Registered No: 00320784

National House-Building Council

(a company limited by guarantee)

Annual Report and Accounts

For the year ended 31 March 2016

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Chairman's statement

I am again very pleased to introduce NHBC's Annual Report and Accounts in a year in which the house-building industry saw a consolidation of the growth experienced since 2012. During the year, 153,430 (2014/15: 154,173) new homes were registered to be built with NHBC. Based on our estimated market share of around 80%, this equates to some 190,000 new homes registered across the UK, suggesting that there remains some way to go before we reach the levels most commentators believe are required. As anticipated, the strong growth in registrations we have seen in recent years meant that the number of homes completed in the year increased by 7% to 139,864 (2014/15: 130,236).

Whilst the impacts of the decision for the UK to leave the European Union are yet to be fully understood, many commentators indicate that some contraction of the housing market is possible due to the uncertainty around investments and major purchases. An environment of lower interest rates and reduced investment returns puts additional pressure on insurers such as NHBC, which hold reserves to support long tail liabilities. The uncertainty surrounding Brexit could result in such an environment persisting for a considerable period which means management will have to remain vigilant.

Despite this uncertainty, most house-builders have indicated that levels of sales and reservations have so far been largely unaffected, whilst the Government's ongoing commitment to increasing housing supply continues to support the new homes industry. We will continue to monitor closely the effects on the housing market to ensure that we are well positioned to respond to rising or falling volumes by offering the support required to maintain construction standards and provide reassurance to homeowners through our approaches to inspection and risk management and the protection provided by our Buildmark warranty.

We have continued to recruit into technical roles and rolled out enhancements to our Inspection Service to support the industry. We are also undertaking work to upgrade our Claims capabilities and develop our Consumer Strategy to ensure that we meet our obligations and provide an excellent service to homeowners. You can read more concerning these activities in Mike's statement and in the Strategic Report on page 13.

NHBC engages and works with all major political parties to ensure politicians at all levels understand our independent role. We were delighted to welcome this year to our Annual Lunch the then Secretary of State for the Department for Communities and Local Government (DCLG), Greg Clarke MP, who addressed the audience of industry representatives and reinforced the Government's desire for growth in volumes whilst maintaining construction standards. To underline this desire further, in July 2016 the DCLG Select Committee launched an inquiry into the capacity of the house-building industry to meet the demand for new homes. During the year, we also gave evidence to the All Party Parliamentary Group (APPG) relating to the construction standards of new build housing. Their report was published in July 2016 and we will continue to support any further work proposed.

The Select Committee and APPG inquiries demonstrate the focus on the Government's policy objectives to increase build rates and achieve the stretching targets so often referred to. We know that building faster can result in a decline in the construction standards of what is built, whilst the use of innovative methods and materials to increase the speed of building brings risks as well as opportunities.

The desire to increase output, particularly at a time of scarcity of skilled resource, has prompted many in the industry to look beyond traditional brick and block or timber-framed construction towards so-called offsite or modern methods of construction. We are very aware of the pressure on builders to find innovative and faster ways to build and believe it is extremely important that the industry develops new techniques. NHBC supports such new approaches, but we must also be conscious that the consequences of a new method or material proving unsuitable can be serious for homeowners and costly for us and our builder customers. We therefore work closely with the industry to help ensure that new products and systems are thoroughly researched and tested.

I am pleased that our hard work over the past few years meant that on 1 January 2016 we were ready to comply with Solvency II, the European Union (EU) legislative programme that has delivered an EU-wide standard means of assessing capital adequacy. Throughout the year regular engagement has taken place with both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The tone and outcome of these conversations has been positive and NHBC aims to maintain its good relationships with both regulators.

The health and safety of our employees remains paramount and we have continued our programme of on-site health and safety monitoring to ensure our technical and field-based staff are properly equipped and trained to work safely.

I am delighted that we have signalled our commitment to improve gender diversity in our business by signing up to the HM Treasury Women in Finance Charter and to WISE (a campaign to promote Women in Science, Technology and Engineering), which you will read about in the Wider Impact section of the Strategic Report on page 30.

Since the end of the financial year, we announced that Chris Rash, Commercial Director and CFO, will leave the Board at the end of 2016, after two and half years. Chris brought important external perspective and challenge to NHBC and we have benefited enormously from his significant knowledge and experience of insurance markets and financial matters. Chris leaves us better placed and well organised for the future and we wish him all the best in his new role. We also say goodbye to our Non-Executive Director, Greg Fitzgerald, who stepped down from the Board in July after six years with us.

The success of NHBC, as ever, rests on the strength of our people, who ensure that our already excellent reputation in the industry is both maintained and continues to grow. I would therefore like to acknowledge everyone's efforts this year and to offer my thanks to Mike, the Executive Directors, my Board colleagues and everyone who works for NHBC. Our main aim of raising construction standards of new homes and protecting homeowners is as important today as it has ever been.

IZ Hudson

Isabel Hudson
Chairman

Chief Executive's statement

I am pleased to report this year that the increased number of new homes registered with NHBC in recent years has been maintained. Further growth is however needed if we are to reduce the gap between housing supply and demand across the UK. Our commitment to helping UK house-builders maintain and improve the construction standards of new homes remains at the forefront of our minds at a time when these standards have understandably come under pressure. This is both an exciting and challenging time for the industry and NHBC.

For the financial year ended 31 March 2016, our registrations remained broadly in line with the previous year with 153,430 homes registered (2014/15: 154,173). Growth in the north of England, Scotland and Northern Ireland was offset by reductions further south.

Whilst this level of registrations is still 4% below the long-term average of 159,000 since 1970, strong growth in recent years means that registrations have grown by 80% since the depths of the recession in 2008/09, predominantly driven by growth from the private sector.

There was also a 7% increase in the number of new home completions for the financial year up to the end of March, compared to 2014/15, with 139,864 completions (2014/15: 130,236) in total, reflecting the strong growth seen in registrations in recent years.

As at 31 March 2016, some 1.6m homes were covered by our Buildmark policy and, despite the best endeavours of builders and our inspectors, some defects do become apparent over the life of the policy. In 2015/16, almost 11,000 homeowners directly benefited from Buildmark, with net claims paid of £90.1m.

NHBC continues to occupy a unique position. Our core purpose of supporting the industry as an independent body which works with builders and developers to improve the construction standards of new homes remains our key focus, as it has for the past 80 years. We achieve this through our virtuous circle business model of standard setting, independent inspection, technical support and guidance underpinned by our market-leading 10 Year warranty and insurance cover, Buildmark.

I reported last year that we had embarked upon our largest recruitment campaign of technical roles for decades. This campaign continued this year with further recruitment of frontline roles, and 27 trainees taken through our academy. I am particularly pleased that we continue to attract people with a diverse range of backgrounds and experience.

Our new, 32-strong, multi-disciplined team focusing on major projects (complex or over 8 storeys) is now well established in our new London office. Each team takes responsibility for a development from concept to completion, providing our builder customers with a readily available focal point as construction progresses.

During the year we have continued the re-engineering of our Claims department, started last year, to ensure improved service for homeowners when they have to make a claim under Buildmark. This work falls under the umbrella of our updated Consumer Strategy, overseen by our Consumer Committee, which provides a clear vision challenging colleagues throughout the business to provide homeowners with the best products, service and experience.

As the market continues to grow we must continue to ensure that we are adequately capitalised to support that growth looking forward, and so our surplus capital position has remained a key focus area for the Board during the year. I am very pleased to note that we met the requirements of the new European Solvency II directive which came into force on 1 January 2016.

In addition to a consolidation of our registration volumes, the continuation of an extremely low investment yield environment places added pressure on our capital. We now manage our capital position using both the regulatory Standard Formula approach and our own economic capital measure, with the Board performing a fundamental role in monitoring and reviewing NHBC's activities to ensure appropriate standards of conduct and compliance. With this in mind, our prudent stewardship of the business meant that we were able to limit price increases to a minimum of 2.4%, taking the four year average to just 2.25% per annum.

We have built strong relationships with all political parties and continuing engagement with politicians and Ministers at all levels means that NHBC is well placed to help shape future house-building initiatives.

The NHBC Standards are the technical benchmark of the house-building industry, which we revise and update in response to new building methods, new products and feedback from our claims experience. During the year we published the latest, updated version of our Standards which included a new chapter on waterproofing of basements and other below-ground structures. For the first time we have made our Standards freely available online, and included 3-D images of key construction details, for the use of both builders and homeowners alike. Our Standards form part of our risk management process by reducing the likelihood of problems for both builders and eventual homeowners, and providing guidance covering every stage of the build process from foundations to finishes.

We continue to focus on industry training delivering both National Vocational Qualifications and targeted interventions. During the year we hosted a series of External Masonry Wall seminars across the country focusing on common problems we have seen with wall construction. These were extremely well received by builders, developers and designers, with over 1,000 attendees, 98% of whom believed that the seminars would help to improve construction standards.

Our key stage inspection regime is highly valued by our builder customers, as it is crucial in reducing the likelihood of potential defects and in collecting data for analysis to further improve the homes they build. In 2015/16 our inspection team carried out over 798,000 inspections at key build stages, identifying over 357,000 items requiring the builders' attention. In addition, our surveyors, engineers and project managers assessed design submissions for over 89,000 projects in our role as the largest single Building Control Approved Inspector in England and Wales. In fact this year we marked the thirtieth birthday of NHBC's Building Control business.

The increased size of our inspection force has enabled us to free up inspectors' time so that we can refocus their activity and thus reduce build risk, as well as augmenting the key stage inspection regime. During the year we introduced Project Design Reviews, to check design submissions for key warranty requirements, as well as for compliance with the Building Regulations. We also introduced pre-start meetings at which our inspectors discuss the project with the site manager, highlighting focus areas and clarifying the requirements of NHBC's Standards.

Additionally our inspectors now carry out targeted Consultative Inspections, during which our inspectors work with the site team to iron out potential problem areas before the work becomes too advanced, rather than just reporting defects when the work is completed.

In Spring 2016 we launched Construction Quality Reviews. Undertaken by all of our inspection managers, these reviews, targeted at all larger builders, aim to produce a detailed report for discussion with site management assessing the overall construction standards on site. All of these inspection changes are supported by the forthcoming introduction of the fourth generation of site inspection technology (Panasonic Toughpads) to over 400 inspectors and managers coupled with the new iSITEs inspection software.

For a number of years we have provided larger builders with information on their construction standards by means of static quarterly Builder Reports. I believe we have taken a leap forward this year by launching an online portal ("MyReports") to large and medium sized builders which provides them with near real-time data across each of their sites. Early indications are that this platform will prove invaluable and greatly help the industry with its focus on construction standards.

Our two industry recognition schemes, Pride in The Job (recognising the best site managers from around the UK within each of five categories) and our Health & Safety awards continue to be well-supported by the industry and go from strength to strength. Pride in The Job celebrated its 35th year whilst our Health & Safety awards have now been running for seven years. Both schemes play a crucial role in helping to maintain the focus on site best practice.

During the year we have taken positive steps both to enhance and deepen our relationships with homeowners. We have developed a Home User Guide (the NHBC HUG) which is now being supplied to every new homeowner. As well as containing Buildmark policy documents and NHBC contact information, the HUG provides specific details relating to the new home as well as allowing builders and homeowners to upload customised information about their new property.

The results of this year's NHBC/HBF National New Homes Customer Satisfaction Survey again show that house-builders are delivering extremely high levels of customer satisfaction. 86% of respondents were satisfied with the overall construction standards of their new home whilst 90% say they would buy a new home again. However, it must be noted that these levels have declined slightly since the previous year. Of the 80,582 questionnaires sent, 45,342 were returned, giving an impressive response rate of 56%.

The Customer Satisfaction Survey is largely reflective of homeowner experience during the home-buying process and the customer care they receive post-completion. It does not therefore provide an adequate measure by which to determine the construction standards of a home, which is our primary concern. Therefore, during the year we continued the development of our Construction Quality Index which captures data from multiple sources, including our inspection records, claims experience and data from the Construction Quality Reviews referred to earlier, to provide a metric by which the construction standards of new homes can be measured more effectively. I hope to use the index to report on trends in construction standards more broadly in future years once the development and testing is complete.

Our research arm, the NHBC Foundation celebrated its first decade this year with NHBC investing a further £500,000 to fund research and guidance to support the house-building industry. The NHBC Foundation has now delivered 70 publications on topics relevant to the challenges of new home building.

I was very pleased once again this year with the results of the Best Companies' employee engagement survey as NHBC maintained the 'One Star' accreditation category which we achieved for the first time in the previous year. I believe that NHBC is a great place to work, and maintaining this level of accreditation supports that belief and serves as an endorsement for our ongoing work to develop as an employer. I am committed to ensuring that we continue to progress through our engagement with our staff.

Finally, I would like to once again thank all of my NHBC colleagues for their contributions. I am impressed by their levels of professionalism, enthusiasm and dedication, and by their knowledge and proficiency across a wide range of complex fields. I remain confident that we have the people required to adapt to the challenges we face.

Mike Quinton
Chief Executive

Chief Financial Officer's statement

Results overview

Whilst 2015/16 was another profitable year, Profit before tax of £9.2m (2014/15: £14.9m) was down 38% from last year. This decline reflects a number of moving parts, including some underlying claims deterioration, lower investment returns, and costs associated with additional technical resource and with achieving Solvency II compliance.

Despite these factors, Profit after tax was up 122% at £23.8m (2014/15: £10.7m), benefiting from an unexpected corporation tax reclaim of £13.8m in respect of our four previous tax years.

Our capital position, whilst strong, remains an ongoing focus given the economic uncertainty created by the recent "Brexit" vote and the pressure of continued low bond yields. Therefore, preserving our capital for the future, through appropriate price increases and further use of reinsurance, remains a priority.

Financial highlights

	2015/16	2014/15
Registrations	153,430	154,173
Net Written Premiums (£m)	71.6	69.5
Earned Premiums (£m)	124.9	52.4
Claims Incurred (£m)	(103.5)	(112.8)
Movement on Unexpired Risk Reserve(£m)	(3.6)	2.8
Investment Result (£m)	6.9	78.2
Net Operating Expenses (£m)	(4.4)	(3.1)
Technical Account Result (£m)	**20.3**	**17.4**
Other Operating Activities (£m)	**(11.1)**	**(2.5)**
Profit before tax	**9.2**	**14.9**
Tax	14.6	(4.2)
Profit after tax	**23.8**	**10.7**

Net written premiums

Net written premiums were up 3% to £71.6m. Whilst gross written premiums rose by 10%, reflecting price increases and a shift in mix to a greater proportion of homes registered in London, additional reinsurance costs relating to the purchase of the Adverse Development Cover offset most of this increase.

Profit before tax

Technical account result

Earned premiums rose 138% to £124.9m (2014/15: £52.4m) largely as a result of a reassessment of earning pattern assumptions and to ensure alignment of the accounting treatment for technical provisions between UK GAAP and Solvency II.

Premiums are earned in line with the expected claims profile over the period of cover. Previously, claims were recognised at the point of validity, less six months. This year, in consultation with our auditors, we have changed our approach so that we now recognise claims at the date of first notification of loss. This change has the impact of bringing forward the claims profile and, consequently, recognising claims and therefore premiums earlier. The impact of the reassessment is approximately £66m with an equal and opposite charge reflected in the unexpired risk reserve, such that overall there is no impact on profit.

Claims incurred fell 8% reflecting a decrease in both net claims paid and the change in provision for claims. Net claims paid fell by 7% to £90.0m (2014/15: £96.5m) primarily due to lower settlement of storm-related claims whilst the lower change in the provision for claims reflects the smaller impact of claims from the lower registration years of 2008-10. Turning to the overall cost of claims, superstructure repairs such as external walls and render remained the most common cause of claims in the year, accounting for 38% of claims reported, and the category of highest cost at £26.5m (2014/15: £32.4m).

The unexpired risk reserve has risen marginally by 1% (2014/15: -1%) but includes a number of moving parts. Negative pressure has been driven by a modest rise (1%) in effective homes on risk and some deterioration in underlying future claims assumptions, principally short-term inflation and longer-term claims handling costs, as well as the impact of the change in earnings pattern discussed above. These negative effects have been largely offset by the favourable impact of the Adverse Development Cover affecting the ten registration years to March 2015 and the full recognition of Road and Sewer bond fees for the first time. The recognition of Road and Sewer bond fees applies to bond agreements that had been contractually entered into prior to the year-end and is consistent with the accounting treatment under Solvency II.

Investment result

The investment result was £6.9m (2014/15: £78.2m) comprising gross investment income of £40.3m (2014/15: £42.7m), net realised gains of £14.3m (2014/15: £16.2m) and net unrealised losses of £45.0m (2014/15: gain of £22.0m).

Gross investment income of £40.3m was down 5.5% on prior year, reflecting the continued low bond yield environment. The nominal yield on our bond portfolio was 2.9% (2014/15: 3.1%); reinvestment rates on the bond portfolio at 31 March 2016 were broadly similar to 31 March 2015 at 2.1%

Net unrealised losses of £45.0m reflects the expected unwind of our bond portfolio.

Other operating activities

Non-insurance income, which includes inspection and building control fees, grew by 7.4% to £69.4m. This reflects both the increase in volume of registrations and completions, and the modest average price increases of under 4% which took effect on 1 July 2015.
Other expenditure, which represents all NHBC's non-insurance related costs, increased in the year by 20% to £80.5m. The primary drivers were costs associated with ensuring Solvency II compliance

which became effective from 1 January 2016, the run-rate cost of the continued investment in our inspection resource and the formation of the London based major projects team. The investment in inspection resource, which has grown by 53% over the last two years, and which is now largely complete, remains appropriate and necessary given the current levels of registrations and we expect to reap the benefit of this investment through lower claims in future years.

Profit after tax

The profit after tax was £23.8m (2014/15: £10.7m) and includes a tax credit of £14.6m, primarily reflecting a reclaim of £13.8m in respect of indexation relief claimed on index-linked bonds for the previous four tax years.

Balance sheet

Investments

The total value of the investment portfolio (including cash) declined by 2.2% in the year to £1.486bn, mainly due to adverse mark-to-market movements.

Of the total investment portfolio, 90% was invested in high quality fixed income and cash assets. The fixed income portfolio remains concentrated in high quality assets, with 96% of the bond portfolio investment grade and 58% rated AA or above.

The average duration of the bond portfolio is 4.67 years (2014/15: 4.57 years). The portfolio composition remained broadly consistent throughout the year with non-government bonds making up 44% of the bond portfolio.

At 31 March 2016, our equity holdings were £95m (2014/15: £115m) which represented 7% (2014/15: 8%) of our overall investment portfolio. The decline largely reflects a rebalancing of the investment portfolio in June 2015.

Reserves

Net technical provisions decreased by 3.6% (2014/15: increase 3%) to £959m. The main drivers of this decline are the impact of the Adverse Development Cover, partially offset by a modest increase in effective homes on risk and an increase in underlying claim assumptions, primarily short-term inflation and longerterm claims handling costs. Our reserving philosophy remains unchanged with a consistent and appropriate degree of prudence maintained.

Capital position

We remain focused on a number of capital measures.

At 31 March 2016, accumulated reserves were £466.9m, up 6.2% from the start of the year, reflecting the retained profit for the year and a decrease in the pension deficit.

Our regulatory capital position remains strong. With Solvency II becoming effective from 1 January 2016, our capital position is assessed using the Standard Formula methodology and at 31 March 2016, our solvency ratio was 181%. Work has continued to progress on the development of our Internal Model with a submission to the Prudential Regulation Authority expected in 2017/18. Until that time, we will continue to report using the Standard Formula measure.

Given the economic uncertainty caused by the recent "Brexit" vote and the continued likelihood of the low yield environment persisting, capital will remain a key focus. To that end, we are committed to taking the right actions now which include pursuing further reinsurance opportunities and working with the pension Trustee to de-risk the pension scheme investments.

Defined benefit pension scheme

On an FRS 102 accounting basis, the pension fund position has improved by £6.3m since 31 March 2015 to a deficit of £33.3m. The reduction is driven by the deficit repair contributions and a small increase in the discount rate to 3.5%.

During the year, we have worked closely with the Trustee to agree a de-risking strategy of the scheme's assets. This strategy, the implementation of which commenced in January 2016 and is expected to complete during 2017, will see a reduction in the scheme's exposure to equities in favour of lower risk and more capital efficient credit instruments.

Auditors

Following the resignation of PricewaterhouseCoopers on 13 April 2016, NHBC's Audit Committee initiated an audit tender process which resulted in the appointment of Deloitte LLP as auditors for this year. Whilst the timelines have been challenging, I am very pleased with the smooth nature of the transition.

Summary

We have delivered positive results for the 2015/16 financial year. Looking forward, the economic outlook remains uncertain following the "Brexit" vote and challenging, given the low yield environment. This is likely to impact volumes over the next few years, albeit that demand for new homes will continue to outstrip supply. We will maintain our focus on capital, thereby ensuring that NHBC is well placed to support the industry for the future.

Christopher S. J. Rash

Chris Rash
Commercial Director and Chief Financial Officer

Strategic Report

Who we are, what we do

NHBC is the UK's leading independent standard-setting body and provider of warranty and insurance for new homes. Our purpose is to work with the UK house-building industry to help improve the construction standards of new homes for the benefit of the industry and homeowners.

NHBC invests in supporting the industry to raise standards and improve the construction standards of UK house-building. We conduct research and development and work with the Government and key stakeholders to help shape housing policy.

Our purpose, to improve the construction standards of new homes, is underpinned by our Virtuous Circle business model which consists of:

- A Register of builders;
- Commitment to building to NHBC Standards;
- Independently inspecting homes during construction;
- The reassurance provided by our 10 year Buildmark warranty; and
- Standards continually improved through research, analysis, feedback and practical guidance to the industry.

We believe that a home built by an NHBC Registered Builder to NHBC Standards, independently inspected by our Inspection service, and with the further reassurance of a 10 year NHBC Buildmark warranty, is the mark of a good quality new home for homeowners. One of our objectives is to ensure that the industry and homeowners share this belief.

NHBC is a regulated insurance company with a strong balance sheet, so homeowners have the reassurance of knowing that they can rely on our financial strength and the protection afforded by our 10 year Buildmark warranty when they need it.

NHBC is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Key facts and figures for 2015/16

- NHBC is the UK's largest new home warranty and insurance provider;
- We have 80 years' experience in improving the construction standards of new homes;
- We have almost 11,000 builders on our Register;
- Our builder customers registered over 153,000 plots;
- Our inspectors carried out over 798,000 inspections at key build stages in the year, identifying over 357,000 items which did not comply with NHBC Standards and required correction by our builder customers;
- As the largest Approved Inspector in England and Wales, we received over 89,000 Building Control registrations;
- We undertook around 8,000 health and safety inspections on sites across the UK;
- We paid claims for the benefit of homeowners totalling £90.1m last year;
- We delivered over 5,500 delegate days of training to the house-building industry including health and safety management and technical courses; and
- We employ approximately 1,300 people.

Industry-leading warranty

As the leading home warranty provider in the UK, NHBC currently provides warranty and insurance for over 1.6m homes, with a market share of approximately 80%. Our warranty and insurance product, Buildmark, covers homes from before they are built, providing protection from the exchange of contracts, through to the end of the tenth year following legal completion.

Corporate structure

NHBC's subsidiaries which form the Group and are 100% owned are as follows:

Company	**Purpose**
National House-Building Council	Parent Company and a provider of warranty and insurance.
NHBC Building Control Services Limited	A provider of Approved Inspector services in England and Wales.
NHBC Services Limited	A provider of consultancy and support services to the house-building and related industries.
PRC Homes Limited	The company did not trade during the year.
NHBC Pension Trustee Limited	The subsidiary acts as the corporate trustee of the NHBC defined benefit pension scheme. The company did not trade during the year.

Standards

The *NHBC Standards* provide the technical benchmark for all newly-built and converted homes covered by our Buildmark warranty and insurance policy, and are published as a manual for our registered builders with sections covering the design, material specification and site work for each part of the build process. The *Standards* document, and regular development of its content, is an integral part of our purpose to improve the construction standards of new homes. To sell a home with an NHBC Buildmark warranty, registered builders must comply with the *Standards*, which play an essential part in the risk management of the build process and aim to keep potential problems for the homebuyer to a minimum. **In the past year:** We published the 2016 *Standards*, including the new Chapter 3.2, covering the waterproofing of basements and other below-ground structures. The new *Standards* document is in a revised, more accessible format, whilst the online *Standards Plus* provides an interactive experience including 3D models of construction details which can be manipulated and viewed from multiple angles.

Inspection

Every year, NHBC conducts hundreds of thousands of inspections, which are an integral part of our risk management for the Buildmark warranty product. Inspection is focused on specified key stages for each plot, and these are supplemented by other inspections based on the risk assessment conducted for each site, so that our inspectors are on site at the times when their independent quality control expertise can be most effective. Inspections generate data on construction defects and problems encountered during construction and we use this invaluable information to develop best practice advice and guidance for our registered builders. **In the past year:** Our inspectors carried out over 798,000 inspections, identifying over 357,000 reportable items. We continued our major recruitment campaign for technical roles, increasing our nationwide inspection and front line technical services roles by almost 200 since August 2013 to support our builder customers and help meet the growing demand for our services.

Builder registration

NHBC registered builders and developers commit to building new homes in line with the NHBC Standards and are therefore able to offer Buildmark warranty and insurance cover to their home buyers. Before being accepted onto the NHBC Register, an individual or company will be assessed commercially through financial and other reference checks, and technically through an assessment to substantiate their ability to build to NHBC Standards. Registration also provides access to free or discounted products and services, in addition to those provided by NHBC as part of our registration package, including discounted tools and materials and discounted home emergency assistance cover, both from national providers. **In the past year:** We introduced a compulsory Health and Safety inspection which all new applicants must pass to ensure that they can operate a safe site before being accepted to the Register. Over 3,000 registered builders made use of the additional services offered as part of our registration package.

Technical support and guidance

We provide our registered builders and developers with expert technical advice, support and assistance, providing guidance on Standards, regulations, research and other technical issues. Advice is also provided through our regular newsletter *Technical Extra*, as well as the online TechZone and Extranet. **In the past year:** We continued the development of our Construction Quality Index which captures data from multiple sources, including our inspection records and claims experience, to provide a metric by which the construction standards of new homes can be measured and ultimately demonstrated to external stakeholders.

NHBC Foundation

Established in 2006, the NHBC Foundation provides high-quality research and practical guidance to support the house-building industry and to try and solve some of the problems homeowners experience with their new homes. To date, the NHBC Foundation has published 70 reports on a wide variety of topics, including the sustainability agenda, homeowner issues and risk management. **In the past year:** The NHBC Foundation celebrated its 10^{th} Anniversary and published 6 new reports, including *Sustainable technologies: the experience of housing associations,* a study of the experience of Housing Associations in the use of a variety of energy and water saving features, and *The connected home: designing and building technology into today's new homes*, which explored the opportunities and challenges for today's designers and house-builders concerning the integration of technology into homes, both now and in the future.

Shaping policy

NHBC is seen by the Government and all political parties across the UK as a trusted and valued organisation which they proactively approach for policy support and advice. NHBC staff sit on a number of industry and Government committees, including the Consortium of European Building Control (CEBC), the Association of Consultant Approved Inspectors (ACAI) and, in Scotland, the Building Standards Advisory Committee. Through our political engagement programme, NHBC regularly provides a platform for the industry to engage with senior policy makers through private roundtables, political party conference events and organised site visits with our registered builders, as well as hosting major industry events and keynote speeches at NHBC's offices. **In the past year:** Following the General Election, NHBC built strong relationships with new Ministers and was the only housing body to host separate events with the then Department for Communities and Local Government (DCLG) Secretary of State, Housing Minister and Building Regulations Minister at the autumn party conferences.

Promoting best practice

NHBC recognises the highest achievers in the industry through its high-profile competitions, its Pride in the Job and Health and Safety Awards, both of which reward excellence in UK house-building. These awards are an important part of NHBC's drive to raise and promote high standards in new home construction. **In the past year:** From a pool of over 15,000 Site Managers, we awarded 417 Pride in the Job Quality Awards, 33 Single Home Commendation Awards, 133 Seal of Excellence awards, 43 Regional Winner awards and 5 Supreme awards at 10 regional and one national event. At the Health and Safety Awards, from the 267 entries received, NHBC awarded 54 Commended, 29 Highly Commended, 6 Regional, 3 National and 2 Commended Initiatives awards at a national ceremony.

