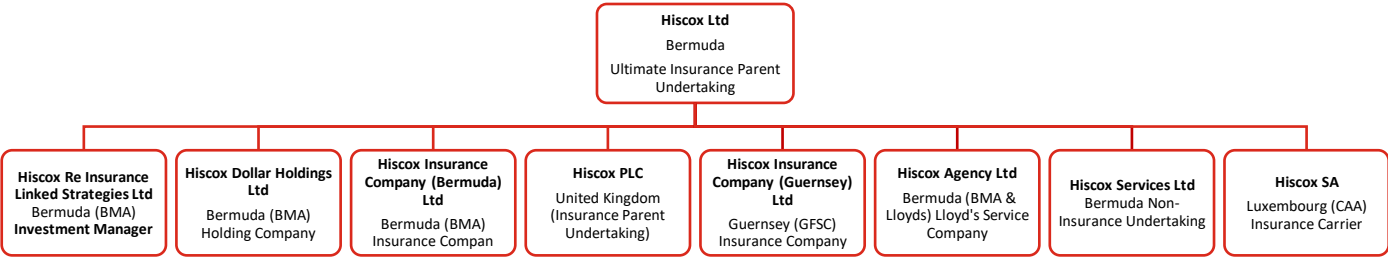


Figure 2

The detail of ownership of HSA is shown in sub-section A.1.4 above.

A.1.6. Material lines of business and material geographic areas where business is carried out

The principal activity of HSA is the transaction of general insurance business, in particular personal and commercial insurance cover. Personal insurance includes high-value household, fine art and collectibles as well as classic luxury motor vehicles. Commercial insurance is focused on small and medium sized businesses, particularly for professional indemnity and other liability lines such as directors and officers, cyber, public liability, employers' liability, and property risks.

Material lines of business

The material Solvency II lines of business which HSA underwrites and their relative contribution to HSA's gross premiums written are as shown in Table 3.

Solvency II line of business	% of gross premiums written	
	2023	2022
Fire and other damage to property insurance	31.1%	29.6%
General liability insurance	62.3%	62.2%
Others	6.6%	8.1%

Table 3

Material geographic areas

As at 31 December 2023, the main locations where HSA conducts business are Germany, France, and the Republic of Ireland, their combined contribution to HSA's gross premiums written is €388 million. This is shown in Figure 3 below.

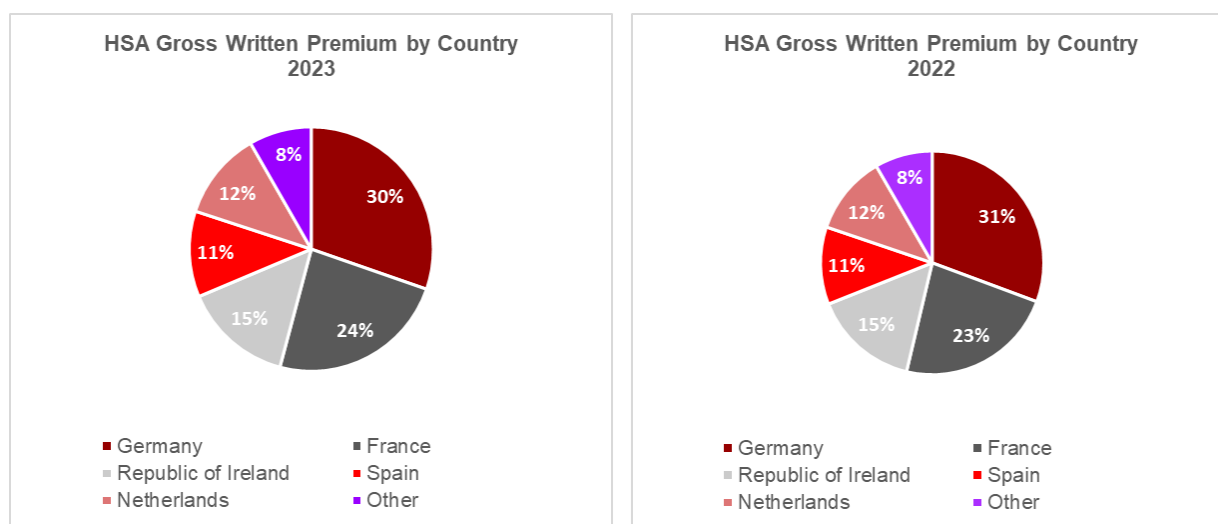


Figure 3

A.1.7. Significant business or other events during the period that have had a material impact on HSA

Since 2022, Europe is being challenged by unprecedented macro-environmental pressures, including the direct and indirect effects of the Russia-Ukraine conflict, as well as the constantly rising inflation levels, which have an influence on the overall cost of living, as well as the SME-market through a rise in costs to

conduct business. HSA has some limited direct insurance exposure mainly through kidnap and ransom. Management are actively monitoring the situation and assisting Hiscox policyholders. The Group has negligible exposure to investments in Ukrainian and Russian assets.

A.2. Underwriting performance

HSA's underwriting performance for the year ended 31 December 2023 is set out in Table 4.

Key performance indicators		
	2023	2022
Gross premiums written (€000)	564,531	515,569
Net premiums written (€000)	61,925	115,460
Net premiums earned (€000)	44,556	111,833
Underwriting profit (€000) ¹	2,202	4,179
Net claims ratio (%)	67	21
Operational expenses ratio (%) [Net] ²	28	75
Net combined ratio (%)	95	96

Table 4

¹ Underwriting profit (excluding investment expenses) on an Lux GAAP basis

² Including acquisition costs

A.2.1. Analysis of underwriting performance by material Solvency II lines of business

HSA's underwriting performance by material Solvency II lines of business for the year ended 31 December 2023 is set out in Table 5.

Key performance indicators ¹					
	Fire and other damage to property insurance	General liability insurance	Other	Total 2023	Total 2022
Gross premiums written (€000)	175,584	351,506	37,441	564,531	515,569
Net premiums written (€000)	20,588	37,454	3,883	61,925	115,460
Net premiums earned (€000)	13,085	27,653	3,818	44,556	111,833
Gross claims incurred (€000)	70,912	75,836	7,490	154,238	163,392
Net claims incurred (€000)	6,851	7,601	411	14,863	13,844
Expenses incurred (€000)	8,847	14,398	4,675	27,920	94,256
Underwriting profit (€000) ¹	(2,562)	6,028	(1,264)	2,202	4,179
Net claims ratio (%)	85	60	57	67	21
Operational expense ratio (%) [Net]	34	19	76	28	76
Combined ratio (%) [Net]	120	78	133	95	96

Table 5

¹ Underwriting profit on an Lux GAAP (excluding investment expenses) basis but individual line items are presented on a SII basis

In 2023, HSA's gross premiums written totalled €564 million on a Lux GAAP basis.

Although the pandemic and the war Russia-Ukraine made the last three years an unusually challenging time for everyone, in 2023 HSA was able to grow in a sustainable way.

The combined ratio in 2023 is in line with the previous year.

A.2.2. Analysis of underwriting performance by geographic area where HSA conducts

business

Key performance indicators¹

	Germany	France	Republic of Ireland	Other	Total 2023
Gross premiums written (€000)	170,841	135,537	81,955	176,199	564,531
Net premiums written (€000)	17,504	14,982	11,350	18,090	61,925
Net premiums earned (€000)	14,543	10,202	6,776	13,036	44,556
Gross claims incurred (€000)	43,386	44,982	15,367	50,238	153,973
Net claims incurred (€000)	4,716	3,348	756	6,042	14,863
Expenses incurred (€000)	10,844	8,122	5,175	3,779	27,920
Underwriting profit (€000) ¹	(968)	(1,233)	866	3,537	2,202
Combined ratio (%) [Net]	107	112	87	73	95

Table 6

¹ Underwriting profit (excluding investment expenses) on an Lux GAAP basis but individual line items are presented on a SII basis

Table 6 sets out an analysis of HSA's underwriting performance by geographical area. The main locations where HSA conducts business are Germany, France, Republic of Ireland, the Netherlands Spain, , Belgium, Portugal and the UK.

A.3. Investment performance

A.3.1. Income and expenses arising from investments by asset class

The composition of HSA's investment portfolio as at 31 December 2023 is as shown in Table 7.

Asset class	Composition (%)	
	2023	2022
Debt and fixed income securities	83.2	82.7
- Government bonds	13.9	10.0
- Corporate bonds	69.3	72.6
Collective investment undertakings	6.0	6.9
Derivatives	(0.0)	0.2
Deposits other than Cash equivalents ¹	0.1	(0.0)
Cash and cash equivalents	10.7	10.3

Table 7

¹ Includes risk margin for derivatives

The investment income and expenses by asset class considering the fair value for the year ended 31 December 2023 are shown in Table 8.

Investment income and expenses by asset class €000				
Asset class	2023			2022
	Investment Income (including realised and unrealised gains)	Investment expense	Net investment return	Net investment return
Debt and fixed income securities	3,868	(248)	3,619	(3,800)
- Government bonds	488	(41)	446	(490)
- Corporate bonds	3,380	(207)	3,173	(3,310)
Collective investment undertakings	223	(18)	205	614
Derivatives	150	0	150	708
Loans	0	0	0	0
Cash and cash equivalents	4	(32)	(29)	(24)
Total	4,244	(299)	3,945	(2,502)

Table 8

Considering the fair value of HSA investment portfolio the investments performance was as shown in Table 9.

Asset class	Investment Return (%)	
	2023	2022
Debt and fixed income securities	5.3	(7.1)
- Government bonds	3.7	(6.9)
- Corporate bonds	5.8	(7.1)
Collective investment undertakings	7.0	15.6
Derivatives	0.2	1.3
Loans	0.0	0.0
Cash and cash equivalents	0.0	0.0
Total	4.9	(2.0)

Table 9

Debt and fixed income securities: The fixed interest portfolio delivered a positive return of 5.3% which outperformed the benchmark, which returned 4.5%, when including the positive return achieved by the short government bond futures positions. The benchmark which had comprised 20% Euro Government Index and 80% Euro Corporate bond index was changed to 30% Euro Government Index and 70 % Euro Corporate index in late December to reflect a change in the Strategic Asset Allocation.

Collective investment undertakings: For the year, the risk asset, returned 7.0% versus the benchmark which delivered a return of 12.8%. The risk asset benchmark is a combination of equity and hedge fund indices.

Derivatives: The short government bond futures positions generated €0.9 million by hedging interest rate risk. Derivatives are used for risk reduction rather than speculation.

Cash and cash equivalents: Interest on cash was €68,312, which was lower than forecast due to negotiations with the company's relationship bank to set up interest accounts taking longer than expected. These were in place at year end and cash returns will increase significantly.

A.3.2. Gains and losses recognised directly in equity

There were no investment gains and losses recognised directly in equity during the period. All investment gains and losses were recognised in profit and loss.

A.3.3. Information about any investments in securitisations

There are no investments in securitisation as at 31 December 2023.

A.4. Performance of other activities**A.4.1. Other material income and expenses incurred over the reporting period**

Details of HSA's underwriting and investment performance are included in sub-sections A.2 and A.3 above. HSA did not have any other material income and expenses in the reporting period other than corporation taxation expenses (current taxes).

A.4.2. Leasing arrangements

The Company has arranged bank guarantees with respect to their various office deposits. These guarantees are held with a number of different banks throughout Europe. This bank guarantee shall be terminated at the termination of the lease.

A.5. Any other information

All material information relating to HSA's business and performance has been disclosed in sub-sections A.1 to A.4 above.

B. System of governance

In 2023, there has been no material change to HSA's system of governance, risk management approach and internal control systems. The regular review of the system of governance in 2023 ensures that the system of governance is further developed for the purpose of providing sound and prudent management of HSA's business taking into account its growth and development and regulatory requirements since the start of its activities in 2019.

B.1. General information on the system of governance

As with every part of the Hiscox Group, HSA seeks to apply clear and appropriate standards of corporate governance.

The HSA Board is ultimately responsible for the oversight of HSA's performance and risk management. There is an established system of governance with defined segregation of duties and delegation of responsibilities to various committees reporting to the Board. The reporting relationship between the Board and functional areas are detailed in sub-section B.1.1 of this report. The sub-committees that act on behalf of HSA's Board are identified in Figure 4.

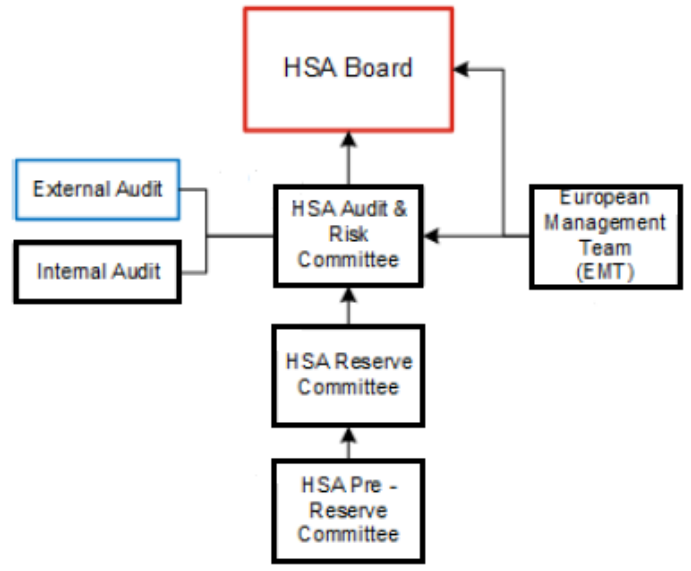


Figure 4

B.1.1. Boards and committees

The Board is vested with the broadest powers to perform any actions necessary or useful in connection with the purpose of the Company. All powers not expressly reserved to the sole shareholder fall within the authority of the Board. The Board is collectively responsible for the long-term success and performance of the Company with the key purpose being to ensure the Company's prosperity by collectively directing the Company's affairs whilst meeting the appropriate interests of its shareholder and relevant stakeholders.

As at 31 December 2023, the Board was composed of two Non-Executive Directors, one Independent Director and two Executive Directors, the latter comprising of the HSA Chief Executive Officer (who is also licensed as the Approved Director of HSA) and the HSA Chief Financial Officer.

The composition of the Board as at 31 December 2023 was as follows:

- Mrs. Joanne Musselle (Non-Executive Director and Chair)
- Mr. Robert Dietrich (Executive Director)
- Mrs. Patricia Vaz Baptista (Executive Director)
- Mr. Victor H. van der Kwast (Independent Non-Executive Director)
- Mr. Thomas Hürlimann (Non-Executive Director)

The Board meets at least four times a year and operates within established Terms of Reference. It is provided with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities, solvency, and regulatory compliance.

The Board retains ultimate responsibility for all aspects of the operation of HSA. A number of matters are reserved specifically for decision by the Board. Other matters are delegated to the Approved Director of HSA, the European Management Team (EMT), the appointed legal representative of the respective country branches and the Audit and Risk Committee.

Senior Management Structure

All matters not specifically reserved for the Board or its Committees are carried out by the European Management Team (EMT), an Executive Committee which serves as the most senior decision-making forum in relation to the organisation and governance of the Company and to achieve the strategic plans, goals and objectives of the Company approved by the Board, along with such other matters as specified by the CEO.

Business unit structure

The Hiscox Group of companies operates primarily through the use of business units, which are largely structured around specific geographies or distinct business activities to best serve customers. These business units each have their own governance structures, and each can utilise the capacity provided by various Group Insurance Companies.

For the year ended 31 December 2023, two business units have written business onto HSA – Hiscox Europe and Hiscox UK. All of these business units are part of the Retail division of the Hiscox Group.

HSA Key Functions' business activities

The three lines of defence model is applied across the Group. This provides a structure for risk roles and responsibilities that enables risk-reward decisions to be taken in a transparent and consistent manner, with an appropriate amount of challenge and oversight. The three lines of defence model provides a widely-understood system of risk management and internal control across the business, and a mechanism for assessing and monitoring its effectiveness. The three lines of defence are defined as

per the below table.

1. First line of defence	2. Second line of defence	3. Third line of defence
Owns risk and controls	Assesses, challenges and advises on risk objectively	Provides independent assurance of risk control
The first line of defence is responsible for ownership and management of risks on a day-to-day basis, and consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.	The second line of defence provides independent oversight, challenge and support to the first line of defence. Functions in the second line of defence consists of Group Risk team and the Compliance team.	The third line of defence is made up of the internal audit function, which provides independent assurance to the Board that risk is being managed in line with approved policies, appetite, frameworks and processes. It also helps verify that the system of internal control is effective.

Table 10

HSA Key Function Holders are in Table 11.

