Registered No: 00320784

National House-Building Council

(a Company limited by guarantee)

Annual Report and Accounts

2020/21

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Contents

Chair's statement

The last year has been a very challenging one, testing all of us in both our personal and business lives. I am very pleased to report that, despite the difficulties we have all faced, NHBC has continued to deliver for our registered customers and homeowners throughout the pandemic, whilst at the same time improving our financial performance and laying the foundations to take our business forward in the years ahead.

This has been driven by the extraordinary response of our people, many of whom have met and overcome significant personal and professional challenges brought about by Covid-19. On behalf of the Board, I would like to thank each and every one of them for their perseverance and commitment, their hard work and focus over the last 12 months.

House building has recovered well over the course of the year, despite the impact of the closure of sites caused by the first lockdown in March and April 2020. We worked closely with our registered customers during this period, supporting them as they began to re-open sites. We took the difficult decision to furlough many of our own staff in the second quarter of the year, bringing teams back as the demand for inspection and technical services increased throughout the summer months, and got back close to pre-pandemic levels by the final quarter of the year.

Our Claims team supported homeowners through the whole period, switching to working remotely when lockdown began. Where Government guidance allowed, we put in place Covid-secure working practices to ensure that our people could visit homeowners in their home and that remedial works could be carried out as required. We recognise that this has been a particularly difficult time for those homeowners who have experienced problems with their home, and we are grateful for their understanding and co-operation with our teams.

Despite the operational challenges and economic uncertainty the pandemic brought, we have remained focused on achieving the objectives I set out in last year's Annual Report. Critical to these was the creation of a strong financial platform from which to deliver transformative business change to support our drive to continue to raise the quality of new homes and protect homeowners.

After three successive years of losses, I am very pleased that we are reporting a profit this year, which is testament to the work we have undertaken to sharpen our commercial focus and achieve sustainable, long-term financial security. We have strengthened our solvency ratio and started to rebuild our capital base during the year through the purchase of adverse development protection within our reinsurance programme. This gives us a much sounder platform for our continued evolution and development. Despite the significant warranty price rises that took effect during the year, we have retained our customers who see the all-round value that NHBC brings in support of their ambitions to deliver high-quality homes.

During the year, we undertook a comprehensive review of our business model. This has resulted in clear plans to transform NHBC into a more commercial, modern and agile business that is better able to meet the needs of homeowners and builders.

The house-building sector continues to be a high-profile one. We welcome increased Government scrutiny on the quality of new homes and on ensuring they are built safely. NHBC has played, and will continue to play, a significant role in responding to Government consultations and initiatives, with considerable input given to the Building Safety Bill, the New Homes Ombudsman and the Future Homes Standard.

The Queen's Speech on 11 May 2021 confirmed that the Building Safety Bill will be introduced to Parliament this session and become legislation in 2021/22. We have supported Government with our expertise and data in the technical development and practical application of this crucial area of policy for the house-building sector.

The New Homes Quality Board (NHQB) was established in February 2021 to oversee quality matters and the customer service provided to new home buyers from the marketing of new homes until the end of the first two years of ownership. Our Chief Executive Officer, Steve Wood, is a NHQB member, and we are fully supporting its vision to deliver improved consumer redress through the New Homes Quality Code and the anticipated establishment of a New Homes Ombudsman Service in this current year.

There will be further development of the Future Homes Standard and climate change agenda during 2021. We stand ready to support the industry in the necessary carbon reduction measures required to be delivered by 2025 as we move towards building new homes with world-leading levels of energy efficiency. Our research arm, the NHBC Foundation, contributes significantly in this area.

The new build housing market has outperformed many other sectors of the UK economy, supported in part by continuing stimulus from Government. The first lockdown resulted in activity essentially ceasing on site in April and May 2020, with a sharp fall in registrations. However, once Covid-secure working practices were established, there was a steady return to close-to-normal productivity levels by the autumn and, by the final quarter of our financial year, registrations had rebounded to above the level seen in the prior year.

Although demand for new build homes is strong in the short term, there are pressures in the supply chain, particularly in relation to materials where there is some scarcity and cost inflation. This may temper the speed of recovery in the new-build sector, despite the forward sales positions reported by major house builders. In addition, there remain uncertainties about the pace and shape of wider economic recovery in the UK, where inflationary risks seem to be rising. On balance, we expect a gradual recovery in the new build sector, but we will need to remain alert to possible adverse trends affecting costs, quality and volumes.

We believe UK housing remains an attractive asset class for inward investment, as evidenced by growing activity in the Build to Rent sector, and Homes England plans to help deliver 130,000 affordable homes by 2026. We will increasingly tailor our approach and services to the differing sectors within the housing market, to ensure we deliver the best prospect for quality homes being built for all residents, whether they be homeowners or tenants.

There remains considerable political will for the increased use of Modern Methods of Construction as part of the solution to increase supply, improve new home quality and help address skills and labour challenges. We are working with the industry on the use of innovative forms of construction, principally through our new NHBC Accepts service, which has been well received by manufacturers and which ensures acceptability for our Buildmark warranty product.

We are also investing in our training business across new pathways and subject areas to help address significant skills deficits in the industry. This includes apprenticeship programmes targeting site management and trades like bricklaying, supported by our new, hands-on Training Hub in Tamworth which opened in May 2021.

Looking ahead, we will continue to focus on ensuring we have a resilient financial platform from which to operate. This means maintaining a disciplined approach to operating expenditure, ensuring appropriate margins on our commercial activities and delivering the necessary returns on our insurance business. We will implement the findings of our business model review, redefining our service offering and modernising the business, as we build on our key strengths and deliver strongly for all our stakeholders.

Our firm belief remains in our core purpose of building confidence in the construction quality of new homes. The industry and homeowners benefit from our on-site inspection and technical support, as well as from remediation through our warranty product on the unfortunate occasions when things go wrong.

Whilst there are no Board changes to report this year, I would like to thank my Board colleagues and our senior leadership team for their unstinting hard work, common endeavour and mutual support during this unprecedented year.

Chair's statement

In closing, my thoughts return to NHBC's people. I am very proud of what we have achieved in this past year, of how many challenges we have overcome and how, despite all the difficulties, our resolute focus on delivering for our registered customers, homeowners and wider stakeholders has been maintained.

We have laid the foundations for a more robust, financially secure business. I am confident that we have a clear plan to build for the future, and to do so responsibly, safely and sustainably.

Alan Rubenstein

Chair

Chief Executive Officer's statement

As I reflect on the extraordinary challenges of 2020/21, I am extremely proud of NHBC's response. We have been remarkably resilient, driven by the attitudes and exceptional effort of our people, many of whom have faced significant difficulties brought about by the pandemic. I am very grateful for their continued commitment and unwavering drive to move the business forward and to serve our registered customers and homeowners.

Whilst the Covid-19 outbreak caused a sharp shock to the UK housing market and the wider economy last spring, the negative effect on new home registrations proved to be relatively short-lived. Aided by Government stimulus, including Stamp Duty relief, which recognised the importance of housing to the UK's economic recovery, the new-build market rebounded in the latter part of the year with momentum maintained into 2021.

It has been a testing period: coping with the disruption of the pandemic whilst assessing the impact of the UK's exit from the European Union; new legislation on building safety and climate change; and the ongoing focus from Government, the media and consumers on build quality and fire safety. Trading conditions for insurance and warranty providers have been challenging; however, thanks to the wide range of actions we have undertaken, I am pleased to say that 2020/21 has been a profitable year following three consecutive years of losses.

In addition to dealing with the pandemic and stabilising our financial position, we have also conducted a wide-ranging business model review, establishing a clear vision and forward strategy for NHBC.

The pandemic

Throughout the pandemic, our primary focus has been on the safety and wellbeing of our people, registered customers and homeowners. We made sure that we had safe, Covid-secure practices for all our colleagues, whether they were site- or office-based, in line with Government guidelines and in support of wider public health objectives. We kept the business operating throughout the Covid-19 outbreak with no compromises to our standards or the rigours of our approach, which our builder customers were particularly appreciative of. For homeowners where we had a warranty claim to deal with, we were sensitive to the need to ensure they were comfortable with our claims investigators or remedial works contractors entering their homes. This did cause some delays in assessments, but we worked hard to ensure matters were progressed as speedily as possible.

Nationally, we have seen significant shifts in working practices and in social dynamics, with so many people working from home throughout the pandemic – changes that are likely to be with us, in some form, for many years to come. As an employer, we have been flexible and agile in our response to the needs of our people.

Chief Executive Officer's statement

The experiences of the last year have put us on a stronger footing for the future. We have demonstrated that we can find solutions to problems and operate successfully in times of adversity, whilst delivering against our business objectives.

Performance overview

We were clear in last year's Annual Report that we needed to take action to build a stronger, more robust financial platform from which to serve our registered customers and deliver for homeowners over the long term. The challenges of the pandemic only served to reinforce this need for financial resilience.

Working with our reinsurance partners, we have increased our quota share on new business and secured adverse development protection on previously written business. Reinsurance is a form of substitute capital and a key component of our financial stability; it strengthens the balance sheet, delivers improved capital efficiency and limits our net exposure. It positions us well to continue to deliver against our core purpose.

I am pleased to report that after three successive years of significant trading losses, we have returned a pre-tax profit of £70m for the 2020/21 financial year. Our standard formula solvency ratio at the end of the year is above risk appetite at 154%, and this will rise further in 2021/22 as we complete on the reinsurance transactions that are effective at year end and claims move from provisions to payments.

Our improved financial performance has been achieved through an ever-sharper commercial approach and a resolute focus on the need to be profitable. This included the significant warranty pricing recalibration exercise we implemented in June 2020 which better aligned Buildmark warranty premium to risk. Further refinement towards more granular, risk-based pricing will be implemented as we move forward.

As a service provider, it is incumbent on us to have a disciplined approach to managing our operating expenditure, and we made progress last year in improving our cost efficiency and effectiveness. This did mean a number of people left NHBC in the latter part of 2020 as part of a 'right-sizing' exercise. Whilst this was a hard time for all colleagues, we sought to mitigate the impact as much as possible and to provide appropriate support. Facing into difficult actions such as this allows us to reshape the business as we invest in improving our proposition and service to our registered customers and homeowners.

In addition, we have made good progress in strengthening our underwriting, technical and claims disciplines. This includes being clearer on the risks we are prepared to accept, improving our technical and operational management of those risks and, when things do go wrong, tightening our claims practices to reduce leakage and recover all appropriate costs. We are seeing reductions in resolution cases and underlying warranty claims from improved standards and better quality control on site. We have clarified our resolution process so that homeowners have certainty about the responsibilities of the house builder and are clear about when NHBC will step in to assist. We remain focused on meeting our obligations where warranty claims materialise, as well as working with our builder customers to ensure the right outcome for homeowners.

During 2020, we accessed the Government's Coronavirus Job Retention Scheme (CJRS) for employees working in areas where demand had fallen, such as for inspections. This was a prudent step to protect our business at a time of significant uncertainty, and we were appreciative of Government support through this period. We brought colleagues back from furlough in stages, matching the rise in demand and workloads which picked up from the second quarter 2020/21 onwards. Given the faster than expected recovery of the new-build housing market, we thought it was right to repay the £3.7m CJRS grant in full in March 2021.

Covid-19 caused the number of new homes registered with us to be built by UK house builders to drop 20% to 126,141 during the year ended 31 March 2021, compared with 156,756 registrations in the prior year. The largest falls were seen in the first quarter, with activity rebounding quickly after builders established Covid-secure working practices in the summer. Productivity moved close to pre-pandemic levels in the third and fourth quarters of our financial year, with new home registration levels ahead of the same period in the previous year. Government intervention through Stamp Duty relief and the Help to Buy scheme has stimulated demand, supporting the continued recovery of the new-build sector. Demand is holding up as we enter the new 2021/22 year, with major housebuilders reporting strong forward sales positions, in part a function of continued under-supply but also suggesting a growing confidence in the housing market.

In 2020/21, the rental sector saw a smaller percentage reduction in registration numbers than private sale, reflecting the trend for an increasing proportion of our warranty business to come from alternative residential markets. UK housing remains an attractive asset class for inward investment, as evidenced by the growing Build to Rent sector, driving this shift in mix towards rental from private sale. We are responding to this with a dedicated team developing new relationships in alternative residential markets. That said, we expect the majority of our registrations to remain in the private sale sector, delivered by our registered builder and developer customers where our focus remains on building strong, mutually beneficial relationships.

We are challenging ourselves to deliver an improved consumer experience for our homeowners, both in the way we communicate with them and in the performance of our Claims, Customer Services and Consumer Affairs departments. We recognise that it has been an especially difficult year for policyholders experiencing issues in their homes, and we continue to work with our registered customers to ensure fair and proper outcomes for homeowners.

Strategy

NHBC's purpose is to build confidence in the construction quality of new homes. In order to ensure that we are best placed to deliver this, we undertook a thorough business model review in the past financial year.

The review has confirmed the importance of being an insurance company, where we are unique in the UK home warranty market, and the need to continue to refine our core insurance disciplines, including claims, underwriting, pricing and capital management. In addition, we will further develop our fee-based services, building on our established capabilities, whilst leveraging our data assets and our technical expertise and capacity. These services include training, land quality endorsement and construction quality reviews, all of which add real value to our registered customers and deliver tangible benefits for homeowners.

To support this strategy, we plan to transform NHBC into a more commercial, modern and agile business. We are investing in change capacity and in critical areas such as data, digital capability and IT infrastructure. We are also focused on the continued delivery of the technical risk management programme, as well as developing the compelling products and services that are crucial to building a better version of NHBC.

Training, innovation and construction quality services

We continue to strengthen and expand our training business to meet demand. In the past year, we have delivered 17,370 delegate training days through virtual means. The success of these online modules means that they will remain part of our portfolio after face-to-face training becomes re-established. We launched our first-ever apprenticeship programme in September 2020 for Construction Site Supervisor apprentices. Well received by builder customers, the programme now supports over 112 apprentices. Our second apprenticeship programme, Qin Bricklaying, followed in May 2021 with the opening by the Minister of State for Housing, Christopher Pincher MP, of our purpose-built Training Hub in Tamworth. With strong demand for our apprenticeship offerings, training courses, webinars and NVQs, NHBC is playing a major part in helping tackle the skills shortage as the industry emerges from the pandemic and seeks to mitigate any impact of Brexit on labour supply.

The use of non-conventional construction methods and systems continues to increase in house building, driven by the shortage of key trades people, the availability of new technologies and Government determination to address the supply shortfall. To support the growth of Modern Methods of Construction (MMC), we launched NHBC Accepts in July 2020. This proposition is aimed at MMC manufacturers, with an NHBC technical appraisal determining if the product or system meets NHBC Standards. This gives confidence to developers, investors, lenders and homeowners that, subject to appropriate design and installation, the product or system can be used in homes covered by an NHBC warranty. We are proud to be using our specialist expertise and knowledge in this way to advance innovative construction.

Our Key Stage Inspection (KSI) service and Construction Quality Review (CQR) service remain fundamental to our drive for improved construction quality. Despite the pandemic, we undertook 803,913 KSIs in 2020/21. This is central to the service we provide to our builder customers and an important part of detecting any failures to comply with NHBC Standards, thus helping to ensure a better-quality product for the homeowner. In addition, we have expanded our dedicated CQR team in response to the increased demand from our major builder customers for this more in-depth assessment, which examines 38 build stages, providing detailed insights to help improve construction quality.

Technical risk management

We are evolving our technical risk management approach, working with our registered customers to gradually move the focus from quality control (defects correction) towards quality assurance (defects prevention). The overall aim is to ensure a more consistent delivery of a better-quality product for homeowners and simultaneously reduce the significant costs of remedial works. We have a wealth of construction quality data which, combined with increased use of technology, is key to the evolution of our approach. We aim to work more collaboratively with builders, often on a site-by-site basis, from pre-construction to post-completion, identifying and managing the technical risks to prevent future defects. A number of modules have been developed and piloted, the first of which is being deployed in the form of a Technology Assisted Inspection app. This has received positive customer feedback and is reducing delays on site, as we are not dependent solely on physical inspection when there is an issue to be addressed.

Climate change

Climate change is another key area of focus for NHBC and the whole industry. There will be further development of the Future Homes Standard and a revised Approved Document Part L to be delivered in the latter part of 2021 as part of the Government's plans to radically improve the energy performance and carbon footprint of new homes. We will support the industry in meeting these requirements and on the journey to zero carbon readiness by 2025, and we are considering what this means for NHBC Standards and our inspection regime. None of this should underplay the significant challenges that are present, particularly in moving away from the UK's reliance on fossil fuels for domestic heating and hot water, and in the supply chain and infrastructure capacity which need to move in step. Nevertheless, the industry is making progress, gaining an understanding of likely increased costs and risks, and recognising that there is a growing consumer expectation that new homes will have strong carbon and environmental credentials.

The NHBC Foundation, our research arm, also provides guidance to the industry through reports such as 'The future for home heating – life without fossil fuels' and, more recently, 'Biodiversity in new housing developments: creating wildlife-friendly communities'.

As a socially responsible business, we are making good progress in reducing NHBC's carbon footprint and ensuring sound environmental, social and governance (ESG) practices. More information on how we are integrating climate-related financial risk into governance and management processes can be found on page 43 in our 'Wider impact and non-financial information statement'.

Pride in the Job and Building for tomorrow

Pride in the Job, our annual competition for site managers, reached its 40th anniversary during the year. Despite having to conduct some of the judging through desk-based assessment due to Covid-19 restrictions, our teams delivered the competition to its usual high standard with a series of virtual award ceremonies. We know how much this competition means to our registered customers; during a challenging period, it was all the more important to recognise excellence, celebrating the vital role site managers play in ensuring new homes are delivered to exacting construction quality standards.

Building for tomorrow also hit a milestone (30 years), with over 800 industry professionals joining the three-day virtual event involving a range of expert NHBC and external speakers addressing quality, safety, and the developing regulatory and technological landscape.

Our people

The commitment of our people to our core purpose was never more evident than in the extraordinary year that was 2020/21. We could not have achieved all that we have, nor delivered for homeowners and our registered customers, without their dedication and professionalism.

The health and wellbeing of our colleagues has been a priority focus for us. We have taken all the necessary steps to establish safe working practices in our offices and to ensure that those working at home have the equipment necessary to do so comfortably. We have been careful to protect our field-based colleagues, whether they are conducting inspections on site or working in policyholders' homes assessing possible warranty claims. This included procuring Covid-19 testing kits well in advance of similar tests becoming available via the NHS.

In recognition of the impact of the pandemic on working and personal lives, we gave colleagues three days of additional wellbeing leave during the year and a one-off support payment to those who would not normally be working from home. We increased our internal communications programme to share personal stories of how the pandemic has impacted colleagues and promoted the use of our Employee Assistance Programme. Wellbeing will continue to be at the top of our people agenda in the coming year as we focus on ensuring our culture promotes positive physical and mental health.

We aim to foster a working environment that encourages people to develop and thrive, giving every employee the opportunity to flourish professionally and personally. We have made meaningful progress in succession planning and talent development, both extremely important for the future, and have strengthened the executive leadership team with the arrival of Matt Clay in the new role of Chief Digital and Technology Officer.

In order to attract the best people, we aim to be a responsible, ethical and attractive employer. We have achieved Silver status with the Armed Forces Covenant, and we continue to build on our diversity confidence and inclusivity. We have introduced our BAME network alongside our Women's and LBGT+ networks, all of which have had strong employee participation and engagement, sending signals about the type of organisation we aspire to be.

Summary and outlook

We will continue to set standards and champion high-quality construction, providing protection for homeowners through our warranty and insurance cover, using our data, insights and expertise to support the industry in delivering the sustainable homes of the future.

2020/21 has been a highly challenging year, but it has been an extremely rewarding one too. I am proud of the organisation and our people. Our performance in the past year gives me confidence that we are well placed to drive the Company forward, transforming NHBC into a more modern, commercial and financially secure business. I am grateful to Alan Rubenstein, our Chair, to my fellow Board members and to my executive team colleagues for their support. I look forward to the period ahead with the firm belief that we have the right team in place to build a more purposeful, progressive and agile business that delivers real value for our registered customers, homeowners and wider stakeholders.

Steve Wood

Chief Executive Officer

Chief Financial Officer's statement

As Alan and Steve have already highlighted, it has been a challenging year for everyone in all areas of our business and personal lives. We knew this financial year would be tough as, in addition to the need to address our financial performance following three years of significant losses, it started with great uncertainty as we developed new business plans against the backdrop of a global pandemic, the Brexit withdrawal agreement and the threat of global recession.

Despite all these uncertainties, it is pleasing to report a return to profit after the losses incurred in the last three years. This is a result of the positive actions we have taken in the last few years on pricing, claims management and leakage, as well as operational expenses, which have started to deliver the results we require to create a more financially resilient and sustainable NHBC.

Although the financial performance this year is positive and provides a solid start to achieving our long-term profitability and financial resilience aims, it must also be viewed in the context of cumulative post-tax losses over the previous three financial years, amounting to £143m. In light of this, we will continue to focus on the need to ensure that NHBC is a financially secure business which is able to support the needs of policyholders and the new build housing market for the long term.

To bolster our financial security, in addition to the warranty pricing reset and other actions we have taken this year to improve our underlying financial results, we put in place a significant reinsurance arrangement to enhance our reinsurance cover and solvency protection over and above that provided by our annual reinsurance treaties. We placed a loss portfolio transfer (LPT) reinsurance contract at the end of the financial year, providing 75% coverage for claims for the underwriting years 2015/16 to 2018/19. The LPT delivers greater solvency headroom and balance sheet stability, and it increased our profit for the year by £25m and the standard formula solvency ratio by c.20 percentage points. This LPT placement has created some large movements in our financial statements in respect of premiums and net technical provisions, which is explained in more detail below.

Underlying performance improved this year, reflecting the impact of our management actions on pricing, claims leakage and operating costs. Although registration and completion volumes declined as the impact of Covid-19 adversely affected the first half of the year, they recovered in the second half, exceeding year-on-year performance for that period by 4%. This meant that volumes only decreased c.20% year on year. The strong level of registrations has continued into the first quarter of the new financial year.

Revenue streams were robust, with gross written premiums higher than the prior year, despite lower volumes. This performance in part reflects the warranty pricing changes we made with effect from June 2020 and better than expected house price inflation. Gross ultimate claims provisions remained stable when excluding the economic impacts of inflation and discounting; this represents a significant improvement on the large deteriorations in prior-year claims experience reported in recent years. However, we did suffer some adverse financial impact from the sharp rise in house rebuilding cost index (HRCI), a measure of inflation, which was not offset in the returns on inflation-linked investments within our liability-matching asset portfolio. Investment performance was favourable overall, with both the liability-matching and surplus asset portfolios delivering returns in line with the benchmark.

The overall result for the year was a pre-tax profit of £69.9m (2020: loss £98.3m), with profits in the technical account of £45.1m (2020: loss £107.8m). The non-technical account, which represents the financial performance of our non-insurance activities and surplus investment asset returns, reported another year of profits at £24.8m (2020: £9.5m).

The technical account profit was driven by three key elements: improved margins on our underlying business, an increase in the level of reinsurance recoveries reflecting the placement of the LPT, offset in part by expectations of higher future claims inflation which increased the technical provisions. Although assets and liabilities are well matched for underlying inflation, it is extremely challenging to match sharp movements in HRCI, where short-term supply challenges and inflation outlook can create short-term volatility in our financial results.

The non-technical account was affected by a £4.6m loss on non-insurance services, where lower registration and completion volumes because of Covid-19 meant that the largely fixed costs for these products and services exceeded related revenues. This loss includes the repayment of the Coronavirus Job Retention Scheme grant received during the year of £3.7m. However, this loss was more than offset by the strong investment return from the non-liability matching assets.

