Raising Standards. Protecting Homeowners

Annual Report & Accounts 2016/17

Contents

Key highlights

NHBC is the UK's leading provider of warranty and insurance for the new homes industry.

We work with our registered house builders to help improve the construction standards of the new homes they build for the benefit of the industry and homeowners.

What we do

We provide inspection services, guidance and training to builders.

We engage with the industry, the Government and key stakeholders to help shape housing policy and practice.

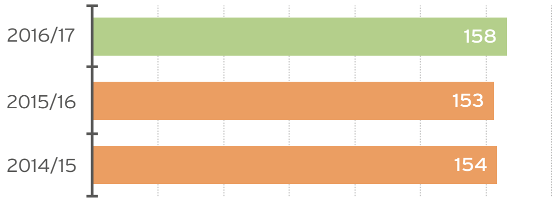
We provide protection for homeowners through our range of Buildmark warranty products. In this report, you can read more about what we do for our customers and policyholders in a series of 10 testimonies from a range of builders, housing associations and homeowners. The testimonies can be found on pages 6, 13, 18, 31, 51, 55, 60, 76 and 131.

In 2016/17, we:

- Had over 10,000 builders on our Register
- Received over 158,000 new home registrations from our customers
- Carried out over 914,000 inspections at key build stages
- Received over 97,000 Building Control registrations
- Paid claims for the benefit of policyholders totalling £84.8 million
- Undertook around 9,000 health and safety inspections
- Delivered almost 10,000 delegate days of training to the house-building industry.

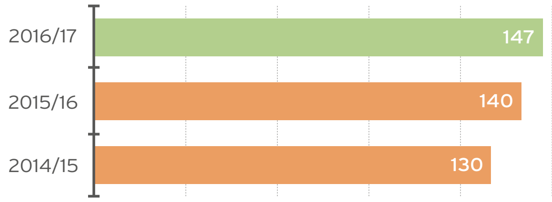
Our financial performance[1]

Registrations ('000s)



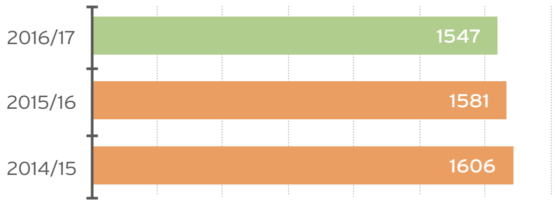
Volumes experienced some growth in the year with marginal increases in the North West, South West and Yorkshire and the Humber, partially offset by small reductions in the West Midlands and Scotland.

Completions ('000s)



The growth in registrations seen in recent years resulted in the number of homes completed in 2016/17 increasing by 5%.

Homes covered ('000s)

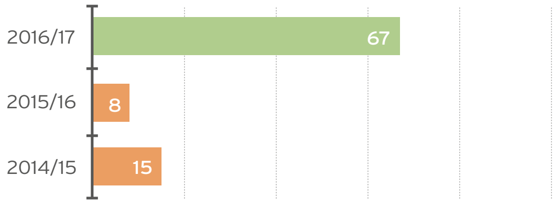


The total number of homes covered by NHBC fell marginally in the year as the 10-year policy periods for homes built in some higher-volume registration years prior to the financial crisis expired.

Total income (£m)

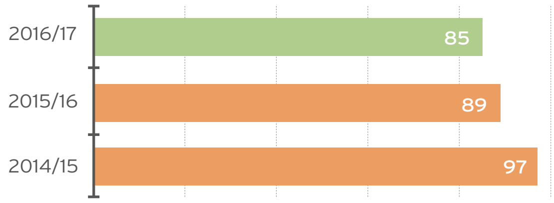
The rise in total income was largely driven by growth in registration volumes and modest fee increases.

Profit before tax (£m)



The rise in profit primarily reflects the benefit of £55.1 million of unrealised investment gains. Excluding these unrealised gains, NHBC's underlying profit was £12.1 million.

Net claims paid (£m)

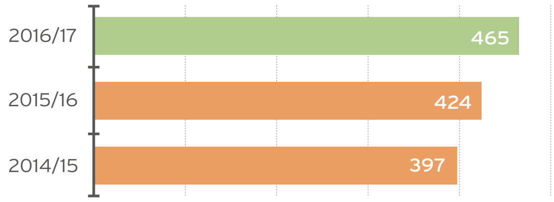


Claims payments were £4 million lower than the previous year, largely due to lower claims volumes and the effect of the 10-year Buildmark policies for some of the higher-volume, pre-recession registration years expiring.

Net technical provisions (£m)

Net technical provisions increased by 1.8% in the year, largely driven by an increase in the effective homes on risk[2] as a consequence of rising registration volumes and some changes in our underlying claims assumptions, especially relating to major losses.

Net assets (£m)



The 9% increase in net assets reflects the rise in profit after tax, which includes the impact of significant unrealised investment gains, partially offset by an increase in the pension scheme deficit.

1 Previous years restated.

2 Effective homes on risk is a risk weighted measure of the number of homes under cover.

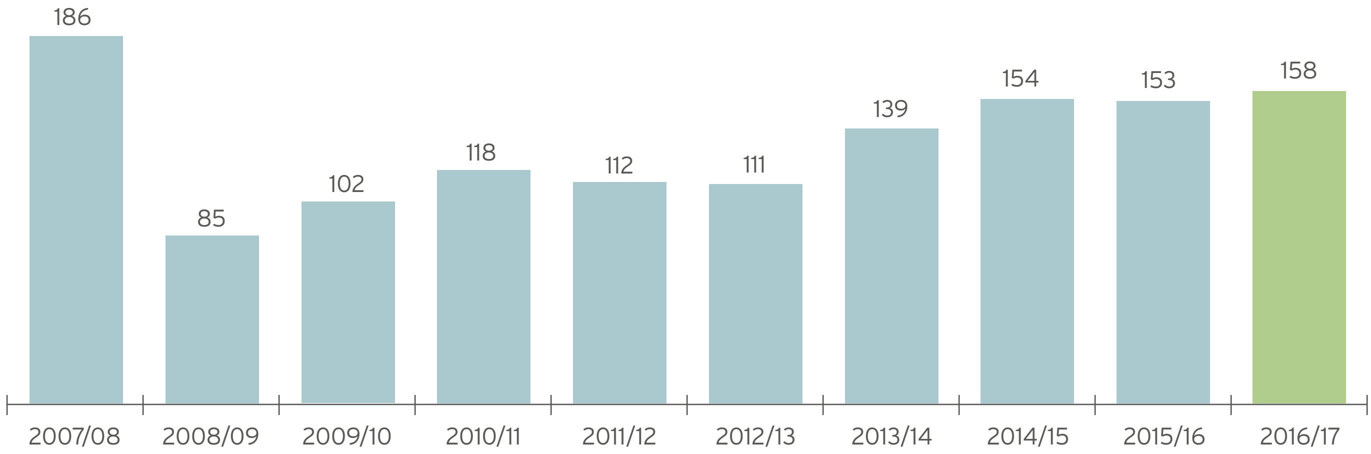
Key highlights

158,184
HOMES REGISTERED IN 2016/17

10,380
REGISTERED BUILDERS

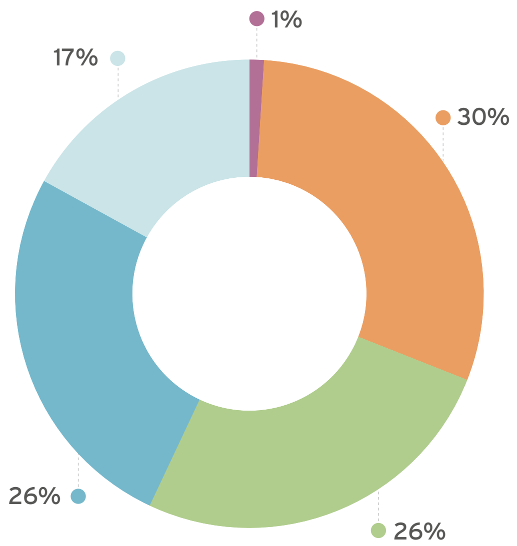
1.5 million
HOMES COVERED BY BUILDMARK

New build registrations ('000s)



Registration volumes marginally increased in the year. There is still some way to go to reach the level of registrations seen in 2007/08, prior to the financial crisis, when NHBC received over 180,000 plot registrations.

Registrations by type



Registrations by type	2016/17
Bungalows	1%
Detached houses	30%
Flats and maisonettes	26%
Semi-detached houses	26%
Terraced houses	17%

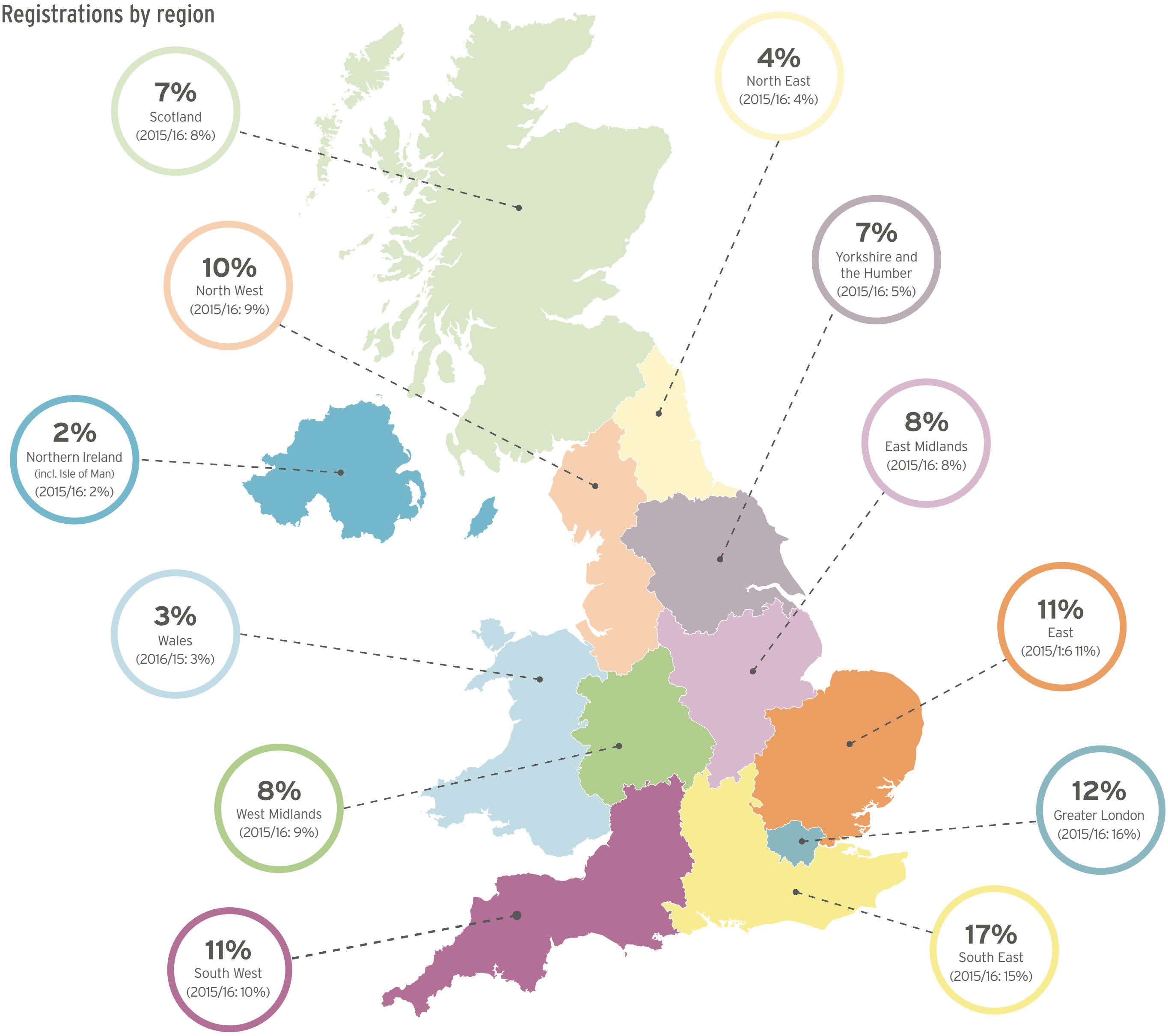
The proportion of detached and semi-detached houses registered with us further increased in the year, while the proportion of flats and maisonettes fell by 5%, largely due to a reduction in the number of flats registered in London. The volume of bungalows registered continued to decline, falling to just 1% of NHBC's total registrations in the year.

914,213 INSPECTIONS AT KEY BUILD STAGES

146,909 HOMES COMPLETED IN 2016/17

9,984 DELEGATE TRAINING DAYS CARRIED OUT

Registrations by region



The geographical spread of our registrations in 2016/17 shows that the highest concentrations remain in Greater London and the South East. However, despite an overall increase in total registrations of 3% in the year, the proportion of homes registered in Greater London decreased by 4%. Registrations across the rest of the UK remained broadly unchanged in the year, with marginal growth in a number of areas largely offset by minor falls elsewhere.

Mrs Sarah Perkins

Homeowner, Derby

A mother of two young children, Sarah Perkins had lived in her three-storey townhouse for over eight years when issues with her staircase started to occur. "The staircase became so noisy that it was unbearable," she says. "A gap had started to appear between the stairs and landing, and my young son was posting cards and toys through the space. It turned out the staircase was not correctly supported." Sarah contacted NHBC to investigate and an approved contractor was appointed to carry out the necessary repairs. Sarah told us that: "Communication was great and we were kept in the loop at all times, which gave us great confidence. The work was of a high standard, and NHBC even came back afterwards to check we were satisfied."

Group overview

Corniche - London - St James (London South)

Chairman's statement

2016/17 has been a year of significant challenges and change for our business, and for the wider house-building and insurance industries. We have seen a period of considerable political and economic uncertainty, pre- and post-election, and, of course, Brexit negotiations have commenced, with the outcome and impact on the UK economy not yet clear.

NHBC's position, performance and prospects are closely linked to the housing market, which itself typically reflects the outlook for the wider economy. Also, we have had the tragic Grenfell Tower fire, which has shocked and concerned us all. The causes and implications of the fire have not yet been understood fully; however, it is likely that the consequences will be far-reaching across Building Regulations, construction standards and social policy. NHBC was not involved with the refurbishment of Grenfell Tower, but we are an important participant in the broader housing sector. We are committed to continuing our work to support UK house builders to improve construction standards, and to bring more confidence to homeowners.

Against this backdrop, NHBC's registrations rose by 3% to 158,184, a marginal increase indicative of further consolidation after the rapid growth of the house-building industry experienced over the last three years. This growth in registrations has led to a 5% increase in the number of homes completed in the year to 146,909. Based on our estimated UK market share, this suggests a total market of c.200,000 new UK homes registered in 2016/17, consistent with other industry sources. These housing figures represent progress against the Government's ambitions, but it is widely recognised that further growth is needed to address the housing supply gap.

Our profit before tax increased significantly to £67.2 million (2015/16: £8.2 million). This was driven by large unrealised capital gains of £55.1 million resulting from investment yield falls, with a £100.1 million swing in investment performance from last year's £45.0 million unrealised losses. As interest rates continue to move, our results will be significantly affected by market movements in capital gains, meaning these headline figures are not the best way to judge our underlying performance. The profit excluding these gains is £12.1 million,[3] which compares with a profit of £25.5 million[4] last year on a like-for-like basis. The underlying movements in performance are explained in more detail in the CFO's statement on page 14.

We have continued the work to upgrade our claims capabilities and further develop and embed our Consumer Strategy, to ensure that we focus on meeting the needs of homeowners. This included further restructuring of our in-house Claims team, and a number of projects designed to make the claims process quicker and simpler, and improve communication with homeowners. While, as ever, there is more work to do, good initial progress has been made, with improved homeowner satisfaction scores for our claims service. Also, we have focused on sorting out older claims, which we know are particularly frustrating for our customers. As a result of all these initiatives, and helped by a mild winter, we have reduced the number of outstanding claims from 12,291 in April 2016 to 7,668 at the year-end: a considerable step forward.

[3] See 'Financial highlights' table in the CFO report on page 15.

[4] See 'Financial highlights' table in the CFO report on page 15.

There have been a number of significant changes in the NHBC Executive team this year, including the announcement in January of the departure of our Chief Executive, Mike Quinton, after over four years in the role. We are grateful to Mike for leading NHBC through a period of substantial growth in the new build sector. Any period of growth brings operational challenges, and managing these was our priority under Mike's tenure. As we move into a period of consolidation, the Board and Mike agreed that fresh leadership was required to see us through the next stage of our development.

Following Mike's departure, our Business Development Director, Neil Jefferson, became Managing Director, while I took on the role of Executive Chairman. This helped to ensure stability and continuity until a new Chief Executive was recruited. I want to thank Neil, and the Management team, who have ensured a continued focus on our objectives in the interim period and a smooth transition to our new Chief Executive.

Following a comprehensive search process, the Board was delighted to appoint Steve Wood as Chief Executive. Steve has over 35 years' experience in the insurance industry, most recently as Chief Executive of Paymentshield, a subsidiary of Towergate Insurance, and previously as UK Managing Director of Ecclesiastical Insurance. Steve brings considerable experience of consumer markets, distribution channels and stakeholder management, all of which will assist in leading the commercial development of NHBC and setting the business on the right track for the future.

Last year, we reported that Chris Rash, our then Commercial Director and Chief Financial Officer, would leave NHBC at the end of 2016 after two and a half years. I was very pleased to welcome Paul Hosking as Chris' successor in the role of Chief Financial Officer in November 2016, and we are already benefitting from his significant financial and insurance industry experience. Biographical details of all Board members can be found on pages 36 to 39.

This year has been one of political change, with the UK voting to leave the European Union (EU) in June 2016, the true impacts of which remain unclear. A new Prime Minister formed a new Cabinet in July 2016, Article 50 was triggered in March 2017 and, after the year-end, an unexpected general election was called for June 2017, which left us with a minority Conservative Government.

The election galvanised younger voters, who are likely to expect stronger action from the Government to address their issues, including housing availability and affordability. The Prime Minister responded to that expectation by emphasising, in her first interview after the election, that housing will remain a top priority for the Government. This policy focus will add pressure to the house-building industry, and we must be ready to respond to growing expectations in consumer protection and on the standards of new homes, with the Grenfell Tower fire adding to these pressures. The new Government's continuing focus on housing supply, combined with strong employment levels, good mortgage availability and low interest rates, should support the house-building market. However, Brexit negotiations are underway, fostering economic and political uncertainties for the industry.

Against this backdrop, the outlook for interest rates is uncertain, and investment markets are likely to remain volatile throughout the two-year Brexit negotiation process and immediately following the UK's formal withdrawal from the EU. These uncertainties put further pressure on insurers holding reserves to support long-tail liabilities, especially NHBC, where a significant proportion of our reserves are held in sterling fixed income assets. The interest income on our investment portfolio is strongly linked to UK interest rates, which have fallen significantly since the financial crisis, and still further during the last year, driven by the EU referendum result and the Bank of England's policy responses.


Ryewood - Sevenoaks - Berkeley Homes

This lower interest rate environment has steadily reduced the income on our investment portfolio from a 4.5% return in 2007/08 to a 2.2% return in 2016/17. In turn, this has resulted in net interest income for 2016/17 of c.£35 million, compared with c.£63 million in 2008/09. Partly in response to this, we have increased our focus on our asset liability management and strengthened our internal investment management resource with the appointment of a Head of Investments and Pensions, supported by a new Investment Manager and a further Analyst.

The Board continues to focus on the appropriate capital metrics, both the regulatory standard formula and our internal capital measure, while also making appropriate use of reinsurance to manage our balance sheet. We remain comfortably within our stated risk appetites but continue to manage our overall capital position with care. This is especially important for NHBC which, as a company limited by guarantee, has limited options to raise capital.