Key function	Performance of function	Key function holder
Risk management function	EU Risk Manager with additional support from the Group Risk function	William Rose Chief Risk Officer, Europe
Actuarial function	Activities of the Actuarial function are outsourced to the Group Actuarial team, overseen by the Key Function Holder.	Barry Wright Reserving Manager
Internal audit function	European Internal Audit team with support and oversight from the Group Internal Audit function	Miruna Badici EU Audit Hub Director
Compliance function	EU Compliance Manager with additional support from the Group Compliance function	William Rose Chief Risk Officer, Europe

Table 11

HSA Board & Committees

The HSA Board is collectively responsible for the long-term success of the Company and its performance.

As shown in Figure 4 above, the Audit & Risk Committee (ARC) is a sub-committee, which reports to the HSA Board.

The HSA ARC is chaired by the Independent Non-Executive Director.

HSA Audit and Risk Committee

The HSA Audit and Risk Committee has delegated responsibility to provide oversight and challenge to the following Audit & Finance and Risk Management practices related to HSA:

Audit & Finance:

- the statutory audit process and annual financial statements;
- the performance of the internal audit function (on matters relating to HSA) and monitors the effectiveness of internal controls;
- HSA's reserving process;
- HSA's financial returns and reports to the CAA and any other relevant regulator; and

Risk Management:

- Provide advice to the Board on risk strategy, including the oversight of current risk exposures;
- Develop proposals for consideration by the Board in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the Company's risk management performance;

- Ability to request specific risk reviews on areas of interest from across the business;
- Review and challenge the ORSA report at least annually and recommend it to the Board for approval;
- Provide oversight and challenge of the design and execution of stress and scenario testing;
- Provide oversight and challenge of the day-to-day risk management and oversight arrangements of the executives;
- Review results of validation activity over the economic modelling used to develop the non-regulatory (ORSA) capital requirement and assess the overall level of capital surplus;
- When requested by the Board, provide oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the governing body; and
- Provide advice, oversight and challenge as necessary to embed and maintain a supportive risk culture throughout the firm
- the adequacy and design of the policies and procedures relating to Whistleblowing.

HSA Reserving Committee

The HSA Reserving Committee reports to the Audit & Risk Committee and is chaired by the CFO of the Group.

Following the pre-reserving meeting and any other analysis deemed necessary as a consequence, the Head of Reserving and CFO Europe will form their respective recommendations to the HSA Reserving Committee on the actuarial best estimate and management loadings.

The HSA Reserving Committee reviews the HSA Balance Sheet and makes a recommendation to the Audit and Risk Committee on the appropriate level of reserves to be held in the Company. The committee also oversees, monitors, and manages the Reserve Risk of HSA.

As set out in Figure 4, the Board exercises its oversight of HSA's reserve position and challenges as necessary its adequacy via the reporting of the HSA Reserving Committee into the HSA Audit and Risk Committee.

In line with governance structure across the Hiscox Group representatives of HSA are attending the following Group meetings: the Group Credit Committee, the Cash and Capital Committee, the Divisional Investment Group, Information Security & Privacy Group, Reinsurance Purchase Group and Exposure Management Group.

B.1.2. Material changes in the system of governance over the reporting period

There have been no material changes in the system of governance over the reporting period. Andrea Schmid resigned as an Executive Director on 15 July 2023 and Patricia Vaz Baptista was appointed as an Executive Director on 10 July 2023. William Rose was appointed as Chief Risk Officer, a new role, as part of an evolution of the Risk and Compliance operating model.

B.1.3. Remuneration policy and practices

The Hiscox Group has a single remuneration policy which is applicable to all legal entities and therefore applies to all members of staff of HSA including its executive Board members and key function holders. HSA delegates its remuneration responsibilities to the Hiscox Ltd Group Remuneration Committee. However, discussions are held with the HSA Non-Executive Directors at least annually in order to seek their views on HSA specific remuneration matters and when necessary additional sessions are held. The key principles of the Group remuneration policy are set out below.

Principles of remuneration policy

Hiscox Group's core business, including HSA's, is to accept risk on behalf of customers and our ongoing success depends on how well these risk exposures are understood and managed. It is therefore crucial

that knowledge of those risks underpins every important decision made.

The primary objective of the Hiscox Group is to deliver strong shareholder returns across the insurance cycle and consistently grow dividends and net asset value per share whilst protecting the policyholder. The aim is to achieve this by building a diversified business which gives flexibility throughout the cycle. When setting business unit targets, we seek to motivate strong performance but in a manner which encourages sustainable behaviours in line with the defined risk appetite of individual entities including HSA. The variable pay elements for staff supplying services to HSA are structured with these strategic objectives in mind.

Return on Equity ("ROE") is a key measure of the company's performance and is used in the annual bonus plan. The use of ROE ensures profitability measures also take into account the capital base utilised in the generation of profits.

For long-term share awards we use a combination of relative and absolute performance measures. Growth in net asset value per share plus dividends accounts for 50% of the corporate performance element and relative TSR is used for the other 50%. These metrics complement the ROE measure used for the short-term incentive and add further diversity to the overall performance assessment.

The structure of the incentive arrangements and the targets set and assessed are intended to be inherently risk-adjusted taking into account exposure to current and future risk.

Specific features of the remuneration structure

The following features of the remuneration strategy contribute to ensuring remuneration of staff supplying services to HSA is aligned with HSA's business strategy, risk profile, objectives, risk management practices and long-term interests:

- a) Fixed pay – represents a sufficient proportion of the remuneration package, so no individual is dependent on variable pay. This enables HSA's internal service providers to operate a fully flexible variable pay policy and where performance does not justify the payment of bonus or long-term share award, the variable components of the remuneration package will not be made or may lapse;
- b) Performance metrics and targets – the approach to bonus and long-term incentives is linked to strategic priorities. The qualitative assessment of individual performance considers an individual's adherence to the risk management system and compliance requirements, with a balance of financial and non-financial factors;
- c) Time horizons – a portion of qualifying individuals' annual bonuses are deferred and senior leaders take part in a long-term incentive plan which normally vests after three years. Share awards to Hiscox Group's Executive Directors also have an additional two-year holding period on vested shares;
- d) Shareholding guidelines – applicable to Hiscox Partners and equivalent to 100% of salary ('Hiscox Partner' is an honorary title given to employees who make significant contributions to the development and profitability of the Group). The shareholding guidelines provide long-term focus and alignment with shareholders' interests; and
- e) Malus and clawback – these are safeguard mechanisms to avoid payments for failure.

Unvested compensation may be reduced, cancelled or have further conditions imposed in the following circumstances:

- a retrospective material restatement of the audited financial results of the Group;
- an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted, or vests;
- actions of gross misconduct or material error, including fraud, by you or your team;

- significant reputational or financial damage to the company as a result of your conduct.
- failure of adequate risk management and/or controls by you or your team, resulting in a material impact to the Group;
- a material corporate failure in the Group;
- a regulatory or law enforcement investigation which results in significant censure.

Share awards are also subject to clawback for up to 2 years from the date of vesting. In the circumstances described above, the Remuneration Committee may require an individual to repay some or all of their vested awards.

- f) The Hiscox Ltd Remuneration Committee has discretion to decide whether and to what extent the performance condition or any other condition to which an award is subject has been met. The Committee may adjust the extent to which an award vests to ensure that the outcome reflects the performance of the company and participant over the performance period.

Individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based

Variable compensation across Hiscox has two components: i) annual incentives which comprise a personal performance bonus and a profit bonus component, and ii) a long term incentive scheme, the Performance Share Plan (PSP).

Annual incentive – personal performance bonus

Awards under this scheme are based on individual performance ratings (which measure the achievement of set objectives and the behaviours demonstrated) and/or the achievement of team or business area objectives (such as customer metrics, expense ratio). Individuals must normally achieve a “successful” Performance and Development Review (PDR) rating at year-end in order to qualify for a bonus. Where PDR ratings are below this level, awards may be scaled back.

Annual incentive – profit bonus

Individual allocations under this scheme are also discretionary. As above, individuals must normally achieve a “successful” PDR rating at year-end in order to qualify for a bonus. Where PDR ratings are below this level, awards may be scaled back.

Bonus pools under this scheme are determined based on financial performance. Therefore this is the main determinant of overall bonus pay-outs.

Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of financial results. The bonus pool is typically funded by a set percentage of profits if the target ROE for the business unit has been achieved or exceeded.

A target for financial performance is set annually relative to a Risk Free Rate, which is effectively what shareholders could earn by investing their money in low risk, short-term government bonds. Performance above this target is rewarded and where performance falls below this target, pay-outs will be nil.

For the profit bonus, when determining the size of the overall bonus pool following the year-end, the Group Remuneration Committee is able to make adjustments where appropriate. This may include making adjustments to recognise the performance of developing/fledgling businesses where bonus awards may not be fully self-funding (at an individual business unit level) in early years. In extreme cases, the size of the overall bonus pool may be reduced if the Committee deems that payments would compromise Hiscox Group’s future capital base or results are considered to have been achieved in a manner outside of the Group’s risk appetite or the risk appetite of individual legal entities, including HSA.

Performance Share Plan (PSP)

Share awards under this scheme are typically made to senior leaders. Awards normally vest after a three-year period subject to the achievement of performance conditions. These performance conditions are reviewed annually and set to align with the long-term objectives of Hiscox Limited, the ultimate parent company of HSA.

Main characteristics of supplementary pension or early retirement schemes for members of the Board or other key function holders

There are no supplementary pension or early retirement schemes for members of the Board or other key function holders of HSA. Any existent pensions are applicable to all employees.

B.1.4. Material transactions during the reporting period with shareholders, persons who exercise a significant influence on HSA and with members of the Board

There were no material transactions during the reporting period with shareholders of the Company other than a capital increase of €32 million which was fully paid up by way of cash contribution by the sole shareholder of the Company. There were no material transactions with persons who exercise a significant influence on HSA or with members of the HSA Board

B.2. Fit and proper requirements

B.2.1. Description of the skills, knowledge and expertise applicable to the persons who effectively run HSA or are responsible for significant functions

HSA are required to adhere to the Group Fitness & Propriety Policy. The Policy includes individuals who effectively run HSA or are responsible for significant functions which fulfil the following requirements under the Solvency II Directive:

- a) their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit);
- b) they are of good repute and integrity (proper).

All Board members and any member of staff who is responsible for a significant function is required to have the relevant professional qualifications, knowledge and experience to enable sound and prudent management. In addition, the Board needs to collectively hold the qualifications, knowledge and experience necessary to run a company of HSA's size and complexity.

The qualities of each individual are also assessed in the wider team context to ensure that collectively there is a wide breadth of skills, knowledge and expertise to ensure the effectiveness of the Board and the operation of key functions. The effectiveness of the Board is self-assessed annually and an external review is undertaken at least once every three years to ensure ongoing appropriateness.

Good repute, integrity, substantial management and leadership experience, a good understanding of regulators' expectations and strong people skills are overarching qualities sought from all Board members and individuals responsible for significant functions.

B.2.2. Process for assessing the fitness and the propriety of the persons who effectively run HSA or have other key functions

For Group A individuals, fitness and propriety will be assessed as follows:

- Upon appointment,
- When required by a Regulatory Authority where fitness and propriety is deemed a regulatory

requirement, and

- Assessed annually in line with this policy

For the sake of clarity Group A individuals are those roles which effectively run Hiscox or are responsible for significant functions, including:

- The Executive and Non-Executive Directors of Hiscox Ltd and the regulated companies in the Hiscox Group,
- The members of the Executive Sub-Committee of the Hiscox Ltd. Board,
- The ultimate heads of the following functions:
 - o Actuarial
 - o Claims
 - o Compliance
 - o Finance
 - o Internal Audit
 - o Underwriting
 - o Investment Management
 - o IT
 - o Outwards Reinsurance
 - o Risk Management
- The individuals responsible for a function (other than those listed above) which is deemed by a local Regulatory Authority to be significant (e.g. Solvency II Material Risk Takers),

For Group B individuals, fitness and propriety will be assessed as follows:

- Upon appointment, and
 - When moving into a Group A role where fitness and propriety is deemed a regulatory requirement.
- Group B individuals are defined as all other individuals in Hiscox.

Fitness and propriety assessment on appointment

For all individuals, the assessment of fitness and propriety upon appointment will normally include (but may not be limited to):

- Interview with an appropriately qualified manager,
- Interview with other relevant senior experienced individuals as appropriate,
- Verification of academic and or professional qualifications to the extent that they are relevant to the position, and
- Obtaining references from previous employers in line with local employment legislation guidance.

For individuals in Group A, the assessment of fitness and propriety upon appointment will additionally include (but may not be limited to) the following and where legally permissible to do so:

- Checks with credit reference agencies regarding financial soundness,
- Criminal record check to the extent it is legally permissible to do so,
- Checks on disqualification from acting as a Director or in relation to a regulated function,
- A declaration by the individual concerned that they are fit and proper, and
- A regulatory reference check where it is deemed necessary by the appropriate regulatory authority.

Fitness and propriety annual assessment

For all individuals, the annual assessment of fitness and propriety will normally include (but may not be limited to):

- Annual Performance and Development Review (PDR) by an appropriate qualified line manager, and
- Any other issues arising that would cause concern as to an individual's fitness and propriety.

For individuals in Group A, the ongoing annual assessment might include and where legally permissible to do so:

- Checks with credit reference agencies regarding financial soundness,

- Criminal record check to the extent it is legally permissible to do so, and
- Checks on disqualification from acting as a director or in relation to a regulated function.

For individuals in Group A, the ongoing annual assessment will include:

- A declaration by the individual concerned that they are fit and proper,
- Line manager attestation that the individual concerned is deemed fit and proper,
- Confirmation of completion of mandatory training by the individual, and
- Confirmation of no issues identified due to disciplinary or Code of Conduct / Conduct Rule actions, as they apply.

Furthermore, members of the different boards within Hiscox will be subject to regular discussion and evaluation of board effectiveness (the detail of which process falls outside the scope of the Policy).

Additional concerns

If any matter is highlighted through the ongoing assessment process which increases the risk of the individual not being deemed as a fit and proper individual, this will be referred to the Head of People Compliance to consider and review following which this will be raised with the Chief People Officer.

The Head of People Compliance will review the matter, having consideration to the significance to the matter, the duties and responsibilities of the individual concerned, and the possible impact of the matter on the individual's ability to perform those duties and responsibilities.

The Head of People Compliance will consult with the Chief People Officer and refer to the Chair of the relevant Boards any matter which is deemed to be material.

B.3. Risk management system including the ORSA

B.3.1. Description of the risk management system

HSA has an established Risk Management Framework (RMF) in place, illustrated in Figure 5. The RMF is designed to operate continuously. It is reviewed and enhanced regularly in light of changes to the risks HSA is exposed to, the external environment and evolving practice on risk management and governance.

The Board has ultimate responsibility for setting HSA's risk strategy and the amount of risk that the Company can accept in order to maximise the likelihood of achieving business plan objectives and for the overall effectiveness of the risk management framework.

Risk identification (includes risk definition and risk ownership)

Risk identification is achieved by clearly defining an exposure (e.g. identifying the potential drivers and consequences of the risk) and identifying a risk owner responsible for management of the exposure. HSA's material risks and the key controls used to mitigate them are documented in its Risk and Control Register (RCR).

The RCR details HSA's current key risk exposures including a qualitative assessment of the probability and impact, risk mitigation/controls and related monitoring and reporting processes. The RCR is periodically reviewed and updated as HSA identifies and assesses the material risk exposures and the appropriateness and effectiveness of the risk management framework and system of internal control.

Each year, HSA identifies a number of 'Critical risks' as part of its risk identification and RCR refresh processes. A Critical risk is defined as an exposure which materially threatens financial strength, severely impacts business operations or significantly affects strategy. Critical risks often develop over a short time or offer limited time to react, respond or recover, thereby requiring continuous focus. Critical risks are reviewed regularly by the Audit & Risk Committee as a standing agenda item.

Risk appetite

Risk appetite is communicated in qualitative and quantitative terms, describing the level and types of risk the Board is willing to assume in order to achieve their strategic objectives and business plan. HSA's risk appetite framework allows clear monitoring and management of risk exposure in relation to the Board's willingness to take on risk.

Risk measurement

Risk measurement is the assessment of HSA's actual risk exposures using various methods including risk and capital models, stress and scenario testing, reverse stress testing, and expert judgement. This enables the prioritisation of risk and mitigating actions.

Risk mitigation

Risk mitigation involves implementing and maintaining internal controls and other mitigation techniques to manage, reduce or eliminate risk exposures as part of the system of internal control.

After risks are formally assessed, a decision is made on how to mitigate them to reduce exposure or to maintain them at an acceptable level. Determining the most appropriate response involves understanding the associated costs and benefits. Risk mitigation techniques include: strengthening existing controls or introducing new ones; risk transfer mechanisms (e.g. entering reinsurance arrangements); and risk avoidance (i.e. taking action to prevent exposure to the risk at all).