NHBC Building Control Services Limited (BCS)

BCS is the largest building control body in England and Wales and it celebrated its 30th anniversary in 2015. BCS provides Building Control, the process of helping builders to ensure that Government-set Building Regulations are met, on residential, mixed-use and commercial projects of all sizes and complexities, delivering dedicated support and technical advice for builders and their professional advisers. BCS is central to NHBC's purpose of raising standards and protecting homeowners and also supports the Government and the wider construction industry on regulation changes and other related matters. **In the past year:** BCS received Building Control registrations for over 89,000 new homes across the private and affordable housing sectors.

NHBC Services Limited (Services)

Health and safety

Services offers a range of health and safety services including guidance on the Construction Design and Management Regulations, site waste management plans, health and safety audits, site inspections and training, as well as an online management reporting system to view and share health and safety site performance. **In the past year:** Services carried out around 8,000 health and safety inspections.

Energy and sustainability

Services provides sustainability and energy feasibility reports for planning to help builders meet the demanding targets within the Code for Sustainable Homes and other BREEAM assessments. **In the past year:** Services provided over 11,700 Energy Performance Certificates and Simplified Building Energy Model ratings, as well as 13,200 Standard Assessment Procedure ratings.

Land Quality Endorsement (LQE)

Our LQE consultancy services assess brownfield sites with complex contamination or geotechnical issues prior to residential development, and in 2015 celebrated its 10th anniversary. LQE has been commissioned on many strategic national and regional developments being promoted as catalysts for community regeneration and brownfield land regeneration. The LQE assessment of brownfield land, against the requirements of NHBC's Standards to establish acceptability for Buildmark warranty cover, provides increased confidence to the land developer and to builders purchasing land parcels on a site. LQE can help to de-risk a site and identify any remaining technical issues to be addressed during residential developments.Many builders now regard an LQE assessment as a pre-requisite to the purchase of land on marginal development sites. **In the past year:** LQE secured 32 projects with the potential for 16,000 plots.

Training and industry support

Services provides a range of construction-related training specifically for house-builders and industry professionals. These qualifications and e-learning programmes help the industry to keep up to date with regulatory change, develop new skills or enhance existing ones. Training and qualification programmes include NVQs, health and safety training, on-site trade talks, technical training and briefing sessions and e-learning. **In the past year:** Services delivered almost 5,500 training days in health and safety management and technical training to the house-building industry.

Customer satisfaction

Since 2004, NHBC has conducted the National New Homes Survey for the benefit of the house-building industry and to facilitate the Home Builders Federation's Star Rating scheme for builders. The survey is carried out at periods of eight weeks and nine months after legal completion. With well over 100,000 questionnaires sent out annually, and an average response rate of 56%, the survey data provides the most compelling insight in the industry concerning the satisfaction of homeowners with all aspects of their new homes. **In the past year:** NHBC received over 63,000 responses from both questionnaires and the online dashboard reports that we have developed are now used by the majority of the largest house-builders to monitor and benchmark their customer satisfaction levels and to drive improvements.

Market overview

NHBC operates in the UK house-building sector and the health of this sector is the primary driver of NHBC's business performance and growth.

UK housing market

2015/16 was a year of consolidation for the UK house-building sector, with NHBC's housing registrations for 2015/16 broadly in line with the previous year at 153,430 units (2014/15: 154,173). This consolidation followed the strong growth experienced in the previous two years (2014/15: 11%, 2013/14: 23%). The current level of registrations represents a c.80% increase since the depths of the downturn in 2008/09 when registration levels fell to 84,695 units.

There was a 7% increase in the number of new home completions during the year with 139,864 units completed in 2015/16 (2014/15: 130,236), as builders completed the construction of those homes registered in the recent years of strong growth.

Significant challenges remain for the industry, particularly in relation to labour shortages resulting from recent growth, and the continuing housing industry challenge of attracting workers into house-building, and construction generally. The availability of skilled labour remains a challenge for house-builders and the industry in general with labour costs rising as a result of increased demand and a lack of new staff entering the industry.

Mortgage lending increased for the third successive year, with the value of mortgage approvals for house purchases for the year to 31 March 2016 rising by 18% to £144bn (source: Bank of England). The overall number of mortgage approvals for house purchases for the year to 31 March 2016 increased by 12% to 837,296 units over the previous 12 month period. Mortgage approvals hit a two-year high in January 2016 of 73,282 approvals, but slowed in the remainder of the year and have continued to fall in the first few months of 2016/17 (source: Bank of England).

House prices

The demand for homes continued to outstrip supply and, as a result, house prices rose to an average of £292,000 in March 2016, representing an increase of 9.0% in the year (source: ONS).

The average price of all new homes registered with NHBC in 2015/16 was £320,000 (2014/15: £315,000) representing a further increase of 2% on top of the 10% rise experienced between 2013/14 and 2014/15.

Housing market outlook

The demand for new housing is not anticipated to fall, albeit that the rate of growth of new-build activity experienced in previous years may not be repeated in 2016/17. The supply of new housing is unlikely to be able to meet the demand in the short-term due to labour and skills shortages and the economic uncertainty surrounding the result of the referendum on the United Kingdom's membership of the European Union.

The potential implications of the decision for the UK to leave the EU are still uncertain, as is the eventual impact upon the house-building industry. Some major builders have announced changes to their approach to purchasing land until there is more certainty around eventual market prices. Many commentators indicate that some contraction of the market is possible, driven by a short-term fall in consumer confidence and investment concerns.

Most house-builders, however, remain confident and indications are that sales and reservations have so far been relatively unaffected by "Brexit".

The Government's continued commitment to increasing housing supply and the range of incentives being offered, including the Help to Buy scheme, continue to play a key role in supporting the new-build market and in differentiating new-build from the existing homes market.

Market share

NHBC's average warranty market share for the UK fluctuated during the year but remained at approximately 80%. These statistics are based on the number of NHBC registered homes on which building activity has commenced ("starts") and is expressed as a percentage of Government starts for the UK over the same period.

What this means for NHBC

The uncertain market outlook, and the Government focus on house-building, brings both opportunities and threats to NHBC, some of which overlap as follows:

Opportunities	Threats
Economic and political uncertainty, following the outcome of the EU referendum, may result in a reduction in registration volumes, thereby reducing capital and reserving requirements for future years and reducing pressure on construction standards.	Economic and political uncertainty, following the outcome of the EU referendum, may result in a reduction in registration volumes and increased risk of builder insolvency which could result in an increase in claims experience.
Further significant growth in the housing stock is required to meet demand.	Growth may bring downward pressure on the construction standards of house-building due to materials and skills shortages and inexperienced new entrants.
Due to our c.80% market share, growth in private house-building will largely be delivered by NHBC registered house-builders and housing associations. Low interest rates should result in greater accessibility to finance.	Any increase in volumes creates an increased capital requirement due to the need to set aside additional insurance reserves. Sustained low interest rates combined with the more stringent Solvency II capital requirements may result in an additional strain on our capital position.
Potential changes in the nature of ownership of homes built, including an increase in homes for private rent and affordable homes to either buy or rent.	Products and approaches must be developed to provide flexibility and cater to the specific needs of developers building across all sectors and tenures.
The Government is driving innovation in house-building construction methods and materials to target major increases in the number of new homes being built each year. We must develop frameworks to support the industry.	Innovation in meeting housing demand could bring risks as more 'off-site' and fast-track/low-skill building methods are trialled, and as house-builders change designs to produce more sustainable homes.
Economic uncertainty leads to a fall in house prices, thereby increasing affordability and demand for new homes and resulting in an increase in registration volumes.	Falling house prices reduce NHBC's income, whilst rising volumes increase capital and reserving requirements for future years along with heightened pressure on construction standards.

Further information on the risks facing our business can be found in the *Risks to our Business* section on page 26.

Competition

The new home warranty market remains competitive, with several new entrants to the market in 2015/16. With the new-build market supported by Government initiatives and stretching targets, it is likely that competition will continue to increase.

Our strategy

NHBC's purpose is to work with the UK house-building industry to help improve the construction standards of new homes for the benefit of the industry and homeowners.

Our aim is to ensure that NHBC continues to be the leading warranty provider in the marketplace, measured by market share, financial performance, long-term security, product and service. To do this, we must operate with discipline and effectiveness to serve our internal and external stakeholders well and build and maintain a prudent capital platform. Understanding the drivers of capital remains a key area of focus to ensure that our objectives can be assessed and prioritised.

The key priorities supporting our purpose include:

Regulatory Compliance

Put simply, regulatory compliance gives us our "licence to trade". We must ensure that we satisfy our two regulators (the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)) that our activities, governance arrangements and financial position are suitable and appropriate. This includes ensuring that we have sufficient capital, which is more challenging in an environment where registration volumes have been rising (meaning greater reserves must be set aside) and investment yields are low (reducing our potential income).

These factors, combined with the move to the new European Solvency II regime, have put pressure on our capital. In such an environment, we aim to safeguard our capital through our approach to pricing, investment strategy, appropriate reinsurance and our approach to supporting builders to improve construction standards through technical risk management, including inspection. We believe that improving the construction standards of the homes built in the UK will reduce claims exposure in the long-term and thus ultimately result in lower capital requirements.

Due to the nature of our ownership structure, our options for managing capital are largely limited to pricing and reinsurance. As a result, our ability to forecast our future capital position accurately is important so as to allow us the time to put any necessary actions in place.

In addition to prudential risk and regulation, the Board attaches great importance to its regulatory responsibilities in relation to the FCA. NHBC continues to enhance its approach to managing Conduct Risk and has in place a framework designed to deliver fair outcomes to homeowners.

Market Share

We work hard to balance our desire to write as much business as possible, with the increased exposure associated with doing so in relation to capital resources. A high market share allows us to access a greater proportion of available data concerning construction standards and better influence the standard of the homes constructed.

We are therefore keen to maintain a high market share in order to encourage and support the greatest possible number of builder customers to construct to NHBC Standards. Our underwriting process is underpinned by our influence and support during the design and planning phase of construction and through our on-site presence during inspections and technical risk management processes which support builders in achieving a standard of construction which is insurable. It is therefore important that we have the resource and capital necessary to succeed with the business we take on so we can sustainably serve the market and meet our obligations to homeowners.

Maintaining our market share at an appropriate level therefore remains a priority. We aim to achieve this through our ongoing engagement with the industry and by ensuring we provide:

- A competitive offering to builders and Housing Associations;
- A combined house-building service which sets us apart from our competitors; and
- Compelling reasons for builders and Housing Associations to stay with NHBC.

We believe in building strong long-term relationships with these organisations, encouraging them to work with and to stay with us. With increasing competition and challenging market conditions, we believe that maintaining standards in house-building is more important now than ever in order to ensure buyers get the best possible home.

Homeowners

At NHBC we are committed to treating homeowners fairly as a central philosophy within our business strategy. We aim to:

- Understand homeowners' needs;
- Be recognised, understood and appreciated by homeowners for the ongoing development and delivery of high standards to improve the construction standards of new homes;
- Lead the industry in providing solutions to remedy new home construction problems; and
- When home construction problems occur, provide homeowners with a fair and simple claims service which offers a lasting solution.

Enhancing homeowner awareness of NHBC and its products and services has been identified as a priority for NHBC. If homeowners identify NHBC as the leading name in home warranty, expectation for an NHBC registered home may increase, creating greater demand from the industry for our products and services and underpinning our market share.

We aim to do this through engagement across government and all press and media, as well as by the continued development and implementation of our Consumer Strategy. As part of our Consumer Strategy, we introduced targets, measures and actions to ensure that we understand and engage with consumers at an earlier stage in the home-buying process, and improve the nature and frequency of our communication with homeowners after purchase. A revised set of actions and measures were agreed after the year-end and the ultimate goal of our Consumer Strategy is to ensure that homeowners are aware that they have an NHBC Buildmark warranty and understand the protection it affords them.

Claims

Claims, or the absence of them, reveal whether or not a home has been built well and with suitable materials. NHBC provides warranty for over 1.6m UK homes, all with variable proportions of their 10 year Buildmark warranty cover remaining. From this pool of 1.6m homes, NHBC resolves approximately 11,000 reported claims each year.

Due to the nature of our policy, which primarily provides protection for the major structural elements of a home, some of the claims we receive are complex in nature and require longer-term assessment to find the most appropriate and lasting solution, often involving complex or specialist repairs.

As a consequence, our claims process can sometimes be more complex and time-consuming than many insurers. Despite this, the vast majority of claims we receive are resolved quickly and to the satisfaction of the homeowners concerned. However, inevitably some claims, such as structural foundation issues or large cladding issues to blocks of flats, can take longer to resolve than we would like and we recognise that this can be challenging for the homeowners, tenants and organisations involved.

We are therefore committed to improving our Claims capabilities, and this has been a particular area of focus in the last 18 months following the appointment of a new Head of Claims, restructuring of our internal claims team to improve efficiency and homeowner experience and a considerable increase in staff to support these initiatives. Significant progress has been made but further work will continue in the coming year to develop our processes to further improve our claims operation.

In order to reduce the likelihood of future claims arising, we have significantly increased the size of our inspection workforce over the last few years to allow our inspectors additional time to focus their activity on areas of greatest need. We also ensure that our claims knowledge and experience is fed back to other areas of NHBC and the industry, to help protect future homeowners by using the lessons we learn from today's claims to reduce tomorrow's problems.

Four pillars of activity

To achieve our priorities, our strategy has four pillars of activity: Standards; Customer; Reputation; Finance. The diagram below demonstrates how these four pillars support our purpose of improving and maintaining new home construction standards.

What we stand for:

UK new home construction standards

Our purpose:

To help the house-building industry raise the standard of new homes and support the people who live in them if they need it.

The way we do this:

DIRECTLY
By operating our Virtuous Circle business model of registering builders, setting standards, inspecting and providing warranties for new homes and undertaking building control on >60% of those homes.

INDIRECTLY
By supporting industry and government through research, feedback and support for policy development.

Our objectives:

STANDARDS	CUSTOMER	REPUTATION	FINANCE
We will help the industry improve the construction standard of new homes.	We aim to maintain high market share in warranty and building control sectors and look after the needs of our policyholders.	We aim to have a strong brand with all stakeholders.	We will remain financially strong and have sufficient capital.

Examples of our activities and key performance indicators

What?	How?	Why?	Targets/Activities	2015/16 outcome
Maintain and improve the construction quality of new homes	• Assess building design details to ensure that they satisfy NHBC Standards and, where we provide Building Control, the Building Regulations • Ensure suitable inspections of every home registered • Analyse industry feedback on construction standards and claims experience • Invest in research, practical guidance and industry training	• Undertaking a high proportion of inspections at key stages reduces the opportunity for defects to occur • Analysis allows us to provide targeted training to the industry and change our Standards to address areas of frequent claims experience • Identifying emerging materials and practices allows us to develop appropriate new Standards to manage risks • Tailored training for our registered builders and the industry improves knowledge and practice on site	• Undertake key stage and unannounced inspections on every home registered • Secure a minimum of 60% take-up of our Building Control service across all of our warranty business • NHBC Foundation research • Provide training to the industry on appropriate and current topics	• 98.5% of all key stages inspected (2014/15: 98.2%) • 64.7% (2014/15: 65.3%) • Six NHBC Foundation publications (2014/15: Seven) • 5,500 delegate training days delivered (2014/15: 4,800)
Maintain a warranty market share of sufficient size to support our priorities and look after the needs of our customers	• Ensure our builder customers and key industry stakeholders are satisfied with our services • Ensure we meet homeowner expectations and treat them fairly	Monitoring the satisfaction of these groups allows us to measure how well we are meeting the needs of the industry, and those of our homeowners, and to respond to changing requirements	• Achieve a Net Promoter Score as judged by our builder customers above 40% • Monitor the satisfaction of our builder customers across our range of services via our Builder Satisfaction Survey • Achieve an average score of 4.25/5 or above on homeowner satisfaction surveys of our repair contractors' performance Achieve an average score of 4.25/5 or above on homeowner satisfaction surveys of our Claims service	• 42% (2014/15: 48%) • 84.2% (2014/15: 84.2%) • 4.24 (2014/15: 4.24) • 4.5 (2014/15: 4.5)
Consolidate and strengthen our reputation	• Engage with the industry, key stakeholders and Government	Engagement with these groups allows us to build our reputation across the industry and test awareness of our brand, the products we offer and how well we deliver them	• Achieve a score of 77% or more in our Stakeholder Reputation survey	• 77% (2014/15: 77%)
Develop the potential of our staff and invest in their futures	• Attract and retain excellent staff • Create a great place to work built on key objectives and behaviours	To ensure we can continue to deliver the high standards of service expected of us and ensure our staff perform to the best of their abilities and continually develop	• Achieve a Best Companies Employee Engagement survey score of over 640	• 661 (2014/15: 667)
Ensure we have sufficient capital to fulfil our obligations	• Ongoing assessment of our capital position and strategy by reviewing our pricing, investments and reinsurance in relation to industry growth and demand	We must remain financially strong and have sufficient capital to deliver our promise to our 1.6 million Buildmark policyholders and fulfil our regulatory obligations. We must also have the resources to continue to invest in raising standards and providing key services to the industry	• Ensure our technical provisions remain sufficient to meet potential claims expenditure • Ensure our capital remains above our Board approved risk appetite of 140% Solvency ratio and meets the requirements of our regulator	• Technical provisions sufficient at £959m (2014/15: £995m) Solvency II Standard Formula ratio of 181% as at 31 March 2016 (2014/15: N/A)

Understand the needs of builders and homeowners and ensure they understand NHBC's role, services and products	• Create internal awareness of the importance of the consumer • Monitor consumer needs and understanding of our products and services • Assess consumer policy knowledge • Monitor satisfaction of our products and services	Internal focus on and engagement with consumers and homeowners enables us to raise awareness of NHBC's role in improving the construction standards of new homes. We must ensure that we meet our financial regulatory requirements in relation to policy awareness and knowledge. Monitoring satisfaction allows us to ensure that we are delivering a good service to our consumers, both directly and via our builder customers	• Measure internal awareness of homeowner vs builder • Measure homeowner satisfaction with policy documentation • Increase knowledge of policy holder and policy acceptance at point of completion • Measure homeowner satisfaction rating on claim resolution • Measure level of complaints	• Achieve >50% "high awareness" rating in internal survey by March 2017 (2014/15: N/A) • Achieve a score of 80% by March 2017 (2014/15: N/A) • New measures established for 2016/17 as part of Consumer Strategy

Risks to our business

NHBC's Approach to Risk Management

NHBC's purpose is to work with the UK house-building industry to help improve the construction standards of new homes for the benefit of the industry and homeowners. In considering our organisation's key risks, we distinguish between risks to achieving our ***objective*** and risks to our ***sustainability*** as an organisation. To achieve our organisational objective, we will monitor and minimise poor construction standards and unfair homeowner outcomes.

We are uniquely positioned for this, both as the market leading warranty provider and because of our integrated Virtuous Circle business model (across standard setting, technical risk management and warranty provision). To ensure our ***sustainability*** as an organisation, we will take action to ensure our solvency risk, reputational risk, insurance risk and operational risk remain within appetite.

Risk Governance

The Board has established a risk governance framework overseen and supported by a series of Board and Executive Committees. Each Committee has terms of reference that interconnect to provide risk oversight and governance across all of NHBC's activities. The framework is set out below:

- The Board is responsible for the risk framework and the setting of NHBC's risk appetite;
- The Board Risk Committee oversees the development and operation of the risk framework and reviews key risks, challenging management to establish the extent to which these risks are suitably controlled within the Board's risk appetite;
- The Executive Risk Committee monitors the risk profile of the business and takes action to ensure risks are identified and managed; and
- A number of management committees report to the Executive Risk Committee, providing focus on areas such as Conduct Risk and Prudential Risk.

Further details of Board and Committee structures are set out on pages 36 to 45.

A policy framework establishes the Board's minimum standards of control in key risk areas. Each policy is owned by an Executive Director and is reviewed and approved in accordance with an agreed policy review cycle.

Risk Management

NHBC operates a risk management framework designed to identify, assess and mitigate its key risks. NHBC operates in a dynamic environment and as a consequence it is not possible to understand and identify all risks that might threaten the business in advance of them being realised. Accordingly, the risk framework needs to be flexible enough to react to unexpected circumstances and ensure a suitable risk response. NHBC manages this by having in place a series of risk management processes including:

- Risk and control assessments maintained at function and company level which are actively managed by risk owners in conjunction with the Risk and Compliance team;
- A process for managing risk events;
- Emerging risk assessments, reviewing risks for which the timing and velocity are uncertain but which could have severe impacts on our business; and
- Appointed representatives within each business function providing risk and compliance support for operational colleagues.

These activities enable NHBC to identify potential threats, review the effectiveness of key controls and take any required mitigating action. In addition, NHBC is also able to respond rapidly to unexpected events.

The Risk Operating Model

To promote an understanding of responsibilities across the organisation, NHBC uses a "three lines of defence" model. It combines three separate but integrated elements which allow NHBC to manage risks effectively and support the achievement of its strategic objectives. These are described briefly below.

Board Risk Committee		Audit Committee
1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Operational Functions Business teams operate systems of internal control. Executive Directors are responsible for managing risk in their areas. They and their management teams are the people best placed to understand and manage most risks.	**Support Functions** Risk and Compliance teams support, review and challenge business team activity. They report to the Executive Risk Committee and the Board Risk Committee.	**Assurance** The Internal Audit team provides an independent view of the effectiveness of risk and control management. The Internal Audit team reports to the Audit Committee.

Risk Appetite

The Board sets NHBC's risk appetite to align to the key areas of business activity, known as the 'Four Pillars' (see page 23 for further details). Risk appetite tolerances have been developed for the key areas of:

- Market share;
- Reputation, including brand strength and homeowner satisfaction;
- Construction standards;
- Inspection and Technical Risk;
- Financial Resilience; and
- Conduct Risk.

NHBC's Risk Profile

Principal Risks

NHBC has identified the principal risks to achieving its strategic objectives. These risks are reviewed and reported on a quarterly basis to the Board Risk Committee. The Internal Audit team also includes a review of the adequacy of key controls designed to mitigate these risks as part of the risk based audit cycle.

Examples of risks that are managed in the pursuit of our objectives are provided below.

Risk Area	Key Risks
Insurance	Failure to forecast and plan for growth in Warranty Registrations resulting in financial and operational strain and inadequate service levels.
	Failure to identify significant issues with a building system or widely used building component resulting in significant consumer dissatisfaction and claims costs.
	Failure to adequately mitigate exposure to the insolvency of one or more builder clients resulting in significant claims costs.
Market	Failure to forecast and adequately mitigate changes in investment markets resulting in an inability to fund policy obligations and meet regulatory capital requirements.
Operational	Failure to embed compliant operational and governance processes, causing poor conduct towards homeowners and increased claims costs.
	Failure to maintain stable technology delivery systems resulting in an unacceptable standard of service.
Pension	Failure to forecast and plan for additional pension fund contributions resulting in a reduction in profit and an inability to replenish capital reserves.
Strategic	Failure to define and implement a strategy which accommodates the changing environment in which NHBC operates or delivers NHBC's strategic purpose.
	Failure to maintain a material market share resulting in an inability to fulfil its core purpose.

Emerging Risks

In addition to the risks which are managed through function and company level risk registers, an ongoing assessment takes place of emerging risks which would have a significant impact on the organisation.

These risks are reviewed by the Executive Risk Committee and, if required, action plans are developed, ownership assigned and appropriate resource allocated. Examples of risks currently under review include:

- Economic, including the uncertainty in UK and world investment markets caused by the UK's decision to leave the EU;
- Political, including the outcome of negotiations regarding the UK's departure from the EU but also more local considerations such as changes to housing policy;
- Environmental, including long-term changes to weather patterns; and
- Technological, including innovation in building systems and opportunities to improve the way in which NHBC delivers its products and services.

Risk and Capital

NHBC undertakes an ongoing Own Risk and Solvency Assessment (ORSA) which provides for the continual review of the businesses risks, capital requirements and strategic direction. This ongoing assessment comprises a range of different activities, processes and reports.

In order to support this exercise NHBC uses an economic capital model to ensure that an adequate amount and quality of capital is maintained relative to the risk profile of the business and its strategic objectives.

Wider impact

Our people support the house-building industry to raise construction standards. NHBC continually invests in our people to give every employee the chance to flourish professionally and personally.

Bringing out the best in our people harnesses the dedication, creativity and innovation that helps to deliver excellent service to our builder customers and homeowners.

A growing company

With an ever increasing focus on construction standards, 2015/16 has seen NHBC's headcount grow for a third consecutive year, as we welcomed a further net 88 new colleagues, predominantly in Inspection and Technical Services, including the London-based Major Projects team. This continued growth represents a 7.4% increase in total staff numbers in the year.

Attracting and retaining the right people has seen us recruit from ever more diverse sources. In addition to building relationships with educational establishments, NHBC signed and enacted the Corporate Covenant demonstrating our support for the armed forces community.

Voluntary labour turnover remained low compared to external benchmarks at 8.6%, an increase on the 7.6% reported for 2014/15.

A fair workplace: our approach to diversity and inclusion

To help with sustainable growth in the future, the focus on diversity has continued. We believe in maintaining high ethical standards and treating all people consistently and fairly. Underlying our commitment to equality is the fundamental belief in the rights of all employees, customers, homeowners and contractors to be treated with dignity and respect, free from any form of discrimination.

NHBC recognise that diverse teams maximise the power of different opinions, perspectives and cultural reference points, and help us to deliver a better service. At NHBC we continually strive to create an environment where all our colleagues are valued, and able to bring their unique differences to work each day.

Building on the ambitions agreed in the previous year, in 2015/16 we:

Continued to train our managers	Ran a series of workshops to facilitate line managers in creating their local actions and ensuring biases do not affect recruitment and selection processes.
Further embedded robust recruitment processes	Carried out additional recruitment and selection training to ensure fair and consistent treatment of candidates.
Improved data quality	Took steps to further improve data quality to ensure greater understanding of our staff demographic. Employee disclosure rate for ethnicity increased from 88% to 92% in the year.
Contributed to the diversity of our sector	Actively participated in the Construction Industry Council Diversity Panel's 'Blueprint for change' report, creating the UK's largest diversity focused benchmark for the construction industry. Committed support to the Women in Finance Charter and became members of the WISE campaign (Women in Science, technology and Engineering).
Benchmarked our policy and processes	Externally benchmarked our approach to race and gender for the first time with Business in the Community, achieving bronze accreditation in both.

Within the context of a low turnover rate, achieving significant change in our demographic will take time. However, progress has been made in the year against the aspirations agreed by the Board in 2014/15 which are set out below:

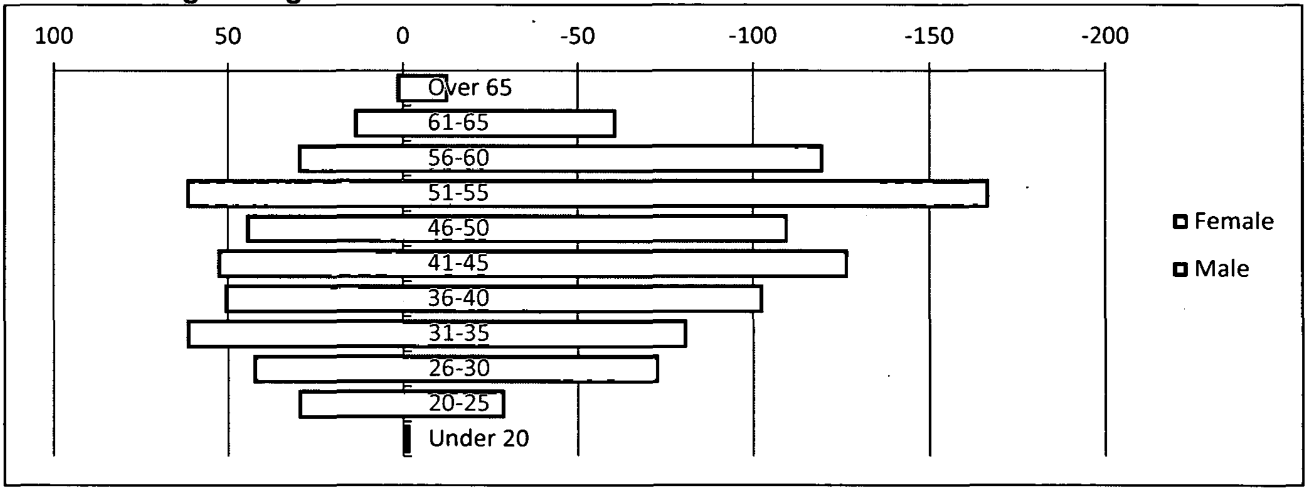
By 2020 we will have	2014/15 baseline	2015/16	Status
Increased the overall percentage of women in our workforce from 30% to 34%	30%	31%	On track
Doubled the proportion of ethnic minorities in our workforce to 12%	6%	8%	On track
Doubled the proportion of employees who are disabled or living with long-term health impairments	0.6%	1.1%	On track

The Senior Management team is 28% female, an increase from last year (2014/15: 26%), whilst the Board is 25% (2014/15: 25%). The full composition of the Board is cited in the Governance section on pages 43 to 44.