Competitive activity has increased in the year, with organisations offering new build warranty products targeted at specific market sectors, alternative approaches to risk management and different pricing structures. Rising material and labour costs are likely to result in builders looking ever more closely at the products and services they purchase. In addition, growth in the private rental sector and developments in modern methods of construction (MMC) create opportunities for targeted development, both for NHBC and other providers. We continue to seek to differentiate ourselves through our unique approach to technical risk management and added-value services, such as Construction Quality Reviews (CQRs) and the MyReports online reporting tool for builders.

Our approach to inspection remains of central importance to our builder customers, with over 914,000 inspections completed in 2016/17, an increase of 15% from last year. While we do not replace the builder's own quality control, we aim to inspect at key stages in the build process, providing advice and support. In addition, as the largest single building control Approved Inspector in England and Wales, we assessed over 97,000 design submissions during the year, up 9% on 2015/16. Building control aligns with our key stage inspection process and complements the range of services we offer.

To support growing demand, we have completed our significant programme of recruitment for technical roles which commenced in 2013/14. This included increasing our team of building inspectors by 47% from 255 to 375 today, to support a 52% increase in the number of inspections undertaken since 2013/14. This recruitment also enabled us to roll out two new inspection services, CQRs and consultative inspections (CIs), which in turn allow us to support builders in a more tailored way, varying our approach from site-to-site to focus on the areas of greatest concern.

Feedback on the c.10,000 CIs and c.1,400 CQRs completed in 2016/17 has been overwhelmingly positive, with 96% of builders who received a CI or CQR agreeing that they would help to improve construction quality.

Given the number of NHBC employees working on sites across the country, health and safety remains one of our primary concerns. We have continued our extensive programme of on-site health and safety monitoring and training to ensure our technical and field-based staff are suitably trained and equipped to work safely in all conditions.

We continue to work on our diversity agenda, taking further steps in our commitment to equality in the year by increasing our proportion of female senior leaders to 36% from 28%. We will continue to work towards our target of 45% female senior leaders by 2020, with much still to do to achieve this ambition. We continued our association with the HM Treasury Women in Finance Charter and with WISE (a campaign to promote women in science, technology and engineering).

As reported last year, the Department for Communities and Local Government Select Committee demonstrated its focus on the housing agenda by launching an inquiry into the capacity of the house-building industry to meet the demand for new homes. During the year, we gave evidence to the Committee, which published its report in April 2017 with various recommendations for consideration by Government. We have also given evidence to the All-Party Parliamentary Group (APPG), which conducted a study on the quality of new build housing and published its report in July 2016. The proposals from both the Select Committee inquiry and the APPG have yet to be considered fully by the Government, but we are already engaging with the industry, including the Home Builders Federation (HBF), and are keen to see the work progress.

One key topic raised by the APPG is the condition of homes at the point of handover to the homebuyer. Events in the past year involving some prominent builders have reminded us of the pressure of delivery deadlines and the importance of builders remaining focused on construction standards and finishes. NHBC undertakes pre-handover inspections on every home registered with us, the purpose being to satisfy ourselves that a Buildmark policy can be issued. A policy cover note is required by lenders before mortgage funds are released, and a Buildmark certificate is passed to the homeowner with their policy documents to confirm that their home has been inspected at key stages and benefits from the cover provided by our 10-year Buildmark product.

The ambition to increase build rates, combined with the limited availability of skilled construction resource, continues to drive growing interest in alternative and new construction methods. NHBC regularly accepts new methods, but we remain conscious that, whenever we do, we are committing our balance sheet for the next decade on every new home we insure, and potentially exposing homeowners to new risk. We recognise the importance of developing new techniques and support innovation, demonstrated by the launch of our online MMC Hub. This online resource for builders contains details of the systems accepted already by NHBC and requirements for those we are being asked to consider. We will continue to work closely with the industry to support the development of new products and systems, while ensuring that they are thoroughly assessed and appropriately reflected in the NHBC Standards.

Our widely-known industry recognition scheme, Pride in The Job, which recognises the best site managers from around the UK, and our Health and Safety Awards continue to be valued by the industry and support best practice on site. Feedback from our builder customers continues to underline the importance of such schemes in driving the right behaviour on site to support improving construction quality standards.

Turning to the Board itself, there have been a number of changes amongst our Non-Executive Directors. After 13 years with us, Stewart Baseley stepped down from the Board in March 2017 and, as reported last year, Greg Fitzgerald left us in July 2016, and has since joined Bovis as Chief Executive. I would like to thank both Stewart and Greg for their significant contributions over the years; they leave with our best wishes for the future.

We welcomed three new Non-Executive Directors to the Board during the year: Stephen Stone, CEO of Crest Nicholson; Kate Davies, CEO of Notting Hill Housing; and Paul Bishop, a former Partner at KPMG with over 30 years' experience in the financial services industry. These appointments add to the strength and diversity of the Board and position NHBC well for the future.

2016/17 has been a year of significant challenges and changes but, despite this, we have remained successful and have great potential to move forward. We will continue our efforts to improve efficiency in areas such as claims and inspection, and will focus increasingly on succession to ensure that we have the leadership to fulfil our potential. NHBC's success depends on the people who work for it, and who ensure that our excellent standing in the industry is maintained and improved. I would like to thank everyone who works for NHBC for their efforts during a demanding year. I continue to be struck by the professionalism, proficiency and passion of my NHBC colleagues, and I am confident that, under our new Chief Executive, we will continue to progress.

Isabel Hudson

Chairman

Phil Stephens

Executive Director, Development and Commercial, Sovereign Housing

Sovereign Housing has insisted on NHBC Warranty and insurance for all its new homes since it was formed in 1989. "Working with NHBC provides a measurable standard for quality across all of our new home developments," Phil says. "It ensures that our contractor and developer partners understand our expectations, and it provides customers with a recognised warranty scheme. This is particularly important when making such a large investment in a new home." Phil told us that the flexibility NHBC offers is also vital to Sovereign: "The services NHBC provides work for us. We are undertaking a number of new schemes in joint ventures with other house builders, and having a flexible approach around new home registration is really important to us."

Chief Financial Officer's statement

2016/17 was a profitable year, with profit before tax of £67.2 million (2015/16: £8.2 million), primarily reflecting the benefit of £55.1 million of unrealised gains in the market value of investments as bond yields declined.

NHBC's net operating profit after investment income and realised gains (but excluding the effect of unrealised gains or losses on investments) was £12.1 million compared with £53.2 million last year. The 2015/16 result included a net benefit of £27.7 million, arising from the changes in premium earnings patterns implemented last year less the one-off cost of adverse development reinsurance cover purchased in May 2015. Excluding the effect of these changes, the net operating profit for 2016/17 is a reduction of £13.1 million. This decrease was primarily driven by adverse warranty claims experience and an increase in large loss claims reserves from the generation years immediately following the financial crisis, as well as a £4.2 million increase in operating expenses.

During the year, we revised our claims reserving methodology to, where appropriate, align the assessment of net claims provisions for our UK GAAP balance sheets with the relevant requirements of Solvency II. This change in methodology provides a firm foundation for a better understanding of our insurance risks and how the development of claims reserves may impact our regulatory capital. In light of the change in methodology, we have restated the prior year results and balance sheet in order to provide a clearer comparison of performance year on year.

Our regulatory capital position remains within risk appetites, but continues to be a focus given the economic uncertainty created by the triggering of Article 50, the recent UK election result and the continued challenges presented by low bond yields. To that end, we are committed to taking the right actions now to bolster our position. These include a continued focus on pricing adequacy and expense management, as well as working with the pension trustee to de-risk the defined benefit pension scheme.

Financial highlights

	2016/17	2015/16 restated	2015/16
Registrations	158,184	153,430	153,430
	£m	£m	£m
Net written premiums	78.5	71.6	71.6
Other income	73.7	69.3	69.3
Net earned premiums and other income[1]	131.3	194.2	194.2
Net claims paid[2]	(84.8)	(89.2)	(90.0)
Movement in other technical provisions	2.5	(18.8)	(17.0)
Operating expenses	(89.1)	(84.9)	(84.9)
Net operating (loss) / profit before investment return	(40.1)	1.3	2.3
Net income on investments less management expenses	34.4	37.6	37.6
Net realised gains on investments	17.8	14.3	14.3
Net operating profit[3]	12.1	53.2	54.2
Net unrealised gains / (losses) on investments	55.1	(45.0)	(45.0)
Profit before tax	67.2	8.2	9.2
Tax (charge) / credit	(2.1)	14.6	14.6
Profit after tax	65.1	22.8	23.8

1 Warranty premium, Inspection, Building Control and Consultancy Services, net of premium refund and reinsurance.

2 Warranty claims and claims handling costs, net of recoveries.

3 Net operating profit after interest income and realised gains.

Net earned premium and other income

Net written premiums were up 9.5% to £78.5 million (2015/16: £71.6 million). Other income, which includes inspection and building control fees, increased 6.2% to £73.7 million (2015/16: £69.3 million). These increases reflect rising registration and completion volumes and modest fee increases, with net written premium also boosted by the non-reoccurrence of the cost of adverse development reinsurance cover purchased in May 2015.

Registration volumes rose by 3.1% (2015/16: 0.5% down) to 158,184 units, and completions increased by 5.0% (2015/16: 7.0% up) to 146,909 units. This growth was reflected across both the private new build and affordable housing sectors, which continue to represent over 99% of our volume.

Net operating profit

The operating result, which is a non-UK GAAP measure of NHBC's total operating performance before unrealised investment gains and losses, was a profit of £12.1 million (2015/16: £53.2 million). The 2015/16 result included a net benefit of £27.7 million, arising from the changes in premium earnings patterns implemented last year less the one-off cost of adverse development reinsurance cover purchased in May 2015. Excluding the effect of these changes, the underlying net operating profit after investment income and realised gains for 2015/16 was a profit of £25.5 million. This means that NHBC experienced a reduction of £13.3 million in underlying operating profit in 2016/17, primarily driven by adverse claims experience in warranty claims and large loss claims reserves, as well as a £4.2 million increase in operating expenses.

Net earned premiums and other income of £131.3 million fell back to historic levels (2015/16: £194.2 million) following the changes to earnings patterns implemented last year.

Premiums are earned in line with the expected claims profile over the period of cover. Claims are recognised at the date of first notification of loss, and the shape of the earnings curve remains broadly unchanged from that of last year.

Net claims paid fell by 5.2% to £84.8 million (2015/16: £89.2 million), which reflects the impact of the lower volumes registered during the recession in our current paid claims experience.

Turning to the overall cost of claims, superstructure repairs, such as external walls and render, remained the most common cause of claims in the year, accounting for 41% of claims reported. This was also the highest category of claims cost at £27.2 million (2015/16: £26.5 million).

The £2.5 million movement in other technical provisions comprises the net impact of improved claims experience in Section 2[5] and more recent generations, less a modest deterioration in Section 3[6] and large loss claims reserves arising mainly in the generation years immediately following the financial crisis.

Operating expenses of £89.1 million increased 4.7% (2015/16: £84.9 million). The primary driver was increased resourcing costs associated with the continued investments in our technical resource and the London-based Major Projects team. This investment over the last three years is now largely complete, and we believe that we are best positioned to support the industry and our customers as they look to meet the challenges of new house building in the near future.

Investment result

The total investment result was £107.3 million (2015/16: £6.9 million), comprising net interest income of £34.4 million (2015/16: £37.6 million), net realised gains of £17.8 million (2015/16: £14.3 million) and net unrealised gains of £55.1 million (2015/16: losses of £45.0 million).

Gross interest income of £37.2 million (2015/16: £40.3 million), before investment management expenses, was down 8.2% on the prior year, reflecting the continued low bond yield environment, with bond yields falling further during the year. The average current yield on our bond portfolio was 2.5% (2015/16: 3.0%), while reinvestment rates on the bond portfolio at 31 March 2017 were approximately 1.2%.

The declining yields seen in our bond portfolio, which resulted in net unrealised gains in the bond portfolio, were a consequence of a reduction in UK yields following the result of the UK EU referendum. The Bank of England introduced purchasing of gilts and sterling corporate bonds as part of its quantitative easing programme, which resulted in yields and corporate bond spreads reducing. The balance sheet valuation of bond investments at 31 March 2017 includes £74.4 million of unrealised gains (2015/16: £19.3 million). Any unwinding of these unrealised gains in future periods will serve to dampen future reported market investment returns and reduce profitability.

Profit after tax

Profit after tax was £65.1 million (2015/16: £22.8 million). This increase primarily reflects the impact of the significant unrealised investment gains booked this year compared with unrealised losses incurred last year.

Balance sheet

Investments

The total value of the investment portfolio (including cash) increased by 8.3% in the year to £1.6 billion, mainly due to favourable mark-to-market valuation movements.

Of the total investment portfolio, 92% was invested in high-quality fixed income[7] and cash assets. The fixed income portfolio remains concentrated in high-quality assets, and all holdings are investment grade, with 63% rated AA or above. The average duration of the bond portfolio is 4.4 years (2015/16: 4.7 years). The portfolio composition remained broadly consistent throughout the year, with non-government bonds making up 50% (2015/16: 44%) of the bond portfolio.

At 31 March 2017, our equity holdings were £122.5 million (2015/16: £95.2 million), which represented 8% (2015/16: 6%) of our overall investment portfolio.

[5] First two years of the Buildmark policy, comprising the builder warranty period and resolution service.

[6] Years three to 10 of the Buildmark policy, comprising insurance for physical damage to specified parts of the home, caused because the builder failed to build to NHBC requirements.

[7] Index-linked gilts, gilts and corporate bonds.

Net technical provisions

During the year, we revised our claims reserving methodology to, where appropriate, align the assessment of net claims provisions for our UK GAAP balance sheets with the relevant requirements of Solvency II. This change in methodology provides a more granular approach to understanding and valuing our insurance risks and how changes in our insurance provisions may impact our regulatory capital position. We made the decision to restate the prior year technical provisions in our accounts on a like-for-like basis in order to provide greater comparability of the movements in these reserves between current and prior-year accounts. Net technical provisions increased by 1.8% (2015/16: increase 0.1%) to £1,011.5 million.[8] The main drivers of this increase relate to a rise effective homes on risk, as well as changes in underlying claim assumptions, primarily as a result of some adverse attritional claims and large loss experience.

Defined benefit pension scheme

On an FRS 102 accounting basis, the pension fund deficit increased by £14.6 million during the year to £47.9 million. The increase was driven by a reduction in the discount rate to 2.7% (2015/16: 3.5%), partially offset by the deficit repair contributions paid in the year, and an increase in asset values.

We have worked closely with the scheme trustee to agree a de-risking strategy of the scheme’s assets and liabilities. This strategy, which commenced in January 2016, will continue throughout 2017 and 2018, and has already seen a reduction in the scheme’s exposure to equities in favour of lower risk and more capital-efficient credit instruments.

The latest triennial valuation of the scheme commenced as of 31 March 2017. The company will be working with the trustee to conclude this process (including agreement on the amount of future deficit repair contributions) over the course of the next financial year.

Capital position

At 31 March 2017, accumulated reserves were £465.2 million, up 9.8% from the start of the year, reflecting the retained profit for the year offset by a £23.5 million charge in respect of the pension fund deficit and deferred tax asset de-recognition.

Our regulatory capital position remains strong. With Solvency II becoming effective from 1 January 2016, our capital position is assessed using the standard formula methodology and, at 31 March 2017, our solvency ratio remains within the Board’s risk appetite at 154%.

Maintaining sufficient capital will remain a key focus given the combination of political and economic uncertainty, particularly in relation to the ongoing Brexit negotiations and the ongoing low-yield environment. To that end, we are committed to taking the right actions now to safeguard our capital position, which includes a continued focus on pricing adequacy and expense management, as well as working with the pension trustee to de-risk the pension scheme.

Outlook

We have delivered positive results for the 2016/17 financial year, in large part due to the unrealised gains on our bond and equity portfolios.

NHBC relies on investment returns to support the revenue streams within its business model. Our pricing strategy takes into account expected future investment returns. This approach allows us to keep prices competitive, albeit that, consequently, NHBC carries an increased risk of financial losses when investment yields are lower than expected.

Given the continued low-yield environment for investments, we will need to manage our revenues and operating expenses carefully in order to ensure that our baseline profitability is adequate.

Looking forward, the economic outlook remains uncertain following the triggering of Article 50 in March 2017. It is expected that demand for new homes will continue to outstrip supply, although the UK’s exit from the EU may impact volumes over the next few years. In addition, following the Grenfell Tower fire and the subsequent launch of the public inquiry, uncertainty will exist around the possible outcomes of the inquiry and any potential implications these may have for the house-building industry and NHBC. Nonetheless, we will continue to focus on raising the quality of new build homes while taking the right actions now to generate appropriate levels of profit to maintain solvency capital, and thereby ensure that NHBC remains best placed to support the industry and our policyholders in the future.

Paul Hosking

Chief Financial Officer

[8] Net of deferred acquisition costs.

Mrs Alice Munro

Homeowner, Matlock

Alice Munro had a number of problems with her new home, the most concerning of which was a persistent drain blockage. "I got NHBC involved as I knew I needed advice and didn't know what to do next," she says. "I felt looked after at every turn. I was so panicked, but I got great help and support from the NHBC investigators, the office staff and the amazing contractors. NHBC helped us to organise and stay in dog-friendly temporary accommodation with internet access, which was essential for my work, and made sure disruption was kept to a minimum. I cannot recommend NHBC highly enough and tell people that, if they buy a new home, they must not be without NHBC Buildmark."

Strategic report

Pipers Green - Wakefield - Taylor Wimpey

Who we are, what we do

NHBC is the UK's leading provider of warranty and insurance for the new homes industry. We work with our registered house builders to improve the construction standards of the new homes they build for the benefit of the industry and homeowners.

Our purpose is underpinned by our Virtuous Circle business model, which consists of:

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

Virtuous Circle

This model allows us to influence construction standards positively through the provision of our warranty and insurance products and technical risk management. We work to create relationships with builders and provide a unique source of information, data and support, which we leverage to promote our objectives.

As a regulated insurance company with a strong financial position, we provide the protection afforded by our 10-year Buildmark warranty. NHBC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Key facts and figures for 2016/17

NHBC is the UK's largest new home warranty and insurance provider.

We have over 80 years' experience in improving the construction standards of new homes.

We have over 10,000 builders on our Register.

Our builder customers registered over 158,000 plots for Buildmark.

We received over 97,000 Building Control registrations.

Our inspectors carried out over 914,000 inspections at key build stages.

We paid claims for the benefit of homeowners totalling £84.8 million.

We employ approximately 1,300 people.

Industry-leading warranty

As the UK's leading home warranty provider, NHBC currently provides warranty and insurance for over 1.5 million homes, with an estimated market share of 75% to 85%. Our warranty and insurance product, Buildmark, covers homes from before they are built, providing protection at the exchange of contracts through to the end of the 10th year following legal completion by the homeowner. During the year, we engaged with builders and developers to ensure that our future product plans were well positioned to respond to changing market needs. Ensuring we can cater appropriately for different tenures and construction types is a focus for our current product development plans.

Standards

NHBC Standards set out the technical requirements for all newly built and converted homes covered by our Buildmark products. The Standards are published as a manual for our registered builders and cover the design, material specification and site work for each part of the build process. In November 2016, we published the 2017 Standards, effective from 1 January 2017, which introduced the new Chapter 6.11 dedicated to render and designed to help the industry improve construction standards.