NHBC's balance sheet is dominated by invested assets and claims technical provisions. Invested assets and cash valuations increased over the year to £1,670.5m (2020: £1,615.3m) with all asset classes performing positively, dominated by corporate bond performance as credit spreads tightened.

Technical provisions held to meet obligations to policyholders fell during the year to £924.6m (2020: £1,180.2m). Whilst underlying gross claims provisions did not deteriorate, expectations of a higher inflationary environment caused an increase of £56.1m in gross technical provisions. This cost was more than mitigated by the benefit generated by the placement of the LPT and the subsequent recognition of higher levels of expected reinsurance recoveries.

Financial performance

The table below shows a summary consolidated income statement for the year ended 31 March 2021 and comparatives. Due to the material nature of the LPT, we also present the effect of the LPT on the financial performance in the year.

	2021	2021	2021	2020
	Pre-LPT	LPT	Post-LPT	
Registrations (units)	126,141	-	126,141	156,756
	£m	£m	£m	£m
Gross premiums written	104.8	-	104.8	99.8
Reinsurance premiums	(32.4)	(228.7)	(261.1)	(11.1)
Net premiums written	72.4	(228.7)	(156.3)	88.7
	£m	£m	£m	£m
Net earned premiums	58.4	(34.9)	23.5	52.6
Net claims incurred	(77.2)	33.7	(43.5)	(73.9)
Movement in unexpired risk reserve	21.9	26.2	48.1	(87.1)
Investment return – technical account	27.7	-	27.7	10.4
Net operating expenses	(10.7)	-	(10.7)	(9.8)
Technical account profit / (loss)	20.1	25.0	45.1	(107.8)
Other income	65.0	-	65.0	78.5
Other charges	(69.5)	-	(69.5)	(76.4)
Investment return – non-technical account	29.3	-	29.3	7.4
Non-technical account profit / (loss)	24.8	-	24.8	9.5
Profit / (loss) before tax	44.9	25.0	69.9	(98.3)
Tax (charge) / credit	(3.8)	-	(3.8)	5.6
Profit / (loss) after tax	41.1	25.0[1]	66.1	(92.7)

[1] Note that we do not quantify the impact of the LPT on the tax charge.

Volumes

Our registration volumes (registrations) are a key driver of our premium and inspection income, and a proxy of exposure on our insurance technical account. Registrations decreased by 19.5% in 2021 (2020: 2.0% decrease) to 126,141 units, mainly due to the impact of Covid-19 during the first half of the year. The reduction was primarily a function of building sites initially being closed as the first national lockdown took place between March and June 2020. By the end of the first quarter, sites had started to re-open, but were not operating at full capacity until later in quarter two. First half year registrations were down 40% year on year. The second half of the year was a different story as registrations increased steadily and, on a like-for-like basis, were 4% higher than the prior year. The strong registration volumes have continued into the new financial year. The pandemic also adversely impacted the number of completions, which decreased by 23.2% to 117,516 units (2020: 2.2% increase). Homes under cover as at 31 March 2021 increased to 1,372,979 (2020: 1,330,086).

Technical account result

As highlighted above, the technical account, which reflects the results of the Group's insurance activities, reported a profit of £45.1m for the year (2020: loss £107.8m). This is primarily as a result of the movement of the net of reinsurance unexpired risk reserve following the placement of the LPT. Underlying claims experience was in line with expectations, with cladding and fire safety claims stabilising, and continuing improvement in attritional claims experience. The strengthening of technical provisions for the projected higher inflationary environment partially offset some of the LPT benefit.

Gross written and net earned premiums

Our warranty premiums are earned in accordance with a profile which follows the expected pattern of claims emergence over the period of warranty policy coverage. During the year, the Group recognised that there has been an increase in the time it has taken for claims to emerge. As a result, less premium was recognised as earned than in the prior year.

Gross written premium was £104.8m (2020: £99.8m) despite lower volumes. The increase reflected higher average fees driven by the warranty price increase implemented with effect from June 2020, a greater proportion of registrations from higher value developments and an increase in road and sewer bond overrun fees.

Net written premiums written were negative £156.2m, reflecting the £228.7m premium paid to reinsurers for the LPT.

Underlying reinsurance costs increased year on year, reflecting the switch in reinsurance strategy from excess of loss towards quota share for our primary treaties.

Gross earned premiums in the year were £63.8m (2020: £58.6m), mainly reflecting earnings from prior years' premium written, and higher road and sewer bond fees.

Net earned premiums decreased to £23.5m (2020: £52.6m). Underlying net written premiums were broadly the same as the prior year; however, the LPT placement resulted in the recognition of related £34.9m earned reinsurance premiums, consequently reducing the overall net earned premiums.

Claims incurred

Gross claims paid in the year were £71.2m (2020: £91.5m), reflecting the payment of some large claims, offset by lower attritional claims payments and claims handling costs. Net claims incurred decreased to £43.5m (2020: £73.9m). Underlying claims incurred were broadly the same year-on-year; however, the impact of the LPT increased the level of reinsurance recoveries expected in the claims provision by £33.7m.

Unexpired risk reserve

The unexpired risk reserve credit of £48.1m (2020: charge £87.1m) is driven by the expectation of improved margins within future earned premiums, the unearned premium reserve (UPR), as well as the favourable impact of the LPT placement. The prior-year charge recognised the strengthening of technical provisions in respect of fire-related cladding claims and Covid-19 recessionary impacts.

Investment return allocated to the technical account

The investment return allocated to the technical account reflects the return on investments matching the technical provisions (primarily fixed interest and index-linked gilts and high-grade corporate bonds). The net return was £27.7m (2020: £10.4m) and reflected net investment income of £20.1m (2020: £20.5m), realised gains of £8.5m (2020: £5.3m) and unrealised gains of £0.6m (2020: losses £15.3m). Investment fees were £1.4m, the same as the prior year.

Operating expenses

Operating expenses allocated to the technical account were £10.7m, an increase from £9.7m in the prior year. This increase reflected lower reinsurance commission recognised on the quota share reinsurance arrangements. Underlying insurance-related operating costs fell by £1.0m year on year as we continued to focus on process improvement and efficiency programmes.

Non-technical account result

The non-technical account profit was £24.8m (2020: £9.5m). This includes the net result from our non-insurance-related activities plus the investment return generated by surplus investment assets. Performance excluding the result from surplus investment asset was a loss of £4.6m (2020: profit £2.1m)

Other income, which includes inspection income, Building Control fees and income from NHBC's Services business (such as training and construction quality services), fell 17.2% to £65.0m (2020: £78.5m). This is primarily due to the lower registration and completion volumes.

Total operating expenditure fell by 8.5% to £96.4m (2020: decrease 1.6%), reflecting the lower activity levels resulting from the pandemic, the necessary reduction in our resource base to reflect lower volumes, and our continued focus on careful management of operating costs. Other charges fell by 9.0% to £69.5m (2020: £76.4m), reflecting lower activity levels and a lower headcount.

Investment returns allocated to the non-technical account represent the return on surplus investment assets not matching the technical provisions. These assets (corporate bonds plus equity and multi-asset funds) produced a net investment return for the year of £29.3m (2020: £7.4m), driven primarily by valuation gains from tightening credit spreads and strengthening equity markets.

Financial position

Investments

The total value of the investment portfolio (including cash) increased marginally by 3.4% (2020: decrease 0.6%), ending the year at £1,670.5m (2020: £1,615.3m).

Of the total investment portfolio, 90% (2020: 92%) was invested in high-quality fixed income and cash assets. The fixed income portfolio continues to be invested in investment grade assets, with 99% (2020: 99%) rated BBB or higher. At the end of the year, the average duration of the portfolio was 4.0 years (2020: 4.6 years.). Government bonds remain a key investment class for NHBC, accounting for over 40% of the bond portfolio.

During the year, we continued to follow our investment strategy of matching our insurance liabilities with high-quality gilt and corporate bonds, whilst utilising our surplus assets to enhance returns consistent with maintaining the capital efficiency of our portfolio. In March 2021, we committed to investment in a global renewable fund, aligning with our sustainability ambitions.

Technical provisions

Gross technical provisions increased by 4.0% to £1,470.9m (2020: increase 21.4% to £1,414.8m), reflecting the impact of a rising inflationary environment, with higher net new business exposure than expiring exposure, partially offset by a higher discounting benefit. Claims reserves in respect of high-rise buildings and cladding issues were maintained in line with prior-year levels.

Net technical provisions decreased by 21.7 % to £924.6m (2020: increase 9.8% to £1,180.2m). This reduction was primarily driven by the increase in reinsurance cover following the switch to a quota share arrangement from an excess of loss treaty for the underwriting year 2020/21 and the placement of the LPT.

The quota share treaty provides reinsurance cover for 75% of the business written in the underwriting years 2015/16 to 2018/19, in addition to the treaties written for those years. Placing this transaction provides the business with greater capital resilience in the event of worsening claims experience, and therefore helps maintain the capacity to continue to write new business to support the UK house-building industry.

As documented in the notes to the financial statements, the Group takes all reasonable steps to ensure it obtains and uses the most appropriate information to assess and quantify known and potential claims, which, along with the unexpired risk reserve, account for the largest proportion of the technical claims provision. However, given the complexity in some claims and the inherent uncertainty of estimating the frequency and cost of future claims, it is likely that the outcome will prove different from the estimate made at the accounting date. Any adjustments required to claim 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 deficit has increased by £5.7m during the year to £21.7m (2020: decrease to £16.0m). The overall increase was the result of increase in liabilities partially offset by increase in assets:

- 8.6% increase in liabilities driven by lower discount rates and an increase in future inflation assumptions, partially offset by a recognition of experience gains following the March 2020 triennial valuation and an £8.0m deficit repair contribution (2020: £8.0m) made in accordance with the revised contribution schedule agreed between NHBC and the Scheme Trustee
- 6.5% increase in the value of scheme assets due to equity return levels.

We have continued to work closely with the Scheme Trustee, particularly regarding the Scheme's long-term funding strategy.

Capital position

As at 31 March 2021, accumulated reserves were £430.8m (2020: £373.7m). The increase of £57.1m reflected the post-tax profits in the year, partially offset by the increase in pension scheme deficit movements and the corporation tax charge.

The Group's Solvency II regulatory capital ratio, which is assessed using the standard formula, was 154% as at 31 March 2021 (2020: 135%) and above our risk appetite. The increase in the solvency ratio was driven by both higher Solvency II Own Funds, which increased by £8.8m to £587.8m (2020: £579.0m), and lower Solvency Capital Requirement (SCR), both of which benefited from the placement of the LPT.

Outlook

Whilst the profit after tax reported for the year is encouraging and returns NHBC to profitability after three successive years of losses, the outlook remains very uncertain, with the full impact of Brexit and Covid-19 yet to fully emerge. There are signs of an increasing inflationary environment affecting the supply chain, where house rebuild cost inflation places strain on our claims reserves. That said, the underlying fundamentals of the business are strengthening and, despite this uncertainty, we hope to achieve similar or higher registration volumes in financial year 2021/22.

In the wider economy, there is increasing optimism for a steady recovery, boosted by the successful rollout of the Covid-19 vaccination programme. Government support for home ownership and the housing sector continues, with existing incentive arrangements supplemented by the introduction of a mortgage guarantee scheme.

We will continue to look for ways to improve our offering to builders and policyholders alike, through the products and services we offer and the ways in which we operate. We recognise that we cannot stand still, so continuous improvement and evolution of our services, and making our business more modern, commercial, and financially secure, is key to our future success.

NHBC is an integral part of the new build housing market and the UK economy through the stability and assurance we provide to our policyholders. Ambitious Government housing targets have been set, but they cannot be achieved at the expense of quality or to the detriment of homeowners. Using our insights, expertise and capacity, NHBC has a vital role to play in supporting growth and quality objectives. This requires us to remain financially strong, technically adept and relevant to all our stakeholders as we build a better version of NHBC.

Paul Hosking

Chief Financial Officer

Strategic report

About us

We are the UK's leading independent provider of warranty and insurance for new homes. Our purpose is to build confidence in the construction quality of new homes for the benefit of homeowners. We achieve this through championing construction quality and providing inspection, Building Control and wider services to homebuilders, underpinned by the provision of warranty insurance to homeowners.

Independence

We are a company limited by guarantee, with no shareholders. We are independent of government and the construction industry. Any profits that we generate are reinvested in the business to support our core purpose: to build confidence in the construction quality of new homes.

Builder registration and the NHBC Standards

To work with us, builders and developers must qualify to join the NHBC Register. From the point of registration, our customers are bound by the NHBC Rules and required to construct homes in line with the NHBC Standards to allow them to benefit from our products and services.

The NHBC Standards define the technical requirements and performance standards for the design and construction of new homes and provide guidance on how these can be achieved. The NHBC Standards are updated regularly based on improvements in construction practices and the latest learnings from across the house-building industry, including our own claims and resolution service data and insights. This process continues to drive improvements in construction quality for the benefit of homeowners.

Inspection services and technical risk management

We provide an inspection service to our registered customers. This takes the form of independent inspections, undertaken at key build stages, as identified in the NHBC Standards. Ordinarily, we carry out over a million inspections in a year but, this past year, due to the pandemic, the number of inspections reduced in line with the lower volume of homes built, though remained at over 800,000. These inspections allow us to provide feedback to our registered customers for every new build home protected by our Buildmark warranty product. This is an integral part of the drive to improve construction quality for the benefit of homeowners, with these key stage inspections supplemented by intermediate inspections and other quality-related services.

We are evolving our technical risk management strategy, working with our registered customers to balance our collective focus more effectively between quality control (defects correction) and quality assurance (defects prevention), with the overall aim of raising the quality of new homes built and reducing the significant costs to the industry of remedial works. We have a wealth of data across construction quality and warranty claims, and this, combined with increased use of technology, is key to the evolution of our approach.

Our Building Control service is delivered by our wholly owned subsidiary company, NHBC Building Control Services Limited, supporting builders in meeting the government-set Building Regulations on residential, mixed-use and selected commercial projects.

Buildmark – an industry-leading warranty and insurance product

We first introduced a two-year building warranty in the 1940s, followed by the first 10-year warranty in 1965. This was the foundation for our current Buildmark policy, which comprises deposit protection, a two-year builder warranty period during which we offer a dispute resolution service, and a further eight years' insurance cover against damage caused by defects to the structure or envelope of the property. Buildmark is designed to give homeowners peace of mind over the largest purchase they are ever likely to make.

Resolution and claims service for homeowners

Our expert Claims teams are there to support the homeowner should there be a problem with their property which falls under the protection provided by our Buildmark policy. The resolution service provides an option to address unresolved issues between the builder and the homeowner occurring in the first two years of new home ownership and is free to access for the homeowner. The claims service responds in the unfortunate event of there being structural problems with the home, dealing professionally with any valid insurance claims.

Research from the NHBC Foundation

The NHBC Foundation commissions in-depth research and practical guidance to support the house-building industry through the publication of detailed guides and reports on significant issues affecting the sector, such as climate change, zero-carbon homes, Modern Methods of Construction and biodiversity in new home developments.

Training service

We continue to evolve our training business, to help the industry tackle the skills shortage and build high-quality homes. We support the industry through training across trades, site management, technical building standards and construction quality. Additionally, we have launched our first-ever apprenticeship schemes, and there is strong demand for our NVQ programmes, which are helping to develop the next generation of skilled tradespeople.

Modern Methods of Construction (MMC)

Use of non-conventional construction methods continues to increase and, to support this sector, we launched NHBC Accepts in July 2020, aimed at MMC manufacturers. Under this service, we review innovative products and systems to determine if they meet NHBC Standards and thereby give confidence to developers, investors, lenders and homeowners.

Climate change

We are committed to supporting the Government's ambition to achieve net zero carbon by 2050. NHBC has a proven track record of supporting housebuilders and developers on sustainability and environmental matters, and we are helping the industry to make the requirements of the Future Homes Standard technically and commercially viable. We are also working on sustainable practices to deliver positive and lasting change within our own operations.

Celebrating best practice

Our Pride in the Job awards are an important part of our drive to promote high standards of quality in new home construction. By promoting competition between site managers, showcasing best practice and rewarding excellence, Pride in the Job continues to encourage the UK's site managers to build homes of the highest quality.

Market overview

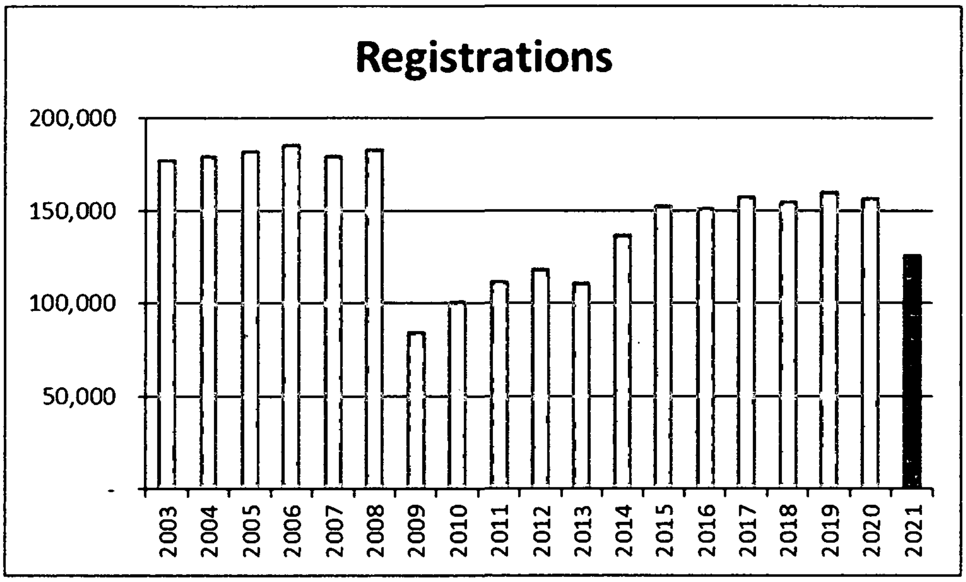
We operate in the UK new house-building sector, the health of which is the primary driver of our business performance and growth. We monitor a range of metrics to ensure we are well positioned to respond to emerging opportunities and threats.

UK housing market

The Covid-19 pandemic and the restrictive lockdown measures introduced in March 2020 had a significant impact on the UK housing market in the first quarter of the financial year ended 31 March 2021. Although construction sites were never legally mandated to close, the majority of house builders halted production shortly after the Government's first lockdown announcement on 23 March 2020. Whilst most sites remained largely inactive in April and May, the introduction of effective safety measures for staff and visitors alike saw most builders restart work on site in June and, despite some supply chain challenges (particularly for certain imported materials), they were quickly able to operate close to their previous capacity. The Government's commitment to the housing market as an engine for the UK's economic recovery was evident, with support schemes such as Stamp Duty relief and Help to Buy providing a real stimulus to demand as lockdown measures began to be eased. Coupled with the structural issue of continued under-supply, and many homeowners re-evaluating their priorities following prolonged periods of working from home, the new build market continued to recover throughout the year. Allied to this, house prices have confounded the expectations of most market commentators, with annual house price inflation of c.10% at March 2021[2].

New homes registered with NHBC in the year ended 31 March 2021 dropped to 126,298 (2020: 156,756), a fall of 19.4%. Whilst volumes fell to historically low levels in April and May, June registrations were closer to pre-pandemic levels, and the second half of the financial year saw registrations 4% higher than the same period in the prior year. Despite this 'rebound' and the rollout of an increasingly effective vaccine programme, it is expected to take the industry a few years to build back to pre-pandemic levels, particularly in view of prevailing economic uncertainties, where Brexit effects are yet to be fully understood and inflationary risks are rising.

[2] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/march2021



The mix of registrations in the year shifted towards the rental sector, with both social and private rental markets remaining relatively resilient to the immediate effects of the pandemic. The alternative residential sector (including later living and private rental) remains attractive to investors, who are drawn to comparatively high yields from UK housing compared with other asset classes. Nevertheless, the majority of our registrations will continue to come from registered builder customers developing homes for private sale.

Housing market outlook

Despite the adverse effect of the pandemic on the volume of new homes, the Government has reiterated its aim to raise the supply of new homes to at least 300,000 a year by the mid-2020s, a significant increase on current activity levels.

The underlying fundamentals of the housing market should ensure the recovery in house building is sustained, with significant pent-up demand, larger builders being more financially resilient than in previous recessions, good mortgage availability and low interest rates. These fundamentals are underpinned by continued support from government, including Stamp Duty relief, the Help to Buy scheme, and the recent introduction of a guarantee scheme that has helped to increase the availability of 95% loan-to-value mortgage products.

The UK economy, buoyed by the vaccine rollout and roadmap out of lockdown, is forecast by the Bank of England to grow in 2021 at its fastest rate for more than 70 years, albeit from a reduced base, following the c.10% contraction in 2020.

Consumer confidence has been affected by concerns over financial uncertainty and employment security, but key consumer confidence indices are back to pre-pandemic levels. The Government has extended the Coronavirus Job Retention Scheme until September 2021 and, whilst unemployment rates are higher than before the pandemic, the Bank of England expects rates to peak at 5.5%, lower than the 7.7% previously predicted. UK households are estimated to have saved an extra £150 billion over the past year, driven by continued working from home, and reduced leisure opportunities and foreign holidays. As the economic recovery continues, there is the opportunity for much of these 'accidental savings' to be spent in the housing market, particularly as consumers re-evaluate their lifestyles and personal drivers, with signs of some purchaser preference shifts towards properties with outside space and closer proximity to green spaces. Although it remains too early to predict if this will become a trend, some major developers are already migrating beyond major cities, with others considering how to respond to changing consumer requirements through land purchasing, flexible designs, and connectivity solutions.

Government and regulatory focus on safety, quality and climate change will continue with legislation and reforms via the Building Safety Bill, Future Homes Standard and New Homes Ombudsman. This will bring changes to house-building and construction methods, placing strain on the industry and its supply chain, particularly with the need for carbon zero readiness by 2025.

What this means for us

Having taken decisive steps to help safeguard our financial stability over the course of the past year, it is crucial we continue this journey to sustained profitability. We must ensure a robust platform on which to build a better version of NHBC that meets the needs of our diverse stakeholder groups as we emerge from the pandemic.

We will continue to monitor market and customer trends, responding with agility, whilst ensuring the insurance business we write and the services we provide are profitable, sustainable and aligned with our purpose.

As the housing market evolves, we must ensure we provide compelling product and service propositions for emerging sectors, whilst continuing to deliver high levels of service to our existing key house-builder customers. We will continue to deliver the services our customers value most, leveraging our capacity, insights and expertise to support them in building high-quality homes whilst forging mutually beneficial, partnership-based relationships. This will help us to deliver adequate margins on the services we provide and a suitable return on our insurance products.

Our strategy

In 2020, with wide-ranging business and Board engagement, we undertook a business model review, challenging the fundamentals of our business to ensure they were aligned with the expected future of the UK housing market. In doing so, we have defined a long-term vision and business strategy that will help ensure we meet the challenges posed by a dynamic market whilst also delivering our purpose.

Anchored to our core purpose – ***to build confidence in the construction quality of new homes*** – our long-term strategy is built on three fundamental pillars:

- setting standards and championing high-quality, sustainable homes
- policyholder protection through warranty
- providing independent advice through data, insights and expertise.

Our vision is for NHBC to be modern, commercial and financially secure, with a stand-out reputation, delivering value for homeowners and building confidence in the construction quality of new homes.

To continue delivering on our purpose and achieve our vision, we must ensure we have the attributes, skills and necessary behaviours for a successful NHBC – now and in the future.