The methods used to mitigate each of HSA's material risks are described in more detail in section C.

Risk monitoring

HSA operates a number of practices and tools to monitor risk exposures, trends, effectiveness of controls and changes across the Company

Risk monitoring provides different lenses over HSA's risk environment, including topical current risk issues through to deep dive analysis as part of Risk Reviews. Monitoring of risks occurs at various levels across HSA, including at a functional and management level. Critical risks and other significant exposures are monitored at Board and Committee level on a regular basis, with more frequent monitoring occurring at the business and functional levels.

Risk reporting

HSA employs a broad risk reporting system to raise awareness of risks across the business.

Risk reporting describes the methods and forums used to communicate and discuss risk and control exposures and issues, including the escalation routes that support appropriate risk governance.

Material risk types and Critical risks are formally reported to Management, the Board and ARC regularly, with more frequent reporting at the business and functional levels.



Figure 5

B.3.2. Implementation of the risk management system

The sub-sections below outline how the risk management framework is implemented and integrated in HSA's organisational structure, culture and decision-making processes.

On a regular basis all material risks are assessed to ensure that even following a series of significant loss events, sufficient capital is available to support risk exposures and regulatory requirements, and to meet financial obligations, particularly to policyholders. For material risks, our exposure is measured against an established risk appetite to ensure each risk remains within acceptable levels.

As part of the Risk and Control Self-Assessment process, a qualitative assessment of each risk's likelihood and impact is performed by risk owners, with input from the control owners and challenge from the European Risk Manager. Assessments are completed on both an inherent and residual basis, defined as follows:

- 'inherent risk' is the risk that the event would pose if there were no controls or other mitigating factors in place; and
- 'residual risk' is the risk that remains after current controls are taken in account.

The methods used to measure each of HSA's material risks are described in more detail in section C.

Risk reporting is completed for the HSA Board and for the Audit & Risk Committee to highlight material exposures requiring the Board's consideration, action or response. Some examples of risk reporting HSA undertakes are:

- Enterprise Risk reporting including
 - Dashboard of topical risk issues at HSA and branch level;
 - Regular assessment of Critical risks;
 - Operational risk event reporting;
 - Key Risk Indicators;
 - Emerging risks;
 - Management Action monitoring
- Key risk section in each Board report;
- ORSA report;
- Results of Risk and Control Self-Assessment;
- Results of stress and scenario and reverse stress testing; and

- Risk appetites and limits monitoring
- Second line risk reviews and deep-dives.

Risk governance

At the heart of risk governance is the Board's oversight responsibility for risk management across the Group. The Board has ultimate responsibility for the overall effectiveness of business operations and the Risk Management Framework, including oversight of the three lines of defence (described in section B1), ensuring appropriate and proportionate balance is maintained.

Within the second line of defence, since 21st November 2023, the Chief Risk Officer of Europe assumes the Solvency II Risk Management Key Function and is ultimately accountable for the overall management of the risk management framework and associated strategies, processes and reporting procedures in HSA. To ensure their independence and objectivity, the Chief Risk Officer of Europe reports to the Group Chief Risk Officer with a dotted line reporting to the European Chief Executive Officer. The Chief Risk Officer of Europe has direct reporting to the HSA Board including the HSA Audit & Risk Committee Chair.

The Chief Risk Officer of Europe is supported by the Senior Risk Manager, the European Risk Analyst as well as appointed 1st Line European branch Risk Champions.

The European Risk team, is independent from first line decision-making and has the following key responsibilities:

- Work with the Group Risk function to design, maintain, periodically review and embed the Hiscox Risk Management Framework in Hiscox SA and Hiscox EU;
- Facilitate the identification and assessment of emerging risks;
- Monitor the general risk profile of the undertaking;
- Provide challenge and advice to the business on the decisions it takes considering the payoff and other risk-return considerations;
- Provide an independent view of risk within the company;
- Lead the local delivery and implementation of risk initiatives;
- Facilitate the setting of risk appetite by the Board and ensure management monitor the company's general risk profile;
- Coordinate the Own Risk and Solvency Assessment process and facilitate the production of the ORSA reports for the HSA Board at least annually. This incorporates the risk and control self-assessment;
- Produce regular risk reporting for the Audit & Risk Committees and Boards;
- Challenge the adequacy of regulatory and internal capital requirements;
- Assesses current and forward-looking risk exposures using various methods including the use of risk and capital models, stress and scenario testing (including reverse stress testing) and expert judgement;
- Tracks aggregate exposure across HSA against Board-approved risk policies, appetite and limits;
- Escalates any breaches of risk appetite and limits to the Board and/or Audit & Risk Committee in accordance with HSA's governance arrangements; and
- Conducts 2nd line Risk Reviews; and
- Challenging adequacy of both regulatory and internal capital requirement.

B.3.3. Own Risk and Solvency Assessment (ORSA)

ORSA process

The ORSA process is defined as the set of ongoing practices and business decisions that HSA engages in to identify, measure, monitor, manage and report the risks to which it is exposed and to determine the corresponding capital needs on a current and forward-looking basis. The ORSA is an integral component of risk management specifically considering:

- HSA's approved strategy and business plan;
- The composition and dynamics of the current and forward looking risk profile;

- HSA's capital requirements (regulatory and internal), whether they are appropriate for the business' risk profile and whether HSA has sufficient assets available to meet them;
- The robustness of HSA's current and prospective solvency and liquidity, including consideration of a range of potential scenarios that could stress the business model, and how Management and the Board would respond should those circumstances arise; and
- Maintaining sufficient financial strength to pay insured claims is a critical consideration of the ORSA process.

The following diagram illustrates the components of the ORSA process.



Figure 6

Determination and management of HSA's own solvency needs

HSA uses a number of measures to determine its 1 in 200 year capital requirements for its modelled risks. HSA's use of the Solvency II Standard Formula for the calculation of its capital needs has been tested for appropriateness in light of HSA's risk profile. This provides comfort for its use in calculating HSA's regulatory capital requirement.

In addition to the Standard Formula, HSA uses the Hiscox Group's Integrated Capital Model (HICM), a non-regulatory economic capital model, to measure its own internal view of its overall solvency needs (ORSA capital) and to monitor its risk profile.

Forward looking assessments are produced to show the expected evolution of the business over the next three years under various scenarios and the impact on capital. Sensitivity testing is conducted to measure the capital impact of a number of changes in inputs to the capital requirement, including changes in assumptions and expert judgements.

Stress and scenario testing, including reverse stress testing, is used to assess the robustness of the business plan and capital in light of a range of potential threats and issues, and to identify plausible and feasible future management actions which could be taken under those scenarios to protect the businesses and facilitate their viability. These tests involve identifying and considering potential events or triggers which could affect or change the businesses in the future and their reactions to these events. A range of such tests are conducted by the businesses over the course of the year.

All rating agencies evaluate Hiscox on a Group basis, therefore there is no specific rating agency capital requirement for HSA.

ORSA reporting

An ORSA report is produced at least annually to summarise the key findings from the ORSA process. The report is reviewed and approved by the Board, however the various outputs from the ORSA process are reviewed and challenged by the Board and Audit & Risk Committee throughout the year.

Over the course of the year, HSA’s performance against the approved business plan is monitored and the budget re-forecast as necessary. If there was reason to believe that internal or external events could have resulted in a material change to the business risk profile, capital measures or solvency position, or would be likely to in future, elements of the ORSA process would be re-run to evaluate whether HSA continues to hold sufficient capital and remain compliant with its regulatory capital requirements. A significant change in capital requirements could lead to actions such as a change in the business plan or to the creation of a plan to obtain additional capital.

In practice, a re-run of the entire ORSA process (or elements of it) would be performed if an event or deviation from the business plan resulted in:

- A major model change as outlined in the HICM Change Policy¹; and/or
- A reduction of available capital or surplus of the same percentage as that for a major model change as outlined in the HICM Change Policy.

B.4. Internal control function

B.4.1. The internal control system

Internal controls are the processes, systems and approaches that HSA has in place to provide reasonable assurance regarding the achievement of its strategic, financial, operational and compliance objectives. In practice, internal controls also provide the Board and senior management with reasonable assurance that risks are being managed within the Board’s approved risk appetite. The following diagram illustrates the five components of the system of internal control. These are all reinforced by the roles of the HSA Board in owning, steering and overseeing the effective design and implementation of the system of internal control within the formal risk governance framework.



¹ The HICM Change Policy outlines the circumstances which would trigger a major change to the HICM, both quantitative and qualitative. The only capital measures which fall within the scope of the HICM Change Policy are the outputs from the HICM. For the ORSA to be re-run, the circumstances which would trigger a major model change will be extended to all capital measures which fall within the scope of the ORSA.

Figure 7

Control Environment: the collective set of standards, processes and structures that provide the basis for establishing and maintaining internal control across HSA.

Risk Assessment: This is the process by which HSA identifies and assesses the material risks which could influence the achievement of its objectives.

Control Activities: The actions that individuals take to implement and operate HSA's internal controls to reduce the impact or likelihood of the risk and keep exposure within appetite. They are performed at various stages within business processes and across the technology environment. They may be preventative, directive, detective or corrective in nature and encompass a range of both manual and automated activities.

Information and Communication: Information on the risk environment is routinely shared with the business. Management uses information from both internal and external sources to support decision making and ensure the functioning of the system of internal control and reports this to the HSA Board and Audit & Risk Committee as appropriate, to enable them to discharge their oversight responsibilities.

Monitoring Activities: Risks and controls are monitored by risk and control owners through normal day-to-day business operations. The Audit & Risk Committees is held quarterly to monitor HSA's risk exposures. On an annual basis key risks and controls are assessed and confirmed as appropriate by the risk owners as part of the Risk and Control Self-Assessment process (RCSA) review and update process. This process also provides the opportunity for risk and control owners to identify new risks and controls to be recorded in the RCR. In addition, Internal Audit provides an annual assessment to the HSA Audit & Risk Committee on internal controls.

The system of internal control has been developed to adhere to the following principles:

1. Board ownership and oversight of the overall effectiveness of the Risk Management Framework, including the system of internal control;
2. Clear risk and control ownership across the business;
3. Clear definition and articulation of individuals' accountabilities, roles and responsibilities;
4. Proportionate approach that focuses on Critical risks and key controls that have the potential to materially affect HSA;
5. Efficient system that transparently balances the potential costs of controls (including both implementation and opportunity costs) against the benefits.

B.4.2. The Compliance function

The Compliance function is, with Risk Management, the second line of defence in the Hiscox Group's risk management framework. As such, the Compliance function's role is to assist Hiscox in managing regulatory risk. Regulatory risk is to be understood as the risk of sanction (or other enforcement or supervisory action) by regulatory authorities due to failure to act in accordance with the relevant requirements.

The Compliance function manages regulatory risk by way of four key activities: (i) the setting of and advisory on regulatory policies and standards; (ii) the oversight and monitoring of regulatory risk and corresponding controls; (iii) the second line regulatory reporting to management, the Board and committees, as well as regulators; (iv) and the interaction with regulatory supervisors to instil and maintain an open and effective working relationship.

The HSA Compliance function is assumed by the European Compliance team located in Luxembourg that is supported by local Compliance Control Coordinators based in most of the branches of HSA. The HSA Compliance function is led by the European Compliance Manager, who is reporting into the Chief Risk Officer of Europe, creating a fully vertically integrated Compliance function in Europe with matrix oversight from the Group Compliance function.

European Compliance is responsible for defining and reviewing the HSA Compliance Program on an

ongoing basis.

The principal missions of European Compliance are:

- to define and update European wide minimum compliance standards in line with the evolution of regulatory risks and oversee their implementation across HSA;
- to advise and support the Board of Directors, senior management and the local Compliance Control Coordinators on HSA compliance standards and regulatory matters or incidents;
- to identify and assess the regulatory risks relevant to the HSA operations and that of the branches (including adequacy of controls);
- to monitor compliance with applicable laws, regulations, and internal standards and to evaluate the potential impact of any changes in the legal environment on Hiscox's activity;
- to design and execute a monitoring programme;
- to continuously maintain and develop a network of compliance professionals and encourage the development of a strong compliance culture within HSA, including training initiatives;
- to initiate, manage, and/or contribute to European and Group wide compliance projects;
- to report on a regular basis to HSA senior management and the HSA Board Committees, on major compliance matters/incidents, ongoing compliance projects and initiatives, on the implementation of the HSA compliance standards;
- to support the business in its preparations in any regulatory reviews, information requests, applications and filings;
- to support and oversee the implementation of solutions to mitigate regulatory risks;
- to oversee the regulatory interaction with host state regulators and manage and maintain an open and effective relationship with the CAA.

B.5. Internal audit function

B.5.1. Implementation of the internal audit function

Hiscox Group's internal audit function operates at a Group level and is part of the overall system of governance. There is an internal audit director position based in Luxembourg, which oversees HSA internal audits. The function provides objective and independent assurance and advice to the HSA's Audit and Risk Committee as well as to the Group's Audit Committees and the HSA Board as well as the Group Boards of Directors regarding the processes and systems of internal control and risk management operating in the Group.

Internal audit's scope extends to all legal entities, including HSA, and business units forming part of the Hiscox Group.

Internal audit is responsible for the development of an internal audit plan ('the plan'), with a corresponding budget. The plan is a rolling 12 month plan which is reviewed, updated and approved every six months to ensure it remains aligned to the key risks facing the Group's legal entities (including HSA). The plan is developed using a risk-based approach, including input from Executive Management. Prior to submission to the Group's Audit Committees (including the HSA Audit and Risk Committee) for approval, the plan is shared with Executive Management.

In setting its plan scope, internal audit takes into account business strategy and forms an independent view of whether the key risks to the Group and its individual entities such as HSA have been identified, including emerging, critical, and systemic risks, and assessing how effectively these risks are being managed. Internal audit's view is informed, but not determined, by the views of management and/or the risk function. In setting its priorities and deciding where to carry out more detailed work, internal audit focuses on the areas where it considers risk to be higher. It makes risk-based decisions as to which areas within its scope are included in the plan; it does not necessarily cover all of the potential scope areas every year, but aims to do so over a three year period.

Internal audit reviews the plan regularly and advises the HSA Audit and Risk Committee of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the HSA Audit and Risk Committee and Executive Management.

In carrying out its duties and responsibilities, internal audit is entitled to:

- a) full and unrestricted access to all of the Group's activities, records, property and information;
- b) full and free access to the Hiscox Ltd Audit Committee, and other subsidiaries' Audit Committees including HSA's;
- c) allocate and apply resources, scope of work and audit techniques, set frequencies and select appropriate subjects in order to meet its objectives; and
- d) the assistance of staff across the Group where necessary to fulfil its objectives.

In addition, internal audit has free and unrestricted access to the HSA Board and the Group Board. The Group Chief Auditor has the right of attendance at all or part of any of the Group's governance and risk forums, or any other forum or committee in the execution of internal audit's remit.

B.5.2. Maintaining an independent internal audit function

Internal audit is independent of the activities that it audits, in order to ensure unbiased judgements and impartial advice to the HSA Audit and Risk Committee and the Group's Audit Committees and to management. In order to ensure this independence and objectivity, the internal audit team members report directly to the Group Chief Auditor, who reports directly to the Chair of the Hiscox Group Audit Committee. Internal Audit also adheres to the Chartered Institute of Internal Auditors' Code of Ethics. Where internal audit is unable to provide independent and objective assurance in a particular circumstance, a third party or parties with the requisite expertise may be engaged.

In order to fulfil its responsibilities efficiently and effectively, internal audit may also co-operate with other functions or assurance providers within the Group (for example, Group compliance or technical underwriting reviews). Where such co-operation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of internal audit remain safeguarded.

B.6. Actuarial function

The actuarial function of HSA is responsible for:

- a) calculating the technical provisions (an estimate of the amount the firm will need to pay out in the future to settle insurance claims). This involves ensuring that the methodologies and underlying models used for this purpose are appropriate;
- b) assessing the sufficiency and quality of the data used in the above calculation;
- c) monitoring the claim experience (the amounts paid and reported to HSA) and comparing those against the amounts predicted by the actuarial models;
- d) contributing to the effective implementation of HSA's risk management system, including risk modelling, ORSA and involvement in the calculation of the capital requirements;
- e) providing an opinion on HSA's underwriting policy; and
- f) providing an opinion on HSA's reinsurance arrangements.

The HSA actuarial function is made up of qualified individuals who have expert knowledge of actuarial and financial mathematics, and who possess skills that make them appropriate for the role. The HSA actuarial function consists of the HSA Actuarial Function Holder and various other members of the Group actuarial team. The HSA Actuarial Function Holder produces reports each year on the above matters, setting out their conclusion and the underlying analysis supporting this conclusion. Any relevant matters are escalated to the Audit & Risk Committee of HSA and the Executive Committee of the Hiscox Group as appropriate.