Inspection

Every year, NHBC conducts hundreds of thousands of inspections, which are an integral part of our work to improve construction standards. Inspection is focused on specified key stages for each plot as a minimum, supplemented by other inspections, such as CQRs and CIs, introduced in 2016/17. Based on the risk assessment conducted for each site, our inspectors aim to be on site at the times when their independent expertise can be most effective. During the year, we undertook over 914,000 inspections at key stages in the construction process.

We have also continued the development of an internal Construction Quality Index (CQI), which uses data from our inspection records and homeowner satisfaction surveys to measure the construction standards of new homes. During the year, we introduced further metrics to the CQI, using data obtained through CQRs, to inform a revised index for construction quality. Once we have gathered data over a reasonable period of time and across a sufficient number of sites, we intend to use the revised index to measure fluctuations in construction standards and the drivers behind them.

Builder registration

NHBC registered builders and developers commit to building new homes to NHBC Standards and, by doing so, we are able to offer Buildmark warranty and insurance cover. Registered builders also receive additional benefits, including access to free technical support via our helpline, and discounted tools and materials from a national trade building supplier. Before being accepted onto the NHBC Register, all builders are assessed commercially and technically. We conduct financial and other reference checks, and undertake an assessment to substantiate their ability to build to NHBC Standards. During the year, we refined the application process to include further financial and technical assessments, and improved controls around the nature of projects we permit newly registered builders to register with us.

NHBC Foundation

Established in 2006, the NHBC Foundation provides high-quality research and practical guidance to support the house-building industry. During the year, the Foundation published seven new reports, including a study of residents' views on affordable housing,[9] and a report exploring industry attitudes towards emerging construction materials and technologies.[10] The Foundation has now published over 75 reports across a wide variety of topics, including the sustainability agenda, homeowner issues and risk management. The Foundation is very well regarded and widely accessed across the industry, and is an important part of the practical value NHBC brings to builder and developer customers.

Promoting best practice

Our Pride in the Job and Health and Safety Awards are an important part of NHBC's drive to raise and promote high standards in new home construction. Every site manager working on an NHBC registered site is automatically entered for Pride in the Job, with entrants this year exceeding 16,000. In 2016/17, we awarded 447 Quality Awards, 138 Seal of Excellence Awards, 34 Regional Winner Awards and five Supreme Awards at 11 regional and one national event. The Health and Safety Awards are entered voluntarily by builders and, during the year, we received a record 371 entries. From this pool, we issued 99 awards for varying degrees of health and safety excellence, including 61 Commended Winners, 30 Highly Commended Winners, four National Runner-ups and four National Winners Awards.

[9] 'Affordable homes: residents' views of quality' (NF74), published 14 December 2016.

[10] 'Modern methods of construction: views from the industry' (NF70), published 2 June 2016.

NHBC Services Ltd (Services)

Services offers a wide range of ancillary products to builders and developers, covering a number of specialist fields, including health and safety, energy and sustainability, land quality and technical training. During the year, Services:

- Completed over 8,900 health and safety inspections on sites across the UK
- Conducted more than 15,000 Standard Assessment Procedure ratings
- Issued over 12,000 Energy Performance Certificates
- Secured 36 land quality endorsements projects with the potential for c.19,000 plots
- Delivered almost 10,000 delegate days of training to the house-building industry, including health and safety management and technical courses.

Since 2004, Services has conducted the National New Homes Survey, which facilitates the HBF Star Rating scheme for builders. The survey is sent to homeowners after legal completion, and asks them to rate their experience of their new home and the customer service provided by the builder. During the year, Services sent out over 90,000 surveys, with an excellent return rate of 58%.

NHBC Building Control Services Ltd (BCS)

BCS is the largest Approved Inspector in England and Wales, providing building control inspections to assist builders in meeting the Building Regulations on residential, mixed-use and commercial projects of all sizes and complexities. With over 30 years of experience, BCS delivers dedicated support and technical advice for builders and their professional advisers, and is central to NHBC's purpose of raising standards across the house-building industry. BCS also supports the Government and the wider construction industry on Building Regulations changes and other industry issues. During the year, BCS received over 97,000 Building Control registrations across the private and affordable housing sectors.

Market overview

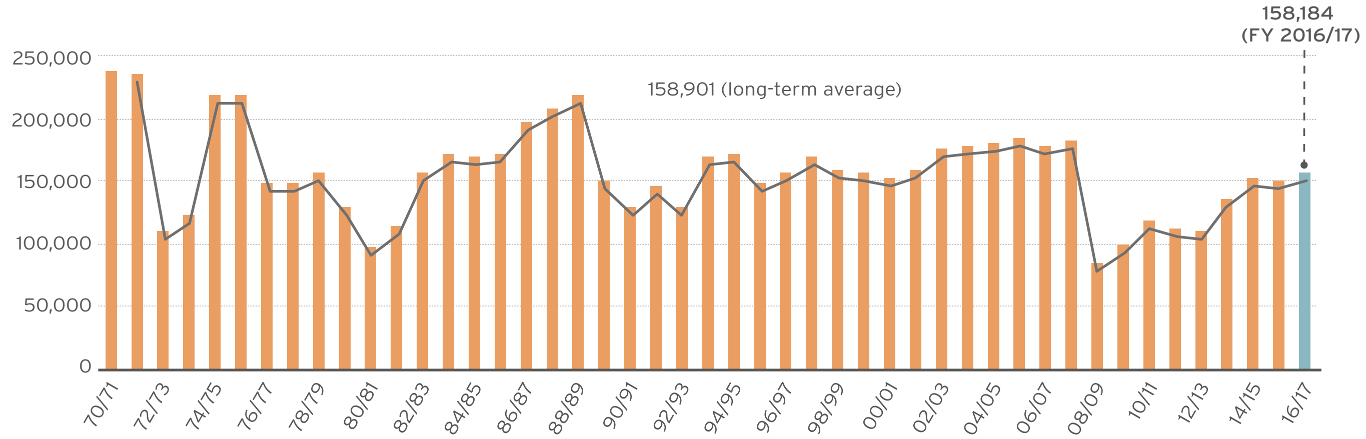
NHBC operates in the UK house-building sector, the health of which is the primary driver of NHBC's business performance and growth. We monitor a number of metrics to ensure we are well positioned to respond to emerging opportunities and threats.

UK housing market

The UK housing market has continued to remain stable, even experiencing some marginal growth, despite concerns over Brexit and the continuing challenges of labour shortages and the associated costs.

Consumer confidence continues to fluctuate, but remains at a lower rate than before the EU referendum outcome. However, this appears to have had little impact on the desire to invest in new homes. Demand for homes continues to outstrip supply and, consequently, UK house prices increased moderately, by 4.1%, in the year to March 2017 to an average selling price of £216,000.[11]

NHBC registrations for 2016/17 were 158,184 (2015/16: 153,430), an 86% increase on the levels seen during the depths of the housing crash in 2008/09. Growth has continued into 2017, with more than 42,000 new homes registered between 1 January and 31 March 2017, the highest quarter in a decade.



Mortgage lending decreased marginally in 2016/17 after three years of growth, with the value of mortgage approvals for house purchases to 31 March 2017 down by 6% versus last year to £157 billion.[12]

The overall number of mortgage approvals for house purchases for the year to 31 March 2017 reduced to 789,333, a fall of c.6% from the previous year. At 66,227, mortgage approvals in March 2017 represented a six-month low, and have declined further during the early months of 2017/18.[13]

[11] Source: HM Land Registry, Registers of Scotland, Land & Property Services Northern Ireland and Office for National Statistics.

[12] Source: Bank of England.

[13] Source: Bank of England.

Housing market outlook

Recent financial market uncertainty and the broader economic cycle have resulted in slowed house price inflation and reductions in mortgage lending and approvals. Despite this, continuing government funding and initiatives, high demand and the focus on improving the housing supply indicates that marginal growth in the house-building sector is likely. This growth will most likely be from a mix of tenures, including social rent, rent to buy, shared ownership and private rental or sale. The housing market remains closely linked to the wider economy, so any turbulence from Brexit negotiations could have an impact and potentially dampen transaction numbers and prices. It will need to be closely watched as we progress through 2017/18.

Market share

NHBC's rolling market share fluctuated within a corridor of 75% to 85% during 2016/17, with some variation during individual quarters. These statistics are calculated from the number of NHBC registered homes on which building activity has commenced ('starts'), expressed as a percentage of government-reported UK starts over the same period.

Competitive activity increased during 2016/17 across a number of market sectors. Pressure on house builders to deliver stretching volume targets is likely to increase competition further, particularly amongst developers seeking lower prices or products tailored to suit niche or emerging markets.

What this means for NHBC

The continuing political cross-party focus on housing growth, combined with strong employment levels, good mortgage availability and low interest rates, should continue to support the house-building market, and therefore NHBC's registrations and revenue. However, the potential outcomes of Brexit negotiations and the wider political and economic environments will bring uncertainty for the industry, while the ongoing and long-term issues of affordability and quality remain significant factors. We will continue to assess market trends and indicators, and monitor the progress of Brexit negotiations to ensure we are ready to respond to any implications for our business.

Our strategy

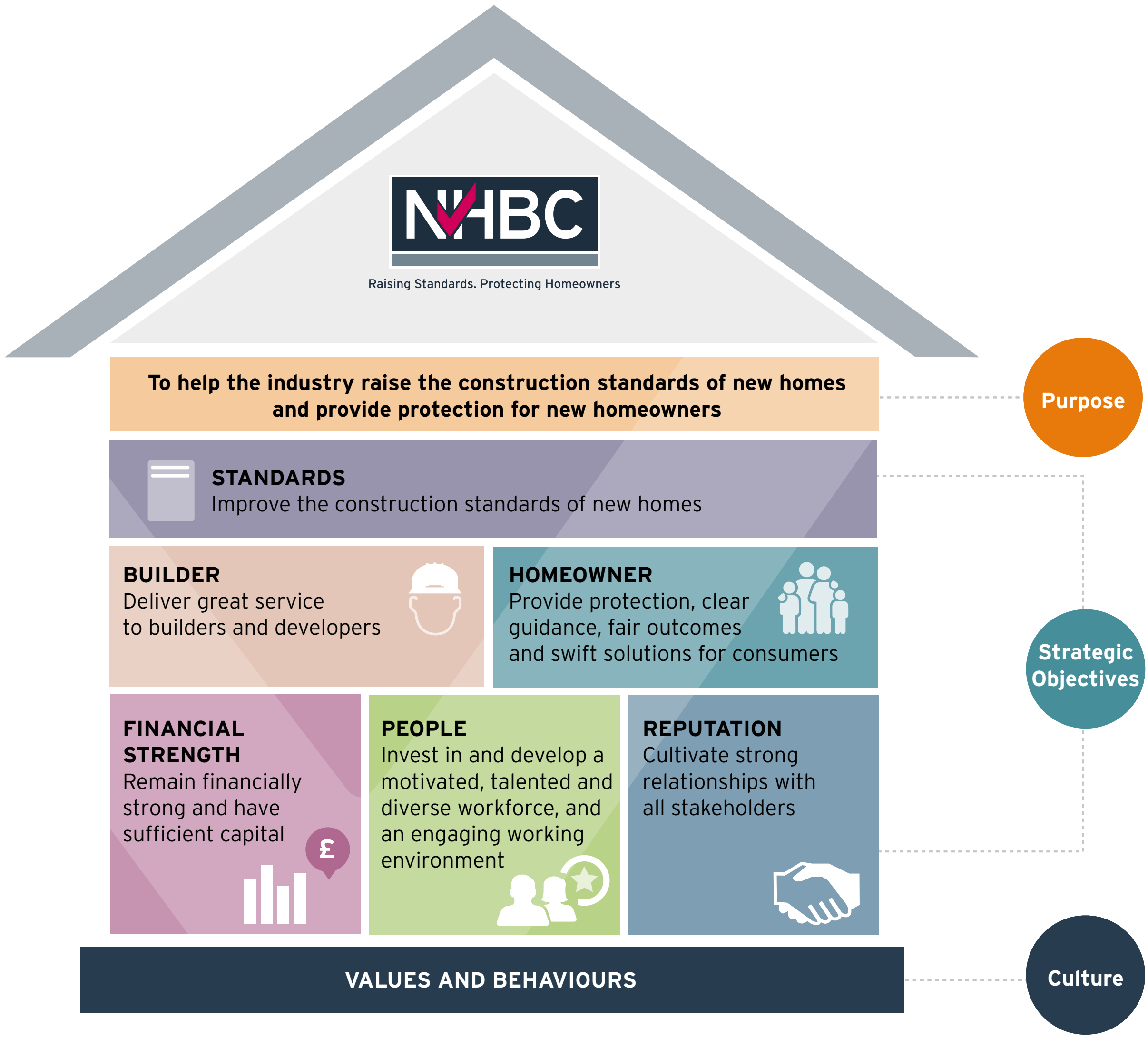
Our 2020 focus

The insurance industry continues to evolve, with changing regulatory requirements such as Solvency II, growing investment in data, shifting customer expectations, and competitors with new business models and different priorities. The house-building industry is also facing substantive change driven by a shortage of labour and skills, growing demand from consumers and the Government, shifting tenure mixes, and new construction materials and methods.

In response, over the past two years, we have conducted a comprehensive review of our business and engaged with representatives from all our stakeholder groups, including builders, housing associations, the Government, local authorities and homeowners. Through this process, we have developed our strategy and business plan for the next three years, and are confident that it will provide the groundwork to develop our business under our new Chief Executive.

Strategic framework

To achieve our priorities, we have devised a new strategic framework with a number of building blocks: Standards; Builder; Homeowner; Financial Strength; People; and Reputation. The diagram below demonstrates how these building blocks support our purpose; to help the industry raise the construction standards of new homes and provide protection for new homeowners.



To support our strategic framework, we have identified three key areas of focus for the next three years:

1. Financial viability and regulatory compliance

We must ensure that our financial position, governance arrangements and activities are appropriate, sustainable and effectively managed to maintain compliance with the requirements of our regulators, the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and, for our Building Control business, the Construction Industry Council Approved Inspectors Register (CICAIR).

A major factor in this is building a sustainable business geared towards the delivery of our core objectives, making sure every pound we spend takes us closer to delivering those objectives.

This includes ensuring we have sufficient capital to support our liabilities, a greater challenge in an environment where our registration volumes are rising (meaning greater reserves must be set aside) and investment yields are low (reducing our potential income). We will continue to safeguard our capital through our approach to pricing, operational efficiency, investment strategy and the appropriate use of reinsurance.

In addition to solvency and operational risks, the Board attaches great importance to its regulatory responsibilities in relation to the FCA. In particular, we continue to enhance our consumer focus through the various initiatives contained in our Consumer Strategy, as detailed later in this report.

2. Market position

A strong market position allows us to influence the quality of a larger proportion of new homes and to access extensive data on construction quality. The data we obtain from inspections and claims is powerful, and we use it responsibly to support individual builders and the wider house-building industry through feedback such as CQRs and the development of our Standards.

In an increasingly competitive marketplace, we must understand the needs of both our builder customers and policyholders to provide them with a responsive, efficient service, a valued competitive offering and products appropriately tailored to their different needs. In doing this, we are not willing to compromise the requirements we place on our builder customers to meet our construction standards as this would undermine our core purpose and expose NHBC, builders and homeowners to greater risk.

3. Technical risk management

Our approach to technical risk management and learning from experience through inspections and claims is unrivalled and sets us apart from our competitors. Technical risk management encapsulates the research, guidance and training we provide to builders; also, it is very much to the fore in the support we give during the design of projects and through our on-site presence. We will continue to use our expertise to help builders achieve a standard of construction that reduces risks, is insurable and underpins better-quality homes for homebuyers.

As reported previously, we have made significant investment in inspection and technical resource over the past three years. This is designed to allow inspectors more time to work with builders to identify and address issues on site, and reduce defects in new homes for the benefit of homeowners. Our Virtuous Circle business model also ensures that our claims and inspection findings are shared across the organisation and wider industry.

Consumer Strategy

Our Consumer Strategy introduced a range of measures to monitor and improve our consideration of homeowners in our decisions. Engagement with homeowners throughout the 10-year life of their Buildmark policies is key, with the goal of improving awareness of the Buildmark policy and knowledge of the protection it provides. Through our Consumer Strategy, we aim to:

- Understand homeowners' needs
- Be recognised by homeowners for working to improve new home construction standards
- Lead the industry in providing solutions to remedy new home construction problems
- Deliver clear guidance, fair outcomes and lasting solutions to homeowners when they need to make a claim.

The Consumer Strategy includes numerous initiatives to enhance our claims capabilities in an effort to improve the claims experience for homeowners. Our Buildmark policy primarily provides protection for the major structural elements of a home. Consequently, some of the claims we receive are complex and can require time-consuming specialist assessment or repairs to find a lasting solution.

Despite this, the vast majority of claims are resolved quickly and to the satisfaction of the homeowner. Nevertheless, we remain committed to delivering our claims change programme, commenced in 2014, involving restructuring our in-house team and introducing new processes and targets to improve the claims experience for homeowners.

Risks to our business

NHBC's approach to risk management

In considering our organisation's key risks, we distinguish between risks to achieving our objectives and risks to our sustainability as an organisation. To achieve our organisational objectives, we monitor and minimise poor construction standards and unfair homeowner outcomes. To ensure our sustainability as an organisation, we will take action to manage our solvency risk, reputational risk, insurance risk and operational risk.

Risk governance

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

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

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

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

Risk management

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

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

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

The risk operating model

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

NHBC's risk operating model: three lines of defence

Board Risk Committee and Audit Committee		Audit Committee
First line of defence	**Second line of defence**	**Third line of defence**
Operational functions Business teams operate systems of internal control. Executive directors are responsible for managing risk in their areas. They and their Management teams are the people best placed to understand and manage most risks.	Support functions Risk and Compliance teams support, review and challenge business team activity. They report to the Executive Risk Committee and the Board Risk Committee.	Assurance The Internal Audit team provides an independent view of the effectiveness of risk and control management. The Internal Audit team reports to the Audit Committee.

Risk appetite

The Board sets NHBC's risk appetites to align to the key areas of our strategic framework (see page 26 for further details). Tolerances for these risk appetites have been developed for the key areas of:

- Market share
- Reputation, including brand strength and homeowner satisfaction
- Construction standards
- Inspection and technical risk
- Financial resilience
- Conduct risk.

NHBC's risk profile

Principal risks

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

Examples of risks that are managed in the pursuit of our objectives are provided below, with further detail contained in Note 6 to the financial statements.

Risk area	Key risks
Strategic	Failure to define and implement a strategy which accommodates the changing environment in which NHBC operates or delivers its strategic goals
	Failure to maintain a material market share, resulting in an inability to fulfil NHBC's core purpose
Insurance	Failure to forecast and plan for growth in warranty registrations, resulting in financial and operational strain, and inadequate service levels
	Failure to identify significant issues with a building system or widely used building component, resulting in significant consumer dissatisfaction and claims costs
	Failure to adequately mitigate exposure to the insolvency of one or more builder clients resulting in significant claims costs
Market	Failure to adequately mitigate risks arising from changes in investment markets resulting in an inability to fund policy obligations and meet regulatory capital requirements
Pension	Failure to forecast and plan for additional pension fund contributions, resulting in a reduction in profit and an inability to replenish capital reserves
Operational	Failure to embed compliant operational and governance processes, causing poor conduct towards homeowners and increased claims costs
	Failure to protect customer information adequately
	Failure to respond to increasing pressure on build quality

Emerging risks

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

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

- Economic, including the uncertainty in UK and world investment markets caused by the UK's decision to leave the EU
- Political, including the outcome of negotiations regarding the UK's departure from the EU, but also more local considerations, such as changes to housing policy
- Environmental, including long-term changes to weather patterns
- Technological, including innovation in building systems and opportunities to improve the way in which NHBC delivers its products and services, and malicious threats to NHBC's technology infrastructure and the information held on it
- The impact of the Grenfell Tower fire on the wider house-building industry and building control market in the UK.