This means becoming more **commercially focused.** With profit as the route to our purpose, we must develop our understanding of the value and cost of what we do. We must make profits to ensure we are financially secure to fulfil our obligations to homeowners, and to be able to invest in activities to deliver our purpose. Although we have taken steps to bolster our solvency and improve our profitability, this must continue in the coming years. As a company limited by guarantee, we can only strengthen our capital base and invest in business improvement through retained earnings.

Also, we need to be more **modern and agile**; able to respond to changing demands effectively and not be constrained by outdated processes, systems or ways of working. We need to continue to put **social responsibility** at the heart of our business, understanding the wider impact of our decisions and actions. Lastly, it means making us **more relevant to our stakeholders**, with compelling product and service propositions for an increasingly diverse range of parties, delivering for our homeowners and working closely with industry bodies, government and regulators.

Fundamental aspects of our service provision will remain unchanged and form a bedrock for our long-term strategy, with opportunities identified to optimise our delivery of them. We will continue to drive quality improvements through the inspection of new homes during construction, and we will remain a direct insurer whilst reducing our net exposure via reinsurance and improving our funding through more risk-based pricing.

Although we will continue to refine and professionalise our core insurance disciplines, the intention is to pivot the business towards a range of services which build on established competencies and leverage our strengths in technical expertise and data insights. This will include areas such as land quality endorsement, construction quality services and training. These complementary services offer higher value for our customers, generate less capital-intensive and more diversified income streams, and support our core purpose. In addition, they should help to ensure that our business model is secure, financially viable and relevant for the long term.

During the year, we continued to work on delivering against our five strategic priorities. While these priority areas will be replaced in 2021/22 with the new strategic pillars and imperatives, the progress we have made in the year provides an excellent platform on which to build. Several of the initiatives will continue into 2021/22 and beyond, supplemented by new initiatives aligned to our strategic pillars that will accelerate us towards achieving our vision. The table below highlights some of the initiatives we have been working on and their expected outcomes.

Focus area	Description	In the 2020/21 financial year, NHBC:	With the aim of:
Ensuring financial viability	We must ensure that our financial position is stable and well managed to deliver our promise to our 1.4 million Buildmark policyholders, and to sustain our investment in efforts to improve construction quality. To achieve this, we are focused on ensuring product profitability, adequate margins and a capital position that is secure to support future liabilities. We will safeguard our capital position through product and pricing decisions, investment strategy, appropriate reinsurance, tight claims management and cost control.	'Reset' our warranty pricing, reducing the negative impact of loss-making segments and reducing cross subsidies.	Safeguarding our capital base through increased revenue in response to the higher than expected claims costs and for future exposure, whilst providing a strong message that competitive warranty pricing supports and rewards construction quality.
		Continued our Simplify Programme across the business, improving processes and efficiency, delivering benefits totalling £1.5m, with additional benefits of up to £2m expected from scheduled future changes.	Streamlining processes and identifying options to enhance customer service and reduce operating costs.
		Restructured our reinsurance programme, placing a whole account quota share with significant cession. We also placed a loss portfolio transfer on claims arising from the 2016/19 generation years.	Significant improvements to our solvency ratio, providing balance sheet stability whilst helping to free up funds to invest into the business.

Focus area	Description	In the 2020/21 financial year, NHBC:	With the aim of:
Building reputation and brand	A strong brand and reputation enable us to attract customers and influence the construction quality of a substantial proportion of the new homes market. This provides access to extensive data that can be used to influence the standards of new homes. In addition, we must focus on developing a better understanding of customer needs and ensuring we continue to deliver market-leading services and products. We will reinforce our independent voice with a clear and confident position, bringing information on construction quality to broader attention, and clearly demonstrating our work to improve outcomes for homeowners.	Continued engagement with Government and industry stakeholders concerning the Building a Safer Future review of Building Regulations and Fire Safety. Supported the launch of the New Homes Quality Board, with NHBC's CEO on the Board.	Supporting and influencing policy makers in the development of the future of Building Regulations, ensuring safety and construction quality remain the focus. Ensuring that homebuyers are appropriately protected whilst supporting the message that builders should be held to account for poor quality.
		Strengthened our Commercial Leadership team, recruiting a Customer Relationship Director and defining a strategic partnership model.	Improving our service and relationships in growing markets so we can continue to support construction quality across the industry, whilst ensuring we provide a responsive, valued service to our core customer base. Helping grow our revenue potential from clients who support our values and purpose and represent attractive, profitable business.
		Formed a Climate Change Steering Group to define NHBC's climate change strategy and to direct and co-ordinate tactical activity to deliver. Four working groups, each with their own specific focus, are tasked with delivering our strategic objectives in key areas.	To ensure we are: • supporting the industry to deliver the Government's climate change targets • taking appropriate action to effectively deliver our own climate change responsibilities • taking appropriate action to meet the regulatory expectations of the PRA and FCA with regard to financial risk from climate change • identifying existing and emerging climate resilience-related risks and opportunities.

Focus area	Description	In the 2020/21 financial year, NHBC:	With the aim of:
Improving construction quality	Our focus on improving construction quality sets us apart from our competitors. This encompasses research, guidance, training and the support provided to registered customers from concept to completion of their build projects. We will continue to use our expertise to improve construction quality, enhancing our customers' quality control and helping to provide improved homes for consumers. We have made significant investments in our inspection and technical resources to allow our inspectors more time on site and to introduce additional services – such as Construction Quality Reviews – helping to reduce defects in new homes. We are committed to continuing to deliver our range of technical expertise and interventions, influencing behaviour on site to improve the build quality of new homes. We are also focused on 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 government. We will continue to drive the quality agenda to help the industry develop the skills and focus required for construction quality to continue to improve.	Continued to pilot, scale and embed the outcomes of our technical risk management (TRM) review, an end-to-end review of our TRM approach from design to completion.	Better support for customers throughout the construction process to identify potential risks sooner and more accurately, reduce the likelihood of defects or claims, and provide a more tailored service to our registered customers. We are also scaling up the use of technology, such as photography or video, to increase the number of interventions we can provide on site.
		Launched a comprehensive review service for the manufacturers of innovative products and systems – NHBC Accepts.	Helping support the growth of Modern Methods of Construction while ensuring developers, investors, lenders and homeowners have the confidence that innovative construction systems have been rigorously assessed and can be used in homes covered by Buildmark.
		Launched apprenticeship schemes for Construction Site Supervisors and Bricklaying, the latter supported by our purpose-built Training Hub in Tamworth.	Leveraging our unique insights and data to identify areas where we can support the industry drive for quality, reducing defects and claims, and increasing homeowner satisfaction and confidence in new homes.

Focus area	Description	In the 2020/21 financial year, NHBC:	With the aim of:
Developing leadership, talent and culture	We aim to foster a working environment that encourages our people to develop and thrive, giving every employee the opportunity to flourish professionally and personally. Several initiatives are ongoing to enhance employee fulfilment and engagement, including our employee engagement survey, our commitment to a more diverse workforce and culture, revised talent development and succession planning programmes (e.g. a Future Leaders' Programme), and a series of wellbeing initiatives.	Improved the alignment of our reward framework to business culture and strategy. Launched a new bonus scheme and designed clearer, simplified job levels.	Ensuring our reward offering supports the attraction and retention of talent, recognises high performance and increases employee engagement.
		Introduced quarterly employee engagement surveys to measure views on our commitment to diversity and inclusion, and how we responded to Covid-19.	Increasing employee engagement so that people feel part of something they are committed to and have a voice in changes to the business.
		Carried out a staff working environment survey to help assess preferred future ways of working as we transition out of restrictive Covid-19 measures and prolonged periods of working from home.	Ensuring we can remain an attractive, flexible employer whilst maintaining a high standard of service for registered customers and homeowners.
Exploiting data and technology	We are focused on making better use of our substantial data assets to better inform how we work, and to provide greater insights and services to our customers. We continue to explore opportunities to innovate by using available technology, both internally to improve processes and service, and on	Showed our commitment to driving IT and technological improvements through the recruitment of a Chief Digital and Technology Officer, who is also a member of the Executive Committee.	Designing and delivering an IT and technology strategy that is aligned with our long-term business strategy, accelerating us towards being a more modern, agile business that delivers change at pace and ensures we can respond effectively to evolving stakeholder demands.

Focus area	Description	In the 2020/21 financial year, NHBC:	With the aim of:
	site to help registered customers.	Invested in a Data team, recruiting several high-calibre, experienced data professionals to support our data aspirations and allow us to leverage our data assets to best effect.	Ensuring that we maximise our opportunities in relation to data, both internally and externally, and bring the necessary consistency and controls to it.

Risks to our business

Our approach to risk management

In considering the Group's key risks, we distinguish between risks to achieving our objectives and risks to our sustainability as an organisation. To achieve our business objectives, we monitor and minimise poor construction standards and unfair homeowner outcomes for the homes we insure. To ensure our sustainability as a business, we take action to manage our strategic, financial, conduct and compliance, and operational risks.

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.
- 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 52.

Risk management

We have a risk management framework designed to identify, assess and mitigate our key risks. We operate in a dynamic environment and aim to identify and assess key emerging risks that might threaten the business in advance of them crystallising. The risk management framework is sufficiently flexible to react to unexpected circumstances and ensure risks are managed on a holistic basis following a risk-based approach. We manage this through a series of risk management processes, including:

- risk and control assessments which are actively managed by risk owners in conjunction with the Risk Management team
- a process for managing risk incidents and ensuring lessons are learnt
- identified staff within each business function providing risk and compliance support for operational colleagues

- a policy framework to ensure the Board's minimum standards of control in key risk areas are effectively understood.

We strengthened our approach to cyber risk management throughout the year, including through the inception of a dedicated cyber security forum to oversee strengthening in information security controls.

The risk operating model

To promote an understanding of responsibilities across the organisation, we apply the widely used 'three lines of defence' model. It combines three separate but integrated elements which help us to manage risks effectively and support the achievement of our strategic objectives. These are described below.

First line of defence – operational functions	**Second line of defence – support functions**	**Third line of defence - assurance**
The business is responsible for identifying, assessing and managing risks in line with NHBC's risk management framework. Executive Committee members are responsible for managing risk in their areas. They and their management teams are best placed to understand and manage most risks.	The Risk and Compliance function develops and maintains the risk management framework. The team provides oversight and challenge to the business to support the Board in discharging its responsibilities in relation to risk management and regulatory compliance. Reporting to the Chief Executive Officer, the Chief Risk Officer also reports to the Executive Risk Committee and the Board Risk Committee.	The Internal Audit team provides independent assurance on NHBC's control framework. The team reports to the Audit Committee.

Risk appetite

The Board sets risk appetites which are aligned to NHBC's key risks and strategic priorities. There are 15 risk appetites in total which are supported by key risk indicators. These are used by management and the Board to assess our risk profile, with mitigating action taken where a metric falls out of appetite.

Our risk profile

Covid-19

The business reacted quickly to the unprecedented challenges of Covid-19. Our Covid-19 response team met regularly throughout the year to monitor the Government's response to the pandemic and proactively identify any emerging risks to the business and implement operational changes as needed. On balance, there has been no material operational impact on NHBC, and the business adapted quickly to focus on ensuring core business activities were not interrupted. We have taken steps to reduce the impact on our customers and policyholders and have established new ways of working remotely throughout the year. This includes communicating with our customers through virtual meetings and conferences, and the ability to settle claims directly with policyholders, rather than carry out remedial work, where this is judged most appropriate.

There has also been significant focus over the year on ensuring employees have a safe working environment, both at home and out on building sites, and a number of actions have been implemented to support employees during this period. This included additional 'wellbeing days', where staff could take time out to focus on their own wellbeing, as well as a flexible approach to working for those employees juggling the demands of home-schooling and caring for others throughout lockdown.

As the Government starts to remove lockdown restrictions, our focus has shifted to assessing what the office of the future will look like and reviewing our corporate policy on flexible working. The situation will continue to evolve as governments around the world move quickly to vaccinate their citizens and to contain new Covid-19 variants. We will continue to monitor the situation and remain prepared to act as risks and opportunities are identified.

Brexit

NHBC operates only in the UK, so is not exposed to the same level of operational challenges as cross-border entities. Our main risks are those which could emerge as a result of the Brexit impact on the overall economy, particularly the investment and housing markets.

Following the referendum, we established a working group which was tasked with the responsibility of identifying and managing the risks from Brexit. In addition, as the transition agreement was nearing its end, we sought to manage this risk more closely with the support of a wider set of stakeholders from across the business.

Our key risks from Brexit and management actions include:

- volatility of our investment portfolio – we manage this risk through frequent monitoring and dialogue with our investment managers. Scenarios were developed to assess potential exposure to losses, and we are prepared to make investment decisions to protect our portfolio

- decrease in house prices – we manage this risk through regular monitoring and will take action to adjust warranty premiums if required
- decrease in volume of registrations – we manage this through regular monitoring and will take action to adjust the cost base if required
- House rebuilding cost inflation – there is an increased risk of a higher inflation environment caused by potential labour and material shortages.
- Builder insolvency – this risk is heightened under stressed economic conditions, and we have increased our monitoring of builder creditworthiness throughout any recessionary environment.

Loss portfolio transfer (LPT) reinsurance

We operated throughout the last year with a solvency ratio below the agreed risk appetite set by the Board, predominantly due to the valuation of claims provisions under Section 4 of the Buildmark policy relating to fire-safety claims incidence. In addition, the Board has increased that appetite to 150% for year ended 31 March 2021.

The placement of an LPT was considered the most viable option to increase our solvency ratio above our increased risk appetite threshold. We also consider the placement to be strategically important to NHBC, as it will increase our financial resilience to protect policyholders and continue providing important services to the UK home-building industry, allowing us to focus on our core purpose of raising standards in new home construction and protecting homeowners.

Key risks

The key risks to achieving our strategic objectives are reviewed and reported on a quarterly basis to the Board Risk Committee. The Internal Audit team reviews the adequacy of the key controls designed to mitigate these risks as part of its risk-based audit cycle.

Key risks	Key mitigants and controls
Strategic	
Failure to define and implement a strategy to deliver NHBC objectives which accommodates the changing environment in which we operate.	The strategy is challenged through the Own Risk and Solvency Assessment (ORSA) process, where an independent view of the strategy and business plan is provided by the Risk team to support decision-making.

Failure to ensure adequate financial performance and a sustainable capital position.	We monitor and manage our performance against the Board-approved plan and risk appetites, bolstered by a Quarterly Business Review process now in its second year.
Insurance	
Failure to identify and manage significant changes in the propensity for builders to self-repair building defects.	We have well-defined metrics in place and continually manage builders' performance. We are prepared to take proactive action where required.
Failure to identify significant issues with a building system or widely used building component, resulting in significant consumer dissatisfaction and claims costs.	We use claims and inspection information to monitor specific trends. There is a feedback loop between claims, inspection and underwriting to ensure the root causes of issues are identified and rectified.
Failure to adequately mitigate exposure to the insolvency of one or more large builder clients, resulting in significant claims costs.	There are metrics in place to monitor this, and we continue to assess options to further mitigate this risk.
Failure to have an appropriate reinsurance programme to support our capital management.	We have strong, long-term relationships with our reinsurance partners, ensuring they are kept up to date with industry and market developments.
Failure to price risks accordingly, taking into consideration our experience and potential future risk trends.	Our pricing analysis continues to evolve, and further actions have been taken this year to improve our approach to risk-based pricing.
Market	
Failure to adequately mitigate investment risks arising from market volatility, resulting in an inability to fund policy obligations and meet regulatory capital requirements.	We adopt a buy and maintain approach within our investment portfolio, with a focus on high-quality fixed income and government or quasi-government holdings. Assets are closely matched with insurance liabilities to hedge volatility. The investment position is regularly monitored to ensure exposure remains within the agreed appetite.

Pension	
Failure to forecast and plan for additional pension fund contributions, resulting in a reduction in net assets and an inability to replenish capital reserves.	The fund's assets are matched to the liabilities in the pension scheme. We have an agreed plan with the Scheme Trustee to fund the pension scheme and address its deficit.
Regulatory risk	
Risk of NHBC failing to identify and implement regulations appropriately.	We carry out regulatory horizon scanning and gap analyses to ensure new regulations are understood and effectively implemented.
Risk of UK regulations and legislations adversely impacting our business model.	We carry out thorough assessments of any identified regulation or legislation affecting our business model. Depending on the materiality of the change, this may include business impact assessments, which may be supported by third-party experts where necessary, and responding to consultations – either directly or through industry bodies.
Conduct risk	
Failure to embed effective processes to improve the NHBC consumer journey. This includes the risk that our behaviours, actions or controls result in detriment or unfair outcomes for our homeowners.	We have an established consumer strategy, with all aspects of the consumer journey overseen by the Consumer Strategy Group and Conduct Risk Committee.
Operational	
Risk of loss arising from inadequate or failed internal processes, or from personnel, systems or external events.	Control effectiveness is assessed every six months across the organisation through the risk and control assessment process. Root cause analysis takes place following a risk incident or control breach to ensure lessons are learnt.
Failure in IT controls leading to a cyber attack or data loss.	A new cyber risk strategy has been approved by the Board Risk Committee, and a new cyber security forum has been established to oversee developments in this area.

Failure to respond to a deterioration in industry build quality or change in registered builder behaviour.	We are working to implement a new technical risk management process which will enable us to work proactively in the early stages of the building development process and to be more risk-based in our approach to expertise deployment, inspection and management oversight. In addition, we are exploring how this can be better supported through the more effective use of available technologies.

Emerging risks

In addition to the risks which have emerged and are being actively managed by the business, we carry out an ongoing emerging risk assessment to identify risks which could have a significant impact on the business. Examples of risks currently under review include:

- the ongoing economic uncertainties as a result of Covid-19 and Brexit which could impact the UK housing market, including demand for new homes, mortgage availability, builders' ability to source high-standard materials and labour, builders' financial security, and inflationary pressures affecting the supply chain and remediation costs
- the operational implications of climate change for the building industry and the corresponding evolving nature of our exposure, including financial risks from potentially increased claims, as well as strategic and reputational risks from emerging consumer attitudes
- the changes in the Government's approach to housing standards and the Building Control framework in the UK, including the role of the New Homes Ombudsman and consultation on building safety legislation
- The increasing share of Modern Methods of Construction, including new systems, construction methods and materials, and their impact on building repairability
- technological issues, including the ever-increasing threats to cyber security, as well as the need to support a productive workforce in a more remote working environment in the future.

Risk and capital

The Board pays particular attention to NHBC's solvency position, given our limited options to raise capital as a company limited by guarantee. The primary basis on which we quantify this risk is the 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 our standard formula solvency position as at 31 March 2021.

NHBC surplus capital (unaudited)

	2021	2020
Eligible own funds	**£588m**	£561m
SCR	**£381m**	£416m
Solvency II surplus	**£207m**	£145m
Solvency ratio	**154%**	135%

As at 31 March 2021, our capital surplus on a Solvency II standard formula basis was £207m, with a solvency ratio of 154%, which is above the Board's risk appetite of 150%.

Wider impact and non-financial information statement

NHBC runs its business with regard for the interests of our customers, our policyholders, our people, our relationship with our suppliers and the impact of our operations on the communities in which we operate, ensuring that we maintain a reputation for high standards of conduct.

Our business model (see page 23) supports our core aims of raising construction quality standards and protecting homeowners. Our policies and processes are designed to be proportionate to the risks we have identified and sufficiently flexible to respond effectively should those risks materialise.

Employees

Ensuring our employees can develop and thrive is fundamental to the success of our business. We recognise that if we look after our employees, enabling them to be the best they can be, they are better equipped to provide excellent service and technical expertise to our registered customers and to homeowners.

Following several years of stabilisation, our workforce has reduced during the year from 1,210 to approximately 1,100. Of these, approximately 50% are office based and 50% field or home based.

Of course, the Covid-19 pandemic brought challenges for our business and for our employees. We made a number of decisions to protect our business during this time, including, after consultation with our Staff Association (SA), accessing the Government's Coronavirus Job Retention Scheme (CJRS) for employees in the parts of our business where demand had fallen (most notably for building inspectors, engineers, surveyors, claims inspectors and customer service advisers). Within this process, we ensured employees who were on furlough leave had their salaries topped up to 100% of their normal earnings in April and 80% thereafter. All employees returned from furlough by the end of September 2021. Given the faster than expected recovery of the new-build housing market, in March 2021 we repaid all CJRS grant monies received.

With demand not expected to return to pre-pandemic levels until 2022/23, we acted to mitigate the impact of this downturn, making the difficult but necessary decision last autumn to render a limited number of roles across the organisation redundant. We mitigated the impact of this as much as possible by offering alternative roles within the Company and by supporting affected colleagues throughout.

Employees who have continued to work throughout the lockdown period have been supported with flexible working arrangements and additional leave, including five days of paid dependants leave to assist them with their domestic caring responsibilities, two days of wellbeing leave to recharge and refresh themselves, and an additional day off over the Christmas period as a "thank you" from the business. Also, we recognised that those working from home that were normally office based may have incurred additional costs, such as increased utility bills, so we provided a one-off payment to impacted employees.

Additional communications on working safely from home and looking after mental health have also been shared, together with the enhanced health and safety arrangements that have been made at the Milton Keynes office for the return of some employees when it is appropriate to do so. Similar arrangements are in place for our other offices.

We are committed to encouraging diversity and inclusion in everything we do in order to support our registered customers, policyholders and people. We are a signatory to the Women in Finance Charter and are working towards the goals of increasing the number of women in senior roles, whilst recognising that changing the demographic of our employees will take time to achieve.

We have recently published our fourth Gender Pay Gap Report. This report shows a continued improvement in the mean gender pay gap to 13.4% (2020: 14.9%, 2019: 15.5%). Our results continue to be driven primarily by the tendency for males to occupy a larger proportion of higher-paid technical roles as well as senior positions within the business. We recognise there is still more to do to close the gap.

We believe 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 us, efforts are made to continue their employment, with appropriate training and reasonable adjustments being made.

We established a BAME network in 2020, adding to the Women's and LGBTI+ networks already operating. All networks are actively supported with good engagement from members and allies. These networks are helping us to be clear on what further steps we need to take to be a more inclusive and diversity-confident business. It is recognised that this is important to our attractiveness as an employer and our success as a business. We are 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 the Government.

We also have an officially recognised trade union, the NHBC Staff Association (SA), which is registered with the Certification Officer for Trade Unions and Employers' Associations. It is affiliated with the Trades Union Congress (TUC) and the General Federation of Trade Unions (GFTU), an organisation for smaller unions. The SA is actively involved in both organisations and continues to access high-quality training for its workplace representatives and Executive Committee, as well as those courses being available to the wider membership. Through working with both the TUC and GFTU, the SA also has access to high-quality advice and best practice from across the trade union spectrum.

Corporate social responsibility

We believe in creating a positive impact in the communities in which our employees live and work, and we have a range of partnerships and initiatives in place to support that. We continue to work with Crisis as our corporate charity partner. We also maintain our matched funding scheme for employees' charitable fundraising for non-corporate causes, as well as enabling employees to take two additional days' leave a year to volunteer for causes important to them.

Respect for human rights

We respect the rights of all those impacted, directly or indirectly, by our actions. This includes the supply chain for both the operational expenditure and remediation activities undertaken on policyholders' properties in relation to our Buildmark warranty product. Our Modern Slavery Statement is published on our website; along with our Procurement Code of Conduct, it supports human rights throughout the supply chain.

Anti-corruption and anti-bribery matters

We operate policies and procedures which clearly define employees' roles and responsibilities in preventing corruption, bribery, money laundering and other financial crimes. Our Chief Risk Officer is accountable to the Board for the effectiveness of our controls for preventing, detecting and investigating financial crime. These controls are embedded throughout the Company, including in areas such as procurement, third-party relationships and payments. Processes and controls are subject to periodic review and audit oversight.

