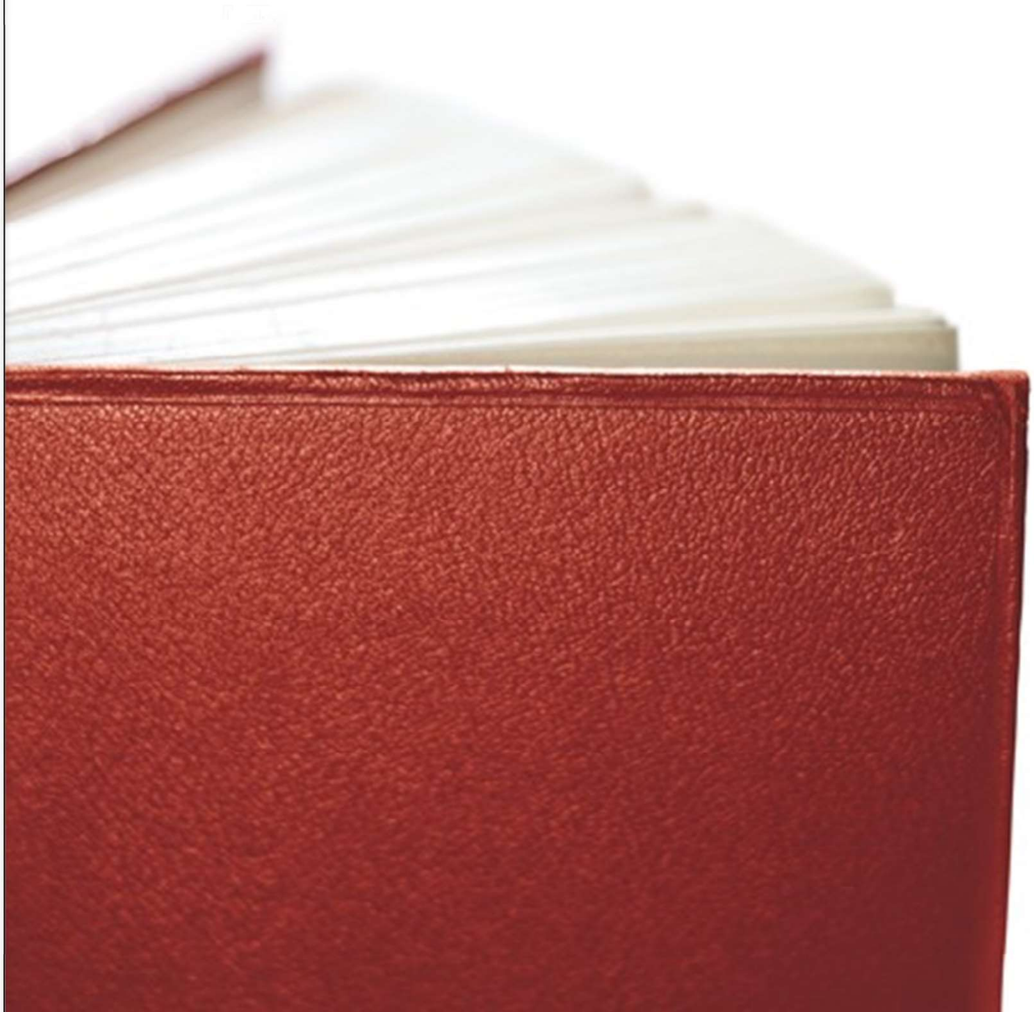
Hiscox Société Anonyme

Solvency and Financial Condition Report 2021



April 2022

Contents

Glossary of terms

Abbreviation	Details of abbreviations
ARC	Audit & Risk Committee
CAA	Le 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 8 April 2022 by:

Robert Dietrich	Executive Director

A. Schmid

A. Schmid (Apr 8, 2022 20:59 GMT+2)

Andrea Schmid	Executive Director

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 2021.

In 2021, the Covid-19 pandemic continued to impact the market conditions and the business. Loss estimates and their underlying assumptions continue to be reviewed on an ongoing basis.

In 2022, due to the volatile situation arsing in Ukraine, new sanctions have been imposed against specific Russian entities and individuals, while further additional sanctions are anticipated. Group and EU Compliance are aware and on top of any business and subsequent transactions with any known exposure to Russia and/or Ukraine. 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 2021, 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 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 2021, the HSA's gross written premium increased by 8.9%, in a year where lockdowns exist for the big part of the year and in most countries where HSA operates and where severe floods hit some countries in the summer. This increase is explained by a strong performance of Cyber and Professional Indemnity lines.

The claims performance was highly impacted by Covid-19 losses in 2020, and in 2021 there was an improvement with a 40% loss ratio (2020: 56%). With the reinsurance arrangements HSA has in place, the net loss ratio is a healthy 21%.

The operational expenses ratio of 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 2021 of €761 thousands compared to a loss €1.264 thousands in 2020 returning to a combined ratio of 99,3% (2020: 101.3%).

No final dividend has been declared for the year ended 31 December 2021 (2020: 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 in order to ensure appropriateness with the development of HSA and regulatory requirements. Besides the insourcing of the Solvency II Risk Management Key Function in 2021 there were no material changes implemented during the reporting period.

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 based on four risk types: 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 2021 is shown in Figure 1. The risk profile is produced using the Solvency II standard formula framework.

Risk profile composition

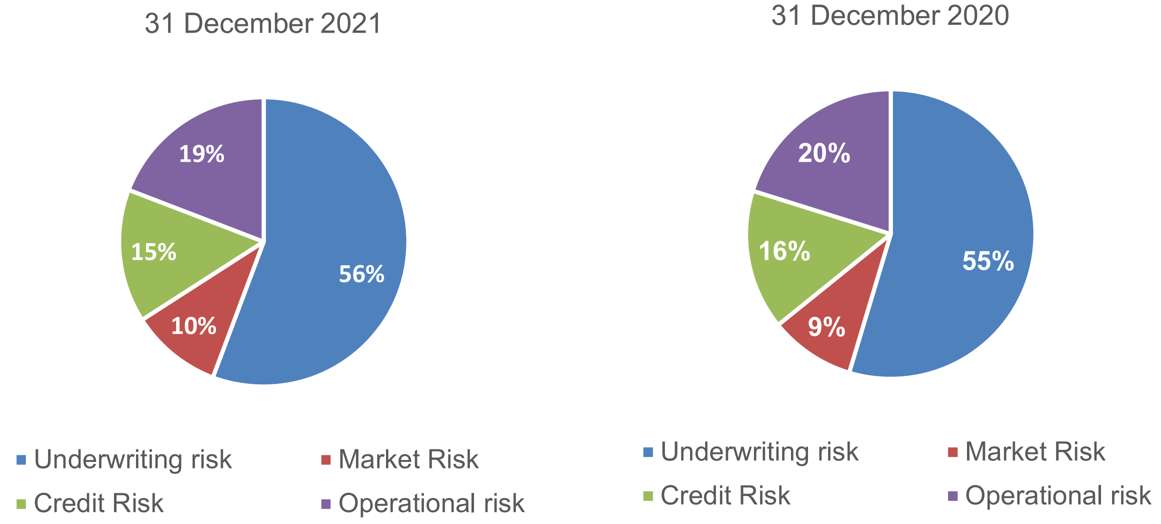


Figure 1

Underwriting risk (including reserve risk) remains the most significant risk that HSA is exposed to, representing 56% of its pre-diversified risk profile which is assumed mainly through the underwriting process.

