Registered No: 00320784

National House-Building Council

(a company limited by guarantee)

Annual Report and Accounts

For the year ended 31 March 2018

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Chairman's statement

We have experienced one of our most challenging years, with the house building industry and its many participants very much in the public eye. Against this background we welcomed Steve Wood to National House-Building Council (NHBC) as our new Chief Executive Officer in July 2017. Steve brings with him a strong insurance grounding gained from a number of market leading companies and he is already making his presence felt with his strong, confident leadership.

The devastating and tragic fire at Grenfell Tower in London in June 2017 cast a shadow over the industry. Although the ramifications are yet to be fully understood, this human tragedy will have lasting implications for the industry. We supported the much needed review of the Building Regulations system carried out by Dame Judith Hackitt, and as the largest Building Control Approved Inspector, we were actively engaged with this review. Although we welcomed the majority of the 53 recommendations contained in the final report, we have shared our concerns that proposals to exclude Approved Inspectors from carrying out building control on complex high-rise developments will not deliver safer buildings and risks losing the resources, expertise and experience that have been developed over 30 years by the private sector.

Clearly this tragedy has shone a spotlight on the reputation of everyone involved in the house-building industry, including NHBC. We have worked hard during the year to convey our position in an accurate and balanced way. In light of the significance of the issues we all face, we should expect, and will continue to respond positively to, enhanced public scrutiny.

The interests of homeowners have been at the heart of NHBC throughout our more than 80 year history, and remain so during this time of heightened public and political interest. Our Buildmark warranty and insurance cover provides important protection for homeowners and throughout the year we have maintained our focus on improving our homeowner experience, working to enhance the service and information we provide to our policyholders.

This work has been supported by our Consumer Committee, chaired by Dame Helena Shovelton. We have made good progress embedding processes and behaviours within the business which have resulted in clear and measurable improvements for our policyholders, both in terms of their levels of satisfaction with the service we provide and the speed with which we respond. We are now extending our focus to help improve builders' performance when they are involved with a claim.

It is positive to note that claims under the NHBC Buildmark Warranty in years 2 to 10 continue to fall. There is clear evidence that our targeted industry campaigns in specific areas of construction, including pitched roofs and external walls, have made a positive impact, with claims relating to both reducing significantly in recent years. Our data also confirms that each year of homes built typically attracts fewer claims than the last, a clear indication that overall structural construction quality is improving despite pressures to deliver higher build volumes.

Nonetheless, during the past year, the issue of construction quality and customer service has often been at the forefront of media and public debate. Much of the focus has related to snagging issues and the customer service that homeowners receive from their builder.

We are very clear in our role as an independent organisation. We do not build homes, rather we have a distinct focus on driving improvements in construction standards and working in partnership with NHBC registered builders to help them improve the construction quality of the new homes they build. Our insurance cover is then in place to protect homeowners should defects occur in the structure of their home.

In this context, we welcome the Government consultation on strengthening consumer redress in housing and one of the options being considered, the creation of a single Housing Ombudsman. We believe that this could have a positive impact for new homeowners and could build on the redress already available when things go wrong. We are working closely with other stakeholders to help develop an industry-led response.

As a mono-line, non-profit distributing insurer offering 10 year policies, our financial strength is a key focus as it ensures we are able to meet our on-going commitment to our policyholders. We continue to meet all our commitments under the European Union's Solvency II capital directive, publishing our first Solvency and Financial Condition Report for the year ended 31 March 2017 in August 2017. Whilst our solvency level improved marginally in the year to 156% (2017: 154%), we reported a pre-tax loss of £13.8m, as will be explained in more detail in the Chief Financial Officer's statement. We continue our focus on efficiency, effectiveness and profitability to ensure we remain financially strong and able to weather unforeseen events.

During the year we registered 154,698 homes to be built (2017: 157,805) and whilst this was 2% lower than the previous year, this represents the second highest number of registrations in a decade. New homes completed were in line with the previous year's figures at 145,647 (2017: 145,903).

Turning to our people, the health and safety of our employees remains one of our primary concerns and we continue to be vigilant to ensure we mitigate the dangers of working on building sites, in people's homes or driving for work. I am very pleased to report that after achieving silver status for two years in the Royal Society for the Prevention of Accidents Health and Safety awards, we achieved a Gold standard this year.

We retained our Investor in People Silver status, demonstrating the strides we have taken to ensure we are both an attractive employer and provide a satisfying workplace for existing employees.

We are fully supportive of the diversity agenda and are committed to continuing to move towards greater equality in a transparent way. NHBC's mean gender pay gap of 17.4% is slightly better than the national average and significantly better than those being reported across Financial Services and Construction sectors.

Over the last year NHBC has become a signatory of the HM Treasury Women in Finance Charter, and we have set ourselves a goal to increase the number of females in senior roles to 45% by 2020, from 37.5% currently. We are also committed to remaining a 'Real Living Wage' Employer and are proud to be members of the Employers Forum on Equality and Inclusion and WISE (Women in Science and Engineering).

In addition to welcoming our new Chief Executive, there were two further Board changes during the year. Ian Davis, our Operations Director, left after a total of 35 years with NHBC. Ian leaves with our thanks for his significant contribution over so many years. Our Senior Independent Director, Sir John Harman also retired at the beginning of the year after serving 9 years on NHBC's Board and we are grateful for his support and advice over this period.

Looking to the year ahead we continue to face significant challenges with considerable uncertainty, both politically and economically, as Brexit plays out and skills shortages continue to exert pressure on the industry.

In the aftermath of the Grenfell Tower tragedy, the industry will need to respond to potentially radical and far reaching changes to the regulatory environment and the way certain types of buildings are designed, constructed and managed. We will continue to make our independent voice heard and support these changes for the benefit of future residents and purchasers of new homes.

The continued success of NHBC depends upon the on-going commitment and professionalism of all our employees, and I continue to be impressed with everyone I meet, whether out on site or within our Milton Keynes or London offices. I would like to acknowledge the efforts of Steve and his executive team, and indeed all our colleagues, in the work they undertake in support of our mission, values, and continued success.

Isabel Hudson

Chairman

Chief Executive Officer's statement

My first year as Chief Executive of NHBC has been an extraordinary and challenging one for the entire industry. It is a year which has been rightly overshadowed by the shocking and tragic fire at Grenfell Tower.

As the largest private Approved Inspector of building control, whilst we had no involvement in the Grenfell building or refurbishment, we have of course contributed fully to the work across industry and government to understand the complex issues involved and identify a better way forward.

Although the vast majority of new homes built in the UK would not be affected by the issues which led to the fire at Grenfell Tower, we are keen that important lessons are learnt from a broader review of the Building Regulation system so that there can be a positive impact across all types of new home.

We have been particularly closely involved in the work surrounding Dame Judith Hackitt's review, sharing our unique experience and expertise through participation in numerous working groups and meetings to help to ensure outcomes that will prevent a disaster of this nature ever occurring again.

We welcomed the report, 'Building a Safer Future', and were pleased to note that many of the report's recommendations reflect the evidence we provided during the course of the review. However we share the concerns of others regarding specific recommendations which would prevent Approved Inspectors carrying-out building control on high-rise and complex buildings. We believe that this could create an ineffective and potentially unsafe two-tier regime.

It is widely recognised that Approved Inspectors have a vital role to play in carrying out building control, indeed the Hackitt review itself recognised the advantages that competition has brought to the market since it was introduced in 1985. Our concern is that any system that shifts responsibility for all building control inspection and regulation to already over-stretched local authorities risks reducing competence, capacity and choice, leading to reduced fire safety for residents. We believe that any new regulatory body must be independent of both local authorities and Approved Inspectors. We will continue to engage positively with Government and industry in developing a way forward.

Throughout the year, the need to build greater numbers of new homes has remained and housing continues to be very high on the political agenda. Government has set ambitious housing targets, whilst there are huge challenges facing the industry, not least around the question of skills.

80 years of experience tells us that there is often a negative correlation between construction quality and the pace of growth, and we have seen evidence of this in the past year with the reputation of the industry understandably suffering as a result. There are positive signs that the industry is

responding to this pressure, not least with the latest customer satisfaction scores being two percentage points up on last year's results.

For our part, we have maintained a clear focus on driving the industry to improve construction quality and the challenges experienced during the year have reinforced the important role NHBC has to play as a leading authority on the construction of new homes and as the main provider of new homes insurance protection for homeowners.

The best way to help homeowners is to support and encourage builders to build better quality homes, and that has been the philosophy that has underpinned our success for more than 80 years. We believe that the most effective way to bring about improvements in the construction quality of new homes is for us to work alongside builders, delivering our inspection services and providing technical support and advice to enable them to address the challenges of building homes of a high quality.

Based on our unrivalled experience and expertise we have developed an extensive range services to help achieve our aim. These include providing technical advice and guidance at design stages, inspecting homes at key stages of construction as they are being built and delivering a suite of technical reports, management information and research to drive improvements. Throughout the year we have utilised our extensive experience and data analytics capability to provide structured feedback to builders, engaging at Board level to highlight opportunities to improve quality for the benefit of homeowners.

In addition, we have strengthened our inspection service, increasing the number of inspectors on site and enhancing our specialist major projects team to give greater capacity for complex and challenging areas of construction. In the financial year our inspection team carried out 963,835 inspections and identified 403,186 items requiring builder attention.

Our Construction Quality Reviews (CQRs), introduced in 2016, have become an invaluable tool for builders. These in-depth site surveys provide rich data and insight to help identify where effort should be focused to improve performance. In the past year we have completed 1,800 CQRs and our intention is to undertake at least 2,000 of these per annum going forward. This is creating enormously valuable macro data to identify opportunities to help the industry raise construction quality standards in future.

The Government's drive to increase production against a background of skills shortages has led the house-building industry to give increasingly serious consideration to Modern Methods of Construction (MMC). At NHBC we are extremely supportive of more innovation and non-conventional methods, including off-site production, and the potential advantages it offers in terms of quality, consistency and standardization, as well as increased productivity on site. We are also mindful of the challenges in making sure that any new system is viable and sustainable, and that homes built using MMC will meet the same high standards as other forms of construction.

Throughout the year we have worked closely with numerous builders, undertaking robust reviews to help them identify and address any potential risks in order to realise the benefits of MMC. We are currently in the process of reviewing 30 new products and systems, with a further 50 having been accepted by NHBC.

During the year we have also worked hard to help influence and inform the industry response to the skills agenda. We have doubled the size of our training team and have reviewed our training portfolio ensuring we offer the right courses to help build the right skills for the future.

In collaboration with the Home Building Skills Partnership, we have supported the roll out of a series of fully-funded open courses aimed at the UK's small and medium sized house builders. In addition, recognising that time is a limiting factor for many, we have launched a programme of free webinars for 2018.

As a key sponsor of Youthbuild UK, I am particularly proud of NHBC's support for the next generation of workers entering the industry. The charity plays a major role in supporting and encouraging disadvantaged young people to turn their lives around through training and securing a role within our sector.

Our priority is the people who live in the new homes we insure; during the year we have continued our focus on improving the service we provide to homeowners when things do not go according to plan, making our claims process for structural faults quicker and simpler, and improving how we communicate with policyholders.

This work has led to tangible improvements, for example a significant reduction in the time taken to finalise claims and greatly improved functionality for making online enquiries. In turn, this has led to an improvement in homeowner satisfaction with our claim service, where our Net Promoter Score has risen to 40 points from 26 in the previous year. Our Consumer Strategy is embedded throughout the organisation and ensures that we focus on meeting the needs of homeowners. In the financial year net claims of £94.6m were paid for the benefit of homeowners.

Both of our industry recognition schemes, Pride in the Job, which recognises the best site managers from across the UK, and our Health & Safety Awards, continue to go from strength-to-strength and play a crucial role in helping to maintain the focus on site best practice. Our annual technical seminars, 'Building for Tomorrow' now in their 27th year, received record levels of attendance with feedback consistently emphasizing the value that builders place on them.

The environment is a challenging one where competition is intense and the expectations of homeowners, builder customers, and of all our stakeholders are ever rising. NHBC is well placed to meet these challenges and to keep improving the value and effectiveness of all we deliver for our customers and homeowners. We will do this through the data and insights we possess, the unparalleled expertise within our people, and through the quality and cost-effectiveness of the service we deliver. That is the focus for me and for the senior leadership team at NHBC.

Financially, the business remains in good shape. We hold what we consider to be appropriate levels of capital to enable us to manage the business effectively and importantly to meet our commitments to our policyholders now and in the future. We are also focused on ensuring that our business is efficient and profitable, so that we can continue to invest in our competence, capacity and capabilities.

Finally, my first year at NHBC has confirmed to me that NHBC plays an enormously important role in the house-building sector and, with its strong sense of social purpose, is an extremely rewarding place to work.

I wish to thank all of my colleagues for their contribution and commitment to our continued success. I have been immensely impressed by their dedication, professionalism and technical expertise which gives me confidence that we are well placed to meet our mission of raising standards for the benefit of homeowners.

Steve Wood

Chief Executive

Chief Financial Officer's statement

The loss before tax of £13.8m shows a significant swing from £67.2m profit made in the prior year, and is driven by three key elements: a significant change to unrealised losses from unrealised gains in the investment result; continued adverse development on large losses from historic generations; and increases in claims technical provisions to reflect a greater level of uncertainty in respect of the future legal and claims environment. These are offset by improving underlying attritional claims experience.

Financial highlights

Plot registration volume (registrations) is a key driver of NHBC's premium and inspection income and is a proxy of exposure on NHBC's technical account. NHBC registered 154,698 new plots in the financial year ended 31 March 2018 (2017: 157,805). The slight reduction in registrations was due to lower private registrations, particularly in the last two months of the financial year as a result of the severe weather conditions which reduced activity on site. Affordable housing registrations remained flat overall, notwithstanding the impact of lower registrations in February and March 2018.

NHBC's net operating profit, which is a non-UK GAAP measure of NHBC's total operating performance before the non-technical account investment return, was a loss of £26.0m (2017: £67.2m profit). The various moving parts which contributed to the result are explained in further detail in the financial performance section below. NHBC's accumulated reserves reduced marginally during the year to £462.5m (2017: £465.2m). This movement reflected the loss after tax of £13.5m (2017: £65.2m profit), mitigated by other comprehensive income gains of £10.8m (2017: £23.5m losses) derived primarily from a reduction in the pension fund deficit in the year.

NHBC's invested assets including cash decreased to £1,560.4m (2017: £1,595.4m). This was due to a reduction of £36.6m in unrealised gains booked in the year, due to interest rate rises as well as net cash outflows principally in respect of large claims settlements paid in the year. Net claims paid were £94.6m in the year ended 31 March 2018 (2017: £84.8m).

NHBC's regulatory Solvency II ratio, which is calculated using the Standard Formula, increased to 156.3% from 153.6% and remains within the Board's risk appetite.

Financial performance

The table below presents a summary consolidated income statement for the year ended 31 March 2018 and comparatives.

	2018	2017
	£m	£m
Net written premiums	**73.1**	78.5
Movement in net unearned premium reserve	**(23.5)**	(20.8)
Other income	**76.9**	**73.7**
Net earned premiums and other income	**126.5**	131.4
Net claims paid	**(94.6)**	(84.8)
Movement in other technical provisions	**37.8**	2.5
Operating expenses	**(91.4)**	(89.2)
Technical account investment return[1]	**(4.3)**	107.3
Net operating (loss) / profit	**(26.0)**	67.2
Non-technical account investment return	**12.2**	-
(Loss) / profit before tax	**(13.8)**	67.2
Tax	**0.3**	(2.0)
(Loss) / profit after tax	**(13.5)**	65.2

[1] Investment returns are allocated to the technical account to the extent they relate to investments explicitly matched against the Group's insurance liabilities. There was no explicit matching portfolio throughout 2017 to enable a comparable allocation, with the 2017 investment return being fully allocated to the technical account.

Net earned premium and other income

Net written premiums were 6.9% lower at £73.1m (2017: £78.5m), primarily driven by lower plot registration volumes and lower average premiums. Other income, which includes inspection and building control fees, increased 4.3% to £76.9m (2017: £73.7m) as a result of higher completion volumes and modest fee increases. In accordance with NHBC's accounting policy, half of inspection income is recognised on registration with the remainder recognised upon completion.

Net operating result

The non-UK GAAP net operating result for the year was a loss of £26.0m (2017: £67.2m profit). The net operating result is a management metric introduced during the financial year which better tracks operating performance, including the allocated return from the liability matching asset portfolio which was established with effect from December 2016. The comparative result for 2017 significantly benefitted from unrealised investment gains in the year.

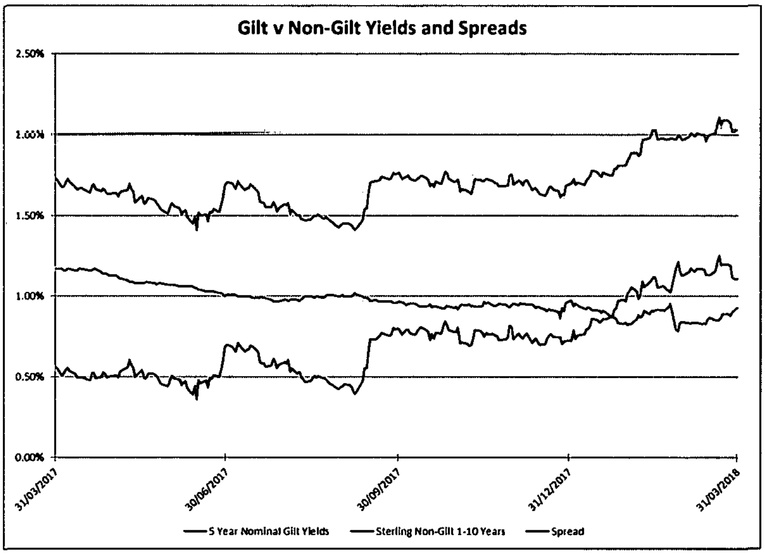
The operating loss for the year was primarily a result of the combination of lower earned revenues, continued low investment returns with unrealised investment losses, and adverse development on large claims (defined as claims between £1m and £10m). The adverse large claim developments were principally in respect of business underwritten on low-rise flat developments in older generations. The Group also strengthened the exceptional losses element of the technical provisions to reflect a greater level of uncertainty in respect of the future legal and claims environment. On a positive note, the Group saw improving attritional loss experience, with a reduced frequency of lower value claims in years three to ten of the Buildmark product (Section 3 claims); particularly with respect to pitched roofs and external walls.