Environmental matters

Our Climate Change Steering Group comprises senior colleagues from across the business. The Group oversees four workstreams that involve:

- NHBC's environmental impact and ensuring that we meet our own net zero carbon targets
- meeting all regulatory expectations of the PRA and FCA in respect of the financial risks of climate change
- working with the industry on climate resilience and in particular on how NHBC Standards can make a positive contribution

- representing the industry to Government, helping to ensure that Government objectives for climate change can be met in ways that are technically and commercially viable.

Our direct environmental impact is minimised primarily through internal processes, with 100% of the waste from our Milton Keynes, London and Edinburgh offices being recycled. For several years, we have been investing in energy-efficient lighting and voltage optimisation, enabling us to reduce energy consumption by an average 7% year on year. We are committed to reducing this further, and more LED lighting has been installed in our Milton Keynes office this year. In September 2020, we transitioned our electricity supply to renewable sources.

We run an extensive car fleet as part of our operations and have reduced average CO_2 emissions by 15% in recent years. Our fleet strategy looks to drive significant improvement with the introduction of a range of electric and hybrid vehicle options for our job need drivers. The Streamlined Energy and Carbon Report (below) provides more information on our environmental performance.

We have developed our procurement processes to help ensure our external contractors and suppliers provide ethical and responsible services.

Work has continued on the implementation of our Responsible Investment (RI) framework, taking account of material ESG factors. We work with asset managers that integrate robust RI practices into their investment philosophy and processes. We monitor and report internally on the ESG credentials of our investments, which forms part of our asset manager performance reviews. We have recently introduced screening on new asset purchases in order to avoid investing in either highly carbon-intensive companies or those that generate revenue through socially damaging industries. We have recently made an investment into a global renewable power infrastructure vehicle which is helping to finance the transition to a lower carbon energy network.

Currently, there are no explicit policies or key performance indicators used to shape or measure our environmental impact. Instead, this is managed as a general corporate aim. However, we are working to develop policies regarding our environmental impact together with related key performance indicators that would inform strategy and positively manage it.

Streamlined Energy and Carbon Report (SECR)

For the year ended 31 March 2021, the annual quantity of emissions in tonnes of CO_2 equivalent and kWh resulting from activities for which we are responsible is shown in the table below. Consumption figures and annual emissions are all significantly reduced this year compared with last year due to the changes in working practices in response to the Covid-19 pandemic.

	CO_2 tonnes		**kWh**	
	2021	2020	**2021**	2020
Consumption of gas	**160**	182	**873,523**	994,302
Consumption of fuel for the purposes of transport	**1,269**	2,030	**5,349,900**	8,408,277

Consumption of gas is in relation to corporate facilities management. The figure quoted in kWh is as advised by the energy provider, with the conversion factor supplied by the Department for Business, Energy & Industrial Strategy (BEIS) applied to derive the equivalent tonnes of CO_2.

Consumption of fuel for the purposes of transport principally relates to fuel through our corporate vehicle fleet. The CO_2 metric is based on business miles travelled, with conversion factors supplied by BEIS. A further conversion factor supplied by BEIS is applied to derive the equivalent kWh.

For the year ended 31 March 2021, the annual quantity of emissions in tonnes of CO_2 equivalent and kWh resulting from our purchase of electricity for our own use is shown in the table below.

	CO_2 tonnes		**kWh**	
	2021	2020	**2021**	2020
Consumption of electricity	**222**	316	**962,901**	1,245,347

At present, consumption of electricity for the purpose of transport is negligible. The consumption of electricity in kWh is as advised by the energy provider, with the conversion factor supplied by BEIS applied to derive the equivalent tonnes of CO_2.

The ratio which expresses the Company's annual emissions in relation to a full-time equivalent employee (FTE) is shown in the table below.

	CO_2 tonnes per FTE		**kWh per FTE**	
	2021	2020	**2021**	2020
Annual emissions	**1.4**	2.1	**6,189.8**	8,504.7

The annual emissions relate to activities for which NHBC is responsible. The FTEs are equivalent to figures disclosed in note 13 to the financial statements.

Section 172(1) statement

The Board makes decisions for the long term, to ensure the business remains sustainable. The Board acknowledges that strong relationships with our key stakeholders – employees, policyholders, registered customers, the NHBC Council, regulators and community – are vital to our ongoing success.

In the decisions taken during the year, the Board has considered its responsibilities under s172 of the Companies Act 2006 and has acted in accordance with those responsibilities to promote the success of the Group. In the reporting period, Board meetings have been held virtually due to Covid-19 restrictions, but this has not had a material impact on the meetings themselves or the decisions made during them.

The Board discharges its responsibilities through a combination of the following:

- standing agenda items and papers presented at each Board meeting
- updates and training on key items, split between risk and compliance
- rolling agenda of matters to be considered by the Board throughout the year; this includes a Board strategy day from which the Group Business Plan is developed
- regular contact with key stakeholders through attendance at a range of meetings and events, some of which are hosted by NHBC. During the last year, these meetings and events have mostly been held virtually due to Covid-19 restrictions, but the Board remained engaged with key stakeholders, suppliers, registered customers and regulators.

The table below shows how the Board has engaged with our stakeholders.

Stakeholder	Engagement / key decisions
Employees We have c.1,100 committed employees whose technical knowledge and expertise is recognised in the industry. We value them and look for ways to engage with them and provide opportunities for their professional and personal development.	The Board takes an active role in engagement with employees. We run a quarterly staff engagement survey which achieves very high response rates, with an average over the year of 83%. This is lower than the 88% achieved in the prior year due to the impact of furlough. Our employee Net Promoter Score (eNPS) (a measure of being prepared to recommend NHBC as an employer) peaked at 50 in May over the same period, with 59% of employees who responded identifying themselves as promoters. We also have a people and culture forum which is chaired by the Commercial Director and considers how we can develop our polices and

	approaches to our workplace. Normally, the Executive Directors present and take questions at annual Company-wide roadshows: however, it was not possible to hold these in 2020 due to Covid-19 constraints. Instead, quarterly business update webinars were held, and the Executive Directors and Executive Committee members led and supported colleagues through Covid-19 (including working from home) through frequent and sustained internal communications. The Chair also holds one-to-one meetings with key management personnel who do not sit on the Board. We work closely with the Staff Association (SA) with a quarterly presentation from one of the Executive Directors to the SA Committee. In addition, professional development is encouraged throughout the Company to ensure competence is developed in line with employee and market expectations. Remote working saw our learning and development initiatives go virtual, with the introduction of Mind Gym virtual workouts to support all employees and managers, encouraging collaboration and the sharing of good working practices. There has been a continued commitment from the Executive Committee and senior managers to drive development and succession planning by holding quarterly talent review meetings and continued intake on our leadership programme.
NHBC Council The Chair and Chief Executive Officer form part of the Council Appointments Committee to engage and support the selection of Council members who are equipped with the requisite knowledge to both challenge and support the business.	The Board hosts the Annual General Meeting, which was held virtually in September 2020, where Council members can question the Board on NHBC activities and decisions. The range of stakeholders on the Council ensures that regular dialogue is held between Board members, senior managers and the Council. Further details on the Council can be found on page 56 of this report.
Policyholders A key part of our core purpose is the protection of our policyholders, as well	We are very conscious of the fact that we must deliver for policyholders who are the beneficiaries of our warranty and insurance products. Our team has supported policyholders

as supporting our registered customers to deliver high-quality new build homes for homeowners. This purpose is recognised across the organisation, and engagement and dialogue with our policyholders is key to us developing our warranty cover to meet their needs. There are seven positions on the NHBC Council which are currently held by policyholders.	through the whole reporting period, switching to working remotely when lockdown began in spring 2020. Where Government guidance allowed, we put in place Covid-secure working practices to ensure that our people could visit policyholders in their home if they were comfortable with us doing so and that remedial works could be carried out as required. We recognise that this has been a particularly difficult time for those policyholders who have experienced problems with their home and are grateful for their understanding and co-operation with our teams. During the year, we also reviewed and streamlined the ways in which our Resolution Service can assist homeowners.
Registered customers Our registered builders and developers are key to achieving our aims to build confidence in the quality of new homes. Open dialogue, depth of relationships and working in partnership are key to this.	Long-term relationships across our various registered customer segments are key to the development of quality new-build homes in the UK. The executive team holds regular individual meetings and joint events across our range of customers to understand their needs and requirements in terms of our products and services, and to discuss the challenges the industry faces. During the reporting period, most of these meetings and events have been successfully held virtually. A growing proportion of our warranty business is coming from alternative residential markets, and we have a dedicated team developing new relationships in these sectors. However, we expect the majority of our registrations to remain in the private sale sector, delivered by our existing registered builder and developer customers, where our focus remains on building strong, mutually beneficial relationships with a shared commitment to new home quality.
Regulators We are authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and Financial Conduct Authority (FCA). Our Building Control activities are overseen by the	We have open and transparent relationships with our regulators. The Executive/Non-Executive Directors and senior managers have regular meetings with the regulators to discuss specific business, governance and regulatory matters. A standing update is provided to the Board through the Board Risk Committee on all regulatory matters. In addition to the PRA, FCA and CICAIR, we monitor other key stakeholder

Strategic report - Section 172(1) statement

Construction Industry Council Approved Inspector Register (CICAIR) and approved by the Construction Industry Council (CIC).	relationships, including HMRC, HSE, ICO and The Pensions Regulator.
Community We recognise the importance we play as an employer and contributor to our local communities, and we are committed to providing support through our people and resources.	Our corporate charity partner is Crisis. As well as fundraising, this relationship also provides opportunities for our employees to use their skills to support the charity. We engage with local communities across the UK, particularly in Milton Keynes, where we support local charities through regular fundraising and the provision of our people to support their work. We offer every employee two days' leave to support local charities. A review of this work is communicated to the Board through the Chief Executive Officer.

We are committed to appropriate engagement of our key stakeholders, and this will continue during the financial year ending 31 March 2022.

The Strategic report was approved by the Board on 28 June 2021.

Steve Wood

Steve Wood

Chief Executive Officer

Board

We have a strong, experienced and diverse Board with a good balance of skills. Below are biographies of current directors as well as those who served in the financial year.

Paul Bishop (Senior Independent Director)

Paul Bishop joined the Board in November 2016 and was appointed Senior Independent Director in January 2018. He 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, he is the Chair of the Audit Committee and a member of the Board Risk Committee, Investment Committee and Nominations Committee. Paul is also a Non-Executive Director and Chair of the Audit Committee at Just Group, and Zurich Assurance Ltd.

Alison Burns (Non-Executive Director)

Alison Burns joined the NHBC Board in October 2019 as an Independent Non-Executive Director. She has held various executive and non-executive roles within Aviva plc, including the position of CEO of Aviva Ireland. Additionally, Alison has extensive financial services experience, gained in senior roles with Santander, Bupa, Lloyds TSB and AXA UK. Previously, she was a Non-Executive Director of Hastings Group Holdings plc, and is currently a Non-Executive Director with Bank of Ireland (UK) plc, Equiniti Group plc and RPMI. Alison is the Chair of NHBC's Remuneration Committee and a member of the Audit Committee, Nominations Committee and Board Risk Committee.

David Campbell (Commercial Director)

David Campbell joined us in January 2020 in the newly-created role of Commercial Director, with overall responsibility for NHBC's team of Regional Directors, Customer Relationship Director including Business Development, Training & Analysis, Customer Services and Marketing & Communications.

With over 30 years' experience in the house-building industry, including eight years on the main board of London developer Telford Homes plc prior to joining NHBC, he brings a wealth of experience to the role and a wide appreciation of the real estate process from the builder perspective.

In previous roles, David operated as both a Sales and Marketing Director and Regional Managing Director for a number of major residential and mixed-use developers, including the Berkeley Group, Barratt Developments and Wilson Bowden Developments.

Kate Davies (Non-Executive Director)

Kate Davies joined the Board in October 2016. She became Chief Executive of Notting Hill Housing in 2004 and, following the merger with Genesis Housing Association in April 2018, became Chief Executive of Notting Hill Genesis, a 65,000-home association, with over 90% of its stock in London. 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, and is a Non-Executive Director of TopHat Homes, a modular housing construction company based in Derby. Kate is a member of our Board Risk Committee.

Paul Hosking (Chief Financial Officer)

Paul Hosking joined us in November 2016. He is a qualified Chartered Accountant with over 25 years' post-qualification experience working in the UK and European insurance markets. Paul qualified with PricewaterhouseCoopers and spent a number of years at the firm, then joined QBE Insurance (UK) and worked in a variety of operational and group finance management positions. Before joining NHBC, Paul spent 13 years at W. R. Berkley where, as Chief Financial Officer, he helped the company establish insurance businesses in five European countries and Australia, taking on a number of wider executive management and operational responsibilities.

Isabel Hudson (Chair)

Isabel Hudson left NHBC on 31 May 2020 after joining the NHBC Board in June 2011 as Deputy Chair and being appointed Chair in November 2011. Isabel is a Director at AXA and BT Group plc.

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

Her executive career has comprised various roles, including Executive Director of Prudential's UK business and Chair 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 37 years' experience in the insurance industry in the UK and mainland Europe.

Jean Park (Non-Executive Director)

A Chartered Accountant, Jean Park joined the Board in December 2012. She is Chair of NHBC's Board Risk Committee and a member of the Audit, Investment, and Nominations Committees. Jean is a risk professional with many years' 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.

Alan Rubenstein (Chair)

Alan Rubenstein joined NHBC in February 2020 in the role of Non-Executive Director and Chair of the Investment Committee. On 1 June 2020, he took over the role of Chair from Isabel Hudson. With over 30 years' experience in pensions, insurance, asset management and investment banking, he has held a range of senior roles, including Chief Executive of the Pension Protection Fund between 2009 and 2018. Alan is also a Non-Executive Director of esure Group plc, Chairman of Pembroke Heritage Fund Ltd and a Trustee and Chair of the British Coal Staff Superannuation Scheme.

Sir Muir Russell (Non-Executive Director)

Sir Muir Russell left NHBC on 31 May 2020 after joining the Board in May 2012. During his 33 years as a civil servant, he 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 the University of Glasgow 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. Muir was the Chair of our Remuneration and Scottish Committees and a member of our Audit, Investment and Nominations Committees.

Philip Rycroft (Non-Executive Director)

Philip Rycroft joined the Board in October 2019. Prior to that, he worked in the Department for Exiting the European Union between March 2017 and March 2019, from October 2017 as Permanent Secretary. From June 2015 to March 2019, Philip was Head of UK Governance Group in the Cabinet Office, with responsibility for advising ministers on all aspects of the constitution and devolution. From May 2012 to May 2015, he was the Director General in the Office of the Deputy Prime Minister. Through his career, he worked in a variety of roles in the civil service in Scotland and England, in the European Commission and in business. Philip is Chair of International Futures Forum, and The Portman Group, and Independent Non-Executive for PWC UK, he is also a Non-Executive Director of UK Accreditation Service Philip is a member of NHBC Remuneration Committee and was previously a member of NHBC's Investment Committee.

Stephen Stone (Non-Executive Director)

Stephen Stone joined the Board in November 2016, bringing vast experience in the house-building industry across a range of models and tenures. He is a member of our Board Risk Committee and Remuneration Committee.

He is currently Non-Executive Chairman of the partnership house builder Keepmoat, as well as a Non-Executive Director of the Home Builders Federation, Ilke Homes, a modular home manufacturer and Orbit Group, where he also chairs Orbit Homes.

Stephen has been the Chief Executive of Crest Nicholson plc since 2005, becoming Chairman in March 2018 until his departure in October 2019.

He is a Chartered Architect with over 40 years' experience in various positions in the construction and house-building industry, and has more recently been an adviser to the Building Better Building Beautiful Commission, serving on several government committees debating build quality in the house-building sector. Stephen is a member of our Risk Committee and Remuneration Committee and also chairs the Construction Quality Expert Panel.

Steve Wood (Chief Executive Officer)

Steve Wood joined the Board as Chief Executive Officer in June 2017. He was previously the Chief Executive Officer of Paymentshield (part of Towergate Insurance) and UK Managing Director at Ecclesiastical Insurance Group. 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. In addition to his NHBC responsibilities, Steve is a Director of the New Homes Quality Board.

Council

Below is a list of members of the Council as at 1 June 2021.

Mr P Andrew
Home Builders Federation
Mr J Armstrong
Northern Ireland Committee
Mr R Barnes
Warranty holder
Mr S Baseley
Home Builders Federation
Ms J Bennett
UK Finance
Mr P Bishop
NHBC Board appointment
Mr M Black
Home Builders Federation
Sir Steve Bullock
Housing and Finance Institute
Mrs A Burns
NHBC Board appointment
Mr D Campbell
NHBC Board appointment
Mr P Caplehorn
Construction Products Association
Sir John Carter
Honorary Vice-President
Ms C Compton-James
The Housing Forum
Mrs K Davies
NHBC Board appointment
Mrs S Dean
Warranty holder
Mr B Derbyshire
Royal Institute of British Architects
Mr N Fluck
Law Society
The Rt. Hon. Lord Fowler
Honorary Vice-President
Mr M Hayward
The National Association of Estate Agents
Mr J Hood
NHBC Northern Ireland Committee
Mr B Hook
Royal Institution of Chartered Surveyors
Mr P Hosking
NHBC Board appointment
Mrs I Hudson
Honorary Vice-President
Ms L Hughes
Association of British Insurers
Mr K Ireland
Federation of Master Builders
Ms A Kaye
Institute of Consumer Affairs
Mr R Kidals
Warranty holder
Mr P Knox
House Builders Association
Mr J Low
Scottish Committee
Mr G McDonald
Home Builders Federation
Mr S McKenzie
Scottish Committee
Ms A Moir
Warranty holder
Mr J Owen
Joseph Rowntree Trust
Mrs M Palmer
Warranty holder
Ms J Park
NHBC Board appointment
Sir Michael Pickard
Honorary Vice-President
Mr A Rintoul
Warranty holder
Mr A Rubenstein
NHBC Board appointment
Dr P Rycroft
NHBC Board appointment
Mr P Sellwood
Energy Saving Trust
Professor T Sharpe
NHBC Scottish Committee
Mr J Slater
Home Builders Federation
Mr D Sookhoo
Royal Institute of British Architects
Ms A Stanning
Warranty holder
Mr S Stone
NHBC Board appointment
Mr E Taylor
RoSPA
Mr G Watts
Construction Industry Council
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. 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. 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.

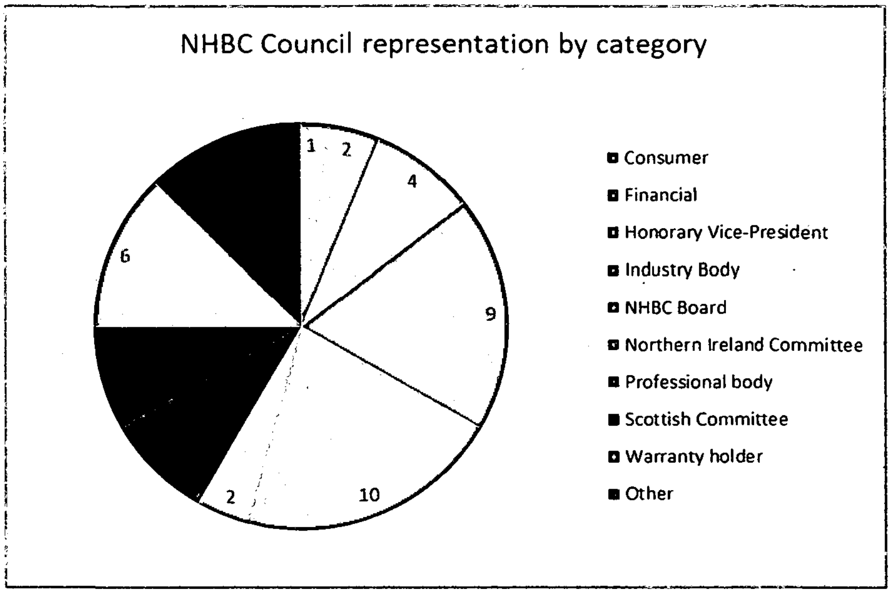
The Council is also empowered to decide some matters which the Directors may not. These include:

- alterations to our constitution
- the appointment of the auditors
- the appointment of Council members.

In accordance with our Articles of Association, Council members may serve for two five-year terms.

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

- Ann Kaye — Institute of Consumer Affairs
- Philip Sellwood — Energy Saving Trust
- Jack Hood — Northern Ireland Committee



NHBC Board

The Board's principal role is to agree and oversee the implementation of NHBC's strategy, to ensure that the necessary resources are in place to enable it to meet its objectives and that the financial performance, controls and risk management procedures are suitably robust. The Board is also responsible for ensuring that we maintain an appropriate standard of governance with regard to the constitution and the regulatory framework in which we operate.

Board composition

Biographical information on each of the directors is contained on page 52.

Balance of Executive and Non-Executive Directors

• Chair	1
• Senior Independent Director (SID) (non-executive)	1
• Independent non-executives	3
• Other non-executives	2
• Executives	3

Length of service of Non-Executive Directors

• 0-3 years	4
• 3-6 years	5
• 6-9 years	1

Gender split of Board of Directors

- Male 7
- Female 3

Board gender diversity versus FTSE 100 and FTSE 250[3]

	FTSE 100 (June 2020) %	FTSE 250 (June 2020) %	NHBC (June 2021) %
Female directors	34.5	31.9	30.0
Female executive directors	13.2	11.9	0.0
Female non-executive directors	40.8	37.6	42.9

All directors make a declaration of their interests to the Board, including 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, our 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 Non-Executive Directors, Kate Davies and Stephen Stone, 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 is represented.

A review of Board effectiveness is carried out annually. The previous review built on the actions from the prior reviews and found that improvements had continued in areas including clarification of culture and values as well as Board succession. Following two years of internal reviews, an external review will be carried out in the first quarter of 2021.

Over the course of the past year, the Board has received briefings on culture from a PRA perspective, fire safety claims, and reinsurance. Individual directors have also attended a range of online house-building and insurance conferences, seminars and other events arranged through consultants and organisations with whom we are associated.

[3] The Female FTSE Board Report 2020 - https://www.cranfield.ac.uk/som/research-centres/gender-leadership-and-inclusion-centre/female-ftse-board-report

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, due to Covid-19, there were five additional special Board meetings. The Chair also held regular meetings with the Directors.

Board member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop	6	6	100
Alison Burns	6	6	100
David Campbell	6	6	100
Kate Davies	6	6	100
Paul Hosking	6	6	100
Isabel Hudson	-	-	-
Jean Park	6	6	100
Alan Rubenstein	6	6	100
Sir Muir Russell	-	-	-
Philip Rycroft	6	6	100
Stephen Stone	6	6	100
Steve Wood	6	6	100

Muir Russell retired from the Board on 31 May 2020.
Isabel Hudson retired from the Board on 31 May 2020.
David Campbell joined the Board on 15 April 2020.
Alan Rubenstein joined the Board on 11 February 2020.

Our committees

The Board delegates certain matters to the Audit, Board Risk, Nominations, and Remuneration Committees which report to it. The roles of each of the committees are detailed in the respective committee reports on pages 65 to 73. 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 NHBC and its subsidiary companies (the Group), for the year ended 31 March 2021. 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 this report.

Results

The Group's results for the year are shown in the consolidated statement of comprehensive income on page 102.

Directors

The directors at the date of this report are shown, together with their biographical details, in the Governance section on page 52.

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 our directors are also directors of some of our builder customers, suppliers and industry partners. We trade in the normal course of business, on an arm's length basis, with all these parties and material transactions with related parties are disclosed in note 35 on page 170 to the financial statements.