B.7. Outsourcing

B.7.1. The outsourcing policy

HSA has followed the approved Hiscox Group Outsourcing Policy from 2022 and a new version has been created to match the policy with local regulatory requirements. This revision is done and will be approved by HSA Audit and Risk Committee (ARC) in Q1 2024. The Outsourcing Policy sets out the responsibilities and considerations when outsourcing services, together with the associated reporting and monitoring arrangements to be implemented where outsourcing is used.

The purpose of the Outsourcing Policy is to set out the framework for selecting and managing outsourced services, governed by this Policy whilst optimising the value from its service providers. Furthermore, the Policy provides an approach that addresses the need to identify, assess and manage the potential operational risks of outsourcing resulting from significant changes to people, processes and systems that may result in reduced control.

The Outsourcing Policy has been developed to ensure that prudent selection and management methods are employed for outsourced arrangements.

The Outsourcing Policy specifies the requirements for both outsourcing to external service providers and internal outsourcing where services are provided to HSA by other members of the Hiscox Group.

The process covers:

- Identification of potential suppliers;
- Assessment of importance or criticality;
- Written notification to regulator;
- Terms of the outsourcing contract (including data protection);
- Supervision of the outsourced service;
- Monitoring and management of the contract; and
- Orderly exit from the contract.

The approach to the management of outsourced arrangements where underwriting authority, claims management and payment authority and investment management mandates are delegated to a third party are set out in the 'Delegated Authority Policy' and the 'Group Investment Policy', respectively.

The Hiscox Group Outsourcing Policy shall be complemented by a specific annex to ensure compliance with the relevant laws and regulations applicable to HSA.

In addition to services outsourced by the branches to service providers established within the EEA, HSA relies on a range of internal outsourcing partners located in the UK for provision of a variety of services as outlined below:

- Hiscox Underwriting Group Services Ltd (HUGS)
IT services, actuarial services, investment management services, as well as capital modelling and capital management support services, outwards reinsurance support services, investment management series, and other group services.
- Hiscox Underwriting Ltd (HUL)
HUL is an intermediary, which is fully owned by the Hiscox Group that provides insurance mediation and underwriting services to HSA and which is authorised through delegated authority to write business on behalf of HSA but only with regards to UK customers with an EEA risk.

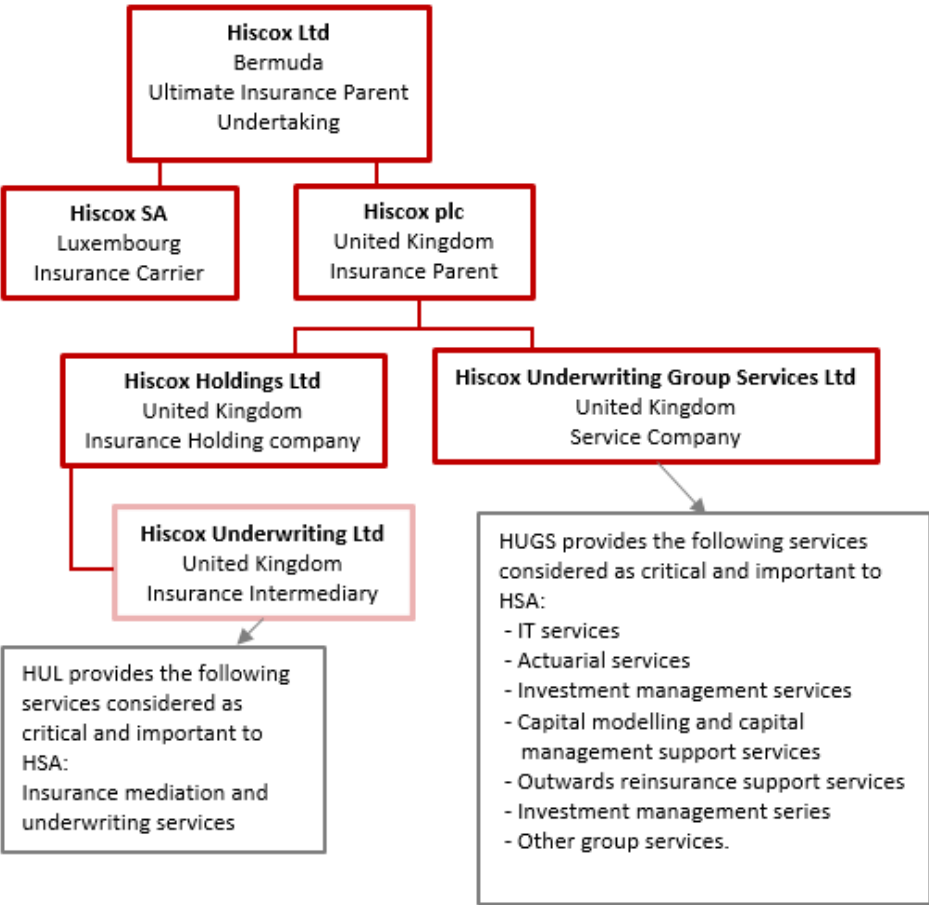


Figure 8

The table below identifies the operational functions that are outsourced, as well as the responsible person

within HSA:

Function	Main Activities	Performance of function	Function Holder	Hiscox SA responsible person
Actuarial and Reserving	Advice as to the appropriateness of the reserving including the preparation of actuarial opinions and reports, and presentation of reports to the reserving committee of HSA; Preparation of actuarial data for inclusion in management and other reports as requested, including regulatory returns; Detailed review of the pricing or reserving adequacy of a product or line of business, as requested by HSA.	All reserving and actuarial services are outsourced to the Group actuarial team	Barry Wright Reserving Manager ²	Patrícia Vaz Baptista HSA CFO
Investments	All matters in relation to management of investments for HSA; Monitoring adherence of Investment Managers to investment guidelines.	All investment management activities are outsourced to the Group Investments team	Todd Isaac Chief Investment and Treasury Officer	Patrícia Vaz Baptista HSA CFO
Outward Reinsurance support services	Purchase of reinsurance activities.	All reinsurance purchasing activities are outsourced to the Group Reinsurance team	Rob Caton Director of Underwriting Risk and Reinsurance	Justin Bowen HSA CUO
IT Services	Provision of certain IT services	IT services are partially outsourced to the Group IT team	Stephane Flaquet Group Chief Operations & Technology Officer	Gonçalo Carvalho HSA CTO
Modelling and capital management support	All matters in relation to modelling of capital requirements for HSA .	All capital modelling activities are outsourced to the Group Capital Management team	Gareth Jones Head of Capital Management	Patrícia Vaz Baptista HSA CFO

Table 12

B.8. Any other material information

The adequacy of the system of governance is considered by the Board on a regular basis. This process considers both changes and recommendations made during the year (such as through Company Secretary or Internal Audit, Risk Management and Compliance reporting) and any advice provided based on regulatory change. In light of the envisaged plan to further strengthen corporate substance of HSA so as to ensure effective decision-making and allow for the proper supervision of the company the Company's system of governance is considered to be appropriate given the nature, scale and complexity of the risks inherent in its business.

All material information regarding the system of governance of the insurer is included in the sections above.

² On the 1st of January of 2024, Jessica Phillips was appointed HSA Chief Actuary

C. Risk profile

The risk profile information presented in Section C is based on an analysis of the Standard Formula SCR at 31 December 2023. For further details please see Sections C.1 – C.7 below.

The monitoring of HSA’s risk profile assists Management and the Board with ensuring that risk is taken in a consistent and balanced way, and within the Board’s risk appetite. As described in section B.3.2., HSA uses various quantitative and qualitative methods to track its actual risk exposure, including the Solvency II Standard Formula to calculate its regulatory SCR. This section focuses on the diversified capital requirement for HSA, whereas the Executive Summary examined the pre-diversified Standard Formula SCR.

The regulatory capital risk profile of HSA for 2023 has remained in line with the prior year in aggregate.

The majority of the Standard Formula SCR is attributed to underwriting risk and the next largest risk area is operational risk. Further information on each risk type is detailed below.

The main method used to track actual risk exposure is the risk profile tool generated by the Hiscox Integrated Capital Model (HICM). This is an economic capital model which is used for internal purposes which enables HSA to regularly monitor its exposure to its material risks against its expected business plan, risk appetite limits and risk tolerances at various return periods. The output from the resulting analysis is presented to the HSA Audit & Risk Committee, detailing any material changes from the previous update. The downside potential for a loss is openly communicated and closely monitored.

The composition of HSA’s capital requirement under the Standard Formula SCR for the year ended 31 December 2023 is shown in figure 9:

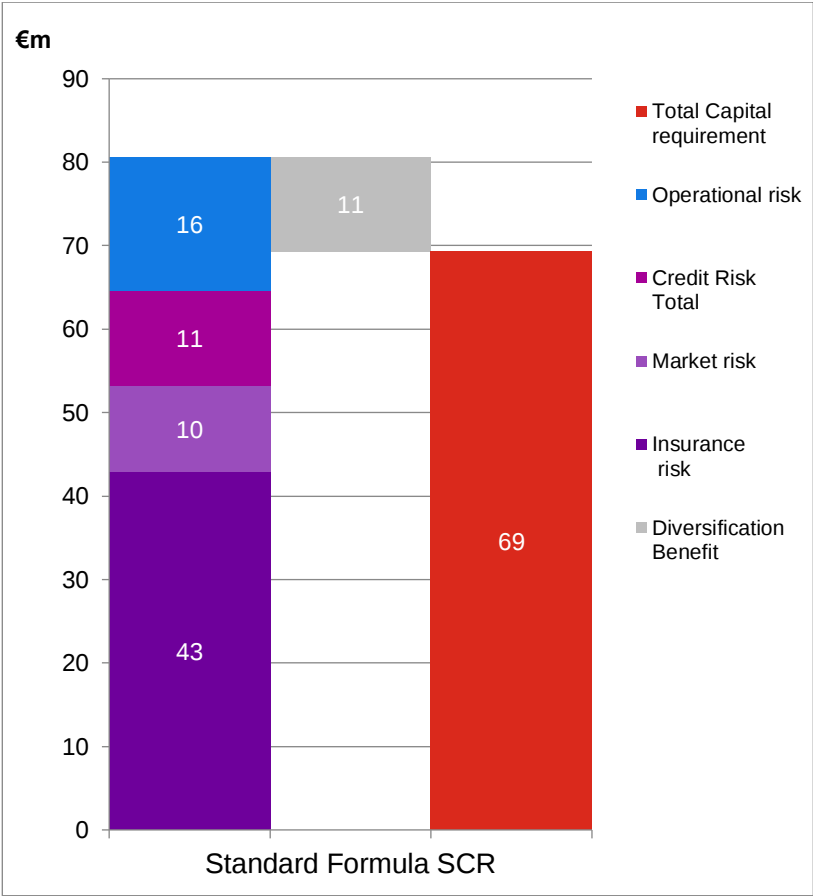


Figure 9

The ORSA process and risk management framework, described in section B.3.3, provide the basis for monitoring the effectiveness of HSA's risk management on an ongoing basis.

The Standard Formula quantifies underwriting risk, market risk, counterparty risk and operational risk. Other risks are not explicitly modelled under the Standard Formula.

C.1. Underwriting risk

C.1.1. Risk description

The predominant risk to which HSA is exposed is insurance risk, which is assumed mainly through the underwriting process. Insurance risk is defined as 'the possibility that insurance premiums and/or reserves are ultimately insufficient to fully settle claims and associated expenses'.

Within the Risk and Control Register, it is sub-categorised into i) underwriting (premium) risk, and ii) reserve risk.

Underwriting risk

The Underwriting risk is defined as the risk that insurance premiums will not be sufficient to cover future insurance claims and associated expenses. It also encompasses people, process and system risks directly related to underwriting, such as human error in paying invalid claims or misquoting premium prices.

Key underwriting risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Insurance	Underwriting	Underwriting Exposure Management	Insurance exposures accumulate to an unacceptable level, are not fully understood or materialise unexpectedly.
		Pricing	The risk of failing to price policies adequately or making poor risk selection decisions.
		Authority Breach	Accepting risks outside of agreed underwriting parameters or where authority limits have been breached.
		Contract or policy wordings	Policy wordings are vague, incorrect and/or do not adequately reflect exposure assumed (including the risk of non-affirmative cover).

Table 13

Underwriting risk can arise from poorly managed exposure, inappropriate underwriting models, loss experience not emerging as expected, changes in market conditions, poor staff training and monitoring.

Reserve risk

The risk of unsuitable case reserves (for example, over- or under-reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses. HSA makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' (IBNR) claims. If insufficient reserves were put aside to cover our exposures, this could affect the HSA's future earnings and capital.

Key reserve risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Insurance	Reserves	Claims reserves	Unsuitable case reserves (e.g., over or under reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses.

Table 14

C.1.2. Risk mitigation

HSA has established controls to manage and mitigate its key underwriting and reserve risks.

Key controls in place for HSA's underwriting, reserving and claims risks include:

- Underwriting and claims authority letters; and
- Claims underwriting guidelines;
- Underwriting and reserving reviews;
- Portfolio monitoring and management meetings;
- Product Governance process;
- HSA Pre-Reserving Committee and Reserving Committee;
- Review and sign-off of reserves by the Audit & Risk Committee; and
- Independent actuarial review of reserves.

Underwriting authority letters and claims authorities set out the parameters within which underwriting and claims staff can operate. For example, authority limits will be based on experience and restricted to certain lines of business, with referrals to a more senior underwriter for approval before binding a risk where necessary. Ensuring that underwriters operate within defined parameters helps HSA to monitor its exposure to risk geographically and by line of business.

Peer reviews are in place for underwriting, to act as an independent check that staff have acted within their authority and according to defined processes. The outcomes of peer reviews are reported to underwriting management to highlight control weaknesses and training needs. There is a further formal audit process every year in each country.

Regular monitoring of performance helps spot trends to inform adjustments to underwriting strategy and pricing as necessary.

Claims underwriting guides help to ensure that a consistent approach is taken to managing and reserving for claims. This reduces subjectivity in the level of reserves retained for claims with similar attributes.

C.1.3. Measures used to assess risk

Underwriting risk and reserve risk are both explicitly modelled within the risk profile (see Table 13 and Table 14).

For underwriting risk and reserve risk, measurement is performed via the use of risk and capital models, including the risk profile, and expert judgment. The risk profile tool allows the Group and carriers to measure actual exposure against parameters that articulate the amount of risk it is prepared to accept.

Stress and scenario testing, as well as reverse stress testing, is also used to assess underwriting and reserve risk, please see section C.7.1. for further information and results of HSA's most recent testing.

C.1.4. Risk concentration

HSA writes a focused book of commercial and personal insurance risks. The portfolio concentrates on professionals and small and medium sized businesses as well as mid net worth and high net worth individuals. The geographic spread during 2023 in Europe was predominantly in France and Germany, and the type of risks are mainly first party property exposures and third-party liability. Concentration of underwriting exposure may exist across counterparties, industries and geographic locations.

Concentrations of property exposure at a 200 meter radius and single location are monitored monthly. We also regularly geocode all properties and feed this data into catastrophe models. For casualty classes, we use Realistic Disaster Scenarios (RDSs) to model the expected losses we would incur from systemic events. Outputs from these modelling exercises are incorporated into our predicted loss ratios, which form the basis of underwriting strategy discussions and decisions.

C.1.5. Material changes over the reporting period

On a Solvency II Standard Formula basis, Underwriting risk has decreased from €43.4m at year-end 2022 to €42.9m at year-end 2023, driven by a decrease in net premiums resulting in a decrease in Premium risk. This is partially offset by an increase in Lapse risk and Catastrophe risk since year-end 2022, attributed mostly to an increase in exposure on the Liability portfolio, resulting in increase in Man Made Catastrophe Liability Risk.

C.2. Market risk

C.2.1. Risk description

Market risk is the threat of unfavourable or unexpected movements in the value of HSA’s assets and/or the income expected from them owing to movements in market prices (e.g. generating negative investment returns).

Within the Risk and Control Register, market risk is sub-categorised into i) foreign exchange risk, and ii) investment risk.

Risk type	Risk grouping	Risk name	Risk definition
Market	Foreign exchange	FX Risk	Foreign exchange risk arises from having to convert assets from one currency to another in order to cover liabilities due (e.g. claims).
	Investments	Investment Risk	Probability of loss over a 12 month period for a given investment strategy, or the exposure to inappropriate assets/asset classes, or operating outside of authorised strategic asset allocation and/or tactical asset allocation limits.

Table 15

HSA chooses to assume market risk in order to optimise the return on assets while ensuring that funds are available to pay claims when required. Also, the Prudent Person Principle is embedded within HSA’s investment approach.