Net claims paid were higher than last year at £94.6m (2017: £84.8m). The increase in claims payments was due to the increased volume of larger claims settled in the year. It is typically a good thing when settlements are brought forward as this brings certainty for homeowners and allows NHBC to manage its costs more effectively.

Operating expenses increased by 2.5% to £91.4m (2017: £89.2m); with salary inflation related costs, and significant investment in the Company's internal capital modelling capability, being mitigated by procurement and other efficiency savings.

Total investment return

The aggregate investment result was £7.9m (2017: £107.3m); comprising net investment income of £34.0m (2017: £34.4m), net realised gains of £10.5m (2017: £17.8m) and net unrealised losses of £36.6m (2017: £55.1m gains). The unrealised investment losses incurred this year were primarily a consequence of an increase in bond yields (as demonstrated in the chart below) driven by market expectation of interest rates rises towards the end of the financial year, compared to rate decreases last year.



Source: Bloomberg

Net income on investments is stated net of investment management expenses. At £34.0m (2017: £34.4m) total return remained flat on prior year, largely reflective of the persistent low-yield environment despite the modest rate rises seen late in the financial year. The average interest yield on the bond portfolio in the financial year ended 31 March 2018 was 2.5% (2017: 2.5%). The average reinvestment rate on the bond portfolio at 31 March 2018 was approximately 1.5% (2017: 1.2%).

Financial position

Investments

The total value of the investment portfolio including cash ended the year 2.2% lower at £1,560.4m (2017: £1,595.4m). The net decrease in the total value of investment portfolio and cash was primarily due to the impact of £36.6m of unrealised losses booked in the year, as well as net cash outflows principally in respect of the large claims settlements paid in the year.

Of the total investment portfolio, 93% (2017: 92%) was invested in high quality fixed income and cash assets. The fixed income portfolio remains concentrated in high quality assets, with all holdings rated investment grade, and 62% (2017: 63%) rated AA or above. At the end of the year the average duration of the bond portfolio was 4.6 years (2017: 4.4 years). The portfolio composition remained broadly consistent throughout the year with government bonds accounting for over 50% of the bond portfolio.

At 31 March 2018, equity holdings were £108.5m (2017: £122.5m) which represented 7.0% (2017: 7.8%) of the overall investment portfolio. Equity markets performed well during the year with the portfolio returning 6.7% (2017: 28.9%). The reduction in equity holdings was a consequence of rebalancing of funds in line with our investment risk appetite.

During the financial year, in addition to the restructure of the overall investment asset portfolio to establish a liability matching investment portfolio (which seeks to match the interest rate and inflation risk of the Group's technical provisions), the investment strategy was also reviewed to assess options to improve risk-adjusted returns without significantly increasing the overall risk profile of the portfolio. This led to a proposal to simplify the global equity portfolio and to broaden the investment universe to include new asset classes and geographic regions to enhance diversification. The revised strategy has been approved by the Investment Committee and will be executed in the next financial year.

Net technical provisions

Net technical provisions decreased by 1.4% to £1,008.9m (2017: £1,023.1m). The small overall movement masks some significant moving parts. Favourable experience on Section 3 attritional claims and a beneficial discounting effect as a result of the small increase in discount rates, were offset by an increase in exposure due to higher net volume of homes on risk, strengthened provisions for large losses on older generations, as well as increases in claims technical provisions to reflect a greater level of uncertainty in respect of the future legal and claims environment, particularly in connection with the exceptional losses element of the technical provisions. This included an assessment of the potential exposure to future claims in relation to cladding materials following the Grenfell Tower fire in 2017. The reserves also include a provision relating to the New Capital Quay development (please see note 35 on page 151).

As documented in the notes to the Financial Statements, the Group takes all reasonable steps to ensure that it obtains and uses appropriate information to assess and quantify known and potential claims which, along with the unexpired risk reserve, comprises the value of technical provisions. 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 reporting date. Any consequential adjustments to claims amounts previously estimated, or changes in the unexpired risk reserve, will be reflected in the results of the year in which those adjustments are identified.

Defined benefit pension scheme

The defined benefit pension scheme (the Scheme) deficit has decreased by £15.9m during the year to £32.0m (2017: £47.9m). The decrease was due to a mix of experience gains and updates to core assumptions on the Scheme liabilities following the triennial valuation as at 31 March 2017, which included an increase in the discount rate to 2.75% (2017: 2.65%) and marginal reductions to RPI and CPI inflation assumptions. The reduction in deficit was aided by investment returns of £5.4m (2017: £24.6m) and an increased £6.5m deficit repair contribution (2017: £3.4m) made in accordance with the revised contribution schedule agreed between the Company and Scheme Trustee in the triennial valuation.

NHBC continues to work closely with the Scheme Trustee to agree the de-risking strategy of the Scheme's assets and liabilities. This strategy, which commenced in January 2016, will continue throughout the remainder of year ending 31 March 2019 and has already seen a reduction in the Scheme's exposure to equities in favour of lower risk and more capital efficient credit instruments.

Capital position

At 31 March 2018, accumulated reserves were £462.5m (2017: £465.2m), a small reduction in the year, reflecting the post-tax losses incurred in the year, partially offset by a £10.7m credit (2017: £23.5m debit) in respect of the reduced pension fund deficit.

The Company's regulatory capital position, which is assessed using the Standard Formula methodology, remains strong. At 31 March 2018, the Company's solvency ratio was 156.3% (2017: 153.6%), a 2.7% improvement in the year and within Board risk appetite.

Given the combination of the uncertain claims environment, political and economic uncertainty, particularly in relation to the on-going negotiations with respect to the United Kingdom's exit from the European Union, and the persistent low yield environment, action has already been taken to continue to develop our plans to ensure that NHBC safeguards its capital position for the long term. NHBC has limited capital raising options, therefore management and the Board continue to focus on pricing adequacy, reinsurance protection and close management of claims and expenses.

Outlook

Whilst the loss after tax reported for the year is disappointing compared to the profit reported last year it needs to be recognised that this is largely the result of changes in market interest rates which generated unrealised investment valuation losses compared to last year. In addition, there are a number of financial risks which affect the underlying profitability of the Group, the outcomes of which are largely reflected in the net operating result. The Group is already actively managing these risks and will continue to focus on improving the net operating result moving forward.

In terms of pricing, our pricing strategy takes into account expected future investment returns. This approach ensures that NHBC keeps prices competitive but it does mean an increased risk of financial losses when investment yields are lower than expected.

On claims reserving, the Group adopts a prudent approach to reserving for liabilities, principally due to the significant inherent uncertainty in estimating how claims experience will develop over the period of a 10-year insurance product. This is particularly the case in respect of the provisions for large and exceptional losses which could be incurred due to systemic technical matters, adverse economic conditions or legal or regulatory changes in future periods. Should claims development in future periods be materially worse than anticipated by the Group, we will need to take steps to manage our revenues and operating costs carefully to ensure that our baseline profitability and regulatory solvency capital remain adequate. These actions will be taken to ensure that NHBC remains best placed to meet its obligations to policyholders as well as to support the house-building industry to continue to raise the quality of new build homes in the future.

Paul Hosking

Chief Financial Officer

Strategic report

About NHBC

The National House-Building Council (NHBC) is the United Kingdom's leading independent provider of warranty insurance for new homes. NHBC seeks to raise standards for the benefit of homeowners, working with its registered house builders to help improve the construction quality of the new homes they build and provide protection for homeowners that buy them.

NHBC's business model allows it to influence construction standards positively through delivery of its technical services to the builder. The key elements of the business model are described below.

Independence

NHBC has no shareholders and is independent of the Government and construction industry. Any profits that NHBC generates are reinvested in the business to support its core purpose. In its independent capacity NHBC is in a position to make strategic decisions in line with its purpose: to improve the construction quality of new homes for the benefit of homeowners.

Builder registration and the NHBC Standards

To work with NHBC, the builder must qualify to enter the NHBC's register. From the point of registration, the builder is bound by NHBC Rules and is required to construct homes in line with NHBC Standards to allow them to benefit from access to NHBC's products and services.

The NHBC Standards define the technical requirements, performance standards, and guidance for the design and construction of new homes that are acceptable to NHBC. Through uniform application of the NHBC Standards by all builders on the register, the homeowner should benefit from a build process that incorporates leading current practices in the construction industry.

Inspection services

NHBC provides an inspection service to its registered builders. The inspection service is an independent structural review, undertaken at each of the five key build stages identified in NHBC's Standards, with feedback provided to the builder for every new build home protected by NHBC's Buildmark product. Every year, NHBC conducts hundreds of thousands of inspections, which are an integral part of the drive to improve construction quality for the benefit of homeowners. The inspection regime is anchored to key stage inspections at critical points in the lifecycle of developing a plot. These are supplemented by other inspections, such as:

- Construction Quality Reviews (CQRs): CQRs are in-depth, full site assessments which have received industry-wide commendation;

- Frequency visits: These visits are undertaken as necessary based on an assessment of need by the building inspector; and
- Building Control inspection: The Building Control inspection service is delivered by NHBC's wholly-owned subsidiary company, NHBC Building Control Services Limited, and assists builders in meeting the Government-set Building Regulations on residential, mixed-use, and selected commercial projects.

Industry leading warranty and insurance product

NHBC's flagship product, Buildmark, is a 10 year package for owners of new homes comprising insurance, warranty and guarantee products / services to cover against damage caused by defects in the structure of the property. Buildmark gives homeowners protection over the largest purchase they are ever likely to make. In addition, the insurance product promotes quality construction by rewarding builders with better claims records with lower insurance premiums and provides access to a wider range of services from NHBC.

Feedback

NHBC's expert Customer Service and Claims teams are there to support the homeowner should there be a problem with their property. From claims experience NHBC is able to identify areas for improvement that the construction sector is finding particularly challenging. Utilising its extensive technical expertise, NHBC provides guidance and training to its builder customers focusing on areas affecting the quality of new build homes, in order to raise standards.

In addition, NHBC Foundation provides high-quality research and practical guidance to support the house-building industry and NHBC Services Limited, a wholly-owned subsidiary of NHBC, provides training services to its builder customers.

Taking the latest learning into account, NHBC updates its Standards. This process continues to drive improvements in construction quality for the benefit of homeowners.

Celebrating best practice

The NHBC-hosted Pride in the Job Awards and Health and Safety Awards are an important part of NHBC's drive to promote high standards in new home construction, and to raise them further. Pride in the Job is an event that recognises the best site managers in the United Kingdom. The Health and Safety Awards recognise the builders with the best health, safety, and wellbeing practices.

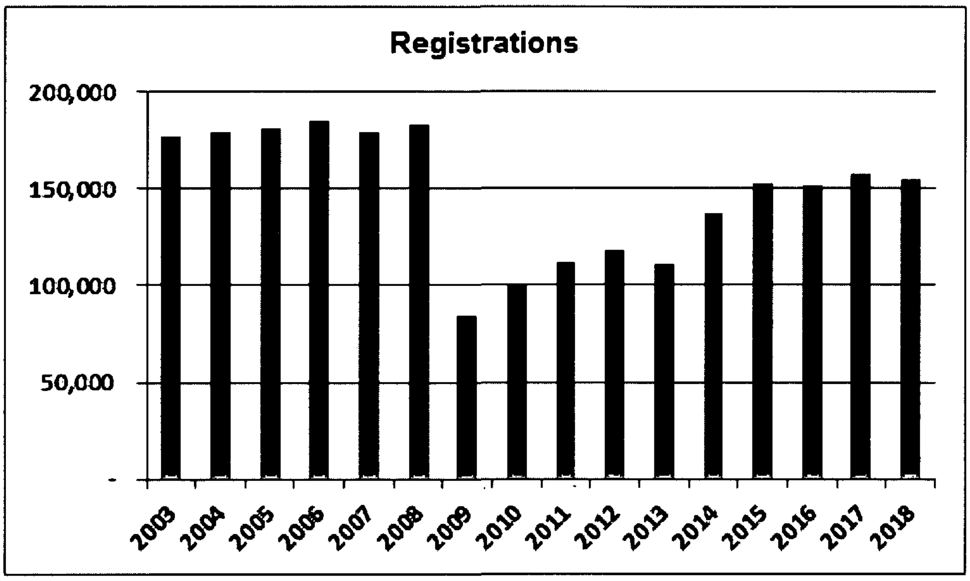
Market overview

NHBC operates in the United Kingdom (UK) new house-building sector, the health of which is the primary driver of NHBC's business performance and growth. NHBC monitors a range of metrics to ensure it is well positioned to respond to emerging opportunities and threats.

UK housing market

The housing market in the UK has remained relatively stable in the financial year ended 31 March 2018 and continues to experience modest growth. House prices in both new and second-hand markets continued to increase albeit at a lower rate than in recent years. The demand for new homes continues to outstrip supply.

NHBC registrations for 2018 were 154,698 (2017: 157,805), the second highest since the housing market crash in 2009. The 2% fall on 2017 was in part driven by exceptional weather events impacting registrations in the final quarter of the financial year.



Market share

NHBC continued to maintain its market share within a range of 75% to 85% during the financial year ended 31 March 2018, based on the number of NHBC registered homes on which building activity has commenced (known as "starts"), expressed as a percentage of government-reported UK starts over the same period.

NHBC has a leading position among high-volume builders and continues to build on a strong and growing presence in the local authority, affordable housing, and institutional private rental sectors.

Housing market outlook

The Government aims to raise the supply of new homes to 300,000 a year by the mid-2020s, a significant increase on current activity levels. Various measures supporting this such as continuation of the Help to Buy scheme, funding for affordable housing, and financial guarantees to support private sector house-building have been announced. However the UK's decision to leave the European Union is placing pressure on the new house-builders' supply chains, particularly on the availability of sufficient labour and materials to meet demand.

Government policy remains critical to the success of the UK housing market, not only in the direct funds and support offered but the overall economic and policy decisions taken. Negotiations to leave the European Union, the 'Building a Safer Future' report (an independent review into building regulations and fire safety, led by Dame Judith Hackitt), and policies aimed at increasing house-building activity will have a significant impact on the construction industry.

What this means for NHBC

The NHBC will work with its registered builders to help meet the increased output levels sought, however this will not be at the expense of construction quality or to the detriment of homeowners.

The NHBC is also working with builders and manufacturers keen to exploit modern methods of construction, often through off-site production. This has the potential to ease the pressures in the supply chain and, again, NHBC is working to ensure quality and standards are maintained as new approaches are developed.

NHBC is well aware of the challenges facing the industry and has invested in the data analytic and technical skills necessary to ensure it engages constructively with all stakeholders.

NHBC's strategy

Even as the market leader and a well-established business, it is vital that NHBC continues to work on staying ahead of its competitors: staying ahead in its services and products, and staying ahead in its technical capabilities. In doing this, NHBC must also look at simplification in everything it does, finding ways to be quicker and more efficient, improving its internal and external processes, and enhancing the services it delivers to its builder and homeowner customers.

To support this, NHBC has identified three focus areas for activities over the next three years.

Improving construction quality

NHBC's focus on improving construction quality sets it apart from its competitors. The approach to improving construction quality encompasses research, guidance, training, and the support provided to builder customers from concept to completion. NHBC will continue to use its expertise in these areas to improve construction quality, thereby enhancing the builder customers' quality control and providing improved homes for consumers.

In recent years, NHBC has made significant investments in its inspection and technical resource to allow its inspectors more time with builders on site to identify and address issues, and to introduce alternative inspection methods - such as Construction Quality Reviews - to help reduce defects in new homes. NHBC is committed to continuing to deliver its range of technical expertise and interventions, and improving engagement with builder customers on construction quality, to influence behaviour on site and improve the quality of the new homes they build.

NHBC is also focused on its broader role in positively influencing the industry's approach to construction through engagement with key organisations and stakeholders, such as the Home Building Skills Partnership, Home Builders Federation, and the Government. NHBC will continue to drive the quality agenda to help the industry develop the skills and focus required to enable construction quality to continue to improve.

Ensuring financial viability

NHBC is authorised to issue insurance products by the Prudential Regulation Authority. NHBC must ensure that its financial position is stable and well-managed to maintain profitability and demonstrate compliance with the requirements of the regulator.

To achieve this, NHBC is focused on building a sustainable financial platform by gearing its efforts towards the delivery of core objectives, eliminating waste and inefficiencies. This includes ensuring that the capital position remains strong to support future liabilities..

NHBC will continue to use all options available to safeguard its capital position. They include pricing decisions, investment strategy, appropriate reinsurance, and cost control.

Building the brand and reputation

A strong brand and reputation allows NHBC to attract customers and therefore influence the quality of a larger proportion of new homes. In turn this provides access to extensive data on construction quality that can be used to influence the standards of new homes. As competition in the market continues to increase, NHBC must focus on developing a better-understanding of builder and homeowner customer needs to ensure it delivers great service and products.

NHBC is focused on reinforcing its independent position with a clear and confident voice, in order to bring information on construction quality to broader attention and clearly demonstrate its work to improve outcomes for homeowners.

Summary

The focus areas form the overall blueprint that NHBC will work towards, translating into specific aims and objectives for the departments, functions, and individuals within the organisation. The day-to-day activities undertaken by all NHBC employees remain the foundation of its success, driven by the purpose of improving the construction quality of new homes registered with NHBC for the benefit of the homeowners who live in them.

Risks to NHBC's business

NHBC's approach to risk management

In considering the organisation's key risks, NHBC distinguishes between risks to achieving its objectives and risks to its sustainability as an organisation. To achieve organisational objectives, NHBC monitors and minimises poor construction standards and unfair homeowner outcomes. To ensure its sustainability as an organisation, NHBC takes action to manage its financial risk, reputational, insurance, and operational risk.

Risk governance

The Board has established a risk governance framework overseen and supported by a number of board and executive committees:

- The Board is responsible for the risk framework and the setting of NHBC's risk appetites;
- 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 appetites;
- 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, financial, and operational risks.