There were no discrimination related cases reported in the financial year. 12 out of 19 flexible working requests were approved.

In 2016/17 we will continue to develop our diversity and inclusion plans, including signing the Women in Finance charter. The Charter brings together HM Treasury and financial services organisations with the shared aspiration to see gender balance at all levels across financial services to build a fairer and more balanced industry. The Charter commits firms to supporting the progression of women into senior roles by focusing on the executive and mid-tier level development pipelines. NHBC will work to set its own appropriate targets and implement the right strategy to support the aspirations of the Charter. NHBC has also committed to publish reports on progress against these internal targets to support the transparency and accountability needed for change. NHBC has also become a member of the WISE campaign which aspires to encourage girls and women to build careers in science, technology, engineering and maths, and provides advice to organisations which seek to create environments where those women can excel.

NHBC staff age and gender distribution:



Gender pay gap

To demonstrate public commitment to the diversity and inclusion agenda we have elected to disclose our gender pay gap ahead of changes in legislation.

A review undertaken in 2015/16 identified a gender pay gap[1] of 21% in favour of males, reduced from 22% in 2014/15. The methodology used is in line with current guidance, which is anticipated to change in 2016/17 with new Regulations. Therefore the above figures should not be used in a direct comparison with future data sets.

The internal audit identified the propensity for the higher paid technical roles to be filled by men as the driver for this gap, which is a reflection of the broader construction industry. Further work identified negligible differences in job value across grades providing reassurance the approach to pay is gender neutral.

We will continue to monitor the gender pay gap in detail, and take action to reduce the gap in line with our overall diversity focused ambitions and measure progress with the Business in the Community Diversity and Wellbeing Benchmark.

Employee engagement and open communications

Employee engagement is a critical measure of a successful workplace. We were delighted to retain the 'One Star' Michelin-style rating from Best Companies, achieving response rates in excess of 90 percent for the second year in a row. This indicates that staff feel comfortable to share their views and contribute to the future success of NHBC.

The results included our highest ever scores in the 'My Team' and 'Personal Growth' categories, demonstrating a greater sense of team spirit, and that staff value the development opportunities available at NHBC more than in any previous year.

[1] Gender pay gap is calculated as average salary for males, divided by average salary for females on a full time basis

The survey identified no significant engagement gap in gender or ethnicity demographics.

Fair reward for a job well done

We compare salaries with those of other companies in our industry to ensure that our remuneration packages are competitive. Pay and bonus is linked to company performance and individual contribution, with individual aspects focused not only on what is achieved, but also the behaviours demonstrated in those achievements.

Over 96% of our staff are members of our Defined Contribution pension scheme, unchanged from 2014/15, and the scheme has been re-accredited with the Pension Quality Mark Plus standard. We are also proud to be a partner of the Living Wage Foundation, with our minimum pay levels for direct employees across the UK exceeding the national Living Wage. We also work with suppliers to pay the Living Wage to on-site contractors.

Staying safe and well

Health & Safety

NHBC is committed to conducting its business in a way that ensures the health and safety of its employees and others who may be affected by its undertakings. By defining standards for managing the health and safety aspects of what we do, we promote safe working practices as well as providing a safe working environment for employees and visitors to our premises.

Our health and safety procedures are determined by the activities we carry out, as well as the level of risk that these activities attract. To ensure the effectiveness of our procedures, monitoring arrangements are in place, which are designed to test compliance. Through monitoring, we are able to identify weaknesses and where these exist, to put in place measures to address them. This year, in addition to our own internal monitoring, an independent third party review was carried out by our internal auditors, Grant Thornton. The outcome of this review was that we were awarded an overall risk rating of 'Low', which aligned with our own assessment.

Whilst we work hard to ensure that employees and visitors to our premises are provided with a safe working environment, the same is not always true for approximately one third of our employees whose place of work is the sites they inspect. Although builders have a duty to provide a safe environment for those who work on and visit their sites, in reality the situation can be quite different. In an attempt to address this, thereby managing the risk posed by these sites to our inspectors, we have recently introduced an additional requirement into our applicant builder registration process.

From the beginning of this year, all builders applying to join the NHBC register are required to demonstrate, via an on-site assessment, that they are able to manage their sites safely and should a builder be unable to satisfy this requirement, their application will be rejected. We believe that introducing this new registration requirement will encourage builders to proactively manage standards of health and safety on their sites, which in turn helps us to manage the safety of our inspection staff.

Although we aim to manage our activities in such a way as to prevent accidents, there are occasions when they do occur. 22 accidents were reported in the year, none of which required notification to the HSE. Given our increasing headcount, we continue to be encouraged by the downward trend in our accident rate, with the three-year average down 21% versus last year. We continue to work hard to maintain this downward trend.

Supporting all aspects of employee wellbeing

In 2015/16 we continued with our strategy of delivering benefits above statutory requirements including flu jabs and eye care.

There were also a successful range of workshops to support staff in key life transitions. Building on popular pre-retirement workshops, these now include financial education and pension workshops for colleagues at different stages of life.

For those with families, paternity and maternity pay are both above statutory levels, with the maternity package further enhanced in 2015/16. There was also a successful trial of 'parent gym' building support networks for colleagues with children. Our supportive policies have meant that we again experienced a high return rate after maternity leave for 2015/16 of 85% (2014/15: 87%), with 6.3% of staff accommodated on flexible or part-time contracts.

Investing in personal and professional development

There are over 170 different job roles at NHBC. Through wide ranging investment in personal development there is huge scope to grow in a supportive environment.

Where colleagues want to specialise, or broaden career horizons, they receive personalised support to help make the next step when the opportunity arises. All staff members receive Personal Development Reviews, including conversations about their development a minimum of twice a year.

Supporting professional progression

NHBC funds 741 subscriptions to over 50 professional institutions (2014/15: 632) which demonstrates the broad range of expertise amongst our employees and our belief in the importance of maintaining this.

We introduced a new initiative in 2015/16 by inviting inspirational speakers to 'Lunch and Learn' sessions covering topics including how your mind works; memory training; and the use of humour. These sessions are focussed on enhancing colleagues' knowledge of areas that they can bring to NHBC as well as apply to life outside of work.

Staff Association

The NHBC Staff Association is a members' trade union that acts as the consultative voice for employees at NHBC and provides support to members during formal proceedings.

The Staff Association is officially recognised by NHBC, with terms of reference and Articles of Association signed and supported by the Chief Executive. The Staff Association is registered with the Certification Office for Trade Unions and Employers' Associations and was created because, for an organisation with as diverse a portfolio as NHBC's, it would be extremely difficult to find a truly suitable union, although staff are free to join other unions if they so wish.

All staff at NHBC have the annual opportunity to elect a group of representatives for three-year terms, with elections organised by business area and geographical location. Those representatives then internally elect an executive committee which oversees the running of the Staff Association. As at the end of 2015/16, there were 724 members of the Staff Association, representing 57% of all staff (2014/15: 663 and 57%).

Part of the communities in which we live and work

Being a positive presence in the communities in which we live and work is important to us. NHBC raised £40,444 for staff selected charity Cancer Research UK in 2015/16 bringing the total of the partnership to £77,404.

Our people can use up to two days to volunteer for causes important to them.
Matched funding remains a popular scheme with 75 colleague chosen charities benefitting from £17,977 matched funding (2014/15: 55 charities, £16,278).

We continue to work in partnership with a range of organisations for mutually strategic reasons, including Youthbuild UK, which celebrates young people from disadvantaged backgrounds succeeding in the construction industry, and Worktree, who help young people in Milton Keynes succeed in work by engaging employers in their education.

Ethical supply chain

It is important to us that we know who we are doing business with and choose suppliers using established, robust procurement and tender management principles which ensure that we, and suppliers, act ethically and responsibly.

Whilst NHBC is not required to produce a statement with regard to the Modern Slavery Act 2015 for the year to 31 March 2016, the implications of the act have been identified as an area of focus, and activities agreed to ensure NHBC identifies, prevents and mitigates any adverse human rights issues within the supply chain. A statement with regard to the Modern Slavery Act will be made during the 2016/17 financial year.

The strategic report was approved by the Board on 28 September 2016.

Mike Quinton
Chief Executive

Board

We have a strong, experienced and diverse Board with a good balance of skills.

1) Isabel Hudson (Chairman)

Isabel Hudson joined the Board on 1st June 2011 as Deputy Chairman and was appointed Chairman in November 2011. She was an Executive Director of Prudential's UK business and Chairman of Prudential International Assurance between 2002 and 2006 and established, and served as Chief Executive of specialist pension buyout firm, Synesis Life, from 2006 to 2008. She was previously Chief Financial Officer and an Executive Director of Eureko from 1999 to 2002, and International Development Director for GE Insurance Holdings Limited from 1996 to 1999. She is currently a Non-Executive Director of RSA Insurance Group plc, Phoenix Group Holdings and BT Group plc. Isabel is also an ambassador for Scope, a UK charity, and has many years' experience in the insurance industry in the UK and mainland Europe.

2) Mike Quinton (Chief Executive Officer)

With an accountancy background, Mike Quinton joined NHBC in October 2012, bringing a wealth of experience gained in the insurance sector, having held several senior executive management positions with major UK insurance companies, including Zurich Financial Services Group, Prudential and RBS Insurance, for which he was Managing Director of personal lines insurer Churchill. Mike's experience in managing high-profile, consumer-facing brands, coupled with his strong managerial track record, enables him to lead NHBC into the future and to reinforce our position as the UK's principal new home warranty provider and standards setting body. Mike is also a Non-Executive Director of the British Board of Agrément.

3) Sir John Harman (Senior Independent Director)

Sir John Harman was one of the original board members of the Environment Agency and Chairman from 2000 until 2008, overseeing fundamental reshaping in both flood risk and environmental protection policy. He was Leader of Kirklees Council from 1986 to 1999 and of the Yorkshire Regional Assembly from 1999 to 2000, and held senior positions in both the Association of Metropolitan Authorities and the Local Government Association. He is now Chairman of the Institute for European Environmental Policy. Sir John was appointed as the Senior Independent Director in November 2013 and is Chairman of the Remuneration Committee.

4) Stewart Baseley (Non-Executive Director)

Stewart Baseley is Executive Chairman of the Home Builders Federation. Stewart joined the Board in May 2004 having previously been Chief Executive of Charles Church, a main Board Director at Beazer, and Chairman and Chief Executive of Fairclough Homes until 2005. He is now a Non-Executive Member of the Board of H+H Celcon, Chairman of Troy Homes, a Senior Advisor to Highlander Partners and Chairman of Habitat for Humanity UK GB. Stewart is also Chairman of the Standards Committee.

5) Ian Craston (Non-Executive Director)

Ian Craston joined the Board in September 2014. He is the Chairman of the Investment Committee and also a member of the Board Risk and Remuneration Committees. Ian has spent his career in investment management and is currently the Group Investments Director for the RSA Group where he is responsible for the development of their global investment strategy. He also manages RSA's Treasury function as well as the relationship with its UK defined benefit pension schemes. Ian has an honours degree in economics and is a member of the UK Society of Investment Professionals.

6) Ian Davis (Operations Director)

Operations Director, Ian Davis, is the Executive Director with responsibility for NHBC's inspection, technical services, building control, engineering, external training and customer services activities. He is a Chartered Civil Engineer, a Member of the Institution of Civil Engineers and holds an MBA. His early career was with engineering contractors and consultants. He re-joined NHBC in 2006 after nine years as the Director General of the Federation of Master Builders.

7) Greg Fitzgerald (Non-Executive Director)

Greg Fitzgerald was appointed Chief Executive of Galliford Try plc in July 2005 and Executive Chairman in October 2014. Greg was a founder member of Midas Homes, becoming its Managing Director in 1995. He subsequently led the sale of the company to Galliford, where he was responsible for the rapid and profitable growth of the South West regional house-building business. On becoming Chief Executive, he has overseen a number of acquisitions, including Linden Homes and Morrison Construction, taking the Group into the Top 10 of UK Contractors and House-builders. At the start of 2016 Greg became Non-executive Chairman having enjoyed 11 years running the business.

8) Neil Jefferson (Business Development Director)

Neil Jefferson is Business Development Director and was appointed to the main Board of NHBC in April 2012. Neil is a Chartered Builder and has held various positions in NHBC, including General Manager, Regional Director and Head of Registration. Neil was also Chief Executive of the Zero Carbon Hub between 2008 and 2016 and previously the Managing Director of the National Centre for Excellence in Housing – a joint venture between the BRE and NHBC

9) Jean Park (Non-Executive Director)

A Chartered Accountant, Jean Park joined the Board in March 2013 and is Chairman of NHBC's Board Risk committee and a member of the Audit and Investment Committees. She is a risk professional with many years of experience in risk management, compliance and audit. She held the role of Chief Risk Officer at Phoenix Group and, prior to that, Risk Management Director at Scottish Widows Group. She was also on the executive committees of both of those organisations. Currently, Jean is a Non-Executive Director of Murray Income Trust and Admiral Group plc.

10) Chris Rash (Commercial Director and Chief Financial Officer)

Chris Rash joined the Board in September 2014 as Commercial Director and Chief Financial Officer and manages the actuarial, claims, finance, legal and underwriting teams. Prior to joining NHBC Chris was the Group Chief Accountant at RSA Group plc where he had responsibility for financial planning and analysis, financial reporting and capital management. Prior to that he held a number of regional CFO positions within the RSA Group. Chris is a member of the Institute of Chartered Accountants in England and Wales and holds a BA in Economics.

11) Sir Muir Russell (Non-Executive Director)

Sir Muir Russell joined the Board in May 2012. He graduated from the University of Glasgow in 1970 with first class honours in Natural Philosophy. He joined the Scottish Office and, during his 33 years as a civil servant, was Secretary of the Scottish Development Agency, Principal Private Secretary to The Secretary of State for Scotland, Permanent Under Secretary of State to the Scottish Office and Permanent Secretary to the Scottish Executive, following devolution. He then served as Principal and Vice Chancellor of Glasgow University for six years. He was the Chairing Member of the Judicial Appointments Board for Scotland from 2008 to 2016 and is Chairman of the Board of Trustees of the Royal Botanic Garden Edinburgh. Sir Muir is Chairman of the Audit and Scottish Committees.

12) Dame Helena Shovelton (Non-Executive Director)

Dame Helena Shovelton has been a member of the NHBC Council since 2009 and was appointed as a Non-Executive Director of the Board in September 2012. Dame Helena brings extensive experience in consumer affairs and related issues, and has held a number of senior positions across consumer and government bodies. Notably, she was Vice Chair, and then Chair, of the National Association of Citizens Advice Bureaux between 1990 and 1999, Chair of the Audit Commission (1998–2001) and has been a member of the Competition Commission, Better Regulation Task Force and the Banking Code Standards Board. Most recently, Dame Helena was Chief Executive of the British Lung Foundation, retiring at the end of June 2012, and is currently Non-Executive Chair of 2020health and is now the chairman of the Consumer Committee.

Council

Mr A Baddeley-Chappell Council of Mortgage Lenders	**Mr K Ireland** Federation of Master Builders
Mr S Baseley NHBC Board appointment	**Mr N Jefferson** NHBC Board appointment
Mr D Birkbeck Design for Homes	**Ms A Kaye** Institute of Consumer Affairs
Mr M Black Home Builders Federation	**Mr L Livermore** Trading Standards Institute
Ms J Bourne Council of Mortgage Lenders	**Mrs A J Lowe** Warranty Holder
Mr A Burd British Standards Institute	**Mr D McCallum** Chartered Institute of Housing
Mr P Caplehorn Construction Products Association	**Mr G McDonald** Home Builders Federation
Mr C Carr Federation of Master Builders	**Mr D McLeod** Scottish Committee
Sir John Carter Honorary Vice-President	**Mr J Owen** Joseph Rowntree Trust
Mr D Cochrane Scottish Committee	**Ms J Park** NHBC Board appointment
Mr A Collett British Property Federation	**Sir Michael Pickard** Honorary Vice-President
Mr I W L Cook Council of Mortgage Lenders	**Mr M N Quinton** NHBC Board appointment
Mr I Craston NHBC Board appointment	**Mr C Rash** NHBC Board appointment
Mr A Cripps Royal Institution of Chartered Surveyors	**Mr C Richardson** Warranty Holder
Mr I Davis NHBC Board appointment	**Mr A Rowan** Northern Ireland Committee
Mrs S Dean Warranty Holder	**Mr J Roycroft** Institution of Civil Engineers
Mr B Derbyshire Housing Forum	**Mr T R Roydon** Home Builders Federation
Mr C Fudge Construction Products Association	**Sir Muir Russell** NHBC Board appointment/Scottish Committee
The Rt. Hon. the Lord Fowler Honorary Vice-President	**Mr P Sellwood** Energy Saving Trust
Mr W C Gair Home Builders Federation	**Mr T Sharpe** Scottish Committee
Mr R Hardy Building Research Establishment	**Dame Helena Shovelton** NHBC Board appointment
Sir John Harman NHBC Board appointment	**Mr J Slater** Home Builders Federation

Council (continued)

Mr M Hayward National Association of Estate Agents	**Ms S Ullmayer** Royal Institute of British Architects
Mr K Hinton Warranty Holder	**Mr A Von Bradsky** Royal Institute of British Architects
Mr J Hood Northern Ireland Committee	**Mr P Williams** National Housing Federation
Mr B Hook Royal Institution of Chartered Surveyors	**Ms S Williams** Law Society
Mrs I Hudson NHBC Board appointment	

Corporate governance report

This report summarises the composition of the NHBC Council, the Board and its Committees and outlines some of the main issues which have been addressed during the year under review.

NHBC Council

NHBC is a private company limited by guarantee. It does not have shares and does not pay dividends. While this form of incorporation is unusual for a company that operates on a commercial footing, it is not all that uncommon. Network Rail and BUPA are both large, well-known, companies that are limited by guarantee.

NHBC's governing body comprises individual members who are known collectively as the NHBC Council. Council members are drawn from a range of organisations that are interested in, or associated with, the house building industry. Some Council members also serve on NHBC Committees.

Council members perform a role that is similar to that of shareholders. The difference is that while Council members have guaranteed to contribute the sum of £1 to the Company should it be wound up, unlike shareholders they have no other financial interest or investment in NHBC.

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

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

- Alterations to NHBC's Constitution;
- The appointment of the auditors (except that in some circumstances the Board may appoint new auditors, see page 44);
- The appointment of Council members;
- Ratifying a decision made by the Board to appoint a director for a term exceeding nine years.

In accordance with NHBC's Articles of Association, Council members may serve for two five-year terms. At the AGM in 2015 many members who joined the Council in 2009 were reappointed and are now serving their second term. They are due to stand down in 2019.

In order to avoid a situation where a significant number of Council members will complete their second term and leave the Council at the same time, agreement has been reached with some longer serving members (appointed before the reorganisation in 2009) for them to step down at intervals before 2019.

Under this arrangement Bill Gair and Terry Roydon will leave the Council this year after many years of service, support and commitment to NHBC and the company is indebted to them. They were both nominated by the Home Builders Federation and a resolution recommending the appointment of their successors as members of the Council will be put to the AGM on 24 November 2016.

During the year an election was held for membership of the Appointments Committee. The role of this Committee is to invite sponsoring bodies to nominate one or more persons for membership of the Council, to consider nominees who are put forward and to make recommendations on membership to the Council, usually at the AGM.

In accordance with the Articles of Association, the Committee comprises the Chairman, the Chief Executive and three members of Council (who shall not be Directors) recommended by the Board and approved by the Council in General Meeting.

As a result of the election the Council members who currently serve on the Committee are:

- Bill Gair — HBF
- Ann Kaye — Institute of Consumer Affairs
- Philip Sellwood — Energy Saving Trust

When Bill Gair steps down from the Council he will also relinquish his membership of the Committee and resulting from the election process Kelvin Hinton (a Buildmark policy holder) will succeed him.

As part of the regular engagement with the Council members, a workshop that outlined NHBC's approach to Modern Methods of Construction (MMC) and the research undertaken by the NHBC Foundation into current attitudes to MMC, took place earlier in the year. A number of Council members attended the session along with representatives from organisations across the house-building sector.

In addition, the Chairman has hosted dinners with senior representatives from organisations that nominate members to the Council. At these events matters of general interest and concern to the industry are discussed. Over the last year we have been fortunate in that Brandon Lewis MP, who was then the Housing Minister, attended one of the dinners to talk about housing policy. At the other, the Prime Minister's then Housing Adviser, Richard Blakeway, discussed housing supply and the challenges for the future.

NHBC Council – Representation by category (as at 1 August 2016)

NHBC Board	11
Scottish Committee	3
Northern Ireland Committee	2
Warranty Holders	4
Industry Bodies	15
Professions	6
Vice Presidents	3
Financial Services	3
Consumer	2
Other	4
Total	**53**

NHBC Board

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

Board composition

Biographical information on each of the directors is contained on pages 36 to 38.

Balance of Executive and Non-Executive directors

Chairman (Non-Executive)	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	4
Other Non-Executives	2
Executives	4

Length of service – Non-Executive directors

0-3 years	1
3-6 years	4
6-9 years	2
9+ years	1

Gender split of Board directors

Male	9
Female	3

Board gender diversity vs. FTSE100 and FTSE250

	FTSE 100 (October 2015)	FTSE 250 (October 2015)	NHBC (October 2015)
Female Directors	23.5%	18.0%	25.0%
Female Executive Directors	8.6%	4.6%	0.0%
Female Non-Executive Directors	28.5%	23.0%	37.5%

Following the end of the financial year, Greg Fitzgerald, one of our Non-Executive Directors, left the Board. As mentioned on the report on the activities of the Nominations Committee on page 58, Greg has stepped down after 6 years on the Board with effect from 31 July 2016.

Stewart Baseley is due to complete his term of office in May 2017 and Sir John Harman will complete a nine-year term at the end of 2017..

Since the end of the financial year, we announced that Chris Rash, Commercial Director and CFO, will leave the Board at the end of 2016 when his contractual notice period ends.

As a result of those retirements and resignations, there will be a number of changes to the composition of the Board over the next 12 months and the Council will be kept apprised of developments as they occur.

Given NHBC's role within the house-building sector and the regulations that apply to its insurance business, we believe that the size of the Board is appropriate and ensures that there is a proper level of oversight and governance of the company at Board level.

While he remains a member of the Board, Mr Baseley does not fulfil the test of independence in accordance with the UK Corporate Governance Code (the "Code"). This is because he is the Executive Chairman of the Home Builders Federation and has been a member of the NHBC Board for longer than nine years. In view of his position as Chairman of Galliford Try Plc Mr Fitzgerald did not fulfil the test of independence under the Code while a Non-Executive Director of NHBC. The other Non-Executive Directors are all considered to be independent using the factors set out in the Code.

All directors make a declaration of their interests to the Board which includes any actual or potential conflicts which they may have. Those issues are considered by the Board and recorded in a register held for that purpose and kept under review as appropriate. Should the Board discuss any matter which relates to a declared interest or which could give rise to a conflict, NHBC's approach is that the director concerned may take part in any discussion of the issues but will not participate in a decision. The director(s) leave the meeting while a decision is made.

The review of Board effectiveness is carried out annually. In 2016 the directors completed a series of online questionnaires adapted from those created by an independent corporate governance consultancy. The outcome of the reviews was discussed fully by the Board and agreement reached on an action plan for the future. The principal issue for the coming year relates to succession planning and talent management so that NHBC has the appropriate level of resource with the right skills and experience to take the business forward. The Head of HR and Organisational Development is leading the work on this and a report is due to be considered by the Board before the end of the year.

Earlier in the year Council members were advised of the circumstances which led to the resignation of PricewaterhouseCoopers ("PwC") as NHBC's auditors. With support from legal advisors we continue to negotiate with PwC and are hopeful that a favourable settlement will be reached with them in due course. As notified to the Council, Deloitte LLP were appointed by the Board to fill the vacancy and a resolution to reappoint them will be put to the AGM.

Board attendance

The table below provides information on the meetings held during the year under review. In addition to the regular meetings, the Board held strategy discussions and the Chairman held regular meetings with the Non-Executive Directors.

Board member	Meetings to attend	Meetings attended	Attendance %
Isabel Hudson (Chairman)	6	6	100%
Sir John Harman (SID)	6	6	100%
Stewart Baseley	6	6	100%
Ian Craston	6	6	100%
Ian Davis	6	6	100%
Greg Fitzgerald	6	4	67%
Neil Jefferson	6	6	100%
Jean Park	6	6	100%
Mike Quinton	6	6	100%
Chris Rash	6	6	100%
Sir Muir Russell	6	6	100%
Dame Helena Shovelton	6	6	100%

NHBC's Committees

The Committee reports which follow reflect the current membership of each Committee.

The role of the Committees

The Committees section of the report on pages 49 to 65 highlight just some of the work which the Committees have undertaken during the year under review.

Directors' report

The directors submit their Annual Report and Accounts for NHBC, together with the consolidated financial statements of the NHBC Group, for the year ended 31 March 2016. The Directors' Report required under the Companies Act 2006 comprises this Directors' and Corporate Governance Report, the Directors' Remuneration Report and the following disclosures in the 'Wider impact' section of the Strategic report:

- Health and safety practices;
- Employment of people with disabilities; and
- Employee involvement.

Results

The Group's results for the year are shown in the consolidated statement of comprehensive income on pages 91 and 92.

Directors

The directors at the date of this Report are shown, together with their biographical details, in the Governance section of the report on pages 36 to 38. During the year and up to the date of this Report, there have been the following changes to the Board. Greg Fitzgerald left the Board in July 2016. Chris Rash, Commercial Director and CFO, advised the Board of his intention to leave at the end of 2016.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings although some of NHBC's directors are also directors of some of NHBC's builder customers, suppliers and industry partners. NHBC trades in the normal course of business, on an arm's length basis, with all these parties and material transactions with related parties disclosed in note 35 on page 150 to the financial statements.

The Company has purchased, and maintained throughout the year, directors' and officers' liability insurance in respect of itself and its directors.

Details of directors' remuneration, service contracts, and employment contracts are set out in the Directors' Remuneration Report.

There is no arrangement or understanding with any builder customer, supplier, or any other external party, to appoint a director or a member of the executive.

Disclosure of information to the auditor

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor, Deloitte LLP, is unaware and each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that Deloitte LLP is aware of that information.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report as part of the 'Risks to our business' section on pages 26 to 29. The directors believe that the Group is well placed to manage its business risks successfully, given its financial resources. After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for the maintenance and integrity of the Company's website.

Each of the Directors listed in the Strategic Report confirms that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with applicable UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

- The Strategic Report and the Directors' and Corporate Governance Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Information required to be disclosed in the Directors' Report may be found in the following sections:

By order of the Board.

J P Hastings
Company Secretary
28 September 2016

Audit Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Sir Muir Russell (Chairman)	3	3	100%
Stewart Baseley	3	3	100%
Jean Park	3	3	100%
Dame Helena Shovelton	3	3	100%

The principal role of the Committee is to:

- Review and recommend to the Board the approval of the Annual Report and Accounts;
- Review financial returns to regulators;
- Review and where necessary challenge:
  - The effectiveness of NHBC's risk control processes;
  - The consistency and appropriateness of accounting policies;
  - The clarity of disclosure in NHBC's financial reports;
  - Whether NHBC has followed relevant accounting standards; and
- Monitor NHBC's whistleblowing system through which employees are able to report, confidentially, on matters of concern.

The members of the Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; Commercial Director and CFO; Head of Finance; Head of Actuarial; Chief Risk Officer; Internal Auditors and External Auditors.