The second largest risk type is **operational risk**, making up 19% of the overall pre-diversified risk profile.

The third largest risk is **credit risk**, which amounted to 15%. 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 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 10% in 2021. 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:

€000 **Differences between HSA's shareholders' equity and the Solvency II balance sheet:**	**2021**	**2020**
Shareholders' equity as shown in the financial statements	117,839	103,667
Solvency II valuation adjustments to assets (Note i)	(800,231)	(749,893)
Solvency II valuation adjustments to technical provisions (Note ii)	160,735	143,300
Solvency II valuation adjustments to other liabilities (Note iii)	603,601	580,745
Solvency II EAL	**81,944**	**77,819**

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. HSA has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet. 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.

At 31 December 2021, HSA's Solvency II eligible own funds were €81.9m, compared to a standard formula SCR of €62.0m and representing an SCR coverage ratio of 132%. HSA's MCR was €27.9m.

HSA's eligible own funds are calculated in Table 2 below.

HSA's eligible own funds	2021	2020
Solvency II EAL (€000)	81,944	77,819
Eligible own funds (Tier 1 & Tier 3) (€000)	81,944	77,819
Minimum capital requirement (€000)	27,900	25,301
Solvency capital requirement (€000)	62,001	56,224
Solvency capital requirement ratio	132%	138%

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 €6.9m 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 deemed 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.

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.

The registered office is 35F Avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg.

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

HSA is supervised by the Commissariat aux Assurances

Commissariat aux Assurances
7, boulevard Joseph II
L-1840 Luxembourg
Luxembourg

A.1.3. External auditor

The external auditor of HSA is PricewaterhouseCoopers Société coopérative.

PricewaterhouseCoopers Société coopérative
20 rue Gerard Mercator
L-2182 Luxembourg
Luxembourg

A.1.4. Holders of qualifying holdings in HSA

Hiscox Ltd, a company incorporated in Bermuda and listed on the London Stock Exchange, owned 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.

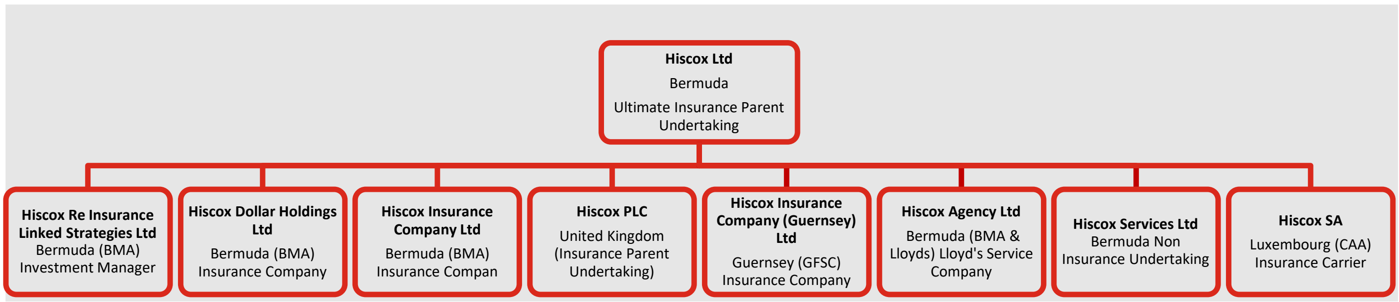


Figure 2

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 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	
	2021	2020
Fire and other damage to property insurance	30.9%	32.5%
General liability insurance	63.2%	61.7%
Others	5.8%	5.8%

Table 3

Material geographic areas

As at 31 December 2021, the main locations where HSA conducts business are Germany, France, and the Republic of Ireland and their combined contribution to HSA's gross premiums written is €312m. This is shown in Figure 3 below.

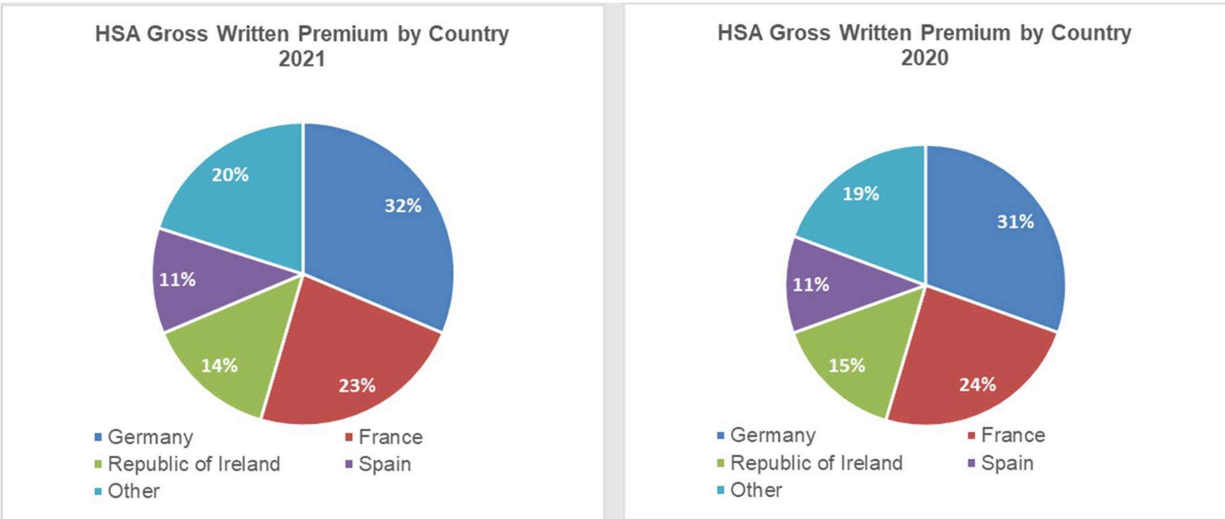


Figure 3

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

2020 and 2021 were dominated by the global Covid-19 pandemic and the economic impact of the lockdowns across Europe.

The Covid-19 pandemic evolved into an unprecedented public health emergency in Europe and around the world, causing disruption to businesses and economic activity. The situation remains dynamic but the impacts on HSA are expected to be lower as time progresses.

In February 2022, a military conflict arose in Ukraine. HSA has some limited direct insurance exposure mainly through kidnap and ransom. Management are actively monitoring the situation and assisting Hiscox policyholders. Any resulting exposure is not expected to impact the 2021 year. 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 2021 is set out in Table 4.

Key performance indicators	2021	2020
Gross premiums written (€000)	454,647	417,335
Net premiums written (€000)	104,478	101,564
Net premiums earned (€000)	103,103	99,577
Underwriting profit (€000)	761	(1,264)
Net claims ratio (%)	21.3	25.4
Operational expenses ratio (%) [Net]	77.2	76.6
Net combined ratio (%)	99.3	101.3

[1] Underwriting profit (excluding investment return) on an Lux GAAP basis

Table 4

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 2021 is set out in Table 5.