Further details of Board and Committee structures are set out on page 31.

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 management framework needs to be flexible enough to react to unexpected circumstances and ensure a suitable 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 Management team;
- A process for managing events; and
- Appointed representatives within each business function providing risk and compliance support for operational colleagues.

- A policy framework establishes the Board's minimum standards of control in key risk areas, with each policy owned by an Executive Committee member and reviewed and approved in accordance with an agreed policy review cycle.

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 below.

First Line of Defence – Operational functions	**Second Line of Defence – Support functions**	**Third Line of Defence - Assurance**
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.	The Risk and Compliance teams support, review, and challenge business team activity. They report to the Executive Risk Committee and the Board Risk Committee.	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 appetites to align to the key areas of NHBC's strategic framework (see page 21 for further details). Key risk indicators have been established for 16 appetites that relate to the main strategic objectives.

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 reviews the adequacy of the 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 NHBC's objectives are provided below, with further detail contained in note 6 to the Financial Statements.

Risk area	Key risks
Strategic	Failure to define and implement a strategy to deliver NHBC's strategic goals which accommodates the changing environment in which NHBC operates. Failure to ensure adequate financial performance and a sustainable capital position.
Insurance	Failure to identify and manage significant changes in the propensity for builders to self-repair building defects. 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 large builder clients resulting in significant claims costs.
Market	Failure to adequately mitigate risks arising from changes in investment markets resulting in an inability to fund policy obligations and meet regulatory capital requirements.
Pension	Failure to forecast and plan for additional pension fund contributions resulting in a reduction in profit and an inability to replenish capital reserves.
Operational	Failure to embed compliant operational and governance processes, causing poor conduct towards homeowners and increased claims costs. Failure to protect customer information adequately. Failure to respond to increasing pressure on build quality.

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. Examples of risks currently under review include:

- The impact of the Grenfell Tower fire on the wider house building industry and building control framework in the UK.
- Economic, including the uncertainty in UK and world investment markets caused by factors including 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;

- Technological, including innovation in building systems and disruption from a technology-led competitor better able to efficiently and effectively provide inspection and other services; plus the increasing threats to cyber security.

Risk and capital

The Board pays particular attention to NHBC's solvency position given NHBC's restricted options to raise capital as a company limited by guarantee. The primary basis used by NHBC to quantify this risk is the Solvency Capital Requirement (SCR) which is calculated as Solvency II Own Funds at risk in a 1-in-200 year loss event over a one year time horizon. The table below shows NHBC's Standard Formula solvency position as at 31 March 2018.

NHBC surplus capital (unaudited)

	2018	2017
Eligible own funds	**£588m**	£580m
Solvency capital requirement (SCR)	**£376m**	£378m
Solvency II surplus	**£212m**	£203m
Solvency ratio	**156%**	154%

As at 31 March 2018, NHBC's capital surplus on a Solvency II Standard Formula basis was £212m, with a solvency ratio of 156% which remains within the Board's capital risk appetite.

NHBC also undertakes an ongoing Own Risk and Solvency Assessment (ORSA) which provides for the continual review of the businesses risks, capital requirements and strategic direction. This ongoing assessment comprises a range of different activities, processes and reports, including an internal capital solvency measure, which the Board considers in addition to the Standard Formula measure when assessing capital projections. This internal measure remains within Board risk appetite.

Wider impact and non-financial information statement

NHBC's business model supports its core aims of raising standards and protecting homeowners in the new homes industry. Please see page 17 for further detail of NHBC's business model. NHBC's policies and processes are designed to be proportionate to the risks NHBC has identified and sufficiently flexible to respond effectively should they arise.

Employees

Ensuring employees at NHBC have the ability to develop and thrive is at NHBC's core. NHBC recognises that if it looks after its employees, enabling them to be the best they can be, they will look after builder customers and homeowners better through the delivery of excellent service and technical expertise.

Following a number of years of growth, NHBC's workforce has stabilised at approximately 1,300. NHBC maintains its head office location in Milton Keynes (approximately 600 staff), as well as around 700 staff located across the United Kingdom. NHBC has also grown its team of technical specialists in its London office to support builder customers on high-rise and complex developments.

Voluntary turnover for the year ended 31 March 2018 increased to 12.4% (2017: 10.6%) but remains low compared to external benchmarks.

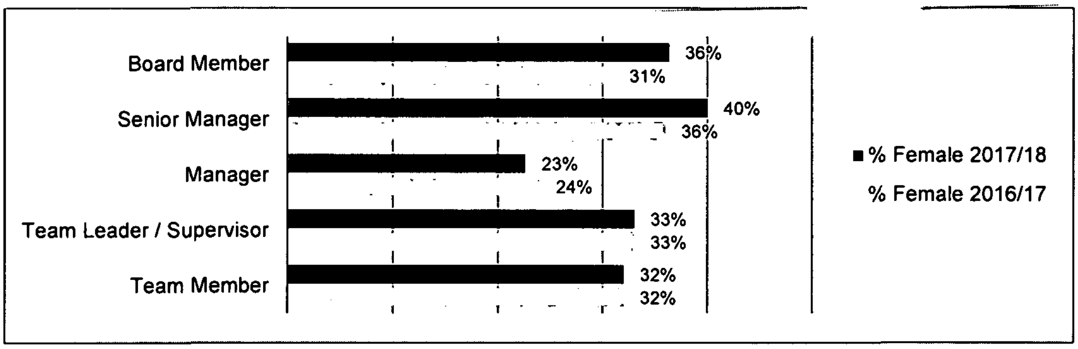
NHBC is committed to encouraging diversity and inclusion in everything it does in order to support its customers, policyholders and staff. NHBC recognises that achieving a significant change in the demographic of NHBC will take time to achieve. As part of this commitment, NHBC became one of the first signatories of the Women in Finance Charter in 2016. The Charter commits firms to supporting the progression of women into senior roles, which reflects NHBC's aspiration to see gender balance at all levels across NHBC.

To this end, NHBC has set itself a target of achieving 45% female representation across its senior management population by 2020. NHBC reported to HM Treasury its September 2017 interim target of 37.5%. As at 31 March 2018 NHBC's population of female senior leaders is 37.5%. The full composition of the Board is shown in the Governance section on page 35.

NHBC has recently published its 2017 Gender Pay Gap report. This shows that it has a 17.4% mean gender pay gap which is slightly better than the national average and better than financial services (35%) and construction (45.4%) sectors overall. NHBC's results are driven primarily by the tendency for males to occupy a larger proportion of higher-paid technical roles as well as senior positions within the organisation.

While NHBC has a gender pay gap, the equal pay audit completed in 2016 shows that men and women are paid equally for comparable work. As the diagram below illustrates, NHBC has successfully increased the proportion of women in senior management and Board level positions over the last year.

Details of NHBC's gender distribution are shown below:



Due to the nature of NHBC's business, 738 employees span 91 unique roles classified under STEM (Science, Technology, Engineering and Manufacturing). Over the course of the last three years the number of females occupying these roles has increased from 43 to 78; an 81% increase, which has been achieved through improved recruitment branding and communication as well as various initiatives to raise awareness of NHBC and the range of roles on offer across the UK.

NHBC believes in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment and the recruitment, training, career development, and promotion of people with a disability is based on the aptitudes and abilities of the individual. Should existing employees become disabled during their employment with NHBC, efforts are made to continue their employment and, if necessary, appropriate training is given and reasonable adjustments are made.

NHBC is proud to be a partner of the Living Wage Foundation, with minimum pay levels for employees across the UK exceeding the National Living Wage set by Government. In addition, NHBC now ensures that when procuring work from third parties who supply on-site contractors to the business, they must pay the Living Wage to their employees too.

NHBC also has an officially recognised trade union, the NHBC Staff Association (SA) which is registered with the Certification Officer for Trade Unions and Employers' Associations. This year, the SA successfully obtained a Certificate of Independence, proving its independence from NHBC as judged against statutory requirements. This in turn is allowing the SA to affiliate to the Trades Union Congress (TUC), fulfilling a resolution voted for by its membership in 2017. Affiliation will allow the SA access to high quality training, membership networks, and best practice examples.

As at 31 March 2018, there were 722 members of the SA, representing 57% of all staff (2017: 732 and 55%). In the financial year ended 31 March 2018, the SA consulted with NHBC on behalf of its members on a wide range of topics including organisational changes, disciplinary matters and grievance cases, and, for the first time in its 37-year history, it held a consultative ballot of its membership as part of the pay negotiation process. The ballot had an 82% response rate, with 92% of respondents voting for acceptance of the pay settlement.

NHBC recognises the importance of providing an environment that ensures the health, safety, and wellbeing of its employees, contractors and others affected by its activities.

NHBC for the third year running entered the Royal Society for the Prevention of Accidents annual health and safety awards and was delighted to be presented with a Gold Award; a significant achievement and improvement on the Silver Awards achieved in the last two years.

This year NHBC is pleased to be able to report a 9% reduction in the number of accidents involving NHBC staff, with 29 accidents being recorded. With two thirds of these accidents having occurred either on site or while driving for work, this reinforces the importance of NHBC's Driving for Work and Site Safety training programs.

Corporate responsibility

NHBC is focused on corporate social responsibility, both through its core business and charitable work.

NHBC is able through the NHBC Foundation to work across the housing industry to research and highlight key societal challenges and trends that are emerging. Over the course of the financial year a number of reports were commissioned to raise awareness of issues and offer case studies and sources of information for the house building community. The reports – "Gender and age profile of the house building sector", "Moving insights from the over 55s", and "Multi-generational living" – not only highlight the impact of these issues on the housing sector, but have strong links to the working environment and the challenges many business face when considering the changing needs of their workforce.

NHBC believes in creating a positive impact in the communities in which its employees live and work and has a range of partnerships and initiatives in place to support that. NHBC has partnerships with Cancer Research UK and Habitat for Humanity. NHBC continues its matched funding scheme for employees' charitable fundraising for non-corporate causes, as well as enabling employees to take additional days of leave a year to volunteer for causes important to them.

Environmental matters

NHBC's direct environmental impact is primarily minimised through internal processes with 100% of its waste from its Milton Keynes, London and Scotland offices being recycled. NHBC has also invested over the last five years in energy efficient lighting and voltage optimisation, enabling it to reduce energy consumption by 7% year-on-year. NHBC has made a commitment to reduce this by a further 5% over the course of the next two financial years.

NHBC also has the potential to have a significant indirect environmental impact through its influence on construction methods and research on energy efficient construction methods. In 2018 the NHBC Foundation published "Windows – making it clear: energy, daylight and thermal comfort".

NHBC takes its responsibility for how it affects the environment seriously, and also ensures its external contractors and suppliers provide ethical and responsible services ethically too, as part of its procurement processes.

There are no policies or key performance indicators used to shape or measure NHBC's indirect environmental impact. Instead, this is managed as a general corporate aim.

Respect for human rights

NHBC respects the rights of all those impacted, directly or indirectly, by its actions. This includes the supply chain for both the corporate expenditure and claims work performed on policy holders properties. NHBC's Modern Slavery Statement is published on its website which, along with the Procurement Code of Conduct, supports human rights throughout the supply chain.

Anti-corruption and anti-bribery matters

The NHBC Group has several policies in place relevant to anti-corruption and anti-bribery matters. The Financial Crime Risk Policy covers a range of risks including fraud, theft, bribery, and money laundering. NHBC also has a separate Anti-Bribery Procedure and a Procurement and Supplier Governance Policy.

The strategic report was approved by the Board on 16 August 2018.

Steve Wood

Chief Executive Officer

Board

NHBC has a strong, experienced and diverse Board with a good balance of skills.

Paul Bishop (Senior Independent Director)

Paul Bishop joined the Board in November 2016 and was appointed Senior Independent Director in January 2018. Paul has over 30 years' experience in the Financial Services industry, primarily as a Partner at KPMG where he was the European lead for Insurance Consulting. Paul retired from KPMG in 2014. At NHBC, Paul is the Chair of the Audit Committee and is a member of the Board Risk Committee, Investment Committee, and Nominations Committee. Paul is also Chair of Audit Committees at Just Group and at Police Mutual Assurance Society.

Ian Craston (Non-Executive Director)

Ian Craston joined the Board in September 2014. He is the Chairman of NHBC's Investment Committee and is also a member of the Board Risk Committee and the Remuneration Committee. Ian is currently Group Investment Director at RSA, a position he has held since 2002. He has over 25 years' experience within the investment industry having started with RSA's fund management company in 1987. He has held a number of investment roles including head of Bond Management and Head of Group Client Management. In Ian's current role at RSA Group his remit also includes responsibility for RSA's treasury function and the management of its pension scheme exposures.

Kate Davies (Non-Executive Director)

Kate Davies joined the Board in October 2016 and has been Chief Executive of Notting Hill Housing since 2004. Kate was previously Chief Executive of Servite Houses and Director of Housing in Brighton & Hove City Council. She has experience in local government and the private and voluntary sectors. She is a member of NHBC's Consumer Committee and the Remuneration Committee. Kate has two degrees and qualifications in housing management (MCIH) and housing association development.

Paul Hosking (Chief Financial Officer)

Paul Hosking joined NHBC in November 2016. Paul is a qualified Chartered Accountant with over 20 years' post-qualification experience working in the UK and European insurance markets. He began his career with Coopers & Lybrand, a founder firm of PricewaterhouseCoopers, before spending six years working for QBE Insurance UK in a variety of operational and group finance management positions. The following 13 years were at W.R. Berkley Insurance, where, as Chief Financial Officer, Paul helped W.R. Berkley establish insurance businesses in five European countries and Australia, and also took on a number of wider executive management and operational responsibilities in addition to his Chief Financial Officer role.

Isabel Hudson (Chairman)

Isabel Hudson joined the NHBC Board in June 2011 as Deputy Chairman, and was appointed Chairman in November 2011. Isabel is also a member of the RSA Insurance Group plc board, where she is the Senior Independent Director, and she sits on the BT Group plc board (where she chairs the Pensions Committee and the BT Compliance Committee).

Past Non-Executive Directorships have included: Phoenix Group Holdings, Standard Life, The Pension Regulator and QBE (Australia).

Isabel's executive career has comprised of various roles including Executive Director of Prudential's UK business and Chairman of Prudential International Assurance, working for GE Capital, CFO of Eureko, and establishing and serving as Chief Executive of specialised pension buyout firm Synesis Life.

Isabel is also an ambassador for Scope, a UK charity, and has 36 years' experience in the insurance industry in the UK and mainland Europe.

Neil Jefferson (Chief Operating Officer)

Neil Jefferson is the Chief Operating Officer at NHBC and was appointed to the Board of NHBC in April 2012. Neil is a Chartered Builder and has held various positions in NHBC, with his most recent roles on the board being Managing Director and Business Development Director. Neil was also the Chief Executive of the Zero Carbon Hub between 2008 and 2016.

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, Investment, and Nominations Committees. She is a risk professional with many years of experience in risk management, compliance and audit. Previously 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 plc and Admiral Group plc.

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. He is Chairman of NHBC's Remuneration Committee and Scottish Committee.

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 Governments 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, the Better Regulation Task Force and the Banking Code Standards Board. Most recently Dame Helena was the Chief Executive of the British Lung Foundation, retiring at the end of June 2012, and is currently Chairman of the NHBC's Consumer Committee.

Stephen Stone (Non-Executive Director)

Stephen Stone joined the NHBC Board in November 2016. He has been the Chief Executive of Crest Nicholson Plc since 2005, becoming Executive Chairman in March 2018, having been appointed to the Board in January 1999. Stephen is a Chartered Architect with over 36 years' experience in various positions in the construction and house building industry. Stephen represents Crest Nicholson Plc when engaging with investors, the Government, the Home Builders Federation, and the industry. Stephen is also a Non-Executive Director of Home Builders Federation and a member of the Construction Leadership Council.

Steve Wood (Chief Executive Officer)

Steve Wood joined the Board as Chief Executive Officer in June 2017. Steve was previously the Chief Executive Officer of Paymentshield (part of Towergate Insurance) and UK Managing Director at Ecclesiastical Insurance. Prior to that he was Managing Director at FirstAssist Group and held senior positions at RSA Group plc and Royal Insurance. Steve has a BSc (Hons) in Mathematics and is a Fellow of the Chartered Insurance Institute.

Council

Below is a list of members of the Council as at 1 June 2018.

Mr P Andrew
Home Builders Federation
Mr S Baseley
Home Builders Federation
Ms J Bennett
UK Finance
Mr D Birkbeck
Design for Homes
Mr Paul Bishop
NHBC Board appointment
Mr M Black
Home Builders Federation
Mr A Burd
British Standards Institute
Mr P Caplehorn
Construction Products Association
Mr C Carr
Federation of Master Builders
Sir John Carter
Honorary Vice-President
Mr D Cochrane
NHBC Scottish Committee
Mr A Collett
British Property Federation
Ms C Compton-James
The Housing Forum
Mr I Craston
NHBC Board appointment
Mr A Cripps
Royal Institution of Chartered Surveyors
Mrs K Davies
NHBC Board appointment
Mrs S Dean
Warranty Holder
Ms N Elphicke
The Housing and Finance Institute
Mr N Fluck
Law Society
Mr C Fudge
Construction Products Association
The Rt. Hon. the Lord Fowler
Honorary Vice-President
Mr R Hardy
Building Research Establishment
Mr M Hayward
National Association of Estate Agents
Mr K Hinton
Warranty Holder
Mr J Hood
NHBC Northern Ireland Committee
Mr B Hook
Royal Institution of Chartered Surveyors
Mr P Hosking
NHBC Board appointment
Mrs I Hudson
NHBC Board appointment
Ms G Hunter
NHBC Scottish Committee
Mr K Ireland
Federation of Master Builders
Mr N Jefferson
NHBC Board appointment
Ms A Kaye
Institute of Consumer Affairs
Mr P Knox
House Builders Association
Mr L Livermore
Trading Standards Institute
Mrs A J Lowe
Warranty Holder
Mr D McCallum
Chartered Institute of Housing
Mr G McDonald
Home Builders Federation
Mr D McLeod
NHBC Scottish Committee
Mr J Owen
Joseph Rowntree Trust
Ms J Park
NHBC Board appointment
Sir Michael Pickard
Honorary Vice-President
Mr C Richardson
Warranty Holder
Mr A Rowan
NHBC Northern Ireland Committee
Mr J Roycroft
Institution of Civil Engineers
Sir Muir Russell
NHBC Board appointment/Scottish Committee
Mr P Sellwood
Energy Saving Trust
Professor T Sharpe
NHBC Scottish Committee
Dame Helena Shovelton
NHBC Board appointment
Mr J Slater
Home Builders Federation
Mr Stephen Stone
NHBC Board appointment
Mr M Stones
UK Finance
Mr E Taylor
RoSPA
Ms S Ullmayer
Royal Institute of British Architects
Mr A Von Bradsky
Royal Institute of British Architects
Mr S Wood
NHBC Board appointment

Corporate governance report

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

NHBC Council

NHBC is a private company limited by guarantee and its governing body comprises individual members, 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.