Activities during 2015/16

In the performance of its duties, the Committee met three times during the financial year. The key areas of activity included:

- Reviewing the Annual Report and Accounts to ensure that NHBC follows good practice having regard to its status as a private, non-profit distributing company and the needs of our stakeholder and wider audiences;
- Approving the external and internal audit plans;
- Discussing with management and external advisors, Willis Towers Watson (WTW), the approach to reserving and the assumptions used to assess the level of reserves within the context of the accounting and Association of British Insurers rules;
- Reviewing developments in the UK accounting framework as they apply to NHBC's financial statements for 2016 under the new UK GAAP;
- Reviewing the internal audit reports submitted by Grant Thornton; and
- Reporting on its activities to the Board.

Replacement of Auditors

Following the resignation of PricewaterhouseCoopers ("PwC") on 13th April 2016, the Committee initiated an audit tender process to identify a replacement auditor. Following a thorough process, culminating in two of the big four accounting firms presenting to the Committee, a recommendation was made to the Board that Deloitte LLP be appointed as NHBC's auditor for the year ending 31 March 2016. As notified to the Council, Deloitte LLP were subsequently appointed by the Board to fill the vacancy and a resolution to reappoint them will be put to the AGM.

Financial reporting

As part of the tender process, the Committee reviewed the financial statements and discussed the audit plan with the new external auditor, in particular the areas which they considered to have either a significant or material risk of misstatement, and consequently where they intended to focus their attention during the conduct of the audit.

For NHBC those areas concerned:

- Insurance reserves;
- Revenue recognition;
- Management controls;
- The investment portfolio;
- Tax assets and liabilities; and
- Pension scheme liabilities.

Reserving

The Committee discussed the reserving approach and methodology with both management and separately with consulting actuaries from WTW. WTW's role is to undertake an independent assessment of NHBC's reserves and, to do that, they use NHBC's underlying data to calculate the level of reserves which they consider to be appropriate. They also perform a series of stress tests.

NHBC is required at all times to hold reserves that are sufficient to cover liabilities arising out of insurance contracts, so far as can be reasonably foreseen. In view of that requirement we take a cautious and prudent approach having regard to the nature of the risks and uncertainties we face in the course of our business. As part of its consideration of these issues, the Committee has confirmed the commitment to maintaining a consistent degree of prudence in the reserves year-on-year.

Internal Audit

A regular focus of the Committee is the agreement of the annual plan, monitoring the progress of Grant Thornton's work and reviewing the audit reports which they prepare.

The plan is developed using information from various sources such as:

- The NHBC risk register, particularly any high-risk areas or those with material movements between gross and net risk;
- Priority areas identified in the business plan;
- Priority areas identified by either the Executive Directors or the Non-Executive Directors;
- Areas with known prior control issues; and
- Those areas of key risks for UK insurers including any regulatory "hot topics".

For 2015/16 a list of internal audit focus areas was identified. Grant Thornton completed reports on the majority of those items in the plan and they have been reviewed by the Committee. The areas on which reports were prepared included:

- Major claims;
- Customer Services;
- Corporate Governance;
- Pricing and Premium Ratings;
- Risk Management, Compliance and Conduct Risk Framework; and
- Non-conventional building technologies.

In addition to the oversight provided by the Committee, the progress of the work plan is also monitored by the Executive Risk Committee on a monthly basis. The focus for that Committee is on the issues raised by Grant Thornton in its reports, in particular ensuring that deadlines for clearing internal audit issues are met.

Board Risk Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Jean Park (Chairman)	6	6	100%
Ian Craston	6	6	100%
Greg Fitzgerald	6	5	83%
Isabel Hudson	6	6	100%

The principal role of the Committee is to:

- Review the effectiveness of NHBC's risk and capital management framework;
- Oversee and advise the Board on the current risk exposures of the company;
- Consider and advise the Board on NHBC's overall risk appetite, tolerance and strategy;
- Challenge the identification, assessment and mitigation of significant prudential and conduct risks;
- Review and ensure compliance with NHBC's policies relating to material risks; and
- Review and challenge NHBC's approach to the overall management of risk, capital and strategy through the ORSA process.

The members of the Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: The Chief Executive, Commercial Director and CFO, Company Actuary, Chief Risk Officer and Internal Auditors (Grant Thornton).

Activities during 2015/16

In the performance of its duties the Committee met six times during the financial year. The Committee oversaw the development of several material items which are summarised below.

The risk management framework

The Committee reviewed the proposed development of the policy framework. This included enhancements to how NHBC would set, implement and monitor minimum control standards for the key risks it faces.

Related to this, the Committee also reviewed the establishment of an Incident Reporting Process that allows NHBC to have an overall view of the nature, frequency and common causes of any process and control issues.

The Committee also reviewed the further development and subsequent monitoring of the risk appetites and their alignment to NHBC's strategic priorities.

Solvency II and capital management

As part of NHBC's implementation of the Solvency II Directive, the Committee provided oversight of the various activities related to this during the year, including:

- Review guidance relating to NHBC's Solvency II preparation programme;
- Reviewing progress to ensure Solvency II Day 1 Compliance was achieved;
- Assessing the Standard Formula regulatory capital requirements reported following implementation of Solvency II;
- Agreement of the capital model validation plan for 2014/15 and 2015/16;
- Assessment of NHBC's capital modelling approach, including challenging the outputs from the model; and
- Consideration of NHBC's ORSA process and report.

Regulatory compliance

The Committee oversaw the development and execution of a framework designed to manage regulatory risk. This included:

- Reviewing the reports relating to Conduct Risk and challenging management's action plans and progress in addressing any conduct risk areas;
- Reviewing and approving the annual compliance monitoring plan and assessment of the findings that resulted from that monitoring activity;
- Assessing and challenging management's progress in the resolution of outstanding items identified from prior monitoring reviews; and
- Reviewing NHBC's readiness to respond to relevant impending regulatory changes.

Policy review and approval

During the year, the Committee reviewed and approved several policies which set out the minimum standards of control expected by the Board in relation to various key risks. The policies reviewed included:

- Insurance Risk Policy;
- Operational Risk Policy;
- Governance Policy;
- Group Risk Policy;
- Internal Model Governance and Change Policy; and
- Internal Model Validation Policy.

For further details on how Board Risk Committee supports the wider risk management framework, please refer to the 'Risks to our business' section on pages 26 to 29.

Investment Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Ian Craston (Chairman)	3	3	100%
Jean Park	3	3	100%
Sir Muir Russell	3	2	67%

The principal role of the Committee is to:

- Review the strategic asset allocation and make recommendations to the Board;
- The Committee also makes rebalancing decisions between equities and bonds;
- Review NHBC's investment managers and approve any changes;
- Review and approve investment manager investment guidelines;
- Oversee compliance with NHBC's investment strategy, investment policy and aspects of NHBC's market risk policy (set out in NHBC's market risk policy);
- Input into the design of an investment reporting framework;
- Review the reporting produced for compliance with NHBC's investment and market risk policies, including investment manager performance reporting and the investment managers' environmental, social and corporate governance practices and compliance with ISAE3402 (or equivalent) internal controls standards;
- Review and approve NHBC's investment policy; and
- Recommend changes to NHBC's market risk policy (owned by the BRC) and investment strategy (owned by the Board).

The members of the Committee are all Non-Executive Directors, all of whom are independent. In addition to the members the following routinely attend Committee meetings: The Chief Executive, Commercial Director and CFO, Head of Finance and external investment advisors and managers when requested.

Activities during 2015/16

The Committee met on three occasions during the year and its main activities have been to monitor the performance of the investment portfolio along with the activities and conduct of the fund managers.

NHBC is supported by Willis Towers Watson ("WTW") who are NHBC's investment advisers. Their role is to assist NHBC with the operation and management of the portfolio including the provision of investment advice, the development of strategy and the monitoring of NHBC's investment managers. In addition to the advice provided by WTW, NHBC is also expanding its in-house capability.

NHBC operates a prudent investment strategy based on a strong allocation to high-quality bonds. Over the year the total return from the portfolio has been 0.7%.

As at 31 March 2016 the strategic asset allocation of the portfolio is shown below.

Index-linked bonds	42%
Corporate bonds	41%
Equities	7%
Gilts and short-term treasury bills	10%
Cash	0%

Consideration has been given to refining the company's approach to management of its assets relative to its liabilities. As a result of this analysis, work is underway to move towards a structure that will look to more formally allocate a proportion of the portfolio, mainly gilts, to provide cash flows that deliver a strong match to the projected insurance liabilities. The remainder, the "surplus assets", will comprise equities, corporate bonds and, possibly, some alternative asset classes and will be managed to generate return whilst ensuring that the Group remains within its stated risk appetite.

The transition to the restructured portfolio is likely to result in a simpler arrangement and a reduction in both the number of investment managers and the level of investment management fees. It is anticipated that the new structure will be in place by the end of March 2017.

As reported last year, the Committee has been working with the Trustee of the NHBC defined benefit pension scheme in order to gradually move pension scheme assets into a more low-risk portfolio. In the short to medium-term, the portfolio will continue to consist of a mixture of growth assets and bond assets with the growth assets being more diversified (with less in equities and more in alternative assets). In the long-term, the revised structure is likely to comprise a mixture of UK gilts, index-linked gilts and investment-grade corporate bonds that more closely match the profile of the scheme's long-term liabilities.

That work continued during the year and the scheme divested c.25% of the fund from equities into two Diversified Growth Funds (DGFs), a type of investment fund that invests in a mix of equities, bonds and alternative assets.

Remuneration Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Sir John Harman (Chairman)	6	6	100%
Ian Craston	6	6	100%
Greg Fitzgerald	6	5	83%

The principal role of the Committee is to:

- Establish the approach to remuneration across NHBC and to review remuneration trends;
- Agree the pay and benefits for employees, including any payments made under bonus schemes; and
- Make recommendations to the board in relation to:
  - The pay and benefits of the Chief Executive and the other Executive Directors;
  - The fee paid to the Chairman;
  - Any major changes to employee benefit structures across NHBC.

All members of the Committee are Non-Executive Directors and their biographies are given on pages 36 to 38. The Chief Executive, the Head of HR and Organisational Development and other members of the management team also attend the meeting where appropriate.

Activities during 2015/16

As part of its regular activity the Committee agreed the annual staff salary settlement and the recommendations to be made to the Board concerning Executive Directors' salaries. Further details of Directors' remuneration are set out on pages 66 to 86 of this report.

NHBC is an accredited Living Wage employer, an approach which also applies to the employees of contractors who provide services to the Company. While no employees are engaged on "zero-hours" contracts, there are some casual employment arrangements with a small number of former employees who can choose whether to work the hours offered to them.

Another of the Committee's regular tasks is to review performance against the bonus scheme scorecard for the current year and the various bonus targets and measures for the forthcoming year.

Independent scrutiny of the bonus measures is provided by the Chief Risk Officer, who audits the results and comments on the measures and proposed targets from a risk standpoint. Additionally, NHBC's actuarial consultants validate the capital calculations. The maintenance of capital within an acceptable range is one of the key metrics in the bonus scheme and satisfactory performance was achieved for 2015/16, the year under review;

In compliance with the Solvency II rules, a small number of employees, defined as "material risk takers", do not receive a bonus payment based on company performance. During the year it became apparent that advice on the issue might be changing to a position whereby in the future, a greater number of employees might need to be excluded from the company performance element of the bonus scheme. As the position remains unclear the Committee has agreed to monitor developments and to change its approach if that becomes necessary.

The Committee reviewed NHBC's defined contribution pension arrangement which covers approximately 95% of employees. NHBC's practice is to contractually auto-enrol all new employees which goes beyond the current legislative requirements. The rate of opt-out from the scheme is extremely low and through internal communications employees are reminded of the benefits of the scheme.

During the year an internal review of equal pay was conducted. The outcome was reported to the Committee and showed that, using July 2015 data, the gender pay gap was 21%. While there were no significant differences between the remuneration paid to men and women in the same job grade, there remains a preponderance of men in more highly paid technical roles. Resolving the issue will involve a long-term programme to encourage more women into those roles and some progress is being made with the intake of new trainees into technical jobs.

In order to comply with the Solvency II rules concerning remuneration, NHBC's Remuneration Policy has been updated. As part of these considerations, the Committee reviewed the existing arrangements for part of the bonus payments made to Executive Directors and Senior Managers to be deferred and subject to clawback in appropriate circumstances. Further information on this topic is given in the remuneration report on pages 66 to 86. NHBC will continue to monitor developments in remuneration practice to ensure that we comply with regulatory requirements and good governance practice.

Nominations Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Isabel Hudson (Chairman)	2	2	100%
Greg Fitzgerald	2	2	100%
Sir John Harman	2	2	100%
Sir Muir Russell	2	1	50%

The principal role of the Committee is to:

- Review the size, structure and composition of the Board;
- Consider the succession plans for the Board and senior executives;
- Identify and recommend candidates to the Board to fill vacancies as they arise;
- Keep under review the leadership needs of NHBC, both executive and non-executive, with a view to ensuring the continued ability of NHBC to operate and compete effectively in the market place;
- Evaluate the balance of skills, qualifications, knowledge and experience on the Board and in light of that consider candidates from diverse backgrounds and against appropriate criteria, including whether they have sufficient time to devote to the position;
- Review annually the time commitment required from Non-Executive Directors and whether they are devoting sufficient time to fulfil their duties;
- Make recommendations to the Board in relation to the membership of the standing committees of the Board, in consultation with the respective Chairman of those committees; and
- The re-appointment of Non-Executive Directors at the conclusion of their specified term of office having regard to their performance and ability to contribute to the Board in light of the knowledge, skills and experience required.

All members of the committee are Non-Executive Directors and their biographies are given on pages 36 to 38. The Chief Executive and the Head of HR and Organisational Development also attend the meeting where appropriate.

Activities during 2015/16

No new appointments were made to the Board during the year. NHBC's Non-Executive Directors generally serve for a minimum of two three-year terms. At the end of six years they may be offered a third term of up to 3 years in line with succession plans for the Board. Within that general framework the terms of office for Muir Russell, Helena Shovelton and Jean Park were all extended for a second three-year period.

The Board also agreed to extend the term of Isabel Hudson as Chairman for a third three-year term and her appointment will now continue until May 2020.

The Committee reviewed the succession plans for the Executive Directors and members of the Senior Management team, along with the plans for talent management across NHBC. The new Head of HR, Carol Davies, has started a comprehensive exercise to identify employees who have the competence, ambition and potential to take on more senior roles at NHBC. The aim is to:

- Ensure NHBC has the right skills and capabilities for the future;
- Identify and develop the right people, at the right time and in the right way; and
- Identify both short-term emergency successors and long-term successors for the top 20 roles.

The outcome of that work will be reported to the Committee during the autumn of 2016.

During the year, Greg Fitzgerald advised the Board that in view of other commitments he would need to step down as a Non-Executive Director of NHBC and he left the Board on 31 July 2016. After the year-end, Chris Rash, Commercial Director and CFO, advised the Board of his intention to leave and will step down from the Board at the end of 2016.

With the retirement of Greg, the departure of Chris, and the forthcoming retirements of Stewart Baseley in May 2017 and Sir John Harman at the end of 2017, NHBC has been actively seeking successors. To assist with the recruitment process a specialist recruitment consultant has been retained to identify potential candidates from both the insurance and house-building sectors, all of whom will be interviewed by the Nominations Committee. It is anticipated that appointments will be made by the end of the year, or early in 2017.

The Committee reviewed the time commitment of Non-Executive Directors and it was apparent that some Committees (specifically Audit and Board Risk) have a heavier workload and regulatory responsibility than others. That difference has now been addressed and reflected in the fees paid to the chairmen and members of those Committees.

In relation to the Consumer and Standards Committees, both of which have external members, the Committee made recommendations to the Board to extend the terms of appointment for a further three years for:

Penny Boyes	Consumer Committee
Alex-Jayne Lowe	Consumer Committee
Ann Kaye	Consumer Committee
Michael Finn	Standards Committee
Andrew Day	Standards Committee

NHBC is extremely grateful to all those who give their time to assist us pursue our objectives either by serving on Committees or in other capacities.

Since leaving the NHBC Board in March 2011, Dame Yvonne Moores has served as the Chairman of NHBC Pension Trustee Limited, the corporate trustee of the defined benefit pension scheme. During the year agreement was reached with Dame Yvonne for her to continue as Chairman until March 2018 and arrangements are being made to identify and appoint a successor who can take over from her and provide continuity in that role.

Consumer Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Dame Helena Shovelton (Chairman)	5	5	100%
Stewart Baseley	5	4	80%
Sir John Harman	5	5	100%

The principal role of the Committee is to:

- Monitor and review NHBC's management information and performance in relation to Conduct Risk, and provide comfort to the Board Risk Committee that this area is subject to rigorous scrutiny;
- Monitor adherence to the conduct risk appetites, tolerances and measures including making suggestions to the Board Risk Committee regarding enhancements to the framework, and challenging the dashboard;
- Develop, implement and monitor the progress of the Consumer Strategy;
- Monitor and review complaints including the outcomes and actions of any cases referred to the Financial Ombudsman;
- Review any proposal to amend or introduce products that are provided directly or indirectly to consumers and homeowners, or projects that may have a direct influence on NHBC's relationship with them.

The Committee is comprised of Non-Executive Directors and independent external advisors with a wealth of experience from diverse consumer affairs related fields. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; and Business Development Director.

Activities during 2015/16

NHBC's Consumer Committee ensures an effective homeowner voice is heard throughout the company. Most of the Committee's members are independent of NHBC and have a wealth of experience in consumer related issues due to their work and interest with bodies interested in consumer affairs.

Over the last year the Committee met on five occasions to discuss and advise on matters that impact consumers and homeowners, and what assistance NHBC provides should homeowners experience problems with their homes.

It is important that NHBC fulfils the requirements of its regulators, the PRA and the FCA. To monitor NHBC's performance for the fair treatment of its policyholders, the Committee reviewed data on claims, complaints, products and inspections, providing advice and suggestions for improvements where appropriate. The Committee has also been made aware of developments and news from the FCA.

The Committee has a specific role on behalf of the Board to ensure that information provided by the business is suitably challenged so that homeowner interests and outcomes are not adversely affected through inadequate processes, products and service. A Conduct Risk report is presented to each meeting in order that the Committee can review the data and assess the potential impact and risk to the homeowner so that if appropriate the relevant controls and improvements can be implemented. Additionally, reports from Claims and Consumer Affairs are considered and discussed at each meeting.

Homeowners' satisfaction continues to receive the Committee's focus. The results of the industry's customer satisfaction survey were reviewed and the Committee gave their feedback on the range of questions on the survey and obtained confirmation of the pro-active measures NHBC are taking to help improve the standard of construction in new homes. This included changes to the NHBC Standards, the enhancement of our inspection service to minimise the number of defects in completed homes and the development of an online tool available to new homeowners, known as the Home User Guide, which provides advice on the running-in of their homes and information such as working manuals for heating and appliances.

During the year a Consumer Strategy was developed and approved to support the aims of the Committee in ensuring a homeowner focus exists within the company.

The Buildmark policy provides valuable protection to new homeowners. However, it is important that the insurance cover is robust, easy to understand and consistent with the types of properties now being constructed. The Committee was involved in a review of the policy as well as the development of a new insurance product specifically designed for flats, and provided feedback on the wording and cover on offer for both products.

The progress and continuing success of the Consumer Code for Homebuilders remains of key interest to the Committee and updates on the Code, including the progression of the application for the Code to become a Trading Standards Approved Code, are provided regularly.

Regular updates on the work of the NHBC Foundation and the reports on the research it undertakes are provided to the Committee to keep them abreast of the valuable work and advice provided to the industry which will ultimately benefit the consumer.

Standards Committee

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance
Stewart Baseley (Chairman)	4	4	100%
Sir John Harman[1]	4	4	100%
Isabel Hudson	4	3	75%
Dame Helena Shovelton	4	4	100%

The principal role of the Committee is to:

- Review claims and technical risk management experience including previous, current and potential areas of exposure;
- Monitor aspects of the external environment that may affect the construction standards of new homes and the management of NHBCs technical risk including but not limited to:
  - Changes to regulations and to national, European and international standards;
  - Changes in construction methods, products and materials;
  - Failures of buildings, products, materials and systems used in non-conventional construction and in other countries;
- Encourage and support research undertaken by NHBC and other organisations that contributes to improvements in the construction standards of new homes. Monitor and review the output of research undertaken by NHBC and other organisations in relation to improving the construction standards of new homes;
- Consider, discuss and agree the on-going development of the NHBC Standards to which registered builders and developers must conform. In performing this role the Committee will have regard to the work of, and any recommendations made by, the Standards Review Group, the Scotland and Northern Ireland Technical sub-committees and any Task Group that may be set-up for specific purpose from time to time; and
- Consider, discuss and advise on how the provision of measures such as technical guidance, technical risk management, advisory materials, tools and training may be used to assist house-builders in raising the standards of new homes and help the management of NHBC's technical risk.

Activities during 2015/16

The Standards Committee is one of six committees with specific responsibility delegated by the Board of Directors (there also two National Committees representing Scotland and Northern Ireland and a Standards Review Group focused on technical matters). Following a number of changes in the previous year, membership of the Standards Committee has remained constant during 2015/16 and the Committee met on four occasions.

During the year the Committee continued to focus its attention on a range of strategic issues. This was achieved by making best use of all available sources of data and information to improve the construction standards of house-building, including a detailed review of generational claims experience coupled with identification of 'future' issues. This work has been fundamental in helping the Committee to agree areas of focus aimed at reducing the likelihood of future defects and so protecting homeowners.

The Driving Standards strategy sets out a 'future vision' that has shaped a number of initiatives and attracted considerable time of the Standards Committee over the year. These initiatives included the development and introduction of Construction Quality Reviews (CQRs), launched in February 2016, the development of a Construction Quality Index, macro analysis of data from CQRs to inform and influence industry practice, a Register of Site Managers (OnSite), launched in January 2016, research into the true cost of defects to the industry and research into the opportunities that off-site construction offers in terms of construction standards.

The Committee approved the completely re-written NHBC Standards during the year and these were published in September 2015 and made operational in January 2016. The new Standards were made available in hard copy and on-line via Standards Plus and for the first time a number of 3D Models were introduced, focused on complex details (including a standalone application). The use of Standards Plus continues to increase with the number of unique visitors up by over 500%; 3,000 plus pages are viewed daily and the breadth of use continues to increase with visitors from as far afield as the USA, UAE, Hong Kong and Australia.

A number of other 'raising standards' campaigns were run in response to analysis of claims experience, these included a focus on rain penetration through external walls and included work on developing a new chapter of the Standards focused on render involving a pan-industry Task Group that has provided valuable input. In addition External Wall seminars for site managers has to date attracted over one thousand delegates, with over 98% of delegates feeding-back that the seminars will help them to improve construction standards.

The Committee continues to play an important role in providing a platform for engagement with the industry and facilitating a collaborative approach to raising the standard of new homes across the UK.

Scottish Committee

Membership

Maximum of 17 on the Committee, including 5 Council members.

The principal role of the Committee is to:

- Review the local market and understanding the Scottish political and economic environment in a housing context;
- Review NHBC's Operational, Services and Claims activity in Scotland from a service delivery perspective; and
- Engage with members of the Scottish Government and Parliament to raise NHBC's profile.

Activities during 2015/16

The NHBC Scottish Committee meets on a quarterly cycle and the content of the meetings ensures that the Chairman and Committee members have the information necessary to oversee and monitor NHBC's activities in Scotland, and to provide comment and advice. NHBC's CEO is a member of the Scottish Committee and during the year his attendance was welcomed.

Over the past year the Committee has been provided with specific updates on NHBC activities and initiatives in relation to Inspections, the Consumer Strategy, Product Development, Customer Satisfaction, Pride in the Job and Marketing.

The Committee also reviewed reports relating to high value claims in Scotland and received regular updates on current litigation cases from NHBC's Scottish Legal Advisor.

NHBC retains close contact with its stakeholders in Scotland with members holding positions on the Boards of RICS Scotland and the Energy Design Certification of the Royal Incorporation of Architects in Scotland and representation on the Design Group of Construction Scotland Innovation Centre and CML Scotland Stakeholders Group. NHBC is a founder member of the Cross-Party Parliamentary Group on Construction, an Associate Member of Homes for Scotland and engages regularly with the Law Society of Scotland.

Northern Ireland Committee

Membership

5 on the Committee, including 2 Council members.

The principal role of the Committee is to:

- Review the local market along with the political and economic environment in Northern Ireland;
- Consider NHBC's performance in Northern Ireland, including data on claims, inspection and other services;
- Consider Northern Ireland Building Control practises and identify where NHBC might assist local authorities by becoming involved in the inspection of construction works for new homes; and
- Provide advice to the Northern Ireland Regional Director based on members' particular expertise and arrange introductions as required.

Activities during 2015/16

The Northern Ireland Committee meets three times a year, in February, June and October. The meeting agendas are designed to ensure that the Chairman and Committee members have sufficient information to monitor NHBC's local activities, and to provide comment and advice.

During the year the Committee has received updates on NHBC initiatives relating to Inspection, Customer Satisfaction, Products and Marketing. It has reviewed high value claims in Northern Ireland. The June 2015 meeting was extended to include a Consumer Code for Homebuilders update to invited stakeholders by Noel Hunter, Chair of the Consumer Code for Homebuilders.

NHBC remains an influential voice in the local housing sector, with frequent requests to contribute to events including those organised by Law Society, Bank of Ireland, Chartered Institute of Housing, and Chartered Institute of Building. The Committee remains involved in Government initiatives such as the Housing Supply Forum, Developer Contribution research, and the All Party Working Group on Construction. Committee is also represented on Board of NI Co-ownership Housing, which facilitates home ownership through shared equity.

Directors' remuneration report

On behalf of the Board and the Remuneration Committee I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2016.

The Board is committed to be open on remuneration policy and its implementation under the UK Corporate Governance Code This report, as last year, aims to provide a high level of transparency and accountability by adopting good practice under that Code. As NHBC does not have shareholders, some aspects of the Code requirements do not apply.

The Remuneration Committee has responsibility for the annual review of remuneration design for the Executive Directors and Senior Managers, and the bonus scheme for all staff. We therefore assess the appropriateness of the remuneration packages in line with the Company's business needs and the Board's aim to deliver an appropriate and competitive level and mix of remuneration compared with companies of a similar scale and complexity to NHBC. The annual process typically includes a review of performance, basic salary, annual bonus targets and associated payments.

This report has two components:

- The Directors' Remuneration Policy Report (pages 66 to 77) which details each of the components of Directors' remuneration, and describes the changes to the calculation of bonuses agreed by the Board to take effect from 2016/17; and
- The Annual Implementation Report (pages 78 to 86) which is audited by Deloitte LLP.

Summary of the year 2015/16

During the year, the Remuneration Committee continued to ensure that NHBC's Remuneration Policy links Executive pay and the Company-wide bonus scheme to NHBC's strategic objectives, in particular:

- To build long-term capital and financial strength: variable pay is aligned to the assessment of the financial strength of our business to allow NHBC to provide capacity to meet the demand for its products;
- To improve the construction quality of new homes: variable pay is linked directly to measures of consumer satisfaction and standards of construction; and
- Core business performance, which is assessed by a number of key financial, operational and people measures.

During the year the Committee also focussed on:

- The agreement of the annual staff salary settlement and recommendations to be made to the Board concerning Executive Directors' salaries;
- Setting of the Company annual bonus scheme targets and the end of year assessment against those targets;
- A review of equal pay;
- A review of the Solvency II requirements on Executive pay; and
- A review of the Defined Contribution Scheme pension arrangements, its appropriateness and take up by employees.

2016 Remuneration outcomes

In 2015/16 NHBC has successfully met the demands of builder customers and homeowners as new house-building volumes continue to grow following the 2008 financial crisis. Particular performance highlights include:

- Ensuring regulatory capital levels remain well above the risk appetite;
- Delivering new IT led solutions to home-builders to assist them in building better quality homes;
- Delivering a range of new standard raising developments for the industry; and
- Continuing to be the warranty provider of choice for home-builders of all sizes representing more than 80% of new homes built in the UK.

The single figure of remuneration for each of the Executive Directors is provided below.

	2015/16	2014/15
	£'000	£'000
Mike Quinton	484	446
Ian Davis	263	265
Neil Jefferson	279	258
Chris Rash[1]	299	345

1. Chris Rash joined NHBC on 14 July 2014. The 2014/15 salary figure amount includes reimbursement for a £55k retention payment owed to his previous employer. The single figure of remuneration for 2015/16 does not include a bonus award as the entitlement to a bonus is forgone if employees are in their resignation period when the bonus is paid.