Key performance indicators[1]	Fire and other damage to property insurance	General liability insurance	Other	Total 2021	Total 2020
Gross premiums written (€000)	140,664	287,408	26,575	454,647	417,335
Net premiums written (€000)	41,669	55,673	7,137	104,478	101,564
Net premiums earned (€000)	40,738	54,782	7,584	103,103	99,577
Gross claims incurred (€000)	61,226	74,325	17,051	152,602	206,340
Net claims incurred (€000)	398	10,318	2,906	13,623	14,252
Expenses incurred (€000)	31,608	51,996	5,497	89,101	87,052
Underwriting profit (€000)	8,773	(7,197)	(815)	761	(1,264)
Net claims ratio (%)	5.6	29.2	48.6	21.3	25.4
Operational expense ratio (%) [Net]	62.7	91.7	51.3	77.2	76.6
Combined ratio (%) [Net]	78.5	113.1	110.7	99.3	101.3

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

Table 5

In 2021, HSA's gross premiums written totalled €455m on a Lux GAAP basis.

Although the pandemic made the last two years an unusually challenging times for everyone, in 2021 HSA was able to grow in a sustainable way.

The combined ratio in 2021 shows a better performance comparing to the previous year, as 2020 was still heavily impacted by Covid losses.

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

Key performance indicators[1]	Germany	France	Republic of Ireland	Other	Total 2021
Gross premiums written (€000)	142,343	104,931	64,751	142,622	454,647
Net premiums written (€000)	29,114	26,579	13,045	35,740	104,478
Net premiums earned (€000)	28,604	25,756	13,123	35,621	103,103
Gross claims incurred (€000)	55,625	33,523	25,619	37,834	152,602
Net claims incurred (€000)	3,840	2,839	1,666	5,277	13,623
Expenses incurred (€000)	23,055	22,433	12,192	31,421	89,101
Underwriting profit (€000)	1,755	516	(715)	(797)	761
Combined ratio (%) [Net]	93.9	98.0	105.5	76.4	99.3

Table 6

[1] Underwriting profit (excluding investment return) 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, Spain, the Netherlands, 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 2021 is as shown in Table 7.

Asset class	Composition (%)	
	2021	2020
Debt and fixed income securities	82.1	82.1
- Government bonds	10.9	9.2
- Corporate bonds	71.1	72.8
Collective investment undertakings	6.5	5.0
Derivatives	0.1	(0.0)
Deposits other than Cash equivalents	0.0	0.1
Cash and cash equivalents	11.3	12.8

Table 7

The investment income and expenses by asset class as disclosed in the financial statements for the year ended 31 December 2021 are shown in Table 8.

€000 Asset class	2021			2020
	Investment Income (including realised and unrealised gains)	Investment expense	Net investment return	Net investment return
Debt and fixed income securities	57	(220)	(163)	250
Government bonds	155	(29)	126	6
Corporate bonds	(98)	(191)	(289)	244
Collective investment undertakings	1,343	(17)	1,326	(124)
Derivatives	109	(0)	109	(30)
Loans	0	0	0	0
Cash and cash equivalents	2	(30)	(29)	(6)
Total	**1,511**	**(268)**	**1,243**	**91**

Table 8

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

Asset class	Investment Return (%)	
	2021	2020
Debt and fixed income securities	0.0	0.9
Government bonds	0.3	0.3
Corporate bonds	0.0	1.0
Collective investment undertakings	28.7	(5.7)
Derivatives	0.2	(0.1)
Loans	0.0	0.0
Cash and cash equivalents	0.0	0.0
Total	**1.5**	**0.4**

Table 9

Debt and fixed income securities: The fixed interest portfolio delivered a return of 0.0% which is ahead of the benchmark which returned -0.1%. The benchmark comprises 20% 0-3 year Euro Government Index and 80% 1-3 year Euro Corporate bond index.

Collective investment undertakings: For the year the risk asset returned 28.7% versus the benchmark which returned 10.3%. The risk asset benchmark is a combination of equity and hedge fund indices.

Derivatives: Low returns were made on derivative positions during the year. This is to be expected since the use of derivatives is aimed at offsetting against adverse positions rather than speculation.

Cash and cash equivalents: With interest rates remaining at low levels, interest on cash remains at €7,925.

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 2021.

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.

A.4.2. Leasing arrangements

The Company has arranged a bank guarantee with respect to their various office deposits. These guarantees are held with a number of different banks throughout Europe. This represents 6 month's rent that can be called by the Landlords in case of non-payment of two consecutive months of rent at the due date, in such case, the Landlord can call upon this amount at any time. 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 2021 there has been no material change to HSA's system of governance, risk management approach and internal control systems with the exception of the Solvency II Risk Management Key Function being no longer outsourced but assumed by the EU Risk Manager. The regular review of the system of governance in 2021 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.

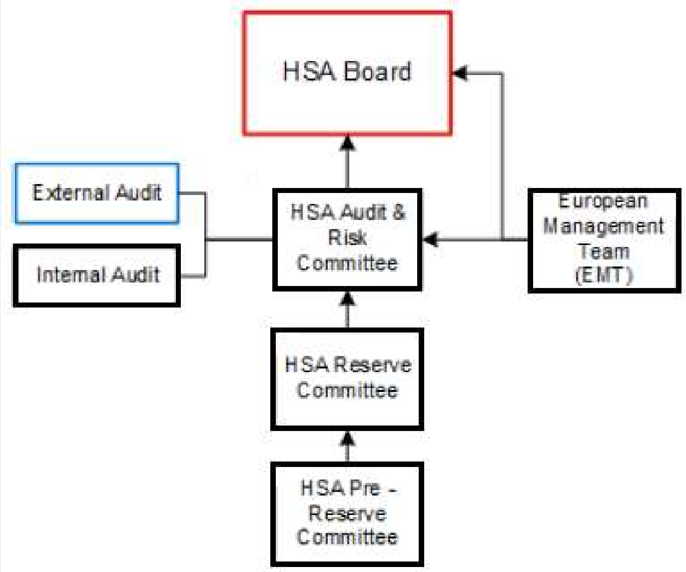


Figure 4

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.

In 2021 the following director resignations took place:

- Mr. Stéphane Flaquet (effective 1 May 2021)
- Mr. Benjamin A. Walter (effective 17 September 2021)
- Mr. Bronislav Edmund Masojada (retired on 31 December 2022)

The following director appointments were made during the year:

Mr. Robert Dietrich (effective 1 May 2021)
Mrs. Joanne Musselle (effective 1 January 2022)

As at 31 December 2021 the Board was composed of two Independent Non-Executive Directors, one Non-Executive Director and two Executive Directors, who are the CEO Europe and the Head of Legal and Compliance Europe who is licensed as Approved Director of HSA. Following the retirement of the Group CEO being the Non-Executive Director and the Chairman of the Board on 31 December 2021 the Group CUO was appointed as new Non-Executive Director and Chairwoman of the Board effective as of 1 January 2022.

The composition of the Board as at 31 December 2021 was as follows:

- Mr. Bronislaw Edmund Masojada (Non-Executive Director and Chairman)
- Mr. Robert Dietrich (Executive Director)
- Mrs. Andrea Schmid (Executive Director)
- Mr. Victor H. van der Kwast (Independent Non-Executive Director)
- Mr. Thomas Hürlimann (Independent 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 branch and to the Audit and Risk Committee.