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

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

- Alterations to NHBC's Constitution;
- The appointment of the Auditors; and
- The appointment of Council members.

In accordance with NHBC's Articles of Association Council members may serve for two five-year terms.

Admission as a member of the NHBC Council is governed by the Appointments Committee. In accordance with the Articles of Association, the Committee comprises the Chairman, the Chief Executive and three members of the Council (who are not directors) recommended by the Board and approved by the Council in general meeting. The Council members who currently serve on the Committee are:

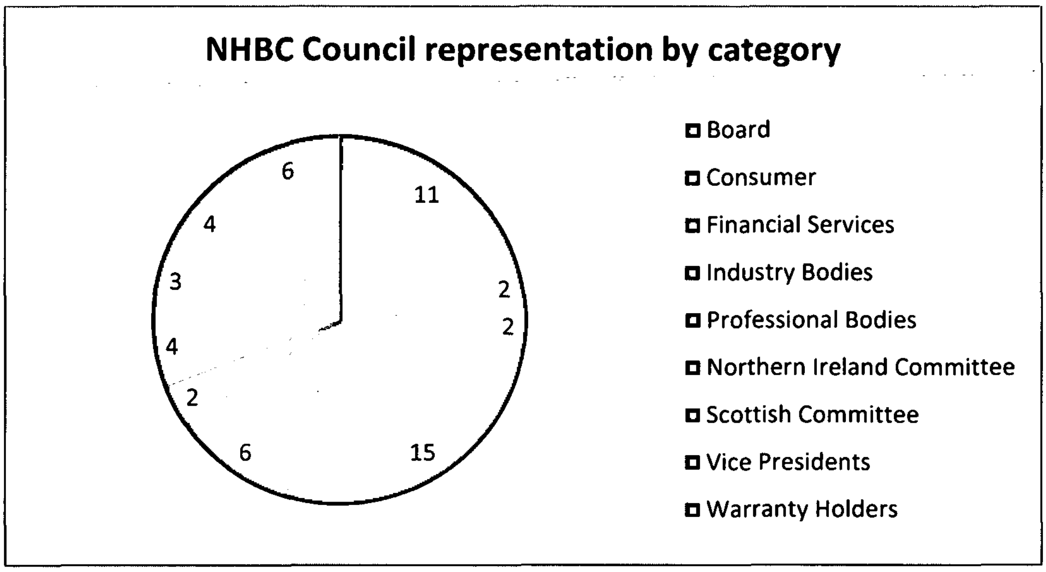
- Ann Kaye — Institute of Consumer Affairs
- Philip Sellwood — Energy Saving Trust
- Kelvin Hinton — A Buildmark warranty holder

At the AGM in 2017 the following individuals were appointed as new Council members:

- Martyn Stones — UK Finance
- Errol Taylor — RoSPA

The following individuals were appointed by written resolution:

- Nick Fluck — The Law Society — appointed 15 January 2018
- Jackie Bennett — UK Finance — appointed 1 May 2018



NHBC Board

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

Board composition

Biographical information on each of the directors is contained on page 31.

Balance of executive and non-executive directors

- Chairman — 1
- Senior Independent Director (SID) (non-executive) — 1
- Independent non-executives — 4
- Other non-executives — 2
- Executives — 3

Length of service of non-executive directors

• 0-3 years	3
• 3-6 years	3
• 6-9 years	2

Gender split of Board of Directors

• Male	7
• Female	4

Board gender diversity versus FTSE 100 and FTSE 250

	FTSE 100 (June 2016) %	FTSE 250 (June 2016) %	NHBC (June 2018) %
Female directors	26.0	20.4	36.4
Female executive directors	9.7	5.6	0.0
Female non-executive directors	31.4	25.7	50.0

Recent changes to the Board of Directors are reported in the section on the activities of the Nominations Committee on page 52.

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

All directors make a declaration of their interests to the Board which includes any actual or potential conflicts 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 some or all of the discussion of the issue, but will leave the meeting when a decision is to be made. Two Directors work within the new house building industry and their membership of the Board is to ensure an appropriate breadth of skills, experience and industry views are represented.

A review of board effectiveness is carried out annually. In 2017 an external review was undertaken by the same experienced consultant who carried out the first external review in 2014. The consultant's report comments positively on improvements made over the period, including the strength and experience of the non-executive directors, the development of future strategy, the attention given to insurance and regulatory matters and the quality of Board and committee papers. The Board has discussed the report in depth and will be taking forward some actions, including clarifying NHBC's culture and values, and considering the committee structure and the Board succession.

Over the course of the past year, the Board has received briefing on the Senior Insurance Managers Regime and the Solvency II reporting requirements. The new members of the Board, both executive and non-executive, have received induction briefings and individual directors have also attended a range of conferences, seminars and other events arranged through consultants and other organisations with whom NHBC is associated.

At the end of March 2018, the Company Secretary, Jon Hastings retired. His successor, Anne Durkin, is a senior lawyer and company secretary who has broad corporate and commercial experience within regulated businesses.

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 %
Paul Bishop	5	5	100
Ian Craston	5	5	100
Kate Davies	5	5	100
Ian Davis[1]	3	3	100
Sir John Harman[2]	4	4	100
Paul Hosking	5	5	100
Isabel Hudson	5	5	100
Neil Jefferson	5	5	100
Jean Park	5	5	100
Sir Muir Russell	5	5	100
Dame Helena Shovelton	5	5	100
Stephen Stone	5	5	100
Steve Wood[3]	3	3	100

1. Ian Davis resigned on 23 November 2017
2. Sir John Harman resigned on 31 December 2017
3. Steve Wood was appointed on 30 June 2017

NHBC's committees

The Board delegates certain matters to the Audit, Board Risk, Investment, Nominations, Remuneration and Consumer committees which report to it. The roles of each of the committees are detailed in the respective committee reports on pages 43 to 54. These reports reflect the current memberships of each committee and highlight some of the work which they 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 2018. The Directors' Report required under the Companies Act 2006 comprises this Directors' and Corporate Governance Report, the Directors' Remuneration Report and the disclosures in the 'Wider impact and non-financial information statement' section of the Strategic report.

Results

The Group's results for the year are shown in the consolidated statement of comprehensive income on page 85.

Directors

The directors at the date of this report are shown, together with their biographical details, in the Governance section on page 31.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a personal 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 36 on page 152 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 NHBC's business' section on page 23. The directors believe that the Group is well placed to manage its business risks successfully, given its financial resources. After making appropriate enquiries, including assessing business plans, scenario analysis, and latest solvency projections, 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; and
- 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:

Information	**Section in annual report**	**Page**
Business review	Strategic report	17
Corporate responsibility governance	Wider impact and non-financial information statement	27
Disclosure of information to the auditor	Directors' report	40
Directors in office during the year	Corporate governance report	35
Details of qualifying third party indemnity provisions	Directors' report	40
Events after the end of the reporting period	Notes to the financial statements	151
Future developments of the business	Chief Executive Officer's report	6
Rules governing appointments of directors	Corporate governance report	35

On behalf of the Board

Anne Durkin

Company Secretary

16 August 2018

Audit Committee report

Audit Committee member	Meetings to attend	Meetings attended	Attendance %
Sir Muir Russell[1]	3	3	100
Dame Helena Shovelton	4	4	100
Jean Park	4	4	100
Paul Bishop[2] (Chairman)	4	4	100

1. Sir Muir Russell left the Audit Committee on 31 December 2017
2. Paul Bishop joined the Audit Committee on 1 November 2016 and became its Chairman on 1 January 2018

The principal role of the Audit Committee is to:

- Monitor the integrity of the financial statements and review significant financial reporting issues and returns to regulators;
- Review and challenge:
  - The effectiveness of NHBC's control processes where necessary;
  - The consistency of accounting policies;
  - Whether NHBC has followed appropriate accounting standards and made appropriate estimates and judgements;
  - Clarity of disclosure in NHBC's financial reports;
- Review the adequacy of the whistle-blowing and fraud systems;
- Consider and approve the remit of the internal audit function, review, assess, and approve the scope and effectiveness of the internal audit programme;
- Make recommendations to the Board to be put to the members at the Annual General Meeting in relation to the appointment, reappointment and removal of external auditors and oversee the selection process for new auditors;
- Oversee the relationship with the external auditor; and
- Review the scope of the internal and external audit plans and review the findings of any audit.

The members of the Audit Committee are all independent non-executive directors.. In addition to the members, the following routinely attend the Audit Committee meetings: the Chairman of the Board; Chief Executive; Chief Financial Officer; Head of Finance; Company Actuary; internal auditors Grant Thornton LLP; and external auditors Deloitte LLP.

Activities during the financial year ended 31 March 2018

In the performance of its duties, the Audit Committee met four 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 its stakeholder and wider audiences;
- Approving the external and internal audit plans;
- Discussing with management and external advisors, Willis Towers Watson (WTW), the new approach to reserving and the assumptions used to assess the level of reserves;
- Reviewing developments in the UK accounting framework as they apply to NHBC's financial statements under UK GAAP;
- Reviewing the internal audit reports submitted by Grant Thornton LLP; and
- Reporting on its activities to the Board.

Financial reporting

In considering the draft Annual Report and Accounts, the Audit Committee paid particular attention to key areas of subjective judgement which generally were in relation to the calculation of the technical provisions. Considerations focused on:

- Changes in claims incidence during the year, focusing on Section 3 and Large Loss (£1m to £10m) claims, which have a significant impact on the reserving; and
- The reasonableness of the overall UK GAAP technical provisions and their consistency with prior years'; and
- The impact of emerging risks, in particular potential claims relating to cladding.

The Audit Committee discussed the reserving approach and the technical provisions with both management and auditors. In addition, the Audit Committee also reviewed the UK GAAP reserves 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.

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 NHBC takes a cautious and prudent approach having regard to the nature of the risks and uncertainties it faces in the course of its business. As part of its consideration of these issues, the Audit Committee has confirmed the commitment to maintaining a consistent degree of prudence in the reserves year-on-year.

External audit

As part of the review of the accounting statements the Audit Committee discussed the audit plan with the external auditor, in particular the areas which they considered to have either a significant or a material risk of misstatement, and consequently where they intended to focus their attention during the conduct of the audit. For NHBC those areas were consistent with the Audit Committee's areas of concern, namely:

- Valuation of best estimate technical provisions;
- Valuation of UK GAAP Margin; and
- Management override of controls.

On an annual basis the Audit Committee reviews both the effectiveness and the independence of the Auditor.

Internal audit

A regular focus of the Audit Committee is the agreement of the annual plan, monitoring the progress of Grant Thornton LLP'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".

During the year, Grant Thornton LLP completed reports on the majority of items in the plan and they were reviewed by the Audit Committee. No material control weaknesses were identified. Planned work has been completed since the year end. The areas on which reports were prepared included:

- Corporate Governance;
- Large loss reporting;
- Procurement and third party management;
- Remedial works contractors;
- Reporting and management information
- Change and programme management; and
- Insurance Distribution Directive project.

Board Risk Committee report

Board Risk Committee member	Meetings to attend	Meetings attended	Attendance %
Jean Park (Chairman)	5	5	100
Paul Bishop	5	5	100
Ian Craston	5	5	100
Stephen Stone	5	2	40

The principal role of the Board Risk Committee is to:

- Review the effectiveness of NHBC's risk management framework;
- Oversee and advise the Board on the current risk exposures of the company and adherence to risk appetite;
- Challenge the identification, assessment and mitigation of significant risks;
- Monitor the key risk policy framework and approve changes to relevant policies; and
- Review and challenge NHBC's approach to the overall management of risk, capital and strategy through the Own Risk and Solvency Assessment (ORSA) process and stress and scenario framework.

The members of the Board Risk Committee are all non-executive directors, the majority of whom are independent. In addition to the members, the following routinely attend the Board Risk Committee meetings: The Chairman of the Board; Chief Executive; Chief Finance Officer; Chief Risk Officer; Head of Actuarial; and internal auditors Grant Thornton LLP.

Activities during the financial year ended 31 March 2018

In the performance of its duties Board Risk Committee met five times during the financial year. It oversaw the development of several material items, which are summarised below.

Further progress has been made with the development of a new capital model that will drive the calculation of NHBC's Solvency II capital requirement and ORSA reporting.

The Board Risk Committee has continued to monitor the progress being made to develop and implement new processes to enable NHBC to comply with the Insurance Distribution Directive and the General Data Protection Regulations (GDPR).

NHBC also keeps abreast of other regulatory developments, to assess their potential impact on the company and to consider how they should be implemented.

The Board Risk Committee has continued to undertake "deep-dive" reviews focussing on specific risk areas. These have covered topics such as the underwriting and technical management of major projects, risk management for conversion projects, investment counterparty risk and media risk.

In addition to focused, deep-dive sessions, the Board Risk Committee has reviewed and monitored progress in relation to NHBC's Solvency II Standard Formula and ORSA capital positions; the further development of risk appetites; the updating of reinsurance treaties, reviewed the Board Risk Committee's effectiveness, and the renewal of the Policy Framework and Risk Management Framework.

Investment Committee report

Investment Committee member	Meetings to attend	Meetings attended	Attendance %
Ian Craston (Chairman)	4	4	100
Jean Park	4	4	100
Sir Muir Russell	4	3	75
Paul Bishop	4	4	100

The principal role of the Investment Committee is to:

- Review the strategic asset allocation and make recommendations to the Board;
- Make rebalancing decisions between existing asset classes and investment managers;
- Review NHBC's investment managers and approve any changes;
- Review and approve investment manager guidelines;
- Oversee compliance with NHBC's Investment Strategy, Investment Management Policy and aspects of the Investment Markets Risk and Liquidity Policies;
- Contribute to the design of an investment reporting framework;
- Review key reports produced by NHBC's fund managers including investment performance reporting, the managers' environmental, social and corporate governance practices, and compliance with ISAE 3402 (or equivalent) internal controls standards;
- Review and approve NHBC's Investment Management Policy; and
- Recommend changes to NHBC's Investment Markets Risk and Liquidity Risk Policies (owned by the Board Risk Committee) and Investment Strategy (owned by the Board).

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

Activities during the financial year ended 31 March 2018

The Investment Committee met on four occasions during the year with key activities including review of strategy as well as monitoring the activities, performance and conduct of NHBC's fund managers.

NHBC operates a prudent investment strategy based on a strong allocation to high-quality bonds. Over the year the total return from the portfolio was 0.5%.

NHBC operates a liability matching strategy, where predominately UK government debt is held, to provide cash flows that deliver a strong match to the projected insurance liabilities.

The remainder, the surplus assets, comprise predominantly equities and corporate bonds that are actively managed to generate a higher rate of return, while remaining within NHBC's stated risk appetite.

During the year the Investment Committee presided over a strategic review of the surplus assets. As a result of this review it was agreed to carry out a number of changes to the portfolio which will be implemented over the coming year. These changes include a simplification of the global equity portfolio, with a reduction in managers from three to two, and a broadening of the investment universe to new asset classes and geographic regions to enhance diversification. The changes are not expected to change the overall risk profile of the portfolio.

The Investment Committee has continued to work with the Trustee of the NHBC Defined Benefit Pension Scheme in order to gradually move pension scheme assets into a more low-risk portfolio. As part of that transition the Trustees have implemented a Liability Driven Investment (LDI) strategy which seeks to match the assets held in the pension fund to its liability profile.

The Investment Committee has been supported in its role by its investment advisors Willis Towers Watson (WTW). 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.

NHBC's reliance on WTW was reduced significantly during the year as the Company has established and resourced an internal investment function. This team is now driving the development of investment strategy for consideration by the Investment Committee as well as overseeing the management of assets and ensuring regulatory compliance.

Remuneration Committee report

Remuneration Committee member	Meetings to attend	Meetings attended	Attendance %
Sir John Harman[1]	2	2	100
Ian Craston	4	4	100
Kate Davies	4	2	50
Sir Muir Russell[2] (Chairman)	4	3	75

1. Sir John Harman left the Remuneration Committee on 31 December 2017
2. Sir Muir Russell joined the Remuneration Committee in June 2017 and became its Chairman on 1 January 2018

The principal role of the Remuneration Committee is to:

- Establish the approach to remuneration across NHBC and to review remuneration trends;
- Agree the pay and benefits for employees, including any payments made under bonus schemes; and
- 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; and
  - Any major changes to employee benefit structures across NHBC.

All members of the Remuneration Committee are non-executive directors and their biographies are given on page 31. The Chairman of the Board, Chief Executive, Head of HR, and other members of the management team also attend the meeting where appropriate.

Activities during the financial year ended 31 March 2018

As part of its regular activities the Remuneration Committee agreed the annual staff salary settlement and the recommendations to be made to the Board concerning executive directors' salaries. Further details of director's remuneration are set out on page 56. Another of the Remuneration Committee's regular tasks is to review the performance against the bonus scheme scorecard for the current year and review 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 Remuneration Committee reviewed NHBC's defined contribution pension arrangements. New employees continue to be auto-enrolled into the scheme and the triennial enrolment exercise undertaken in 2016 brought the level of membership to 97% (from 95%). The defined contribution pension arrangement has maintained its Pension Quality Mark Plus accreditation, the industry standard granted to only around 100 schemes in the UK.