The Board is pleased to report that the company[2] and personal performance conditions set for the year have been met and therefore bonuses have been awarded to the Executive Directors as detailed in the body of this report. While we regard the detail of the individual targets and the performance data as commercially sensitive, we adopt the practice of reporting the overall performance results.

Performance in 2015/16 against annual incentive plan			
	Target (%)	**Stretch (%)**	**Actual (%)**
Mike Quinton	45.0	90.0	53.0
Ian Davis	37.5	75.0	41.2
Neil Jefferson	37.5	75.0	44.9
Chris Rash	37.5	75.0	44.9

Of the bonuses awarded, 50% has been deferred for the Chief Executive and 40% for the other Executive Directors

2 Company performance for Directors has been awarded at 112.2% of on target opportunity.

The Executive Directors' salaries were reviewed in June 2016 and the changes are set out below.

Executive Directors' salaries

Director	Position	From 1 July 2016	From 1 July 2015
		£	£
Mike Quinton	Chief Executive	285,000	271,000
Ian Davis	Operations Director	157,500	153,500
Neil Jefferson	Business Development Director	165,000	159,500
Chris Rash	Commercial Director and Chief Financial Officer	243,400	236,300

Sir John Harman
Chairman, Remuneration Committee
28 September 2016

Part A: Directors' remuneration policy report

This Report provides the detail behind the Board's approach to Remuneration. It complies with many of the provisions set out in the UK Corporate Governance Code ("the Code") relating to remuneration matters, although it is not fully compliant with the Code, in part, due to the fact that NHBC does not have shareholders.

The Directors' Remuneration Policy as set out in this section of the report will take effect for all payments made to Directors in the 2016/17 financial year. It is consistent with the policy applied in 2015/16.

General policy

Table 1 below provides an overview of NHBC's remuneration policy for Executive Directors. For an overview of the remuneration policy for Non-Executive Directors see table 3 below.

There have not been any material changes to the overall NHBC Remuneration Policy this year. However, it should be noted that the June 2016 Remuneration Committee approved increases to the Executive Director bonus opportunities to ensure that total remuneration for the Executive Directors remained competitive. The Chief Executive's opportunity for 2016/17 is 50% (2015/16: 45%) and all other Executive Director's 40% (2015/16: 37.5%).

Executive remuneration packages are structured so that they:

- Are aligned to NHBC's strategy;
- Are competitive but not excessive; and
- Do not promote unacceptable behaviours or encourage unacceptable risk taking. In particular, the annual incentive targets have a clear bias towards the delivery of corporate targets, recognising the criticality of good team behaviours and co-operation as part of an effective approach to risk management.

Table 1: 2016/17 Remuneration policy for Executive Directors – overview

Element, purpose and link to strategy	Policy and operation	Maximum opportunity	Performance measures
Basic pay To provide core market related pay to attract and retain the required level of talent designed to promote the long term success of NHBC.	Annual review, with changes taking effect from 1 July each year. The review is informed by: • Relevant pay data from companies of similar size and complexity; • Levels of increase awarded to other employees of NHBC; • Individual and business performance; and • Any changes in roles and responsibilities.	The Remuneration Committee will apply the factors set out in the previous column in considering any salary adjustments during the period of this policy.	A range of objectives and behaviours are set at the beginning of the year. These are assessed on a 1-5 ratings scale. Any movement in salary takes account of the negotiated pay settlement with the Staff Association.

Part A: Directors' remuneration policy report (continued)

Table 1: 2016/17 Remuneration policy for Executive Directors – overview (continued)			
Element, purpose and link to strategy	**Policy and operation**	**Maximum opportunity**	**Performance measures**
Annual bonus To incentivise the Executive Directors to achieve pre-determined annual targets. Deferral provides alignment with the long-term nature of the Company's interests and aids retention of key personnel.	Awards are based on both personal performance and achievement against a balanced scorecard. Targets are set annually and pay-out determined against those targets. Discretion remains with the Committee to amend the bonus pay-out, taking account of the financial out-turn, market conditions and other considerations. Annual bonuses have a deferral element. (Chief Executive 50%, other Executive Directors 40%) with 40% of the remaining balance being released each year. On target company and personal performance is 50% of the Chief Executive's salary and 40% for other Executive Directors. The Chief Executive's bonus is weighted 85% on company performance and 15% on personal performance. The other Executive Directors' bonus weighting is 80% company performance and 20% personal performance. The annual bonus is a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the out-turn (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concerns.	Maximum bonus opportunity is 100% of base salary for the Chief Executive (80% for the other EDs) for the 2016/17 financial year. Company performance below threshold would result in no bonus being paid. Individual performance below threshold would result in no bonus being paid.	Performance is assessed against: • Balanced scorecard which includes a range of relevant financial, employee, customer, house-building standards raising, NHBC reputation; and • Personal objective achievement.

Part A: Directors' remuneration policy report (continued)

Table 1: 2016/17 Remuneration policy for Executive Directors – overview (continued)

Element, purpose and link to strategy	Policy and operation	Maximum opportunity	Performance measures
Pension To provide retirement benefits and remain competitive in the market.	NHBC provides a competitive employer defined contribution pension plan. All Executive Directors are eligible to participate in the Group Personal Pension Plan ("GPPP"). Executive Directors receive a contribution to GPPP or a personal pension or they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits. NHBC operates salary sacrifice for pension contributions.	**Defined Contribution or cash equivalent** A contribution of 20% of base salary for Executive Directors up to a maximum of £40,000 per annum. Where cash is taken by the Executive Directors in lieu of pension this is adjusted to reflect the additional employer national insurance contributions. **CARE scheme** Deferred CARE pensions provided to the Business Development Director and the Operations Director are indexed in line with CPI.	N/A
Benefits To provide suitable benefits as part of a competitive remuneration package, which enables NHBC to attract and retain the right level of talent necessary to deliver the Company's strategy.	Benefits are provided on a market related basis. NHBC reserves the right to deliver benefits to Executive Directors depending on their individual circumstances, which may include a cash for car allowance, life insurance and private medical insurance.	Benefits are set at a level which the Remuneration Committee considers is appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. The Remuneration Committee reviews the policy on benefits annually, and monitors the costs in practise to ensure that they are appropriate.	N/A

Part A: Directors' remuneration policy report (continued)

Notes to Table 1: Remuneration policy

Annual performance measures

For 2016/17 the annual bonus measures are based on the achievement of strategic objectives and the individual's performance is then overlaid. The performance metrics and relative weighting of the individual's bonus are:

Financial	40%
Homeowner and builder customer satisfaction	20%
Reputation	20%
Raising of house building standards	10%
Employee engagement	10%

Consistency of executive remuneration throughout NHBC

The remuneration policy for the Executive Directors is designed as part of the remuneration philosophy and principles that underpin remuneration for the company.

Stating maximum amounts for the remuneration policy

UK regulations encourage companies to disclose a cap (see page 73) within which each element of remuneration policy will operate. Although NHBC is not subject to these provisions, the Remuneration Committee has decided to set and disclose limits in this report on a voluntary basis. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

Recruitment remuneration policy

On hiring a new Executive Director, the Remuneration Committee aligns the remuneration package with NHBC's remuneration policy.

In determining the actual remuneration for a new Executive Director, the Remuneration Committee would consider the package in totality, taking into account the requirements of the business, market benchmarks, remuneration practice and the existing remuneration of the other Executive Directors. The Remuneration Committee would ensure that any arrangements agreed would be in the best interests of NHBC.

Part A: Directors' remuneration policy report (continued)

Potential rewards under various scenarios: financial year 2016/17

£'000	Minimum			On Target			Maximum		
	Fixed	Variable	**Total**	Fixed	Variable	**Total**	Fixed	Variable	**Total**
Mike Quinton	360	-	**360**	360	143	**503**	360	285	**645**
Ian Davis	207	-	**207**	207	63	**270**	207	126	**333**
Neil Jefferson	216	-	**216**	216	66	**282**	216	132	**348**
Chris Rash	309	-	**309**	309	97	**408**	309	195	**504**
Total	**1,092**	-	**1,092**	**1,093**	**369**	**1,463**	**1,092**	**738**	**1,830**

The remuneration table above provides an illustration of the future total remuneration for each Executive Director in respect of the remuneration opportunity for 2016/17 under different performance scenarios. Variable pay represents the bonus award opportunity that can be earned in the year. 50% of the Chief Executive and 40% of the Executive Director's bonuses are deferred, to be released over future years, subject to performance.

Minimum Earnings	Base salary, benefits, pension (or cash in lieu of pension payable) with no bonus.
On-target Earnings	Base salary, benefits, and pension (or cash in lieu of pension payable) and on target bonus before allowing for appropriate deferral amount and release from previously deferred bonuses.
Maximum Earnings	Base salary, benefits, and pension (or cash in lieu of pension payable) and a maximum target bonus before allowing for appropriate deferral amount and release from previously deferred bonuses.

In addition to the remuneration earned in the financial year the deferred bonus scheme would also award amounts due under the scheme rules, unless the Remuneration Committee deemed it inappropriate to do so. The table below shows the cumulative balance of deferred bonuses at the end of 2015/16 and the maximum amount that could be awarded to each Executive Director at the end of financial year 2016/17.

Deferred bonus opportunity 2016/17

£'000	Balance accrued	Release
Mike Quinton	134	53
Ian Davis	54	22
Neil Jefferson	56	22
Chris Rash[1]	-	-
Total	**244**	**97**

1 Chris Rash's entitlement to a deferred bonus was forgone. Employees are not entitled to a bonus if they are in their resignation period, or have left NHBC before the bonus is paid.

Part A: Directors' remuneration policy report (continued)

Directors' employment contracts and letters of appointment

The key employment terms and conditions of the current Executive Directors as stipulated in their employment contracts are set out in table 2 below:

Table 2: Executive Directors' conditions of employment	
Notice period	Up to 12 months (by the Executive and the Company).
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary, certain fixed benefits and pension. By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. Contracts do not contain change of control provisions.
Remuneration and benefits	The operation of the annual incentive scheme is at the Company's discretion.
Pension	All Directors have the opportunity to participate in the defined contribution scheme or take cash where impacted by the lifetime or annual allowance. Payments will be made into a defined contribution scheme at 20.25% of base salary until the annual allowance of £40,000 is reached. Any pension due above this is paid as salary.
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.
Car allowance	A car or equivalent cash allowance is received, as varied from time to time.
Holiday entitlement	29 days with service plus public holidays subject to extension for long service awards to 32 days.
Other benefits	Other benefits include private medical insurance, participation in the Company's pension scheme.
Private medical insurance	Private medical insurance is provided for each Executive Director and their partner. The Chief Executive benefits from family cover. However, no payments are made in lieu if the Executive Director opts for reduced or no cover.
Sickness	Varies according to length of service and rises to a maximum of 100% of basic salary for 6 months and 50% for 6 months after 5 years' service.
Non- compete	Various non-compete clauses are included in all Executive Director contracts and seek to protect NHBC business and employees from poaching within 12 months of leaving.

Part A: Directors' remuneration policy report (continued)

Table 2: Executive Directors' conditions of employment (continued)		
Contract dates	**Director**	**Date current contract commenced**
	Mike Quinton	15 October 2012
	Ian Davis	1 December 2006
	Neil Jefferson	1 April 2012
	Chris Rash	14 July 2014

Policy on payment for loss of office

There is no pre-determined special provision for compensation for loss of office. The Committee has the ability to exercise its discretion on the final amount actually paid but any compensation would be based on what would be paid by way of basic salary, pension entitlement and other contractual benefits during the notice period depending on whether notice is worked or a payment made in lieu of notice. The Company would typically make a contribution towards an Executive Director's legal fees in connection with advice on the terms of their departure and fees for outplacement services as part of a negotiated settlement.

There is no automatic entitlement to an annual bonus for the year in which loss of office occurs. The Committee may determine that an Executive Director may receive a pro rata bonus in respect of the period of employment during the year loss of office occurs based on an assessment of performance. Where an Executive Director leaves the Company by reason of death, disability or ill health, or any other reason determined by the Committee, there may be a payment of a pro rata bonus for the relevant year at the discretion of the Committee.

The treatment of leavers under our annual incentive plan is determined by the rules of the plan. Good leaver status under these plans would be granted in the event of, for example, the death of an Executive Director, their departure on ill health grounds, sale of the business, planned retirement, redundancy or any other circumstances as determined by the Remuneration Committee at its absolute discretion. In circumstances where good leaver status has been granted, awards may at the discretion of the Committee be made earlier than the normal payment date.

Part A: Directors' remuneration policy report (continued)

Non-Executive Directors

Table 3 below sets out details of our remuneration policy for Non-Executive Directors

Table 3: remuneration policy for non-executive directors - overview			
Element, purpose and link to strategy	**Operation**	**Maximum opportunity**	**Performance measures**
Chairman and Non-Executive Directors fees To attract individuals of skills and experience to serve as Chairman and as a Non-Executive Director	Non-Executive Directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairmanship of Board Committees and attendance at either Risk or Audit Committees. The Chairman receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties. The Chairman and other Non-Executive Directors do not participate in any incentive or performance plans or pension arrangements and do not receive an expense allowance.	The Remuneration Committee makes a recommendation to the Board regarding the fees paid to the Chairman of NHBC. The Executive Directors, together with the Chairman, agree the fees for other Non-Executive Directors.	N/A
Travel and accommodation To reimburse Non-Executive Directors for appropriate business travel and accommodation, including attending Board and Committee meetings.	Reasonable costs of travel and accommodation for business purposes are reimbursed to other Non-Executive Directors. On the limited occasions when it is appropriate for a Non-Executive Director's spouse or partner to attend, such as to a business event, the Company will meet these costs.	N/A	N/A

Part A: Directors' remuneration policy report (continued)

The Non-Executive Directors, including the Chairman have letters of appointment which set out their duties and responsibilities. The key terms are set out in Table 4 below.

Table 4: Non-Executive Directors key terms of appointment

Provision	Policy
Period	Under the Articles NHBC appoint non-executive directors for an initial three-year term and this is specified in the letter of appointment. They may then be reappointed by and at the Board's discretion for any further period not exceeding three years and then for a further period, again not exceeding three years (i.e. up to nine in total). If this period is exceeded, any extension is agreed by the Board and ratification of their decision is sought from the Council at the next General Meeting following the date of the appointment.
Termination	By the Director or the Company at their discretion without compensation upon giving one month's written notice for other Non-Executive Directors and three months' notice for the Chairman of the Company.
Fees	As set out in table 8.
Expenses	NHBC Reimburses travel and other expenses reasonably incurred in the performance of their duties.
Time commitment	Each director must be able to devote sufficient time to the role in order to discharge their responsibilities effectively.

Director	Date of appointment	Appointment end date
Isabel Hudson	1 June 2011	31 May 2020
Sir John Harman	1 January 2009	31 December 2017
Stewart Baseley	16 May 2004	15 May 2017
Ian Craston	16 September 2014	15 September 2017
Greg Fitzgerald	1 June 2010	31 July 2016
Jean Park	10 December 2012	9 December 2018
Sir Muir Russell	15 May 2012	14 May 2018
Dame Helena Shovelton	27 September 2012	26 September 2018

Part B: Annual implementation report

This section of the report sets out how NHBC has implemented its remuneration policies for directors in the course of 2015/16 and how the remuneration policy will be implemented for 2016/17. This is in accordance with the requirements of the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Alignment of Group strategy with executive remuneration

The Remuneration Committee ("the Committee") considers that alignment between NHBC's strategy and the remuneration of its Executive Directors is critical. Remuneration policy provides market competitive remuneration, and incentivises Executive Directors to achieve both the annual business plan and longer term strategic objectives of the Group. Significant levels of deferral aid retention of key personnel and enable claw-back in certain conditions. As well as rewarding the achievement of objectives, variable remuneration can be reduced potentially to zero if performance thresholds are not met.

Committee membership and attendance

The Committee comprises of Non-Executive Directors only. Table 5 below shows the Committee members during the year and their attendance at Committee meetings.

Table 5: Committee membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Sir John Harman (Chairman)	6	6	100
Ian Craston	6	6	100
Greg Fitzgerald	6	5	83

The Committee met six times during the financial year. The Chairman of the Committee reported to subsequent meetings of the Board on the Committee's work.

The persons listed in Table 6 assisted the Committee in considering remuneration policy, bonus performance and attended meetings by invitation during the year. No person was present during any discussion relating to their own remuneration.

Part B: Annual implementation report (continued)

Table 6: Attendees of the Committee during 2015/16

Attendee	Position	Comments
Jonathan Hastings	Company Secretary	Attended as secretary to the Committee
Isabel Hudson	Chairman	Attended by invitation
Mike Quinton	Chief Executive	Attended as Executive Director responsible for advising on remuneration policy
Jacqueline Moore[1]	Head of HR	Attended to advise on remuneration policy
Carol Davies	Head of HR	Attended to advise on remuneration policy
Andrew Gorst	Head of Finance	Attended to advise on Company Bonus Performance
Louise Neilson	Compensation and Benefits Business Partner	Attended to advise on remuneration policy
Andrew Wildon	Head of Risk and Compliance	Attended to provide validation of Company bonus performance and to advise on alignment of Company objectives and bonus targets

1 Jacqueline Moore left NHBC on 31 October 2015.

During the year, the Committee received advice on executive remuneration matters from FIT Remuneration Consultants LLP who were appointed by the Committee. They are a member of the Remuneration Consultants Group and adhere to its Code of Conduct. The Committee received advice on the following:

- Alignment of the Remuneration Policy to Solvency II, in particular Executive bonuses;
- Executive Director Remuneration benchmarking; and
- Non-Executive Director Remuneration benchmarking.

Implementation of remuneration policy for 2016/17

The implementation of the policy will be consistent with that outlined in the policy report. The only change implemented relates to the structure of the bonus scheme, whereby a greater proportion of the Executive Director's bonus is to be based on company performance.

Part B: Annual implementation report (continued)

Basic salaries

The Executive Directors' salaries were reviewed in June 2015 and the changes are set out below in Table 7:

Table 7: Executive Directors' salaries

Director	Position	From 1 July 2016	From 1 July 2015
		£	£
Mike Quinton	Chief Executive	285,000	271,000
Ian Davis	Operations Director	157,500	153,500
Neil Jefferson	Business Development Director	165,000	159,500
Chris Rash	Commercial Director and CFO	243,400	236,300

Annual bonus

The maximum annual bonus opportunity and deferral rates will remain at the levels set out in the policy section of this report. The Chief Executive's bonus for 2016/17 will be calculated with a weighting of 85% attributed to overall company performance and 15% on personal objectives. The other Executive Directors' bonuses are calculated using an 80% / 20% weighting respectively.

Whilst NHBC is not disclosing the 2016/17 bonus targets due to commercial sensitivity, an explanation of 2016/17 bonus payments together with performance against measures and targets in the 2016/17 report will be provided.

Pension

Executive Directors all receive payments into their defined contribution scheme, or a cash equivalent where they are impacted by the relevant lifetime or annual allowances.

Approach to Non-Executive Directors' fees

The regular annual review of Non-Executive Director fees took place during 2015/16. The review involved considering a number of key factors, including market pressures, time commitment and increasing regulatory environment. As a result of this, there are increases to Non-Executive Director remuneration, which are detailed in table 8.

Table 8: Fees to be paid to the Chairman and Non-Executive Directors

Position	From 1 July 2016 £	From 1 July 2015 £
Chairman of the Company	134,609	128,750
Board membership	38,000	36,100
Additional fees are paid as follows:		
Senior independent director	3,160	3,160
Committee Chairman (per committee)	9,000-12,000	7,900
Committee Attendance Fee (Audit and Risk)	3,000	-

The Chairman of the Board declined her 2.25% salary increase in 2015. The 2016 salary includes the combined increase for 2015 and 2016.

Part B: Annual implementation report (continued)

Single total figures of remuneration for Executive Directors (audited information)

Table 9 below sets out in the total 2015/16 and 2014/15 remuneration for each of our Executive Directors who served with the Company during those years.

Table 9: Total Executive Directors' Remuneration

						Of which			
£'000		**Salary[1]**	**Taxable benefits[2]**	**Pension[3]**	**Annual bonus award[4]**	**Amount in cash**	**Amount deferred**	**Annual bonus releases**	**Tota**
Mike Quinton	**2015/16**	**270**	**18**	**54**	**142**	**71**	**71**	**41**	**48[illegible]**
	2014/15	263	18	53	112	56	56	32	44[illegible]
Ian Davis	**2015/16**	**152**	**17**	**31**	**63**	**38**	**25**	**19**	**26[illegible]**
	2014/15	148	17	30	70	42	28	14	26[illegible]
Neil Jefferson	**2015/16**	**159**	**17**	**32**	**71**	**43**	**28**	**18**	**27[illegible]**
	2014/15	155	17	31	55	33	22	15	25[illegible]
Chris Rash[5]	**2015/16**	**242**	**17**	**40**	**-**	**-**	**-**	**0**	**29[illegible]**
	2014/15	221	11	27	86	86	0	0	34[illegible]
Sandra Kelly[6]	2015/16	-	-	-	-	-	-	9	[illegible]
	2014/15	277	33	36	0	0	0	9	34[illegible]
Richard Tamayo[7]	2015/16	-	-	-	-	-	-	8	[illegible]
	2014/15	373	13	0	0	0	0	8	38[illegible]

1. The salary amounts quoted above represent basic salary.
2. Taxable benefits comprise car, car allowance, and private medical insurance.
3. Pension reflects either the DC contributions or cash if they are impacted by the relevant lifetime or annual allowances.
4. *The annual bonus stated is that awarded in the financial year.*
5. Chris Rash joined NHBC on 14 July 2014. The salary figure amount in 2014/15 includes reimbursement for a £55k retention payment owed to his previous employer. The amount included in the 2014/15 annual bonus award was a contractual commitment made at the time of his appointment and is not subject to deferral. The 2015/16 bonus award is zero as the entitlement to a bonus is forgone if a Director is in their resignation period, or has left NHBC when the bonus is due to be paid.
6. Sandra Kelly left NHBC on 30 June 2014. The amounts above included payments for loss of office of £301k. The deferred bonus represents amounts earned in financial years 2012/13 and 2013/14 that are to be paid in equal instalments until 2018.
7. Richard Tamayo left NHBC on 30 June 2014. The amounts above included payments for loss of office of £338k. The deferred bonus represents amounts earned in financial years 2012/13 and 2013/14 that are to be paid in equal instalments until 2018.

Part B: Annual implementation report (continued)

Additional disclosures in respect of the single total figure of remuneration table (audited information)

Annual bonus

Table 10 below sets out NHBC's performance against the 2015/16 KPIs. It also shows how these outcomes have translated into bonus payments. Details of the actual targets have not been disclosed as they are deemed to be commercially sensitive.

Table 10: NHBC performance against KPIs

	Weighting (% of total opportunity)		
	Target	**Stretch**	**Actual**
Financial (profit, capital and expenditure)	50.0	100.0	62.0
Homeowner and builder customer satisfaction	15.0	30.0	30.0
Raising of house building standards	15.0	30.0	15.3
Reputation	10.0	20.0	0.0
Employee engagement	10.0	20.0	4.9
Total	**100.0**	**200.0**	**112.2**

Part B: Annual implementation report (continued)

The individual performance by each Executive Director is then applied to the company performance[3] to determine the total bonus opportunity available:

Table 11: Performance in 2015/16 against annual incentive plan

	Target (%)	Stretch (%)	Actual (%)
Mike Quinton	45.0	90.0	53.0
Ian Davis	37.5	75.0	41.2
Neil Jefferson	37.5	75.0	44.9
Chris Rash	37.5	75.0	44.9

Pension

Executive Directors have the opportunity to participate in the defined contribution scheme with an employer contribution rate of 20.25%. Should the annual or lifetime allowance be exceeded in the year the balance is paid as a cash amount.

Single total figure of remuneration for 2015/16 – Non-Executive Directors (audited information)

Table 12: Non-Executive Directors' remuneration

	2015/16	2014/15
	£000	£000
Isabel Hudson	128	128
Sir John Harman (Senior Independent Director)	47	46
Stewart Baseley	44	43
Ian Craston	44	33
Greg Fitzgerald	36	35
Bridget McIntyre[1]	-	18
Robin Nicholson[2]	-	7
Jean Park	44	46
Sir Muir Russell	52	47
Dame Helena Shovelton	44	43
Total	**439**	**446**

1 Bridget McIntyre retired from the Board on 31 August 2014.

2 Robin Nicholson retired from the Board on 11 June 2014.

3 Company performance has been awarded at 94.5% of on target opportunity.

Part B: Annual implementation report (continued)

Historical Chief Executive remuneration outcomes

Table 13 summarises the Chief Executive single figure for total remuneration, annual bonus pay-out and MTIP as a percentage of maximum opportunity over the past three years.

Table 13: Historical Chief Executive remuneration outcomes

	Chief Executive	2013/14	2014/15	2015/16
Annual bonus payment (as % of maximum)[1]	Mike Quinton	55%	47%	53%
Annual bonus release from deferred pool (as % of maximum)[2]	Mike Quinton[1]	100%	100%	100%
Chief Executive Single figure of remuneration (£000s)	Mike Quinton	451	446	484

1 50% of the annual bonus under the annual scheme effective from 2012/13 is deferred. This represents the proportion of the maximum that could be paid.

2 40% is released from the pool annually subject to satisfactory performance and this represents the proportion of the maximum that could be released.

Percentage change in remuneration of Chief Executive

Table 14 sets out the increase in basic salary, bonus and benefits of the Chief Executive and that of the rest of the employees.

Table 14:Percentage change in Chief Executive remuneration

	Basic salary[1]	Bonus[2]
Chief Executive	2.25%	24.7%
Rest of employees	2.90%	30.7%

1 The basic salary increase is an average salary settlement agreed between the Company and the Staff Association. The 2015/16 range of base salary increases for staff ranged between 0% and 4.75%.

2 The relative bonus performance reflects the total performance for the Chief Executive and the average Company bonus performance award for all other staff based upon the achievement of agreed targets.

Part B: Annual implementation report (continued)

Relative importance of spend on pay

Table 15 outlines the overall profit compared to the overall spend on pay. The measure of profit has been chosen as a straightforward measure of the performance of the Company.

Table 15: Relative importance of spend on pay

	2015/16 £m	2014/15[1] £m	% change
Total profit before tax	9.2	14.9	(38.3)
Total staff costs[2]	61.3	54.5	12.5

The increase in staff costs is driven by the continued investment in people, particularly inspection and technical services staff to ensure that NHBC is appropriately resourced to meet rising volumes and provide greater focus on site standards.

1 Restated.

2 Total staff costs include salary, employer's national insurance contributions, pension contributions, overtime, bonuses and redundancy pay.

External board appointments

The Company recognises that its Executive Directors can benefit from serving in a personal capacity as a non-executive director of a non NHBC company. At the same time, it is conscious of the corporate governance recommendations that Executive Directors should take account of the time commitment required by a non-executive director position and ensure that any such role does not impact their ability to carry out fully their executive duties. The Company therefore has a policy of normally allowing the Executive Directors to serve as a non-executive director for one external company, subject to approval by the Board and for any fees to be remitted to the Company.

Currently Mike Quinton holds one external non-executive directorship being appointed to the British Board of Agrément on 25 November 2013. NHBC invoiced £7,720 during the year in respect of his appointment and any monies received will be donated to the Company's chosen charity Cancer Research UK.

Part B: Annual implementation report (continued)

Consideration by the Directors of matters relating to Directors' remuneration

The Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Company (the remuneration policy) and for reviewing compliance with the remuneration policy. The Committee is responsible for monitoring the level and structure of remuneration for the senior management of the Company and recommending the overall remuneration increase to the Board. Within the remuneration policy, the key responsibilities of the Committee are to:

- Make recommendations to the Board regarding the Company's remuneration policy in respect of the Board Chairman, Executive Directors, members of senior management and the overall staff pay increases, taking account of all legal and regulatory requirements and provisions of best practice;
- Work with the Risk Committee to ensure that risk and risk appetite are properly considered in setting the remuneration policy for the Group;
- Review and determine the remuneration of the Chairman of the Board and the terms of employment and remuneration of individual Executive Directors, including any specific recruitment or severance terms;
- Review and recommend to management the level and structure of senior management remuneration;
- Approve the Company's reward strategy, including any changes to the strategy and note the total bonus pool;
- Select, appoint and determine terms of reference for independent remuneration consultants to advise the committee on remuneration policy and levels of remuneration;
- Have regard to remuneration trends across the Company when setting remuneration policy for Executive Directors;
- Ensure that remuneration arrangements for all employees are commensurate with promoting ethical behaviour;
- Ensure the effectiveness of the process for assessing the senior management group for talent and succession planning purposes, ensuring appropriate reward for performance: and
- Take a Consistent approach to the development of talent throughout the Company, working with the Governance and Nomination committees as necessary; and
- Recommend to the Board the approval of the Company's remuneration policy.