FX Risk is assessed as remote since HSA is operating mostly in the Eurozone, therefore liabilities arising as a result of known claims and those likely to be made are in Euro. Also, HSA does not actively seek to generate investment returns by taking ‘bets’ on currency movements.

C.2.2. Investment management in accordance with the ‘Prudent Person’ Principle

The Prudent Person Principle is embedded in Solvency II and is used to guide HSA’s investments.

HSA invests in assets and instruments that can be properly identified, measured, monitored, managed, controlled and reported on. They are invested in a manner to ensure the security, quality, liquidity and profitability of the portfolio, and such that they are available to the company in the relevant currency as required. Assets held to cover technical provisions are also invested in a manner appropriate to the nature and duration of HSA’s liabilities. They are invested in the best interest of all stakeholders, taking particular account of HSA’s customers.

Assets are diversified in such a way that there is no over reliance on, or concentration of risk in, any particular asset, issuer, group of undertaking, geography, asset class or other risk attribute in the Group or divisional portfolios.

C.2.3. Risk mitigation

HSA has established controls to manage and mitigate its key market risks.

Examples of some key controls in place for HSA’s market risks include:

- Currency matching and asset-liability matching strategy;
- Divisional Investment Group meetings;
- Cash and Capital Committee meetings;
- Minimum cash limits; and
- Investment manager performance management.

Matching the currency of assets with the currency of liabilities reduces the likelihood of HSA not being able to pay claims due to currency fluctuations. Matching the maturity of assets with the expected timing of liabilities helps to maximize returns on the investment portfolio, and preserve liquidity, which helps to avoid liquidating assets before they are due to mature.

HSA has a minimum amount of cash that must be retained at all times. This helps to ensure planned and unforeseen liabilities can be covered in a timely manner, without impacting the investment portfolio.

HSA uses external investment companies to manage its bond portfolio. The investment managers must operate within defined constraints set by HSA, and they provide regular updates on performance, which is reported to HSA’s management and the Divisional Investment Group.

C.2.4. Measures used to assess risk

Measurement of Market risk is performed via the use of risk and capital models, stress, scenario and reverse stress testing and expert judgement. For example, Market – Investment and Market – FX risk are both modelled as part of the HSA’s modelled Risk Profiles. The Risk Profile tool allows clear measurement of actual exposure against parameters that articulate the amount of risk it is prepared to accept.

C.2.5. Risk concentration

Concentration risk arises when too much exposure is held in assets which respond to similar risk factors. Assets are diversified in such a way that there is no over reliance on, or concentration of risk in, any particular asset, issuer, group of undertaking, geographical area, asset class or other risk attribute in the Group or Divisional portfolios.

Permitted asset classes within the investment portfolio are bonds, risk assets (including equities), cash and

derivatives.

The majority of assets held by HSA, approximately 94%, comprise cash and bonds. In the bond portfolios, the largest exposures are to European governments bonds and corporate bonds issued in EUR. These exposures vary over time within the limits set in the investment guidelines. The largest individual exposure is to the government of Germany at 5% of bond exposure. For corporate bonds, there is a wide range of holdings, covering multiple sectors and in excess of 140 issuers. The bond portfolios are actively managed and so individual positions and exposures are subject to change over time depending on the decisions of the investment managers. Whilst the exposures shown in table 17 may change over the coming year, concentrations are limited by the portfolio restrictions applied to each mandate.

C.2.6. Material changes over the reporting period

On a Solvency II Standard Formula basis, Market Risk has increased from €8.8m at year-end 2022 to €10.4m at year-end 2023 primarily due to a €4.2m increase in value of Property on the balance sheet since YE 2022 and a decrease in market risk mitigation % from 85% to 79% (percentage of investment losses ceded to HIB, in line with the RI arrangement in place).

C.3. Credit risk

C.3.1. Risk description

Credit risk is defined as the risk of loss or adverse financial impact due to default by counterparties to which HSA is exposed.

The inherent credit risk exposure for HSA is material with the quota share agreements in place with HIB to cede 90% of GWP (across internal and external reinsurance). Currently the quota share operates with a funds withheld agreement between HSA and HIB which mitigates HSA's residual risk exposure and hence is assessed as not a critical risk for HSA. It is worth noting that HSA will continue to review the funds withheld structure to ensure its continued appropriateness and benefit for HSA.

Within the Risk and Control Register, Credit risk is sub-categorised into i) Counterparty default (reinsurer) risk, Counterparty default (broker) risk and, ii) Counterparty default (other).

Risk type	Risk grouping	Risk name	Risk definition
Credit	Credit	Counterparty default (reinsurer)	Default or downgrade of a reinsurance counterparty (external).
		Counterparty default (broker)	Default or downgrade of a broker counterparty (external).
		Counterparty default (other)	Default of counterparties other than reinsurers and brokers (e.g. banks, investment managers, other custodians).

Table 16

C.3.2. Risk mitigation

HSA has established controls to manage and mitigate its key credit risks that include:

- Collateral requirements for reinsurers;
- Group Credit Committee meetings;
- Reinsurance Credit Committee meetings;
- Reinsurance counterparty limits;
- Broker exposure monitoring; and

- Bank exposure monitoring.

To reduce credit risk exposure to reinsurers, HSA benefits from the Group's approach to RI Credit risk, here, limits are in place to manage our exposure to reinsurers based on their credit rating. HSA can request collateral to be held from reinsurers, which can be used to pay claims if the reinsurer is downgraded or defaults on its obligations.

Broker credit risk is also closely managed, through an approval process for new brokers and monitoring of due and overdue premium.

Credit risk arising through exposure to banking counterparties is controlled in a similar way, through approval of the counterparties based on credit worthiness and monitoring of individual exposure and credit ratings.

C.3.3. Measures used to assess risk

HSA's exposure to credit risk is represented by the values of financial assets and reinsurance assets included in the balance sheet at any given point in time. HSA's gross receivables are exposed to the underlying internal intermediary's broker credit risk.

Reinsurance credit risk and broker credit risk are both explicitly modelled within the risk profile.

Credit risk is included in HSA's stress and scenario testing. Please see section C.7.1. for further information on HSA's most recent tests.

C.3.4. Risk concentration

The concentration of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. Exposures are diversified as far as possible in accordance with Group policies, in order to avoid concentration of reinsurers, bonds issuers, brokers or other counterparties.

An analysis of HSA's current exposure to credit risk (at market value) as at 31 December 2023 is detailed in Table 17:

Credit risk exposure €000		
	2023	2022
Bonds	462,504	377,648
Collective Investments Undertakings	33,241	31,380
Derivatives	0	899
Deposits other than cash equivalents	728	(205)
Reinsurance Recoverables	70,425	91,080
Gross receivables arising from insurance and reinsurance contracts	15,071	13,632
Trade receivables	4,128	21,644
Cash and cash equivalents	59,655	47,171
Total	645,752	583,250

Table 17

Further information on the risk concentration on HSA's bond portfolio is detailed in sub-section .2.5.

C.3.5. Material changes over the reporting period

On a Solvency II Standard Formula basis, Credit Risk has increased from €10.0m at year-end 2022 to €11.4m at year-end 2023 due to increases in reinsurance recoveries and cash, and also a deterioration in the credit quality of external reinsurers, resulting in an increase in Type 1 Counterparty risk.

C.4. Liquidity risk

C.4.1. Risk description

- The characteristics of liquidity risk mean that it should be viewed across three different time horizons:
- Short-term – cash required in the coming months to cover normal trading activity including payment of known claims, expenditure and salaries;
 - Medium-term – cash required to meet medium-term funding requirements including tax and dividend payments and planned project and capital expenditure; and
 - Long-term – cash required to support the longer term ambitions of HSA including underwriting capital to meet growth ambitions and funding to support potential future stress scenarios such as catastrophe losses.

Risk type	Risk grouping	Risk name	Risk definition
Market	Investments	Liquidity Risk	Inability to meet cash requirements from available resources within appropriate/required timescales.

Table 18

Liquidity risk arises from the need to pay insurance claims and other liabilities, which may have an uncertain timing or quantum. HSA has to balance the liquidity of assets with the return and the quality.

C.4.2. Risk mitigation

HSA has established controls to manage and mitigate its key liquidity risks that include:

- Minimum cash limits
- Cash-Flow projections and monitoring
- Solvency II monitoring and quarterly projections
- Cash, Capital and Credit Committee meetings
- Divisional Investment Group meetings
- Large loss procedures

As mentioned in section C.2.3, HSA has minimum cash requirements that must be retained at all times.

Quarterly Cash and Capital Committee meetings are held to monitor the liquidity position of HSA. Any significant breaches of cash reserve limits are also reported to the Cash and Capital Committee.

C.4.3. Measures used to assess risk

Cash flow analyses are performed on a regular basis to ensure sufficient cash is available to cover liabilities due and cash levels are monitored on a daily basis. Furthermore, additional liquidity is available from holdings in short dated government bonds if required, both at a Group-level and within HSA's own investment portfolio.

The Hiscox Group Cash and Capital Committee plays a key role in governance and oversight of liquidity risk for the Group, including HSA. The committee monitors the short and medium term cash flow and liquidity, and takes action where appropriate.

C.4.4. Expected profit included in future premiums

The expected profit included in future premiums is €38,832 thousands (2022: €33,292 thousands). This represents the profit that is expected to materialise from contracts which have been bound by HSA but the company is yet to go through the risk exposure period to which the premium relates. The variance year on year is driven by a change in mix of business of future premiums at 31 December 2023.

C.4.5. Risk concentration

HSA's liquidity risk concentration is managed by holding assets with a variety of approved banks, bond issuers and credit institutions.

The bond portfolios typically hold a proportion of their assets in European government bonds, which are highly liquid, particularly for the governments predominantly held. The corporate bond exposures are to over 120 issuers. At least 95% of which of which have investment grade credit ratings as the investment guidelines allow the manager to hold up to 5% in sub investment grade corporates, should appropriate return opportunity arise. HSA's exposure to risk assets is held via units in open ended vehicles which deal on a quarterly basis, and therefore can be expected to be realised in a reasonable time frame.

C.4.6. Material changes over the reporting period

To ensure adequate liquidity is maintained at all times, the Investment team and the Treasury team report to the Group Chief Investment and Treasury Officer.

C.5. Operational risk

C.5.1. Risk description

Operational risk is the risk of direct or indirect loss resulting from internal processes, people or systems, or external events.

Key operational risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Operational	People	Retention & Organisational Gaps	Loss of implicit knowledge and experience of key individuals or teams, or failure to recruit the necessary amount or calibre of human resources.
		Employment reputation/ compliance	Failure to ensure employment and compensation practices are in line with market standards and are appropriate in the context of employment law.
		Performance management	Ineffective (e.g. inefficient and reactive) management and/or monitoring of employee underperformance.
		Financial Crime (excl. Sanctions)	Failure to implement or maintain the processes and procedures necessary for the detection and prevention of fraud and financial crime, both internal and external.
	Systems	IT/Systems Failure	Major IT, systems or service failure (e.g. systems are disrupted, unavailable or insecure).
	Processes	Data Security	Failure to implement or maintain the systems and processes necessary to protect the confidentiality, integrity or availability of information and data.
		Project risk/change management	Projects and/or change initiatives are not delivered to plan, budget or specification or the risks inherent to the project are not appropriately managed.
		Outsourcing	Ineffective or inadequate oversight of individual outsourced arrangements and/or the overall outsourcing portfolio; including both intra-group and external arrangements.
		Business continuity	Failure to restore the delivery of services, operations or premises to acceptable predefined levels following a disruptive incident
		Financial Misstatement	The risk that financial statements have been misstated to a material degree, as a result of error or fraud.
		Reserving Process	Ineffective processes, controls and systems in place to effectively manage and monitor reserves.
		Claims Management	Ineffective management of claims (e.g. customer experience and appropriateness of decisions).
		Underwriting Operations	The processes, controls and systems in place to support and monitor individual underwriting decisions are insufficient/ineffective. "Underwriting Operations" covers (a) policy/ documentation issuance (new business, renewals, mid-term adjustments, cancellations); (b) data capture; (c) monitoring of underwriter decisions; (d) Delegated Authority oversight.

Table 19

C.5.2. Risk mitigation

The key controls and mitigation in place for HSA's Operational risks include:

People risks

- Succession planning
- Training and development programs
- Employee Performance Framework
- Employee Engagement Survey (EES)
- Benefits and Remuneration review (including gender pay-gap, market comparison)

System risks

- IT DR (disaster recovery)
- Data back-up
- IT access protocols
- IT security (e.g. firewalls, email scanning and content filter)
- IT security training (e.g. phishing, best practices)
- IT security policies
- Privacy training

Processes risks

- Change Delivery Framework (CDF)
- Business continuity plan (BCP) testing
- Information Security and Privacy Group monitoring of data security and privacy
- Data transfer policy
- European Design Authority (EDA)
- European Process Management Framework (PMF)
- European Change and Operations Leadership Team (ECOLT)

C.5.3. Measures used to assess risk

Operational risk is measured using risk and capital models, such as the risk profile tool, which measures risk exposure against Board approved risk appetite.

Stress testing and scenario analysis also includes operational risks. Please see section C.7.1. for further information on the results of the most recent testing.

Operational risk and near miss events are also reported to the risk function for analysis and to understand the root cause of each event. These are also reported to the HSA Risk Committee.

C.5.4. Risk concentration

Operational risk is reduced by having a dispersed and independent structure by country, which allows for multiple sites across nine countries in Europe. The Company also enables working from home, which lowers the risk of depending on physical offices to trade. However, DR and BCP plans are still prepared and tested regularly.

The Personal Development Review process and training and development programme aims to manage talent to reduce single person dependencies on key people as well as staff turnover. Documentation of policies and procedures also limit the reliance on specific individuals.

C.5.5. Material changes over the reporting period

As HSA's business grows at a high rate, so does the Operational risk that comes with it. However, we have balanced this risk with a considerable enhancement of our risk management skills, policies, processes and controls.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic risk

Strategic risk is defined as the possibility of adverse outcomes that may result from strategic 'bets'/business initiatives taken or not taken by HSA. This may include business expansion or contraction, mergers and acquisitions, negative impacts to reputation or brand management, or failure of the Board to provide adequate oversight of the business or make appropriate business decisions.

Key strategic risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Strategic	Strategic	Strategy evolution and execution	Ineffective business plans and strategies, decision making or resource allocation, or failure to adapt to changes in the business environment.
		Management of financial performance	Management of finances (including expenses) is not suitably tracked or controlled and infringes overall profitability.
		Capital management	Holding of inadequate or inappropriate capital resources vs. risk profile, regulatory capital or rating agency capital requirements, and/or inefficient use of capital.
		Conduct risk	Failure to pay due regard to the interests of customers or failure to treat them fairly at all times.
		Technology strategy	Outdated technology strategy or solutions in place to support business growth and harness relevant emerging technologies.
		Management of conflicts of interest	Actual or perceived conflicts of interest between Group entities or with third party capital providers cause HSA to fail to fulfil its duties to stakeholders.

Table 20

Regulatory and legal risk

The insurance industry is a highly regulated sector and, as such, is exposed to continuous regulatory change. This can affect the level of capital that firms are required to hold or require changes to how they are set up operationally from time to time. Regulatory risk is the risk of failing to act in accordance with relevant regulatory requirements in all relevant jurisdictions or a deterioration in the quality of relationship with one or more regulators. Legal risk is the risk of failing to act in accordance with relevant legal requirements in all relevant jurisdictions.

Risk type	Risk grouping	Risk name	Risk definition
Regulatory and legal	Regulatory and legal	Regulatory risk	Failure to act in accordance with relevant regulatory requirements in all relevant jurisdictions or deterioration in the quality of relationship with one or more regulators.
		Sanctions	The risk of direct or indirect engagement, including financial transactions, with sanctioned entities (individuals, businesses or countries).
		Tax governance	Failure to act in accordance with relevant taxation laws or adapt to changes in taxation.
		Legal risk	Failure to act in accordance with relevant legal requirements in all relevant jurisdictions.
		Privacy & Data Protection	The potential loss of control over personal data.

Table 21

Group risk

Group risk encompasses the risks arising from the interconnected nature of the Group and its entities. Contagion risk arises from HSA's internal reinsurance and internal transactions risk arises from inter-company transactions and services arrangements not being carried out in a way that satisfies legal or regulatory requirements.

Risk type	Risk grouping	Risk name	Risk definition
Group	Group	Internal transactions	Transactions conducted between entities within the Group lead to complex interdependencies amongst the Group or are not conducted in accordance with legal and/or regulatory requirements.
		Contagion risk	Decision(s) or action(s) taken by the Group or another carrier within the Group compromises the entity in question's going-concern position, strategy or regulatory standing (e.g. failure of carrier or other legal entity).