During the year a review of pay equality was carried out and showed that the gender salary gap had remained unchanged. Within NHBC this reflects gender demographics, in particular the trend of males occupying more technical roles, which are generally more highly paid. Action to encourage more women into those roles is continuing and some further progress has been made. The review also confirmed that there are no significant differences between the remuneration paid to men and women in the same grade. Gender pay reporting is now mandatory for firms with more than 250 employees and NHBC published its gender pay data by April 2018 in accordance with the new regulations.

The Remuneration Committee considered and discussed the remuneration package offered to the new Chief Executive and was satisfied that the recommendation made to the Board was competitive, given the market in which NHBC operates, and within the range that NHBC would expect to offer for this senior role.

The Remuneration Committee took steps to equalise the level of employer's pension contribution across the company and in future the level of employer's pension contribution will be limited to a maximum of 10.5% of salary.

Nominations Committee report

Nominations Committee member	Meetings to attend	Meetings attended	Attendance %
Isabel Hudson (Chairman)	2	2	100
Sir John Harman[1]	1	1	100
Jean Park[2]	2	2	100
Sir Muir Russell	2	2	100
Paul Bishop[3]	1	1	100

1. Sir John Harman left the Nominations Committee on 31 December 2017
2. Jean Park joined the Nominations Committee on 23 June 2017
3. Paul Bishop joined the Nominations Committee on 1 January 2018

The principal role of the Nominations 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 marketplace;
- Evaluate the balance of skills, qualifications, knowledge and experience on the Board and in the 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 standing committees in consultation with the respective Chairs of those committees;
- The reappointment 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.

Members of the Nominations Committee are all independent non-executive directors and their biographies are given on page 31. The Chief Executive and the Head of Human Resources also attend the meetings, where appropriate.

Activities during the financial year ended 31 March 2018

The Nominations Committee was closely involved in the process to select the new Chief Executive. Search firm, The Zygos Partnership, assisted with the identification and evaluation of suitable candidates. At the conclusion of the 4 month selection process, the Nominations Committee recommended the appointment of Steve Wood as Chief Executive and he was appointed by the Board with effect from 30 June 2017.

Sir John Harman completed a 9-year term of office on 31 December 2017. In September 2017, Ian Craston completed his initial 3-year term and following the Nominations Committee's recommendation, the Board has agreed to extend his term of office for a further three years.

Dame Helena Shovelton has indicated an intention to retire from the Board in September 2018. From September 2018 the Board will comprise seven non-executive directors and three executive directors with a broad range of skills and expertise and will be 30% female. The Nominations Committee supports and encourages increasing diversity in both staff and directors.

A review of senior executive succession planning is being undertaken, initially for the top 20 critical roles.

The action plan for the future will include a process through which talented employees can be identified, developed and made ready to take on larger roles within NHBC over the coming years. The next phase of the plan will also focus on core role competencies and the development or recruitment of employees to match those needs and requirements.

Consumer Committee report

Consumer Committee member	Meetings to attend	Meetings attended	Attendance %
Dame Helena Shovelton (Chairman)	5	5	100
Kate Davies	5	5	100
Sir John Harman[1]	4	3	75

1. Sir John Harman left the Consumer Committee on 31 December 2017

The principal role of the Consumer Committee is to:

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

The Consumer Committee is comprised of non-executive directors and independent external advisors, including three NHBC Buildmark policyholders. In addition to the members, the following routinely attend committee meetings: the Chairman of the Board; the Chief Executive; and the Claims and Commercial Director.

Activities during the financial year ended 31 March 2018

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

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

In order to monitor NHBC's performance for the fair treatment of its policy holders, the Consumer Committee reviewed data on claims, complaints, products, and inspections, and provided advice and suggestions for improvements where appropriate.

At each meeting a Conduct Risk report was presented in order that the Consumer Committee could review the data and assess the potential impact and risk to policyholders, and the Consumer Committee monitored actions arising from any reviews.

A key focus of the Consumer Committee was the Consumer Strategy, the purpose of which was to ensure that the needs and expectations of policyholders were considered across all areas of the business. A report on this including management information and performance data on this was presented at each meeting so that the Consumer Committee could monitor and provide comment.

The Consumer Committee reviewed any proposed changes to the Buildmark and Buildmark for Apartments policies and provided comment on the wording and cover of the policies in order to ensure they were easy to understand and consistent with the types of properties being constructed.

The Consumer Committee also received regular updates on other work that directly impacted policyholders, such as: customer satisfaction surveys; the Consumer Code for Homebuilders; and the Consumer Experience Strategy.

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 2018.

The Board is committed to being open on remuneration policy and its implementation under the UK Corporate Governance Code and this report aims to provide a high level of transparency and accountability by adopting good practice under that Code. In view of NHBC's constitution, full compliance with all the Code requirements is not required.

The Remuneration Committee has responsibility for the annual review of remuneration design for all staff employed by NHBC which includes executive directors and senior managers. It assesses the appropriateness of remuneration packages in line with the Company's business needs and the Board's aim of delivering an appropriate and competitive level and mix of remuneration when compared to companies of a similar scale and complexity to NHBC. This is done while ensuring that the principles of sound and prudent risk management are fully considered and that excessive risk-taking is neither encouraged nor rewarded.

This report has two components:

- Part A, The Directors' Remuneration Policy Report 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 for the financial year ending 31 March 2019;
- Part B. The Annual Implementation Report which is audited by NHBC's external auditor. Deloitte LLP.

Summary of the year ended 31 March 2018

During the year, the Remuneration Committee continued to ensure that NHBC's Remuneration Policy linked 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 capital and financial position as well as performance of the business to allow NHBC to provide capacity to meet the demand for homeowners' warranty insurance;
- To improve the construction quality of new homes: variable pay is linked directly to measures of consumer satisfaction and standards of construction;
- Core business performance: variable pay is dependent on the business achieving various operational targets.

For further information concerning the activities of the Remuneration Committee please see Remuneration Committee report on page 50.

Remuneration outcomes

In the financial year NHBC continued to support and meet the demands of customers and homeowners. Notable factors in the financial year bearing on remuneration outcomes included:

- Strengthening of NHBC's capital position with further information available in the Capital Management note in the Financial Statements on page 121;
- NHBC posting an accounting loss partially as a consequence of large loss claim experience and an uncertain claims environment;
- Positive responses from the consumer and construction industry following a successful roll-out of standard-raising construction quality reviews and construction quality inspections; however builder satisfaction, with reference to net promoter score, has been below target.

The aggregate remuneration for each of the executive directors that served NHBC during the financial year is provided below.

£'000	2018	2017
Ian Davis[1]	466	260
Paul Hosking[2]	334	115
Neil Jefferson	335	307
Steve Wood[3]	361	-

1. Ian Davis resigned as Operations Director on 23 November 2017
2. Paul Hosking was appointed as the Chief Financial Officer on 23 January 2017
3. Steve Wood was appointed as the Chief Executive Officer on 30 June 2017

Steve Wood was appointed as the new Chief Executive and commenced employment on 30 June 2017. The Remuneration Committee approved Steve Wood's remuneration package to be aligned to that of the previous Chief Executive with the exception of pension contributions where the Remuneration Committee took the opportunity to align arrangements to those available to the majority of employees.

Ian Davis left NHBC on 23 November 2017 by mutual agreement. This resulted in a compensation for loss of office of £263k in line with his contractual entitlements. Ian Davis preserves his entitlement to the release of deferred bonus payments to be paid over the next four years.

Neil Jefferson was appointed as Managing Director on 31 January 2017 following departure of Mike Quinton as Chief Executive Officer. Following the appointment of Steve Wood as the Chief

Executive Officer and the imminent departure of Ian Davis as Operations Director, Neil Jefferson took on the role of Chief Operations Officer on 1 November 2017.

The Board reports that the Company 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 the Remuneration Committee regards the detail of individual targets and performance data to be commercially sensitive, NHBC adopts the practice of reporting the overall performance results.

The table below shows, for each executive director that served in the financial year ended 31 March 2018, their performance against the annual incentive plan.

	Target (%)	Stretch (%)	Actual (%)
Ian Davis[1]	40.0	80.0	38.2%
Paul Hosking	40.0	80.0	38.2%
Neil Jefferson	40.0	80.0	38.2%
Steve Wood[2]	50.0	100.0	47.8%

1. Ian Davis resigned as Operations Director on 23 November 2017

2. Steve Wood was appointed as the Chief Executive Director on 30 June 2017

The bonuses awarded for the year have a deferral rate of 50% for the CEO and 40% for the COO and CFO.

Sir Muir Russell

Chairman, Remuneration Committee

16 August 2018

Part A: Directors' remuneration policy report

This report provides the detail behind the Board approach to remuneration. It complies with many of the provisions set out in the UK Corporate Governance 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 takes effect for all payments made to directors for the financial year ended 31 March 2018. It is consistent with the policy applied in the prior financial year.

Directors' remuneration 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 please see table 5 below.

There have not been any material changes to the overall NHBC Remuneration Policy this year.

Executive remuneration packages are structured so that they:

- Are aligned to NHBC's strategy;
- Are competitive but not excessive;
- 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: NHBC Remuneration policy for executive directors summary

Element, purpose and link to strategy	Policy and operation
Basic pay To provide core market related pay to attract and retain the required level of talent and 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; • Any changes in roles and responsibilities.
Annual bonus To incentivise the executive directors to achieve pre-determined annual targets. Deferral of an element of the bonus pay out 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 Remuneration 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 for the financial year ended 31 March 2018. The annual bonus is a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the outcome (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. Deferred payments are subject to performance adjustment at the discretion of the Remuneration Committee, if it comes to light that awards were made in error or where new information is made available that would have changed the value of the original award.
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. Alternatively 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.
Benefits To provide suitable benefits as part of a competitive remuneration package, which enables the company to attract and retain the right level of talent necessary to deliver its 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 company car or cash allowance, life insurance, accommodation and private medical insurance.

Annual performance measures

For the financial year ending 31 March 2019 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	50%
Reputation and brand	10%
Improving construction quality	10%
Business plan delivery	30%

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 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.

Potential rewards under various scenarios: financial year ended 31 March 2019

Table 2: Potential rewards under various scenarios: financial year ended 31 March 2019

£'000	Minimum			On target			Maximum		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Paul Hosking	256	-	**256**	256	84	**340**	256	167	**423**
Neil Jefferson	248	-	**248**	248	83	**331**	248	167	**415**
Steve Wood	352	-	**352**	352	148	**500**	352	296	**648**

The remuneration table 2 above provides an illustration of the future total remuneration for each current executive director in respect of the remuneration opportunity for the year ended 31 March 2019 under different performance scenarios. Variable pay represents the bonus award opportunity that can be earned in the year, with 50% of the Chief Executive and 40% of the executive directors' bonuses 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. Table 3 below shows the cumulative balance of deferred bonuses at 31 March 2018 and the maximum amount that could be awarded to each executive director at the end of financial year ending 31 March 2019.

Deferred bonus opportunity

Table 3: Deferred bonus opportunity

£000's	Balance accrued at 31 March 2018	Release in the financial year ending 31 March 2019
Ian Davis[1]	50	14
Paul Hosking	41	4
Neil Jefferson	72	25
Steve Wood[2]	51	-
	214	**43**

1. Ian Davis resigned as Operations Director on 23 November 2017

2. Steve Wood was appointed as the Chief Executive Director on 30 June 2017

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 4 below.

Table 4: 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 executive directors have the opportunity to participate in the defined contribution pension scheme or take cash where impacted by the lifetime or annual allowance. The maximum amount payable for pension benefit is 20.25% of 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	Range between 29 to 32 days dependent on length of service plus public holidays.
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 six months and 50% for following six months, after 5 years' service.
Non- compete	Various non-compete clauses are included in all executive director contracts and seek to prevent the poaching of NHBC employees within 12 months of leaving.
Contract dates	The dates of current contract commencement for current directors are as follows: • Paul Hosking – 23 January 2017 • Neil Jefferson – 1 April 2012 • Steve Wood – 30 June 2017

Policy on payment for loss of office

There is no pre-determined special provision for compensation for loss of office. The Remuneration 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 Remuneration 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 Remuneration Committee, there may be a payment of a pro rata bonus for the relevant year at the discretion of the Remuneration Committee.

The treatment of leavers under the 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 Remuneration Committee be made earlier than the normal payment date.

Non-Executive Directors

Table 5 below sets out details of the company's remuneration policy for non-executive directors, which remains unchanged from prior year.

Table 5: Non-Executive directors' conditions of employment

Element, purpose and link to strategy	Operation
Chairman and non-executive directors' fees	Non-executive directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairmanship of Board committees and membership of the Board Risk Committee or Audit Committee.
To attract individuals of skills and experience to serve as Chairman and as a non-executive director	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.

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 6 below:

Table 6: Non-Executive Directors key terms of appointment

Provision	Policy
Period	Under the Articles, NHBC appoints 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 year 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 9.
Time commitment	Each director must be able to devote sufficient time to the role in order to discharge their responsibilities effectively.

Table 7 below shows the date of appointment of current non-executive directors as well as the date of the end of the appointment.

Table 7: Non-Executive Director appointments

	Date of appointment	Appointment end date
Isabel Hudson	1 June 2011	31 May 2020
Paul Bishop	1 November 2016	31 October 2019
Ian Craston	16 September 2014	15 September 2020
Kate Davies	5 October 2016	4 October 2019
Jean Park	10 December 2012	9 December 2018
Sir Muir Russell	15 May 2012	14 May 2020
Dame Helena Shovelton	27 September 2012	26 September 2018
Stephen Stone	5 October 2016	4 October 2019

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 financial year ended 31 March 2018 and how the remuneration policy will be implemented for the year ending 31 March 2019. This is in accordance with the requirements of the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Function of the Remuneration Committee

The Remuneration Committee sets the remuneration for all NHBC employees including the executive directors. The Remuneration Committee comprises of non-executive directors only. The Remuneration Committee report on page 50 outlines its function, membership, attendance, and activities undertaken during the financial year.

Alignment of company strategy with executive remuneration

The Remuneration Committee considers alignment between NHBC's strategy and the remuneration of its executive directors to be critical. NHBC's remuneration policy provides market competitive remuneration and incentivises executive directors to achieve both the annual business plan and longer term strategic objectives of the NHBC. 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.

Implementation of remuneration policy for financial year ending 31 March 2019

The implementation of the policy will be consistent with that outlined in the policy report.

Basic salaries

The Remuneration Committee reviews directors' salaries at the same time as it looks at salaries for the whole employee population and awards any increases for executive directors in the same way as NHBC's wider employee group. In awarding any pay increases, the Remuneration Committee considers affordability, negotiations with the Staff Association, and latest benchmarked pay data across the diverse range of role profiles in the industry.

The executive directors' salaries were reviewed in May 2018. The changes for the current serving Executive Directors are set out in table 8 below.

Table: 8 Executive directors' salaries

£		From 1 July 2018	From 1 July 2017
Paul Hosking	Chief Financial Officer	210,740	205,200
Neil Jefferson	Chief Operating Officer	206,427	169,950
Steve Wood	Chief Executive	300,000	285,000

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 directors' bonuses will be calculated with a weighting of 60% attributed to overall company performance and 40% on personal objectives.

The precise details of the bonus targets for the year ending 31 March 2019 are not being disclosed due to commercial sensitivity. An explanation of the bonus payments relating to 31 March 2019 performance together with performance against measures and targets will be presented in the Directors' Remuneration Report for the year ending 31 March 2019.

Pension

Executive directors all receive payments into their defined contribution pension schemes 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's fees took place following the financial year. The review involved considering a number of key factors including market pressures, time commitment and, increasingly, the regulatory environment. As a result of this, there were increases to non-executive director remuneration as detailed below in table 9.

Table 9: Fees to be paid to the Chairman and non-executive directors

£	From 1 July 2018	From 1 July 2017
Chairman of the company	141,838	138,109
Board membership	40,000	38,988
Additional fees are paid as follows:		
Senior independent director	3,160	3,160
Committee Chairman (per committee chaired)	9,000-12,000	9,000-12,000
Additional committee membership fee (for membership of Audit Committee or Board Risk Committee)	3,000	3,000

Single total figures of remuneration for executive directors (audited information)

Table 10 below sets out in the total remuneration, for the financial year ended 31 March 2018, for each of the executive directors who served with the company during the year.

Table 10: Remuneration for executive directors for the financial year ended 31 March 2018

£'000s	Salary[1]	Allowances[2]	Taxable benefit[3]	Pension[4]	Annual bonus award[5]	Compensation for loss of office	Total
Ian Davis[6]	120	36	1	-	46	263	**466**
Paul Hosking	194	59	2	-	79	-	**334**
Neil Jefferson	197	58	2	-	78	-	**335**
Steve Wood[7]	215	35	8	-	103	-	**361**

1. The salary amounts quoted above represent basic salary less any salary sacrifice arrangements
2. Include entitlements taken as cash such as car or pension benefits
3. Taxable benefits comprise private medical insurance and accommodation
4. Pension reflects either the defined contribution pension scheme payments or cash if they are impacted by the relevant lifetime or annual allowances
5. The annual bonus stated is that awarded in the financial year
6. Ian Davis resigned as Operations Director on 23 November 2017
7. Steve Wood was appointed as the Chief Executive Director on 30 June 2017

As a comparative for above table 10, table 11 below sets out in the total remuneration, for the financial year ended 31 March 2017, for each of the executive directors who served with the company during that year.

Table 11: Remuneration for Executive Directors for the financial year ended 31 March 2017

£'000s	Salary[1]	Allowances[2]	Taxable benefit[3]	Pension[4]	Annual bonus award[5]	Compensation for loss of office	Total
Ian Davis[6]	156	48	2	-	54	-	**260**
Paul Hosking[7]	72	6	1	11	25	-	**115**
Neil Jefferson	182	41	2	12	70	-	**307**
Chris Rash[8]	177	34	1	7	-	-	**219**
Mike Quinton[9]	292	72	2	-	-	-	**366**

1. The salary amounts quoted above represent basic salary less any salary sacrifice arrangements
2. Include entitlements taken as cash such as car or pension benefits
3. Taxable benefits comprise private medical insurance
4. Pension reflects either the defined contribution pension scheme payments or cash if they are impacted by the relevant lifetime or annual allowances
5. The annual bonus stated is that awarded in the financial year
6. Ian Davis resigned as Operations Director on 23 November 2017
7. Paul Hosking was appointed as Chief Financial Officer on 23 January 2017
8. Chris Rash resigned as the Chief Financial Officer and Commercial Director on 26 December 2016
9. Mike Quinton resigned as Chief Executive Officer on 31 January 2017

Table 12 below provides additional information on the deferred bonus for each of the executive directors who served the company during the financial year ended 31 March 2018.