The full terms of reference for the Committee are available from the Group Company Secretary.

Approval by the Board

The Directors' Remuneration Report was reviewed and approved by the Board on 28 September 2016.

Sir John Harman
Chairman of the Remuneration Committee

Financial statements

Independent auditor's report to the members of the National House-Building Council

We have audited the financial statements of National House-Building Council for the year ended 31 March 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016, and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

M. McQueen

Mark McQueen (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
28 September 2016

Consolidated statement of comprehensive income

Technical account – general business

		2016		2015	
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	8	**83,387**		75,813	
Outward reinsurance premiums		**(11,757)**		(6,289)	
Net premiums written		**71,630**		69,524	
Change in the gross provision for unearned premiums		**49,062**		(18,970)	
Change in the provision for unearned premiums, reinsurers' share		**4,211**		1,805	
Change in the net provision for unearned premiums		**53,273**		(17,165)	
Earned premium, net of reinsurance			**124,903**		52,359
Allocated investment return transferred from the non-technical account			**6,884**		78,189
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		**(90,116)**		(96,634)	
- Reinsurers' share		**76**		98	
Net claims paid		**(90,040)**		(96,536)	
Change in provision for claims					
- Gross amount		**(13,489)**		(16,116)	
- Reinsurers' share		**-**		(153)	
Change in the net provision for claims		**(13,489)**		(16,269)	
Claims incurred, net of reinsurance			**(103,529)**		(112,805)
Changes in unexpired risk reserve, net of reinsurance			**(3,539)**		2,789
Net operating expenses	11		**(4,404)**		(3,148)
Balance on the technical account for general business			**20,315**		17,384

Consolidated statement of comprehensive income

Non-technical account

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Balance on the general business technical account			**20,315**		17,384
Investment income	12		**54,692**		58,937
Unrealised gains on investments		**6,010**		52,748	
Unrealised losses on investments		**(51,030)**		(30,759)	
Net unrealised losses on investments	12		**(45,020)**		21,989
Investment expenses and charges			**(2,788)**		(2,737)
Allocated investment return transferred to the general business technical account			**(6,884)**		(78,189)
Other income	8		**69,382**		64,577
Other charges			**(80,510)**		(67,056)
Profit on ordinary activities before taxation			**9,187**		14,905
Tax on profit on ordinary activities	16		**14,617**		(4,240)
Profit for the financial year			**23,804**		10,665
Other comprehensive income					
Remeasurements of net defined benefit obligation	28	**4,145**		(22,690)	
Movement on deferred tax relating to pension deficit	20	**(829)**		4,343	
Revaluation of tangible assets		**93**		31	
Other comprehensive income for the year, net of tax			**3,409**		(18,316)
Total comprehensive income for the year			**27,213**		(7,651)

Consolidated statement of financial position

	Note	2016 £'000	2015 £'000
Assets			
Investments			
Land and buildings	17	**10,122**	9,250
Other financial investments	30	**1,450,686**	1,488,046
		1,460,808	1,497,296
Reinsurers' share of technical provisions			
Provision for unearned premiums		**36,920**	32,709
Claims outstanding		**-**	-
Unexpired risk reserve		**200,005**	107,572
	23	**236,925**	140,281
Debtors			
Debtors arising out of direct insurance operations	19	**4,963**	5,593
Deferred tax	20	**8,201**	8,405
Other debtors	19	**38,475**	16,635
		51,639	30,633
Other assets			
Tangible assets	21	**9,452**	10,272
Cash at bank and in hand		**19,848**	16,741
		29,300	27,013
Prepayments and accrued income			
Accrued interest and rent		**15,574**	14,938
Deferred acquisition costs	22	**10,746**	10,765
Other prepayments and accrued income		**2,382**	2,149
		28,702	27,852
Total assets		**1,807,374**	1,723,075

	Note	2016 £'000	2015 £'000
Liabilities			
Reserves			
Revaluation reserve		**226**	133
Retained earnings		**466,643**	439,523
		466,869	439,656
Technical provisions			
Provision for unearned premiums		**382,776**	431,838
Claims outstanding		**190,971**	177,482
Unexpired risk reserve		**632,970**	536,998
	23	**1,206,717**	1,146,318
Creditors			
Creditors arising out of direct insurance operations	27	**32,367**	32,279
Other creditors	27	**10,238**	10,817
		42,605	43,096
Accruals and deferred income		**57,858**	54,386
Defined benefit pension plan deficit	28	**33,325**	39,619
Total liabilities		**1,807,374**	1,723,075

The notes on pages 100 to 152 are an integral part of these financial statements.

The financial statements on pages 91 to 152 were authorised for issue by the Board of directors on 28 September 2016 and were signed on its behalf.

I Hudson
(Chairman of the Council)

M Quinton
(Chief Executive)

Company registration 00320784

Company statement of financial position

	Note	2016 £'000	2015 £'000
Assets			
Investments			
Land and buildings	17	**10,122**	9,250
Investments in group undertakings and participating interests	18	**5,045**	4,874
Other financial investments	30	**1,450,686**	1,488,046
		1,465,853	1,502,170
Reinsurers' share of technical provisions			
Provision for unearned premiums		**36,920**	32,709
Claims outstanding		**-**	-
Unexpired risk reserve		**200,005**	107,572
	23	**236,925**	140,281
Debtors			
Debtors arising out of direct insurance operations	19	**4,963**	5,593
Deferred tax	20	**8,196**	8,401
Other debtors	19	**37,706**	15,598
		50,865	29,592
Other assets			
Tangible assets	21	**9,452**	10,272
Cash at bank and in hand		**19,531**	16,626
		28,983	26,898
Prepayments and accrued income			
Accrued interest and rent		**15,574**	14,938
Deferred acquisition costs	22	**10,746**	10,765
Other prepayments and accrued income		**1,592**	1,581
		27,912	27,284
Total assets		**1,810,538**	1,726,225

	Note	2016 £'000	2015 £'000
Liabilities			
Reserves			
Revaluation reserve		**5,171**	4,907
Retained earnings		**461,764**	435,556
		466,935	440,463
Technical provisions			
Provision for unearned premiums		**382,776**	431,838
Claims outstanding		**190,971**	177,482
Unexpired risk reserve		**632,970**	536,998
	23	**1,206,717**	1,146,318
Creditors			
Creditors arising out of direct insurance operations	27	**32,367**	32,279
Other creditors	27	**18,155**	17,865
		50,522	50,144
Accruals and deferred income		**53,039**	49,681
Defined benefit pension plan deficit	28	**33,325**	39,619
Total liabilities		**1,810,538**	1,726,225

The notes on pages 100 to 152 are an integral part of these financial statements.

The financial statements on pages 91 to 152 were authorised for issue by the Board of directors on 28 September 2016 and were signed on its behalf.

I Hudson
(Chairman of the Council)

M Quinton
(Chief Executive)

Consolidated statement of changes in equity

	Retained earnings £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2014	447,205	102	447,307
Profit as restated	10,665	-	10,665
Other comprehensive income for the year	(18,347)	31	(18,316)
Total comprehensive income for the year	(7,682)	31	(7,651)
Balance as at 31 March 2015	**439,523**	**133**	**439,656**
Profit for the year	23,804	-	23,804
Other comprehensive income for the year	3,316	93	3,409
Total comprehensive income for the year	27,120	93	27,213
Balance as at 31 March 2016	**466,643**	**226**	**466,869**

Company statement of changes in equity

	Retained earnings £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2014	443,518	4,875	448,393
Profit as restated	10,385	-	10,385
Other comprehensive income for the year	(18,347)	32	(18,315)
Total comprehensive income for the year	(7,962)	32	(7,930)
Balance as at 31 March 2015	**435,556**	**4,907**	**440,463**
Profit for the year	22,892	-	22,892
Other comprehensive income for the year	3,316	264	3,580
Total comprehensive income for the year	26,208	264	26,472
Balance as at 31 March 2016	**461,764**	**5,171**	**466,935**

Consolidated statement of cash flows

	Note	2016 £'000	2015 £'000
Net cash from operating activities before interest received	31	**(71,173)**	(48,107)
Interest received		**40,017**	39,560
Taxation paid		**(10,973)**	(6,300)
Net cash generated from operating activities		**(42,129)**	(14,847)
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(3,877)**	(5,623)
Receipts from disposal of tangible fixed assets		**1,198**	1,484
Payments to acquire land and buildings	17	**(799)**	(106)
		(3,478)	(4,245)
Net decrease in cash and cash equivalents		**(45,607)**	(19,092)
Capital gains and losses on cash and cash equivalents		**51**	74
Cash and cash equivalents at the beginning of the year		**112,458**	131,476
Cash and cash equivalents at end of year		**66,902**	112,458
Cash and cash equivalents consists of:			
Cash at bank and in hand		**19,848**	16,741
Deposits with credit institutions (included in other financial investments)		**6,214**	1,181
Treasury bills and liquidity funds (included in other financial investments)		**40,840**	94,536
Cash and cash equivalents		**66,902**	112,458

Notes to the financial statements

1 Company information

National House-Building Council ("NHBC" or "the Company"), the ultimate parent entity of the Group, is a company limited by guarantee. NHBC is incorporated and domiciled in the United Kingdom. The address of NHBC's registered office is NHBC House, Davy Avenue, Knowlhill, Milton Keynes, Bucks, MK5 8FP.

2 Basis of preparation

These financial statements have been prepared in accordance and comply with:

- Applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"); and
- Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

This is the first year in which the financial statements have been prepared under FRS 102 and FRS 103. The last financial statements under UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 and FRS 103 was 1 April 2014[4]. Refer to note 38 - Transition to FRS 102 and FRS 103 for an explanation of the transition.

The consolidated financial statements for the year ended 31 March 2016 comprise those of the Company and its subsidiary companies (together referred to as "the Group").

Unless stated otherwise, the consolidated financial statements are presented in £Sterling, which is the Group's presentation and functional currency, and rounded to the nearest £'000.

NHBC, the parent company, has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. NHBC's profit for the year was £22.9m (2015: £10.4m).

3 Going concern

After reviewing the Group's forecasts and projections, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

[4] Comparative information prepared in accordance with FRS 102 and FRS 103. Opening statement of changes in equity prepared as at 1 April 2014 in accordance with FRS 102 and FRS 103.

4 Critical accounting judgements and estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions and to exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

These major areas of judgement on policy application are summarised below:

Financial statement area	Critical judgements, accounting estimates and assumptions	Related accounting policies and notes
Insurance and reinsurance contracts	Determination of builder behaviour assumptions Determination of exceptional losses assumptions Determination of cost inflation assumption Determination of discount rates	Note 5.9 - Insurance contracts Note 23 – Insurance contract liabilities and associated reinsurance
Deferred acquisition costs on insurance contracts	Determination of issuance costs that are directly related to and vary with the acquisition	Note 5.9 - Insurance contracts Note 22 - Deferred acquisition costs
Revenue recognition on inspection and building control service	Determination of the stage of completion	Note 5.3 – Other income Note 8 - Turnover
Defined benefit pension scheme	Determination of assumptions for mortality, discount rate, inflation and the rate of increase in pensions	Note 5.10.3 - Defined benefit pension scheme Note 28.1 - Defined benefit pension scheme

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. The table below sets out those items that the Group considers particularly susceptible to changes in estimates and assumptions.

Financial statement area	Related accounting policies and notes
Insurance and reinsurance contracts	Note 5.9 - Insurance contracts Note 23 - Insurance contract liabilities and associated reinsurance Note 24.8 – Effect of changes in assumptions and estimates during the year
Deferred acquisition costs on insurance contracts	Note 5.9 - Insurance contracts Note 22 - Deferred acquisition costs
Fair value of land and buildings	Note 5.5 - Investment in land and buildings Note 17 - Land and buildings
Deferred income taxes	Note 5.4 - Taxation Note 20 - Deferred tax asset
Defined benefit pension scheme	Note 5.10.3 - Defined benefit pension scheme Note 28.1 - Defined benefit pension scheme

5 Summary of significant accounting policies

5.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group.

5.2 Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Income from investments is included in the non-technical account on an accruals basis.

Realised investment gains and losses are taken through the consolidated statement of comprehensive income in the financial year in which the transaction occurs. They represent the difference between the sales proceeds and book cost (in both cases excluding accrued interest).

Movements in unrealised gains and losses on investments are included in the non-technical account and represent the difference between the valuation at the consolidated statement of financial position date and their purchase price or, if they have been previously valued, their valuation at the previous balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier financial years in respect of investment disposals in the current financial year.

A transfer of investment return, net of expenses and charges, is made from the non-technical account to the general business technical account to reflect the return made on those assets directly attributable to the insurance business.

5.3 Other income

Other income is measured at fair value of the consideration received or receivable, net of discounts and value added taxes. Other income consists primarily of rendering of inspection and building control services as well as registration fees and rendering of services relating to the construction industry.

Upon registering a plot with NHBC, the builder customer benefits from the use of NHBC's key stage inspection service. The Inspection service establishes a quality control process designed to ensure construction meets NHBC standards. NHBC's subsidiary "NHBC Building Control Services Limited" carries out building control services which is an optional service offered by the Group and is the process of ensuring that Government-set Building Regulations are met.

The Inspection service and building control income is recognised by reference to the stage of completion of the contract. Half of the income is recognised at the start of the contract with the remaining income recognised upon completion of the contract.

Builders and developers require registration with NHBC to be able to offer "NHBC Buildmark" warranty and insurance on new homes they build or develop. A one-off joining fee is payable by the builder to enter the register. The joining fee is recognised as revenue in full at the invoice date. An annual registration renewal fee is charged to remain on the register. The registration runs concurrently with the Group's financial year with new registrations issued up to the end of the financial year. The registration fee is recognised as revenue in full at the invoice date.

Rendering of other services to the industry is recognised by reference to the stage of completion of the contract. The stage of completion of a contract is measured by comparing the costs incurred for work performed to date to the total estimated contract costs.

5.4 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is also recognised in other comprehensive income.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

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

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

5.5 Investment in land and buildings

Land and buildings predominantly occupied by the Group for its own purposes are valued at open market valuation. Full valuations are made by professionally qualified external valuers at least every three years. In the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required. Fair value is primarily derived using comparable recent market transactions on arm's length terms[5].

Increases in value are recognised in other comprehensive income and accumulated in equity. However, the increase is recognised in the consolidated statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of comprehensive income. Decreases in value as a result of a revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in the consolidated statement of comprehensive income.

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

Depreciation on land and buildings is calculated, using the straight-line method, over the estimated useful life, as follows:

- Freehold buildings - over period of 50 years
- Long leasehold property - over the shorter of 50 years or remaining lease period
- Short leasehold - over the period of the lease
- Short leasehold improvements - over the period of the lease

At the end of each reporting period an estimate of the useful lives is made by a professionally qualified external valuer. The estimate of useful lives are reviewed and adjusted if appropriate. The effect of any change is accounted for prospectively.

Assets in the course of construction are stated at cost. These are not depreciated until they are available for use.

5.6 Investment in subsidiaries

The Company's investments in subsidiaries are accounted for at fair value. The fair value is derived by reference to the net assets of the subsidiary companies. Where the net assets of a subsidiary are negative it is valued at £Nil.

Increases in value are recognised in other comprehensive income and accumulated in equity. However, the increase is recognised in the Company statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised in the company statement of comprehensive income. Decreases in value as a result of a revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset.

Investment in subsidiaries is eliminated in the preparation of the consolidated financial statements of the Group.

5.7 *Other financial investments*

Other financial investments are stated at market value. The Group's other financial investments are publically traded where a quotation is readily available. Other financial investments are stated at quoted price on a bid basis excluding any accrued interest. Changes in the fair value are recognised in the non-technical account in the consolidated statement of comprehensive income.

5.8 Tangible assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line method to write-down the cost of other assets to their residual values over their estimated useful lives as follows:

- Computer equipment - 3 to 5 years
- Motor vehicles - 4 years
- Fixtures and fittings - 5 years

The assets' residual values, useful lives and methods of depreciation are reviewed regularly, at least at each financial year-end, and adjusted if appropriate.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the consolidated statement of comprehensive income and included in other charges.

5.9 Insurance contracts

5.9.1 Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Group agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Insurance contracts are written by NHBC.

5.9.2 Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued.

Premiums written include road and sewer bond income and are shown net of those premium refunds to registered builders approved in respect of the financial year. Premiums written also exclude insurance premium taxes, with any unpaid taxes included within other creditors in the consolidated statement of financial position.

5.9.3 Unearned premiums

The Group's insurance policies provide protection to policyholders for financial years of ten years or more. Premiums are earned over the financial years of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk, the Group makes reference to past claims experience. Unearned premiums represent the proportion of premiums written in the year and in previous years that relate to unexpired terms of policies in force at the consolidated statement of financial position date.

5.9.4 Deferred acquisition costs

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. These costs are recognised as deferred acquisition costs and are deducted from the provision for unearned premiums. Deferred acquisition costs ("DAC") are amortised on the same basis as the related unearned premiums are earned.

5.9.5 Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provision for outstanding claims, including provisions for claims incurred, but not reported, and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage, reinsurance and other recoveries. Claims are typically reported relatively quickly after the claims event and are therefore subject to significantly less uncertainty than future claims events.

In estimating the cost of claims notified but not paid, the Group has regard to the claim circumstances as reported, information available from surveyors, loss adjusters or other relevant professionals and the cost of settling claims with similar characteristics in previous financial years.

5.9.6 Unexpired risk reserve

An unexpired risk provision is made where the estimated costs of claims, related expenses and deferred acquisition costs exceed unearned premiums, after taking account of future investment income.

An assessment is made at the year-end for the estimated cost of claims which may arise during the unexpired terms of policies in force at the consolidated statement of financial position date. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Provisions are calculated gross of any related reinsurance recoveries which are estimated separately and disclosed as part of reinsurers' share of technical provisions.

The provisions are inevitably subject to inherent uncertainties because of the range of factors which could give rise to potentially significant claims over the ten-year or greater period covered by the unexpired risk provision. The time expected to elapse between the inception of policies, the manifestation of events giving rise to claims and the notification to, and settlement by, the Group of such claims accentuate these uncertainties.

In calculating the estimated cost of future claims, actuarial and statistical projections of the frequency and severity of future claims events are used to project ultimate settlement costs. Such projections are based upon both current facts and circumstances, and a subjective analysis of a range of factors including future inflation, the impact of competition and its effect on builder behaviour in making repairs which would otherwise fall as insurance claims to the Group, the impact of large losses including those made evident by extreme weather or latent defects caused by defective building materials, the effect of increases in cover and changes in consumer expectations and in the legal environment. Given these inherent uncertainties, a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision.

The Group takes all reasonable steps to ensure that it has appropriate information regarding the assessment of claims in this regard. However, given the inherent uncertainty in estimating the cost of future claims, it is likely that the final outcome will prove to be different from the estimate established at the consolidated statement of financial position date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

The Group, in setting its unexpired risk provisions, takes account of the future investment income that will be generated between the consolidated statement of financial position date and settlement of the expected claims on the assets held to cover such provisions.

5.9.7 Reinsurance

Reinsurance contracts are measured using valuation techniques and assumptions that are consistent with the valuation techniques and assumptions used in measuring the underlying policy and taking into account the terms of the reinsurance contract.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in the debtors and creditors respectively.

An assessment is made of the recoverability of reinsurance having regard to market data on the financial strength of each of the Group's reinsurers. If a reinsurance contract is considered to be impaired, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income.

5.10 Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined benefit and defined contribution pension plans.

5.10.1 Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

5.10.2 Defined contribution pension scheme

The Group operates a defined contribution pension scheme for its employees. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the consolidated statement of financial position. The assets of the scheme are held separately from the Group in independently administered funds.

5.10.3 Defined benefit pension scheme

The Group operates a defined benefit pension scheme for certain employees. A defined benefit scheme defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit scheme is a pension scheme that is not a defined contribution scheme.

The liability recognised in the consolidated statement of financial position in respect of the defined benefit scheme is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the scheme assets at the reporting date.

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

The fair value of scheme assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts, together with the return on scheme assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit obligation'.

The scheme is closed for future accrual. There are no employee costs such as employee service cost, cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the consolidated statement of comprehensive income within other charges.

5.11 Impairment of non-financial assets

At each consolidated statement of financial position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the consolidated statement of comprehensive income.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income.

5.12 Lease assets

At inception, the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

The Group does not have finance leased assets.

Rentals payable under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefits of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

5.13 Provisions and contingencies

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources is required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow is required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provision is not made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Contingent liabilities, arising as a result of past events, are not recognised when it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

5.14 Foreign currency

The functional and presentation currency of NHBC and its subsidiary companies is £Sterling given that all of the Group's activity is conducted in the United Kingdom. Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

The Group invests in equity funds that are denominated in foreign currency. Foreign exchange gains and losses movements in relation to the equity funds are recognised as part of the unrealised gains and losses balance in the consolidated statement of comprehensive income. Gains and losses resulting in realisation of equity funds are recognised as part of the realised gains and losses balance in the consolidated statement of comprehensive income.

5.15 Related party transactions

The Group does not disclose transactions with members of the same Group that are wholly owned.

5.16 Financial instruments

The Group has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

5.16.1 Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the consolidated statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised then the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the consolidated statement of comprehensive income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the consolidated statement of comprehensive income, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled, or substantially all the risks and rewards of the ownership of the asset are transferred to another party or control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

5.16.2 Financial liabilities

Basic financial liabilities, including trade and other payables and loans from Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

The Group does not currently hold derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

5.17 Statement of cash flows

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with credit institutions, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values. For the purposes of the statement of cash flows, cash and cash equivalents may also include bank overdrafts, which are included in payables and other financial liabilities in the consolidated statement of financial position.

Purchases and sales of financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of related claims.

5.17.1 Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and to settle the liability simultaneously.

6 Risk management

The current principal risks of the Group, its inherent risks and how they are mitigated are outlined on pages 26 to 29.

The Group has exposure to a number of risks associated with its insurance business and risks from its use of financial instruments. These have been categorised into the following types of risk and details of the nature, extent and how the Group has managed these risks is described below:

- Insurance;
- Market;
- Credit;
- Liquidity;
- Pension.

6.1 Insurance / underwriting risk

Insurance risk is defined as the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions. As such, the Group's insurance risk is mitigated by adequate management of premium rates (pricing risk) and adequate management of claims (claims risk).

The Group considers writing all business which meets its underwriting criteria and is within its risk appetite. Specifically, the Group is willing to offer latent defect warranties on private and social housing of all types. It also offers warranty on mixed use developments including commercial, retail and / or leisure use as well as residential units. In addition, the Group is selectively prepared to offer Road & Sewer Bonds on developments covered by its warranties.

6.1.1 Pricing risk

Pricing risk is the risk that the Group fails to set its pricing at a level adequate to generate sufficient premiums to meet future claims.

The majority of premiums are calculated in accordance with the premium rating scheme which takes account of the number of years a builder has been registered with the Group, the builder's size and claims history.

For unconventional developments such as high rise residential buildings, a bespoke price is calculated based on the risk presented by the developer and the features of the development itself.

6.1.2 Claims risk

Claims risk is the risk that future claims vary from expected claims.

The Group endeavours to manage its claims risk through an impartial, professional and timely claims handling, dispute resolution and repair management service.

6.1.3 Reserving risk

Reserving risk is the risk that provisions made for claims prove to be insufficient in light of later events and claims experience. Due to the relatively long-term nature of the Group's claims development patterns there is exposure to reserving risk.

The Group's Reserving Committee monitors the decisions and judgements made by the actuarial team and makes the final decision on the reserves to be included within the consolidated financial statements. In forming its collective judgement, the Committee considers information such as: actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications; the views of internal peer reviewers of the reserves and of other parties including actuaries, underwriters and claims managers; and how previous actuarial indications have developed.

6.1.4 Concentration risk

Concentration risk is an inherent feature of the Group's insurance risk exposure, as it largely operates a monoline warranty scheme. The concentration risk arises from operating in a single geographic market with the majority of business derived from the Buildmark product.

Concentration risk is explicitly recognised by the Group and the risk is accepted as the Group currently has no appetite for diversification in relation to the type of cover it underwrites or its geographical scope.

6.1.5 Use of reinsurance

The Group uses traditional reinsurance as a key element in managing its insurance risk exposure: limiting its total exposure to ensure the stability of its capital position; creating additional capacity to take on business where it has already reached its internal limit for accepting risk; and protecting itself against volatility in claims experience or erosion in capital which may result from a single cause.

6.2 Market risk

The Group defines market risk as the risk of a reduction in available assets from adverse movements in financial markets. The Group uses this term interchangeably with investment risk.

In order to maintain market risk within its risk appetite and to ensure that assets are available to pay insurance claims as they fall due, the Group manages its assets using an approach that balances security, quality, liquidity, profitability and availability.

6.2.1 Interest rate risk

Interest Rate risk is defined as the risk that changes in the UK "risk-free" yield curves lead to a reduction in available assets. This can result from an increase in the discounted value of the Group's liabilities (insurance and pension scheme liabilities) and / or a reduction in the value of the Group's fixed interest investments (within the insurance and pension scheme asset portfolios).

The Group's insurance liabilities are medium-tailed (circa 5 year duration) and the term structure of interest rates will affect the valuation of the liabilities. The Group invests in fixed income assets with a similar maturity profile to the insurance liabilities to reduce interest rate risk.

The fair value of the Group's portfolio of fixed income securities is inversely correlated to changes in market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 114.

6.2.2 Inflation risk

Inflation risk is defined as the risk that actual and future inflation is different to that expected, leading to a reduction in the Group's available assets.

Almost all of the Group's insurance liabilities are linked to the cost of house repair. House repair inflation is not investible (assets with an explicit link to house repair inflation are not available). Assets linked to price inflation are available for investment (e.g. index-linked bonds). The Group believes that assets explicitly linked to price inflation are likely to provide protection against scenarios of very high house repair inflation. The Group therefore invests part of its matching assets portfolio in inflation-linked bonds.

6.2.3 Equity price risk

The Group's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rise, so will the fair value of its portfolio and vice versa.

The Group continues to limit its equity exposure in line with the Group's risk preferences. At 31 March 2016 6.6% (2015: 7.7%) of the overall managed portfolio was invested in equities. The Group invests in equities through pooled funds. The Group's equity investments are globally diversified and include both developed and emerging markets equities. The Group's strategy ensures that the equity portfolio is sufficiently diversified thereby reducing exposure to individual equities.

The Group does not directly enter into derivatives contracts. However, the equity funds that NHBC invests in are permitted to use derivatives. In particular, one of the equity pooled funds invests in forward currency to partly hedge some of the Group's currency exposure from its overseas equities.

Sensitivities to changes in equity prices are presented on page 114.

6.2.4 Property price risk

The Group's portfolio of properties is subject to property price risk arising from changes in the market value of properties. The Group's direct exposure to property price risk is small and is limited to a small number of Group occupied office buildings and temporary ownership of property through the NHBC's claims process. Further information on the valuation approach is included in note 5.5 on page 104.

No derivative contracts have been entered into in order to mitigate the effects of changes in property prices.

If the value of property falls so will the fair value of the portfolio. Sensitivity to changes in property prices is presented on page 114.

6.2.5 Currency risk

The Group operates exclusively in the United Kingdom and has minimal exposure to currency risk.

The Group's exposure to currency risk is through its equity investments. Some equity funds are denominated in $US and at 31 March 2016 were 2.4%[6] (2015: 2.5%) of the overall managed portfolio. The remaining equity funds are denominated in £Sterling. The underlying investments of the equity funds are denominated in a wide selection of currencies. At 31 March 2016 overseas equities represented a majority (2015: majority) of equity investments. The Group makes use of a currency hedging fund to partly mitigate currency risk exposure within equity funds of its managed investments.

[6] Based on the GBP clean market value of investments, before accrued interest income.

6.2.6 Derivative risk

The Group does not make direct use of derivative financial instruments to manage its risk.

6.2.7 Sensitivity analysis

The table below reflects changes in the consolidated statement of comprehensive income as a result of single factor changes in risks it is exposed to.