Senior Management Structure

The European Management Team (EMT) 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 and 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 2021, 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 include the 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	**Xavier Krikorian** EU Risk Manager
Actuarial function	Activities of the Actuarial function are outsourced to the Group Actuarial team, overseen by the Key Function Holder.	**Helen Cooper** Group Chief Actuary
Internal audit function	EU Senior Internal Auditor with support and oversight from the Group Internal Audit function	**Chris Hood** – Group Head of Audit acts as interim with the intention to transition the key function role to the European Internal Auditor that joined the Company in the course of 2020.
Compliance function	EU Compliance Manager with additional support from the Group Compliance function	**Andrea Schmid** Head of Legal & Compliance 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 an 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; and
- HSA's financial returns and reports to the CAA and any other relevant regulator.

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 executive;
- Review results of validation activity over the financial modelling used to develop the SCR 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.

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

Besides the insourcing of the Solvency II Risk Management Key Function as of 1 January 2021 there have been no material changes in the system of governance over the reporting period.

B.1.3. Remuneration policy and practices

Hiscox Ltd and all internal outsourcing partners have a single remuneration policy which is applicable to all legal entities and therefore applies to all members of staff of HSA including its Board members and key function holders. HSA delegates its remuneration responsibilities to the Hiscox Limited Group Remuneration Committee; discussions are held with the NEDS at least annually regarding HSA specific remuneration and when necessary additional sessions are held to review changes to policy.
The key principles of this 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 measures 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 60% of the corporate performance element and relative TSR is used for the consider corporate performance over the long-term through other 40%. 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;

c) Time horizons – a portion of annual bonuses are deferred and senior leaders take part in a Performance Share 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 for a prior period error in accordance with IAS 8;
- 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 an individual or their team; and
- significant reputational or financial damage to the company as a result of an individual's conduct.

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 Group 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 at the discretion of the Group Remuneration Committee. 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, with the exception of a capital increase of €11m. Neither were there 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 maintains a fit and proper policy to ensure that individuals who effectively run HSA or are responsible for significant functions which fulfil the following requirements under the Solvency II Directive at all times:
a) their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and
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:
  - Actuarial
  - Claims
  - Compliance
  - Finance
  - Internal Audit
  - Underwriting
  - Investment Management
  - IT
  - Outwards Reinsurance
  - 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:

- 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 others issues arising that would cause concern as to an individual's fitness and propriety.

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

- 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,
- 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 actions.

Further, 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

In the event that 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 HR Compliance to consider and review following which this will be raised with the Chief Human Resources Officer.

The Head of HR 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 individuals ability to carry out those duties and responsibilities.

The Head of HR Compliance will consult with the Chief Human Resources Officer and refer to the Chairman 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 in place which provides a controlled and consistent system for the identification, measurement, mitigation, monitoring and reporting of risk, illustrated in Figure 5 below. The risk management framework 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.

Figure 5

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 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.

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 judgment. This enables the prioritisation of risk and mitigating actions.

Risk mitigation
After risks are formally assessed, a decision is made on how to mitigate them to reduce exposure or maintain it at an acceptable level. Determining the most appropriate response involves understanding the associated costs and benefits.

Risk mitigation involves implementing and maintaining internal controls and other techniques to manage, reduce or eliminate risk exposures. Applying controls to reduce the likelihood or impact of a risk occurring is one of the available methods to respond to risks, in addition to accepting the risk without further action, taking action to avoid the risk completely, or transferring all or some of the risk – most commonly to other insurers.

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.

Monitoring of risks occurs at various levels across the Group. 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 the Audit & Risk Committee regularly, with more frequent reporting at the business and functional levels.

Significant operational risk events arising from inadequate or failed internal processes/controls, people and/or systems or from external events that result in losses or near misses to Hiscox (financial or other) are also recorded centrally by the Group Risk team. In HSA, all staff are responsible for communicating operational risk events to the EU Risk Manager, who will also report these to the Audit & Risk Committee and Group Risk. To further enhance and streamline the process, specific points of contact have been identified in each Function within HSA for operational risk event reporting.

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, we compare our exposure 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 EU 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;

- Risk report at each Board meeting;
- ORSA report;
- Results of risk and control self-assessment;
- Results of stress and scenario and reverse stress testing; and
- Risk appetites and limits monitoring.

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 1st January 2021, the EU Risk Manager 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 EU Risk Manager reports to the Approved Director of HSA with a dotted line reporting to the Group Risk Director. The EU Risk Manager is also entitled to direct reporting to the HSA Audit & Risk Committee and Board and has independent access to the Board's directors, including the HSA Audit & Risk Committee Chair.

The EU Risk Manager, 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 in relation to risk acceptance and mitigation;
- 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.

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

ORSA process

The ORSA process comprises a number of connected processes and practices that HSA engages in to identify, measure, monitor, manage and report the risks to which it is exposed and to determine its corresponding capital needs on a current and forward-looking basis, in light of its business plan, risk profile, risk appetite and limits. This includes consideration of the following:
- 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's 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 which is a critical consideration of the ORSA process.

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/Audit & Risk Committee as they are completed.

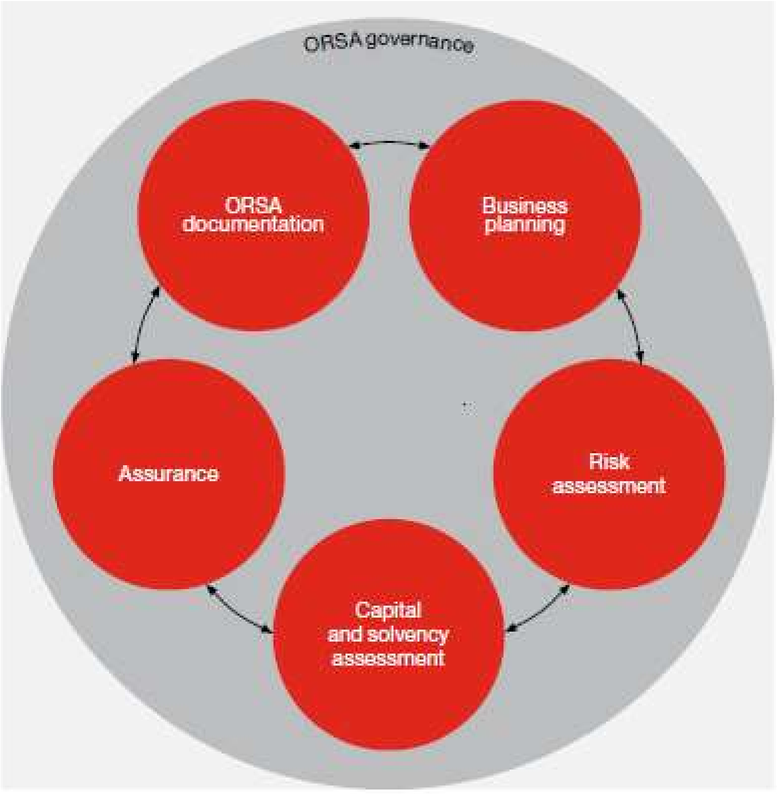


Figure 6

Determination and management of HSA's own solvency needs

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.

The Hiscox Group has a separate internal economic capital model, the Hiscox Integrated Capital Model, (HICM), which is used by insurance entities within the Group to assess their own view of their risks and capital requirements. The internal capital assessments within this report have been calculated using the HICM, unless stated otherwise. The HICM was used during HSA's 2022 business planning process for the associated capital analysis and is consistent with how HSA sees risks emerging and accumulating.