Table 12: Deferred bonuses per executive director

£'000	Annual bonus award	Annual bonus payable in year ending 31 March 2019	Annual bonus deferred	Deferred bonus as at 31 March 2017	Amount of bonus paid with respect to prior year bonus awards	Deferred bonus as at 31 March 2018
Ian Davis[1]	46	(28)	18	54	(22)	**50**
Paul Hosking	79	(47)	32	10	-	**42**
Neil Jefferson	78	(47)	31	62	(22)	**71**
Steve Wood[2]	103	(51)	52	-	-	**52**

1. Ian Davis resigned as Operations Director on 23 November 2017
2. Steve Wood was appointed as the Chief Executive Director on 30 June 2017

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

Annual bonus

Table 13 below sets out NHBC's performance against the company bonus targets for the financial year ended 31 March 2018.

Table 13: NHBC performance against bonus targets

	Weighting (% of total opportunity)		
	Target	**Stretch**	**Actual**
Financial (profit, capital and expenditure)	40.0	80.0	38.4
Consumer	20.0	40.0	20.0
Raising of house building standards	20.0	40.0	20.6
Reputation	10.0	20.0	0.0
Employee engagement	10.0	20.0	13.5
	100.0	**200.0**	**92.5**

The individual performance by each executive director is then applied to the company performance to determine the total bonus opportunity available. Table 14 below presents, for the executive directors that served in the financial year, their performance against the annual incentive plan.

Table 14: Performance in financial year ended 31 March 2018 against annual incentive plan

	Target (%)	Stretch (%)	Actual (%)
Ian Davis	40.0	80.0	38.2
Paul Hosking[1]	40.0	80.0	38.2
Neil Jefferson	40.0	80.0	38.2
Steve Wood[2]	50.0	100.0	47.8

1. Paul Hosking was appointed as a Director on 23 January 2017
2. Steve Wood was appointed on 30 June 2017

Pension

Executive directors have the opportunity to participate in the defined contribution pension 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 the year ended 31 March 2018 for non-executive directors (audited information)

Table 15: Non-Executive Directors' remuneration

£'000	2018	2017
Stewart Baseley[1]	-	49
Paul Bishop[2]	48	18
Ian Craston	51	49
Kate Davies[3]	39	20
Greg Fitzgerald[4]	-	12
Sir John Harman[5]	38	49
Isabel Hudson[6]	156	149
Jean Park	54	51
Sir Muir Russell	58	57
Dame Helena Shovelton	51	49
Stephen Stone[7]	42	19
	537	**521**

1 Stuart Baseley retired from the Board on 31 March 2017

2 Paul Bishop was appointed to the Board on 1 November 2016

3 Kate Davies was appointed to the Board on 5 October 2016

4 Greg Fitzgerald retired from the Board on 31 July 2016

5 Sir John Harman retired from the Board on 31 December 2017

6 Isabel Hudson was appointed Executive Chairman on 1 February 2017 until 29 June 2017 and her remuneration was increased to reflect the interim role

7 Stephen Stone was appointed to the Board on 5 October 2016

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 fully carry out 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.

Consideration by the directors of matters relating to directors' remuneration

The Remuneration 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 Remuneration 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 Board Risk Committee to ensure that risk and risk appetites 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 reward for performance;
- 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 Remuneration Committee are available from the Company Secretary.

Approval by the Board

The Directors' Remuneration Report was reviewed and approved by the Board on 16 August 2018.

Sir Muir Russell

Chairman of the Remuneration Committee

Financial statements

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

Report on the audit of the financial statements

Opinion

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 2018 and of the group's loss for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of National House-Building Council (the parent company) and its subsidiaries (the Group) which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters. The key audit matter that we identified in the current year was the valuation of gross insurance claims reserves. In addressing this matter, we focused our efforts on:

- The methodology and assumptions applied in valuing the actuarial best estimate for Attritional, Large and Exceptional Loss claims;
- The data, methodology and assumptions applied in determining the actuarial best estimate for cladding claims; and
- The methodology and assumptions applied in setting the booked margin.

Materiality. The materiality that we used for the group financial statements was £4.49 million which approximates 1% of net assets.

Scoping. The parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited and NHBC Services Limited, were subject to a full scope audit.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of gross insurance claims reserves

Refer to page 101 (significant accounting policies) and page 134 (financial disclosures)

The gross insurance claims reserves comprise both claims outstanding and the unexpired risk reserve and as at 31 March 2018 total £626.4 million (2017: £690.5 million). The judgments which are made by management in determining both the actuarial best estimate and the margin for uncertainty are by far the most significant in terms of their impact on the group's financial position.

Specifically, we have identified the following three key areas of focus for our audit given their significance to the Group's result and the level of judgment involved:

- The methodology and assumptions applied in valuing the actuarial best estimate for Attritional, Large and Exceptional Loss claims;
- The data, methodology and assumptions applied in determining the actuarial best estimate for cladding claims; and
- The methodology and assumptions applied in setting the booked margin.

Key audit matter description	How the scope of our audit responded to the key audit matter
The methodology and key assumptions applied in valuing the actuarial best estimate for Attritional, Large and Exceptional Loss claims Attritional Loss claims relating to Sections 2 and 3 of NHBC's Buildmark product, as defined in note 24.1 to the financial statements, are projected based on historical claims experience using standard actuarial techniques. The Group estimates future House Rebuilding Cost Index ('HRCI') changes when projecting the future cost of these Attritional losses. This claims inflation assumption, which has a significant impact on the amount reserved given the long tail nature of the policies underwritten, has a high level of estimation uncertainty and we therefore identified this as a key audit matter. Furthermore, the Group uses complex	We have gained a detailed understanding of the end to end claims and reserving process, and assessed the design and implementation of selected controls. We have also tested the operating effectiveness of actuarial data reconciliations and have tied claims and policy data to source systems which provides assurance over the completeness and accuracy of the underlying data used in the Group's actuarial calculation. Having done this, we engaged our Deloitte actuarial experts to: • Assess and challenge the HRCI assumption used within the calculation, leveraging observable market data to benchmark the assumption and assess reasonableness; • Assess and challenge the frequency and

stochastic models to determine the future cost of Large Loss claims, defined as incurred claims between £1m - £10m, and Exceptional Loss claims, defined as incurred claims greater than £10m. Historical claims experience for Large Losses and Exceptional losses is more limited than for Attritional Losses, whereas the number of large sites on risk in recent years has increased. This increases the risk of claims of this nature arising in future. Management therefore exercises significant judgement in determining the frequency and severity assumptions used in reserving for Large and Exceptional Loss claims, which increases the risk of material misstatement of the balance either through error or fraud.	severity assumptions used for Large and Exceptional Losses by reviewing management's analysis and expert judgements that support the selected assumptions, and the justification for those assumptions; • Inspect and challenge the peer review report prepared by management's external actuarial expert in order to identify any material issues with management's methodology or assumptions; and • Assess the competence and objectivity of management's expert in their role as peer reviewer.
The data, methodology and assumptions applied in determining the actuarial best estimate for cladding claims Following the Grenfell Tower fire in 2017 and the resulting focus on cladding materials, the Group has assessed their exposure to future claims of this nature and reserved for them accordingly. This assessment involved a significant level of judgement and as a result we have identified the data, methodology and assumptions applied in determining the actuarial best estimate for cladding claims as a key audit matter.	We gained a detailed understanding of the process that management went through to determine the best estimate liability and assessed the design and implementation of key controls within this process. Having done this, we performed the following: • On a sample basis, we tested the completeness and accuracy of the data underpinning the calculation by inspecting and challenging evidence; • We engaged our Deloitte Actuarial experts to challenge the appropriateness of the methodology used for deriving the best estimate; and • We assessed and challenged the assumptions used in determining the best estimate by engaging our Deloitte Real Estate experts and challenging management's justification for the assumptions selected.

The methodology and assumptions applied in setting the booked margin The booked margin is derived by considering a range of adverse scenarios and which are added to the actuarial best estimate in order to allow for the inherent uncertainty in valuing the reserves. Due to the significant level of management judgement required in setting the margin, there is a risk that the scenarios selected and their respective weightings are not reasonable, leading to the possibility of manipulation of the booked reserve period on period.	We have engaged our actuarial experts to assist us in challenging management's qualitative and quantitative justifications for the margin held over the actuarial best estimate, including the scenarios selected, each scenario's respective weighting, and the key assumptions applied within each scenario. In addition to this, we have analysed the consistency of the margin with previous reporting periods through inspection of the peer review report prepared by management's external actuarial expert and assessing the booked reserves against their estimate year on year.

Key observations for this key audit matter

We have determined the valuation of gross insurance claims reserves to be reasonable. In making this determination we observed that the assumptions used to derive these reserves are within a reasonable range.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£4.49 million	£4.27 million
Basis for determining materiality	Materiality was determined as approximately 1% of net assets.	Materiality was determined as approximately 0.95% of net assets.

	The majority of the Group's operations are carried out by the parent company. We determined that the critical benchmark for the Group was net assets.
Rationale for the benchmark applied	National House-Building Council is a non-profit distributing organisation and the primary users of the financial statements are the council members, who look to the accumulated reserves and the stability of the company that is limited by guarantee to gain comfort over the Group's ability to settle insurance claims as they fall due.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £225k for the group and £213k for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The scope of our Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

This resulted in the parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited and NHBC Services Limited, being subject to a full scope audit. These three entities represent the principal trading and service operations of the Group and account for 100% of the Group's net assets, 100% of the Group's gross earned premium and 100% of the Group's loss.

The Group audit team was responsible for all of the entities listed above, including the Parent Company.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other Matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on May 2016 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 March 2016 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Adam Addis (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

16 August 2018

Consolidated statement of comprehensive income

Technical account – general business

		2018		2017	
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	8	**82,459**		89,053	
Outward reinsurance premiums		**(9,310)**		(10,586)	
Net premiums written		**73,149**		78,467	
Change in the gross provision for unearned premiums		**(27,325)**		(26,750)	
Change in the provision for unearned premiums, reinsurers' share		**3,777**		5,944	
Change in the net provision for unearned premiums		**(23,548)**		(20,806)	
Earned premium, net of reinsurance			**49,601**		57,661
Allocated investment return transferred from the non-technical account			**(4,339)**		107,288
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		**(94,636)**		(84,812)	
- Reinsurers' share		**-**		3	
Net claims paid		**(94,636)**		(84,809)	
Change in provision for claims					
- Gross amount		**(7,346)**		(4,756)	
- Reinsurers' share		**5,231**		-	
Change in the net provision for claims		**(2,115)**		(4,756)	
Claims incurred, net of reinsurance			**(96,751)**		(89,565)
Changes in unexpired risk reserve, net of reinsurance			**39,895**		7,272
Net operating expenses	11		**(5,276)**		(2,930)
Balance on the technical account for general business			**(16,870)**		79,726

Consolidated statement of comprehensive income

Non-technical account

		2018		2017	
	Note	£'000	£'000	£'000	£'000
Balance on the general business technical account			**(16,870)**		79,726
Investment income	12		**46,485**		55,010
Unrealised gains on investments		**8,395**		65,692	
Unrealised losses on investments		**(45,037)**		(10,566)	
Net unrealised (losses) / gains on investments	12		**(36,642)**		55,126
Investment expenses and charges			**(1,967)**		(2,848)
Allocated investment return transferred to the general business technical account			**4,339**		(107,288)
Other income	8		**76,877**		73,664
Other charges			**(85,998)**		(86,199)
(Loss) / profit on ordinary activities before taxation			**(13,776)**		67,191
Tax on (loss) / profit on ordinary activities	16		**310**		(2,044)
(Loss) / profit for the financial year			**(13,466)**		65,147
Other comprehensive income					
Remeasurements of net defined benefit obligation	28	**10,673**		(16,817)	
Movement on deferred tax relating to pension deficit	20	-		(6,665)	
Revaluation of tangible assets		**58**		21	
Other comprehensive income for the year, net of tax			**10,731**		(23,461)
Total comprehensive income for the year			**(2,735)**		41,686

Consolidated statement of financial position

	Note	2018 £'000	2017 £'000
Assets			
Investments			
Land and buildings	17	**9,871**	9,776
Other financial investments		**1,546,007**	1,562,096
		1,555,878	1,571,872
Reinsurers' share of technical provisions			
Provision for unearned premiums		**46,641**	42,864
Claims outstanding		**5,231**	-
Unexpired risk reserve		**2,542**	34,006
	23	**54,414**	76,870
Debtors			
Debtors arising out of direct insurance operations	19	**5,438**	5,020
Deferred tax	20	**-**	10
Other debtors	19	**7,704**	6,426
		13,142	11,456
Other assets			
Tangible assets	21	**1,818**	1,847
Cash at bank and in hand		**14,427**	33,345
		16,245	35,192
Prepayments and accrued income			
Accrued interest and rent		**16,224**	14,120
Deferred acquisition costs	22	**11,577**	11,582
Other prepayments and accrued income		**7,510**	8,305
		35,311	34,007
Total assets		**1,674,990**	1,729,397

	Note	2018 £'000	2017 £'000
Liabilities			
Reserves			
Revaluation reserve		**305**	247
Retained earnings		**462,145**	464,938
		462,450	465,185
Technical provisions			
Provision for unearned premiums		**436,851**	409,526
Claims outstanding		**282,956**	275,610
Unexpired risk reserve		**343,492**	414,851
	23	**1,063,299**	1,099,987
Creditors			
Creditors arising out of direct insurance operations	27	**32,862**	34,877
Other creditors	27	**10,490**	10,765
		43,352	45,642
Accruals and deferred income		**73,893**	70,684
Defined benefit pension plan deficit	28	**31,996**	47,899
Total liabilities		**1,674,990**	1,729,397

The notes on pages 94 to 153 are an integral part of these financial statements.

The financial statements on pages 85 to 153 were authorised for issue by the Board of directors on 16 August 2018 and were signed on its behalf.

P Hosking

(Chief Financial Officer)

Company registration 00320784

Company statement of financial position

	Note	2018 £'000	2017 £'000
Assets			
Investments			
Land and buildings	17	**9,871**	9,776
Investments in group undertakings and participating interests	18	**5,189**	9,090
Other financial investments		**1,546,007**	1,562,096
		1,561,067	1,580,962
Reinsurers' share of technical provisions			
Provision for unearned premiums		**46,641**	42,864
Claims outstanding		**5,231**	-
Unexpired risk reserve		**2,542**	34,006
	23	**54,414**	76,870
Debtors			
Debtors arising out of direct insurance operations	19	**5,438**	5,020
Deferred tax	20	**-**	-
Other debtors	19	**5,811**	4,435
		11,249	9,455
Other assets			
Tangible assets	21	**1,818**	1,847
Cash at bank and in hand		**14,150**	33,180
		15,968	35,027
Prepayments and accrued income			
Accrued interest and rent		**16,224**	14,120
Deferred acquisition costs	22	**11,577**	11,582
Other prepayments and accrued income		**7,177**	7,924
		34,978	33,626
Total assets		**1,677,676**	1,735,940

	Note	2018 £'000	2017 £'000
Liabilities			
Reserves			
Revaluation reserve		**5,394**	9,237
Retained earnings		**456,231**	455,948
		461,625	465,185
Technical provisions			
Provision for unearned premiums		**437,675**	409,526
Claims outstanding		**282,956**	275,610
Unexpired risk reserve		**343,492**	414,851
	23	**1,064,123**	1,099,987
Creditors			
Creditors arising out of direct insurance operations	27	**32,862**	34,877
Other creditors	27	**18,973**	23,306
		51,835	58,183
Accruals and deferred income		**68,097**	64,686
Defined benefit pension plan deficit	28	**31,996**	47,899
Total liabilities		**1,677,676**	1,735,940

The notes on pages 94 to 153 are an integral part of these financial statements.

The financial statements on pages 85 to 153 were authorised for issue by the Board of directors on 16 August 2018 and were signed on its behalf.

P Hosking

(Chief Financial Officer)

Consolidated statement of changes in equity

	Retained earnings £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2016	423,273	226	423,499
Profit as restated	65,147	-	65,147
Other comprehensive income for the year	(23,482)	21	(23,461)
Total comprehensive income for the year	41,665	21	41,686
Balance as at 31 March 2017	**464,938**	**247**	**465,185**
Loss for the year	(13,466)	-	(13,466)
Other comprehensive income for the year	10,673	58	10,731
Total comprehensive income for the year	(2,793)	58	(2,735)
Balance as at 31 March 2018	**462,145**	**305**	**462,450**

Company statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2016	418,395	5,171	423,566
Profit as restated	61,035	-	61,035
Other comprehensive income for the year	(23,482)	4,066	(19,416)
Total comprehensive income for the year	37,553	4,066	41,619
Balance as at 31 March 2017	**455,948**	**9,237**	**465,185**
Loss for the year	(10,390)	-	(10,390)
Other comprehensive income for the year	10,673	(3,843)	6,830
Total comprehensive income for the year	283	(3,843)	(3,560)
Balance as at 31 March 2018	**456,231**	**5,394**	**461,625**

Consolidated statement of cash flows

	Note	2018 £'000	2017 £'000
Net cash from operating activities before interest received	31	**(100,291)**	(28,780)
Interest received		**34,358**	37,631
Taxation (paid) / received		**(1,065)**	22,936
Net cash generated from operating activities		**(66,998)**	31,787
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(845)**	(747)
Receipts from disposal of tangible fixed assets		**-**	7,113
Payments to acquire land and buildings	17	**(4)**	(5)
Receipts from disposal of land and buildings		**-**	400
		(849)	6,761
Net (decrease) / increase in cash and cash equivalents		**(67,847)**	38,548
Capital gains on cash and cash equivalents		**-**	102
Cash and cash equivalents at the beginning of the year		**105,552**	66,902
Cash and cash equivalents at end of year		**37,705**	105,552
Cash and cash equivalents consists of:			
Cash at bank and in hand		**14,427**	33,345
Deposits with credit institutions (included in other financial investments)		**36**	325
Treasury bills and liquidity funds (included in other financial investments)		**23,242**	71,882
Cash and cash equivalents		**37,705**	105,552

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).