	Increase / (decrease) in statement of comprehensive income		Increase / (decrease) in other comprehensive income		Increase / (decrease) in total reserves	
	2016	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(13,476)**	(13,475)	**-**	-	**(13,476)**	(13,475)
Impact on equities of a 15% fall in equity markets	**(14,277)**	(17,262)	**-**	-	**(14,277)**	(17,262)
Decrease of property markets of 15%	**(1,426)**	(1,308)	**(92)**	(80)	**(1,518)**	(1,388)

Sensitivity of fixed interest securities is calculated with reference to modified duration and redemption yield not adjusted for options as at the consolidated statement of financial position date. Sensitivity of equity and property markets is calculated by applying a percentage to the market value as at the consolidated statement of financial position date.

6.3 Credit risk

Credit risk is the risk of loss of value of the financial assets due to counterparties failing to meet all or part of their obligations.

The Board Risk Committee ("BRC") is responsible for ensuring that the Board approved Group credit risk appetite is not exceeded. This is done through the setting and imposition of Group policies, procedures and limits.

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within risk appetite.

Areas particularly exposed to credit risk are:

- Investments;
- Group's customers;
- Reinsurance assets.

Details of the nature, extent and how the Group manages the credit risk in relation to areas listed above are described below.

6.3.1 Investments

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least BBB by one of the three key rating agencies used by the Group, unless specifically approved by the Investment Committee ("IC").

6.3.2 Group's customers

To minimise this risk from the Group's customers defaulting in making payments for goods that have been supplied to them, the Group has a policy of only dealing with customers who have demonstrated credit worthiness. To determine previous creditworthiness the Group makes use of independent rating agencies, other publicly available financial information and its own trading records. The Group's exposure and its customers' creditworthiness is continually monitored so that any potential problems are detected at an early stage. The Group does not have collateral held as security or any other credit enhancements with respect to its trade debtors.

6.3.3 Reinsurance assets

The Group is exposed to credit and concentrations of risk with individual reinsurers. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. Group policy dictates that reinsurers have a financial strength rating of at least A-[7]. The policy requires consideration of the degree of diversification the reinsurers provide as a group and concentration of risk with individual counterparties.

6.3.4 Credit enhancements

The Group does not have collateral held as security or any other credit enhancements with respect to its financial assets. There are no related credit derivatives or similar instruments that mitigate maximum exposure to credit risk.

The Group holds certain security in relation to specific sections of its insurance product. At 31 March 2016 the Group held £29m (2015: £28m) of builder customer deposits. The Group has additional credit enhancements with respect to major projects which include, but are not limited to, land charges.

6.3.5 Credit risk exposure and ageing of financial and insurance assets

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 March 2016. The total is of financial assets that are neither past due or impaired.

	AAA £'000	AA £'000	A £'000	BBB £'000	<BB £'000	Not rated £'000	Total £'000
Fixed income securities	23,768	785,725	255,205	239,543	1,571	2,640	1,308,452
Equity and other variable yield securities	-	-	-	-	-	95,180	95,180
Reinsurers' share of insurance contract liabilities	-	181,414	55,511	-	-	-	236,925
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	-	-	-	-	-	10,669	10,669
Other debtors	-	-	-	-	-	1,753	1,753
Deferred tax asset	-	-	-	-	-	8,201	8,201
Cash and cash equivalents	-	1,068	-	-	-	65,834	66,902
	23,768	**968,207**	**310,716**	**239,543**	**1,571**	**184,277**	**1,728,082**

[7] Based on Standard & Poor's rating or comparable rating. Category "AA" is equivalent to "AA" and "AA-" ratings. "A" is equivalent to "A" and "A+" ratings.

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 March 2015. The total is of financial assets that are neither past due nor impaired.

	AAA £'000	AA £'000	A £'000	BBB £'000	<BB £'000	Not rated £'000	Total £'000
Fixed income securities	20,207	737,784	256,557	249,120	-	13,580	1,277,248
Equity and other variable yield securities	-	-	-	-	-	115,080	115,080
Reinsurers' share of insurance contract liabilities	-	105,855	34,426	-	-	-	140,281
Reinsurance debtors	-	-	2	-	-	-	2
Insurance and non-insurance trade debtors	-	-	-	-	-	12,167	12,167
Other debtors	-	-	-	-	-	841	841
Deferred tax asset	-	-	-	-	-	8,405	8,405
Cash and cash equivalents	-	19,366	-	-	-	93,093	112,459
	20,207	**863,005**	**290,985**	**249,120**	**-**	**243,166**	**1,666,483**

The carrying amount best represents the maximum exposure to financial and insurance assets.

The table below represents the ageing of the financial and insurance assets held by the Group as at 31 March 2016.

	Neither past due or impaired £'000	0 to 90 days £'000	91 to 180 days £'000	181 days to 360 days £'000	361 days and over £'000	Provision for impairment £'000	Total £'000
Fixed income securities	1,308,452	-	-	-	-	-	1,308,452
Equity and other variable yield securities	95,180	-	-	-	-	-	95,180
Reinsurers' share of insurance contract liabilities	236,925	-	-	-	-	-	236,925
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	5,491	3,668	654	749	277	(170)	10,669
Other debtors	1,753	-	-	-	-	-	1,753
Deferred tax asset	8,201	-	-	-	-	-	8,201
Cash and cash equivalents	66,902	-	-	-	-	-	66,902
	1,722,904	**3,668**	**654**	**749**	**277**	**(170)**	**1,728,082**

Table below represents the ageing of the financial and insurance assets held by the Group as at 31 March 2015.

	Neither past due or impaired £'000	0 to 90 days £'000	91 to 180 days £'000	181 days to 360 days £'000	361 days and over £'000	Provision for impairment £'000	Total £'000
Fixed income securities	1,277,248	-	-	-	-	-	1,277,248
Equity and other variable yield securities	115,080	-	-	-	-	-	115,080
Reinsurers' share of insurance contract liabilities	140,281	-	-	-	-	-	140,281
Reinsurance debtors	2	-	-	-	-	-	2
Insurance and non-insurance trade debtors	8,775	2,836	531	154	87	(216)	12,167
Other debtors	841	-	-	-	-	-	841
Deferred tax asset	8,405	-	-	-	-	-	8,405
Cash and cash equivalents	112,459	-	-	-	-	-	112,459
	1,663,091	**2,836**	**531**	**154**	**87**	**(216)**	**1,666,483**

6.3.6 Impairment of assets

The Group believes that no impairment allowance is necessary in respect of financial assets not past the due date.

The Group considers notified disputes, significant changes in the counterparty's financial position and collection experience in determining which assets should be impaired. The credit quality of receivables is managed at Group level with uncollectable amounts being impaired where necessary.

The movement in the allowance for impairment in respect of financial and insurance assets during the year was as follows:

	2016 £'000	2015 £'000
At 1 April	**216**	175
Impairment loss recognised	**(35)**	(90)
Bad debt provision (released) / recognised in year	**(11)**	131
At 31 March	**170**	216

6.4 Liquidity risk

Liquidity risk is the risk that the Group may be unable to pay obligations when due as a result of assets not being available in a form that can immediately be converted into cash. The Group is in a strong liquidity position and seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due.

6.4.1 Maturity analysis of financial liabilities

The following table summarises the maturity of financial liabilities. Claims outstanding on insurance contract liabilities are also presented and are analysed by remaining estimated duration until settlement. The amounts in the table are undiscounted.

As at 31 March 2016

	Less than one year £'000	One to two years £'000	Two to five years £'000	Five to ten years £'000	Greater than ten years £'000	Total £'000	Carrying value in the statement of financial position £'000
Claims outstanding	(83,575)	(35,820)	(45,375)	(23,210)	(2,991)	(190,971)	(190,971)
Trade creditors	(4,434)	-	-	-	-	(4,434)	(4,434)
Other creditors	(38,171)	-	-	-	-	(38,171)	(38,171)
	(126,180)	(35,820)	(45,375)	(23,210)	(2,991)	(233,576)	(233,576)

As at 31 March 2015

	Less than one year £'000	One to two years £'000	Two to five years £'000	Five to ten years £'000	Greater than ten years £'000	Total £'000	Carrying value in the statement of financial position £'000
Claims outstanding	(77,671)	(33,290)	(42,170)	(21,571)	(2,780)	(177,482)	(177,482)
Trade creditors	(5,197)	-	-	-	-	(5,197)	(5,197)
Other creditors	(37,899)	-	-	-	-	(37,899)	(37,899)
	(120,767)	(33,290)	(42,170)	(21,571)	(2,780)	(220,578)	(220,578)

6.5 Pension risk

Pension risk is the risk that the NHBC Defined Benefit Pension Scheme "the Scheme" deficit significantly widens thus impairing the Group's net assets and solvency position.

The following information describes key drivers of the deficit / surplus recognised in the Group's financial statements.

6.5.1 Investments

The Scheme's current investment strategy is set out as follows:

- 40.5% (£72m) in investments that share characteristics with the long-term liabilities of the Scheme, comprising of corporate bonds (28.0%) Index-Linked Gilts (8.0%) and Fixed Interest Gilts (4.5%).

- 59.5% (£105m) in return-seeking assets comprising UK equities (17.25%), overseas equities (17.25%) and diversified growth funds (25.0%).

6.5.1.1 Investments – currency risk

The Scheme is subject to indirect currency risk from its investment in £Sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency i.e. in overseas equities. This exposure is not hedged.

The Scheme's investment in diversified growth funds, which consists of underlying investments across a range of asset classes and regions, also exposes the Scheme to indirect currency risk. This exposure is not hedged as a matter of course as the manager may vary currency exposures in implementing the fund's investment strategy.

6.5.1.2 Investments – interest rate and inflation risk

Some of the Scheme's investments are held in bonds and cash through underlying investments in pooled investment vehicles. Indirect market risk arises in relation to the value of the assets where the underlying investments of the pooled vehicle are exposed to interest rate or other price risks.

6.5.1.3 Investments – credit risk

The Scheme is subject to direct credit risk because the Scheme has cash balances with financial institutions.

Credit risk arising on cash held within financial institutions is mitigated by ensuring that cash is held with institutions which are at least investment grade credit-rated and only holding a small proportion of assets in cash. This is the position at the current and previous year-end.

The Scheme also invests in pooled investment vehicles which invest in sovereign government bonds, corporate bonds and cash. Furthermore, derivatives are used within the diversified growth funds.

The Scheme is therefore directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising on the underlying investments held by these pooled investment vehicles. The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Group manages and monitors the credit risk arising from the Scheme's pooled investment arrangements by considering the nature of the arrangement, the legal structure and the regulatory environment.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Cash held by the pooled manager's custodian is not ring-fenced but the credit risk arising on this is mitigated by the use of regular cash sweeps and investing cash in liquidity funds.

6.5.2 Liabilities

The value of liabilities is subject to certain risks and uncertainties. The following are the principal risks and uncertainties that impact upon the value of the Scheme liabilities.

6.5.2.1 Liabilities – discount rate

It is important to note that FRS102 requires the discount rate to be set with reference to the yields on high quality (usually taken to mean AA rated) corporate bonds irrespective of the actual investment strategy of the Scheme. Therefore the market will drive the discount rate.

A reduction in the discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the discount rate will have an opposite effect of similar magnitude.

6.5.2.2 Liabilities – inflation risk

An increase in the inflation rate will increase the assessed value of liabilities as a higher value is placed on benefits. A reduction in the inflation rate will have an opposite effect of similar magnitude.

6.5.2.3 Liabilities – longevity risk

There is also uncertainty around the future life expectancy of the UK population. The value of current and future pension benefits will depend upon how long they are assumed to be in payment.

6.5.2.4 Liabilities – sensitivity analysis

The following table summarises the estimated sensitivity of the disclosed liability value to changes in the principal assumptions that have been used in the calculations.

	2016	2015
Decrease discount rate by 0.25% (2015: 0.25%)	**£11m**	£12m
Increase inflation rate by 0.25% (2015: 0.25%)	**£7m**	£8m
Increase life expectancy by 1 year (2015: 1 year)	**£7m**	£7m

7 Capital management

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

The Group's objectives in managing its capital are:

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

The Group is regulated by the UK's Prudential Regulation Authority ("PRA"). PRA classifies the whole of the Group as an insurance group. As a result, the Group must maintain capital resources as prescribed by the PRA through its Prudential Sourcebook.

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

During the year, the Group was subject to the PRA's Group capital adequacy requirements in accordance with Solvency I rules and embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations.

The Solvency II regime has been effective since 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Group is required to meet a Solvency Capital Requirement ("SCR") which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Group calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations. The Group aims to maintain a capital level in excess of 140% ("the solvency ratio") of these minimum requirements. At 31 March 2016, under Solvency II, the solvency ratio was 181%.

Key policies and internal controls have not changed since the prior reporting period.

The Group has met the key deliverable requirements of the PRA. Own Risk and Solvency Assessment ("ORSA") as at 31 March 2015 was submitted in December 2015. Quantitative reporting templates ("QRTs") have been submitted to the PRA for the quarter ended 31 March

2016. QRTs, along with qualitative information, have been submitted as part of transitional "Day 1" compliance reporting. Submissions were made before the last submission dates.

The Group is compliant with PRA and Solvency II requirements.

8 Turnover

Group activities consist of two main segments within the United Kingdom, being insurance activities and other activities relating to the efficient construction of good quality housing. The direct underwriting operations of the Group consist primarily of one class of business, being pecuniary loss insurance. The table below shows the analysis of the turnover by segment.

	2016		2015	
	£'000	**£'000**	£'000	£'000
Insurance activities		**83,387**		75,813
Other activities				
Inspection services	**55,299**		50,053	
Registration fee income	**6,487**		6,736	
Other services supporting the industry	**7,596**		7,788	
Other activities		**69,382**		64,577
		152,769		140,390

As well as inspection services ancillary to the issue of insurance policies, inspection services include building control inspection income.

Turnover, comprising of gross premiums written and other income, is derived wholly from continuing operations.

9 Particulars of business

The table below shows the insurance activities split by class.

	2016		2015	
	Credit & suretyship	**Miscel-laneous**	Credit & suretyship	Miscel-laneous
	£'000	**£'000**	£'000	£'000
Gross premiums written	**9,822**	**73,565**	8,119	67,694
Gross premiums earned	**49,018**	**83,431**	6,164	50,679
Gross claims incurred	**808**	**102,797**	2,239	110,511
Gross operating expenses	**417**	**3,987**	361	2,787
Reinsurance balance	**(2,227)**	**87,190**	(1,202)	(24,065)

The reinsurance balance represents the credit / (charge) to the technical account from the aggregate of all items relating to reinsurance outwards.

The increase in gross premiums earned in the year is due to a change in the earnings pattern methodology as highlighted in note 24.8. The impact from the purchase of an Adverse Development Cover represents the movement on the reinsurance balance in the year.

10 Movements in prior year's claims provisions

	2016	2015
Net claims provisions brought forward at 1 April	**177,482**	161,213
Net payments during the year in respect of these provisions	**(71,180)**	(72,807)
Net claims provisions carried forward in respect of claims provided at 1 April	**(116,214)**	(96,024)
Movement in prior year's provision	**(9,912)**	(7,618)

The increase in the prior year's provision can be attributed to higher projected costs primarily as a result of the impact of exceptional losses and higher projected cost inflation

11 Net operating expenses

	2016	2015
	£'000	£'000
Acquisition costs	**1,816**	1,855
Increase in deferred acquisition costs provision	**19**	(939)
Administrative expenses	**2,569**	2,232
	4,404	3,148

Administrative expenses include the cost of general business levies as well as other administrative expenditure attributed directly to insurance activities.

The Group does not pay commissions for direct business that includes acquisition, renewal and collection.

12 Investment return

	2016	2015
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	**65**	89
Income from financial assets at fair value through consolidated statement of comprehensive income	**40,293**	42,618
Income from land and buildings	**20**	53
Net gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	**14,314**	16,177
	54,692	58,937
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	**(2,788)**	(2,737)
Net unrealised (losses) / gains on financial assets at fair value through consolidated statement of comprehensive income	**(45,020)**	21,989
	6,884	78,189

Net interest expense on the defined benefit pension scheme £1,251k (2015: £785k) is recognised in other charges within the consolidated statement of comprehensive income.

Interest payable £1k (2015: 841k) in respect of corporation tax is recognised in other charges within the consolidated statement of comprehensive income.

No interest was payable in respect to bank loans, overdrafts or financial liabilities.

13 Employee information

The average number of full time equivalent persons (including Executive Directors) employed by the Company during the year by activity was:

	2016	2015
Insurance activities	**238**	222
Other direct activities	**784**	705
Administration	**184**	161
	1,206	1,088

Other direct activities relate to providing services which improve the quality of new and newly converted homes.

Staff costs for the above persons were:

	2016	2015
	£'000	£'000
Wages and salaries	**49,158**	43,525
Social security costs	**5,677**	5,041
Pension costs	**6,421**	5,952
	61,256	54,518

14 Director emoluments

	2016	2015
	£'000	£'000
Aggregate emoluments	**1,661**	1,765
Aggregate compensation for loss of office	**-**	639
Company pension contributions to defined contribution schemes	**103**	124
	1,764	2,528

Retirement benefits are accruing to three directors (2015: three) under the Group's defined contribution pension scheme and no directors (2015: none) under the defined benefit pension scheme.

No advances or credits granted to any director subsisted during the year. Also, no guarantees on behalf of any director subsisted during the year.

The company does not have a share option scheme.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2016	2015
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	**484**	446

The highest paid director is not a member of any of the Group's pension schemes.

The Directors' Remuneration Report on page 66 provides further detailed disclosures of Directors' remuneration. The audited elements of the Directors' Remuneration Report are on pages 78 to 86.

15 Profit on ordinary activities before taxation

Profit on ordinary activities is stated after:

15.1 Auditors' remuneration

	2016	2015
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company and Group financial statements	**140**	141
Non-audit services and fees payable to the Company's auditors and its subsidiary companies for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	**9**	9
- Other services pursuant to legislation, including the audit of the regulatory return	**14**	14
- Taxation services - advisory	**-**	174
- Taxation services - compliance	**-**	55
- Other services not included above	**-**	36
	163	429

15.2 Impairment of trade receivables

	2016	2015
	£'000	£'000
Impairment of trade receivables	(11)	131

15.3 Operating lease charges

	2016	2015
	£'000	£'000
Land and buildings	353	104
Motor vehicles	8	-
	361	104

During the year the Group entered into a new short leasehold agreement as part of the relocation of its London office.

16 Income tax

16.1 Tax (income) / expense included in the consolidated statement of comprehensive income

	2016		2015	
	£'000	£'000	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	-		754	
Adjustment in respect to prior periods	(13,992)		3,047	
Total current tax		(13,992)		3,801
Deferred tax				
Origination and reversal of timing differences	(633)		459	
Adjustment in respect of prior periods including impact of change in tax rate	8		(20)	
Total deferred tax		(625)		439
		(14,617)		4,240

16.2 Tax expense / (income) included in other comprehensive income

	2016	2015
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**829**	(4,538)
Impact of change in tax rate	**-**	195
	829	(4,343)

16.3 Reconciliation of tax charge

Tax assessed for the period is lower (2015: higher) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%). The differences are explained below:

	2016	2015
	£'000	£'000
Profit on ordinary activities before tax	**9,187**	14,905
Profit multiplied by the standard rate of tax in the UK of 20% (2015: 21%)	**1,837**	3,130
Effects of:		
- Income not chargeable for tax purposes	**(168)**	(118)
- Expenses not deductible for tax purposes and permanent differences	**77**	49
- Adjustments in respect of prior years	**(13,992)**	3,047
- Realisation of technical provisions[8]	**-**	(1,848)
- Realisation of unrealised gains	**(2,379)**	-
- Adjustment to deferred tax charge in respect of previous periods	**8**	(41)
- Effect of decreased tax rate on opening deferred tax asset	**-**	21
	(14,617)	4,240

The adjustment in respect of prior years is as a result of a reclaim from Her Majesty's Revenue & Customs in respect of indexation relief claimed on index-linked bonds for the previous four tax years

16.4 Tax rate changes

The tax rate for the current period is lower than the prior period due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015.

Finance (No. 2) Act 2015 received Royal Assent on 18 November 2015 and, as a result, reductions in the UK corporation tax rate to 19% with effect from 1 April 2017, and 18% with effect from 1 April 2020, have been enacted.

[8] NHBC reached a settlement with HMRC in relation to corporation tax for the years ended 31 March 2010 to 31 March 2014. The settlement of £3m is included in the under provision in respect to prior years and reflects an adjustment to the long-term inflation assumption.

17 Land and buildings

The land and buildings have been revalued as at 31 March 2016.

	The Group and the Company
	£'000
Cost or valuation	
At 1 April	**9,250**
Additions	**799**
Revaluation	**85**
Disposals	**-**
At 31 March	**10,134**
Depreciation	
At 1 April	**-**
Charge	**197**
Revaluation	**(185)**
Disposals	**-**
At 31 March	**12**
Net book value at 31 March 2016	**10,122**
Net book value at 31 March 2015	9,250

All land and buildings are predominantly occupied by the Group for its own activities. Land and buildings at net book value comprise:

	The Group and the Company	
	2016	2015
	£'000	£'000
Freehold	**9,110**	8,983
Long leasehold	**276**	267
Short leasehold improvements	**736**	-
	10,122	9,250

All land and buildings are regularly revalued in accordance with the Group's stated accounting policy as set out in note 5.5. If land and buildings had not been revalued in this manner they would have been included at the following amounts:

	The Group and the Company	
	2016	2015
	£'000	£'000
Cost	**14,848**	14,171
Accumulated depreciation based on cost	**(2,954)**	(2,769)
	11,894	11,402

The Group's reversal of previous impairment losses taken to the consolidated statement of comprehensive income amounted to £177,000 (2015: £584,000).

No land and buildings have been pledged as security on any of the Group's liabilities.

18 Investment in Group undertakings and participating interests

18.1 Investment in participating interests - Group

The Group has no investments that would be considered an investment in an associate company.

The Group entered into a joint venture agreement in respect of the Consumer Code For Home Builders Limited. Consumer Code For Home Builders Limited is incorporated in the UK, limited by guarantee (to a maximum of £1 of its members) and has no share capital. The impact of the joint venture is immaterial to the Group's financial statements.

18.2 Investment in Group undertakings - Company

	2016	2015
	£'000	£'000
At 1 April	**4,874**	4,874
Revaluation	**171**	-
At 31 March	**5,045**	4,874
Analysed as:		
NHBC Building Control Services Limited	**4,775**	4,604
PRC Homes Limited	**270**	270
NHBC Pension Trustee Limited	**-**	-
NHBC Services Limited	**-**	-
	5,045	4,874

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2016 they were as follows:

- NHBC Building Control Services Limited - issued and fully paid 50,000 £1 ordinary shares. NHBC Building Control Services Limited is an Approved Inspector for Building Regulation purposes in England and Wales.
- PRC Homes Limited - issued and fully paid 100 £1 ordinary shares. PRC Homes Limited did not trade during the year.
- NHBC Pension Trustee Limited - issued and fully paid 100 £1 ordinary shares. NHBC Pension Trustee Limited arranges the provision of pensions to many of NHBC's present and past employees. NHBC Pension Trustee Limited did not trade during the year.
- NHBC Services Limited - issued and fully paid 50,000 £1 ordinary shares. NHBC Services Limited provides services to the house-building and related industries.

The directors believe that the carrying value of the investments is supported by their underlying net assets and have been valued in accordance with the Group's accounting policy as set out in note 5.6.

19 Debtors

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**4,963**	5,591	**4,963**	5,591
Debtors arising out of reinsurance operations	**-**	2	**-**	2
	4,963	5,593	**4,963**	5,593
Other debtors				
Trade debtors	**5,706**	6,576	**3,918**	4,415
Amount owed by subsidiary undertakings	**-**	-	**1,019**	1,124
Property debtor	**8,335**	9,218	**8,335**	9,218
Corporation tax	**22,681**	-	**22,681**	-
Other debtors	**1,753**	841	**1,753**	841
	38,475	16,635	**37,706**	15,598

Trade debtors includes £Nil (2015: £Nil) falling due after more than one year.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is accrued with reference to the Bank of England base rate.

Trade debtors are stated after provisions for impairment of £170,000 (2015: £216,000).

The property debtor balance represents the cost of properties which have either been purchased from policyholders or purchased to provide alternative accommodation for policyholders. Expected future claims costs related to these properties are included within the provision for claims outstanding.

20 Deferred tax asset

	Group	Company
	£'000	£'000
At 1 April	8,405	8,401
Charge to the consolidated statement of comprehensive income	625	624
Charge to other comprehensive income	(829)	(829)
At 31 March	**8,201**	**8,196**

Deferred tax asset consists of the following deferred tax assets / (liabilities):

	Group		**Company**	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Excess of depreciation over capital allowances	**598**	406	**593**	402
Trade losses	**886**	-	**886**	-
Deferred tax related to defined benefit pension plan liability	**6,665**	7,924	**6,665**	7,924
Other timing differences	**52**	75	**52**	75
	8,201	8,405	**8,196**	8,401

It is expected that the Group and Company's deferred tax asset will decrease by £972,000 in the next financial year. A reduction is expected due to a decrease in the prevailing rate of taxation and change to the Group's company car fleet.

Due to the indexation of the properties that the Group holds, it is unlikely that any gains will arise in the foreseeable future. Therefore no deferred tax has been provided with respect to existing capital tax losses that arose on the disposal of buildings. The undiscounted value of these losses is £183,000 based on a prevailing tax rate of 20% (2015: £183,000 at 20%).

21 Tangible assets

The Group and the Company	Motor Vehicles	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 April	12,916	3,731	4,598	21,245
Additions	3,171	389	317	3,877
Disposals	(2,992)	-	-	(2,992)
At 31 March	**13,095**	**4,120**	**4,915**	**22,130**
Depreciation				
At 1 April	4,681	2,795	3,497	10,973
Charge	3,097	429	394	3,920
Disposals	(2,215)	-	-	(2,215)
At 31 March	**5,563**	**3,224**	**3,891**	**12,678**
Net book value at 31 March 2016	**7,532**	**896**	**1,024**	**9,452**
Net book value at 31 March 2015	8,235	936	1,101	10,272

No tangible assets have been pledged as security on any of the Group's liabilities. No tangible assets are held under finance leases.

22 Deferred acquisition costs

The following changes have occurred in the deferred acquisition costs during the year:

	2016	2015
	£'000	£'000
At 1 April	**10,765**	9,826
Acquisition costs deferred during the year	**1,816**	1,855
Amortisation	**(1,835)**	(916)
At 31 March	**10,746**	10,765

23 Insurance contract liabilities and associated reinsurance

The following notes explain how the Group calculates its liabilities to policyholders for insurance products it has sold. Note 24 covers insurance contract liabilities. Note 25 details the reinsurance recoverable on insurance contract liabilities whilst note 26 presents sensitivity analysis on insurance contract liabilities and associated reinsurance.

The following is a summary of the insurance contract provisions and related reinsurance assets as at 31 March 2016.

	2016			2015		
	Gross provisions	**Reinsurance assets**	**Net**	Gross provisions	Reinsurance assets	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Provision for unearned premiums	**(382,776)**	**36,920**	**(345,856)**	(431,838)	32,709	(399,129)
Claims outstanding	**(190,971)**	**-**	**(190,971)**	(177,482)	-	(177,482)
Unexpired risk reserve	**(632,970)**	**200,005**	**(432,965)**	(536,998)	107,572	(429,426)
	(1,206,717)	**236,925**	**(969,792)**	(1,146,318)	140,281	(1,006,037)

24 Insurance liabilities

This note analyses the Group's insurance contract liabilities and describes how the Group calculates these liabilities and the assumptions used.

24.1 Insurance product

The majority of the Group's insurance liabilities arise as a result of the sale of the Buildmark product. The Buildmark product, sold by NHBC, protects a homeowner in three separate ways which can be divided into three temporal periods.

Section 1: Prior to completion of the house purchase, Buildmark Section 1 provides insurance to a homeowner that covers losses caused by the builder committing fraud, or becoming insolvent, resulting in loss of the homeowner's deposit.

Section 2: Buildmark Section 2 is concerned with the two-year period immediately following completion, i.e. when the homeowner moves in. First, Section 2 contains the Builder's Warranty provided by the builder to the homeowner. NHBC is not a party to that bilateral contract. Secondly, Section 2 provides for the NHBC Guarantee (a performance guarantee). This gives rise to a secondary liability on the part of NHBC in the event (and only in the event) that the builder fails to honour the Builder's Warranty.