The internal economic capital view provided by the HICM allows a more detailed, HSA-specific view of its capital requirements, which is a useful internal tool for the business and the ORSA. HSA regularly reviews the suitability of the standard formula and there are currently no plans for HSA to use the HICM to calculate its regulatory capital requirements.

B.4. Internal control function

B.4.1. The internal control system

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.

Figure 7

The control environment is the collective set of standards, processes and structures that provide the basis for establishing and maintaining internal control across HSA.

HSA faces a variety of risks from both external and internal sources. Risk assessment is the process by which HSA identifies and assesses the material risks which could influence the achievement of its objectives.

Control activities are 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 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.

Risks and controls are monitored by risk and control owners through normal day-to-day business operations. The Audit & Risk Committees are 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 Register ("RCR") review and update process.

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 EU 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 Head of Legal and Compliance Europe, who is reporting into the CEO Europe creating a fully vertically integrated Compliance function in Europe with matrix oversight from the Group Compliance function.

EU Compliance is responsible for defining and reviewing the HSA Compliance Program on an ongoing basis.

The principal missions of EU Compliance are:

- to define and update EU 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 EU 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 manager position based in Luxembourg, which oversees HSA internal audits. The function provides objective and independent assurance and advice to the Group's Audit Committees (including HSA's Audit and Risk Committee) and the Group Boards of Directors (including the HSA Board) 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.

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 Hiscox Ltd Audit 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 Board and other subsidiaries' Boards. 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 Group's Audit Committees (including the HSA Audit and Risk Committee) 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 Hiscox Group Chief Actuary and various other members of the Group actuarial team. The Hiscox Group Chief Actuary produces reports each year on the above matters, setting out their conclusion and the underlying analysis supporting this conclusion. The Chief Actuary and the actuarial function escalate any relevant matters 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 adopted the Hiscox Group Outsourcing Policy. 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;
- Terms of the outsourcing contract;
- 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 review of the Hiscox Group Outsourcing Policy started in 2021 shall help to evolve the outsourcing framework and practices in line with our strategy and business model and the relevant laws and regulations.

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, temporary provision of internal audit key function, 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.

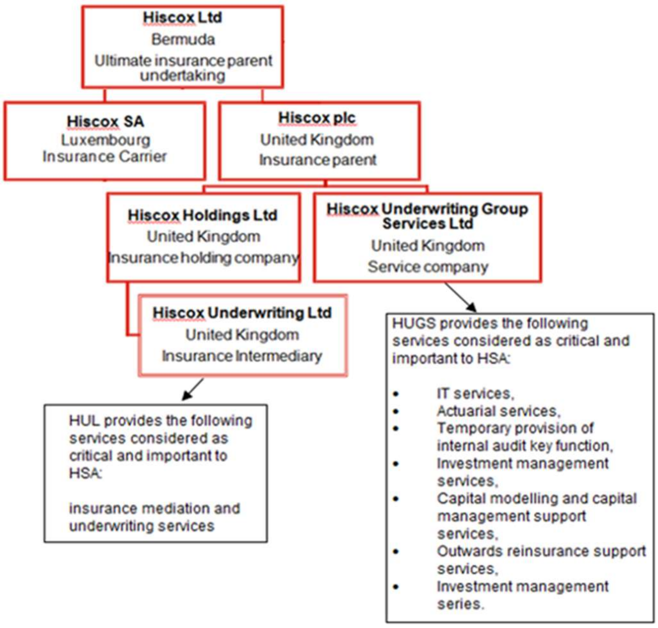


Figure 8

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	**Helen Cooper** Group Chief Actuary	**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	**James Millard** Group Chief Investment 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** Head 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	**Ian Penny** Group Chief Information Officer	**Diogo Conceição** HSA COO
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 Modelling team	**Craig Martindale** Group 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. 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.

C. Risk profile

HSA uses the Solvency II Standard Formula to calculate its regulatory capital requirement (SCR). The regulatory capital risk profile of HSA has increased in 2022, mainly driven by an increase of Insurance risk and Operational risk which are primarily driven by growth. The majority of Standard Formula SCR capital is attributed to underwriting risk and the next largest risk area is Operational risk. Further information on each risk type is detailed below.

HSA calculates Risk Profiles from the Hiscox Group's Integrated Capital Model (HICM) (an economic capital model which is used for internal purposes and not for setting HSA regulatory capital) to monitor its risk exposures over the next calendar year by risk category. It sets out the potential upside and downside risk associated with the proposed 2022 calendar year business plan for each risk type and in aggregate, with estimated likelihoods of occurrence (return periods). Changes in the Risk Profile are monitored throughout the year and the outcomes reported to the Audit & Risk Committee.
The composition of HSA's capital requirement under Standard Formula for 2022 is shown in figure 9.

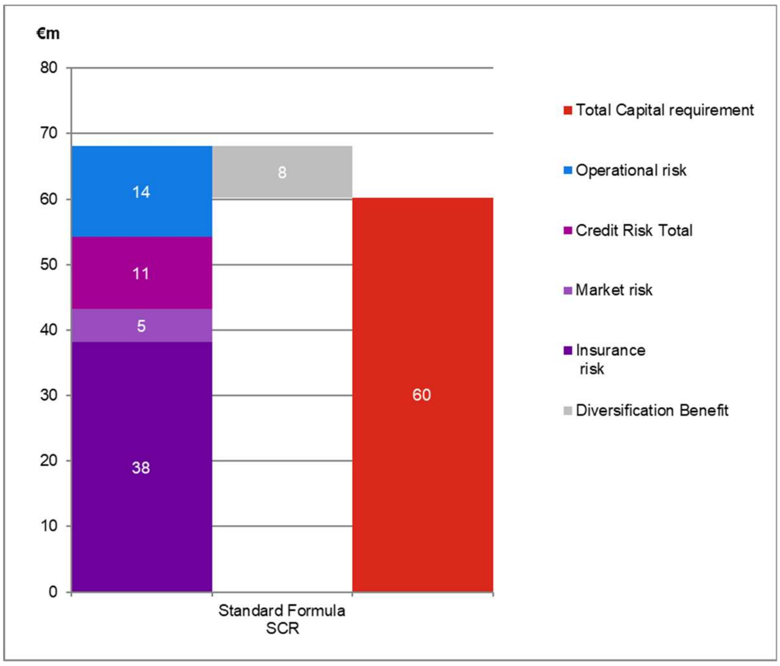


Figure 9 Composition of SCR 2022

The Standard Formula quantifies underwriting risk, market risk, credit 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 reserve risk is defined as 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 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 2020 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 single location are monitored monthly. We also regularly geocode all properties and feed this data into external catastrophe models. For casualty classes, we have a number of Realistic Disaster Scenarios (RDSs) that are used 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

Underwriting risk (Insurance risk) exposure has increased by 13% over the reporting period. This change is explained by the following: Premium and Reserve risk have increased since the prior year. Premium volumes have been increasing year-on-year, leading to an increase in Premium and Reserve risk.
Catastrophe risk has also increased since year-end 2020, attributed mostly to an increase in the Liability portfolio.