The consolidated financial statements for the year ended 31 March 2018 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 Great British Pound (GBP), 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 loss for the year was £10.4m (2017: profit of £61.0m).

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 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	Related accounting policies and notes
Insurance and reinsurance contracts	Determination of builder behaviour assumptions Determination of exceptional losses assumptions Determination of cost inflation assumption	Note 5.9 - Insurance contracts Note 23 – Insurance contract liabilities and associated reinsurance
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
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 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" provides building control service, an optional service offered by the Group which assists builder customers in meeting Government-set Building Regulations.

The Inspection service and building control income is recognised by reference to the stage of completion of the contract.

Builders and developers require registration with NHBC in order to access the NHBC inspection service 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 on an accruals basis.

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.

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[2].

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.

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

- Freehold buildings - over a 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.

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[2] 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".

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
- 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 periods 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. 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 other creditors 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 GBP 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 GBP 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 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.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the consolidated statement of comprehensive income.

The fair value of foreign exchange contracts, which include spot, forward and futures contracts, is determined using forward exchange rates at the balance sheet date discounted back to present value.

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 on 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 and how they are managed through the Risk Management Framework are outlined on page 23.

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 most 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 insurance products.

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, claims history and plot registration price.

For Major Project 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 a 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 Reserving 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 insurance 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.

The following paragraphs describe significant components of market risk and how NHBC manages them.

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 five 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 112.

6.2.2 Inflation risk

Inflation risk is defined as the risk that:

- Actual inflation is different to what was expected and / or
- There is a change in the markets' view of future expected levels of inflation

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 gilts). 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 2018 7.0% (2017: 7.8%) 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.

Sensitivities to changes in equity prices are presented on page 112.

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.

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 below.

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 predominantly through its equity investments. The underlying investments of the equity funds are denominated in a wide selection of currencies. At 31 March 2018 overseas equities represented a majority (2017: majority) of equity investments.

During the year the Group started directly holding derivatives to mitigate the currency risk associated with its equity holding.

6.2.6 Derivative risk

The Group directly holds derivatives, in the form of foreign currency forward contracts, to partially mitigate the currency risk of its equity investments. The Group has no other derivative exposures.

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	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(15,882)**	(13,169)	**-**	-	**(15,882)**	(13,169)
Impact on equities of a 15% fall in equity markets	**(16,277)**	(18,229)	**-**	-	**(16,277)**	(18,229)
Decrease of property markets of 15%	**(1,380)**	(1,372)	**(101)**	(94)	**(1,481)**	(1,466)

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. The impact of the changes on the defined benefit pension liability is excluded.

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 setting the Group's risk appetite in respect of credit risk. Credit risk appetite is embedded within risk policies and contracts with external parties where credit risk is prevalent. The BRC, other Board sub-committees, and senior management monitor credit risk exposure through monthly and quarterly reporting.

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 in accordance with the Group's credit rating assignment methodology (second highest rating available from S&P, Moody's & Fitch approved credit rating agencies) at the time of purchase.

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 are 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-[3]. 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.

However, the Group holds certain security in relation to specific sections of its insurance product. At 31 March 2018 the Group held £28m (2017: £30m) 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 2018. 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	7,724	877,014	165,198	364,081	-	-	1,414,017
Equity and other variable yield securities	-	-	-	-	-	108,515	108,515
Derivatives	-	-	197	-	-	-	197
Reinsurers' share of insurance contract liabilities	-	29,339	8,501	-	-	16,574	54,414
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	-	-	-	-	-	11,559	11,559
Other debtors	-	-	-	-	-	1,583	1,583
Deferred tax asset	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	37,705	37,705
	7,724	**906,353**	**173,896**	**364,081**	**-**	**175,936**	**1,627,990**

[3] 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 2017. 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	22,271	846,035	164,149	335,906	-	-	1,368,361
Equity and other variable yield securities	-	-	-	-	-	121,528	121,528
Derivatives	-	-	-	-	-	-	-
Reinsurers' share of insurance contract liabilities	-	60,413	16,457	-	-	-	76,870
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	-	-	-	-	-	10,700	10,700
Other debtors	-	-	-	-	-	746	746
Deferred tax asset	-	-	-	-	-	10	10
Cash and cash equivalents	-	-	-	-	-	105,552	105,552
	22,271	906,448	180,606	335,906	-	238,536	1,683,767

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 2018.

	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	1,414,017	-	-	-	-	-	1,414,017
Equity and other variable yield securities	108,515	-	-	-	-	-	108,515
Derivatives	197	-	-	-	-	-	197
Reinsurers' share of insurance contract liabilities	54,414	-	-	-	-	-	54,414
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	6,480	3,615	690	932	186	(344)	11,559
Other debtors	1,583	-	-	-	-	-	1,583
Deferred tax asset	-	-	-	-	-	-	-
Cash and cash equivalents	37,705	-	-	-	-	-	37,705
	1,622,911	3,615	690	932	186	(344)	1,627,990

Table below represents the ageing of the financial and insurance assets held by the Group as at 31 March 2017.

	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	1,368,361	-	-	-	-	-	1,368,361
Equity and other variable yield securities	121,528	-	-	-	-	-	121,528
Derivatives	-	-	-	-	-	-	-
Reinsurers' share of insurance contract liabilities	76,870	-	-	-	-	-	76,870
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	7,112	2,366	990	276	204	(248)	10,700
Other debtors	746	-	-	-	-	-	746
Deferred tax asset	10	-	-	-	-	-	10
Cash and cash equivalents	105,552	-	-	-	-	-	105,552
	1,680,179	2,366	990	276	204	(248)	1,683,767

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:

	2018 £'000	2017 £'000
At 1 April	**248**	170
Impairment loss recognised	**(40)**	(18)
Bad debt provision recognised in year	**136**	96
At 31 March	**344**	248

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 2018:

	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	(83,197)	(54,463)	(88,311)	(47,884)	(9,101)	(282,956)	(282,956)
Trade creditors	(6,170)	-	-	-	-	(6,170)	(6,170)
Other creditors	(37,182)	-	-	-	-	(37,182)	(37,182)
	(126,549)	**(54,463)**	**(88,311)**	**(47,884)**	**(9,101)**	**(326,308)**	**(326,308)**

As at 31 March 2017:

	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	(83,318)	(53,594)	(85,773)	(46,226)	(6,699)	(275,610)	(275,610)
Trade creditors	(5,504)	-	-	-	-	(5,504)	(5,504)
Other creditors	(40,138)	-	-	-	-	(40,138)	(40,138)
	(128,960)	**(53,594)**	**(85,773)**	**(46,226)**	**(6,699)**	**(321,252)**	**(321,252)**

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:

- 45.0% in investments that share characteristics with the long-term liabilities of the Scheme, comprising of corporate bonds (15.0%) and Liability Driven Investments (30.0%)
- 55.0% in return-seeking assets comprising equities (15.0%), diversified growth funds (25.0%), multi asset credit (7.5%), and absolute return bonds (7.5%)

Note 28.1.4 discloses the value of the Scheme's investments

6.5.1.1 Investments – currency risk

The Scheme is subject to indirect currency risk from its investments in GBP priced pooled investment vehicles which hold underlying overseas equities denominated in foreign currency. To limit currency risk the Trustee has set a benchmark of investing 50% of the developed overseas equity allocation in pooled investment vehicles that hedge into GBP this indirect currency risk.

The Scheme's investment in diversified growth funds and an absolute return bond fund which all consist 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 their investment strategy with the aim of generating additional returns for the Scheme.

The Scheme's investment in multi-asset credit consists of underlying investments across a range of regions. This exposure is hedged into GBP as a matter of course by the manager.

Currency risk is also managed and mitigated through the strategic asset allocation in place for the Scheme.

6.5.1.2 Investments – interest rate risk

The Scheme is subject to interest rate risk because of the Scheme's indirect investments in government bonds, corporate bonds, and geared government bonds.

The Scheme's bond assets are invested under a Liability Driven Investment approach. At the year end, these assets were invested such that the nature and duration of the portfolio matches approximately 38% the Scheme's liabilities, with a view to increasing this to 50% by 30 September 2018. Under this strategy, if interest rates fall and all else is equal, the value of the matching investments will rise to match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise and all else is equal, the matching investments will fall in value, as will the actuarial liabilities due to an increase in the discount rate.

Residual interest rate risk remains since the matching assets only match a proportion of the liability sensitivity to interest rates.

The Scheme has an exposure to other fixed income assets through the diversified growth funds.

6.5.1.3 Investments – other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities and a diversified growth fund, multi-asset credit and absolute return bonds.

The Scheme has a target asset allocation of 55.0% of investments being held in return seeking investments. The Trustee manages and mitigates the risk associated with this exposure to overall price movements by constructing a diverse portfolio of investments across various markets, sectors and regions using a number of investment managers.

6.5.1.4 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 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 pooled investment arrangements used by the Scheme comprise unit-linked insurance contracts, unit trusts and other pooled investment vehicles. 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 Trustee 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 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 among 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.

The Scheme also invests in pooled investment vehicles which invest in sovereign government bonds, corporate bonds and other credit assets and cash. Furthermore, derivatives are used within the diversified growth funds and the absolute return bond fund. This exposes the Scheme to indirect credit risk.

Indirect credit risk in relation to underlying investments held in the corporate bond pooled investment vehicle is mitigated by the Trustee investing in a fund which holds bonds that are, in majority, at least investment grade credit rated investments. The investments in multi-asset credit, absolute return bonds and diversified growth funds can hold underlying credit assets which are non-investment grade. The Trustee invests in these funds with the view to adding value. Indirect credit risk within these funds is mitigated through diversification of the underlying securities to minimise the impact of default by any one issuer.

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 FRS 102 accounting standard 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. 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.

The Scheme does not currently hold investments to manage longevity risk. If in future affordable products become available, aimed at schemes similar in size and nature to this Scheme, that effectively mitigate such risk, the Trustee will consider these products.

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.

	2018	2017
Decrease discount rate by 0.25% (2017: 0.25%)	**£10m**	£13m
Increase inflation rate by 0.25% (2017: 0.25%)	**£9m**	£9m
Increase life expectancy by 1 year (2017: 1 year)	**£10m**	£9m

7 Capital management

The Group is headed by a company limited by guarantee, has no external shareholders, 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 capital is exclusively comprised of retained earnings and revaluation reserves.

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 and resilience including protecting capital from shocks or excessive volatility;
- to satisfy the requirements of Solvency II, policyholders and regulators; and
- to allocate capital efficiently to support growth.

There have been no changes to the Group's capital management objectives during the year.

The Group's capital position is kept under constant review by the Board, with the Capital Modelling and Reporting Committee reporting through the Executive Risk Committee and into the Board Risk Committee.

The Company is authorised by the UK's Prudential Regulation Authority (PRA). PRA classifies the Company as an insurance company. As a result, the Company must maintain capital resources as prescribed by the PRA through its Prudential Sourcebook.

Since 1 January 2016, the Company has been subject to the requirements of the Solvency II Directive and must hold sufficient capital to meet its 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 Company calculates its SCR in accordance with the Standard Formula prescribed in the Solvency II regulations. The Company aims to maintain own funds around 155% (the solvency ratio) of these minimum requirements over the medium term. At 31 March 2018, under Solvency II, the solvency ratio (unaudited) was 156% (2017: 154%).

The Company 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.

	2018		2017	
	£'000	**£'000**	£'000	£'000
Insurance activities		**82,459**		89,053
Other activities				
Inspection services	**62,305**		59,220	
Registration fee income	**5,806**		6,230	
Other services supporting the industry	**8,766**		8,214	
Other activities		**76,877**		73,664
		159,336		162,717

As well as inspection services performed under Buildmark contracts, 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.

	2018		2017	
	Credit & suretyship	**Miscel-laneous**	Credit & suretyship	Miscel-laneous
	£'000	**£'000**	£'000	£'000
Gross premiums written	**8,206**	**74,253**	15,867	73,186
Gross premiums earned	**10,002**	**45,132**	19,768	42,535
Gross claims incurred	**3,498**	**98,484**	2,280	87,288
Gross operating expenses	**483**	**4,757**	654	3,250
Reinsurance balance	**6,061**	**(37,827)**	(4,444)	(4,812)

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

10 Movements in prior year's claims provisions

	2018	2017
	£'000	£'000
Net claims provisions brought forward at 1 April	275,610	270,854
Net payments during the year in respect of these provisions	(91,759)	(77,999)
Net claims provisions carried forward in respect of claims provided at 1 April	(207,462)	(229,802)
Movement in prior year's provision	(23,611)	(36,947)

11 Net operating expenses

	2018	2017
	£'000	£'000
Acquisition costs	1,743	1,794
Decrease / (increase) in deferred acquisition costs provision	4	(836)
Administrative expenses	3,492	2,946
Reinsurance commission	37	(974)
	5,276	2,930

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

	2018	2017
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	123	53
Income from financial assets at fair value through consolidated statement of comprehensive income	35,863	37,025
Gains / (losses) on derivative contracts	3,306	-
Income from land and buildings	19	5
Net gains on the disposal of land and buildings	-	122
Net gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	7,174	17,805
	46,485	55,010
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	(1,967)	(2,848)
Net unrealised (losses) / gains on financial assets at fair value through consolidated statement of comprehensive income	(36,642)	55,126
	7,876	107,288

Net interest expense on the defined benefit pension scheme £1,270,000 (2017: £1,157,000) is recognised in other charges within the consolidated statement of comprehensive income.

Interest payable £Nil (2017: £52,000) in respect of taxation 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:

	2018	2017
Insurance activities	244	257
Other direct activities	816	840
Administration	192	202
	1,252	1,299

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

Staff costs for the above persons were:

	2018	2017
	£'000	£'000
Wages and salaries	**56,319**	54,842
Social security costs	**6,728**	6,470
Pension costs	**7,350**	7,264
	70,397	68,576

14 Director emoluments

	2018	2017
	£'000	£'000
Aggregate emoluments	**1,770**	1,757
Aggregate compensation for loss of office	**263**	-
Company pension contributions to defined contribution schemes	**-**	31
	2,033	1,788

Retirement benefits are accruing to no directors (2017: three) under the Group's defined contribution pension scheme and no directors (2017: 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:

	2018	2017
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	**361**	366

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

The Directors' remuneration report on page 56 provides further detailed disclosures of Directors' remuneration.

15 Profit on ordinary activities before taxation

Profit on ordinary activities is stated after:

15.1 Auditor remuneration

	2018	2017
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company and Group financial statements	170	204
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	10	9
- Other services pursuant to legislation, including the audit of the regulatory return	85	114
- Other services not included above	-	50
	265	377

15.2 Impairment of trade receivables

	2018	2017
	£'000	£'000
Impairment of trade receivables	136	96

15.3 Operating lease charges

	2018	2017
	£'000	£'000
Land and buildings	351	331
Motor vehicles	2,937	1,605
	3,288	1,936

During 2017 the Group disposed of its motor vehicle fleet and commenced a leasing agreement.

15.4 Research and development

	2018	2017
	£'000	£'000
Research and development expenditure expensed	1,049	-

16 Income tax

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

	2018		2017	
	£'000	**£'000**	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	**-**		501	
Adjustment in respect to prior periods	**(320)**		17	
Total current tax		**(320)**		518
Deferred tax				
Origination and reversal of timing differences	**(6,321)**		240	
Adjustment in respect of prior periods including impact of change in tax rate	**(110)**		469	
De-recognition of deferred tax asset	**6,441**		817	
Total deferred tax		**10**		1,526
		(310)		2,044

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

	2018	2017
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**1,814**	(2,859)
Impact of change in tax rate	**-**	1,000
De-recognition of deferred tax asset	**(1,814)**	8,524
	-	6,665

16.3 Reconciliation of tax charge

Tax assessed for the period is higher (2017: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2018 of 19% (2017: 20%). The differences are explained below:

	2018	2017
	£'000	£'000
(Loss) / profit on ordinary activities before tax	**(13,776)**	67,191
(Loss) / profit multiplied by the standard rate of tax in the UK of 19% (2017: 20%)	**(2,617)**	13,438
Effects of:		
- Income not chargeable for tax purposes	**(4,597)**	(4,087)
- Expenses not deductible for tax purposes and permanent differences	**32**	106
- Adjustments in respect of prior years	**(320)**	17
- Effect of change in accounting policy	**-**	(8,674)
- Adjustment to deferred tax charge in respect of previous periods	**751**	427
- Movement in un-provided deferred tax asset	**6,441**	817
	(310)	2,044

The income not chargeable for tax purposes relates to income and gains on the Group's investments. These adjustments are expected to be consistent in future years.

See note 20 for details of the un-provided deferred tax asset.

16.4 Tax rate changes

Finance Act 2016 received Royal Assent on 15 September 2016 and, as a result, reductions in the UK corporation tax rate to 19% with effect from 1 April 2017, and 17% with effect from 1 April 2020 have been enacted.

17 Land and buildings

The land and buildings have been revalued as at 31 March 2018.

	The Group and the Company
	£'000
Cost or valuation	
At 1 April	**9,863**
Additions	**4**
Revaluation	**166**
Disposals	**-**
At 31 March	**10,033**
Depreciation	
At 1 April	**87**
Charge	**164**
Revaluation	**(89)**
Disposals	**-**
At 31 March	**162**
Net book value at 31 March 2018	**9,871**
Net book value at 31 March 2017	9,776

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	
	2018	2017
	£'000	£'000
Freehold	**8,615**	8,490
Long leasehold	**670**	625
Short leasehold improvements	**586**	661
	9,871	9,776

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	
	2018	2017
	£'000	£'000
Cost	**14,115**	14,111
Accumulated depreciation based on cost	**(1,692)**	(1,490)
	12,423	12,621

The Group's reversal of previous impairment losses taken to the consolidated statement of comprehensive income amounted to £198,000 (2017: £72,000).