We have purchased, and maintained throughout the year, directors' and officers' liability insurance in respect of the Company and our 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 registered 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 directors have assessed the going concern status. Their assessment considered NHBC's strategy, balance sheet, solvency capital requirement, and Group's principal risks (see Risks to our business' section on page 35) that include the impact of Covid-19. Their assessment also included consideration of the Group's medium-term business plan which forecasts the Group's profitability, cash flows, balance sheet, and capital position under Solvency II.

The impact of Covid-19 was not as severe to NHBC as first envisaged and the business performed better than originally forecast during the financial year 2020/21, reporting profits for the first time in three years, and a solvency ratio above the Board's risk appetite.

At the commencement of Covid-19, NHBC took immediate actions to help mitigate the impact of the pandemic and many of these actions remain part of business activity. The key areas of focus to highlight are:

- regular monitoring of Covid-19-related issues and their impact on the business through the Covid-19 response team
- the update and quarterly monitoring of the Group Business Plan and capital projections to reflect the most up-to-date assumptions and information available to management. As part of the planning process the Own Risk and Solvency Assessment (ORSA) the business plan was subjected to stress tests which align to the principal risks of the business
- regular communication channels with house builders and developers, government, key suppliers and employees
- a review of technical provisions as part of the year-end reserving exercise, with an emphasis on the reserves established in respect of Covid-19 and the impact it may have on claims for the in-force warranty portfolio.

Having reviewed the output of the business plan and the ORSA 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:

- elect 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.

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	23
Research and development activities	Strategic report	23
Financial risk management	Strategic report	23

Governance – Directors' report

Corporate responsibility governance	Wider impact and non-financial information statement	43
Action on employee participation	Wider impact and non-financial information statement	43
Disclosure of information to the auditor	Directors' report	61
Directors in office during the year	Corporate governance report	57
Details of qualifying third-party indemnity provisions	Directors' report	61
Future developments of the business	Chief Executive Officer's report	7
Rules governing appointments of directors	Corporate governance report	57
s172 Statement	s172 Statement	48
Streamlined energy and carbon reporting	Wider impact and non-financial information statement	43

This report was approved by the Board on 23 June 2021 and signed on behalf of the Board by:

Anne Durkin

Company Secretary

28 June 2021

Audit Committee report

Audit Committee member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop (Chair)	4	4	100
Alison Burns	4	4	100
Jean Park	4	4	100

The role of the Audit Committee is to support the Board to undertake its responsibilities for:

- review and approval of the Annual Report and Accounts and SFCR
- monitoring the integrity of the financial statements, significant financial reporting issues and returns to regulators
- approving NHBC's reserves (on the recommendation of NHBC's Chief Financial Officer and Chief Actuary)
- reviewing and monitoring the value of material assets and liabilities (including the calculation for the purposes of determining the Solvency II balance sheet and own funds)
- monitoring the adequacy and effectiveness of NHBC's systems of control and frameworks to support its strategy and objectives
- monitoring the scope, objectivity, performance and overall effectiveness of both external and internal auditors
- monitoring the adequacy of whistleblowing and fraud systems
- making 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.

With effect from 1 April 2021, the Audit Committee also takes on responsibility for reviews of NHBC's Strategic Asset Allocation and its Investment Management Policy.

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 Chair; Chief Executive Officer; Chief Financial Officer; Head of Finance; Head of Actuarial; internal auditors (Grant Thornton LLP; to 31 March 2021, BDO from 1 April 2021); and external auditors Deloitte LLP.

Activities during the financial year ended 31 March 2021

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

- approving the internal audit plans and reviewing internal audit reports

- discussing with management and external advisors, Willis Towers Watson (WTW), the 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
- undertaking a tender for a new internal auditor (with effect from 1 April 2021)
- undertaking Audit Committee effectiveness review
- quarterly review of all accounting, tax and capital reporting requirements
- a quarterly update (to 31 December 2020) summarising key investment information relating to NHBC's investments (this was the first update post disbandment of the Investment Committee).
- review of Deloitte's plans and reports as external auditor, including the introduction of Claire Clough as Lead Audit Partner
- 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 provisions for claims.

The Audit Committee discussed the reserving approach and the claims provisions with both management and auditors. In addition, the Audit Committee also reviewed the claims provisions with consulting actuaries from WTW who undertook an independent assessment of our provisions using our underlying data.

The Audit Committee's areas of concern related to the valuation of claims provisions and in particular:

- large and exceptional loss claims
- Section 4 cladding and related claims, and
- the booked margin for uncertainty in future claims development.

We are required to hold provisions that are sufficient to cover liabilities arising out of insurance contracts, so far as can be reasonably foreseen. NHBC takes a 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 insurance 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 and discussed the changing reporting environment and emerging audit trends.

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

Internal audit

Internal audit was outsourced to Grant Thornton LLP. A regular focus of the Audit Committee is the agreement of the annual internal audit plan, monitoring the progress of Grant Thornton's work and reviewing the audit reports which they prepare.

With effect from 1 April 2021, following a comprehensive procurement process the Audit Committee agreed to replace Grant Thornton LLP with BDO LLP as its outsourced internal auditor.

Board Risk Committee report

Board Risk Committee member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop	5	4	80
Alison Burns	5	5	100
Kate Davies	5	5	100
Jean Park (Chair)	5	5	100
Stephen Stone	5	4	80

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
- 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
- oversee the development of NHBC's Internal Model.

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 Chair; Chief Executive Officer; Chief Finance Officer; Chief Risk Officer; Head of Actuarial; and internal auditors.

Activities during the financial year ended 31 March 2021

The Board Risk Committee held six scheduled meetings during the financial year, with an additional three special meetings held to discuss the placement of a loss portfolio transfer treaty. The following is a summary of the material items the Committee has focused on.

- The review, challenge and approval of the assessments undertaken as part of NHBC's ORSA process. This includes agreeing the approach for stress testing and scenario modelling activity carried out by the business as part of its annual planning exercise as well as agreeing a plan of action to combat the financial risks from climate change. Several assessments have also taken place throughout the year to consider the viability of NHBC's current business model, the associated risks – including those relating to cladding and fire-stopping claims – and their potential impact on its solvency ratio.

- The Company continued to develop our capital management framework, with the Committee providing extensive challenge throughout the ongoing development of the capital management strategy, as well as to specific performance targets relating to capital efficiency (e.g. return on capital).
- The assessment of the business's ongoing reinsurance requirements, including consideration of whether further reinsurance for the existing liabilities is appropriate. The Committee monitored the implementation of the new whole account quota share reinsurance arrangement and agreed the placement of a loss portfolio transfer treaty.
- The continued monitoring of NHBC's risk profile against its agreed risk appetites and this is an area that has received significant focus this year – specifically the solvency risk appetite and whether this remains suitable in the current operating environment. A new return on capital risk appetite has also been developed to ensure we are accruing enough capital to deliver our long-term strategy and remain a viable business into the future.
- The Committee is regularly informed of progress on the development of our new capital model, which is intended to drive the calculation of NHBC's Solvency II capital requirement and required economic capital.
- The continued monitoring of the progress being made in the implementation of the Insurance Distribution Directive. In addition, it has monitored the effective implementation of new legislation, including the Senior Managers & Certification Regime (SMCR) which came into effect in December 2019. The BRC has actively discussed other important aspects of upcoming legislation and regulations, and their impact on the business, including on matters such as climate change and operational resilience.
- The undertaking of "deep-dive" reviews which focus on specific risk areas. These have covered topics such as cyber risk, competition law, and political risk.
- Approved Risk and Compliance plans.
- Reviewed NHBC's reinsurance arrangements.

Investment Committee report

Investment Committee member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop	2	1	50
Jean Park	2	2	100
Alan Rubenstein (Chair)[1]	2	2	100
Sir Muir Russell[2]	-	-	-
Philip Rycroft	2	2	100

1. Alan Rubenstein joined the Investment Committee and assumed the position of Chair on 11 February 2020.
2. Sir Muir Russel left the Investment Committee on 31 May 2020.

Following a review of the operation of Board Committees, the Investment Committee was disbanded with effect from 1 December 2020. With a strong framework in place, it was agreed that management responsibility would be passed to the Assets and Liabilities Committee in order to facilitate fast reactions to changing market circumstances. Overall responsibility and strategy remain with the Board. The control framework is now authorised by the Audit Committee and the risk framework is managed by the Board Risk Committee.

The principal role of the Investment Committee was to:

- recommend NHBC's Investment Strategy to the Board
- approve the Investment Policy, the Investment Portfolio Guidelines and benchmarks
- review the appropriateness of the Investment Managers, Custodians and Investment Consultants engaged by NHBC
- approve the use of financial derivatives, currency exposure, non-routine investments, lending or borrowing of assets
- oversee the ESG practices of NHBC's Investment Managers and their compliance with the Investment Portfolio Guidelines
- review the asset portfolio under a range of economic scenarios and identify any triggers for action
- oversee the construction of the portfolio cash flows versus projected liabilities.

The members of the Investment Committee were all independent Non-Executive Directors. In addition to the members, the following routinely attend the Investment Committee meetings: Chief Executive Officer; 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 2021

The Investment Committee met on two occasions during the year with key activities including the 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 significant allocation to high-quality bonds.

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

The remainder, the surplus assets, comprise predominantly 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 approved a switch of c.£200m of index-linked gilts to investment grade corporate bonds within the liability matching pool of assets.
- The Investment Committee supported a £25m commitment to a closed ended direct lending vehicle and £22m to a closed ended global renewable power infrastructure vehicle. These allocations had been identified for investment as part of NHBC's illiquid asset portfolio.
- NHBC already operate within a well-established Responsible Investment framework but further development was proposed with respect to the environmental and social factors. The Investment Committee approved recommendations made to embed some restrictions into NHBC's corporate bond portfolio guidelines

Remuneration Committee report

Remuneration Committee member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop	3	3	100
Alison Burns (Chair)	4	4	100
Sir Muir Russell (Chair)[1]	1	1	100
Philip Rycroft	4	4	100
Stephen Stone	1	1	100

1. Sir Muir Russel left the Remuneration Committee on 31 May 2020.

The principal role of the Remuneration Committee is to:

- establish and approve the overarching remuneration policy for the Company and Executive Directors, ensuring that the remuneration policy and remuneration practices are established, implemented and maintained in line with the business strategy and risk management strategy, risk profile, objectives, risk management practices, and the long-term interests and performance of the Company as a whole, and incorporating measures aimed at avoiding conflicts of interest
- review and determine the specific remuneration arrangements for the Chair, the Executive Directors, members of Senior Management and individuals identified as Solvency II Staff.

The full terms of reference are available from the Company Secretary or on our website. The majority of members of the Remuneration Committee are independent Non-Executive Directors. The Chair, Chief Executive Officer, Head of HR, and other members of the management team also attend meetings by invitation, where appropriate. PwC, as independent advisors to the Remuneration Committee, are also invited to attend.

Activities during the financial year ended 31 March 2021

The Remuneration Committee met four times. As part of its regular activities the Remuneration Committee agreed the annual staff salary settlement and any changes to the Executive Directors' salaries. Further details of director's remuneration are set out on page 75. 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 Board Risk and Audit Committees and NHBC's actuarial consultants validate the capital calculations.

Nominations Committee report

Nominations Committee member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop	2	2	100
Alison Burns	2	2	100
Isabel Hudson (Chair)[1]	-	-	-
Jean Park	2	2	100
Alan Rubenstein (Chair)[2]	2	2	100
Sir Muir Russell[3]	-	-	-

1. Isabel Hudson left the Nominations Committee on 31 May 2020.
2. Alan Rubenstein became Chair of Nominations Committee on 1 June 2020.
3. Sir Muir Russel left the Nominations Committee on 31 May 2020.

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
- consider 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 considering the knowledge, skills and experience required.

Members of the Nominations Committee are all independent Non-Executive Directors. The Chief Executive Officer and the Head of Human Resources also attend the meetings, where appropriate.

Activities during the financial year ended 31 March 2021

In addition to the two scheduled meetings, there were three extraordinary meetings of the Committee held to discuss the recruitment of a new Non-Executive Director.

The Nominations Committee reviewed the composition of the Board, taking into consideration the balance of skills, experience and knowledge as well as the tenure of current Board members and, following recommendation from the Nominations Committee, the Board agreed the following:

- appointment of Stephen Stone as a member of the Remuneration Committee
- commencement of recruitment for an additional independent Non-Executive Director.

During the year, the Committee also received an update on NHBC's diversity objectives and employee engagement, as well as carrying out a moderation exercise on the Directors' skill assessment and the annual effectiveness review.

Directors' remuneration report

Annual Statement from the Chair of the Remuneration Committee

On behalf of the Board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2021.

This report is split into the following sections:

- this annual statement
- summary of remuneration policy
- annual remuneration report.

Having taken over from Sir Muir Russell on 31 May 2020, this is my first year as Chair of the Remuneration Committee. As has been the case for every organisation, the past financial year has been extraordinary in many ways and the impact of the global pandemic has been a central feature of the Remuneration Committee's decision-making. As the Chief Executive Officer notes in his report, our primary objective has been to ensure the wellbeing of our employees, customers and homeowners.

Our response to the Covid-19 pandemic

Given the almost complete shutdown of builders' on-site activity during the first 'lockdown', we needed to protect our business and accessed the Government's Coronavirus Job Retention Scheme (CJRS) for those employees whose services were subject to lower demand.

For those employees who were furloughed during the first lockdown (notably building inspectors, claims inspectors and customer service advisers), we initially maintained their salaries and benefits at 100% of the uncapped amount, subsequently reducing their salaries to 80% of the uncapped amount from May 2020 onwards but continuing to provide 100% of all allowances. In subsequent periods of lockdown, building activity began to resume and we brought all employees back by the end of September 2020. Although NHBC initially accessed the CJRS, in March 2021 NHBC fully repaid to the Government the grants claimed.

Our non-inspection employees were almost entirely working from home throughout lockdown, maintaining our infrastructure, systems and service standards during this period. Employees who continued to work throughout the first lockdown have been supported with flexible working arrangements and additional paid leave (five days to assist with domestic caring responsibilities and two days' wellbeing leave). We also provided those working from home with one-off lockdown payments as a contribution towards the additional costs they may have incurred.

In addition, and as a thank you in an extraordinary year, we gave all employees an additional day's leave at Christmas.

Our remit

As a Committee, our role is to ensure that NHBC's remuneration policy and payments are aligned with the Board-approved strategy and consistent with performance outcomes. The Committee has responsibility for reviewing the remuneration of all staff employed by NHBC and for determining the remuneration packages of the Executive Directors, senior managers, Solvency II staff and the Chair's fee. 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 with 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.

Remuneration policy and the link to long-term business performance

Our remuneration policy is designed to support the strategy and promote the long-term sustainable success of the business and is designed to align remuneration with our purpose and values.

The Executive Directors and wider employee population all participate in the annual bonus scheme, which rewards the achievement of individual and business performance targets. For the purposes of determining the annual bonus, performance is assessed by reference to a mix of financial and non-financial performance conditions that are considered to be drivers of our business strategy and, ultimately, contributors to our purpose and values.

Independent scrutiny of the bonus is provided by the Board Risk Committee and Audit Committee who validate the results. Additionally, NHBC's actuarial consultants validate the capital calculations.

For our more senior employees and material risk takers, a proportion of any bonus is deferred and paid out in later years, providing a long-term retention mechanism.

The annual bonus scheme is the only variable compensation scheme in which the Executive Directors participate, with annual strategic objectives and bonus deferral providing alignment with the long-term nature of the Company's interests. NHBC does not operate any long-term incentive schemes.

Activities during the financial year ended 31 March 2021

This year we have reviewed our approach to governance and disclosure of remuneration with the aim of improving transparency and the effectiveness of our decision-making. To that end, we have taken a fresh approach to this Directors' Remuneration Report which aims to provide greater clarity of our approach and the outcomes.

During the year, we continued to regularly engage in two-way dialogue with employees using channels such as employee forums, the Staff Association and our engagement survey, as well as more targeted interactions in certain areas of the business.

Salary review

As referenced in last year's remuneration report, in light of the impact of the pandemic on our business, the salary review that would normally have taken place in July 2020 was deferred until September. At that time, it was determined that there would be no salary review for 2020/21 and that salaries for all employees (including the Executive Directors) would be frozen. The Remuneration Committee has agreed that, for 2021/22, salaries will be increased by 2.0% for all employees with effect from 1 July 2021.

Our Gender Pay Gap report[4] shows a continued improvement in the mean gender pay gap to 13.4% (2020: 14.9%). We have also seen improvements in our mean gender bonus gap, improving from 36.1% to 26.1%. The difference is driven mainly by the greater number of men occupying senior technical and management positions and a higher proportion of females in the lowest paid 20% of roles in the Company. Whilst we are pleased to see the gap closing, more focus on ensuring career paths and progression and on promoting technical careers to women is needed.

During the year, an equal pay audit was also carried out. It found no issues regarding equal pay for the same role and no concerns that job values were gender biased.

We are 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.

2019/20 performance and remuneration outcomes

As noted in last year's report, no bonus was awarded in respect of 2019/20, for Executive Directors and the wider workforce, despite targets being achieved in some areas. The Committee deemed it appropriate to exercise its discretion over the 2019/20 bonus schemes, adjusting it to nil, due to the scale of the financial loss and the ongoing economic uncertainties faced due to Covid-19.

2020/21 performance and remuneration outcomes

The annual bonus for 2020/21 was approved by the Remuneration Committee with an employee launch in September 2020. The launch was delayed so that NHBC could assess the appropriateness

[4] https://gender-pay-gap.service.gov.uk/Employer/rnHddda8

of doing so in the Covid-19 environment. The delay allowed targets to be based on the Group Business Plan in June 2020.

Given the backdrop of uncertainty at the time of setting and calibrating the 2020/21 bonus performance metrics, it was decided to take a simplified approach for this year limiting measures to our core operating profit and personal performance.

The operating profit out-turn for the year would have resulted in this element of the bonus vesting in full on a formulaic basis. The Committee however exercised its discretion to limit vesting of this element of the award to target, resulting in a 50% reduction. This was reflective of metrics being set at a time of great uncertainty and subsequent up-turn in the market, as well as consideration of performance in the round which included a qualitative assessment of outcomes for customers and risk. After the assessment of individual performance, the overall vesting outcome for all Executive Directors was 60% of the maximum opportunity.

Looking ahead to 2021/22

During the course of 2021/22, the Committee will continue to focus on ensuring that remuneration supports delivery of our business priorities and our purpose. This will include the tri-annual review of our director's remuneration policy to ensure that it continues to meet the needs of the business, reflects evolving corporate governance practices and ensures the design of the annual bonus scheme provides a strong alignment between performance and pay outcomes.

The Committee also reviews arrangements for the wider organisation and this year will be working alongside management on a broad review of our benefits and wellbeing offering for all employees, expanding on the benefits work that was undertaken in FY21 on the Company car fleet initiative and in doing so support NHBC's objective to build a better version of itself.

Approved by the Board and signed on its behalf by

Alison Burns

Alison Burns

Chair, Remuneration Committee

28 June 2021

Directors' remuneration policy

There have not been any changes to the NHBC Directors' 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 bonus 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.

The table below provides an overview of NHBC's remuneration policy for Executive Directors.

NHBC remuneration policy for Board D- summary	
Executive Directors' remuneration	
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 typically 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.	Awards are based on both personal performance and achievement against a balanced scorecard. Targets are set annually, and pay-out determined against those targets. The Committee takes input from the Chief Risk Officer, the Board Risk Committee and the Audit Committee as part of its decision-making. The annual bonus is a discretionary arrangement. The Remuneration Committee reserves discretion to adjust the outcome should it be considered appropriate. On target company and personal performance is 50% of the Chief Executive's bonus-able earnings and 40% for other Executive Directors.
Annual bonus deferral Deferral of an element of the bonus pay out provides alignment with the	Annual bonuses have a deferral element (Chief Executive 50%, other Executive Directors 40%) with 40% of the balance being released each year.

long-term nature of the company's interests and aids retention of key personnel.	Deferred awards 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.
Malus/Clawback Allows cash awards to be recovered before or after release and unvested deferred bonus awards to be forfeited and reduced under certain circumstances.	NHBC operates a clawback period of three years from the date of payment of a bonus award, including payments of deferred awards where applicable. At any time within the clawback period, the Committee may in its absolute discretion require a senior employee to repay the cash amount they have received in respect of such bonus awards. In addition, the Committee may apply a performance adjustment, and override the bonus formulae to award a lower or zero bonus for any employee, if it considers that to be appropriate. This also applies to unvested deferred annual bonus awards (including reduction of the bonus bank down to zero).
Pension To provide retirement benefits and remain competitive in the market.	NHBC provides a competitive employer defined contribution pension plan, the Group Personal Pension Plan, operating salary sacrifice for pension contributions. Executive Directors have the opportunity to participate or to receive a contribution to a personal pension. The maximum employer contribution rate is 10.5% of salary[5] for Executive Directors with the exception of the CFO who is on a legacy arrangement at 20% of salary. Further, the maximum rate for any new appointments is 10.5% of salary, aligned to the maximum offered to all other employees. Alternatively, they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits.
Benefits To provide benefits as part of a competitive remuneration package, enabling 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.

[5] Executive Director pension alignment with the wider workforce has been in place since 2017 for new incumbents and the arrangement for the CFO is a legacy arrangement which pre-dates 2017.

Non-Executive Directors' remuneration	
Chair and Non-Executive Directors' fees To attract individuals of skill and experience to serve as Chair and as Non-Executive Directors.	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 and/or Audit Committee and to the Senior Independent Director. The Chair receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties. The Chair and other Non-Executive Directors do not participate in any bonus or performance plans or pension arrangements.

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

Executive Directors' conditions of employment	
Notice period	Up to 12 months (by the Executive or the Company)
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary, certain fixed benefits and pension. There is no entitlement to compensation for loss of the opportunity to earn variable pay. Contracts do not contain change of control provisions.
Remuneration and benefits	The operation of the annual bonus scheme is at the company's discretion.
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 plus public holidays dependent on length of service.
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 10 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 • Steve Wood - 30 June 2017 • David Campbell - 6 January 2020.

Further details of our policy on recruitment and promotions, service contracts, and payments for loss of office can be found in our remuneration policy as set out in the 2018/19 NHBC Annual Report which can be found on our website at https://www.nhbc.co.uk/about-page/annual-reports.

Annual report on remuneration

The Remuneration Committee

The Remuneration Committee is composed of at least two independent Non-Executive Directors and one other Non-Executive Director. Members of the Committee, when decisions relating to the remuneration for the year ended 31 March 2021 were made, were:

Paul Bishop[1]
Sir Muir Russell[2] (Chair until 31 May 2020)
Alison Burns (Chair from 1 June 2020)
Philip Rycroft
Stephen Stone[3]

1. Retired from the Committee on 1 January 2021.
2. Retired from the Committee on 31 May 2020.
3. Joined the Committee on 1 January 2021, not an independent director.

The remit of the Committee is summarised in the section above.

Remuneration Committee advisors

During the course of 2020/21, the Committee operated a tender process to appoint its independent advisors and PwC were appointed in September 2020. PwC provided other services to NHBC over the course of the year, however the team advising the Committee had no connection with those services. The Committee monitors the advice provided to them to ensure its independence and objectivity. Fees to PwC for advice given in respect of directors' remuneration for the year ended 31 March 2021 were £67,980.

Remuneration Committee's approach to setting remuneration throughout NHBC

NHBC conducts regular salary benchmarking both internally and externally against the wider market, to ensure our employee pay rates remain appropriate. All employees are offered the opportunity to participate in a range of benefits, including life cover, healthcare and a pension contribution of up to 10.5% of salary.