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 remote since HSA is operating mostly in the Euro zone, therefore Liabilities arising as a result of known claims and those likely to be made 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 place for HSA's market risks include:

- Currency matching and asset-liability matching strategy;
- Divisional Investment Group;
- 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 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 and 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, i.e. about 94%, comprise cash and bonds. In the bond portfolios, the largest exposures are to European governments bonds and corporate bonds issued EUR. These exposures vary over time within the limits set in the investment guidelines. The largest individual exposure is to the German government at 4% of bond exposure. For corporate bonds, there is a wide range of holdings, covering multiple sectors and in excess of 100 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

Market risk has increased due to an increase in investible assets. Further bonds held at year-end 2021 are slightly more volatile than those held at year-end 2020

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 has limits 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 and the results of 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 2021 is detailed in Table 17:

€000 Credit risk exposure	2021	2020
Bonds	348,252	341,747
Collective Investments Undertakings	27,530	20,994
Derivatives	571	0
Deposits other than cash equivalents	34	513
Reinsurance Recoverables	124,453	108,615
Gross receivables arising from insurance and reinsurance contracts	12,830	11,375
Trade receivables	7,498	16,498
Cash and cash equivalents	48,027	53,286
Total	**569,195**	**553,029**

Table 17

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

C.3.5. Material changes over the reporting period

There have been relatively little movement in Credit risk due to active management of broker debt as well as cash holdings driving counterparty default 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 monitor
- Solvency II monitoring and quarterly projections
- Cash and Capital 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 €29,140 thousands (2020: €25,896 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 2021.

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 approximately half their assets in European government bonds, which are highly liquid, particularly for the governments predominantly held. The corporate bond exposures are to over 100 issuers, all of which have investment grade credit ratings. HSA's exposure to equities is held via shares and funds that are traded on internationally recognised stock exchanges or are otherwise open ended vehicles which deal on a daily basis, and therefore can be expected to be realised quickly.

C.4.6. Material changes over the reporting period

Although not modelled explicitly, to ensure adequate liquidity is maintained at all times, the Investment team regularly liaises with the Group Treasurer.

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
- Benefits and Remuneration review

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)

Processes risks
- Change Delivery Framework (CDF)
- Business continuity plan (BCP) testing
- Information Security Committee monitoring of data security and privacy
- Data transfer policy
- European Design Authority (EDA)
- European Process Management Framework (PMF)

C.5.3. Measures used to assess risk

Operational risk is measured through the use of 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

Concentration of operational risk is mitigated by a decentralisation and federation of its organisation by country, therefore providing multiple of locations across nine countries in Europe. The Company also offers remote working capabilities therefore limiting the risk of reliance on physical offices to trade. Nevertheless both DR and BCP plans are in place.

The Personal Development Review process and training and development programme aims to manage talent in order 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

HSA's Operational risk has seen a small increase driven by the change in gross technical provisions.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic risk
Strategic risk is 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:
- 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 EU Head of Legal and Compliance;
- Risk and Compliance event reporting, 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.

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.

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.

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 2022 to 2024). 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 EU Risk Manager 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;
- 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.

Sensitivity testing is undertaken to assess the impact of changes to model inputs for each risk category on the overall SCR. Sensitivity testing has been completed on a draft SCR, however as the inputs and SCR have not materially changed, we view these results as a reasonable representation. 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	62,035	0	
Overall premium up 10%	Insurance (Premium)	63,756	1,721	2.8%
Overall premium down 10%	Insurance (Premium)	60,362	-1,673	-2.6%
Overall claims provisions and reinsurance recoverables up 10%	Insurance (Reserve); Credit	62,900	865	1.4%
Overall claims provisions and reinsurance recoverables down 10%	Insurance (Reserve); Credit	61,194	-841	-1.3%
Intermediary counterparty default up 10%	Credit	62,433	398	0.6%
Intermediary counterparty default down 10%	Credit	61,644	-391	-0.6%
Cash + Bonds + Equities up 10%	Market	62,398	363	0.6%
Cash + Bonds + Equities down 10%	Market	61,681	-354	-0.6%

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 holds no material off-balance sheet exposures.

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 2021.

€000 Balance Sheet	Solvency II	LUX GAAP	Difference
Goodwill	0	117	(117)
Deferred acquisition costs	0	50,526	(50,526)
Intangible assets	0	36,118	(36,118)
Deferred tax assets	6,940	4,235	2,706
Property, plant & equipment held for own use	14,909	3,872	11,037
Bonds	348,252	349,074	(823)
Government Bonds	46,333	46,538	(205)
Corporate Bonds	301,919	302,536	(617)
Collective Investment Undertakings	27,530	24,499	3,031
Derivatives	571	0	571
Deposits other than cash equivalents	34	34	0
Reinsurance recoverables	124,453	569,066	(444,612)
Insurance & intermediaries receivables	12,830	72,138	(59,308)
Reinsurance receivables	0	229,149	(229,149)
Receivables (trade, not insurance)	7,498	4,421	3,077
Cash and cash equivalents	48,027	48,027	0
Total assets	**591,045**	**1,391,276**	**(800,231)**

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 €6.9 has been recognised. The deferred tax asset arises primarily on timing differences in Spain and Germany on claims and equalisation reserves as calculated in accordance with local tax GAAP principles.

Based on current profit projections the net deferred tax asset of €6.9 is expected to be capable of being utilised within two to 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 €12.8m (2020: €11.4m). 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 2021 for HSA's material Solvency II lines of business.

€000 Solvency II line of business	Gross	Outward	Net	Risk margin	Technical Provisions 2021	Technical Provisions 2020
General liability insurance	314,717	74,166	240,552	4,391	244,942	218,707
Fire and other damage to property insurance	126,693	55,679	71,014	1,296	72,311	108,668
Credit and suretyship insurance	7,637	(2,297)	9,934	181	10,115	2,247
Other	5,290	(3,094)	8,384	153	8,537	8,550
Total	**454,337**	**124,453**	**329,884**	**6,021**	**335,905**	**338,172**

Table 25

At 31 December 2020, the discounted net technical provisions were €338,172 thousands, meaning an decrease of €2,286 thousands. The key drivers of the movement in the best estimate technical provisions are given below:

- €229,503 thousands reduction in net future premium cashflows (increase in net TPs) driven by an increase in reinsurance premiums due related to the 90% quota share arrangement. There has also been a process improvement which means internal reinsurance amounts are more accurately split between future premiums and future commissions.
- €495 thousands decrease in net claims reserves including reinsurance bad debt
- €229,948 thousands reduction in future expenses, with a €237,534 thousands reduction in net commission, corresponding to the increase in premium due for the 90% quota share. This is partially offset by a €5,175 thousands increase in admin expenses.

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’. This process has been used to estimate COVID-19 related losses and the flood losses from July 2021.

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 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 is a low/medium/high uplift of best estimate reserves based on expert judgment.

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.

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 indices and benchmark information;
- 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;
- Events not in data (“ENID”) loadings – uplift factors are applied to the reserves for each reserving class based on whether it has been classified as being high, medium or low risk of ENIDs and compared to a statistical projection approach for further consideration;
- 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
2021 saw much higher inflation than recent years, caused by a combination of factors including supply chain disruption and the COVID-19 pandemic. Inflation can greatly influence the cost of settling claims, and the uncertainty is compounded by the inherent uncertainty over the timing of claims settlements. Shorter tailed classes are directly impacted by spikes in materials costs, for example, whereas longer tailed classes are more exposed to the compounding nature of inflation.

b) Initial Expected Loss Ratio (IELR) selection
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. Historically, market-wide rate monitoring has tended to under-estimate the effect of a softening market on profitability. The IELR is a key driver of HSA's technical provision estimates for the most recent years of account.

c) 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.

d) 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.

e) 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.

f) 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.

g) 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.

h) Events not in data ("ENID") loadings
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. 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. The ENID output is compared and validated against an alternative statistical approach.

i) 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.