Risk and capital

The Board pays particular attention to NHBC's solvency position, given NHBC's restricted options to raise capital as a company limited by guarantee. The primary basis used by NHBC to quantify the risks is the Solvency Capital Requirement (SCR) which is calculated as Solvency II own funds at risk in a 1-in-200 year loss event over a one-year time horizon. The table opposite shows NHBC's standard formula solvency position as at 31 March 2017:

NHBC's surplus capital

£million	2016/17
Eligible own funds	580.0
Solvency capital requirement (SCR)	377.5
Solvency II surplus	202.5
Solvency ratio	154%

As at 31 March 2017, NHBC's capital surplus on a Solvency II standard formula basis was estimated at £202.5 million, with a solvency ratio of 154%, which remains within the Board's capital risk appetite.

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

Paul Morrissey

Chief Operations Officer, Cameron Homes

Cameron Homes has worked with NHBC since 1993 when the company was originally formed, and has not used any other warranty or building control provider on their housing schemes. "We took the view that, for consistency and quality, we would use both of these key services offered by NHBC on all of our projects. This has worked out well for us," says Paul. The additional services provided by NHBC are also important, as Paul explains: "We find the online portal really useful, and the speed and ease at which we can upload and share information saves time. The new 'My Reports' system is a great help to contracts managers and technical managers, as they can run site-specific reports easily for discussion with their teams." Whilst technology is a very useful tool, it is still the quality of staff that counts for Paul: "Above all else, it's the personal contact between NHBC and our staff that we value the most, sharing experience and offering guidance to our teams. We believe we are a partnership."

Wider impact

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

Our company

NHBC now employs c.1,300 people across the UK, including c.580 staff at our head office in Milton Keynes. In addition, we relocated our London office in 2016 to accommodate the creation of our Major Projects team, dedicated to supporting the expanding London market.

In 2016/17, NHBC's headcount grew, with 73 new colleagues arriving in the year, representing a 4.5% increase in total staff numbers. We now employ a combined total of over 500 inspectors, engineers and surveyors, many of whom are home or field based. They work with our registered builders to assist them in complying with Building Regulations and NHBC Standards.

Voluntary turnover for 2016/17 increased to 10.6% (2015/16: 8.6%), but remains low compared with external benchmarks, with the majority leaving due to retirement.

Diversity and inclusion

NHBC is committed to encouraging diversity and inclusion in everything it does in order to support our customers, policyholders and the staff we employ. We recognise that achieving a significant change in the demographic of NHBC will take time, but progress has been made in the last year.

As part of this commitment, NHBC became a signatory of the Women in Finance Charter in 2016/17, an initiative that brings together HM Treasury and financial services firms to build a fairer and more balanced industry. The charter commits firms to supporting the progression of women into senior roles, which reflects our aspiration to see gender balance at all levels across NHBC.

To this end, we have set ourselves a target of achieving 45% female representation across our senior management population by 2020. During the year, we increased the number of female senior leaders[14] by two, giving a total of eight (or 36%) of the senior management population. We also welcomed our Non-Executive Director, Kate Davies. This appointment has increased the female representation on our Board to 31%. The full composition of the Board is shown in the Governance section on pages 36 to 44.

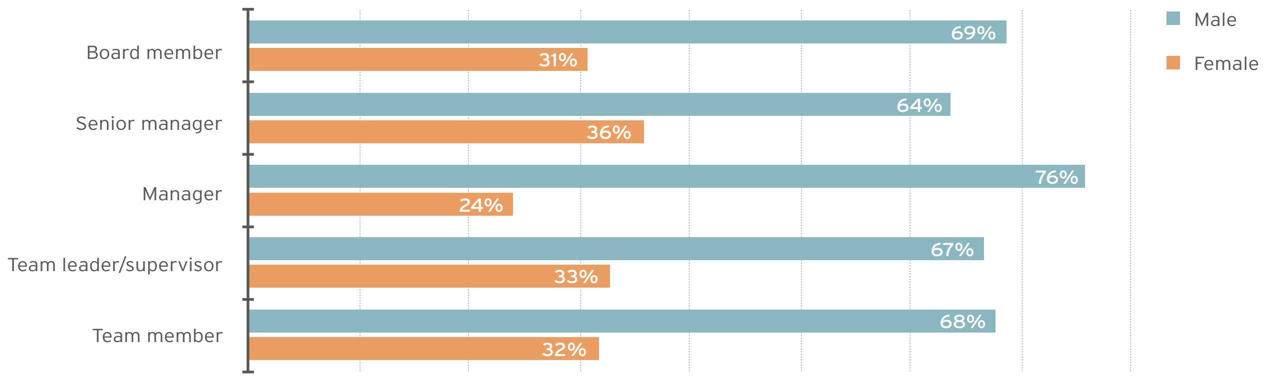
We took the decision last year to disclose our gender pay gap ahead of the introduction of Mandatory Gender Pay Gap Reporting from April 2018. A review undertaken in the year identified a gender pay gap of 21% in favour of males. This is unchanged from our 2015/16 result, albeit that the calculation methods used were different and, as such, are not directly comparable. In accordance with legislative requirements, we will be calculating our pay gap using the new methodology and reporting it by April 2018.

Our equal pay audit, completed during the year, looked at comparable work for men and women within NHBC, and found no significant issues. However, we do recognise that, due to the high proportion of technical roles within the broader UK construction that are filled by males, there is a difference in the average pay by gender.

We also became members of the Employers Network for Equality & Inclusion and undertook benchmark surveys with Business in the Community (BITC), achieving Silver status for gender equality and Bronze for race equality.

Details of our gender distribution are shown below.

NHBC's gender distribution



[14] NHBC's definition of a senior leader is consistent with its internal job grade system and refers to members of NHBC's 'Leadership group', who are typically those responsible for a discrete function within the organisation.

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

Our supportive policies mean that we experienced a 100% return rate for those taking adoption or shared parental leave, and continued high return rates after maternity leave for 2016/17 of 80% (2015/16: 85%). Of those who returned from a period of parental-related leave during 2016/17, 55% were accommodated into flexible or part-time contracts. Overall, 5.8% of NHBC staff hold some form of formal flexible or part-time contract.

Engagement

Employee engagement remains an important measure for NHBC, and we take the results of the Best Companies 'b-Heard' survey seriously and strive to improve the workplace for everyone.

NHBC conducts an employee opinion survey at regular intervals and, for the third consecutive year, we have achieved exceptional response rates in excess of 90%, with over 1,400 individual comments being provided. This response rate provides assurance that the results reflect overall opinion.

We achieved a 'Ones to Watch' accreditation, with a score of 658 based on Best Companies' rating scale, consistent with last year's result of 661. This small reduction did, however, result in the loss of our '1 Star' status, achieved for the first time in 2015/16. We are determined to do all we can to achieve an improved score in the next planned survey in 2018/19.

Supporting our employees

NHBC annually benchmarks all its roles using a range of salary survey data to ensure we remain competitive. Pay and bonuses are linked to both individual and company performance, giving employees the ability to influence their earnings.

Following a reassessment in 2016/17, we were proud to retain our Investors in People Silver status. During the year, we supported employees across our business in undertaking in excess of 12,000 training and development activities, including seminar attendance, formal training and e-learning activities.

We offer a competitive pension scheme accredited to Pension Quality Mark Plus standard, with a membership of over 95% of employees. We are proud to be a partner of the Living Wage Foundation, with our minimum pay levels for employees across the UK exceeding the National Living Wage set by the Government. We place additional value on suppliers who provide on-site contractors to our business and pay the Living Wage.

NHBC also has an officially recognised Staff Association, which is registered with the Certification Office for Trade Unions and Employers' Associations. As at March 2017, there were 732 members of the Staff Association, representing 55% of all staff (2015/16: 724 and 57%). In 2016/17, the Staff Association consulted with NHBC on behalf of employees on a range of topics, including annual pay negotiations, disciplinary and grievance cases and organisational changes.

NHBC believes in creating a positive impact in the communities in which our employees live and work, and has a range of partnerships and initiatives in place to support that agenda. In 2016/17, our staff raised £9,277 for our chosen charity partner, Cancer Research UK, bringing our total contributions to date to £86,681.

Matched funding remains a popular scheme, with 52 colleague-chosen charities benefitting from £18,392 matched funding (2015/16: 75 charities, £17,977), and we continue to enable employees to take two volunteer days per annum for causes important to them.

NHBC also supports Habitat for Humanity though our partnership with the Hope Builders programme. This campaign aims to raise £3 million over three years to support Habitat for Humanity's global activities.

Health and safety

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

Achieving high standards of health and safety is an integral part of business performance and, as such, is a core business priority. Accordingly, through the annual targets that we set for ourselves, we strive to promote a culture of continuous improvement.

Last year, we reported that we had commissioned a third-party review of our health and safety systems, carried out by our internal auditors, Grant Thornton. The review assigned us an overall risk rating of 'Low', which aligned with our own assessment and represents a positive endorsement of our risk management arrangements.

Since then, we entered the RoSPA annual Health & Safety Awards awards and were delighted to be presented with a Silver Award, a significant achievement and something we aim to build on. With managers playing a central role in the implementation of our health and safety procedures, we carry out an annual audit to ensure procedures are being followed correctly. This year 12% of managers were audited, achieving 97% compliance.

Recognising that the building industry is one of the most dangerous environments to work in, we place considerable emphasis on ensuring that our Inspectors are equipped to work safely. With up to one-third of our workforce regularly visiting active building sites, we continue to invest in ensuring the safety of this group of employees.

Builders also have a shared responsibility for the safety of our inspectors and, from January 2016, we now require all applicant builders to demonstrate that they are able to manage their sites safely and provide our inspectors with a safe working environment. Since the introduction of this new requirement, 218 builders have been assessed, with 10 having their application rejected on health and safety grounds.

As commissioning repairs to homeowners' properties is a significant part of what we do, this year, we reviewed how we commission and manage remedial repairs, focusing on compliance with Health and Safety legislation. The result of the review confirmed our systems and processes meet regulatory obligations. Where actions were identified, they are being addressed.

While remaining focused on addressing the causes of accidents, the nature of the house-building industry in which our inspection and technical employees work, can make this difficult at times. Consequently, we recorded a total of 33 accidents in the year, two of which required notification to the HSE. While neither of the two notifiable accidents resulted in serious injury, both led to absences from work of over seven days. Acknowledging that our overall number of accidents has increased versus last year, this should be viewed against a backdrop of an increasing headcount, especially in inspection roles where employees spend the majority of their time on building sites, and concerted efforts to raise awareness amongst staff of the importance of reporting accidents of any kind.

Despite the increase in accidents this year, our three-year average accident rate has reduced by a further 13% following the 21% reduction seen during the previous year. We remain focused on maintaining this downward trend through a programme of health and safety training and monitoring activities, particularly for those employees in higher-risk roles.

The strategic report was approved by the Board on 25 July 2017.

Isabel Hudson
Executive Chairman

Governance

Moorfields - Newcastle Upon Tyne - Bellway Homes

Board

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

Isabel Hudson (Chairman)

Isabel joined the NHBC Board on 1 June 2011 as Deputy Chair, and was appointed Chair in November 2011. She was Executive Director of Prudential's UK business and Chair of Prudential International Assurance between 2002 and 2006. She established and served as Chief Executive of specialist pension buyout firm Synesis Life from 2006 to 2008.

Isabel was previously Chief Financial Officer and Executive Director of Eureko from 1999 to 2002, and International Development Director for GE Insurance Holdings Ltd from 1996 to 1999. Previous directorships include Phoenix Group Holdings, Standard Life, QBE Insurance Group, MGM Advantage and The Pensions Regulator. Isabel is currently a Non-Executive Director of BT Group plc, Senior Independent Director of RSA Group plc, and an ambassador for the UK charity Scope.

Steve Wood (Chief Executive)

Steve joined the Board in July 2017, having previously been the CEO of Paymentshield (part of Towergate Insurance) and UK Managing Director at Ecclesiastical Insurance. Prior to that, he was Managing Director at FirstAssist Group and held senior positions at RSA Group plc and Royal Insurance. Steve has a BSc (Hons) in Mathematics and is a Fellow of the Chartered Insurance Institute.

Neil Jefferson (Business Development Director)

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

Sir John Harman (Senior Independent Director)

Sir John was one of the original Board members of the Environment Agency and Chairman from 2000 to 2008, overseeing fundamental restructuring of both the Flood Risk and Environmental Protection Policy. He was leader of Kirklees Council from 1986 to 1999 and of the Yorkshire Regional Assembly from 1999 to 2000, and held senior positions in both the Association of Metropolitan Authorities and the Local Government Association. He is now Chairman of the Institute for European Environmental Policy. Sir John is Chairman of NHBC's Remuneration Committee.

Paul Bishop (Non-Executive Director)

Paul joined the Board in November 2016 and 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. He retired from KPMG in 2014 and is now a Non-Executive Director and Chair of the Audit Committee at Just Group plc and a Non-Executive Director at Police Mutual Assurance Society.

Ian Craston (Non-Executive Director)

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

Kate Davies (Non-Executive Director)

Kate joined the Board in October 2016 and has been Chief Executive of Notting Hill Housing (NHH) since 2004. London-based NHH was established in 1963, manages over 32,000 homes and builds 1,500 homes a year in the capital. Kate was previously Chief Executive of Servite Houses and Director of Housing in Brighton and Hove. She has experience in local government and the private and voluntary sectors. Kate has two degrees and qualifications in housing management (MCIH) and housing association development. She recently launched a blog about leadership and culture on the NHH news webpage, and also writes a popular style blog Fabrickated.

Ian Davis (Operations Director)

Ian is the Executive Director with responsibility for NHBC's Inspection, Building Control, IT, Engineering, External Training and Customer Services activities. He is a Chartered Civil Engineer, a member of the Institution of Civil Engineers and holds a Master's Degree in Business Administration. His early career was with engineering contractors and consulting engineers. Ian was previously NHBC's Director of Standards and Research, and Deputy Chief Executive (Operations). He rejoined NHBC in 2006 after nine years as the Director General of the Federation of Master Builders.

Paul Hosking (Chief Financial Officer)

Paul joined NHBC on 22 November 2016 and was appointed as a Director on 23 January 2017. He is qualified Chartered Accountant with over 20 years' experience working in the UK insurance market. He began his career and trained with Coopers & Lybrand, a founder firm of PricewaterhouseCoopers, before spending six years working for QBE Insurance UK in a variety of operational and group finance management roles. The following 13 years were at W.R. Berkley Insurance, where Paul also took on a number of wider executive management and operational responsibilities in addition to his Chief Financial Officer role, and helped W.R. Berkley establish insurance businesses in five European countries and Australia.

Jean Park (Non-Executive Director)

A Chartered Accountant, Jean joined the Board in December 2012 and is Chairman of NHBC's Board Risk Committee. She is a risk professional with many years of experience in risk management, compliance and audit. Previously, she held the role of Chief Risk Officer at Phoenix Group and, prior to that, Risk Management Director at Scottish Widows Group. She was also on the executive committees of both of those organisations. Currently, Jean is a Non-Executive Director of Murray Income Trust plc and Admiral Group plc.

Sir Muir Russell (Non-Executive Director)

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

Dame Helena Shovelton (Non-Executive Director)

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

Stephen Stone (Non-Executive Director)

Stephen joined the Board in October 2016. He was appointed to the Crest Nicholson Board in January 1999, becoming COO in 2002 and CEO in 2005. Stephen is currently a Non-Executive Director of the HBF and a member of the Construction Leadership Council. He is a qualified Chartered Architect, with over 30 years' experience in various positions in the construction and house-building industry. Stephen leads Crest Nicholson's Executive Management team and is the Director responsible for health and safety, representing the Group when engaging with investors, the Government, the HBF and the industry.

Council

NHBC Council members (as at 1 July 2017)

Mr P Andrew
Home Builders Federation

Mr A Baddeley-Chappell
Council of Mortgage Lenders

Mr S Baseley
Home Builders Federation

Mr D Birkbeck
Design for Homes

Mr Paul Bishop
NHBC Board appointment

Mr M Black
Home Builders Federation

Ms J Bourne
Council of Mortgage Lenders

Mr A Burd
British Standards Institution

Mr P Caplehorn
Construction Products Association

Mr C Carr
Federation of Master Builders

Sir John Carter
Honorary Vice-President

Mr D Cochrane
NHBC Scottish Committee

Mr A Collett
British Property Federation

Mr I W L Cook
Council of Mortgage Lenders

Ms C Compton-James
The Housing Forum

Mr I Craston
NHBC Board appointment

Mr A Cripps
Royal Institution of Chartered Surveyors

Mrs K Davies
NHBC Board appointment

Mr I Davis
NHBC Board appointment

Mrs S Dean
Warranty Holder

Ms N Elphicke
The Housing & Finance Institute

Mr C Fudge
Construction Products Association

The Rt Hon. the Lord Fowler
Honorary Vice-President

Mr R Hardy
Building Research Establishment

Sir John Harman
NHBC Board appointment

Mr M Hayward
National Association of Estate Agents

Mr K Hinton
Warranty Holder

Mr J Hood
NHBC Northern Ireland Committee

Mr B Hook
Royal Institution of Chartered Surveyors

Mr P Hosking
NHBC Board appointment

Mrs I Hudson
NHBC Board appointment

Ms G Hunter
NHBC Scottish Committee

Mr K Ireland
Federation of Master Builders

Mr N Jefferson
NHBC Board appointment

Ms A Kaye
Institute of Consumer Affairs

Mr P Knox
House Builders Association

Mr L Livermore
Trading Standards Institute

Mrs A J Lowe
Warranty Holder

Mr D McCallum
Chartered Institute of Housing

Mr G McDonald
Home Builders Federation

Mr D McLeod
NHBC Scottish Committee

Mr J Owen
Joseph Rowntree Trust

Ms J Park
NHBC Board appointment

Sir Michael Pickard
Honorary Vice-President

Mr C Richardson
Warranty Holder

Mr A Rowan
NHBC Northern Ireland Committee

Mr J Roycroft
Institution of Civil Engineers

Sir Muir Russell
NHBC Board appointment / Scottish Committee

Mr P Sellwood
Energy Saving Trust

Professor T Sharpe
NHBC Scottish Committee

Dame Helena Shovelton
NHBC Board appointment

Mr J Slater
Home Builders Federation

Mr Stephen Stone
NHBC Board appointment

Ms S Ullmayer
Royal Institute of British Architects

Mr A von Bradsky
Royal Institute of British Architects

Mr P Williams
National Housing Federation

Ms S Williams
The Law Society

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. It does not have shares, nor pay dividends. While this form of incorporation is unusual for a company that operates on a commercial footing, it is not all that uncommon. Network Rail, BUPA and Nominet UK are all well-known companies that are limited by guarantee.

NHBC's governing body comprises individual members, known collectively as the NHBC Council. Council members are drawn from a range of organisations that are interested in, or associated with, the house-building industry and, in some cases, they serve on NHBC committees.

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

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

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

- Alterations to NHBC's Constitution
- The appointment of the auditors
- The appointment of Council members.

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

In order to avoid a situation where a significant number of Council members would complete their second term and leave the Council at the same time, agreement was reached with some longer-serving members (those appointed before the 2009 reorganisation) for them to step down at intervals before 2019. Under that arrangement, Ian Cook from the Council of Mortgage lenders will step down this year having served as a member since 2005. This approach has reduced the number of Council members who will complete 10 years' service in 2019 to seven, with a further 19 completing five years' service at that time.