Table 22

As part of the Hiscox Group, HSA is connected to a number of other related Hiscox entities. These connections largely take the form of arrangements for services provision and reinsurance arrangements (predominantly with Hiscox Insurance Company (Bermuda) Limited). Hiscox Ltd is the parent company of all Hiscox SA.

C.6.2. Risk mitigation

Strategic risk

Examples of some key controls in place for HSA's strategic risks include:

- HSA Leadership team and HSA Board review of business plans and operating budgets;
- Business planning process and business plan monitoring;
- Steering committees with regular reporting to the Board for large scale projects;
- Technology Roadmap;
- Stress and scenario testing; and
- Board training.

Regulatory and legal risk

Examples of some key controls in place for HSA's regulatory and legal risks include:

- Local legal and compliance expertise and dedicated Legal & Compliance forums in each EU jurisdictions;

- EU Compliance meetings with all local Compliance Control Coordinators;
- Management and oversight of regulatory engagement by the Chief Risk Officer of Europe;
- Compliance monitoring plan operated at European and Branch level,
- Dedicated 1st line privacy team,
- Risk and Compliance event reporting process, and
- Group wide mandatory regulatory compliance training.

Group risk

Examples of some key controls in place for HSA's Group risks include:

- Arms-length structure to reinsurance transactions;
- Annual review of the register of shared reinsurance purchases by the ARC; and
- Entity-specific governance.

As part of the Hiscox Group, HSA is subject to oversight by its own Board and Committees, and also by the Group Board and Committees. This additional review, including by independent Non-Executive Directors, helps to provide comfort that HSA is operating in a responsible manner. HSA has a conflict of interest policy in place.

Contingency plans are in place which can be followed in the event of failure of another entity in the Hiscox Group, to minimise the impact on HSA.

Climate risk

HSA manages climate change risk in accordance with the Hiscox Group Sustainability (previously ESG) Framework. The Hiscox Group continues to take a strategic, holistic and long-term approach to managing risks associated with climate change which are considered as part of the Sustainability Framework. HSA leverages and utilises this framework in order to manage its sustainability related risks. During 2023, we reviewed our sustainability framework. Our five strategic pillars – people, customers, governance, risk adaptation and impact – each represent important areas of focus for the Group. Activities, progress and oversight of each pillar will continue to be driven through our embedded sustainability governance structures, under Group Executive Committee leadership and ownership in HSA's European Management Team (with the Chief Risk Officer of Europe appointed as sustainability officer).

HSA closely monitors claims experience and utilises centralised tools and activities such as capital modelling, catastrophe modelling, risk modelling and investment management to monitor and manage climate change risk.

In 2023, we enhanced our sustainable underwriting strategy, with four key areas of focus: how we articulate our underwriting appetite and exclusions; how we understand, manage and seek to mitigate sustainability-related underwriting risks (including physical risk, transition risk and liability risk); the role of innovation and product development in the net-zero transition; and our data capture and measurement capabilities. This builds on the Hiscox ESG Group-wide exclusions policy: we have excluded thermal coal-fired power plants, thermal coal mines, arctic energy exploration, oil sands, and controversial weapons.

Specific advancements in 2023 include the introduction of a more sophisticated way to model natural catastrophe impact on loss ratios in Europe.

C.6.3. Measures used to assess risk

Strategic risk, regulatory and legal risk and Group risk are not modelled quantitatively at a risk level by HSA. These risk exposures are believed to be covered by other risk types and management actions. Where specific strategic or group initiatives are under consideration, these are subject to individual risk assessment

and measurement. As with all other risk types, these are included as part of risk dashboard monitoring and reporting to the risk committee.

C.6.4. Material changes over the reporting period

HSA has been operationally ready since 1 January 2019 and maturity of the legal entity processes, controls, governance, as well as people capabilities are continuously reviewed and uplifted to support the organisation becoming more mature, efficient and robust. While major changes happened on the external environment, HSA has not been exposed to major exposures requiring major shifts of priorities or plans.

C.7. Any other information

C.7.1. Stress and Scenario testing

HSA uses stress and scenario testing to assess the robustness of its business model, business plan and capital to a range of potential threats. This allows HSA to better understand its vulnerabilities and identify potential actions it could take under those scenarios to safeguard the business.

HSA uses a variety of methods to undertake such analysis, as follows:

- Stress tests assess the impact on the business of a change in an individual factor (e.g. standalone/individual basis stresses);
- Scenario tests assess the impact of a change in the overall operating environment resulting from a number of factors or a particular event;
- Reverse stress testing assesses scenarios and circumstances that would render the business model unviable. HSA defines unviability as when the business is no longer willing or able to write premium or at the point when crystallising risks cause the market to lose confidence in the business and, therefore, the projected business plan targets cannot be met. This will not necessarily be the point where the business runs out of capital entirely; and
- High level, forward-looking scenarios consider the impact of events on a multi-year basis (e.g. from 2024 to 2026). These are typically based on less severe scenarios than are used for stress and scenario testing including an 'expected' scenario (i.e. in which there are no positive or negative shocks to the market).

HSA has a defined approach to the development of scenarios, with the Senior Risk Manager of Europe and the Group Risk team coordinating the process. They work closely with business risk owners and subject matter experts to identify scenarios and assess their impact and likelihood. Assumptions, controls, potential mitigating actions and potential future management actions that could be taken in response to each scenario are also considered.

The HSA Audit & Risk Committee oversees the stress and scenario testing programme. It approves the aggregate scenarios to be tested and considers the outputs of the stress tests, together with any recommendations and actions. It may also request further stress testing or re-runs.

The scenarios test the key risk exposures faced by HSA and are based on internal and external events. Insurance risk is the most material risk to the business and so is a key area of focus for stress and scenario testing. In the most recent round of testing, the following scenarios were considered:

- Economic downturn;
- Persistent high global Inflation;
- Cyber O/S Wiper attack;
- Multiple European catastrophe events;
- Casualty reserve deterioration & HIB Default (reverse stress test)

The reverse stress test is calibrated such that a deterioration in reserves and reinsurance default depletes all of HSA's capital but this is an extreme event beyond a 1 in 200 return period.

In the event of a capital shortfall, HSA has a range of possible future Management Actions which could include a cost-benefit assessment to determine whether continuing to write these lines could be capital efficient, purchasing additional reinsurance against further deteriorations and a policy wordings review. Rate increases are likely to be associated with this sort of event which may offset losses to some extent. There is also the option of requesting capital injections from Group, or finance HSA through a subordinated loan.

Sensitivity testing is undertaken to assess the impact of changes to model inputs for each risk category on the overall SCR. The inputs for all main risk categories (except operational risk) were stressed to assess the impact of a 10% increase and a 10% decrease in each risk category input on the SCR output. A total of eight tests were performed, the test results are as follows:

Test	Risk category	SCR (€000)	Change in SCR	Change in solvency ratio (%)
Base	Base	69,285		
Overall premium up 10%	Insurance (Premium)	71,035	1,687	2.4%
Overall premium down 10%	Insurance (Premium)	67,715	(1,632)	(2.3%)
Overall claims provisions and reinsurance recoverables up 10%	Insurance (Reserve); Credit	70,628	1,280	1.9%
Overall claims provisions and reinsurance recoverables down 10%	Insurance (Reserve); Credit	68,106	(1,242)	(1.8%)
Intermediary counterparty default up 10%	Credit	69,895	547	0.8%
Intermediary counterparty default down 10%	Credit	68,810	(538)	(0.8%)
Cash + Bonds + Equities up 10%	Market	69,718	371	0.5%
Cash + Bonds + Equities down 10%	Market	68,991	(357)	(0.5%)

Table 23

From the table, the stresses of the inputs for all categories resulted in small changes in the SCR. These numbers do not consider changes in own funds and do not assume any future management actions, although there are a wide variety available to HSA that would be considered depending on the wider situational context.

C.7.2. Exposure arising from off-balance sheet positions and/ or special purpose vehicles (SPV)

HSA does not presently make use of SPVs and only has leasing agreement for the offices that are recognised as contingent liabilities and reported on Off-Balance sheet template.

C.7.3. Other material information regarding the risk profile of the business

All material information relating to HSA's risk profile has been disclosed in sub-sections C.1 to C.6 and sub-sections C.7.1 to C.7.2 of this document.

D. Valuation for solvency purposes

D.1. Assets

D.1.1. Value of assets on a Solvency II basis and details of Solvency II basis of valuation

Table 24 provides an analysis of HSA's total assets on a Solvency II basis compared to the amounts shown in the statutory financial statements as at 31 December 2023.

Balance Sheet €000			
	Solvency II	LUX GAAP	Difference
Goodwill	0	0	0
Deferred acquisition costs	0	63,904	(63,904)
Intangible assets	0	54,271	(54,271)
Deferred tax assets	7,728	(0)	7,728
Property, plant & equipment held for own use	16,313	2,837	13,476
Bonds	462,504	460,716	1,788
Government Bonds	77,199	76,897	302
Corporate Bonds	385,305	383,819	1,486
Collective Investment Undertakings	33,241	24,499	8,742
Derivatives	0	0	(0)
Deposits other than cash equivalents	728	728	0
Reinsurance recoverables	70,425	643,931	(573,506)
Insurance & intermediaries receivables	15,071	87,622	(72,551)
Reinsurance receivables	0	266,916	(266,916)
Receivables (trade, not insurance)	4,128	13,369	(9,241)
Cash and cash equivalents	59,655	59,655	0
Total assets	669,793	1,678,449	(1,008,656)

Table 24

Unless otherwise stated, the Solvency II basis of valuation for all assets follows fair value measurement principles. There were no changes to the recognition and valuation bases over the period. Further details of the assets and explanations for material differences between Solvency II and financial statement valuation basis are set out below.

Goodwill

Under Solvency II these assets are valued at zero.

DAC (Deferred Acquisition Costs)

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date. DAC is not recognised as an asset in the Solvency II balance sheet.

Cash flows relating to acquisition costs, attached to future premiums, are included in the Solvency II technical provisions (further details provided in sub-section D.2). DAC is not included within the Solvency II technical provisions as it is not a future cash flow.

Intangible Assets

Under Lux GAAP, intangible assets are recognised where they can be identified separately, measured

reliably and it is probable that they will be recovered by directly related future profits. These assets are held at cost less accumulated amortisation and impairment losses and are amortised on a straight-line basis over the useful economic life which is deemed to be 5 years in accordance with Luxembourg requirements.

For valuation purposes, and according to Solvency II, the Company has to demonstrate that these assets can be sold separately and, moreover, it would be necessary to demonstrate that there is an active market in which similar intangible assets are traded. Given that the Company's assets considered in this class do not meet these requirements, their value for solvency purposes is zero.

Deferred Tax Assets

The valuation of deferred tax is determined on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive, and the values ascribed to assets and liabilities as recognised for tax purposes. Assets and liabilities have been offset to the extent permissible under IAS 12.

All deferred tax balances are calculated on a country by country basis and are subject to a recoverability test to give comfort that there will be sufficient taxable income available in future years to absorb any deferred tax assets recognised.

Following this approach a net deferred tax asset of €7.7 million has been recognised. The deferred tax asset arises primarily on: timing differences in Germany on claims and equalisation reserves as calculated in accordance with local tax GAAP principles; and timing differences in France arising on recognition of technical income and expenses, and on deductibility of accrued employee remuneration.

Based on current profit projections the net deferred tax asset is expected to be capable of being utilised within the next three years. The asset is being used as basic own funds of Tier 3 and represents 11% of the SCR.

Property Plant and Equipment

The difference results from the application of the IFRS 16 for Solvency II purposes.

Investment in bonds and collective investment undertakings

Adjustments have been made to the valuation of investments for the purposes of Solvency II as they are valued on a market value basis, however under Lux GAAP, the collective investments are valued at lower of historical acquisition cost and market value, and the debt securities are valued at amortised cost or acquisition cost.

Accrued interest on Bonds is classified as receivables (trade, not insurance) under Lux GAAP but is considered a component of the bond valuation under Solvency II.

Reinsurance recoverables

Reinsurance recoverables are a component of the Solvency II technical provisions. Further details and the differences between the Lux GAAP and Solvency II valuation bases are explained in sub-section D.2.

Insurance and intermediaries receivables

Insurance and intermediaries receivables are recognised as assets in the Lux GAAP balance sheet.

Under Solvency II the amount due is considered under technical provisions whilst the amount past due (i.e. when they remain unpaid in the first business day after the payment deadline) should be recognised as an asset in the Solvency II balance sheet.

When assessing the amount of past due receivables at the valuation date, the Company assessed on a look through basis the internal agencies brokers past due amounts of €15.1m (2022: €13.6m). Thus, the difference between the LUX GAAP and the Solvency II balance sheet relates to the past due amounts at the valuation date. Also, the amounts past due were not considered in the calculation of Solvency II technical provisions (as described in sub-section D.2).

There are amounts recognised under Local GAAP as other debtors that classifies as insurance receivables related to insurance activities.

Reinsurance receivables

Receivables related to reinsurance contracts are recognised when they are past due. Reinsurance receivables are considered past due when the amount receivable remains unpaid one business day after the due date. These include amounts past due from reinsurers that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Receivables (trade, not insurance)

Receivables (trade, not insurance) include corporate tax and intercompany balances receivable from fellow group companies. The amounts presented are considered to be representative of fair value as these are the amounts which must be received in order to settle the obligation.

Under Lux GAAP, Receivables (trade, not insurance) include accrued interest. Although there are no valuation differences between the two regimes, there is a presentational change and the amount of accrued interest is reported as a component of the bonds value under Solvency II as explained in 'Investment in bonds' above.

Cash and cash equivalents

There are no differences in the valuation bases between Lux GAAP and Solvency II.

D.2. Technical provisions

D.2.1. Value of technical provisions for each material Solvency II line of business and description of bases, methods and main assumptions used

Solvency II requires the technical provisions to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin.

- The best estimate liabilities are calculated as i) the discounted best estimate of all future cash flows relating to claim events prior to the valuation date (claims provisions), and ii) the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date (premium provisions).
- Risk margin is the amount that insurers and/or reinsurers would require over and above the best estimate liabilities in order to take over and meet the insurance and reinsurance obligations over the lifetime of the policies (i.e. the amount required to transfer liability to a third party).

Table 25 shows the value of the discounted technical provisions as at 31 December 2023 for HSA's material Solvency II lines of business.

Solvency II line of business €000						
	Gross	Outward reinsurance	Net	Risk margin	Technical Provisions 2023	Technical Provisions 2022
General liability insurance	315,517	77,892	237,625	3,303	240,928	262,802
Fire and other damage to property insurance	133,322	(9,252)	142,574	1,982	144,556	55,303
Credit and suretyship insurance	17,017	5,815	11,202	156	11,358	16,698
Other	15,224	(3,748)	19,253	268	19,521	27,642
Total	481,080	70,425	410,654	5,708	416,362	362,444

Table 25

At 31 December 2023, the discounted net technical provisions were €416,362 thousands. Overall, between 31 December 2022 and 31 December 2023 there has been an increase in the discounted net technical provisions (including risk margin) of €53,918 thousands.

The key drivers of the movement in the best estimate technical provisions are given below:

- €292,086 thousands increase in net future premium cashflows (reduction in net TPs) driven by an increase in reinsurance premiums due related to the internal quota share arrangement.
- €7,537 thousands increase in net claims reserves including reinsurance bad debt, driven by growth in the business and a number of large losses during 2023.
- €337,336 thousands increase in future expenses, with a €334,306 thousands reduction in commission due for the internal quota share, offsetting the future premium movements.

Description of bases, methods and main assumptions used

Best estimate liabilities

The best estimate contains no margins for prudence or optimism and is intended to represent the mean of

the aggregate distribution of claims reserves. Gross and reinsurance cash flows are estimated separately for premium and claims and these are used to calculate net results.

The most appropriate level of granularity is used when producing the reserve estimates, by categorising risks into homogeneous risk groupings. The risk groupings are determined by the Reserving team after examination of the characteristics of the business being written and after discussions with the Underwriting and Claims teams. These groupings are reviewed when the mix of business within a reserving class has changed significantly over time. The reserving class groupings generally mirror internal reporting classes of business.

Ultimate premium and claim estimates, gross of reinsurance, are then calculated using at least the following actuarial projection techniques:

- a) Chain ladder method;
- b) Expected loss ratio (ELR) or Initial expected loss ratio (IELR) method; and
- c) Bornhuetter-Ferguson (BF) method.

The projection method selected for a particular class of business depends on various factors, including the characteristics of the class and the length of the claims development. The chain ladder method based on the historic claims development of incurred claims has typically been used for the older underwriting years. However, the claims experience on the most recent underwriting years is relatively immature and the chain ladder method produces estimates with a relatively higher level of uncertainty for these years. For this reason, the BF or ELR method has typically been used for the more recent underwriting years. The BF method places weight on initial loss expectations and is less volatile to early claims experience. As the underwriting years become more mature, more weighting is placed on the emerging experience and the projection will move over to a chain ladder projection (or blend of the BF and chain ladder methods). This transition will occur quicker on the shorter-tailed classes than the longer-tailed ones.