We also offer all employees the opportunity to participate in the annual bonus scheme as part of their total reward package.

NHBC is a Living Wage employer and is committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees. The Committee maintains oversight of the gender pay gap and Chief Executive Officer pay ratio to ensure that these are consistent with the Committee's remuneration policies.

Appropriateness of Executive Director pay

The Committee reviews the Executive Directors' total remuneration each year in the light of pay in the wider workforce and company performance to assess whether the outcome is appropriate. One metric that is taken into account for these purposes is the CEO:Employee pay ratio and the trend in this metric since its inception. The Committee also discloses the percentage change in remuneration for the directors compared with that for employees. These disclosures are shown below. The Committee also reviews wider workforce pay policies and trends to ensure that they are taken into account when setting Executive Director pay.

CEO:Employee pay ratio

Year	Method	Ratio at 25th percentile	Ratio at median	Ratio at 75th percentile
2020/21	Option A	15:1	12:1	9:1
2019/20	Option A	11:1	8:1	7:1

Employee at	25th percentile	Median	75th percentile
Total pay and benefits	£37k	£45k	£58k
Salary	£32k	£39k	£49k

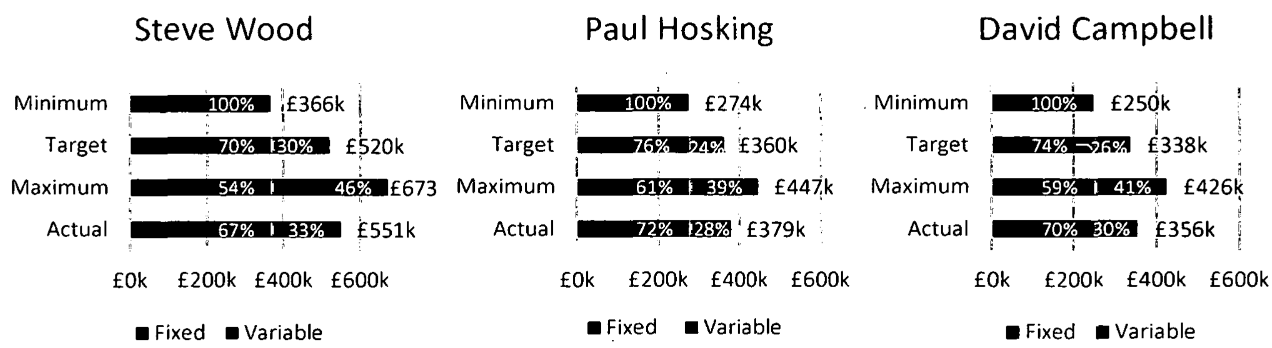
Last year, there were no awards made under the annual bonus scheme and so the comparison was based on total remuneration that comprised salary and benefits alone. This year, the analysis has been prepared including a bonus award. Since the Chief Executive Officer has a higher bonus opportunity as percentage of salary compared with the employees within the comparison, the ratio has increased.

Percentage change in director and employee pay

There were no salary increases or changes to benefits in 2020/21 and no bonus was paid in 2019/20 so no percentage changes have been disclosed.

Executive Director pay for 2020/21 compared with policy scenarios

To demonstrate that the directors' remuneration policy is operating as intended, we show below, for each of the Executive Directors, the actual pay outcome compared with the policy performance scenarios.



Single total figure of remuneration for the year ended 31 March 2021 (audited) - Executive Directors

£k	Year	Salary	Taxable Benefits[1]	Annual Bonus[3]	Pension	Total Remuneration	Total Fixed remuneration	Total Variable Remuneration
Paul Hosking	**2020/21**	**216**	**17**	**103**	**43**	**379**	**276**	**103**
	2019/20	214	15	-	43	**259**	**259**	-
David Campbell	**2020/21**	**220**	**17**	**106**	**13**	**356**	**250**	**106**
	2019/20	52	5	-	3	**59**	**59**	-
Steve Wood	**2020/21**	**307**	**28[2]**	**184**	**32**	**551**	**367**	**184**
	2019/20	305	29	-	32	**366**	**366**	-

1. Taxable benefits comprise private medical insurance, accommodation and pay in lieu of car benefit.
2. Includes £9,957 for accommodation provided.
3. The annual bonus stated is that awarded in the financial year prior to any deferral.

Annual bonus for year ended 31 March 2021 (audited)

The annual bonus for the year ended 31 March 2021 was based on financial and personal performance with targets set by the Committee to align with corporate strategic objectives. Given the uncertainty at the time when targets are usually set, this was delayed until the Group Business Plan was agreed in June 2020.

Against the backdrop of uncertainty at the time of setting and calibrating the 2020/21 bonus performance metrics, it was decided to take a simplified approach for this year limiting measures to our core operating profit and personal performance. Additionally, the vesting of the annual bonus was subject to three gateway measures, specifically:

- a minimum level of profit (80% of the target level shown below)
- solvency ratio in relation to risk appetite
- an assessment of NHBC's regulatory and risk position.

The annual 2020/21 bonus outcomes were 60% of maximum for all Executive Directors. The final assessment of these outcomes included a discretionary adjustment by the Remuneration Committee, reducing the corporate element of performance from vesting at maximum to vesting at target (a 50% reduction). This was reflective of metrics being set at a time of great uncertainty and subsequent up-turn in the market, as well as consideration of performance in the round which included a qualitative assessment of outcomes for customers and risk.

A breakdown of the corporate and individual assessment of performance of the Executive Directors' is set out below.

Corporate KPIs (60%)	Threshold performance (% max)	Target performance (% max)	Stretch performance (% max)	Actual performance (% max)
Operating Profit	£19.8m	£24.8m	£32.2m	£40.6m
Vesting	3%	30%	60%	30%*

**See explanation above*

Personal KPIs (40%)	Threshold performance (% max)	Target performance (% max)	Stretch performance (% max)	Actual performance (% max)
Steve Wood	10%	20%	40%	30%
Paul Hosking:	10%	20%	40%	30%
David Campbell	10%	20%	40%	30%

Overall bonus outcome

Director	Maximum bonus (% of salary)	Corporate KPIs (% of maximum bonus)	Personal KPIs (% of maximum bonus)	Total (% of maximum bonus)	Salary subject to bonus (£'000)	Bonus payable (£'000)	Percent deferred (% bonus)
Steve Wood	100%	30%	30%	60%	307	184	50%
Paul Hosking	80%	30%	30%	60%	216	103	40%
David Campbell	80%	30%	30%	60%	220	106	40%

Deferred bonus bank (audited)

The table 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 2021. The balance in the bonus bank is carried forward and, subject to continued service, 40% of the revised balance at the year end is paid out in the following July.

	Current Balance	July 2021 Release	Bonus Deferred 2021	Bonus Payable 2021	Total Bonus Payable 2021	Banked Bonus 2021/22
Steve Wood	47	19	92	92	111	120
Paul Hosking	26	11	41	62	73	57
David Campbell	-	-	42	64	64	42

Non-Executive Directors

Non-Executive Directors are generally appointed on three-year terms, agreed by the Board. 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 (up to nine years 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 AGM following the date of the appointment.

The table below shows the date of appointment of Non-Executive Directors who served during the year together with the date of the end of the appointment:

Non-Executive Director appointments	Date of appointment	Appointment end date
Isabel Hudson[1]	01/06/2011	31/05/2020
Paul Bishop	01/11/2016	31/10/2022
Kate Davies	05/10/2016	04/10/2022
Jean Park	10/12/2012	09/12/2021
Sir Muir Russell[1]	15/05/2012	31/05/2020
Stephen Stone	05/10/2016	04/10/2022
Alan Rubenstein	11/02/2020	19/02/2023
Alison Burns	15/10/2019	14/10/2022

Philip Rycroft	26/09/2019	14/10/2022

1. Left the Board during the year.

Approach to Non-Executive Directors' fees

Typically, Non-Executive Director's fees are reviewed annually with effect from 1 July. As reported last year, no increase was applied from 1 July 2020 as a result of the global pandemic. Following a review of fees this year, the Board has determined that an increase of 2% be applied to all fees with effect from 1 July 2021.

Fees to be paid to the Chair and Non-Executive Directors	**From 1 July 2021 (£)**	**From 1 July 2020 (£)**
Chair of the company	147,928	145,027
Board membership	41,761	40,942
Additional fees are paid as follows:		
Senior Independent Director	3,223	3,160
Committee Chair per committee chaired (Risk, Audit)	12,240	12,000
Committee Chair per committee chaired (Investment, Remuneration)	9,180	9,000
Additional committee membership fee (for membership of Audit Committee or Board Risk Committee)	3,060	3,000

Single total figure of remuneration for the year ended 31 March 2021 (audited)

Non-Executive Directors

£k	Year	Fees	Taxable Benefits[1]	Total Remuneration
Paul Bishop	**2020/21**	**59**	-	**59**
	2019/20	59	-	**59**
Kate Davies	**2020/21**	**44**	-	**44**
	2019/20	44	-	**44**
Jean Park	**2020/21**	**56**	**3.0**	**59**
	2019/20	56	5.0	**61**
Alison Burns	**2020/21**	**54**	-	**54**
	2019/20	21	-	**21**
Stephen Stone	**2020/21**	**44**	-	**44**
	2019/20	44	-	**44**
Alan Rubenstein	**2020/21**	**140**	**0.7**	**141**
	2019/20	20	-	**20**

Philip Rycroft	**2020/21**	**46**	**0.4**	**46**
	2019/20	22	2.0	**24**
Sir Muir Russell	**2020/21**	**10**	**0.4**	**10**
	2019/20	56	8.0	**64**
Isabel Hudson	**2020/21**	**24**	**0.9**	**25**
	2019/20	144	4.0	**148**

1. The values shown under Expenses comprise the value of taxable travel and subsistence expenses reimbursed by the company (including any gross up for tax and national insurance contributions due).

Statement of implementation of remuneration policy in 2021/22

	Steve Wood	Paul Hosking	David Campbell
Salary	£313k	£220k	£224k
Salary change (%)	2.0%	2.0%	2.0%
Maximum bonus opportunity (% salary)	100%	80%	80%

The Remuneration Committee has agreed that for 2021/22 salaries will be increased by 2.0% for the Executive Directors, in line with the wider workforce, and effective from 1 July 2021. There are no changes to our employer pension contributions for 2021/22 which are reviewed annually. The maximum bonus opportunities for the Executive Directors remain unchanged.

Details of the annual bonus metrics for 2021/22 are set out below.

Metrics		Threshold (% max)	Target (% max)	Maximum (% max)
Corporate (60%)	Commercially focused - Operating profit - Growth in non-insurance income - Operating expense ratio Relevant to stakeholders and socially responsible Powered by our people Modern and agile	3%	30%	60%
Individual (40%)	Personal objectives	10%	20%	40%

Bonus awards are subject to Capital and Regulation/Risk and Operating Profit gateways.

Approval by the Board

The Directors' Remuneration Report was reviewed and approved by the Board on 28 June 2021.

Alison Burns

Chair 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

1. Opinion

In our opinion the financial statements of National House-Building Council (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit 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 which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 38, excluding the capital management disclosures in note 7 calculated in accordance with the Solvency II regime which is marked unaudited.

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).

2. Basis for 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 15.1 to the financial statements. 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.

3. 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 Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £4.07m (2020: £3.63m) which was determined on the basis of 1% of net assets excluding the one-off impact of the new reinsurance arrangement entered into by the group during the year ended 31 March 2021 (2020: 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.
Significant changes in our approach	There have been no significant changes in our audit approach except for the change to the basis of materiality where net assets was used to determine the materiality adjusted for the one-off impact of the new reinsurance arrangement relating to loss portfolio transfer entered into by the group during the year ended 31 March 2021 as compared to the reported net assets figure used last year as a benchmark to determine the materiality.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's method to assess going concern, including the reasonableness of accommodating changes from the previous period and future plans following the impact of new reinsurance agreement entered into by the company in the year;
- Challenging future profit forecasts and assessing the reasonableness of assumptions used including the sensitivity analysis of these assumptions;
- Testing management's historic accuracy of previous forecasts and appropriateness of their assumptions against the actual performances specifically considering the impacts of COVID-19; and
- Assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matter

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.

This matter was 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 this matter.

5.1. Valuation of gross insurance claims reserves

Key audit matter description	The gross insurance claims reserves comprise both provision for claims and the unexpired risk reserve and as at 31 March 2021 total £932.1 million (2020: £916.9 million) as detailed in Note 5.9 Insurance Contracts (significant accounting polices) and Note 24 Insurance Liabilities (financial disclosure). The judgements 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 judgement involved: 1) The key assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims; 2) The methodology and assumptions applied in valuing the incurred but not reported (IBNR) provision for cladding claims. 3) The methodology and assumptions applied in setting the booked margin. **Key audit matter focus areas** 1) The methodology and assumptions applied in determining 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. Historical claims experience for Large Losses is more limited than for Attritional Losses and is not available for Exceptional 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. 2) The methodology and assumptions applied in valuing the IBNR provision for cladding claims (Section 4). Following the Grenfell Tower fire in 2017 and the resulting focus on cladding materials, the group continues to assess its exposure to future claims of this nature and reserve for them accordingly. In determining the frequency and severity of cladding claims that have not been reported as of the reporting date, management has exercised 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. 3) The methodology and assumptions applied in setting the booked margin. The booked margin is derived by considering a range of adverse scenarios 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.
How the scope of our audit responded to the key audit matter	1) The methodology and assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims We have gained a detailed understanding of the end to end claims and reserving process and obtained an understanding of these relevant controls. We have also tested relevant controls over actuarial data reconciliations and claims controls. Additionally, we tied claims and policy data to source systems to assess the completeness and accuracy of the underlying data used in the Group's actuarial calculation. Having done this, we worked with our actuarial specialists to: • Inspect NHBC's documentation and key reserving files to conclude on reasonableness of methodology applied; • For methodology changes in the year, challenge management on the trigger for change in methodology, including how the new methodology addresses that trigger and its impact on reserves; • 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 severity assumptions used for large and exceptional losses by reviewing management's analysis and expert judgements that support the selected assumptions, and challenging the justification for those assumptions in light of alternative assumptions available; • 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. 2) The methodology and assumptions applied in valuing the IBNR provision for cladding claims. We gained a detailed understanding of the process that management went through to determine the best estimate liability and obtained an understanding of relevant controls within this process. Having done this, we worked with our actuarial specialists to: • Assess and challenge management's assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating the number of tower blocks returning to NHBC as a claim; • Considering any alternative assumptions which could reasonably be applied, including those considered by management and the impact of those on the result; • Assess whether the methodology used is appropriate and whether it has been applied accurately in the manual calculation process; and • Recalculate Section 4 reserves to assess accuracy of the calculation. Further to this on a sample basis, we tested the completeness and accuracy of the data underpinning the calculation by inspecting evidence; and assessed and challenged the key assumptions determined by management through benchmarking against third party evidence where available. Where third party bechmarking evidence is not available, which is the case for one of key assumptions regarding builder self repair only, we assessed the reasonableness of

	this assumption by reviewing the builder scorecards, as well as assessing the solvency position of the builders, and where possible highlighted any press releases from these developers on their responses to the cladding problem. 3) The methodology and assumptions applied in setting the booked margin. We gained a detailed understanding of the process that management went through to determine the best estimate liability and obtained an understanding of relevant controls within this process. We have worked with our actuarial specialists to challenge 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 management's booked reserve as a percentage of the expert's actuarial best estimate year on year.
Key observations	The assumptions and methodologies highlighted above are in our acceptable range. Based on this, we have determined the valuation of gross insurance claims reserves as appropriate.

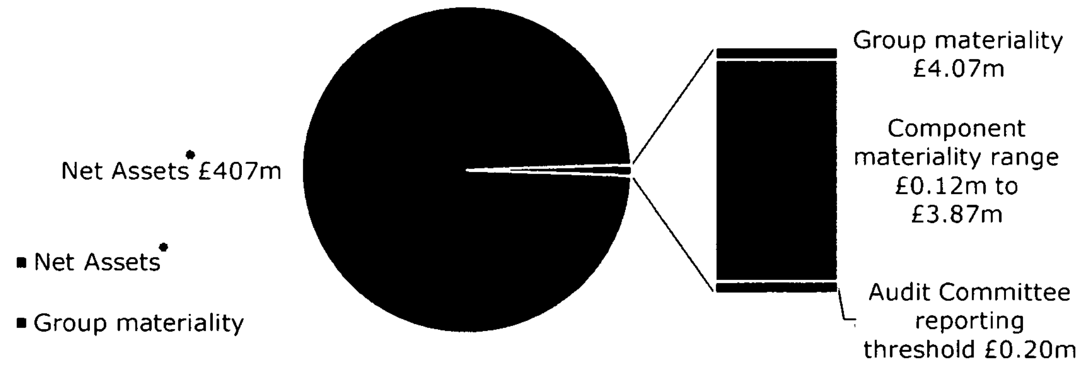
6. Our application of materiality

6.1. 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 judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£4.07m (2020: £3.63m)	£3.87m (2020: £3.45m)
Basis for determining materiality	Materiality was determined as approximately 1% of net assets excluding the one-off impact of the new reinsurance arrangement entered into by the group during the year ended 31 March 2021 (2020: 1% of net assets).	Materiality was determined as approximately 95% (2020: 95%) of group materiality.
Rationale for the benchmark applied	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. NHBC 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 excluded the impact of the new reinsurance arrangement entered into by the group the year ended 31 March2021 due to it being one-off in the nature.	



** excluding the one-off impact of the new reinsurance arrangement entered into by the group during the year ended 31 March 2021.*

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. We have audited the Group for a number of years and so have knowledge of both the Group and the environment it operates in; b. Our ability to rely on controls over a number of significant business processes; and c. Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £203k (2020: £182k) for the group audit, 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.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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 applying a materiality of £191k (2020: £233k) and NHBC Services Limited applying a materiality of £116k (2020: £129k), being subject to a full scope audit by the group engagement team. Consistent with the prior year, 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 profit.

7.2. Our consideration of the control environment

The audit approach planned to rely on the key manual and automated controls over the following business processes: revenue, part of the claims cycle; and expenses. Having completed our testing over the operating effectiveness of business controls associated with these cycles, through a combination of current period testing and reliance on prior period testing, we concluded that we were able to rely upon the business controls associated with these cycles. We also involved IT specialists to test the general IT controls over key systems, such as the revenue system, the claims system and Agresso the general ledger system.

We planned to rely on the IT controls associated with these systems, and worked with our IT specialists to undertake this work. We obtained an understanding of the relevant general IT controls and tested the relevant controls. Relevant controls were tested by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. 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.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, pensions, IT and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of gross insurance claims reserves. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act (2006), pension's legislation and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. This included those imposed by the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the group's regulatory solvency requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of gross insurance claims reserves as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims including in relation to cladding claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 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.

13. Matters on which we are required to report by exception

13.1. 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.*

13.2. 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 this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board in 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 6 years, covering the years ending 31 March 2016 to 31 March 2021.

14.2. 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).

15. 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.

Claire Clough

Claire Clough (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 June 2021

Consolidated statement of comprehensive income

Technical account – general business

		2021		2020	
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	8	**104,821**		99,810	
Outward reinsurance premiums	37	**(261,063)**		(11,084)	
Net premiums written		**(156,242)**		88,726	
Change in the gross provision for unearned premiums		**(41,002)**		(41,253)	
Change in the provision for unearned premiums, reinsurers' share	37	**220,707**		5,151	
Change in the net provision for unearned premiums		**179,705**		(36,102)	
Earned premium, net of reinsurance			**23,463**		52,624
Allocated investment return transferred from the non-technical account			**27,716**		10,390
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		**(71,207)**		(91,469)	
- Reinsurers' share		**-**		-	
Net claims paid		**(71,207)**		(91,469)	
Change in provision for claims					
- Gross amount		**9,334**		(57,829)	
- Reinsurers' share	37	**18,394**		75,363	
Change in the net provision for claims		**27,728**		17,534	
Claims incurred, net of reinsurance			**(43,479)**		(73,935)
Changes in unexpired risk reserve, net of reinsurance	37		**48,122**		(87,121)
Net operating expenses	11		**(10,737)**		(9,803)
Balance on the technical account for general business			**45,085**		(107,845)

Consolidated statement of comprehensive income

Non-technical account

	Note	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Balance on the general business technical account			**45,085**		(107,845)
Investment income	12		**30,622**		57,323
Unrealised gains on investments		**48,922**		11,623	
Unrealised losses on investments		**(19,609)**		(48,588)	
Net unrealised losses on investments	12		**29,313**		(36,965)
Investment expenses and charges			**(2,788)**		(2,570)
Allocated investment return transferred to the general business technical account			**(27,716)**		(10,390)
Other income	8		**64,972**		78,519
Other charges			**(69,543)**		(76,419)
Profit / (loss) on ordinary activities before taxation			**69,945**		(98,347)
Tax on profit / (loss) on ordinary activities	16		**(3,841)**		5,643
Profit / (loss) for the financial year			**66,104**		(92,704)
Other comprehensive income					
Remeasurements of net defined benefit obligation	28	**(13,369)**		9,840	
Movement on deferred tax relating to pension deficit	20	**4,450**		1,131	
Revaluation of tangible assets		**(33)**		39	
Other comprehensive (loss) / income for the year, net of tax			**(8,952)**		11,010
Total comprehensive profit / (loss) for the year			**57,152**		(81,694)

Consolidated statement of financial position

	Note	2021 £'000	2020 £'000
Assets			
Investments			
Land and buildings	17	**9,745**	9,806
Other financial investments	29	**1,642,918**	1,562,754
		1,652,663	1,572,560
Reinsurers' share of technical provisions			
Provision for unearned premiums	23	**277,624**	56,917
Claims outstanding	23	**126,342**	107,948
Unexpired risk reserve	23	**142,383**	69,771
		546,349	234,636
Debtors			
Debtors arising out of direct insurance operations	19	**9,090**	8,297
Deferred tax	20	**11,597**	6,682
Other debtors	19	**6,959**	7,527
		27,646	22,506
Other assets			
Tangible assets	21	**1,326**	1,982
Cash at bank and in hand		**27,617**	52,496
		28,943	54,478
Prepayments and accrued income			
Accrued interest and rent		**13,762**	13,102
Deferred acquisition costs	22	**14,326**	12,379
Other prepayments and accrued income		**9,787**	8,307
		37,875	33,788
Total assets		**2,293,476**	1,917,968

	Note	2021 £'000	2020 £'000
Liabilities			
Reserves			
Revaluation reserve		**142**	382
Retained earnings		**430,690**	373,298
		430,832	373,680
Technical provisions			
Provision for unearned premiums	23	**538,867**	497,865
Claims outstanding	23	**392,325**	401,659
Unexpired risk reserve	23	**539,741**	515,251
		1,470,933	1,414,775
Creditors			
Creditors arising out of direct insurance operations	27	**36,517**	30,016
Other creditors	27	**18,048**	10,455
		54,565	40,471
Accruals and deferred income	37	**315,496**	73,037
Defined benefit pension plan deficit	28	**21,650**	16,005
Total liabilities		**2,293,476**	1,917,968

The notes on pages 111 to 172 are an integral part of these financial statements.

The financial statements on pages 102 to 172 were authorised for issue by the Board of Directors on 28 June 2021 and were signed on its behalf.