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

	2018	2017
	£'000	£'000
At 1 April	**9,090**	5,045
Revaluation	**(3,901)**	4,045
At 31 March	**5,189**	9,090
Analysed as:		
NHBC Building Control Services Limited	**4,194**	8,664
PRC Homes Limited	**270**	270
NHBC Pension Trustee Limited	**-**	-
NHBC Services Limited	**725**	156
	5,189	9,090

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2018 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 was valued in accordance with the Group's accounting policy as set out in note 5.6.

19 Debtors

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**5,438**	5,020	**5,438**	5,020
Debtors arising out of reinsurance operations	-	-	-	-
	5,438	5,020	**5,438**	5,020
Other debtors				
Trade debtors	**6,121**	5,680	**4,228**	3,597
Amount owed by subsidiary undertakings	-	-	-	92
Corporation tax	**916**	-	**916**	-
Other debtors	**667**	746	**667**	746
	7,704	6,426	**5,811**	4,435

Trade debtors includes £Nil (2017: £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 £344,000 (2017: £248,000).

20 Deferred tax asset

	Group	Company
	£'000	£'000
At 1 April	10	-
Charge to the consolidated statement of comprehensive income	(10)	-
Charge to other comprehensive income	-	-
At 31 March	-	-

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

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Excess of depreciation over capital allowances	-	10	-	-
Trade losses	-	-	-	-
Deferred tax related to defined benefit pension plan liability	-	-	-	-
Other timing differences	-	-	-	-
	-	10	-	-

The annual review of the recoverability of the deferred tax asset has indicated that it is not probable that the Group will generate the taxable profits required to support the recognition of the asset. Deferred tax assets of £14,081,000 (2017: £9,341,000) for the Group and £14,067,000 (2017: £9,341,000) for the Company, as at 31 March 2018, have not been recognised.

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 £216,000 based on a prevailing tax rate of 17% (2017: £214,000 at 17%).

21 Tangible assets

The Group and the Company	**Computer equipment**	**Fixtures and fittings**	**Total**
	£'000	**£'000**	**£'000**
Cost or valuation			
At 1 April	4,710	5,072	9,782
Additions	700	145	845
Disposals	-	-	-
At 31 March	**5,410**	**5,217**	**10,627**
Depreciation			
At 1 April	3,698	4,237	7,935
Charge	530	344	874
Disposals	-	-	-
At 31 March	**4,228**	**4,581**	**8,809**
Net book value at 31 March 2018	**1,182**	**636**	**1,818**
Net book value at 31 March 2017	1,012	835	1,847

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:

	2018	2017
	£'000	£'000
At 1 April	**11,582**	10,746
Acquisition costs deferred during the year	**1,743**	1,794
Amortisation	**(1,748)**	(958)
At 31 March	**11,577**	11,582

23 Insurance contract liabilities and associated reinsurance

The following notes explain how the Group, and the Company, 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 Group insurance contract provisions and related reinsurance assets as at 31 March 2018.

	2018			2017		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	(436,851)	46,641	(390,210)	(409,526)	42,864	(366,662)
Claims outstanding	(282,956)	5,231	(277,725)	(275,610)	-	(275,610)
Unexpired risk reserve	(343,492)	2,542	(340,950)	(414,851)	34,006	(380,845)
	(1,063,299)	54,414	(1,008,885)	(1,099,987)	76,870	(1,023,117)

The following is a summary of the Company insurance contract provisions and related reinsurance assets as at 31 March 2018.

	2018			2017		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	(437,675)	46,641	(391,034)	(409,526)	42,864	(366,662)
Claims outstanding	(282,956)	5,231	(277,725)	(275,610)	-	(275,610)
Unexpired risk reserve	(343,492)	2,542	(340,950)	(414,851)	34,006	(380,845)
	(1,064,123)	54,414	(1,009,709)	(1,099,987)	76,870	(1,023,117)

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, primarily insolvency of the builder, resulting in a loss of the homeowner's deposit.

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

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

24.2 General methodology

Estimation of the ultimate cost of future claim payments 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.

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 UK GAAP insurance contract liability calculations are based on NHBC's Solvency II best estimate methodology. Best estimate cash flows are projected for homogenous risk groupings using a combination of deterministic and stochastic approaches. Reinsurance recoveries are estimated by applying the relevant cash flows to NHBC's reinsurance cover.

To convert from Solvency II best estimate to UK GAAP, Solvency II specific elements are removed from the calculation and a margin reflecting the reasonably foreseeable requirement is added. The margin is selected by Management and is informed using a scenario approach.

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;
- Economic conditions - cost inflation (HRCI);
- Economic conditions - housing market; 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.

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.

Among other considerations, comparisons of claim frequencies between current and previously registered[4] 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 increased 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 Economic conditions – 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 / Retail Price Index (RPI) differential and combining it with the RPI assumptions has been taken.

24.4.5 Economic conditions – housing market

NHBC is exposed to changes in housing market conditions. When the housing market deteriorates a greater number of builders become insolvent exposing NHBC to more claims. These additional claims arise from the cover offered that is contingent on the builder being insolvent (or not honouring its obligations) or where the builder otherwise would have undertaken voluntary repairs.

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

24.4.6 Discount rate

Future investment returns are allowed for when assessing the present value of future liabilities. Consistent with the requirements for Solvency II, the UK GAAP liabilities are discounted using the EIOPA yield curve at the balance sheet date.

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:

	Group		**Company**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 April	**409,526**	382,776	**409,526**	382,776
Increase in provision	**27,325**	26,750	**28,149**	26,750
At 31 March	**436,851**	409,526	**437,675**	409,526

24.6 Movements in the gross provision for claims

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

	Group		**Company**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 April	**275,610**	270,854	**275,610**	270,854
Increase in provision	**7,346**	4,756	**7,346**	4,756
At 31 March	**282,956**	275,610	**282,956**	275,610

24.7 Movements in the gross unexpired risk reserve

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

	Group		**Company**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 April	**414,851**	426,740	**414,851**	426,740
Decrease in provision	**(71,359)**	(11,889)	**(71,359)**	(11,889)
At 31 March	**343,492**	414,851	**343,492**	414,851

24.8 Loss development tables[5]

The following table illustrates the movements in the net claims incurred by financial reporting and development years.

Development year

Financial reporting year

£'000	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15+	Claims incurred in the financial year ended 31 March 2018
Prior	314,114.	25,926	26,925	31,400	28,595	31,688	34,978	22,152	22,246	20,194	22,100	12,462	11,220	9,250	5,010	7,451	7,451
2004	26	527	2,909	2,762	4,111	4,637	6,630	6,606	6,676	9,021	10,271	10,383	6,684	2,368	4,451		4,451
2005	49	829	1,585	3,346	5,684	5,167	5,885	4,722	6,675	11,354	8,956	10,100	6,378	3,206			3,206
2006	18	513	1,490	3,497	6,966	5,632	6,667	7,577	7,362	9,408	8,264	7,246	6,770				6,770
2007	12	475	2,392	6,115	5,303	8,073	10,150	6,171	11,595	11,685	12,899	9,411					9,411
2008	37	947	2,862	3,910	7,555	5,318	9,729	12,870	12,356	16,600	13,437						13,437
2009	44	1,132	2,003	2,247	5,841	4,160	5,855	6,220	2,926	4,930							4,930
2010	94	633	2,430	2,556	3,796	3,077	3,614	3,332	5,423								5,423
2011	34	557	3,782	3,160	4,048	4,608	173	3,203									3,203
2012	35	677	2,266	1,809	2,790	2,075	2,137										2,137
2013	301	650	1,422	2,052	2,319	1,856											1,856
2014	89	742	1,376	2,772	2,738												2,738
2015	13	324	2,320	1,114													1,114
2016	-	278	1,359														1,359
2017	21	327															327
2018	-																-
																	67,813
Claims handling and other charge																	28,938
																	96,751

5 NHBC has not included full claims development tables as required by FRS 103 paragraph 4.8. Following the 2017 review of NHBC's reserving methodology and the consequential changes to the accounting policies it has not been practicable to prepare a set of gross and net developments that would fully meet the disclosure requirements of UK GAAP.

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:

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 April	**42,864**	36,920	**42,864**	36,920
Increase in provision	**3,777**	5,944	**3,777**	5,944
At 31 March	**46,641**	42,864	**46,641**	42,864

25.1 Movements in reinsurers' share of provision for claims

The following changes have occurred in the reinsurers' share of provision for claims during the year:

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 April	-	-	-	-
Increase in provision	**5,231**	-	**5,231**	-
At 31 March	**5,231**	-	**5,231**	-

25.2 Movements in reinsurers' share of the unexpired risk reserve

The following movements have occurred in the reinsurance asset during the year:

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 April	**34,006**	38,623	**34,006**	38,623
Decrease in provision	**(31,464)**	(4,617)	**(31,464)**	(4,617)
At 31 March	**2,542**	34,006	**2,542**	34,006

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.

		2018		2017	
Assumption	**Sensitivity tested**	**Gross liability**	**Net liability**	Gross liability	Net liability
	%	**£m**	**£m**	£m	£m
Increase in claim frequency	+2.0	**12.2**	**11.5**	12.1	11.1
Long-term HRCI inflation	+1.0	**51.7**	**48.6**	51.1	44.4
Discount rate	-0.25	**13.3**	**12.5**	13.8	12.8

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.

27 Creditors

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**5,235**	4,847	**5,235**	4,847
Builder deposits	**27,627**	30,030	**27,627**	30,030
	32,862	34,877	**32,862**	34,877
Other creditors				
Trade creditors	**935**	657	**935**	657
Amount due to subsidiary undertakings	**-**	-	**9,556**	14,128
Corporation tax	**-**	501	**-**	-
Other taxation and social security	**5,605**	5,970	**4,601**	4,912
Derivative financial instruments	**801**	-	**801**	-
Other creditors	**3,149**	3,637	**3,080**	3,609
	10,490	10,765	**18,973**	23,306

Amounts due to subsidiary undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is accrued with reference to LIBOR.

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	2018 £'000	2017 £'000
Defined benefit pension scheme	28.1		
Total market value of Scheme assets		**207,093**	203,415
Present value of Scheme liabilities		**(239,089)**	(251,314)
Deficit in the Scheme		**(31,996)**	(47,899)

The amount recognised in the consolidated statement of comprehensive income is as follows:

	Note	2018 £'000	2017 £'000
Defined benefit pension scheme	28.1		
Current service cost		-	-
Net interest expense		**1,270**	1,157
		1,270	1,157
Defined contribution pension scheme	28.2	**7,350**	7,264
		8,620	8,421

The amount recognised in the consolidated statement of comprehensive income is as follows:

	Note	2018 £'000	2017 £'000
Defined benefit pension scheme	28.1		
Experience gains on assets		**89**	18,790
Actuarial gains / (losses) on liabilities		**2,704**	(37,326)
Experience gains on liabilities		**7,880**	1,719
		10,673	(16,817)

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 2017. In order to value the defined benefit obligation at 31 March 2018, 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 £6,500,000 during the year ended 31 March 2018.

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 2017 by Towers Watson, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2018	2017
	%	%
Consumer price inflation	**2.20**	2.25
Retail price inflation	**3.20**	3.25
Rate of increases (normally indexed)	**3.50**	3.25
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**2.75**	2.65

It was assumed that members commute 25% 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 (2017) 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 2018 are 23 (2017: 23) years and 26 (2017: 26) 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 £'000	Liabilities £'000	Total £'000
At 1 April 2017	203,415	(251,314)	(47,899)
Interest income / (expense)	5,283	(6,553)	(1,270)
Benefits paid	(8,382)	8,382	-
Actuarial loss on change of assumptions	-	2,704	2,704
Experience loss on liabilities	-	7,880	7,880
Change in value of money purchase transfer funds	188	(188)	-
Company contributions	6,500	-	6,500
Return on plan assets excluding interest income	89	-	89
At 31 March 2018	**207,093**	**(239,089)**	**(31,996)**

28.1.3 Total cost recognised as an expense

	2018 £'000	2017 £'000
Current service cost	-	-
Interest expense	**6,553**	7,429
	6,553	7,429

28.1.4 Fair value of Scheme assets

	2018 £'000	2017 £'000
Equity instruments	**31,158**	35,753
Liability driven investments	**57,806**	-
Corporate debt instruments	**30,659**	89,430
Diversified growth funds	**61,116**	60,132
Diversified Credit Fund	**15,379**	14,917
Other and cash and cash equivalents	**10,975**	3,183
	207,093	203,415

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

	2018	2017
	£'000	£'000
Interest income	**5,283**	6,272
Return on plan assets excluding interest income	**89**	18,362
	5,372	24,634

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
31 March 2019	**8,000**
31 March 2020	**8,000**
31 March 2021	**8,000**
31 March 2022	**8,000**
31 March 2023	**8,000**
31 March 2024	**8,000**
	48,000

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:

	2018	2017
	£'000	£'000
Current period contributions	**7,350**	7,264

At 31 March 2018 contributions of £Nil (2017: £591,000) were outstanding.

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.

		2018			2017		
		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	-	9,871	9,871	-	9,776	9,776
Other financial investments		1,546,007	-	1,546,007	1,562,096	-	1,562,096
		1,546,007	9,871	1,555,878	1,562,096	9,776	1,571,872
Liabilities at fair value							
Derivative financial instruments		801	-	801	-	-	-

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.

		2018			2017		
		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	-	9,871	9,871	-	9,776	9,776
Investments in group undertakings and participating interests	18	-	5,189	5,189	-	9,090	9,090
Other financial investments		1,546,007	-	1,546,007	1,562,096	-	1,562,096
		1,546,007	15,060	1,561,067	1,562,096	18,866	1,580,962
Liabilities at fair value							
Derivative financial investments		801	-	801	-	-	-

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 134. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 144.

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 134.

		Group		Company	
		2018	2017	**2018**	2017
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value [6]					
Index-linked gilts		**695,872**	631,472	**695,872**	631,472
Fixed interest gilts		**127,032**	162,321	**127,032**	162,321
Corporate bonds		**591,113**	574,568	**591,113**	574,568
UK treasury bills and short-term deposits		**23,242**	71,882	**23,242**	71,882
Shares and other variable yield		**108,515**	121,528	**108,515**	121,528
Derivative financial instruments		**197**	-	**197**	-
		1,545,971	1,561,771	**1,545,971**	1,561,771
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**11,559**	10,700	**9,666**	8,617
Other debtors	19	**1,583**	746	**1,583**	746
Amounts owed by group undertakings	19	**-**	-	**-**	92
Deposits with credit institutions		**36**	325	**36**	325
Cash at bank		**14,427**	33,345	**14,150**	33,180
		27,605	45,116	**25,435**	42,960
Financial assets that are equity instruments measured at cost less impairment		**-**	-	**-**	-
Financial liabilities measured at fair value					
Derivative financial instruments	27	**801**	-	**801**	-
Financial liabilities measured at amortised cost					
Trade creditors	27	**6,170**	5,504	**6,170**	5,504
Other creditors	27	**36,381**	40,138	**35,308**	38,551

[6] 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.

Amounts owed to group undertakings	27	**-**	-	**9,556**	14,128
		42,551	45,642	**51,034**	58,183

30.1 Derivative financial instruments

The Group enters into forward foreign currency contracts to mitigate the currency risk for certain overseas equities. At 31 March 2018, the outstanding contracts all mature within two months of the year end. The Group is committed to sell a basket of foreign currencies for £50.2m (2017: £nil). At 31 March 2018 the corresponding fair value of the currencies was £50.8m (2017: £nil), generating a net derivative liability of £0.6m (2017: £nil).

31 Note to the statement of cash flows

The table below presents the Group's net cash flow from operating activities, excluding interest received, reconciled to the profit reported in the consolidated statement of comprehensive income.

	2018	2017
	£'000	£'000
(Loss) / profit for the financial year	**(13,466)**	65,147
Tax on (loss) / profit on ordinary activities	**(310)**	2,044
(Loss) / profit on ordinary activities before tax	**(13,776)**	67,191
Depreciation and decrease in value of assets	**1,038**	2,507
Increase in revaluation reserve	**(197)**	(72)
(Decrease) / Increase in technical provisions	**(14,232)**	18,290
Realised gains on investments and fixed assets	**(11,084)**	(19,019)
Decrease / (increase) in unrealised gains on investments	**37,246**	(55,126)
Increase in insurance debtors	**(418)**	(57)
(Increase) / decrease in other debtors	**(362)**	1,033
Decrease / (increase) in prepayments and accrued income	**800**	(6,759)
(Decrease) / increase in insurance creditors	**(2,015)**	2,510
(Decrease) / increase in other creditors	**(575)**	26
Increase in accruals and deferred income	**3,209**	12,826
Accrued interest on current tax account	**-**	(95)
Differences on recognition of defined benefit pension scheme	**(5,230)**	(2,243)
Interest received	**(36,019)**	(37,078)
Payments to acquire investments	**(526,448)**	(1,094,232)
Receipts from disposal of investments	**467,772**	1,081,518
Net cash flow from operating activities before interest received	**(100,291)**	(28,780)

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 2018, 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:

	2018	2017
	£'000	£'000
Within one year	**2,436**	2,399
Between one and five years	**3,159**	3,373
Over five years	**-**	181
	5,595	5,953

The Group and the Company did not have any contracts under a finance lease arrangement.

35 Events after the end of the reporting period

After the period end, NHBC have accepted an insurance claim at New Capital Quay which is in the process of being agreed with the concerned parties. This has been provided for in the 31 March 2018 reserves.

36 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, was a director of The Housing Forum Limited (Housing Forum) prior to his resignation from both positions in November 2017. 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.

	2018	2017
	£'000	£'000
Sales to the Housing Forum	**41**	41
Purchases from the Housing Forum	**11**	11
Amount due to NHBC	**-**	27

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.

	2018	2017
	£'000	£'000
Purchases from ZCH	**-**	-
Amount due to NHBC	**-**	8

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, was a director of CCHB prior to his resignation from both positions in November 2017. The table below presents transactions with the CCHB.

	2018	2017
	£'000	£'000
Contributions to CCHB	**119**	131
Amount due from NHBC	**-**	-

See note 14 and directors' remuneration report for disclosure of the directors' remuneration.

37 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.

38 Liability of members

At 31 March 2018 there were 54 (2017: 57) 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.