€000 Conversion from Lux GAAP to Solvency II basis net of reinsurance	Total	General liability	Fire and other damage to property insurance	Credit and suretyship insurance	Other
Lux GAAP Technical Provisions (net of DAC)	61,593	47,457	11,621	1,332	1,184
Elimination of 100% net UPR	(1,605)	(2,827)	2,882	(1,577)	(84)
Add back DAC	(9,638)	(6,003)	(3,730)	415	(320)
Future premium incepted net of commission	269,232	198,381	54,795	8,589	7,468
Elimination of margin for prudence	(1,880)				
Future premium on unincepted	(36,946)	(25,768)	(9,986)	(103)	(1,089)
Net future claim cost (unearned + unincepted)	9,986	5,289	4,161	271	264
Additional expenses not included under Lux GAAP	36,828	22,795	12,170	907	956
Total ENID	1,194	969	186	17	22
RI bad debt adjustment	150	82	61	5	2
Discounting	969	710	200	33	26
Risk Margin	6,021	4,391	1,296	181	153
Other	0	0	0	0	0
SII Technical provisions	**335,904**	**245,476**	**73,657**	**10,070**	**8,581**

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 + unincepted) 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 unincepted business* – Solvency II basis allows for the future premium on the business that is unincepted but legally bound at the valuation date as well as the corresponding unincepted claims (captured in Net future claim cost (unearned + unincepted) .
- *Net future claim cost (unearned + unincepted)* - Solvency II basis captures the claims on unearned incepted business and unincepted 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 90% Whole Account Quota Share treaty, ceding business intra-group;
- For fire and other damage to property insurance, HSA maintains a risk XOL 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 2021.

€000 Balance Sheet	Solvency II	LUX GAAP	Difference
Liabilities			
Technical provisions - non-life (excluding health)	460,358	621,093	(160,735)
Best Estimate	454,337	0	454,337
Risk margin	6,021	0	6,021
Provisions other than technical provisions	6,036	6,036	0
Pension benefit obligations	102	102	0
Deposits from reinsurers	0	163,183	(163,183)
Insurance & intermediaries payables	0	14,050	(14,050)
Reinsurance payables	0	376,783	(376,783)
Payables (trade, not insurance)	42,605	31,471	11,134
Any other liabilities, not elsewhere shown	0	60,718	(60,718)
Total liabilities	**509,101**	**1,273,436**	**(764,336)**

Table 27

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.

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 taking in 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:

€000 **Basic own funds by tier**	**Total Own Funds 2021**	**Total Own Funds 2020**
Ordinary share capital (gross of own shares)	59,730	48,730
Share premium account related to ordinary share capital	57,986	57,986
Reconciliation reserve	(42,712)	(33,218)
Net deferred tax asset	6,940	4,321
Total excess of assets over liabilities (EAL)	**81,944**	**77,819**
Total basic own funds after deductions	**81,944**	**77,819**
Available and eligible own funds		
Total available and eligible own funds to meet the SCR	81,944	77,819
Total available and eligible own funds to meet the MCR	75,004	73,498

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.

€000 **Reconciliation reserve**	**2021**	**2020**
Total Solvency II assets (sub-section D.1.1)	591,045	572,536
Total Solvency II liabilities (sub-section D.3.1)	509,101	494,717
Solvency II Excess of assets over liabilities	**81,944**	**77,819**
Ordinary share capital	59,730	48,730
Share premium	57,986	57,986
Deferred Tax asset	6,940	4,321
Reconciliation reserve	(42,712)	(33,218)

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 €6.9m is also eligible to cover the SCR, as shown in Table 30.

€000	**2021**	**2020**
Total eligible own funds to meet the SCR	81,944	77,819

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 €4.3m 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	**2021**	**2020**
Total eligible own funds to meet the MCR	75,004	73,498

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	2021	2020
Shareholders' equity as shown in the financial statements	117,839	103,667
Solvency II valuation adjustments to assets	(800,231)	(749,893)
Solvency II valuation adjustments to technical provisions	160,735	143,300
Solvency II valuation adjustments to other liabilities	603,601	580,745
Solvency II EAL	**81,944**	**77,819**

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 2020 and 2021 are shown in Table 33.

€000	2021	2020
SCR	62,001	56,224
MCR	27,900	25,301

Table 33

E.2.2. Standard formula SCR split by modules

Table 34 shows HSA's SCR for the year ended 31 December 2020 and 2021, split by risk module.

€000 Risk category	2021	2020
Non-Life Underwriting Risk	39,640	35,180
Counterparty Risk	10,599	10,085
Market Risk	7,279	6,131
Undiversified total SCR	**57,519**	**51,396**
Diversification benefit	(9,148)	(8,147)
Basic SCR	**48,371**	**43,249**
Operational Risk	13,630	12,975
SCR	**62,001**	**56,224**

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 €3.7m. [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 2020 and 31 December 2021 as well as movements in the constituent components of the SCR.

Movements in SCR and MCR over the reporting period

	2021 €000	2020 €000	Movement €000	Movement %
SCR	62,001	56,224	5,777	10
MCR	27,900	25,301	2,599	10

Table 35

Movements in components of the SCR over the reporting period

	2021 €000	2020 €000	Movement €000	Movement %
Insurance (underwriting risk and reserve) risk	39,640	35,180	4,460	13
Credit risk	10,599	10,085	514	5
Market risk	7,279	6,131	1,148	19
Undiversified total SCR	**57,519**	**51,396**	**6,123**	**12**
Diversification benefit	(9,148)	(8,147)	(1,001)	12
Basic SCR	**48,371**	**43,249**	**5,122**	**12**
Operational risk	13,630	12,975	655	5
SCR	**62,001**	**56,224**	**5,777**	**10**

Table 36

The following sections highlight the main drivers of movement in the SCR since year-end 2020.

Insurance risk

- Premium and Reserve risk have increased since the prior year. Premium volumes have been increasing year-on-year, leading to an increase in Premium and Reserve risk.
- Catastrophe risk has also increased since year-end 2020, attributed mostly to an increase in the Liability portfolio.

Credit risk

- There has been relatively little movement in Credit risk due to active management of broker debt as well as cash holdings driving counterparty default risk.

Market risk

- Market risk has increased due to an increase in investible assets. Further bonds held at year-end 2021 are slightly more volatile than those held at year-end 2020

Operational risk

- HSA's Operational risk has seen a small increase driven by the change in gross technical provisions.