P Hosking

(Chief Financial Officer)

Company registration 00320784

Company statement of financial position

	Note	2021 £'000	2020 £'000
Assets			
Investments			
Land and buildings	17	**9,745**	9,806
Investments in group undertakings and participating interests	18	**6,383**	6,405
Other financial investments	29	**1,642,918**	1,562,754
		1,659,046	1,578,965
Reinsurers' share of technical provisions			
Provision for unearned premiums	23	**277,624**	56,917
Claims outstanding	23	**126,342**	107,948
Unexpired risk reserve	23	**142,383**	69,771
		546,349	234,636
Debtors			
Debtors arising out of direct insurance operations	19	**9,090**	8,297
Deferred tax	20	**11,587**	6,682
Other debtors	19	**5,077**	5,893
		25,754	20,872
Other assets			
Tangible assets	21	**1,326**	1,982
Cash at bank and in hand		**27,371**	52,194
		28,697	54,176
Prepayments and accrued income			
Accrued interest and rent		**13,762**	13,102
Deferred acquisition costs	22	**14,326**	12,379
Other prepayments and accrued income		**9,496**	8,011
		37,584	33,492
Total assets		**2,297,430**	1,922,141

	Note	2021 £'000	2020 £'000
Liabilities			
Reserves			
Revaluation reserve brought forward		**6,687**	6,104
Other comprehensive income for the year		**(55)**	583
Retained earnings brought forward		**366,087**	448,634
Loss for the year		**66,372**	(93,518)
Other comprehensive income for the year		**(8,919)**	10,971
		430,172	372,774
Technical provisions			
Provision for unearned premiums	23	**539,525**	498,480
Claims outstanding	23	**392,325**	401,659
Unexpired risk reserve	23	**539,741**	515,540
		1,471,591	1,415,679
Creditors			
Creditors arising out of direct insurance operations	27	**36,517**	30,016
Other creditors	27	**28,395**	20,556
		64,912	50,572
Accruals and deferred income	37	**309,105**	67,111
Defined benefit pension plan deficit	28	**21,650**	16,005
Total liabilities		**2,297,430**	1,922,141

The notes on pages 111 to 172 are an integral part of these financial statements.

The financial statements on pages 102 to 172 were authorised for issue by the Board of Directors on 28 June 2021 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 2019	455,031	343	455,374
Loss for the year	(92,704)	-	(92,704)
Other comprehensive income for the year	10,971	39	11,010
Total comprehensive income for the year	(81,733)	39	(81,694)
Balance as at 31 March 2020	**373,298**	**382**	**373,680**
Profit for the year	66,104	-	66,104
Other comprehensive loss for the year	(8,919)	(33)	(8,952)
Transfer to retained earnings	207	(207)	-
Total comprehensive income for the year	57,392	(240)	57,152
Balance as at 31 March 2021	**430,690**	**142**	**430,832**

Company statement of changes in equity

	Retained earnings £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2019	448,634	6,104	454,738
Loss for the year	(93,518)	-	(93,518)
Other comprehensive income for the year	10,971	583	11,554
Total comprehensive income for the year	(82,547)	583	(81,964)
Balance as at 31 March 2020	**366,087**	**6,687**	**372,774**
Profit for the year	66,372	-	66,372
Other comprehensive loss for the year	(8,919)	(55)	(8,974)
Transfer to retained earnings	207	(207)	-
Total comprehensive income for the year	57,660	(262)	57,398
Balance as at 31 March 2021	**423,747**	**6,425**	**430,172**

Consolidated statement of cash flows

	Note	2021 £'000	2020 £'000
Net cash from operating activities before interest received	31	**(110,721)**	47,380
Interest received		**31,672**	35,743
Taxation received		**(2,350)**	184
Net cash generated from operating activities		**(81,399)**	83,307
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(194)**	(511)
Receipts from disposal of tangible fixed assets		**-**	16
Payments to acquire land and buildings	17	**(1,056)**	-
Receipts from disposal of land and building		**370**	-
		(880)	(495)
Net increase in cash and cash equivalents		**(82,279)**	82,812
Gains and losses on cash and cash equivalents		**(740)**	-
Cash and cash equivalents at the beginning of the year		**153,448**	70,636
Cash and cash equivalents at end of year		**70,429**	153,448
Cash and cash equivalents consist of:			
Cash at bank and in hand		**27,617**	52,496
Deposits with credit institutions (included in other financial investments)		**6,835**	4,614
Treasury bills and liquidity funds (included in other financial investments)		**35,977**	96,338
Cash and cash equivalents		**70,429**	153,448

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 private company limited by guarantee. NHBC is incorporated and domiciled in England and Wales. 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 under the historical cost convention as modified by financial instruments recognised at fair value and 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 2021 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 profit for the year was £66.4m (2020: loss of £93.5m) with other comprehensive income for the year being a loss of £9.0m (2020: profit of £11.6m).

NHBC is also exempt from including a Company statement of cash flows under paragraph 1.12 of FRS 102.

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. For further information see paragraph on going concern in the Director's report on page 61.

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.

Major area of judgement on policy application is summarised below:

Financial statement area	Critical judgements	Related accounting policies and notes
Revenue recognition on inspection and Building Control service	Determination of the stage of completion	Note 5.3 – Other income Note 8 - Turnover

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
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 a 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.

Government grants relating to revenue expenditure are recognised on an accruals basis and included within other income. Any voluntary repayments of previously received grants are recognised on the repayment date.

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. Valuations are made by professionally qualified external valuers annually. Fair value is primarily derived using comparable recent market transactions on arm's length terms[6].

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 is reviewed and adjusted if appropriate. The effect of any change is accounted for prospectively.

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

5.6 Investment in subsidiaries

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

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

[6] 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".

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 fair values of quoted investments in active markets are based on current bid prices, excluding any accrued interest. The fair values of unlisted securities and quoted investments for which there is no active market, are established by using valuation techniques corroborated by independent third parties. These may include reference to the current fair value of other investments that are substantially the same and discounted cash flow analysis. Financial investments carried at fair value are measured using different valuation inputs categorised into a three-level hierarchy, as outlined in note 29. 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 insurance contracts entered 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 customers 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 and commissions receivable

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.

Ceding commissions represent fees paid by a reinsurance company to cover NHBC's administrative costs, underwriting costs, and business acquisition expenses. This income is recognised as deferred income and is then amortised on the same basis as the relevant reinsurers' share of unearned premiums are released.

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 with 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 publicly 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 35.

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 128.

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 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 (such as 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. 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.

During the financial year the Group held derivatives to mitigate the price risk associated with its equity holding.

Sensitivities to changes in equity prices are presented on page 128.

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 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 investment portfolio that includes equity funds and bond holdings. The underlying investments of the equity funds are denominated in a wide selection of currencies given the well diversified global strategy. Overseas bond investments are denominated in US Dollars and Euros.

During the financial year the Group held derivatives to mitigate the currency risk associated with its equity and overseas bond holdings.

6.2.6 Derivative risk

The Group directly holds derivatives, in the form of foreign currency forward contracts, interest rate swaps, and equity futures, to partially mitigate the currency risk of its equity and overseas bond investments and the market risk of its equity investments. The Group had 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**	
	2021	2020	**2021**	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(14,777)**	(15,914)	**-**	-	**(14,777)**	(15,914)
Impact on equities and funds of a 15% fall in value	**(20,969)**	(17,939)	**-**	-	**(20,969)**	(17,939)
Decrease of property markets of 15%	**(1,354)**	(1,298)	**(45)**	(108)	**(1,399)**	(1,406)

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.

Insurance contract sensitivity analysis is included in note 26.

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-[7]. The policy requires consideration of the degree of diversification the reinsurers provide as a group and concentration of risk with individual counterparties.

6.3.4 Credit enhancements

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

However, the Group holds certain security in relation to specific sections of its insurance product. As at 31 March 2021 the Group held £26m (2020: £26m) 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 2021. The total is of financial assets that are neither past due nor impaired.

	AAA	AA	A	BBB	BB	CCC	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	94,204	725,066	218,914	410,544	6,332	3,053	-	1,458,113
Equity and other variable yield securities	-	-	-	-	-	-	139,791	139,791
Derivatives	-	-	-	-	-	-	2,202	2,202
Reinsurers' share of insurance contract liabilities	-	457,383	74,298	-	-	-	14,668	546,349
Insurance and non-insurance trade debtors	-	-	-	-	-	-	16,021	16,021
Other debtors	-	-	-	-	-	-	28	28
Deferred tax asset	-	-	-	-	-	-	11,597	11,597
Cash and cash equivalents	-	-	-	-	-	-	70,429	70,429
	94,204	**1,182,449**	**293,212**	**410,544**	**6,332**	**3,053**	**254,736**	**2,244,530**

[7] Based on Standard & Poor's rating system 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 2020. The total is of financial assets that are neither past due nor impaired.

	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	CCC £'000	Not rated £'000	Total £'000
Fixed income securities	97,470	739,640	165,624	335,384	3,354	-	-	1,341,472
Equity and other variable yield securities	-	-	-	-	-	-	119,592	119,592
Derivatives	-	-	-	-	-	-	738	738
Reinsurers' share of insurance contract liabilities	-	198,798	32,293	-	-	-	3,545	234,636
Insurance and non-insurance trade debtors	-	-	-	-	-	-	15,661	15,661
Other debtors	-	-	-	-	-	-	163	163
Deferred tax asset	-	-	-	-	-	-	6,682	6,682
Cash and cash equivalents	-	-	-	-	-	-	153,448	153,448
	97,470	**938,438**	**197,917**	**335,384**	**3,354**	**-**	**299,829**	**1,872,392**

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 2021.

	Neither past due nor 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	1,458,113	-	-	-	-	-	1,458,113
Equity and other variable yield securities	139,791	-	-	-	-	-	139,791
Derivatives	2,202	-	-	-	-	-	2,202
Reinsurers' share of insurance contract liabilities	546,349	-	-	-	-	-	546,349
Insurance and non-insurance trade debtors	11,021	2,224	1,829	1,052	669	(774)	16,021
Other debtors	28	-	-	-	-	-	28
Deferred tax	11,597	-	-	-	-	-	11,597
Cash and cash equivalents	70,429	-	-	-	-	-	70,429
	2,239,530	**2,224**	**1,829**	**1,052**	**669**	**(774)**	**2,244,530**

Table below represents the ageing of the financial and insurance assets held by the Group as at 31 March 2020.

	Neither past due nor 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	1,341,472	-	-	-	-	-	1,341,472
Equity and other variable yield securities	119,592	-	-	-	-	-	119,592
Derivatives	738	-	-	-	-	-	738
Reinsurers' share of insurance contract liabilities	234,636	-	-	-	-	-	234,636
Insurance and non-insurance trade debtors	10,892	3,959	919	407	125	(641)	15,661
Other debtors	163	-	-	-	-	-	163
Deferred tax	6,682	-	-	-	-	-	6,682
Cash and cash equivalents	153,448	-	-	-	-	-	153,448
	1,867,623	**3,959**	**919**	**407**	**125**	**(641)**	**1,872,392**

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:

	2021	2020
	£'000	£'000
At 1 April	**641**	317
Impairment loss recognised	**(36)**	(47)
Bad debt provision recognised in year	**169**	371
At 31 March	**774**	641

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 enough 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 2021:

	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	(112,361)	(87,752)	(133,481)	(48,178)	(10,553)	(392,325)	(392,325)
Trade creditors	(11,246)	-	-	-	-	(11,246)	(11,246)
Other creditors	(43,319)	-	-	-	-	(43,319)	(43,319)
	(166,926)	**(87,752)**	**(133,481)**	**(48,178)**	**(10,553)**	**(446,890)**	**(446,890)**

As at 31 March 2020:

	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	(93,876)	(81,868)	(162,120)	(59,119)	(4,676)	(401,659)	(401,659)
Trade creditors	(4,295)	-	-	-	-	(4,295)	(4,295)
Other creditors	(36,176)	-	-	-	-	(36,176)	(36,176)
	(134,347)	**(81,868)**	**(162,120)**	**(59,119)**	**(4,676)**	**(442,130)**	**(442,130)**

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:

- 58.75% in investments that share characteristics with the long-term liabilities of the Scheme, comprising of corporate bonds (22.5%), LDI (36.25%)

- 41.25% in return seeking assets compromising equities (15.00%), diversified growth funds (12.00%), multi asset credit (7.5%) and senior private debt (6.25%)

Note 28.1.4 discloses the value of the Scheme's investments

6.5.1.1 Investments – currency risk

The Scheme is subject to direct currency risk because investments totalling £5.8m (2020: £3.7m) are held in non-sterling currencies.

The Scheme is subject to indirect currency risk because the underlying holdings of the pooled investment vehicles held may be denominated in a non-sterling currency and are not fully currency hedged by the investment manager. The value of holdings subject to this risk total £98.3m (2020: £95.4m). This value includes pooled investment vehicles that have only a partial exposure to currency risk.

To limit currency risk, the Trustee has adopted a currency hedging policy whereby 75% of overseas currency exposure arising from developed equity investment is GBP hedged. Of the remaining unhedged currency exposure, currency risk is managed by investing in a diversified manner across a range of currencies. In addition, overseas currency exposure arising on underlying multi-asset credit holdings is GBP hedged.

6.5.1.2 Investments – interest rate risk

The Scheme is subject to interest rate risk via its Liability Driven Investment ("LDI") and bond holdings, via pooled investment vehicles.

The Trustee has set a benchmark allocation of 58.75% to LDI and bonds. If interest rates fall, the value of these assets will rise to help match a proportion of the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these assets will fall in value (as will the actuarial liabilities) due to an increase in the discount rate. As at year end, the Trustee expects these assets to capture 70% (2020: 65%) of the change in actuarial liability value due to interest rate movements.

The Scheme also has exposure to interest rate risk via DGFs, MAC and Senior Private Debt. The interest rate risk they introduce is expected to be low and/or taken by the investment manager as part of its investment process to add value.

6.5.1.3 Investments – other price risk

Other price risk arises principally in relation to the Scheme's non-bond assets, which includes Equities, DGFs, Multi-Asset Credit and Private Debt.

The Scheme has a target asset allocation of 41.25% of investments being held in return seeking investments. The Scheme 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

To gain exposure to certain asset classes in a cost-effective way (in both monetary and governance terms), the Scheme invests in pooled investment vehicles. Therefore, the Scheme is directly exposed to credit risk of these pooled investment vehicles. The value of assets invested in pooled funds and therefore directly exposed to credit risk at year end was £233.3m (prior year: £218.6m).

The Scheme is subject to indirect credit risk due to bonds, OTC derivatives, repurchase agreements and cash held within pooled investment vehicles. The value of assets exposed indirectly to credit risk as a result of this at year end was £193.5m (prior year: £190.5m). This value includes pooled investment vehicles that have only a partial allocation to these asset classes. Some of the pooled investment vehicles may also undertake stock lending which will also introduce indirect credit risk.

In respect of the Trustee approach to managing credit risk arising from the various asset classes, we note the following positions at year end:

- The credit risk from Sovereign Government bonds held directly or indirectly is considered to be minimal. These assets are primarily held for risk management purposes
- The credit risk from corporate (investment grade) bonds held directly or indirectly is mitigated by investing in a diversified mix of issues. These assets are held for income and return generating as well as risk management purposes, and the expected return from these assets is considered appropriate for the associated risk
- The credit risk from corporate (sub-investment grade) and other bonds held directly or indirectly is mitigated via diversification to minimise the impact of default by any one issuer. These assets are held for return generating purposes, and the expected return from these assets is considered appropriate for the associated risk
- OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps and repurchase agreements is reduced by collateral arrangements. Credit risk also arises on forward currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be at least investment grade
- The credit risk associated with direct cash balances held by the Scheme's custodian or within the Trustee bank account is mitigated by the use of regular sweeps and invested into a liquidity fund or other pooled funds
- The Pooled liquidity funds will invest with a diversified range of institutions, which are at least investment grade credit rated, to mitigate credit risk

- 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 environment in which the pooled fund manager operates and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks before appointing new pooled investment managers

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 Scheme 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.

	2021	2020
Decrease discount rate by 0.25% (2020: 0.25%)	**£11m**	£11m
Increase inflation rate by 0.25% (2020: 0.25%)	**£9m**	£10m
Increase life expectancy by 1 year (2020: 1 year)	**£13m**	£10m

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 has a solvency ratio risk appetite at the balance sheet date of 150%. At 31 March 2021, under Solvency II, the unaudited solvency ratio was 154% (2020: 135%).

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.

	2021		2020	
	£'000	**£'000**	£'000	£'000
Insurance activities		**104,821**		99,810
Other activities				
Inspection services	**53,314**		63,733	
Registration fee income	**5,212**		5,553	
Other services supporting the industry	**6,446**		9,233	
Other activities		**64,972**		78,519
Government grants				
Coronavirus Job Retention Scheme	**3,657**		-	
Voluntary repayment	**(3,657)**		-	
		-		-
		169,793		178,329

As well as inspection services performed under Buildmark contracts, inspection services include building control inspection income.

In the financial year NHBC accessed the Government's Coronavirus Job Retention Scheme. NHBC made a decision to repay to the Government, in full, the grants that have been previously claimed. The repayment was made by the end of the financial year.

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.

	2021		2020	
	Credit & suretyship	**Miscel-laneous**	Credit & suretyship	Miscel-laneous
	£'000	**£'000**	£'000	£'000
Gross premiums written	**15,684**	**89,137**	11,940	87,870
Gross premiums earned	**14,824**	**48,995**	15,577	42,980
Gross claims incurred	**3,199**	**58,674**	2,776	146,522
Gross operating expenses	**1,609**	**9,149**	1,512	10,173
Reinsurance balance	**(968)**	**51,618**	(3,305)	135,908

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

	2021	2020
	£'000	£'000
Net claims provisions brought forward at 1 April	**293,711**	311,245
Net payments during the year in respect of these provisions	**(71,207)**	(77,142)
Net claims provisions carried forward in respect of claims provided at 1 April	**(262,188)**	(203,095)
Movement in prior year's provision	**(39,684)**	31,008

11 Net operating expenses

	2021	2020
	£'000	£'000
Acquisition costs	**3,395**	1,982
Increase in deferred acquisition costs provision	**(1,947)**	(658)
Administrative expenses	**9,310**	10,361
Reinsurance commission	**(21)**	(1,882)
	10,737	9,803

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

	2021	2020
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	**6**	73
Income from financial assets at fair value through consolidated statement of comprehensive income	**31,127**	33,837
(Losses) / gains on derivative contracts	**(7,519)**	24,645
Income from land and buildings	**-**	2
Net gains / (losses) from realisation of financial assets at fair value through consolidated statement of comprehensive income	**7,008**	(1,234)
	30,622	57,323
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	**(2,788)**	(2,570)
Net unrealised gains / (losses) on financial assets at fair value through consolidated statement of comprehensive income	**29,313**	(36,965)
	57,147	17,788

Net interest expense on the defined benefit pension scheme £276,000 (2020: £757,000) is recognised in other charges within the consolidated statement of comprehensive income.

Interest payable £Nil (2020: £Nil) 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 and Group during the year by activity was:

	2021	2020
Insurance activities	**200**	208
Other direct activities	**788**	835
Administration	**173**	173
	1,161	1,216

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

Staff costs for the above persons were:

	2021	2020
	£'000	£'000
Wages and salaries	53,879	55,342
Social security costs	6,431	6,707
Pension costs	8,080	8,619
	68,390	70,668

14 Director emoluments

	2021	2020
	£'000	£'000
Aggregate emoluments	1,746	1,419
Company pension contributions to defined contribution schemes	22	3
	1,768	1,422

Retirement benefits are accruing to one director (2020: one) under the Group's defined contribution pension scheme and no directors (2020: 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:

	2021	2020
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	550	366

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

The Directors' remuneration report on page 75 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

	2021	2020
	£'000	£'000
Audit services, pursuant to legislation:		
- Fees payable to the Company's auditors for the audit of the Company and Group financial statements	265	208
- The audit of the Company's subsidiaries, pursuant to legislation	10	10
- The audit of the occupational pension scheme, pursuant to legislation	10	10-
Audit related assurance services:		
- Fees in respect of the audit of the Solvency and Financial Condition Report ("SFCR")	52	95
	337	323

15.2 Impairment of trade receivables

	2021	2020
	£'000	£'000
Impairment of trade receivables	169	371

15.3 Operating lease charges

	2021	2020
	£'000	£'000
Land and buildings	377	355
Motor vehicles	2,984	2,877
	3,361	3,232

15.4 Research and development

	2021	2020
	£'000	£'000
Research and development expenditure expensed	897	1,036

16 Income tax

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

	2021		2020	
	£'000	**£'000**	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	**4,388**		-	
Adjustment in respect to prior periods	**(82)**		(92)	
Total current tax		**4,306**		(92)
Deferred tax				
Origination and reversal of timing differences	**7,610**		(22,744)	
Adjustment in respect of prior periods including impact of change in tax rate	-		(2,051)	
(Recognition) / De-recognition of deferred tax asset	**(8,075)**		19,244	
Total deferred tax		**(465)**		(5,551)
		3,841		(5,643)

16.2 Tax income included in other comprehensive income

	2021	2020
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**(2,540)**	1,870
Impact of change in tax rate	-	(662)
Recognition of deferred tax asset	**(1,910)**	(2,339)
	(4,450)	(1,131)

16.3 Reconciliation of tax charge

Tax assessed for the period is lower (2020: higher) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021	2020
	£'000	£'000
Profit / (loss) on ordinary activities before tax	**69,945**	(98,347)
Profit / (loss) multiplied by the standard rate of tax in the UK of 19% (2020: 19%)	**13,290**	(18,686)
Effects of:		

- Income not chargeable for tax purposes	**(1,497)**	(3,984)
- Expenses not deductible for tax purposes and permanent differences	**69**	56
- Adjustments in respect of prior years	**(82)**	(92)
- Adjustment to deferred tax charge in respect of previous periods	**136**	(2,181)
- Movement in un-provided deferred tax asset	**(8,075)**	19,244
	3,841	(5,643)

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.

16.4 Tax rate changes

A UK corporation tax rate of 19% from 1 April 2020 was substantively enacted on 17 March 2020, as a result deferred tax has been calculated at 19% as at 31 March 2021 (2020: 19%).

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 March 2020 had been calculated at this rate. However, in the March 2020 Budget, it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date, as result deferred tax balances as at 31 March 2021 continue to be measured at 19%.

17 Land and buildings

The land and buildings have been revalued as at 31 March 2021.

	The Group and the Company
	£'000
Cost or valuation	
At 1 April	**10,118**
Additions	**1,056**
Revaluation	**(563)**
Disposals	**(380)**
At 31 March	**10,231**
Depreciation	
At 1 April	**312**
Charge	**191**
Revaluation	**(13)**
Disposals	**(4)**
At 31 March	**486**
Net book value at 31 March 2021	**9,745**
Net book value at 31 March 2020	9,806

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	
	2021	2020
	£'000	£'000
Freehold	**9,025**	8,650
Long leasehold	**300**	720
Short leasehold improvements	**420**	436
	9,745	9,806

All land and buildings are regularly revalued in accordance with the Group's stated accounting policy as set out in note 5.5. The last valuations were performed as at 31 March 2021. 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	
	2021	2020
	£'000	£'000
Cost	**14,942**	14,115
Accumulated depreciation based on cost	**(2,083)**	(2,056)
	12,859	12,059

The Group's impairment losses taken to the consolidated statement of comprehensive income amounted to £517,000 (2020: reversal of £74,000).

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

	2021	2020
	£'000	£'000
At 1 April	6,405	5,860
Revaluation	(22)	545
At 31 March	6,383	6,405
Analysed as:		
NHBC Building Control Services Limited	4,897	4,354
NHBC Services Limited	1,216	1,781
PRC Homes Limited	270	270
NHBC Pension Trustee Limited	-	-
Zero Carbon Hub Limited	-	-
Gowan Close Management Company Limited	-	-
	6,383	6,405

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2021 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.
- NHBC Services Limited - issued and fully paid 50,000 £1 ordinary shares. NHBC Services Limited provides services to the house-building and related industries.
- 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.
- Zero Carbon Hub Limited – Company limited by guarantee under the control of the Group. Zero Carbon Hub Limited did not trade during the year.
- Gowan Close Management Company – Company limited by guarantee under control of the Group. Gowan Close Management Company is a property management company.