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

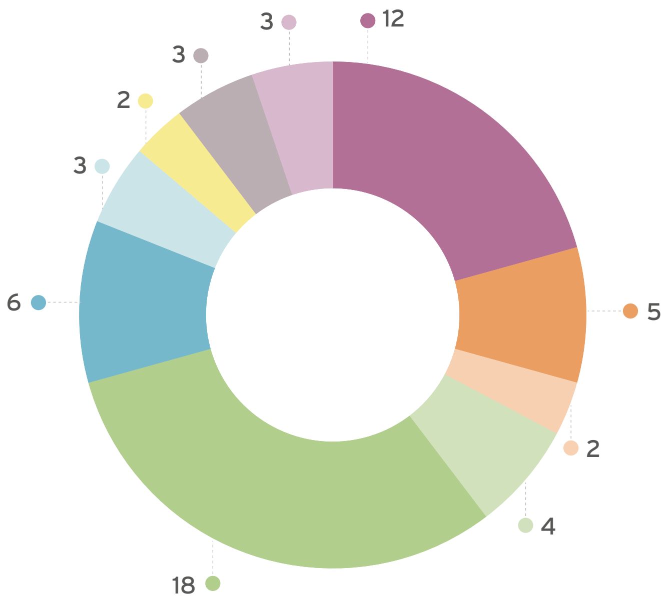
Ann Kaye	Institute of Consumer Affairs
Philip Sellwood	Energy Saving Trust
Kelvin Hinton	A Buildmark warranty holder

At the AGM in 2016, the following individuals were appointed as new Council members:

Peter Andrew	Home Builders Federation
Gail Hunter	NHBC Scottish Committee
Caroline Compton-James	The Housing Forum
Paul Knox	The House Builders Association
Natalie Elphicke	The Housing & Finance Institute

The Chairman has continued to host dinners with senior representatives from organisations that nominate members to the Council. At these events, matters of general interest and concern to the industry are discussed. The topic for the last dinner was the provision of affordable housing across the UK, and NHBC was grateful that Sir Edward Lister, Chairman of the Homes and Communities Agency, and Nick Walkley, the CEO, were able to be present.

NHBC Council representation by category (58 members)



NHBC Council representation by category (58 members)	
NHBC Board	12
Scottish Committee	5
Northern Ireland Committee	2
Warranty holders	4
Industry bodies	18
Professions	6
Financial services	3
Consumer	2
Vice-Presidents	3
Other	3

NHBC Board

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

Board composition

Biographical information on each of the directors can be found on pages 36 to 39.

Balance of Executive and Non-Executive Directors

Chairman	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	5
Other Non-Executives	2
Executives	4

Length of service – Non-Executive Directors

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

Gender split of Board of Directors

Male	9
Female	4

Board gender diversity vs. FTSE 100 and FTSE 250

	FTSE 100 (June 2016)	**FTSE 250** (June 2016)	**NHBC** (June 2017)
Female Directors	26.0%	20.4%	30.7%
Female Executive Directors	9.7%	5.6%	0.0%
Female Non-Executive Directors	31.4%	25.7%	44.4%

[15]

Recent changes to the Board of directors are reported in the section on the activities of the Nominations Committee on pages 56 to 57.

Given NHBC's role within the house-building sector and the regulations that apply to its insurance business, we believe that the size of the Board is appropriate and ensures that there is a proper level of governance and oversight of the company at board level. Currently, the Board comprises 13 Directors, slightly higher than in the recent past because the recruitment of the new Non-Executives was completed ahead of planned retirements. By the beginning of 2018, there will be 11 Directors and the ambition, in the medium term, is to settle on a Board of no more than 10.

All Directors make a declaration of their interests to the Board, which includes any actual or potential conflicts they may have. Those issues are considered by the Board and recorded in a register held for that purpose and kept under review, as appropriate. Should the Board discuss any matter which relates to a declared interest, or which could give rise to a conflict, NHBC's approach is that the director concerned may take part in some or all of the discussion of the issue, but will leave the meeting when a decision is to be made.

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

Over the course of the past year, the Board has received briefing on the Senior Insurance Managers Regime and the Solvency II Pillar 3 reporting requirements. The new members of the Board, both Executive and Non-Executive, have received induction briefings, and individual Directors have also attended a range of conferences, seminars and other events arranged through consultants and other organisations with whom we are associated.

At the end of March 2018, the Company Secretary, Jon Hastings, is due to retire. His successor, Anne Durkin, joined NHBC towards the end of 2016. Anne is a Senior Lawyer and Company Secretary who has broad corporate and commercial experience within regulated businesses. As part of the succession plan, it is intended that Anne will be appointed as Joint Company Secretary later this year.

[15] Source – Cranfield University The Female FTSE Board report 2016

Board attendance

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

Board member	Meetings to attend	Meetings attended	Attendance %	Note
Isabel Hudson	6	6	100	
Sir John Harman	6	6	100	
Stewart Baseley	6	5	83	Left 31/03/2017
Paul Bishop	3	2	67	Appointed 01/11/2016
Ian Craston	6	6	100	
Kate Davies	4	3	75	Appointed 05/10/2016
Ian Davis	6	6	100	
Greg Fitzgerald	1	1	100	Left 31/07/2016
Paul Hosking	2	2	100	Appointed 23/01/2017
Neil Jefferson	6	6	100	
Jean Park	6	6	100	
Chris Rash	4	4	100	Left 26/12/2016
Sir Muir Russell	6	6	100	
Dame Helena Shovelton	6	6	100	
Stephen Stone	4	2	50	Appointed 05/10/2016
Mike Quinton	4	4	100	Left 31/01/2017

NHBC's committees

The Board delegates certain matters to the Audit, Board Risk, Investment, Nominations, Remuneration and Consumer committees which report to it. The roles of each of the committees are detailed in the respective committee reports on pages 48 to 58. 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 & Accounts for NHBC, together with the consolidated financial statements of the NHBC Group, for the year ended 31 March 2017. The Directors' report required under the Companies Act 2006 comprises this Directors' and corporate governance report, the Directors' remuneration report and the following disclosures in the 'Wider impact' section of the strategic report:

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

Results

The Group's results for the year are shown in the consolidated statement of comprehensive income on pages 80 and 81.

Directors

The directors at the date of this report are shown, together with their biographical details, in the Governance section on pages 36 to 39.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the company or any of its subsidiary undertakings, although some of NHBC's directors are also directors of some of NHBC's builder customers, suppliers and industry partners. NHBC trades in the normal course of business, on an arm's length basis, with all these parties, and material transactions with related parties are disclosed in Note 36 on page 128 of the financial statements.

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

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

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

Disclosure of information to the auditor

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report as part of the 'Risks to our business' section on pages 28 to 30. The directors believe that the Group is well placed to manage its business risks successfully, given its financial resources. After making appropriate enquiries, including assessing business plans, scenario analysis and latest solvency projections, the directors have a reasonable expectation that the company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

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

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

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

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

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

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

Each of the Directors listed in the strategic report confirms that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with applicable UK accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group
- The strategic report and the Directors' and corporate governance report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

Information	Section in annual report	Page
Business review	Strategic report	20
Disclosure of information to the auditor	Directors' report	46
Directors in office during the year	Board	36
Details of qualifying third-party indemnity provisions	Directors' report	46
Corporate responsibility governance	Wider impact	32
Post-balance sheet events	Notes to the financial statements	88
Future developments of the business	Chairman's report	8
Rules governing appointment of directors	Corporate governance report	42

By order of the Board.

J P Hastings

Company Secretary

25 July 2017

Audit Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %	Note
Sir Muir Russell	3	3	100	
Dame Helena Shovelton	3	3	100	
Jean Park	3	3	100	
Stewart Baseley	3	1	33	Left 31/03/2017
Paul Bishop	2	2	100	Appointed 01/11/2016

The principal role of the Committee is to:

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

The members of the Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend committee meetings: the Chairman of the Board; Chief Executive; Chief Financial Officer; Head of Finance; Company Actuary; internal auditors Grant Thornton; and external auditors Deloitte.

Activities during 2016/17

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

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

External auditors

In the 2016/17 financial year, the Committee undertook an audit tender process, further details of which were reported in last year's Annual Report & Accounts. Following a recommendation from the Committee, the Board appointed Deloitte LLP, who were then reappointed by the Council at the AGM.

Financial reporting

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

For NHBC, those areas concerned:

- Risk provisions
- Revenue recognition
- Management controls
- Taxation
- Pensions.

Reserving

The Committee discussed, challenged and approved the new reserving approach and the restatement of the 2015/16 technical provisions with both management and auditors. In addition, the Committee also reviewed the UK GAAP reserves with consulting actuaries from WTW. WTW's role is to undertake an independent assessment of NHBC's reserves and, to do that, it used NHBC's underlying data to calculate the level of reserves which it considers to be appropriate. It also performs a series of stress tests.

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

Internal audit

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

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

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

During the year, Grant Thornton completed reports on the majority of items in the plan, and they were reviewed by the Committee. The areas on which reports were prepared included:

- House-building standards
- Data subject access requests
- Cyber risk effectiveness
- Marketing, Corporate Communications, and Corporate Affairs
- Recoveries
- Technical Services.

In order to provide additional oversight, the progress of the work plan is also regularly monitored by the by the Executive Risk Committee, which focuses on any issues raised by Grant Thornton in its reports; in particular, ensuring that deadlines for clearing internal audit issues are met.

Board Risk Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %	Note
Jean Park (Chairman)	6	6	100	
Paul Bishop	3	2	67	Appointed 01/11/2016
Ian Craston	6	6	100	
Greg Fitzgerald	2	2	100	Left 31/07/2016
Stephen Stone	3	2	67	Appointed 05/10/2016

The principal role of the Committee is to:

- Review the effectiveness of NHBC's risk and control framework
- Oversee and advise the Board on the current risk exposures of the company
- Consider and advise the Board on NHBC's overall risk appetites, tolerances and strategy
- Challenge the identification, assessment and mitigation of material risks
- Monitor the key risk policy framework and approve changes to relevant policies
- Review and challenge NHBC's approach to the overall management of risk, capital and strategy through the ORSA process.

The members of the Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; Chief Finance Officer; Chief Risk Officer; Company Actuary; and internal auditors Grant Thornton.

Activities during 2016/17

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

Risk appetite

During the year, NHBC reviewed and approved a new risk appetite framework. The review included consideration of the risk philosophy, the risk appetite dimensions, and preferences and measures. The new framework will monitor the performance of the business against the established risk appetites and consider whether any action is required in order to maintain exposures within the tolerances NHBC has set.

Capital model

NHBC has decided to develop a new capital model. This model will drive NHBC's calculation of its Solvency II capital requirement and its ORSA reporting. The committee oversaw the review and decision-making process relating to this change, and will oversee the development and implementation of the new model.

Policy framework

A new company-wide policy framework is being developed. The framework will set minimum standards of control for all the major risk classes across the business. As part of that work, the Committee has approved to date 15 of the replacement policies that support the framework.

Deep dives

The Committee has undertaken a series of 'deep-dive' reviews designed to focus on specific risk areas. These have covered topics such as builder insolvency, NHBC's Building Control operation and product management.

Regulatory developments

NHBC has kept abreast of new regulatory requirements, such as the submission of the Solvency II Pillar 3 reports, the future introduction of the General Data Protection Regulations and the Insurance Distribution Directive. The Committee will continue to monitor the progress being made in assessing the impact of the new rules and how NHBC will need to adapt to ensure that we comply with all applicable regulatory requirements and obligations.

The Committee has also continued the regular monitoring of the level of NHBC's capital against the standard formula which is NHBC's current regulatory capital measure, along with the more bespoke ORSA measure, which takes into account NHBC's specific, long-tail risk profile.

Lee Wilkinson

Construction Director, Bellway Homes East Midlands

Lee has been choosing to work with NHBC for over 20 years and has a great relationship with the local NHBC inspectors. "We offer NHBC Buildmark warranty and insurance cover on all of our developments, and use NHBC's Health & Safety Services on all sites," he says. "Here at Bellway, we have an excellent partnership with NHBC and can count on their advice and product knowledge. They actively encourage improvements to build quality and all Bellway sites strive to win the coveted Pride in the Job awards."

Investment Committee report

Membership and attendance

Investment Committee Member	Meetings to attend	Meetings attended	Attendance %	Note
Ian Craston	4	4	100	
Jean Park	4	4	100	
Sir Muir Russell	4	4	100	
Paul Bishop	1	0	0	Appointed 01/11/2016

The principal role of the Committee is to:

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

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

Activities during 2016/17

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

NHBC is supported by WTW, as investment advisers. Its role is to assist NHBC with the operation and management of the portfolio, including the provision of investment advice, the development of strategy and the monitoring of NHBC's investment managers. In addition to the advice provided by WTW, NHBC has also been expanding and strengthening its in-house capabilities.

NHBC operates a prudent investment strategy based on a strong allocation to high-quality bonds. Over the year, the total return from the portfolio has been 7.7%.

The asset allocation of the portfolio is shown below:

	31 March 2017	SAA
Equity	7.7%	7.0%
Corporate bonds	37.3%	41.0%
Index-linked gilts	40.2%	42.0%
Gilts	10.2%	10.0%
Cash	4.6%	0.0%

During the year, NHBC took steps to implement a new structure for the management of its liability matching bond portfolio. This followed a review of assets relative to liabilities, which concluded that the most appropriate structure was one which allocated a proportion of the portfolio, mainly gilts, to provide cash flows that deliver a strong match to the projected insurance liabilities. The remainder, the surplus assets, comprise predominantly equities and corporate bonds that will be actively managed to generate a higher rate of return, while remaining within NHBC's stated risk appetites.

Following presentations to the Committee, it was decided to appoint Insight to manage the matching bond portfolio, and Goldman Sachs Asset Management to manage the surplus bond portfolio actively. This new approach has led to the reduction in managers from three to two and a significant annual saving in management fees. The transition to the new arrangements was completed early in 2017, ahead of time and budget.

Over the coming year, it is intended to carry out a review of the surplus assets, including the global equity portfolio. The outcome is likely to result in a less complicated structure with assets being consolidated under fewer managers.

In order to reduce the reliance on external advisers, NHBC has been building its in-house investment team, which now comprises a Head of Investments and Pensions, an Investment Manager and an Investment Analyst. The new arrangements will provide NHBC with internal expertise to develop investment strategy, oversee the management of assets and ensure regulatory compliance, as well as fit and proper asset management.

The Committee has continued to work with the trustee of the NHBC defined benefit pension scheme in order to move pension scheme assets gradually into a more low-risk portfolio. As part of that transition, the trustee has proposed a move to liability-driven investment (LDI) which seeks to match the assets held in the pension fund to its liability profile. NHBC is broadly supportive of that approach and is liaising with the trustee on the details of the proposal and the timing of its implementation.

Remuneration Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %	Note
Sir John Harman	6	6	100	
Ian Craston	6	6	100	
Kate Davies	3	2	67	Appointed 05/10/2016
Greg Fitzgerald	2	2	100	Left 31/07/2016
Stephen Stone	3	1	33	Appointed 05/10/2016

The principal role of the Committee is to:

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

All members of the Committee are non-executive directors, and their biographies are given on pages 36 to 39. The Chairman of the Board; Chief Executive; Head of HR and other members of the Management team also attend the meetings, when appropriate.

Activities during 2016/17

As part of its regular activities, the Committee agreed the annual staff salary settlement and the recommendations to be made to the Board concerning Executive Directors salaries. Further details of director's remuneration are set out on pages 62 to 75 of this report. Another of the Committee's regular tasks is to review performance against the bonus scheme scorecard for the current year and the various bonus targets and measures for the forthcoming year. Independent scrutiny of the bonus measures is provided by the Chief Risk Officer, who audits the results and comments on the measures and proposed targets from a risk standpoint. Additionally, NHBC's actuarial consultants validate the capital calculations. The maintenance of capital within an acceptable range is one of the key metrics in the bonus scheme, and the performance against that measure has been kept under review during 2016/17.

The Committee reviewed NHBC's defined contribution pension arrangements. New employees continue to be auto-enrolled into the scheme, and the triennial enrolment exercise undertaken in 2016 brought the level of membership to 97% (from 95%). The scheme has maintained its Pension Quality Mark Plus accreditation, the industry standard granted to only around 100 schemes in the UK.

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

The Committee was fully engaged with the arrangements for the payments made to Mike Quinton on his departure from NHBC and satisfied that they reflected no more than his contractual entitlements.

The Committee also considered and discussed the remuneration package offered to the new Chief Executive and was satisfied that the recommendation made to the Board was both competitive, given the market in which NHBC operates and within the range that NHBC would expect to offer for this senior role. As part of the discussion, the Committee agreed that for the future, the level of employer's pension contribution should be equalised across the company and will be limited to a maximum of 10.5% of salary.

NHBC also arranged for its executive service agreements to be reviewed and updated to meet current standards and to reflect regulatory requirements.

Andrew Startin

Director of Production, Wheeldon Brothers

Andrew has worked alongside NHBC for 18 years and uses Buildmark warranty and insurance, NHBC Building Control and Health & Safety Services. "One of the key strengths NHBC offers is the ability to work closely with Wheeldon Brothers to improve the quality we deliver. This helps us as a business but, most importantly, it helps our customers. Wheeldon Brothers won its first Pride in the Job and Health and Safety Awards in 2016 and, with the assistance of NHBC and a strong focus on quality, we are striving to win more. I am a huge advocate of the consultation visits carried out by the building inspectors, and we use these as a tool to inform and educate our subcontractors to build safely and to a very high standard."

Nominations Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %	Note
Isabel Hudson	3	3	100	
Greg Fitzgerald	1	1	100	Left 31/07/2016
Sir John Harman	3	3	100	
Jean Park	2	2	100	Appointed 23/06/2016
Sir Muir Russell	3	3	100	

The principal role of the Committee is to:

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

The current members of the Committee are all independent non-executive directors and their biographies are given on pages 36 to 39. The Chief Executive and the Head of HR also attend the meetings, when appropriate.

Activities during 2016/17

The Committee was closely involved in the process to select the new Chief Executive. The specialist search firm, The Zygos Partnership, were engaged to assist with the identification and evaluation of suitable candidates, and Paul Bishop was seconded to the Committee to assist with the selection. All of the Non-Executive Directors met the shortlisted candidates, who were also asked to complete a set of psychometric tests and to make a final presentation to the Committee. As a result of that process, which took around three to four months to complete, the Committee were pleased to recommend to the Board the appointment of Steve Wood as Chief Executive, and he took up his duties with effect from 30 June 2017.

As reported last year, Greg Fitzgerald stepped down from the Board on 31 July 2016. In addition, Stewart Baseley retired on 31 March 2017 having completed nearly 13 years as a Director of NHBC, and Sir John Harman is due to complete a nine-year term of office on 31 December 2017. In view of those departures from the Board and as part of its succession plan, NHBC has recruited three new Non-Executive Directors. They are:

- Paul Bishop
- Kate Davies
- Stephen Stone.

Their biographical details are set out on pages 36 to 39.

Last year, it was also reported that Chris Rash had resigned from his position as Commercial Director and Chief Financial Officer, and he left the business at the end of 2016. He has been succeeded by Paul Hosking as Chief Financial Officer.

In September 2017, Ian Craston completes his initial three-year term and, following the Committee's recommendation, the Board has agreed to extend his term of office for a further three years.

A review of senior executive succession planning is being undertaken, initially for the top 20 critical roles. As part of that exercise, approximately 60 employees were interviewed, and the feedback and assessment from that process has been considered by the Committee.

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

Consideration will also be given to exposing a wider range of staff to interaction with the Non-Executive directors, either at Board or committee meetings, or other events.

NHBC has engaged an external consultancy to undertake a cultural audit and to assist in shaping its values for the future. The work will help ensure that the values and behaviours we want to embrace are embedded within the organisation and that they complement our business activities. The project will be carried out over the coming year, and it is anticipated that the results will be reflected in performance from 2018 onwards.