Where there is limited history of Company experience, consideration has been given to peer benchmark experience from across the Hiscox Group. The selected benchmarks are felt to be similar and relevant to the business written by the Company. The benchmark experience is judgmentally weighted with the Company experience as is felt appropriate based on the relevance of the benchmark and the volume and stability of the company experience.

In addition to this, information on new or potentially material claims which are not included in the current incurred position is provided by the Claims team. The Reserving team reviews this information, and where appropriate, will incorporate it into the analysis.

For large and complex events that lead to an accumulation of losses, an exposure assessment is made by the underwriting and claims teams, with a view to estimating the ultimate claims cost for that event. As losses develop, these assessments are reviewed and updated through a process coordinated by the claims team, with input by the underwriting and reserving teams, known as the 'Large Loss Process'.

Reinsurance recoveries for each reserving class and underwriting year have been estimated by applying expected external and internal recovery rates to the gross IBNR estimates and adding known recoveries to date. These recovery rates are based on a review of the reinsurance programmes purchased, historical recovery rates and for classes with quota share protection, the quota share cessions are applied to estimate recoveries.

Events not in data (ENID) are potential events which are not adequately contained within HSA's historical claims experience. HSA is required to include an allowance for these within the Technical Provision calculations, such that the mean technical provisions represent the probability-weighted average of all future cash flows. The current basis for the estimation of ENIDs adopts an approach known as the Lloyd's approximation method. In general terms, the calculation of the uplift, or the level of ENID, is linked to the level of uncertainty in any particular class of business.

There are no guarantees or options that materially affect the calculation of technical provisions. Any relevant guarantees would be identified through discussions with underwriters and the impact of guarantees would be valued on a best estimate basis.

Risk margin

The HSA risk margin is calculated using a cost of capital approach which involves calculating the cost of holding the regulatory capital requirement implied by the standard formula capital assessment model at each future time period until the business has run off. The amounts are then discounted back to the current time period. This regulatory capital requirement calculation excludes new business and market risk. The cost of capital for Solvency II firms is currently set at 6%.

Assumptions

Assumptions and parameters are set by members of the Reserving team with the relevant knowledge and understanding, and with adequate experience. Assumptions are set consistently across the Group and where this is not possible, the differences are understood.

Where sufficient, quality data is not available, benchmark information is used overlaid with expert judgement to determine suitable assumptions. The input of expert judgement allows for specific knowledge and experience to be utilised.

All assumptions and parameters are subject to regular review to ensure that they are appropriate for their intended purpose. Sensitivity testing of key assumptions is carried out to identify key areas of uncertainty.

Validation of the different assumptions is carried out at the reserving class level. The frequency of the validation takes account of the materiality of the assumption. Many assumptions are validated quarterly, while other assumptions are validated annually with quarterly monitoring.

The key assumptions are listed below along with some of the key measures considered when setting them.

- Initial Expected Loss Ratio (IELR) – selected IELRs are determined using historical experience, rate change and claims inflation indices, benchmark information, and modelling of the impact due to changes in underwriting approach;
- Premium and claims development patterns;
- Tail development;
- Allowance for future inflation;
- Reinsurance recovery rates – details of reinsurance programme, historical recoveries;
- Reinsurance payment lags – discussions with the Reinsurance team and based on historical claims experience;
- Bound but not incepted (BBNI) premium – business written prior to but incepting after the valuation date;
- ENID loadings – uplift factors are applied to the reserves for each reserving class based on the Lloyds approximation for ENIDs methodology. The uplift is linked to the level of uncertainty in the reserves;
- Expense forecast – estimate of the future expenses required to fully run off all the liability cash flows;
- Underwriting year expense allocation;
- Counterparty default percentages; and
- Recovery in default.

D.2.2. Description of the level of uncertainty associated with the value of the technical provisions

The estimates shown in this report reflect all available data and information available at the valuation date. Despite this, the actual cost of settling future claims is uncertain as it depends on events yet to occur. These could be different from the estimates reported above, and possibly materially so.

The most significant drivers of this uncertainty are highlighted below:

a) Inflation

The recent spike in inflation following the global pandemic and then the war in Ukraine has begun to subside, but key indices remain volatile, with individual components of the basket of goods changing at different rates. Changing inflation impacts the settlement cost of existing claims, as well as the expected profitability of unearned and unaccepted business. The link between core inflation metrics and the drivers of claims cost is uncertain and will differ depending on the type of claim and duration to settlement, among other factors. The technical provisions include an allowance for changing inflation in both these aspects, but changes in the duration or severity of the inflation spike could affect the ultimate cost of claim settlement.

b) Climate change

Climate risk poses an evolving, persistent and long-term risk which needs to be reflected appropriately in underwriting and reinsurance strategy. The short term impacts for HSA relate to physical risk, particularly exposure to weather events. In recent years HSA has seen a number of weather related loss events, from wildfires in Iberia to freezing conditions in northern Europe. Challenges in placing Property catastrophe reinsurance programmes may continue, leading to HSA needing to retain more of this risk.

c) IELR selection

Initial Expected Loss Ratios (IELRs) for each class of business have been selected by analysing historical performance and expected changes in premium rates and inflation. The nature of the IELR estimates, which incorporate a large degree of expert judgement, means that there is a degree of uncertainty surrounding their values, particularly where significant changes have been made to the underwriting. The IELR is a key driver of HSA's technical provision estimates for the most recent years of account.

d) Growing accounts

Classes which are increasing in size can be subject to increased uncertainty. If growth is driven by a change in the mix of risks written (e.g. different types of risks, new territories, increasing exposure, relaxing terms and conditions) this can increase the uncertainty considerably for a class of business.

e) New classes of business

There are a number of classes of business written within HSA for which there is a limited amount of historical data on which to base the analysis. For these classes, a blend of Hiscox's limited internal data is used together with external benchmark patterns. There is therefore additional uncertainty surrounding the ultimate outcome for these classes of business.

f) Long-tailed classes of business

Longer-tailed classes are subject to uncertainty arising from a number of different factors; for example, claims inflation and changes in litigation such as judicial reforms. In addition, reporting and settlement delays can mean it may take many years before we can be certain of a final outcome, with any significant changes in results possibly having a material impact on assumptions made on the more recent years of account. Weakening terms and conditions also add additional uncertainty.

g) Unearned exposure

The technical provisions include cash flows associated with unearned exposures. As there is a greater degree of uncertainty attached to the unearned exposure, the estimates for these years of account will be subject to additional uncertainty.

h) Unincepted exposure

HSA is also required to include an allowance for unincepted bound exposure within the technical provision calculations. This exposure primarily relates to contracts incepting on 1 January after the valuation date. As these contracts are entirely unearned at the valuation date, there is additional uncertainty attached to this exposure.

i) ENID loadings

ENIDs are potential events which are not adequately contained within HSA's historical claims experience. HSA is required to include an allowance for these within the Technical Provision calculations, such that the mean technical provisions represent the probability-weighted average of all future cash flows. By definition, there is little data available to base the analysis on. Loadings and classifications remain highly subjective with a high level of actuarial judgement employed.

j) Future expenses

Future administration expenses are based on historical levels of expenses and a projected future expense inflation rate to calculate an expense provision estimate to fully run off the entirety of future cash flows within the technical provisions. Actual expenses could be materially different to those estimated within the expense projection.

D.2.3. Explanation of material differences between Solvency II and financial statement basis

The bases, method and assumptions used in the valuation of technical provision under Solvency II are consistent with those under Lux GAAP except for the adjustments listed in Table 26. The comparison in Table 26 is done on a net basis.

Conversion from Lux GAAP to Solvency II basis net of reinsurance €000					
	Total	General liability	Fire and other damage to property insurance	Credit and suretyship insurance	Other
Lux GAAP Technical Provisions (net of DAC)	83,534	59,690	16,977	3,301	3,567
Elimination of 100% net UPR	(22,257)	(14,718)	(2,131)	(3,717)	(1,690)
Add back DAC	2,693	150	33	1,544	966
Future premium incepted net of commission	340,267	197,210	117,791	9,311.0	15,955
Elimination of margin for prudence	(2,999)	(2,675)	(208)	(117)	1
Future premium on unincepted	(36,057)	(27,708)	(6,406)	18	(1,961)
Net future claim cost (unearned + unincepted)	14,288	7,443	5,283	624	938
Additional expenses not included under Lux GAAP	40,043	24,088	13,838	493	1,824
Total ENID	961	670	229	25	37
RI bad debt adjustment	226	149	62	7	7
Discounting	(10,046)	(6,791)	(2,658)	(253)	(345)
Risk Margin	5,708	3,303	1,982	156	268
SII Technical provisions	416,362	240,811	144,792	11,392	19,567

Table 26

Notes to Table 26:

- *Removal of DAC* – Solvency II basis considers all future cash flows to determine the estimate of future liabilities, therefore DAC is excluded as it is not considered a future cash flow. The Impact of the DAC is negative because of reinsurance commissions that are larger than gross commissions.

- *Unearned premium reserve (UPR)* – Solvency II basis allows for the recognition of profits on unearned incepted business by allowing for the expected claims (captured in Net future claim) cost (unearned + unincurred) on the Lux GAAP unearned premium reserve.
- *Future premium incepted* – Solvency II basis consider all future cash flows, therefore allows for the future premium due from incepted business.
- *Elimination of margin for prudence* – Solvency II technical provisions are calculated on a best- estimate basis and any margin held within the Lux GAAP reserves are removed (e.g. the management margins in the booked reserves).
- *Future premium on unincurred business* – Solvency II basis allows for the future premium on the business that is unincurred but legally bound at the valuation date as well as the corresponding unincurred claims (captured in Net future claim cost (unearned + unincurred)).
- *Net future claim cost (unearned + unincurred)* - Solvency II basis captures the claims on unearned incepted business and unincurred but legally bound business at the valuation date.
- *Additional expenses not included under Lux GAAP* – Solvency II basis makes an allowance for future expenses required to fully run off all future liabilities.
- *Total ENID* – ENIDs are events or circumstances that are not reasonably foreseeable (i.e. with low probability of occurrence) and are not contained in historical data.
- *Reinsurance bad debt adjustment* – this is an allowance made for non-recovery of reinsurance recoverables.
- *Discounting* – Solvency II basis makes an allowance for future investment income (discounting). This is determined by calculating the present value of the future cash flows using a defined yield curve.
- *Risk margin* – this is an allowance for the amount that insurers and/or reinsurers would require over and above the best estimate liabilities in order to take over and meet the insurance obligations over the lifetime of the policies (i.e. the amount required to transfer liability to a third party)
- *Other* – this is a reconciling item between Lux GAAP and Solvency II technical provisions. The need for this is largely a result of the foreign exchange rate impact when calculating the technical provisions.

D.2.4. Recoverables from reinsurance contracts and SPVs (Special purpose vehicles)

Best estimate reinsurance recoverables and costs on a Solvency II basis are calculated as part of HSA's best estimate reserving process. Reinsurance recoverables and costs are based on known amounts, plus projections based on gross IBNR and future premium estimates.

HSA's reinsurance programmes are outlined below:

- HSA's most significant reinsurance protection is the Whole Account Quota Share treaty, ceding business intra-group;
- For fire and other damage to property insurance, HSA maintains a risk excess of loss reinsurance programme to limit the impact of large individual losses to agreed risk tolerances;
- A catastrophe reinsurance programme which limits the impact of catastrophes, which result in multiple losses, to agreed risk tolerances;
- A motor reinsurance programme protects the motor portfolio;
- A liability excess of loss programme protects casualty exposures and pro rata protections are also purchased on select lines (e.g. cyber and employer's liability); and
- In addition, the Group purchases aggregate reinsurance cover for catastrophe and cyber exposures, which supplements HSA's own reinsurance programmes.

There are no Special Purpose Vehicles that protect the HSA portfolio.

D.2.5. Validation of Solvency II technical provisions

The Solvency II technical provisions reconcile back to the Lux GAAP balance sheet, with known adjustments made to the Lux GAAP position. Some of these adjustments tie back entirely to the Lux GAAP balance sheet (e.g. DAC removal), but others require further review. Other than the reconciliation, additional validations

include:

- Detailed senior actuarial review of assumptions and movements;
- Documentation and rationalisation of movements with each calculation of technical provisions. This ensures continual back-testing of the technical provisions and refinements to assumptions as necessary;
- Comparison of Solvency II adjustments to alternative methods where subjectivity is involved, e.g. ENID loadings;
- Actuarial function opinion on the calculation of technical provisions;
- Chief Actuary oversight and high-level review of outputs; and
- Reviews, including CAA review and comparison to the review of the approach on other entities within the Hiscox Group.

D.2.6. Transitional measures

HSA has not requested and therefore does not have in place approvals to use the matching adjustment, volatility adjustment, transitional interest rate term structure or the transitional deduction on technical provisions and therefore no adjustments have been made to technical provisions relating to these transitional measures.

D.3. Other liabilities

D.3.1. Value of liabilities on a Solvency II basis and details of Solvency II basis of valuation

Table 27 provides an analysis of HSA's total liabilities on a Solvency II basis compared to the amounts shown in the Lux GAAP financial statements as at 31 December 2023.

Balance Sheet €000			
	Solvency II	LUX GAAP	Difference
Liabilities			
Technical provisions - non-life (excluding health)	486,788	730,589	(243,801)
Best Estimate	481,080	0	481,080
Risk margin	5,708	0	5,708
Contingent liabilities	13,656	0	13,656
Provisions other than technical provisions	23,729	23,729	0
Pension benefit obligations	263	263	0
Deposits from reinsurers	0	168,293	(168,293)
Derivatives	132	132	(0)
Insurance & intermediaries payables	0	4,807	(4,807)
Reinsurance payables	0	507,526	(507,526)
Payables (trade, not insurance)	38,124	38,124	0
Any other liabilities, not elsewhere shown	0	61,257	(61,257)
Total liabilities	562,692	1,534,719	(972,027)
<i>Table 27</i>			

Unless otherwise stated, the Solvency II basis valuation for all liabilities follows fair value measurement principles. There were no changes to the recognition and valuation bases of other liabilities over the period. Further details of the liabilities and explanations for material differences between Solvency II and financial statement valuation basis are set out below.

Technical provisions – non-life (excluding health)

The basis for the valuation of technical provisions for solvency purposes and differences between the LUX GAAP and Solvency II is described in sub-section D.2.

Contingent Liabilities

The leases are recognised in the SII balance sheet as contingent liabilities due to the application of IFRS 16.

Provisions other than technical provisions

The valuation of provisions other than technical provisions under Solvency II follows fair value measurement principles. Lux GAAP recognises commissions to brokers as provisions, and these are reclassified to insurance payables and taken into account on the calculation of SII Technical provisions.

Insurance and intermediaries payables

Payables related to insurance contracts are recognised when past due. Payables are considered past-due when the amount payable remains unpaid one business day after their due date. These may include amounts past due to agents, brokers and insurance contract holders. At the valuation date there are no amounts past due and all payables have been considered in the calculation of the technical provision in sub-section D.2.

There are no differences in the valuation bases between LUX GAAP and Solvency II.

Reinsurance payables

Payables related to reinsurance contracts are recognised when past due. At the valuation date there are no amounts past and all payables have been considered in the calculation of the technical provision in sub-section D.2.

There are no differences in the valuation bases between LUX GAAP and Solvency II.

Payables (trade, not insurance)

Payables (trade, not insurance) relate to payables to agencies, intercompany payables and insurance premium tax payable. The main difference results from the application of IFRS 16 for Solvency II purposes.

Under LUX GAAP, Payables (trade, not insurance) are carried at their carrying value which approximates fair value. Under Solvency II, they are valued on a present market value basis, to which a discount is applied. Due to the short-term duration of the liabilities, there is no difference between the Solvency II and the LUX GAAP valuation.

Any other liabilities, not elsewhere shown

Under LUX GAAP, “any other liabilities, not elsewhere shown” relate to DAC payable in relation to reinsurance ceded and deferred income. DAC is not recognised in the Solvency II balance sheet, therefore resulting in the difference between LUX GAAP and Solvency II. Deferred income has been considered in the calculation of the technical provision in sub-section D.2.

D.4. Alternative methods of valuation

HSA does not value any assets or liabilities using alternative methods of valuation as outlined in Articles 10(5) – (7) of the Solvency II Delegated Regulation.

D.5. Any other information

Other material information regarding the valuation of assets and liabilities for solvency purposes

All material information relating to HSA's valuation for solvency purposes has been disclosed in sub- sections D.1 to D.4 of this document.