Sections 3, 4 & 5: The temporal period of operation of these Sections of Buildmark begins after the end of Section 2 for a period of eight years, i.e. years three to ten following completion. Like Section 1, these Sections are exclusively concerned with obligations undertaken by NHBC to the homeowner to provide an indemnity in the event of certain events.

24.2 General methodology

Estimation of the ultimate cost of future claim settlements is primarily based on actuarial and statistical analyses of past claims experience (and exposure where sufficient experience does not yet exist). Separate estimates are calculated for the various elements of risk.

Except for the more peripheral of NHBC's insurance products and exceptional losses, the methodology follows a deterministic frequency / average cost approach by product and Section of cover, with variations by Insurance Year considered where relevant. In some cases where there is too little experience, only total cost is estimated.

The estimates are underpinned by historical data where available. Specific adjustment is made where the future risk is believed to differ from the historical risk – e.g. due to differing economic, political, competitive and technical risks. In doing this, considerable expert judgement is applied in determining the relevance of historical data and any perceived changes in the future risks.

The reserves are estimated gross of reinsurance. The net reserves are calculated by assessing the expected reinsurance recoveries given the gross reserves estimated.

The methodology used has not changed since prior year.

24.3 Risk concentration

Breakdown by category of risk (main assumptions) is provided below.

24.4 Assumptions

Aside from volumes, the size of the estimated reserves is primarily driven by:

- Exceptional losses;
- Builder behaviour;
- Social inflation;
- Cost inflation ("HRCI"); and
- Discount rate.

24.4.1 Exceptional losses

Due to the nature of new house-building and the warranties provided, NHBC is exposed to the possibility of a common defect in a large number of homes. If discovered, reported and accepted by NHBC as valid, such an issue could result in claims costs well in excess of £100m. This is possible even if individual repairs are relatively inexpensive due to the sheer number of homes under cover at any point in time.

NHBC's exposure to these events partly depends on the degree of homogeneity in the homes under cover – i.e. the extent to which the same people / processes / design / materials / components are used. Larger sites pose a greater risk, due to the likely degree of commonality in the build process. Likewise, sites built by the same builder, particularly if they are quite close geographically, are more likely to exhibit common defects.

The less diverse the house-building industry is in terms of the homes built and the builders who build them, the greater the risk of a systemic failure.

Builder insolvency is also considered. The potential for major builder insolvency is modelled as an exceptional loss.

To accommodate the inherent uncertainty, a stochastic approach has been used to model exceptional losses.

24.4.2 Builder behaviour

For defects reported in years three to ten of the policy term there is no contractual obligation for builders to undertake repairs themselves, but some do voluntarily. This is because:

- Some builders are keen to offer a high level of service to their customers to maintain their reputation as a quality builder; and
- Builders who stay loyal to NHBC are incentivised by NHBC's pricing mechanism to keep claim levels low.

Amongst other considerations, comparisons of claim frequencies between current and previously registered[9] builders are used to determine builder behaviour assumptions.

24.4.3 Social inflation

Due to the nature of house-building, homes may contain a variety of inherent defects. In most cases these defects will be minor and never result in any damage. However, in the small proportion of cases where there is damage, for a claim to arise, the defect / damage first needs to be identified. The homeowner then needs to report it within the appropriate timescale.

As with many other forms of insurance, the likelihood of defects being discovered and reported has risen through time due to rising homeowner expectations and their greater awareness of the cover – referred to as "social inflation".

Estimates of the level of social inflation, present in the historical Section 3 data, act as a guide for determining appropriate future social inflation assumptions.

24.4.4 Cost inflation

NHBC's insurance liabilities are significantly affected by repair cost inflation, due to the long period of cover offered by the insurance product. This can arise due to both:

- General materials and labour cost inflation; and
- More specific issues such as more stringent building regulations and health and safety requirements.

The House Rebuilding Cost Index ("HRCI") is considered the best available approximation due to its specific reference to construction cost inflation.

To derive the long-term HRCI inflation assumption, the approach of estimating a long-term average future HRCI / RPI differential and combining it with the RPI assumptions has been taken. To determine suitable estimates for medium and long-term future RPI inflation two approaches are taken:

- Combining the Bank of England's implied inflation target (which is assumed to remain unchanged), adjusted for current inflation rates, with an assumed risk of an inflation shock to give an overall smoothed average assumed inflation profile; and
- Analysing historical average rates of inflation over successive decades.

24.4.5 Discount rate

Future investment returns are allowed for when assessing the present value of future liabilities. This is done by discounting projected cash flows using an average rate of return based on the estimated profile of insurance liabilities and the assets held by NHBC at the valuation date. The discount rate applied at 31 March 2016 was 2.75% (2015: 2.75%).

[9] Previously registered builders are builders not currently on NHBC's register.

24.5 Movements in the gross provision for unearned premiums

The following changes have occurred in the gross provision for unearned premiums during the year:

	2016 £'000	2015 £'000
At 1 April	**431,838**	412,868
(Decrease) / increase in provision	**(49,062)**	18,970
At 31 March	**382,776**	431,838

24.6 Movements in the gross provision for claims

The reconciliation of opening and closing gross provision for claims is as follows:

	2016 £'000	2015 £'000
At 1 April	**177,482**	161,366
Increase in provision	**13,489**	16,116
At 31 March	**190,971**	177,482

24.7 Movements in the gross unexpired risk reserve

The reconciliation of opening and closing gross unexpired risk reserve is as follows:

	2016 £'000	2015 £'000
At 1 April	**536,998**	560,515
Increase / (decrease) in provision	**95,972**	(23,517)
At 31 March	**632,970**	536,998

24.8 Effect of changes in assumptions and estimates during the year

The increase in the gross provision as compared to the previous financial year reflects:

- Rising volumes (exposure);
- Higher than anticipated inflation in 2015/16 and an increase in expected future inflation;
- Increased impact of inflation on extremely large claims where the settlement pattern has been re-assessed;
- An increase in the projected severity of Section 2 claims; and
- An increase in claims handling costs.

The above increases were partially offset by:

- A change in the frequency assumption for Section 3 claims; and
- A re-assessment of claims for miscellaneous classes given recent benign experience.

The net provision, taking account of the above, also reflects:

- Full recognition of Road and Sewer bond income; and
- Increased reinsurance recoveries reflecting the purchase of the Adverse Development Cover.

A decrease in the gross provision for unearned premiums reflects:

- A change in earnings pattern methodology.

24.9 Loss development tables

24.9.1 Description of development tables[10]

The following tables illustrate the movements in the gross and net reported claims outstanding provision by financial reporting year and development year. Financial reporting years 2001 and prior have been grouped together in the tables. The figures have not been discounted.

24.9.2 Gross development tables

Financial reporting year	Development year																Gross per financial year		
£'000	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15+	Change in claims outstanding	Claims paid	Claims incurred
Prior	47,693	(2,363)	385	7,072	1,250	3,946	8,792	(4,815)	(331)	(17,687)	(18,526)	(11,591)	(3,714)	(2,116)	(429)	261	47,693		
2002	37	686	691	2,853	2,406	1,857	4,601	2,151	(333)	(1,169)	(4,947)	(724)	(2,038)	(178)	352		(2,326)	32,564	30,238
2003	101	1,416	1,178	1,750	378	5,284	2,713	3,392	(2,837)	(3,984)	2,826	(3,475)	(888)	2,216			1,172	31,082	32,254
2004	-	715	4,049	2,387	2,122	1,409	4,301	(1,352)	(764)	751	903	4,371	(2,881)				9,179	32,942	42,121
2005	92	1,206	1,400	3,159	5,422	344	(162)	684	1,484	8,064	(2,597)	3,027					6,088	26,675	32,763
2006	22	586	2,291	4,816	5,259	(1,624)	3,605	(2,462)	4,046	3,875	193						13,379	40,682	54,061
2007	27	1,148	2,720	8,189	(1,614)	4,576	4,214	(1,068)	6,037	4,442							15,427	41,859	57,286
2008	67	1,358	5,853	2,058	1,229	500	5,539	3,153	3,140								13,857	49,492	63,349
2009	80	2,616	3,631	2,170	48	3,231	1,980	(465)									20,338	63,249	83,587
2010	607	2,159	3,456	1,724	3,819	65	(474)										12,541	72,364	84,905
2011	622	2,710	3,933	6,154	(2,288)	928											(18,814)	73,022	54,208
2012	669	1,941	5,367	391	229												(2,187)	75,553	73,366
2013	963	3,958	425	(211)													11,484	80,462	91,946
2014	1,151	1,812	1,187														33,535	86,365	119,900
2015	387	1,302															16,116	96,634	112,750
2016	243																13,489	90,116	103,605
																	190,971		

24.9.3 Net development tables

Financial reporting year	Development year																Net per financial year		
£'000	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15+	Change in claims outstanding	Claims paid	Claims incurred
Prior	47,391	(2,279)	447	7,051	1,395	3,978	8,779	(4,821)	(324)	(17,675)	(18,533)	(11,729)	(3,724)	(2,113)	(276)	261	47,391		
2002	37	686	691	2,853	2,406	1,857	4,601	2,151	(333)	(1,169)	(4,947)	(724)	(2,038)	(178)	352		(2,242)	32,102	29,860
2003	101	1,416	1,178	1,750	378	5,284	2,713	3,392	(2,837)	(3,984)	2,826	(3,475)	(888)	2,216			1,234	30,911	32,145
2004	-	715	4,049	2,387	2,122	1,409	4,301	(1,352)	(764)	751	903	4,371	(2,881)				9,158	32,765	41,923
2005	92	1,206	1,400	3,159	5,422	344	(162)	684	1,484	8,063	(2,597)	3,027					6,233	26,486	32,719
2006	22	586	2,291	4,816	5,259	(1,624)	3,605	(2,462)	4,046	3,875	193						13,411	40,564	53,975
2007	27	1,148	2,720	8,189	(1,614)	4,576	4,214	(1,068)	6,037	4,442							15,414	41,809	57,223
2008	67	1,358	5,853	2,058	1,229	500	5,539	3,153	3,140								13,851	49,324	63,175
2009	80	2,616	3,631	2,170	48	3,231	1,980	(465)									20,345	63,246	83,591
2010	607	2,159	3,456	1,724	3,819	65	(474)										12,553	72,342	84,895
2011	622	2,710	3,933	6,154	(2,288)	928											(18,821)	73,028	54,207
2012	669	1,941	5,367	391	229												(2,325)	75,543	73,218
2013	963	3,958	425	(211)													11,474	80,462	91,936
2014	1,151	1,812	1,187														33,537	86,365	119,902
2015	387	1,302															16,269	96,536	112,805
2016	243																13,489	90,040	103,529
																	190,971		

10 The sum of lowermost diagonal of the development tables is the change in the claims outstanding recognised for the year ended 31 March 2016. A similar approach of summing above diagonals should be followed to derive change in claims outstanding provision for prior financial reporting years. The sum of the changes in claims outstanding is the claims outstanding provision.

25 Reinsurance assets

This note details the reinsurance recoverable on the Group's insurance liabilities.

25.1 Assumptions

The assumptions, including discount rates used for reinsurance contracts, follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

25.2 Movements in reinsurers' share of provision for unearned premiums

The following changes have occurred in the reinsurers' share of provision for unearned premiums during the year:

	2016	2015
	£'000	£'000
At 1 April	**32,709**	30,904
Increase in provision	**4,211**	1,805
At 31 March	**36,920**	32,709

25.3 Movements in reinsurers' share of the unexpired risk reserve

The following movements have occurred in the reinsurance asset during the year:

	2016	2015
	£'000	£'000
At 1 April	**107,572**	128,300
Increase / (decrease) in provision	**92,433**	(20,728)
At 31 March	**200,005**	107,572

The Group purchased an additional Adverse Development Cover in the financial period which resulted in an increase of reinsurers' share of the unexpired risk reserve.

25.4 Effect of changes in assumptions and estimates during the year

The effect of changes in assumptions on reinsurance assets follows that of the effect of changes in assumptions on insurance liabilities.

26 Insurance contract sensitivity analysis

This note shows how the consolidated statement of comprehensive income would have been affected if changes in certain risk variables that were possible at the end of the reporting period had occurred.

The following table provides an indication of some of the single factor changes adopted by the Group and the corresponding adverse impact on the insurance liabilities. An increase in the liability is equal to the charge in the consolidated statement of comprehensive income.

		2016		2015	
Assumption	**Sensitivity tested**	**Gross liability**	**Net liability**	Gross liability	Net liability
	%	**£m**	**£m**	£m	£m
Increase in claim frequency	+0.5	**24**	**11**	22	11
Long-term HRCI inflation	1.0	**18**	**7**	17	7
Investment returns	-0.25	**16**	**10**	15	11

The sensitivity analysis has been derived using the internal reserving model to inform the Group's decision-making process and also for identification and management of risks within the business.

The above analyses are based on a change in an assumption, while holding all other assumptions constant and assume that no management action is taken. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

The analysis has not considered the impact of the above changes on the valuation of the Group's assets and liabilities other than insurance assets and liabilities. The above analysis is presented gross of the corresponding tax credits or charges.

There were no changes in the method and assumptions used in modelling of sensitivity analysis since prior financial year.

27 Creditors

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**3,681**	4,527	**3,681**	4,527
Builder deposits	**28,686**	27,752	**28,686**	27,752
	32,367	32,279	**32,367**	32,279
Other creditors				
Trade creditors	**753**	670	**753**	670
Amount due to subsidiary undertakings	**-**	-	**8,960**	8,443
Corporation tax	**-**	2,453	**-**	2,167
Other taxation and social security	**5,092**	4,577	**4,148**	3,498
Other creditors	**4,393**	3,117	**4,294**	3,087
	10,238	10,817	**18,155**	17,865

Amounts due to subsidiary undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is accrued with reference to the Bank of England base rate of interest.

Builder deposits are deposited with the Group as surety by builder customers.

28 Post-employment benefits

The Group operates two pension schemes for its employees, a defined benefit pension scheme (the "Scheme") and a defined contribution pension scheme. The amount recognised in the consolidated statement of financial position is as follows:

	Note	**2016**	2015
		£'000	£'000
Defined benefit pension scheme	28.1		
Total market value of Scheme assets		**182,844**	190,830
Present value of Scheme liabilities		**(216,169)**	(230,449)
Deficit in the Scheme		**(33,325)**	(39,619)

The amount recognised in the consolidated statement of comprehensive income is as follows:

	Note	**2016**	2015
		£'000	£'000
Defined benefit pension scheme	28.1		
Current service cost		-	-
Net interest expense		**1,251**	785
		1,251	785
Defined contribution pension scheme	28.2	**6,421**	5,952
		7,672	6,737

The amount recognised in the consolidated statement of comprehensive income is as follows:

	Note	**2016**	2015
		£'000	£'000
Defined benefit pension scheme	28.1		
Experience gains on assets		**(10,690)**	15,176
Actuarial losses on liabilities		**10,221**	(34,242)
Experience gains on liabilities		**4,614**	(3,624)
		4,145	(22,690)

28.1 Defined benefit pension scheme

For certain employees, the Group operates a UK defined benefit pension scheme whereby benefits are determined with reference to an employee's salary. This defined benefit scheme exposes the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk. The pension expense charged to the statement of comprehensive income makes no allowance for actuarial gains and losses during the year. Actuarial gains and losses are instead recognised in other comprehensive income in the year that they occur.

The funding requirements of the Scheme are based on a separate actuarial valuation for funding purposes for which the assumptions differ from the assumptions disclosed below. The last valuation was performed on 31 March 2014. In order to value the defined benefit obligation at 31 March 2015, the results of the valuation were updated in an approximate manner by a qualified actuary. Contributions to the Scheme are assessed in accordance with the advice of qualified actuaries. The Group made contributions into the Scheme of £3,400,000 over the year ended 31 March 2016.

The measurement of the defined benefit obligation includes no allowance for any future discretionary increases to pensions in payment.

28.1.1 Principal financial assumptions

A comprehensive actuarial valuation of the Scheme, using the projected unit credit method, was carried out at 31 March 2014 by Towers Watson, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2016	2015
	%	%
Consumer price inflation	**2.10**	2.10
Retail price inflation	**3.10**	3.10
Rate of increases (normally indexed)	**3.15**	3.15
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**3.50**	3.30

It was assumed that members commute 20% of their pension for tax free cash, 80% of male members and 60% of female members were married and males were three years older than females.

The assumptions adopted for mortality are in line with SAPS S2PA Light base tables, with an allowance for future improvements in line with the CMI (2015) tables with a 1.25% long-term trend. The resulting average remaining life expectancy for a male and female aged 65 as at 31 March 2016 are 23 (2015: 24) years and 26 (2015: 27) years respectively.

Following the changes to the Occupational Pensions (Revaluation) Order 2010, the indexation applied to accrued benefits during service for employed members and deferred benefits before retirement age is based on the Consumer Prices Index rather than the Retail Prices Index.

28.1.2 Reconciliation of Scheme assets and liabilities

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 April 2015	190,830	(230,449)	(39,619)
Interest income/(expense)	6,152	(7,403)	(1,251)
Benefits paid	(6,430)	6,430	-
Actuarial loss on change of assumptions	-	10,221	10,221
Experience loss on liabilities	-	4,614	4,614
Change in value of money purchase transfer funds	(418)	418	-
Company contributions	3,400	-	3,400
Return on plan assets excluding interest income	(10,690)	-	(10,690)
At 31 March 2016	**182,844**	**(216,169)**	**(33,325)**

28.1.3 Total cost recognised as an expense

	2016	2015
	£'000	£'000
Current service cost	-	-
Interest expense	**7,403**	8,234
	7,403	8,234

28.1.4 Fair value of Scheme assets

	2016	2015
	£'000	£'000
Equity instruments	**61,917**	109,251
Government debt instruments	**22,806**	23,199
Corporate debt instruments	**48,897**	51,378
Diversified growth funds	**42,637**	-
Other and cash and cash equivalents	**6,587**	7,002
	182,844	190,830

There are no amounts included in the fair value of the Scheme assets that consist of NHBC's own financial instruments or any property occupied, or assets used, by NHBC.

28.1.5 Return on plan assets

	2016	2015
	£'000	£'000
Interest income	**6,152**	7,449
Return on plan assets less interest income	**(10,690)**	15,176
	(4,538)	22,625

The return on plan assets is recognised in other comprehensive income in the consolidated statement of comprehensive income.

28.1.6 Deficit funding contributions

In order to meet the funding deficit, the Group has agreed a funding plan with the Pension Trustee. Further scheduled contributions are set out in the table below:

	£'000
1 April 2017	**3,400**
1 April 2018	**3,400**
1 April 2019	**3,400**
1 April 2020	**3,400**
1 April 2021	**3,400**
	17,000

Nothing in the agreement precludes the Group from making payments of higher contributions or from making payments earlier than scheduled in the table above.

28.2 Defined contribution pension scheme

The Group operated a stakeholder defined contribution pension scheme during the year. The amount recognised as an expense for the defined contribution scheme was:

	2016	2015
	£'000	£'000
Current period contributions	**6,421**	5,952

There were no prepaid or accrued contributions to this scheme at the year-end.

29 Fair value methodology

29.1 Basis for determining the fair value hierarchy

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2 – Inputs other than quoted prices included within Level 1 are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When using alternative valuation methods to value Level 3 financial instruments, the Group relies as little as possible on Group-specific inputs and makes maximum use of relevant market inputs including the following:

- Quoted prices for identical or similar assets or liabilities in markets that are not active;
- Inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and
- Market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

Valuation methods that the Group employs typically include:

- Market approach which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or groups of assets and liabilities;
- Income approach which converts future amounts, such as cash flows, income or expenses, to a single current amount; and
- Cost approach, or current replacement cost approach, which reflects the amount that would be required currently to replace the service capacity of an asset.

There were no transfers between levels from prior year.

29.2 Fair value hierarchy analysis

The table below presents the analysis of the Group's assets and liabilities that have been measured at fair value by the fair value hierarchy. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		2016			2015		
		Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Assets at fair value							
Land and buildings	17	**-**	**10,122**	**10,122**	-	9,250	9,250
Other financial investments		**1,450,686**	**-**	**1,450,686**	1,488,046	-	1,488,046
		1,450,686	**10,122**	**1,460,808**	1,488,046	9,250	1,497,296
Liabilities at fair value		**-**	**-**	**-**	-	-	-

The table below presents the analysis of the Company's assets and liabilities that have been measured at fair value by the fair value hierarchy. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		2016			2015		
		Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Assets at fair value							
Land and buildings	17	**-**	**10,122**	**10,122**	-	9,250	9,250
Investments in group undertakings and participating interests	18	**-**	**5,045**	**5,045**	-	4,874	4,874
Other financial investments		**1,450,686**	**-**	**1,450,686**	1,488,046	-	1,488,046
		1,450,686	**15,167**	**1,465,853**	1,488,046	14,124	1,502,170
Liabilities at fair value		**-**	**-**	**-**	-	-	-

At the year-end, the Group and the Company did not recognise Level 2 assets and liabilities as valued under the fair value hierarchy basis. Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 133. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 142.

30 Financial instruments

The table below presents the Group and the Company's financial instruments, excluding insurance and reinsurance contracts. Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 133.

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value [11]					
Index-linked gilts		**634,969**	608,089	**634,969**	608,089
Fixed interest gilts		**102,040**	91,400	**102,040**	91,400
Corporate bonds		**571,443**	577,760	**571,443**	577,760
UK treasury bills and short-term deposits		**40,840**	94,536	**40,840**	94,536
Shares and other variable yield		**95,180**	115,080	**95,180**	115,080
		1,444,472	1,486,865	**1,444,472**	1,486,865
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**10,669**	12,167	**8,881**	10,006
Other debtors	19	**1,753**	841	**1,753**	841
Amounts owed by group undertakings	19	**-**	-	**1,019**	1,124
Deposits with credit institutions		**6,214**	1,181	**6,214**	1,181
Cash at bank		**19,848**	16,741	**19,531**	16,626
		38,484	30,930	**37,398**	29,778
Financial assets that are equity instruments measured at cost less impairment		**-**	-	**-**	-
Financial liabilities measured at fair value		**-**	-	**-**	-
Financial liabilities measured at amortised cost					
Trade creditors	27	**4,434**	5,197	**4,434**	5,197
Other creditors	27	**38,171**	35,446	**37,128**	34,337
Amounts owed to group undertakings	27	**-**	-	**8,960**	8,443
		42,605	40,643	**50,522**	47,977

The Group and Company have no direct exposure to derivative financial instruments (2015: none).

[11] All debt securities and shares held are listed on a recognised investment exchange and are actively traded. The quoted price is the bid price. Stated before accrued interest.

31 Note to the statement of cash flows

	2016	2015
	£'000	£'000
Profit for the financial year	23,804	10,665
Tax on profit on ordinary activities	(14,617)	4,240
Profit on ordinary activities before tax	9,187	14,905
Depreciation and decrease in value of assets	4,117	3,743
Decrease in revaluation reserve	(177)	(584)
(Decrease) / increase in technical provisions	(36,245)	30,645
Realised gains on investments and fixed assets	(14,734)	(16,740)
Increase / (decrease) in unrealised gains on investments	45,019	(21,989)
Decrease / (increase) in insurance debtors	630	(3,251)
Decrease / (increase) in other debtors	841	(4,837)
Increase in prepayments and accrued income	(214)	(1,256)
Increase in insurance creditors	88	1,135
Increase in other creditors	1,875	750
Increase in accruals and deferred income	3,472	6,763
Accrued interest on current tax account	(168)	837
Differences on recognition of defined benefit pension scheme	(2,149)	(2,615)
Interest received	(39,759)	(42,682)
Payments to acquire investments	(875,625)	(1,188,336)
Receipts from disposal of investments	832,669	1,175,405
Net cash flow from operating activities before interest received	(71,173)	(48,107)

32 Provisions for other liabilities

The Group and the Company have no provisions for other liabilities that have not been disclosed elsewhere in the financial statements.

Provision for deferred taxation is disclosed in note 20 - Deferred tax asset.

33 Contingent liabilities

The Group and the Company have no material contingent liabilities to disclose.

34 Capital and other commitments

At 31 March 2016, the Group has committed to a deficit repair plan in respect to its defined benefit pension scheme. The particulars of the arrangement are outlined in note 28.1.6 - Deficit funding contributions.

The Group and the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2016	2015
	£'000	£'000
Within one year	**179**	129
Between one and five years	**2,191**	516
Over five years	**586**	-
	2,956	645

The Group and the Company did not have any contracts under a finance lease arrangement.

35 Related party transactions

Transactions between subsidiaries, which are related parties, have been eliminated on consolidation, as have transactions between the Company and its subsidiaries during the financial year.

Some of NHBC's directors are also directors of some of NHBC's customers, suppliers and industry partners. NHBC trades in the normal course of business, on an "arm's length" basis, with all these parties and material transactions with related parties are disclosed below.

Ian Davis, executive director of NHBC, is a director of The Housing Forum Limited ("Housing Forum"). Mehban Chowdery is an employee of NHBC and a director of the Housing Forum. NHBC is also engaged in the provision of various administrative services to the Housing Forum. The table below presents transactions with the Housing Forum.

	2016	2015
	£'000	£'000
Sales to the Housing Forum	**70**	57
Purchases from the Housing Forum	**12**	10
Amount due to NHBC	**72**	-

Neil Jefferson, executive director of NHBC, is also the Chief Executive and a director of Zero Carbon Hub Limited ("ZCH"). NHBC is also engaged in provision of various administrative services to the ZCH. The table below presents transactions with ZCH.

	2016	2015
	£'000	£'000
Purchases from ZCH	**400**	400
Amount due to NHBC	**414**	649

NHBC has entered into a joint venture with MD Insurance Services Limited under the name of Consumer Code for Home Builders Limited ("CCHB"). CCHB operates a code providing protection and rights to purchasers of new homes. Ian Davis, executive director of NHBC, is a director of CCHB. The table below presents transactions with the CCHB.

	2016	2015
	£'000	£'000
Contributions to CCHB	**235**	175
Amount due from NHBC	**-**	50

See note 14 and directors' remuneration report on page 66 for disclosure of the directors' remuneration.

36 Reserves

For the Group and the Company, retained earnings include all current and prior period retained profits and losses.

The Group revaluation reserve comprises of movements arising on the revaluation of land and buildings. The Company revaluation reserve comprises of movements arising on the revaluation of land and buildings and the investment in subsidiary companies.

37 Liability of members

At 31 March 2016 there were 55 (2015: 58) members of the Council. Under the Articles of Association, the liability of each of the members is limited by guarantee to a maximum of £1.

38 Transition to FRS 102 and FRS 103

Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 between UK GAAP as previously reported and FRS 102. There were no changes in accounting policies that affected the Group's net assets.

38.1 Reconciliation of the consolidated statement of comprehensive income for the financial year ended 31 March 2015

		2015
	Note	**£'000**
UK GAAP – As previously reported		**12,615**
Total adjustment to profit before tax for the financial year in relation to the defined benefit pension scheme	38.3	**(2,437)**
Total adjustment to tax expense in relation to the deferred tax on defined benefit pension scheme	38.3	**487**
FRS 102 and FRS 103		**10,665**

38.2 Reconciliation of other comprehensive income for the financial year ended 31 March 2015

	Note	2015 £'000
UK GAAP – As previously reported		(20,266)
Total adjustment to profit before tax for the financial year in relation to the defined benefit pension scheme	38.3	2,437
Total adjustment to tax expense in relation to the deferred tax on defined benefit pension scheme	38.3	(487)
FRS 102 and FRS 103		(18,316)

38.3 Defined benefit pension scheme

Under previous UK GAAP, the Group recognised an expected return on the defined benefit plan assets in the income statement. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the consolidated statement of comprehensive income. There has been no change in the defined benefit liability at either 1 April 2015 or 31 March 2015. The effect of the change has been to reduce the credit to the consolidated statement of comprehensive income in the year to 31 March 2015 by £1,950k and increase the credit in other comprehensive income by an equivalent amount.

As permitted by FRS 102, the Group has presented the deficit on the defined benefit pension scheme as a gross figure on the face of the consolidated statement of financial position. The related deferred tax asset is now recognised as a debtor in the consolidated statement of financial position. This change does not affect the consolidated statement of comprehensive income or the net assets of the consolidated and parent statements of financial position.

38.4 Statement of cash flows

The Company's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS 1 definition is more restrictive.