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
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	6,940
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	14,909
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	376,387
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	348,252
R0140	*Government Bonds*	46,333
R0150	*Corporate Bonds*	301,919
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	27,530
R0190	*Derivatives*	571
R0200	*Deposits other than cash equivalents*	34
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	124,453
R0280	*Non-life and health similar to non-life*	124,453
R0290	*Non-life excluding health*	124,453
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	12,830
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	7,498
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	48,027
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	591,045

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	460,358
R0520	*Technical provisions - non-life (excluding health)*	460,358
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	454,337
R0550	*Risk margin*	6,021
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	6,036
R0760	Pension benefit obligations	102
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
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)	42,605
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	509,101
R1000	**Excess of assets over liabilities**	81,944

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business				0	13,407		140,551	284,027	13,168								451,152
R0120	Gross - Proportional reinsurance accepted				0	0		113	3,381	0								3,495
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share				0	9,783		98,996	231,735	9,655								350,169
R0200	Net				0	3,623		41,668	55,673	3,513								104,478
	Premiums earned																	
R0210	Gross - Direct Business				0	13,027		137,227	273,029	12,901								436,183
R0220	Gross - Proportional reinsurance accepted				0	0		102	2,629	0								2,731
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share				6	9,459		96,591	220,876	8,879								335,811
R0300	Net				-6	3,568		40,738	54,782	4,022								103,103
	Claims incurred																	
R0310	Gross - Direct Business				-54	7,190		61,226	74,038	9,915								152,315
R0320	Gross - Proportional reinsurance accepted				0	0		0	288	0								288
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share				-48	6,485		60,827	64,007	7,709								138,980
R0400	Net				-6	705		398	10,318	2,207								13,623
	Changes in other technical provisions																	
R0410	Gross - Direct Business				0	0		0	0	0								0
R0420	Gross - Proportional reinsurance accepted				0	0		0	0	0								0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share				0	0		0	0	0								0
R0500	Net				0	0		0	0	0								0
R0550	**Expenses incurred**				-6	2,044		31,608	51,996	3,458								89,101
R1200	**Other expenses**																	
R1300	**Total expenses**																	89,101

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			FR	DE	IE	NL	ES	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	0	102,330	142,243	64,751	52,143	50,881	412,349
R0120	Gross - Proportional reinsurance accepted	0	2,601	99	0	0	0	2,700
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0140	Reinsurers' share	0	78,352	113,229	51,706	40,287	38,848	322,421
R0200	Net	0	26,579	29,114	13,045	11,856	12,033	92,628
	Premiums earned							
R0210	Gross - Direct Business	0	99,405	138,313	61,775	49,852	49,303	398,648
R0220	Gross - Proportional reinsurance accepted	0	1,941	99	0	0	0	2,041
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0240	Reinsurers' share	0	75,590	109,808	48,653	37,989	37,293	309,333
R0300	Net	0	25,756	28,604	13,123	11,863	12,010	91,356
	Claims incurred							
R0310	Gross - Direct Business	0	33,304	55,625	25,619	12,737	11,821	139,107
R0320	Gross - Proportional reinsurance accepted	0	219	0	0	0	0	219
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0340	Reinsurers' share	0	30,684	51,785	23,953	11,414	11,309	129,146
R0400	Net	0	2,839	3,840	1,666	1,323	512	10,181
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers' share	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	4,156	22,433	23,055	12,192	9,223	10,997	82,055
R1200	**Other expenses**							
R1300	**Total expenses**							82,055

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**				0	0		0	0	0								0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				0	-497		12,717	10,515	5,420								28,156
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				0	-3,718		-25,638	-81,113	2,145								-108,324
R0150	**Net Best Estimate of Premium Provisions**				0	3,221		38,355	91,629	3,275								136,480
	Claims provisions																	
R0160	Gross				0	5,787		113,976	304,202	2,217								426,181
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				0	624		81,316	155,279	-4,442								232,778
R0250	**Net Best Estimate of Claims Provisions**				0	5,163		32,659	148,923	6,658								193,404
R0260	**Total best estimate - gross**				0	5,290		126,693	314,717	7,637								454,337
R0270	**Total best estimate - net**				0	8,384		71,014	240,552	9,934								329,884
R0280	**Risk margin**				0	153		1,296	4,391	181								6,021
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**				0	5,443		127,989	319,108	7,818								460,358
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				0	-3,094		55,679	74,166	-2,297								124,453
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				0	8,537		72,311	244,942	10,115								335,905

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**	**Sum of years**
		0	1	2	3	4	5	6	7	8	9	10 & +	**year**	**(cumulative)**
R0100	Prior											1,425	1,425	1,425
R0160	2012	0	0	0	0	0	0	0	-7,231	1,356	481		481	-5,394
R0170	2013	0	0	0	0	0	0	-12,079	1,023	1,646			1,646	-9,409
R0180	2014	0	0	0	0	0	-15,439	1,822	1,522				1,522	-12,095
R0190	2015	0	0	0	0	-17,282	3,612	2,367					2,367	-11,303
R0200	2016	0	0	0	-27,420	6,394	3,408						3,408	-17,618
R0210	2017	0	0	-55,766	10,875	3,256							3,256	-41,635
R0220	2018	0	-33,932	16,155	8,341								8,341	-9,436
R0230	2019	17,794	48,186	32,072									32,072	98,052
R0240	2020	22,282	77,342										77,342	99,624
R0250	2021	32,042											32,042	32,042
R0260												**Total**	163,902	124,253

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**
		0	1	2	3	4	5	6	7	8	9	10 & +	**data)**
R0100	Prior											12,934	12,950
R0160	2012	0	0	0	0	0	0	0	6,349	4,172	2,512		2,517
R0170	2013	0	0	0	0	0	0	10,868	9,143	5,946			5,960
R0180	2014	0	0	0	0	0	14,827	14,648	11,047				11,069
R0190	2015	0	0	0	0	18,264	13,189	8,121					8,139
R0200	2016	0	0	0	26,859	18,148	13,747						13,788
R0210	2017	0	0	45,812	33,151	20,883							20,938
R0220	2018	0	65,869	47,078	39,212								39,331
R0230	2019	84,237	107,885	60,369									60,560
R0240	2020	146,978	130,732										131,122
R0250	2021	119,425											119,806
R0260												**Total**	426,181

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Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	59,730	59,730		0	
R0030	Share premium account related to ordinary share capital	57,986	57,986		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-42,712	-42,712			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	6,940				6,940
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	81,944	75,004	0	0	6,940
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	81,944	75,004	0	0	6,940
R0510	Total available own funds to meet the MCR	75,004	75,004	0	0	
R0540	Total eligible own funds to meet the SCR	81,944	75,004	0	0	6,940
R0550	Total eligible own funds to meet the MCR	75,004	75,004	0	0	
R0580	**SCR**	62,001				
R0600	**MCR**	27,900				
R0620	**Ratio of Eligible own funds to SCR**	132.17%				
R0640	**Ratio of Eligible own funds to MCR**	268.83%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	81,944
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	124,656
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	-42,712
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	29,140
R0790	**Total Expected profits included in future premiums (EPIFP)**	29,140

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,279		
R0020	Counterparty default risk	10,599		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	39,640		
R0060	Diversification	-9,148		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	48,371		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	13,630
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	62,001
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	62,001
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

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

USP Key

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

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

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.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	44,926

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	8,384	3,623
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	71,014	41,668
R0090	General liability insurance and proportional reinsurance	240,552	55,673
R0100	Credit and suretyship insurance and proportional reinsurance	9,934	3,513
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	44,926
R0310	SCR	62,001
R0320	MCR cap	27,900
R0330	MCR floor	15,500
R0340	Combined MCR	27,900
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	27,900