E. Capital management

E.1. Own funds

E.1.1. Objectives, policies and processes employed by HSA for managing its own funds

Decisions on optimal capital levels are an integral part of HSA's business planning and forward-looking assessment of risk processes which span a three year time horizon.

HSA manages its own funds in order to ensure it holds sufficient capital to meet its regulatory and business requirements.

HSA calculates its regulatory capital assessment using the Solvency II standard formula, which is a high level assessment of required capital using market factors which for HSA's risk profile is appropriate.

HSA regularly reviews the suitability of the standard formula and there are currently no plans to apply to use the HICM for regulatory capital requirements.

The target ratio for available capital in excess of the Solvency II SCR is agreed and signed off by the HSA Board. This represents an agreed percentage above the SCR with agreed tolerance levels above and below the target for available capital.

The value of own funds and the SCR is reported quarterly to the Board and to the CAA as part of Solvency II quarterly reporting. In case of a shortfall in own funds compared to the SCR target ratio, HSA's management team will take action. This can take a number of forms including but not limited to:

- a. Reduction in or cancellation of planned dividends;
- b. Seeking an injection of new capital from the Hiscox Group; and
- c. Actions to reduce HSA's risk profile and therefore its capital requirement.

Where available capital exceeds the upper tolerance limit the HSA CFO may establish, and recommend to the HSA Board, an appropriate dividend payment.

There have been no changes in the policies and processes employed by HSA for managing its own funds over the reporting period.

E.1.2. Structure, amount and quality of own funds at the end of the reporting period and analysis of changes over the reporting period

Table 28 provides an analysis of basic own funds by Tier compared to the prior year:

Basic own funds by tier €000		
	Total Own Funds 2023	Total Own Funds 2022
Ordinary share capital (gross of own shares)	91,730	59,730
Share premium account related to ordinary share capital	57,986	57,986
Reconciliation reserve	(50,342)	(40,181)
Net deferred tax asset	7,728	4,422
Total excess of assets over liabilities (EAL)	107,101	81,957
Total basic own funds after deductions	107,101	81,957
Available and eligible own funds		
Total available and eligible own funds to meet the SCR	107,101	81,957
Total available and eligible own funds to meet the MCR	99,374	77,535

Table 28

The majority of the own funds is ordinary share capital, share premium on ordinary share capital and the reconciliation reserve which comes under the definition of unrestricted Tier 1 capital under Solvency II. The net deferred tax asset forms part of Tier 3 assets under Solvency II.

Table 29 provides the calculation of the reconciliation reserve.

Reconciliation reserve €000		
	2023	2022
Total Solvency II assets (sub-section D.1.1)	669,793	599,816
Total Solvency II liabilities (sub-section D.3.1)	562,692	517,859
Solvency II Excess of assets over liabilities	107,101	81,957
Ordinary share capital	91,730	59,730
Share premium	57,986	57,986
Deferred Tax asset	7,728	4,422
Reconciliation reserve	(50,342)	(40,181)

Table 29

E.1.3. The eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers

Majority of HSA's Own Funds are unrestricted Tier 1 own funds items and do not have any eligibility restrictions. The net deferred tax asset of €7.7 million is also eligible to cover the SCR, as shown in Table 30.

€000	2023	2022
Total eligible own funds to meet the SCR	107,101	81,957

Table 30

E.1.4. The eligible amount of own funds to cover the Minimum Capital Requirement, classified by tiers

HSA holds a deferred tax asset of €7.7 million which is not eligible to cover the MCR. All other assets are unrestricted Tier 1 own funds and are therefore eligible to cover the MCR, as shown in Table 31.

€000	2023	2022
Total eligible own funds to meet the MCR	99,374	77,535

Table 31

E.1.5. Explanation of any material differences between equity as shown in HSA's financial statements and the EAL as calculated for solvency purposes

Differences between HSA's shareholders' equity per the financial statements and the Solvency II EAL per the Solvency II balance sheet relate to valuation differences as shown in Table 32 and explained in sub-sections D.1 to D.3 this document.

€000	2023	2022
Shareholders' equity as shown in the financial statements	143,730	113,771
Solvency II valuation adjustments to assets	(1,008,656)	(859,617)
Solvency II valuation adjustments to technical provisions	243,801	224,734
Solvency II valuation adjustments to other liabilities	728,226	603,069
Solvency II EAL	107,101	81,957

Table 32

E.1.6. Own fund items included under transitional arrangements under Solvency II

All own funds items are unrestricted Tier 1 own funds and no other items are included in own funds under transitional arrangements under Solvency II.

E.1.7. Ancillary own funds

HSA has not applied for CAA approval of any Ancillary Own Funds items and therefore no such items are included within own funds.

E.1.8. Own funds restrictions

HSA does not have any ring-fenced funds and has not identified any other restrictions which need to be made to own funds as a result of availability or transferability of own funds within HSA.

E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.1. SCR and MCR at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the SCR is still subject to supervisory assessment

HSA's standard formula SCR and MCR for the year ended 31 December 2022 and 2023 are shown in Table 33.

€000		
	2023	2022
SCR	69,285	67,201
MCR	31,178	30,241

Table 33

E.2.2. Standard formula SCR split by modules

Table 34 shows HSA's SCR for the year ended 31 December 2022 and 2023, split by risk module.

€000		
Risk category	2023	2022
Non-Life Underwriting Risk	42,858	43,448
Counterparty Risk	11,361	9,980
Market Risk	10,352	8,796
Undiversified total SCR	64,570	62,224
Diversification benefit	(11,274)	(9,943)
Basic SCR	53,296	52,281
Operational Risk	15,989	14,920
SCR	69,285	67,201

Table 34

HSA does not use an internal model to calculate any components of its SCR.

E.2.3. Standard formula simplifications

HSA did not use simplified calculations for any risk modules or sub-modules of the standard formula.

E.2.4. Use of undertaking specific parameters

No undertaking-specific parameters were used in the calculation of HSA's SCR.

E.2.5. Capital add-ons

HSA has no capital add-ons imposed on the SCR by the CAA.

E.2.6. Information on the inputs used by HSA to calculate the MCR

As a non-life insurer HSA determines the MCR in accordance with the EIOPA standard formula for calculation of the MCR. This involves calculating a factor charge by line of business on HSA's net written premium over 12 months preceding the valuation date and net technical provisions as at the valuation date. The factor charges are then summed to determine an initial SCR, which is then constrained to be within 25% to 45% of the SCR; and it cannot be less than an absolute minimum of €4 million. [See QRT 28.01.01]

E.2.7. Material change to the SCR and to the MCR over the reporting period, and the reasons for any such change

Table 35 and Table 36 show the movements in the SCR and MCR between 31 December 2022 and 31 December 2023 as well as movements in the constituent components of the SCR.

Movements in SCR and MCR over the reporting period

€000				
	2023	2022	Movement €000	Movement %
SCR	69,285	67,201	2,084	3%
MCR	31,178	30,241	938	3%

Table 35

Movements in components of the SCR over the reporting period

€000				
	2023	2022	Movement €000	Movement %
Non-Life Underwriting Risk	42,858	43,448	(591)	(1)
Counterparty Risk	11,361	9,980	1,381	14
Market Risk	10,352	8,796	1,556	18
Undiversified total SCR	64,570	62,224	2,346	4
Diversification benefit	(11,274)	(9,943)	(1,331)	13
Basic SCR	53,296	52,281	1,015	2
Operational Risk	15,989	14,920	1,069	7
SCR	69,285	67,201	2,084	3

Table 36

The following sections highlight the main drivers of movement in the SCR since year-end 2022.

Non-Life Underwriting risk

- The decrease in Non-Life Underwriting risk is driven by a decrease in net premiums resulting in a decrease in Premium risk.
- This is partially offset by an increase in Lapse risk and Catastrophe risk since year-end 2022, attributed mostly to an increase in exposure on the Liability portfolio, resulting in increase in Man Made Catastrophe Liability Risk.

Counterparty risk

- There has been an increase in Type 1 Counterparty risk due to increases in reinsurance recoveries and cash, and also a deterioration in the credit quality of external reinsurers.

Market risk

- Market risk has increased primarily due to a €4.2m increase in value of Property on the balance sheet since YE 2022 and a decrease in market risk mitigation % from 85% to 79%.

Operational risk

- HSA's Operational risk has seen an increase driven by an increase in the gross earned premiums. Operational Risk is now 30% of the Basic SCR whereas it was calculated based on the gross earned premiums last year.

E.3. The use of the duration-based equity risk sub-module in the calculation of the SCR

HSA does not use the duration-based equity risk sub-module in the calculation of the SCR.

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

HSA does not use a full or partial internal model to calculate the SCR.

E.5. Non-compliance with the MCR and non-compliance with the SCR

There were no instances of non-compliance with the SCR or MCR during the reporting period.

E.6. Any other information

All material information relating to HSA's capital management has been disclosed in sub-sections E.1 to E.5 above.

All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in Euro rounded to the nearest thousand. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Appendix A: QRTs

This Appendix contains the following templates which the company is required to disclose as part of the SFCR as set out in Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 (Procedures, Formats and Templates of the Solvency and Financial Condition Report in accordance with Directive 2009/138/EC).

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

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	0
R0040	Deferred tax assets	7,728
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	16,313
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	496,473
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	462,504
R0140	<i>Government Bonds</i>	77,199
R0150	<i>Corporate Bonds</i>	385,305
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	33,241
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	728
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	70,425
R0280	<i>Non-life and health similar to non-life</i>	70,425
R0290	<i>Non-life excluding health</i>	70,425
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	15,071
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	4,128
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	59,655
R0420	Any other assets, not elsewhere shown	0
R0500	Total assets	669,793

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	486,788
R0520	<i>Technical provisions - non-life (excluding health)</i>	486,788
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	481,080
R0550	<i>Risk margin</i>	5,708
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	13,656
R0750	Provisions other than technical provisions	23,729
R0760	Pension benefit obligations	263
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	132
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	38,124
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	Total liabilities	562,692
R1000	Excess of assets over liabilities	107,101

S.05.01.02

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

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							Total
Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Misc. financial loss		
C0040	C0050	C0070	C0080	C0090	C0120	C0200	
Premiums written							
R0110 Gross - Direct Business	0	16,042	175,374	344,254	8,222	13,080	556,973
R0120 Gross - Proportional reinsurance accepted	0	0	210	7,252	0	96	7,558
R0130 Gross - Non-proportional reinsurance accepted							0
R0140 Reinsurers' share	0	14,428	154,996	314,052	7,351	11,779	502,606
R0200 Net	0	1,614	20,588	37,454	871	1,398	61,925
Premiums earned							
R0210 Gross - Direct Business	0	15,439	163,578	335,821	11,127	13,234	539,199
R0220 Gross - Proportional reinsurance accepted	0	0	186	6,507	0	96	6,790
R0230 Gross - Non-proportional reinsurance accepted							0
R0240 Reinsurers' share	0	13,908	150,680	314,675	11,094	11,077	501,433
R0300 Net	0	1,531	13,085	27,653	33	2,254	44,556
Claims incurred							
R0310 Gross - Direct Business	-27	4,036	70,912	75,836	3,339	143	154,238
R0320 Gross - Proportional reinsurance accepted	0	0	-1	-264	0	0	-265
R0330 Gross - Non-proportional reinsurance accepted							0
R0340 Reinsurers' share	-24	3,605	64,060	67,972	3,472	26	139,110
R0400 Net	-3	431	6,851	7,601	-134	117	14,863
Expenses incurred							
R0550 Expenses incurred	-2	996	8,847	14,398	276	3,405	27,920
R1210 Balance - other technical expenses/income							
R1300 Total technical expenses							27,920

S.17.01.02

Non-Life Technical Provisions

Direct business and accepted proportional reinsurance							Total Non-Life obligation
Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss		
C0050	C0060	C0080	C0090	C0100	C0130	C0180	
R0010	Technical provisions calculated as a whole						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						0
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-136,624
R0150	Net Best Estimate of Premium Provisions						159,909
Claims provisions							
R0160	Gross						457,794
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						207,049
R0250	Net Best Estimate of Claims Provisions						250,745
R0260	Total best estimate - gross						481,080
R0270	Total best estimate - net						410,654
R0280	Risk margin						5,708
R0320	Technical provisions - total						486,788
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						70,425
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total						416,362

S.19.01.21

Non-Life insurance claims**Total Non-life business**

Z0020 Accident year / underwriting year Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		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											932		932	932
R0160	-9	0	0	0	0	0	-15,439	1,822	1,522	1,282	325			325	-10,488
R0170	-8	0	0	0	0	-17,282	3,612	2,367	801	944				944	-9,558
R0180	-7	0	0	0	-27,420	6,394	3,408	2,725	1,601					1,601	-13,291
R0190	-6	0	0	-55,766	10,875	3,256	2,615	4,013						4,013	-35,007
R0200	-5	0	-33,932	16,155	8,341	6,883	7,182							7,182	4,630
R0210	-4	17,794	48,186	32,072	14,953	5,273								5,273	118,278
R0220	-3	22,282	77,342	30,063	9,122									9,122	138,809
R0230	-2	32,042	55,339	35,641										35,641	123,022
R0240	-1	24,949	61,769											61,769	86,717
R0250	0	23,761												23,761	23,761
R0260													Total	150,566	427,804

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											10,285		9,770
R0160	-9	0	0	0	0	0	14,742	14,580	11,047	9,372	10,513			10,002
R0170	-8	0	0	0	0	18,262	13,272	8,189	6,882	5,762				5,418
R0180	-7	0	0	0	26,827	18,127	13,748	9,488	6,574					6,252
R0190	-6	0	0	45,764	33,156	20,907	16,560	9,628						9,070
R0200	-5	0	65,794	47,074	39,240	27,942	24,281							22,959
R0210	-4	84,237	107,960	60,421	40,200	26,891								25,456
R0220	-3	146,978	130,732	68,877	50,614									47,854
R0230	-2	119,425	123,660	65,856										62,130
R0240	-1	132,381	132,653											126,149
R0250	0	139,208												132,736
R0260													Total	457,794

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
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
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions
	Ancillary own funds
R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds
	Available and eligible own funds
R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR
	Reconciliation reserve
R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve
	Expected profits
R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)
	Hiscox Société Anonyme

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
91,730	91,730		0	
57,986	57,986		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
-50,342	-50,342			
0		0	0	0
7,728				7,728
0	0	0	0	0
0				
0				
107,101	99,374	0	0	7,728
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0
107,101	99,374	0	0	7,728
99,374	99,374	0	0	
107,101	99,374	0	0	7,728
99,374	99,374	0	0	
69,285				
31,178				
154.58%				
318.73%				
C0060				
107,101				
0				
157,443				
0				
-50,342				
38,831				
38,831				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

R0010 Market risk
 R0020 Counterparty default risk
 R0030 Life underwriting risk
 R0040 Health underwriting risk
 R0050 Non-life underwriting risk
 R0060 Diversification

R0070 Intangible asset risk

R0100 Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

R0130 Operational risk
 R0140 Loss-absorbing capacity of technical provisions
 R0150 Loss-absorbing capacity of deferred taxes
 R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
 R0200 Solvency Capital Requirement excluding capital add-on
 R0210 Capital add-ons already set
 R0211 of which, capital add-ons already set - Article 37 (1) Type a
 R0212 of which, capital add-ons already set - Article 37 (1) Type b
 R0213 of which, capital add-ons already set - Article 37 (1) Type c
 R0214 of which, capital add-ons already set - Article 37 (1) Type d
 R0220 Solvency capital requirement

Other information on SCR

R0400 Capital requirement for duration-based equity risk sub-module
 R0410 Total amount of Notional Solvency Capital Requirements for remaining part
 R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
 R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
 R0440 Diversification effects due to RFF nSCR aggregation for article 304

Approach to tax rate

R0590 Approach based on average tax rate

Calculation of loss absorbing capacity of deferred taxes

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

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
10,352		
11,361		
0		
0		
42,858		
-11,274		

USP Key

For life underwriting risk:

1- Increase in the amount of annuity benefits
 9 - None

For health underwriting risk:

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

For non-life underwriting risk:

4 - A adjustment factor for non-proportional reinsurance
 6 - Standard deviation for non-life premium risk
 7 - Standard deviation for non-life gross premium risk
 8 - Standard deviation for non-life reserve risk
 9 - None

C0100
15,989
0
0
69,285
0
0
0
0
0
69,285

0
0
0
0
0

Yes/No

C0109

0

LAC DT

C0130

0
0
0
0
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

49,439

Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

0	
0	
0	
0	
7,592	1,614
0	
142,574	20,588
237,625	37,454
11,202	871
0	
0	
11,662	1,398
0	
0	
0	
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
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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
R0310	SCR
R0320	MCR cap
R0330	MCR floor
R0340	Combined MCR
R0350	Absolute floor of the MCR
R0400	Minimum Capital Requirement

49,439
69,285
31,178
17,321
31,178
4,000
31,178