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.

The registered office for all Group companies is NHBC House, Davy Avenue, Knowlhill, Milton Keynes, Bucks, MK5 8FP.

19 Debtors

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**9,090**	8,297	**9,090**	8,297
Debtors arising out of reinsurance operations	**-**	-	**-**	-
	9,090	8,297	**9,090**	8,297
Other debtors				
Trade debtors	**6,931**	7,364	**5,049**	5,730
Corporation tax	**-**	-	**-**	-
Other debtors	**28**	163	**28**	163
	6,959	7,527	**5,077**	5,893

Trade debtors includes £Nil (2020: £Nil) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £774,000 (2020: £641,000).

20 Deferred tax asset

	Group	Company
	£'000	**£'000**
At 1 April	**6,682**	**6,682**
Charge to the consolidated statement of comprehensive income	**465**	**455**
Charge to other comprehensive income	**4,450**	**4,450**
	11,597	**11,587**

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Trade Losses	**7,474**	5,551	**7,474**	5,551
Deferred tax related to defined benefit pension plan liability	**4,113**	1,131	**4,113**	1,131
Excess of depreciation over capital allowances	**10**	-	**-**	-
	11,597	6,682	**11,587**	6,682

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 full recognition of the asset. As at 31 March 2021 deferred tax assets of £11,597,000 (2020: £6,682,000) have been recognised for the Group and £11,587,000 (2020: £6,682,000) for the Company, with additional deferred tax assets of £29,995,000 (2020: £39,979,000) for the Group and £29,995,000 (2020: £39,967,000) for the Company not being 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 £214,000 based on a prevailing tax rate of 19% (2020: £241,000 at 19%).

21 Tangible assets

The Group and the Company	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	6,960	5,409	12,369
Additions	149	45	194
Disposals	-	-	-
At 31 March	**7,109**	**5,454**	**12,563**
Depreciation			
At 1 April	5,311	5,076	10,387
Charge	703	147	850
Disposals	-	-	-
At 31 March	**6,014**	**5,223**	**11,237**
Net book value at 31 March 2021	**1,095**	**231**	**1,326**
Net book value at 31 March 2020	1,649	333	1,982

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:

	2021	2020
	£'000	£'000
At 1 April	**12,379**	11,721
Acquisition costs deferred during the year	**3,395**	1,982
Amortisation	**(1,448)**	(1,324)
At 31 March	**14,326**	12,379

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 2021.

	2021			2020		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	**(538,867)**	**277,624**	**(261,243)**	(497,865)	56,917	(440,948)
Claims outstanding	**(392,325)**	**126,342**	**(265,983)**	(401,659)	107,948	(293,711)
Unexpired risk reserve	**(539,741)**	**142,383**	**(397,358)**	(515,251)	69,771	(445,480)
	(1,470,933)	**546,349**	**(924,584)**	(1,414,775)	234,636	(1,180,139)

The following is a summary of the Company insurance contract provisions and related reinsurance assets as at 31 March 2021.

	2021			2020		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	**(539,525)**	**277,624**	**(261,901)**	(498,480)	56,917	(441,563)
Claims outstanding	**(392,325)**	**126,342**	**(265,983)**	(401,659)	107,948	(293,711)
Unexpired risk reserve	**(539,741)**	**142,383**	**(397,358)**	(515,540)	69,771	(445,769)
	(1,471,591)	**546,349**	**(925,242)**	(1,415,679)	234,636	(1,181,043)

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 approach to self-repair
- Social inflation
- Economic conditions - cost inflation (HRCI)
- Economic conditions - housing market
- Other material estimates
- 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.

NHBC is also exposed to large losses from individual developments.

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[8] 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.

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

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.

24.4.6 Other material estimates

To estimate cladding and firestopping related claims on high-rise blocks NHBC follows an approach reliant on further assumptions and actuarial approaches.

The starting point for the estimation of the cost of future claims is the list of all blocks currently in Section 4 of cover that are six storeys or higher. For notified claims on high-rise blocks the cost is estimated by the Claims department. For each block in the population that is not subject to a known claim, the following assumptions are applied:

- Base cost of claim per flat - This is the expected claim cost if the claim is accepted and paid in full
- Likelihood of a claim - The probability that an investigation takes place and uncovers a valid claim
- Expected recovery proportion – Representing bespoke assessment of recovery and subrogation

The cost of future S4 claims on high rise flats is then calculated as a function of above assumptions.

24.4.7 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	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 April	**497,865**	456,612	**498,480**	457,247
Increase in provision	**41,002**	41,253	**41,045**	41,233
At 31 March	**538,867**	497,865	**539,525**	498,480

The estimates of eamings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £13.5m increase (2020: £13.4m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income, offset by movements in the unexpired risk reserve.

24.6 Movements in the gross provision for claims

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

	Group		**Company**	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 April	**401,659**	343,830	**401,659**	343,830
(Decrease) / increase in provision	**(9,334)**	57,829	**(9,334)**	57,829
At 31 March	**392,325**	401,659	**392,325**	401,659

24.7 Movements in the gross unexpired risk reserve

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

	Group		**Company**	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 April	**515,251**	364,956	**515,540**	364,956
Increase in provision	**24,490**	150,295	24,201	150,584
At 31 March	**539,741**	515,251	**539,741**	515,540

24.8 Loss development tables[9]

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

Development year

Financial reporting year

£'000	0	1	2	3	4	5	6	7	8	9	10	11	
Prior	1,507	12,193	28,870	43,044	57,340	61,053	70,114	73,806	81,476	84,978	93,024	74,914	4
2007	12	475	2,388	6,115	5,285	7,995	10,164	5,944	11,595	11,856	12,079	8,478	1
2008	37	939	3,840	3,903	7,385	5,301	9,614	12,944	12,207	14,970	12,487	17,521	1
2009	43	1,132	2,000	2,215	5,886	4,329	5,734	5,301	4,062	4,906	8,331	15,081	
2010	94	639	2,430	2,530	3,709	3,142	3,750	3,328	5,868	5,329	6,736	1,920	
2011	34	555	3,767	3,130	4,019	4,596	2,222	3,200	3,870	24,545	12,878		
2012	12	674	2,258	1,809	2,789	2,014	2,064	3,701	25,273	14,051			
2013	301	649	1,422	2,067	2,312	1,835	4,381	3,495	5,437				
2014	89	742	1,376	2,809	2,725	3,919	1,923	2,877					
2015	13	321	2,292	1,116	2,475	2,150	2,586						
2016	-	278	1,357	911	993	2,602							
2017	21	327	702	205	786								
2018	-	34	1,753	602									
2019	-	254	67										
2020	-	-											
2021	-												

Claims handling and other charge

9 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 fu

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**	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 April	**56,917**	51,766	**56,917**	51,766
Increase in provision	**220,707**	5,151	**220,707**	5,151
At 31 March	**277,624**	56,917	**277,624**	56,917

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £1.5m increase (2020: £1.2m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income, offset by movements in the unexpired risk reserve.

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**	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 April	**107,948**	32,585	**107,948**	32,585
Increase in provision	**18,394**	75,363	**18,394**	75,363
At 31 March	**126,342**	107,948	**126,342**	107,948

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	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 April	**69,771**	6,598	**69,771**	6,598
Increase in provision	**72,612**	63,173	**72,612**	63,173
At 31 March	**142,383**	69,771	**142,383**	69,771

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.

		2021		2020	
Assumption	**Sensitivity tested**	**Gross liability**	**Net liability**	Gross liability	Net liability
	%	**£m**	**£m**	£m	£m
Increase in claim frequency	+2.0	**13.9**	**8.5**	18.0	15.7
Long-term HRCI inflation	+1.0	**67.5**	**34.4**	54.5	46.8
Discount rate	-0.25	**12.2**	**7.4**	15.7	12.9

The sensitivity analysis has been derived using the internal reserving model to inform the Group's decision-making process and 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.

Sensitivities relating to cladding and firestopping related claims are as follows:

- 10% increase in average claims cost / claims frequency will result in £4.3m increase in net insurance liabilities (2020: £4.5m increase)

The change in the liability is equal to the charge in the consolidated statement of comprehensive income.

27 Creditors

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**10,101**	3,516	**10,101**	3,516
Builder deposits	**26,416**	26,500	**26,416**	26,500
	36,517	30,016	**36,517**	30,016
Other creditors				
Trade creditors	**1,145**	779	**1,145**	**779**
Amount due to subsidiary undertakings	**-**	-	**11,575**	**11,100**
Corporation tax	**1,957**	-	**1,957**	**-**
Other taxation and social security	**6,874**	5,966	**5,848**	**5,059**
Derivative financial instruments	**2,230**	1,315	**2,230**	**1,315**
Other creditors	**5,842**	2,395	**5,640**	**2,303**
	18,048	10,455	**28,395**	**20,556**

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

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	2021 £'000	2020 £'000
Defined benefit pension scheme	28.1		
Total market value of Scheme assets		**236,383**	221,534
Present value of Scheme liabilities		**(258,033)**	(237,539)
Deficit in the Scheme		**(21,650**	(16,005)

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

	Note	2021 £'000	2020 £'000
Defined benefit pension scheme	28.1		
Interest income		**(5,084)**	(5,615)
Interest expense		**5,360**	6,372
		276	757
Defined contribution pension scheme	28.2	**8,080**	8,619
		8,356	9,376

No current service cost is recognised as the Scheme was closed to future accrual with effect from 31 March 2014.

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

	Note	2021 £'000	2020 £'000
Defined benefit pension scheme	28.1		
Experience gains on assets		**10,774**	98
Actuarial (losses) / gains on liabilities		**(38,440)**	7,927
Experience gains on liabilities		**14,297**	1,815
		(13,369)	9,840

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 2020. In order to value the defined benefit obligation at 31 March 2021, 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 £8,000,000 during the year ended 31 March 2021.

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 2020 by Willis Towers Watson LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2021	2020
	%	%
Consumer price inflation	**2.50**	2.00
Retail price inflation	**3.30**	2.50
Rate of increases (normally indexed)	**3.60**	2.80
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**2.05**	2.30

It was assumed that members commute 20% of their pension for tax free cash, 80% of male members and 60% of female members were married and males were three years older than females.

The assumptions adopted for mortality are in line with SAPS S3PA Light base tables, with an allowance for future improvements in line with the CMI (2020) 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 2021 are 23 (2020: 23) years and 25 (2020: 26) years, respectively.

28.1.2 Reconciliation of Scheme assets and liabilities

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 April 2020	221,534	(237,539)	(16,005)
Interest income / (expense)	5,084	(5,360)	(276)
Benefits paid	(9,009)	9,009	-
Actuarial loss on change of assumptions	-	(38,440)	(38,440)
Experience gain on liabilities	-	14,236	14,236
Change in value of money purchase transfer funds	(61)	61	-
Company contributions	8,000	-	8,000
Return on plan assets excluding interest income	10,835	-	10,835
At 31 March 2021	**236,383**	**(258,033)**	**(21,650)**

28.1.3 Total cost recognised as an expense

	2021	2020
	£'000	£'000
Interest expense	**5,360**	6,372

28.1.4 Fair value of Scheme assets

	2021	2020
	£'000	£'000
Equity instruments	**39,732**	28,052
Liability driven investments	**83,099**	80,383
Private market investments	**5,831**	3,818
Corporate debt instruments	**17,644**	16,157
Diversified growth funds	**34,269**	40,105
Diversified Credit Fund	**46,902**	42,953
Other and cash and cash equivalents	**8,906**	10,066
	236,383	221,534

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

	2021	2020
	£'000	£'000

Interest income	**5,084**	5,615
Return on plan assets excluding interest income	**10,835**	386
	15,919	6,001

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 2022	**8,000**
31 March 2023	**8,000**
31 March 2024	**8,000**
31 March 2025	**8,000**
31 March 2026	**8,000**
31 March 2027	**4,000**
	44,000

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:

	2021	2020
	£'000	£'000
Current period contributions	**8,080**	8,619

At 31 March 2021 contributions of £Nil (2020: £Nil) 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 as at 31 March 2021. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at fair value					
Land and buildings	17	**-**	**-**	**9,745**	**9,745**
Other financial investments		**1,635,018**	**7,900**	**-**	**1,642,918**
		1,635,018	**7,900**	**9,745**	**1,652,663**
Liabilities at fair value					
Derivative financial instruments		**(2,230)**	**-**	**-**	**(2,230)**

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 as at 31 March 2020. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at fair value					
Land and buildings	17	-	-	9,806	9,806
Other financial investments		1,562,754	-	-	1,562,754
		1,562,754	-	9,806	1,572,560
Liabilities at fair value					
Derivative financial instruments		**(1,315)**	**-**	**-**	**(1,315)**

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 as at 31 March 2021. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at fair value					
Land and buildings	17	-	-	**9,745**	**9,745**
Investments in group undertakings and participating interests		-	-	**6,383**	**6,383**
Other financial investments		**1,635,018**	**7,900**	-	**1,642,918**
		1,635,018	**7,900**	**16,128**	**1,659,046**
Liabilities at fair value					
Derivative financial instruments		**(2,230)**	-	-	**(2,230)**

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 as at 31 March 2020. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at fair value					
Land and buildings	17	-	-	**9,806**	**9,806**
Investments in group undertakings and participating interests		-	-	**6,405**	**6,405**
Other financial investments		**1,562,754**	-	-	**1,562,754**
		1,562,754	-	**16,211**	**1,578,965**
Liabilities at fair value					
Derivative financial instruments		**(1,315)**	-	-	**(1,315)**

Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 150. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 161.

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 150.

		Group		Company	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value [10]					
Index-linked gilts		**596,531**	594,570	**596,531**	594,570
Fixed interest gilts		**-**	52,306	**-**	52,306
Super-national bonds		**98,843**	98,307	**98,843**	98,307
Corporate bonds		**762,739**	596,289	**762,739**	596,289
UK treasury bills and short-term deposits		**35,977**	96,338	**35,977**	96,338
Illiquid credit funds		**87,767**	73,180	**87,767**	73,180
Strategic asset allocation		**52,024**	46,412	**52,024**	46,412
Derivative financial instruments		**2,202**	738	**2,202**	738
		1,636,083	1,558,140	**1,636,083**	1,558,140
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**16,021**	15,661	**14,139**	14,027
Other debtors	19	**28**	163	**28**	163
Deposits with credit institutions		**6,835**	4,614	**6,835**	4,614
Cash at bank		**27,617**	52,496	**27,371**	52,194
		50,501	72,934	**48,373**	70,998
Financial liabilities measured at fair value					
Derivative financial instruments	27	**2,230**	1,315	**2,230**	1,315
Financial liabilities measured at amortised cost					
Trade creditors	27	**11,246**	4,295	**11,246**	4,295
Other creditors	27	**41,089**	34,861	**39,861**	33,862
Amounts owed to group undertakings	27	**-**	-	**11,575**	11,100
		52,335	39,156	**62,682**	49,257

30.1 Derivative financial instruments

During the financial year the Group entered into forward currency contracts, interest rate swaps, and equity futures in order to mitigate certain equity and overseas bond risks. The Group also entered

[10] 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.

into inflation swaps to mitigate certain insurance liability risks. As at 31 March 2021 the Group and Company held the following unexpired derivatives:

	2021			2020		
	Notional value	**Asset**	**Liability**	Notional value	Asset	Liability
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Currency forwards	**78,561**	**167**	**(406)**	5,831	236	-
Interest rate swaps	**96,281**	**1,238**	**(1,060)**	6,248	259	(338)
Inflation swaps	**118,687**	**725**	**(442)**	-	-	-
Equity future	**38,045**	**72**	**(322)**	28,219	243	(977)
		2,202	**(2,230)**		738	(1,315)

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.

	2021	2020
	£'000	£'000
Profit / (loss) for the financial year	**66,104**	(92,704)
Tax on profit / (loss) on ordinary activities	**3,841**	(5,643)
Profit / (loss) on ordinary activities before tax	**69,945**	(98,347)
Depreciation and decrease in value of assets	**1,041**	1,086
Decrease / (increase) in revaluation reserve	**517**	(74)
(Decrease) / increase in technical provisions	**(255,555)**	105,690
Realised losses / (gains) on investments and fixed assets	**631**	(24,610)
(Increase) / decrease in unrealised gains on investments	**(29,893)**	37,362
Increase in insurance debtors	**(793)**	(2,885)
Decrease / (increase) in other debtors	**568**	(2,148)
(Increase / decrease in prepayments and accrued income	**(3,427)**	770
Increase in insurance creditors	**6,501**	384
Increase / (decrease) in other creditors	**4,721**	(2,232)
Increase / (decrease) in accruals and deferred income	**242,459**	(7,769)
Differences on recognition of defined benefit pension scheme	**(7,724)**	(7,243)
Interest received	**(31,187)**	(33,837)
Payments to acquire investments	**(504,761)**	(647,663)
Receipts from disposal of investments	**396,236**	728,896
Net cash flow from operating activities before interest received	**(110,721)**	47,380

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.

33 Contingent liabilities

The Group and the Company have no material contingent liabilities to disclose.

34 Capital and other commitments

At 31 March 2021, 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:

	2021	2020
	£'000	£'000
Within one year	**1,748**	2,622
Between one and five years	**564**	2,256
Over five years	-	-
	2,312	4,878

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

In the financial year, NHBC has committed, as part of a subscription agreement, to invest into a private investment fund. Outstanding commitment as at 31 March 2021 was £17.4m. It is projected that NHBC will fully meet its commitment in the financial year ending 31 March 2023.

35 Related party transactions

Transactions between subsidiaries, which are related parties, have been eliminated on consolidation, as have transactions between the Company and its subsidiaries during the financial year.

Some of NHBC's directors are also directors of some of NHBC's customers, suppliers and industry partners. NHBC trades in the normal course of business, on an arm's length basis, with all these parties and material transactions with related parties are disclosed below.

NHBC has 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. The table below presents transactions with the CCHB.

	2021	2020
	£'000	£'000
Contributions to CCHB	**235**	244
Amount due from NHBC	-	14

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

36 Reserves

For the Group and the Company, retained earnings include all current and prior period retained profits and losses. The Group revaluation reserve comprises of movements arising on the revaluation of land and buildings. The Company revaluation reserve comprises of movements arising on the revaluation of land and buildings and the investment in subsidiary companies.

37 Loss Portfolio Transfer

In the financial year, NHBC has entered into a quota share reinsurance agreement, the Loss Portfolio Transfer (LPT). Under this agreement the reinsurer agreed to provide 75% quota share reinsurance with respect to certain Buildmark policies with registration dates between 1 April 2015 and 31 March 2019 (inclusive).

The table below is a summary extract of NHBC's Consolidated Statement of Comprehensive Income. It shows the Consolidated Statement of Comprehensive Income before placement of the LPT, the effect of the placement of the LPT on the Consolidated Statement of Comprehensive Income, and the Consolidated Statement of Comprehensive Income after placement of the LPT.

	2021 Pre-LPT £'000	**2021 LPT £'000**	**2021 Post-LPT £'000**	2020 £'000
Earned premium, net of reinsurance	**58,370**	**(34,907)**	**23,463**	52,624
Allocated investment return transferred from the non-technical account	**27,716**	**-**	**27,716**	10,390
Claims incurred, net of reinsurance	**(77,139)**	**33,660**	**(43,479)**	(73,935)
Changes in other technical provisions, net of reinsurance	**21,871**	**26,251**	**48,122**	(87,121)
Net operating expenses	**(10,732)**	**(5)**	**(10,737)**	(9,803)
Balance on the technical account for general business	**20,086**	**24,999**	**45,085**	(107,845)

The table below is a summary NHBC's Consolidated Statement of Financial Position. It shows the Consolidated Statement of Financial Position before placement of the LPT, effect of the placement of the LPT on Consolidated Statement of Financial Position, and the Consolidated Statement of Financial Position after placement of the LPT.

	2021	**2021**	**2021**	2020
	Pre-LPT	**LPT**	**Post-LPT**	
	£'000	**£'000**	**£'000**	£'000
Total assets				
Investments	**1,652,663**	-	**1,652,663**	1,572,560.00
Reinsurers' share of technical provisions	**291,472**	**254,877**	**546,349**	234,636.00
Debtors	**27,646**	-	**27,646**	22,506.00
Other assets	**28,943**	-	**28,943**	54478
Prepayments and accrued income	**36,732**	**1,143**	**37,875**	33788
Total assets	**2,037,456**	**256,020**	**2,293,476**	1,917,968
Total liabilities				
Reserves	**405,833**	**24,999**	**430,832**	373,680
Technical provisions	**1,469,785**	**1,148**	**1,470,933**	1,414,775
Creditors	**54,565**	-	**54,565**	40,471
Accruals and deferred income	**85,623**	**229,873**	**315,496**	73,037
Defined benefit pension plan deficit	**21,650**	-	**21,650**	16,005
Total liabilities	**2,037,456**	**256,020**	**2,293,476**	1,917,968

The LPT reinsurance premium of £228,730,087 was not settled as at 31 March 2021. The reinsurance premium liability is included in the Accruals and deferred income balance. The liability was settled in May 2021.

38 Liability of members

At 31 March 2021 there were 50 (2020: 49) 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.

Meanings of key words and phrases

Certain words, abbreviations or phrases used throughout this document have a specific meaning, as summarised below.

attritional losses	Claims less than £1m in value
Bornhuetter-Ferguson technique	A method for calculating an estimate of an insurance company's losses. The Bornhuetter-Ferguson technique, also called the Bornhuetter-Ferguson method, estimates incurred but not yet reported losses for a policy year
builder, customer, builder customer, registered customers, registered builders	The person, firm or company who is responsible for building a home
Buildmark	The protection NHBC and the builder provide for a home
claim outstanding	The amounts provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the reporting date, including incurred but not reported claims and claims handling expenses, less amounts already paid in respect of those claims
claims handling	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the overhead costs) which are separate to the cost of settling the claim itself with the policyholder
consumer, homeowner, policyholder	The person (or people) who entered into the contract for a home, or any person (or people) who take over the freehold, commonhold or leasehold title of the property, or, where this applies, any mortgage provider who has taken possession of a home
deferred acquisition costs	Costs arising from the conclusion of insurance contracts that are incurred during a reporting period, but which relate to a subsequent reporting period
exceptional losses	Claims over £20m in value
FCA	Financial Conduct Authority. The regulatory authority with responsibility for the conduct of the UK financial services industry
gross written premium	Total revenue generated through sale of insurance products before considering reinsurance and is stated irrespective of whether payment has been received
large losses	Claims between £1m and £20m in value
net earned premium	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period
net incurred claims	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claim payments and movements in claims reserves and claims handling expenses in the period
net written premium	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers
NHBC, the Company	National House-Building Council. The ultimate parent entity of the Group
non-technical account	Non-insurance activities
PRA	Prudential Regulation Authority. The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry
Reinsurance	The practice whereby part or all the risk accepted is transferred to another insurer (the reinsurer)
Solvency II	A Directive in European Union law that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount

	of capital that EU insurance companies must hold to reduce the risk of insolvency.
technical account	Insurance activities
unearned premium	The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not
unearned premiums provision	The proportion of written premiums relating to periods of risk after reporting date, which are deferred to subsequent reporting periods
unexpired risks provision	The excess of the estimated value of claims and expenses likely to arise after the end of the reporting period from contracts concluded before that date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred), and any premiums receivable under those contracts
yield	Rate of return on an investment in percentage terms