Consumer Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %	Note
Dame Helena Shovelton (Chairman)	5	5	100	
Kate Davies	3	3	100	Appointed 05/10/2016
Stewart Baseley	5	4	80	
Sir John Harman	5	5	100	Left 31/03/2017

The principal role of the Committee is to:

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

The Committee is comprised of Non-Executive Directors and independent external advisers, including three NHBC Buildmark policyholders. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board; Chief Executive; and Business Development Director.

Ancaster House - Richmond - London Square Developments Ltd

Activities during 2016/17

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

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

It is important that NHBC fulfils the requirements of its regulators, the PRA, the FCA and the CICAIR. In order to monitor NHBC's performance for the fair treatment of its policyholders, the Committee reviews data on claims, complaints, products and inspections, and provides advice and suggestions for improvements, when appropriate.

A conduct risk report is presented to each meeting so that the Committee can review the data and assess the potential impact and risk to policyholders, and the Committee monitors actions arising from any reviews.

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

The Buildmark and Buildmark for Apartments policies provide valuable protection to new homeowners; however, it is important that the insurance cover is robust, easy to understand and consistent with the types of properties now being constructed. The Committee reviews any proposed changes to the policies and provides comment on the wording and cover of the policies. The Committee also receives regular updates on other work that NHBC is involved in that directly impacts policyholders, such as: changes to the Standards; Customer Satisfaction Surveys; the Consumer Code for Home Builders; and the Consumer Experience Strategy.

Mr Keith Howes

Homeowner, Hinckley

When homeowner Keith Howes found issues with his home, he was relieved that he was covered by NHBC Buildmark warranty and insurance. "From the first contact, their service was exemplary" he says. "They were very professional, clear and precise, and the repairs were great". Keith also highly commended the customer care that NHBC provided to him. "All of the people I saw or spoke to over the phone, including the claims investigator and the contractors, were very friendly and polite. There was no stress at all."

Directors' remuneration report

Leech Brendan site 5 - Newquay - C G Fry & Son Ltd

Directors' remuneration report

On behalf of the Board and the Remuneration Committee, I am pleased to present the directors' remuneration report for the year ended 31 March 2017.

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

The Remuneration Committee has responsibility for the annual review of remuneration design for Executive Directors and Senior Managers, and for the bonus scheme for all staff. 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.

This report has two components:

- The directors' remuneration policy report (pages 64 to 69) which details each of the components of Directors' remuneration and describes the changes to the calculation of bonuses agreed by the Board to take effect from 2016/17
- The annual implementation report (pages 70 to 75) which is audited by Deloitte LLP.

Summary of the year 2016/17

During the year, the Remuneration Committee continued to ensure that NHBC's remuneration policy linked executive pay and the company-wide bonus scheme to NHBC's strategic objectives, in particular:

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

During the year, the Committee also focused on:

- The agreement of the annual staff salary settlement and recommendations to be made to the Board concerning Executive Directors' salaries
- Setting of the company annual bonus scheme targets and the end-of-year assessment against those targets
- A review of equal pay
- A review of the Solvency II requirements on executive pay
- A review of the defined contribution pension scheme arrangements, its appropriateness and take-up by employees
- Remuneration in respect of the Chief Executive's departure
- Benchmarking Chief Executive remuneration
- Approving interim remuneration packages for the Executive Chairman and Managing Director while the search for a new Chief Executive was undertaken.

2017 remuneration outcomes

In 2016/17, NHBC continued to support and meet the demands of customers and homeowners as new house-building volumes continued to grow following the 2008 financial crisis. Particular performance highlights included:

- A strong financial performance and ensuring regulatory capital levels remained above the risk appetites
- Further rollout of standard-raising developments, such as CQRs and QIs, in addition to the standard key stage inspection process
- Further enhancing the company's approach to developing a diverse and inclusive workforce.

NHBC Group profit was higher than the previous year, primarily driven by better investment returns on its unmatched assets.

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

	2016/17	2015/16
	£'000	£'000
Neil Jefferson[1]	307	279
Ian Davis	260	263
Paul Hosking[2]	114	-
Mike Quinton[3]	366	484
Chris Rash[4]	220	299

1 Neil Jefferson was appointed Interim Managing Director on 1 February 2017.

2 Paul Hosking was appointed as a Director on 23 January 2017.

3 Mike Quinton left NHBC on 31 January 2017 and his remuneration for the year reflects the amount to which he was contractually entitled.

4 Chris Rash left NHBC on 26 December 2016.

Following Mike Quinton's resignation from his role in January 2017, the Committee was fully engaged in his post-departure payment arrangements and was satisfied that they reflected no more than his contractual entitlements. There was no bonus award for the 2016/17 financial year, and standard bonus deferral rules applied.

A new Chief Executive was appointed and commenced employment on 30 June 2017. The Committee approved his remuneration package to be aligned to that of the previous Chief Executive, with the exception of pension contributions, for which the Committee took the opportunity to align arrangements to those available to the majority of employees.

The Board is pleased to report that the company and personal performance conditions set for the year have been met; therefore, bonuses have been awarded to the Executive Directors as detailed in the body of this report. While the Committee regards the detail of individual targets and performance data to be commercially sensitive, NHBC adopts the practice of reporting the overall performance results.

Performance in 2016/17 against annual incentive plan			
	Target (%)	Stretch (%)	Actual (%)
Neil Jefferson	40.0	80.0	38.6
Ian Davis	40.0	80.0	34.6
Paul Hosking	40.0	80.0	34.6
Mike Quinton[1]	50.0	100.0	0.0
Chris Rash[2]	40.0	80.0	0.0

1 Mike Quinton left NHBC on 31 January 2017.

2 Chris Rash left NHBC on 26 December 2016.

Of the bonuses awarded to directors this year, 40% is deferred.

Sir John Harman

Chairman, Remuneration Committee

25 July 2017

Part A: Directors' remuneration policy report

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

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

Remuneration policy

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

There have not been any material changes to the overall NHBC remuneration policy this year. However, it should be noted that the March 2017 Remuneration Committee approved an alteration to the allocation of bonus attributed to company and personal performance. The element of personal performance attributed to the Chief Executive and Executive Directors' bonuses increased from 15% and 20% respectively to 40%.

Executive remuneration packages are structured so that they:

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

Table 1: 2016/17 remuneration policy	
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, designed to promote the long-term success of NHBC	Annual review, with changes taking effect from 1 July each year. The review is informed by: ■ Relevant pay data from companies of similar size and complexity ■ Levels of increase awarded to other employees of NHBC ■ Individual and business performance ■ Any changes in roles and responsibilities.
Annual bonus To incentivise the Executive Directors to achieve predetermined annual targets Deferral provides alignment with the long-term nature of the company's interests and aids retention of key personnel	Awards are based on both personal performance and achievement against a balanced scorecard. Targets are set annually and pay out determined against those targets. Discretion remains with the Committee to amend the bonus pay out, taking account of the financial out-turn, market conditions and other considerations. Annual bonuses have a deferral element (Chief Executive 50%; other Executive Directors 40%), with 40% of the remaining balance being released each year. On-target company and personal performance is 50% of the Chief Executive's salary and 40% for other Executive Directors. All Executive Director bonuses are weighted 60% on company performance and 40% on personal performance. The annual bonus is a discretionary arrangement, and the Remuneration Committee reserves discretion to adjust the outcome (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concerns. Deferred payments are subject to performance adjustment at the discretion of the Committee if it comes to light that awards were made in error or where new information is made available that would have changed the value of the original award.
Pension To provide retirement benefits and remain competitive in the market	NHBC provides a competitive employer defined contribution pension plan. All Executive Directors are eligible to participate in the Group Personal Pension Plan (GPPP). Executive Directors receive a contribution to GPPP or a personal pension, or they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits. NHBC operates salary sacrifice for pension contributions.
Benefits To provide suitable benefits as part of a competitive remuneration package, which enables us to attract and retain the right level of talent necessary to deliver the company's strategy	Benefits are provided on a market-related basis. NHBC reserves the right to deliver benefits to Executive Directors depending on their individual circumstances, which may include a company car or cash allowance, life insurance and private medical insurance.

Annual performance measures

For 2017/18, the annual bonus measures are based on the achievement of strategic objectives, and the individual's performance is then overlaid. The performance metrics and relative weighting of the individual's bonus are:

Financial	40%
Homeowner and builder customer satisfaction	20%
Reputation	10%
Raising of house-building standards	15%
People	15%

Consistency of executive remuneration throughout NHBC

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

Stating maximum amounts for the remuneration policy

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

Recruitment remuneration policy

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

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

Potential rewards under various scenarios: financial year 2017/18

£'000s	**Minimum**			**On-target**			**Maximum**		
	Fixed	Variable	**Total**	Fixed	Variable	**Total**	Fixed	Variable	**Total**
Steve Wood	333	-	**333**	333	143	**476**	333	285	**618**
Neil Jefferson	222	-	**222**	222	68	**290**	222	136	**358**
Ian Davis	212	-	**212**	212	65	**277**	212	129	**341**
Paul Hosking	263	-	**263**	263	82	**345**	263	164	**427**
Total	**1,030**	**-**	**1,030**	**1,030**	**358**	**1,388**	**1,030**	**714**	**1,744**

The remuneration table above provides an illustration of the future total remuneration for each Executive Director in respect of the remuneration opportunity for 2017/18 under different performance scenarios. Variable pay represents the bonus award opportunity that can be earned in the year. The Chief Executive and Executive Directors' bonuses are deferred by 50% and 40% respectively, to be released over future years, subject to performance.

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

In addition to the remuneration earned in the financial year, the deferred bonus scheme would also award amounts due under the scheme rules, unless the Remuneration Committee deemed it inappropriate to do so. The table below shows the cumulative balance of deferred bonuses at the end of 2016/17 and the maximum amount that could be awarded to each Executive Director at the end of financial year 2017/18.

Deferred bonus opportunity 2017/18

£'000s	Balance accrued	Release
Neil Jefferson	61	25
Ian Davis	54	22
Paul Hosking	11	5
Total	**126**	**52**

Directors' employment contracts and letters of appointment

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

<table>
<tr><th colspan="3">Table 2: Executive Directors' conditions of employment</th></tr>
<tr><td>Notice period</td><td colspan="2">Up to 12 months (by the Chief Executive and the company).</td></tr>
<tr><td>Termination payment</td><td colspan="2">Pay in lieu of notice up to a maximum of 12 months' basic salary, certain fixed benefits and pension.
By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. Contracts do not contain change of control provisions.</td></tr>
<tr><td>Remuneration and benefits</td><td colspan="2">The operation of the annual incentive scheme is at the company's discretion.</td></tr>
<tr><td>Pension</td><td colspan="2">All Executive Directors have the opportunity to participate in the defined contribution pension scheme or take cash where impacted by the lifetime or annual allowance.
The maximum amount payable for pension benefit is 20.25% of salary.</td></tr>
<tr><td>Expenses</td><td colspan="2">Reimbursement of expenses reasonably incurred in accordance with their duties.</td></tr>
<tr><td>Car allowance</td><td colspan="2">A car or equivalent cash allowance is received, as varied from time to time.</td></tr>
<tr><td>Holiday entitlement</td><td colspan="2">Range between 29 to 32 days, depending on length of service plus public holidays.</td></tr>
<tr><td>Private medical insurance</td><td colspan="2">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.</td></tr>
<tr><td>Sickness</td><td colspan="2">Varies according to length of service and rises to a maximum of 100% of basic salary for six months and 50% for six months after five years' service.</td></tr>
<tr><td>Non-compete</td><td colspan="2">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.</td></tr>
<tr><td rowspan="5">Contract dates</td><td>Director</td><td>Date current contract commenced</td></tr>
<tr><td>Steve Wood</td><td>30 June 2017</td></tr>
<tr><td>Ian Davis</td><td>1 December 2006</td></tr>
<tr><td>Neil Jefferson</td><td>1 April 2012</td></tr>
<tr><td>Paul Hosking</td><td>23 January 2017</td></tr>
</table>

Policy on payment for loss of office

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

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

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

During the year, Mike Quinton, Chief Executive, resigned from NHBC. Payments made in respect of loss of office related only to those to which he was contractually entitled.

Non-Executive Directors

Table 3 below sets out details of our remuneration policy for Non-Executive Directors which remain unchanged from prior year.

Table 3: Remuneration policy for Non-Executive Directors – overview

Element, purpose and link to strategy	Operation
Chairman and Non-Executive Director fees To attract individuals of skill and experience to serve as Chairman and as a Non-Executive Director	Non-Executive Directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairmanship of Board Committees and membership of the Risk or Audit Committees. The Chairman receives a fixed annual fee. Fees are reviewed annually, taking into account market data and trends and the scope of specific Board duties. The Chairman and other Non-Executive Directors do not participate in any incentive or performance plans or pension arrangements.

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

Table 4: Non-Executive Directors' key terms of appointment	
Provision	**Policy**
Period	Under the Articles, NHBC appoints Non-Executive Directors for an initial three-year term and this is specified in the letter of appointment. They may then be reappointed by and at the Board's discretion for any further period not exceeding three years and then for a further period, again not exceeding three years (i.e. up to nine 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 General Meeting following the date of the appointment.
Termination	By the Director or the company at their discretion without compensation, upon giving one month's written notice for other Non-Executive Directors and three months' notice for the Chairman of the company.
Fees	As set out in Table 7.
Time commitment	Each Director must be able to devote sufficient time to the role in order to discharge their responsibilities effectively.

Table 5: Non-Executive Director appointments		
Director	**Date of appointment**	**Appointment end date**
Isabel Hudson	1 June 2011	31 May 2020
Sir John Harman	1 January 2009	31 December 2017
Stewart Baseley	16 May 2004	31 March 2017
Paul Bishop	1 November 2016	31 October 2019
Ian Craston	16 September 2014	15 September 2017
Kate Davies	5 October 2016	4 October 2019
Greg Fitzgerald	1 June 2010	31 July 2016
Jean Park	10 December 2012	9 December 2018
Sir Muir Russell	15 May 2012	14 May 2018
Dame Helena Shovelton	27 September 2012	26 September 2018
Stephen Stone	5 October 2016	4 October 2019

Part B: Annual implementation report

This section of the report sets out how NHBC has implemented its remuneration policies for Directors in the course of 2016/17 and how the remuneration policy will be implemented for 2017/18. This is in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Alignment of group strategy with executive remuneration

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

Committee membership and attendance

The Committee comprises of Non-Executive Directors only. The Remuneration Committee report on page 54 details Committee member attendance during the year.

During the year, the Committee appointed and received advice on executive remuneration matters from FIT Remuneration Consultants LLP, Eversheds Sutherland LLP and Pinsent Masons.

The Committee received advice on the following:

- Chief Executive and Executive Director remuneration benchmarking
- Alignment of the remuneration policy to Solvency II, in particular, Executive bonuses
- Director service contract review
- Payment for loss of office.

Implementation of remuneration policy for 2017/18

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

Basic salaries

The Committee reviews directors' salaries at the same time as it looks at salaries for the whole employee population and awards any increases for Executive Directors in the same way as NHBC's wider employee group. In awarding any pay increases, the Committee considers affordability, input from the staff association and latest benchmarked pay data across the diverse range of role profiles in the industry.

The Executive Directors' salaries were reviewed in June 2017 and the changes are set out in Table 6 below.

Table 6: Executive Directors' salaries

Director	Position	From 1 July 2017	From 1 July 2016
Steve Wood [1]	Chief Executive	285,000	n/a
Ian Davis	Operations Director	161,595	157,500
Paul Hosking[2]	Chief Financial Officer	205,200	200,000
Neil Jefferson	Business Development Director	169,950	165,000

1 Steve Wood was appointed on 30 June 2017.

2 Paul Hosking was appointed as a Director on 23 January 2017.

Annual bonus

The maximum annual bonus opportunity and deferral rates will remain at the levels set out in the policy section of this report. The Directors' bonuses will be calculated with a weighting of 60% attributed to overall company performance and 40% on personal objectives.

While we are not disclosing the 2017/18 bonus targets due to commercial sensitivity, we will provide an explanation of 2017/18 bonus payments together with performance against measures and targets in the 2017/18 report.

Pension

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

Approach to Non-Executive Directors' fees

The regular review of Non-Executive Director's fees took place during the year. The review involved considering a number of key factors, including market pressures, time commitment and, increasingly, the regulatory environment. As a result of this, there were increases to Non-Executive Director remuneration as detailed below.

Table 7: Fees to be paid to the Chairman and Non-Executive Directors

Position	From 1 July 2017	From 1 July 2016
Chairman of the Company	138,109	134,609
Board membership	38,988	38,000
Additional fees are paid as follows:		
Senior independent director	3,160	3,160
Committee Chairman (per committee)	9,000-12,000	9,000-12,000
Committee membership fee (Audit and Risk)	3,000	3,000

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

The table below sets out the total 2016/17 and 2015/16 remuneration for each of our Executive Directors who served with the company during those years:

Table 8: Single figure of remuneration for Executive Directors

Total Executive Director remuneration								Of which	
£000s		Salary[1]	Taxable benefits[2]	Pension[3]	Annual bonus award[4]	Amount in cash	Amount deferred	Annual bonus releases	Total
Neil Jefferson	**2016/17**	**182**	**18**	**37**	**70**	**42**	**29**	**22**	**307**
	2015/16	159	17	32	71	43	28	18	279
Ian Davis	**2016/17**	**156**	**18**	**32**	**54**	**32**	**22**	**22**	**260**
	2015/16	152	17	31	63	38	25	19	263
Paul Hosking[5]	**2016/17**	**72**	**6**	**11**	**25**	**15**	**10**	**-**	**114**
	2015/16	-	-	-	-	-	-	-	-
Mike Quinton[6]	**2016/17**	**292**	**18**	**56**	**-**	**-**	**-**	**33**	**366**
	2015/16	270	18	54	142	71	71	41	484
Chris Rash[7]	**2016/17**	**177**	**13**	**30**	**-**	**-**	**-**	**-**	**220**
	2015/16	242	17	40	-	-	-	-	299

1 The salary amounts quoted above represent basic salary.

2 Taxable benefits comprise car, car allowance and private medical insurance.

3 Pension reflects either the DC contributions or cash if they are impacted by the relevant lifetime or annual allowances.

4 The annual bonus stated is that awarded in the financial year.

5 Paul Hosking joined NHBC on 22 November 2016 and was appointed as a Director on 23 January 2017.

6 Mike Quinton left NHBC on 31 January 2017.

7 Chris Rash left NHBC on 26 December 2016.

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

Annual bonus

Table 9 below sets out NHBC's performance against the 2016/17 company bonus targets.

Table 9: NHBC performance against KPIs

	Weighting (% of total opportunity)		
	Target	Stretch	Actual
Financial (profit, capital and expenditure)	40.0	80.0	34.2
Consumer	20.0	40.0	15.5
Raising of house-building standards	20.0	40.0	28.0
Reputation	10.0	20.0	1.0
Employee engagement	10.0	20.0	4.5
Total	**100.0**	**200.0**	**83.2**

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

Table 10: Performance in 2016/17 against annual incentive plan

	Target (%)	Stretch (%)	Actual (%)
Neil Jefferson	40.0	80.0	38.6
Ian Davis	40.0	80.0	34.6
Paul Hosking	40.0	80.0	34.6
Mike Quinton[1]	50.0	100.0	0.0
Chris Rash[2]	40.0	80.0	0.0

1 Mike Quinton left NHBC on 31 January 2017.

2 Chris Rash left NHBC on 26 December 2016.

Pension

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

Single total figure of remuneration for 2016/17 – Non-Executive Directors (audited information)

Table 11: Non-Executive Directors' remuneration

	2016/17	2015/16
	£000	£000
Isabel Hudson[1]	149	128
Sir John Harman (Senior Independent Director)	49	47
Stewart Baseley[2]	49	44
Paul Bishop[3]	18	-
Ian Craston	49	44
Kate Davies[4]	20	-
Greg Fitzgerald[5]	12	36
Jean Park	51	44
Sir Muir Russell	56	52
Dame Helena Shovelton	49	44
Stephen Stone[6]	19	-
Total	**521**	**439**

1 Isabel Hudson was appointed Executive Chairman on 1 February 2017 and her remuneration was increased to reflect the interim role.

2 Stuart Baseley retired from the Board on 31 March 2017.

3 Paul Bishop was appointed to the Board on 1 November 2016.

4 Kate Davies was appointed to the Board on 5 October 2016.

5 Greg Fitzgerald retired from the Board on 31 July 2016.

6 Stephen Stone was appointed to the Board on 5 October 2016.

External board appointments

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

During the year, Mike Quinton held one external non-executive directorship, being appointed to the British Board of Agrément on 25 November 2013. NHBC invoiced £6,430 during the year in respect of his appointment, and monies received are donated to the company's chosen charity.

Consideration by the directors of matters relating to directors' remuneration

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

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

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

Approval by the Board

The Directors' remuneration report was reviewed and approved by the Board on 25 July 2017.

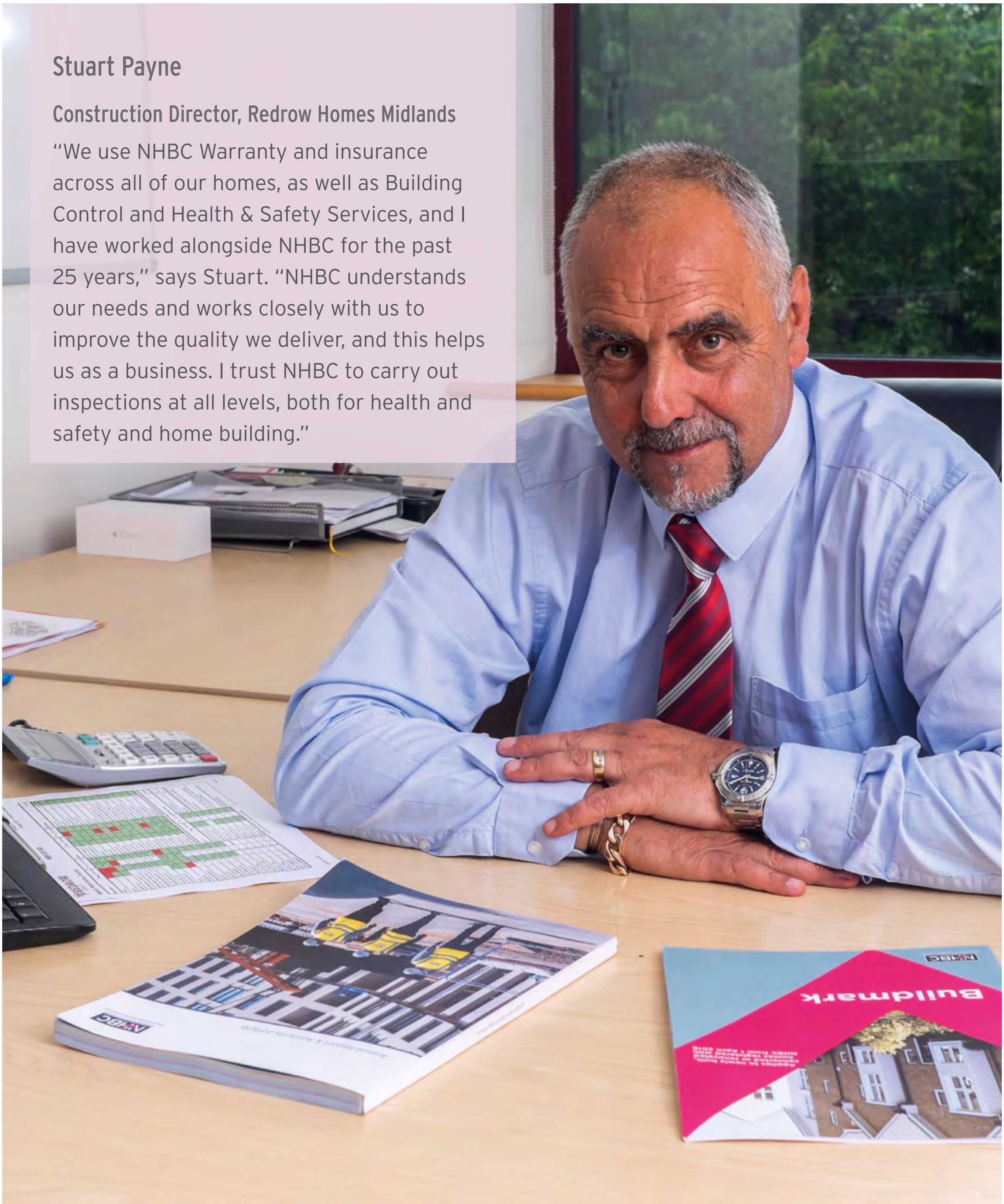
Sir John Harman

Chairman, Remuneration Committee

Stuart Payne

Construction Director, Redrow Homes Midlands

"We use NHBC Warranty and insurance across all of our homes, as well as Building Control and Health & Safety Services, and I have worked alongside NHBC for the past 25 years," says Stuart. "NHBC understands our needs and works closely with us to improve the quality we deliver, and this helps us as a business. I trust NHBC to carry out inspections at all levels, both for health and safety and home building."



UK GAAP financial statements

UK GAAP financial statements

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

We have audited the financial statements of National House-Building Council for the year ended 31 March 2017, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of cash flows and the related Notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and FRS 103 ‘Insurance Contracts’.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, the financial statements:

- Give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 31 March 2017, and of the Group’s profit for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, 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
- 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors’ Report.

Matters on which we are required to report by exception

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

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

Mark McQueen (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
London, UK
25 July 2017

Consolidated statement of comprehensive income for the year ended 31 March 2017

Consolidated statement of comprehensive income

Technical account – general business

		2017		2016 restated	
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	8	89,053		83,387	
Outward reinsurance premiums		(10,586)		(11,757)	
Net premiums written		78,467		71,630	
Change in the gross provision for unearned premiums		(26,750)		49,062	
Change in the provision for unearned premiums, reinsurers' share		5,944		4,211	
Change in the net provision for unearned premiums		(20,806)		53,273	
Earned premiums, net of reinsurance			57,661		124,903
Allocated investment return transferred from the non-technical account			107,288		6,884
Claims incurred, net of reinsurance					
Claims paid					
– Gross amount		(84,812)		(89,233)	
– Reinsurers' share		3		76	
Net claims paid		(84,809)		(89,157)	
Change in provision for claims					
– Gross amount		(4,756)		(342)	
– Reinsurers' share		-		-	
Change in the net provision for claims		(4,756)		(342)	
Claims incurred, net of reinsurance			(89,565)		(89,499)
Changes in unexpired risk reserve, net of reinsurance			7,272		(18,519)
Net operating expenses	11		(2,930)		(4,404)
Balance on the technical account for general business			79,726		19,365

Consolidated statement of comprehensive income

Non-technical account

		2017		2016 restated	
	Note	£'000	£'000	£'000	£'000
Balance on the general business technical account			79,726		19,365
Investment income	12		55,010		54,692
Unrealised gains on investments		65,692		6,010	
Unrealised losses on investments		(10,566)		(51,030)	
Net unrealised gains / (losses) on investments	12		55,126		(45,020)
Investment expenses and charges			(2,848)		(2,788)
Allocated investment return transferred to the general business technical account			(107,288)		(6,884)
Other income	8		73,664		69,382
Other charges			(86,199)		(80,510)
Profit on ordinary activities before taxation			67,191		8,237
Tax on profit on ordinary activities	16		(2,044)		14,617
Profit for the financial year			65,147		22,854
Other comprehensive income					
Remeasurements of net defined benefit obligation	28	(16,817)		4,145	
Movement on deferred tax relating to pension deficit	20	(6,665)		(829)	
Revaluation of tangible assets		21		93	
Other comprehensive income for the year, net of tax			(23,461)		3,409
Total comprehensive income for the year			41,686		26,263

Consolidated statement of financial position as at 31 March 2017

Consolidated statement of financial position

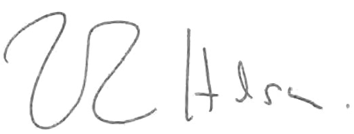
Assets	Note	2017 £'000	2016 restated £'000
Investments			
Land and buildings	17	9,776	10,122
Other financial investments		1,562,096	1,450,686
		1,571,872	1,460,808
Reinsurers' share of technical provisions			
Provision for unearned premiums		42,864	36,920
Claims outstanding		-	-
Unexpired risk reserve		34,006	38,623
	23	76,870	75,543
Debtors			
Debtors arising out of direct insurance operations	19	5,020	4,963
Deferred tax	20	10	8,201
Other debtors	19	6,426	30,140
		11,456	43,304
Other assets			
Tangible assets	21	1,847	9,452
Cash at bank and in hand		33,345	19,848
		35,192	29,300
Prepayments and accrued income			
Accrued interest and rent		14,120	15,574
Deferred acquisition costs	22	11,582	10,746
Other prepayments and accrued income		8,305	2,382
		34,007	28,702
Total assets		1,729,397	1,637,657

Consolidated statement of financial position as at 31 March 2017

Liabilities	Note	2017 £'000	2016 restated £'000
Reserves			
Revaluation reserve		**247**	226
Retained earnings		**464,938**	423,273
		465,185	423,499
Technical provisions			
Provision for unearned premiums		**409,526**	382,776
Claims outstanding		**275,610**	270,854
Unexpired risk reserve		**414,851**	426,740
	23	**1,099,987**	1,080,370
Creditors			
Creditors arising out of direct insurance operations	27	**34,877**	32,367
Other creditors	27	**10,765**	10,238
		45,642	42,605
Accruals and deferred income		**70,684**	57,858
Defined benefit pension plan deficit	28	**47,899**	33,325
Total liabilities		**1,729,397**	1,637,657

The notes on pages 88 to 130 are an integral part of these financial statements.

The financial statements on pages 80 to 130 were authorised for issue by the Board of directors on 25 July 2017 and were signed on its behalf.



I Hudson
(Chairman)

P Hosking
(Chief Financial Officer)

Company registration 00320784

Company statement of financial position as at 31 March 2017

Company statement of financial position

		2017	2016 restated
Assets	Note	£'000	£'000
Investments			
Land and buildings	17	9,776	10,122
Investments in group undertakings and participating interests	18	9,090	5,045
Other financial investments		1,562,096	1,450,686
		1,580,962	1,465,853
Reinsurers' share of technical provisions			
Provision for unearned premiums		42,864	36,920
Claims outstanding		-	-
Unexpired risk reserve		34,006	38,623
	23	76,870	75,543
Debtors			
Debtors arising out of direct insurance operations	19	5,020	4,963
Deferred tax	20	-	8,196
Other debtors	19	4,435	29,372
		9,455	42,531
Other assets			
Tangible assets	21	1,847	9,452
Cash at bank and in hand		33,180	19,531
		35,027	28,983
Prepayments and accrued income			
Accrued interest and rent		14,120	15,574
Deferred acquisition costs	22	11,582	10,746
Other prepayments and accrued income		7,924	1,592
		33,626	27,912
Total assets		1,735,940	1,640,822

Company statement of financial position as at 31 March 2017

Liabilities	Note	2017 £'000	2016 restated £'000
Reserves			
Revaluation reserve		**9,237**	5,171
Retained earnings		**455,948**	418,395
		465,185	423,566
Technical provisions			
Provision for unearned premiums		**409,526**	382,776
Claims outstanding		**275,610**	270,854
Unexpired risk reserve		**414,851**	426,740
	23	**1,099,987**	1,080,370
Creditors			
Creditors arising out of direct insurance operations	27	**34,877**	32,367
Other creditors	27	**23,306**	18,155
		58,183	50,522
Accruals and deferred income		**64,686**	53,039
Defined benefit pension plan deficit	28	**47,899**	33,325
Total liabilities		**1,735,940**	1,640,822

The notes on pages 88 to 130 are an integral part of these financial statements.

The financial statements on pages 80 to 130 were authorised for issue by the Board of Directors on 25 July 2017 and were signed on its behalf.

I Hudson
(Chairman)

P Hosking
(Chief Financial Officer)

Company registration 00320784

Consolidated statement of changes in equity
Company statement of changes in equity for the year ended 31 March 2017

Consolidated statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2015 (restated)	397,103	133	397,236
Profit as restated	22,854	-	22,854
Other comprehensive income for the year	3,316	93	3,409
Total comprehensive income for the year	26,170	93	26,263
Balance as at 31 March 2016 (restated)	**423,273**	**226**	**423,499**
Profit for the year	65,147	-	65,147
Other comprehensive income for the year	(23,482)	21	(23,461)
Total comprehensive income for the year	41,665	21	41,686
Balance as at 31 March 2017	**464,938**	**247**	**465,185**

Company statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2015 (restated)	393,136	4,907	398,043
Profit as restated	21,943	-	21,943
Other comprehensive income for the year	3,316	264	3,580
Total comprehensive income for the year	25,259	264	25,523
Balance as at 31 March 2016 (restated)	**418,395**	**5,171**	**423,566**
Profit for the year	61,035	-	61,035
Other comprehensive income for the year	(23,482)	4,066	(19,416)
Total comprehensive income for the year	37,553	4,066	41,619
Balance as at 31 March 2017	**455,948**	**9,237**	**465,185**

Consolidated statement of cash flows

		2017	2016 restated
	Note	£'000	£'000
Net cash from operating activities before interest received	31	**(28,780)**	(71,173)
Interest received		**37,631**	40,017
Taxation received / (paid)		**22,936**	(10,973)
Net cash generated from operating activities		**31,787**	(42,129)
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(747)**	(3,877)
Receipts from disposal of tangible fixed assets		**7,113**	1,198
Payments to acquire land and buildings	17	**(5)**	(799)
Receipts from disposal of land and buildings		**400**	-
		6,761	(3,478)
Net increase / (decrease) in cash and cash equivalents		**38,548**	(45,607)
Capital gains on cash and cash equivalents		**102**	51
Cash and cash equivalents at the beginning of the year		**66,902**	112,458
Cash and cash equivalents at end of year		**105,552**	66,902
Cash and cash equivalents consists of:			
Cash at bank and in hand		**33,345**	19,848
Deposits with credit institutions (included in other financial investments)		**325**	6,214
Treasury bills and liquidity funds (included in other financial investments)		**71,882**	40,840
Cash and cash equivalents		**105,552**	66,902

Notes to the financial statements for the year ended 31 March 2017

Notes to the financial statements

1 Company information

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

2 Basis of preparation

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

- Applicable United Kingdom accounting standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), and Financial Reporting Standard 103, Insurance Contracts' (FRS 103)
- 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 2017 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 pounds sterling, which is the Group's presentation and functional currency, and rounded to the nearest £'000.

NHBC, the parent company, has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. NHBC's profit for the year was £61.0 million (2016 restated: £21.9 million).

3 Going concern

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

4 Critical accounting judgements and estimation uncertainty

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

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

Financial statement area	Critical judgements	Related accounting policies and notes
Insurance and reinsurance contracts	Determination of builder behaviour assumptions Determination of exceptional losses assumptions Determination of cost inflation assumption Determination of discount rates	Note 5.9 – Insurance contracts Note 23 – Insurance contract liabilities and associated reinsurance
Revenue recognition on inspection and building control services	Determination of the stage of completion	Note 5.3 – Other income Note 8 – Turnover
Defined benefit pension scheme	Determination of assumptions for mortality, discount rate, inflation and the rate of increase in pensions	Note 5.10.3 – Defined benefit pension scheme Note 28.1 – Defined benefit pension scheme

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

Financial statement area	Related accounting policies and notes
Insurance and reinsurance contracts	Note 5.9 – Insurance contracts Note 23 – Insurance contract liabilities and associated reinsurance
Fair value of land and buildings	Note 5.5 – Investment in land and buildings Note 17 – Land and buildings
Deferred income taxes	Note 5.4 – Taxation Note 20 – Deferred tax asset
Defined benefit pension scheme	Note 5.10.3 – Defined benefit pension scheme Note 28.1 – Defined benefit pension scheme

Notes to the financial statements for the year ended 31 March 2017

5 Summary of significant accounting policies

5.1 Basis of consolidation

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

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

5.2 Investment return

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

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

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

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

5.3 Other income

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

Upon registering a plot with NHBC, the builder customer benefits from the use of NHBC's key stage inspection service. The Inspection service establishes a quality control process designed to ensure construction meets NHBC standards. NHBC's subsidiary "NHBC Building Control Services Limited" provides building control services, which is an optional service offered by the Group that 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 with the total estimated contract costs.

5.4 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

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

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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

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

5.5 Investment in land and buildings

Land and buildings predominantly occupied by the Group for its own purposes are valued at open market valuation. Full valuations are made by professionally qualified external valuers at least every three years. In the intervening years, these valuations are updated by the directors with the assistance of independent professional advice, as required. Fair value is primarily derived using comparable recent market transactions on arm's length terms.[16]

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

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

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

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

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

5.6 Investment in subsidiaries

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

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

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

5.7 Other financial investments

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

[16]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."

Notes to the financial statements for the year ended 31 March 2017

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 - three to five years
- Motor vehicles - four years
- Fixtures and fittings - five years

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

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

5.9 Insurance contracts

5.9.1 Classification

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

5.9.2 Premiums written

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

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

5.9.3 Unearned premiums

The Group's insurance policies provide protection to policyholders for periods of 10 years or more. Premiums are earned over the financial years of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk, the Group makes reference to past claims experience. Unearned premiums represent the proportion of premiums written in the year and in previous years that relate to unexpired terms of policies in force at the consolidated statement of financial position date.

5.9.4 Deferred acquisition costs

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

5.9.5 Claims incurred

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

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

5.9.6 Unexpired risk reserve

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

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

The provisions are inevitably subject to inherent uncertainties because of the range of factors which could give rise to potentially significant claims over the 10-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; and 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.

Notes to the financial statements for the year ended 31 March 2017

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 pounds sterling and that have terms approximating to the estimated period of the future payments (discount rate).

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

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

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

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

5.11 Impairment of non-financial assets

At each consolidated statement of financial position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared 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 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 pounds sterling, given that all of the Group's activity is conducted in the United Kingdom. Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

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

5.15 Related-party transactions

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

5.16 Financial instruments

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

Notes to the financial statements for the year ended 31 March 2017

5.16.1 Financial assets

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

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

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

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

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

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

5.16.2 Financial liabilities

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

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

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

The Group does not currently hold derivatives.

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

5.17 Statement of cash flows

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

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

5.17.1 Offsetting

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

6 Risk management

The current principal risks of the Group, its inherent risks and how they are mitigated are outlined on pages 28 to 30.

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 are described below:

- Insurance
- Market
- Credit
- Liquidity
- Pension.

6.1 Insurance / underwriting risk

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

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

6.1.1 Pricing risk

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

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

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

6.1.2 Claims risk

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

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

6.1.3 Reserving risk

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

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

Notes to the financial statements for the year ended 31 March 2017

6.1.4 Concentration risk

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

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

6.1.5 Use of reinsurance

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

6.2 Market risk

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

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

6.2.1 Interest rate risk

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

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

The fair value of the Group's portfolio of fixed income securities is inversely correlated to changes in market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa, as set out in the sensitivity analysis on page 99.

6.2.2 Inflation risk

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

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

6.2.3 Equity price risk

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

The Group continues to limit its equity exposure in line with the Group's risk preferences. At 31 March 2017, 5.6% (2016: 6.6%) of the overall managed portfolio was invested in equities. The Group invests in equities through pooled funds. The Group's equity investments are globally diversified and include both developed and emerging markets equities. The Group's strategy ensures that the equity portfolio is sufficiently diversified, thereby reducing exposure to individual equities.

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

Sensitivities to changes in equity prices are presented on page 99.

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 limited to a small number of Group-occupied office buildings and temporary ownership of property through NHBC's claims process. Further information on the valuation approach is included in Note 5.5.

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

If the value of property falls, so will the fair value of the portfolio. Sensitivity to changes in property prices is presented on page 99.

6.2.5 Currency risk

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

The Group's exposure to currency risk is through its equity investments. Some equity funds are denominated in US dollars and, at 31 March 2017, were 3.2%[17] (2016: 2.4%) of the overall managed portfolio. The remaining equity funds are denominated in pounds sterling. The underlying investments of the equity funds are denominated in a wide selection of currencies. At 31 March 2017, overseas equities represented a majority (2016: majority) of equity investments. The Group makes use of a currency hedging fund to partly mitigate currency risk exposure within equity funds of its managed investments.

6.2.6 Derivative risk

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

6.2.7 Sensitivity analysis

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

	Increase / (decrease) in statement of comprehensive income		**Increase / (decrease) in other comprehensive income**		**Increase / (decrease) in total reserves**	
	2017	2016 restated	**2017**	2016 restated	**2017**	2016 restated
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(13,169)**	(13,476)	**-**	-	**(13,169)**	(13,476)
Impact on equities of a 15% fall in equity markets	**(18,229)**	(14,277)	**-**	-	**(18,229)**	(14,277)
Decrease of property markets of 15%	**(1,372)**	(1,426)	**(94)**	(92)	**(1,466)**	(1,518)

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.

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

Notes to the financial statements for the year ended 31 March 2017

6.3 Credit risk

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

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

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

Areas particularly exposed to credit risk are:

- Investments
- Group's customers
- Reinsurance assets.

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

6.3.1 Investments

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

6.3.2 Group's customers

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

6.3.3 Reinsurance assets

The Group is exposed to credit and concentrations of risk with individual reinsurers. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. Group policy dictates that reinsurers have a financial strength rating of at least A-.[18] The policy requires consideration of the degree of diversification the reinsurers provide as a group and concentration of risk with individual counterparties.

6.3.4 Credit enhancements

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

The Group holds certain security in relation to specific sections of its insurance product. At 31 March 2017, the Group held £30 million (2016: £29 million) of builder customer deposits. The Group has additional credit enhancements with respect to major projects which include, but are not limited to, land charges.

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

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 2017. The total is of financial assets that are neither past due or impaired.

	AAA	AA	A	BBB	<BB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	22,271	846,035	164,149	335,906	-	-	1,368,361
Equity and other variable yield securities	-	-	-	-	-	121,528	121,528
Reinsurers' share of insurance contract liabilities	-	60,413	16,457	-	-	-	76,870
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	-	-	-	-	-	10,700	10,700
Other debtors	-	-	-	-	-	746	746
Deferred tax asset	-	-	-	-	-	10	10
Cash and cash equivalents	-	-	-	-	-	105,552	105,552
	22,271	**906,448**	**180,606**	**335,906**	**-**	**238,536**	**1,683,767**

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 March 2016. The total is of financial assets that are neither past due nor impaired.

	AAA	AA	A	BBB	<BB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	23,768	785,725	255,205	239,543	1,571	2,640	1,308,452
Equity and other variable yield securities	-	-	-	-	-	95,180	95,180
Reinsurers' share of insurance contract liabilities	-	59,370	16,173	-	-	-	75,543
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	-	-	-	-	-	10,669	10,669
Other debtors	-	-	-	-	-	1,753	1,753
Deferred tax asset	-	-	-	-	-	8,201	8,201
Cash and cash equivalents	-	1,068	-	-	-	65,834	66,902
	23,768	**846,163**	**271,378**	**239,543**	**1,571**	**184,277**	**1,566,700**

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

Notes to the financial statements for the year ended 31 March 2017

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

	Neither past due or impaired	0 to 90 days	91 to 180 days	181 days to 360 days	361 days and over	Provision for impairment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	1,368,361	-	-	-	-	-	1,368,361
Equity and other variable yield securities	121,528	-	-	-	-	-	121,528
Reinsurers' share of insurance contract liabilities	76,870	-	-	-	-	-	76,870
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	7,112	2,366	990	276	204	(248)	10,700
Other debtors	746	-	-	-	-	-	746
Deferred tax asset	10	-	-	-	-	-	10
Cash and cash equivalents	105,552	-	-	-	-	-	105,552
	1,680,179	**2,366**	**990**	**276**	**204**	**(248)**	**1,683,767**

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

	Neither past due or impaired	0 to 90 days	91 to 180 days	181 days to 360 days	361 days and over	Provision for impairment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	1,308,452	-	-	-	-	-	1,308,452
Equity and other variable yield securities	95,180	-	-	-	-	-	95,180
Reinsurers' share of insurance contract liabilities	75,543	-	-	-	-	-	75,543
Reinsurance debtors	-	-	-	-	-	-	-
Insurance and non-insurance trade debtors	5,491	3,668	654	749	277	(170)	10,669
Other debtors	1,753	-	-	-	-	-	1,753
Deferred tax asset	8,201	-	-	-	-	-	8,201
Cash and cash equivalents	66,902	-	-	-	-	-	66,902
	1,561,522	**3,668**	**654**	**749**	**277**	**(170)**	**1,566,700**

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:

	2017	2016 restated
	£'000	£'000
At 1 April	170	216
Impairment loss recognised	(18)	(35)
Bad debt provision recognised / (released) in year	96	(11)
At 31 March	248	170

6.4 Liquidity risk

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

6.4.1 Maturity analysis of financial liabilities

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

As at 31 March 2017:

	Less than one year	One to two years	Two to five years	Five to 10 years	Greater than 10 years	Total	Carrying value in the statement of financial position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	(83,318)	(53,594)	(85,773)	(46,226)	(6,699)	(275,610)	(275,610)
Trade creditors	(5,504)	-	-	-	-	(5,504)	(5,504)
Other creditors	(40,138)	-	-	-	-	(40,138)	(40,138)
	(128,960)	(53,594)	(85,773)	(46,226)	(6,699)	(321,252)	(321,252)

As at 31 March 2016 (restated):

	Less than one year	One to two years	Two to five years	Five to 10 years	Greater than 10 years	Total	Carrying value in the statement of financial position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	(81,880)	(52,669)	(84,293)	(45,429)	(6,583)	(270,854)	(270,854)
Trade creditors	(4,434)	-	-	-	-	(4,434)	(4,434)
Other creditors	(38,171)	-	-	-	-	(38,171)	(38,171)
	(124,485)	(52,669)	(84,293)	(45,429)	(6,583)	(313,459)	(313,459)

Notes to the financial statements for the year ended 31 March 2017

6.5 Pension risk

Pension risk is the risk that the NHBC defined benefit pension scheme (the Scheme) deficit significantly widens, thus impairing the Group's net assets and solvency position.

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

6.5.1 Investments

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

- 45.0% (£89.4) in investments that share characteristics with the long-term liabilities of the Scheme, comprising corporate bonds (15.0%) index-linked gilts (15.0%) and fixed-interest gilts (15.0%)
- 55.0% (£110.8 million) in return-seeking assets, comprising equities (15.0%), diversified growth funds (25.0%), multi-asset credit (7.5%) and absolute return bonds (7.5%).

6.5.1.1 Investments – currency risk

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

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

6.5.1.2 Investments – interest rate and inflation risk

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

6.5.1.3 Investments – credit risk

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

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

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

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

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

6.5.2 Liabilities

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

6.5.2.1 Liabilities – discount rate

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

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

6.5.2.2 Liabilities – inflation risk

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

6.5.2.3 Liabilities – longevity risk

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

6.5.2.4 Liabilities – sensitivity analysis

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

	2017	2016 restated
Decrease discount rate by 0.25% (2016: 0.25%)	£13m	£11m
Increase inflation rate by 0.25% (2016: 0.25%)	£9m	£7m
Increase life expectancy by one year (2016: one year)	£9m	£7m

7 Capital management

The Group is headed by a company limited by guarantee, has no external shareholders, and 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 equity.

The Group's objectives in managing its capital are:

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

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 to the Board Risk Committee (BRC).

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

Since 1 January 2016, the Group 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 Group calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations. The Group aims to maintain a capital level in excess of 140% (the solvency ratio) of these minimum requirements. At 31 March 2017, under Solvency II, the solvency ratio was 154% (2016 181%).

The Group is compliant with PRA and Solvency II requirements.

Notes to the financial statements for the year ended 31 March 2017

8 Turnover

Group activities consist of two main segments within the United Kingdom: 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.

	2017		2016 restated	
	£'000	£'000	£'000	£'000
Insurance activities		89,053		83,387
Other activities				
Inspection services	59,220		55,299	
Registration fee income	6,230		6,487	
Other services supporting the industry	8,214		7,596	
Other activities		73,664		69,382
		162,717		152,769

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

Turnover, comprising 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.

	2017		2016 restated	
	Credit and suretyship	Miscellaneous	Credit and suretyship	Miscellaneous
	£'000	£'000	£'000	£'000
Gross premiums written	15,867	73,186	9,822	73,565
Gross premiums earned	19,768	42,535	49,018	83,431
Gross claims incurred	2,280	87,288	2,648	86,927
Gross operating expenses	654	3,250	417	3,987
Reinsurance balance	(4,444)	(4,812)	(1,183)	25,243

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

The 2016 gross premiums earned reflected a change in earnings pattern methodology.

10 Movements in prior year's claims provisions

	2017	2016 restated
	£'000	£'000
Net claims provisions brought forward at 1 April	270,854	270,512
Net payments during the year in respect of these provisions	(77,999)	(79,247)
Net claims provisions carried forward in respect of claims provided at 1 April	(229,802)	(225,836)
Movement in prior year's provision	(36,947)	(34,571)

11 Net operating expenses

	2017	2016 restated
	£'000	£'000
Acquisition costs	1,794	1,816
(Increase) / decrease in deferred acquisition costs provision	(836)	19
Administrative expenses	2,946	2,569
Reinsurance commission receivable	(974)	-
	2,930	4,404

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

	2017	2016 restated
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	53	65
Income from financial assets at fair value through consolidated statement of comprehensive income	37,025	40,293
Income from land and buildings	5	20
Net gains on the disposal of land and buildings	122	-
Net gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	17,805	14,314
	55,010	54,692
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	(2,848)	(2,788)
Net unrealised gains / (losses) on financial assets at fair value through consolidated statement of comprehensive income	55,126	(45,020)
	107,288	6,884

Net interest expense on the defined benefit pension scheme of £1,157,000 (2016: £1,251,000) is recognised in other charges within the consolidated statement of comprehensive income.

Notes to the financial statements for the year ended 31 March 2017

Interest payable of £52,000 (2016: £1,000) in respect of taxation is recognised in other charges within the consolidated statement of comprehensive income.

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

13 Employee information

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

	2017	2016 restated
Insurance activities	257	238
Other direct activities	840	784
Administration	202	184
	1,299	1,206

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

Staff costs for the above persons were:

	2017	2016 restated
	£'000	£'000
Wages and salaries	54,842	49,158
Social security costs	6,470	5,677
Pension costs	7,264	6,421
	68,576	61,256

14 Director emoluments

	2017	2016 restated
	£'000	£'000
Aggregate emoluments	1,757	1,661
Aggregate compensation for loss of office	-	-
Company pension contributions to defined contribution schemes	31	103
	1,788	1,764

Retirement benefits are accruing to three directors (2016: three) under the Group's defined contribution pension scheme and no directors (2016: 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 previously include remuneration in respect of the highest-paid director as follows:

	2017	2016 restated
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	**366**	484

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

The Directors' remuneration report on page 62 provides further detailed disclosures of Directors' remuneration. The audited elements of the Directors' remuneration report are on pages 70 to 75.

15 Profit on ordinary activities before taxation

Profit on ordinary activities is stated after:

15.1 Auditor remuneration

	2017	2016 restated
	£'000	£'000
Fees payable to the company's auditors for the audit of the company and Group financial statements	**204**	140
Non-audit services and fees payable to the company's auditors and its subsidiary companies for other services:		
– The audit of the company's subsidiaries, pursuant to legislation	**9**	9
– Other services pursuant to legislation, including the audit of the regulatory return	**114**	14
– Other services not included above.	**50**	-
	377	163

15.2 Impairment of trade receivables

	2017	2016 restated
	£'000	£'000
Impairment of trade receivables	**96**	(11)

15.3 Operating lease charges

	2017	2016 restated
	£'000	£'000
Land and buildings	**331**	353
Motor vehicles	**1,605**	8
	1,936	361

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

Notes to the financial statements for the year ended 31 March 2017

16 Income tax

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

	2017		2016 restated	
	£'000	£'000	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	501		-	
Adjustment in respect to prior periods	17		(13,992)	
Total current tax		518		(13,992)
Deferred tax				
Origination and reversal of timing differences	240		(633)	
Adjustment in respect of prior periods, including impact of change in tax rate	469		8	
De-recognition of deferred tax asset	817		-	
Total deferred tax		1,526		(625)
		2,044		(14,617)

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

	2017	2016 restated
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	(2,859)	829
Impact of change in tax rate	1,000	-
De-recognition of deferred tax asset	8,524	-
	6,665	829

16.3 Reconciliation of tax charge

Tax assessed for the period is lower (2016: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2017 of 20% (2016: 20%). The differences are explained below:

	2017	2016 restated
	£'000	£'000
Profit on ordinary activities before tax	67,191	8,237
Profit multiplied by the standard rate of tax in the UK of 20% (2016: 20%)	13,438	1,647
Effects of:		
- Income not chargeable for tax purposes	(4,087)	(2,547)
- Expenses not deductible for tax purposes and permanent differences	106	77
- Adjustments in respect of prior years	17	(13,992)
- Effect of change in accounting policy	(8,674)	190
- Adjustment to deferred tax charge in respect of previous periods	427	8
- Impairment of deferred tax asset.	817	-
	2,044	(14,617)

During the year, the business has been able to utilise brought-forward unrecognised tax losses that arose from the adoption of the new reserving approach.

The losses are disclosed in Note 39 and reduced retained earnings as at 31 March 2016 by £43,370,000 (2015: £42,420,000). The corresponding additional deferred tax asset, at 20%, as at 31 March 2016 of £8,674,000 (2015: £8,484,000) has not been recognised in the consolidated statement of financial position, for similar reasons as set out in Note 20 that a deferred tax asset has not been recognised as at 31 March 2017.

These are disclosed as 'effect of change in accounting policy'.

The 2016 adjustment in respect of prior years is as a result of a reclaim from HM Revenue & Customs in respect of indexation relief claimed on index-linked gilts for the previous four tax years.

16.4 Tax rate changes

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

17 Land and buildings

Land and buildings have been revalued as at 31 March 2017.

	The Group and the company
	£'000
Cost or valuation	
At 1 April	10,134
Additions	5
Revaluation	4
Disposals	(280)
At 31 March	**9,863**
Depreciation	
At 1 April	12
Charge	166
Revaluation	(89)
Disposals	(2)
At 31 March	**87**
Net book value at 31 March 2017	**9,776**
Net book value at 31 March 2016	10,122

Notes to the financial statements for the year ended 31 March 2017

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	
	2017	2016 restated
	£'000	£'000
Freehold	8,490	8,770
Long leasehold	625	616
Short-leasehold improvements	661	736
	9,776	10,122

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

	The Group and the company	
	2017	2016 restated
	£'000	£'000
Cost	14,111	14,848
Accumulated depreciation based on cost	(1,490)	(1,625)
	12,621	13,223

The Group's reversal of previous impairment losses taken to the consolidated statement of comprehensive income amounted to £72,000 (2016: £177,000).

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. The 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

	2017	2016 restated
	£'000	£'000
At 1 April	5,045	4,874
Revaluation	4,045	171
At 31 March	9,090	5,045
Analysed as:		
NHBC Building Control Services Limited	8,664	4,775
PRC Homes Limited	270	270
NHBC Pension Trustee Limited	-	-
NHBC Services Limited	156	-
	9,090	5,045

The company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2017, 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 Regulations purposes in England and Wales
- PRC Homes Limited – issued and fully paid 100 £1 ordinary shares. PRC Homes Limited did not trade during the year
- NHBC Pension Trustee Limited – issued and fully paid 100 £1 ordinary shares. NHBC Pension Trustee Limited arranges the provision of pensions to many of NHBC's present and past employees. NHBC Pension Trustee Limited did not trade during the year
- NHBC Services Limited – issued and fully paid 50,000 £1 ordinary shares. NHBC Services Limited provides services to the house-building and related industries.

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

19 Debtors

	Group		Company	
	2017	2016 restated	**2017**	2016 restated
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**5,020**	4,963	**5,020**	4,963
Debtors arising out of reinsurance operations	**-**	-	**-**	-
	5,020	4,963	**5,020**	4,963
Other debtors				
Trade debtors	**5,680**	5,706	**3,597**	3,919
Amount owed by subsidiary undertakings	**-**	-	**92**	1,019
Corporation tax	**-**	22,681	**-**	22,681
Other debtors	**746**	1,753	**746**	1,753
	6,426	30,140	**4,435**	29,372

Trade debtors includes £nil (2016: £nil) falling due after more than one year.

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

Trade debtors are stated after provisions for impairment of £248,000 (2016: £170,000).

20 Deferred tax asset

	Group	Company
	£'000	£'000
At 1 April	8,201	8,196
Charge to the consolidated statement of comprehensive income	(1,526)	(1,531)
Charge to other comprehensive income	(6,665)	(6,665)
At 31 March	**10**	**-**

Notes to the financial statements for the year ended 31 March 2017

Deferred tax asset consists of the following deferred tax assets

	Group		Company	
	2017	2016 restated	**2017**	2016 restated
	£'000	£'000	**£'000**	£'000
Excess of depreciation over capital allowances	**10**	598	-	593
Trade losses	-	886	-	886
Deferred tax related to defined benefit pension plan liability	-	6,665	-	6,665
Other timing differences	-	52	-	52
	10	8,201	-	8,196

It is expected that the Group and company's deferred tax asset will decrease by £2,000 in the next financial year. A reduction is expected due to the availability of capital allowances over depreciation.

The annual review of the recoverability of the deferred tax asset has indicated that it is not probable that the company will generate the taxable profits required to support the ongoing recognition of the asset. Deferred tax assets of £9,341,000 as at 31 March 2017 have not been recognised for both the Group and the company.

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 17% (2016: £183,000 at 20%).

21 Tangible assets

The Group and the company	Motor vehicles	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 April	13,095	4,120	4,915	22,130
Additions	-	590	157	747
Disposals	(13,095)	-	-	(13,095)
At 31 March	**-**	**4,710**	**5,072**	**9,782**
Depreciation				
At 1 April	5,563	3,224	3,891	12,678
Charge	1,521	474	346	2,341
Disposals	(7,084)	-	-	(7,084)
At 31 March	**-**	**3,698**	**4,237**	**7,935**
Net book value at 31 March 2017	**-**	**1,012**	**835**	**1,847**
Net book value at 31 March 2016	7,532	896	1,024	9,452

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:

	2017	2016 restated
	£'000	£'000
At 1 April	**10,746**	10,765
Acquisition costs deferred during the year	**1,794**	1,816
Amortisation	**(958)**	(1,835)
At 31 March	**11,582**	10,746

23 Insurance contract liabilities and associated reinsurance

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

The following is a summary of the insurance contract provisions and related reinsurance assets as at 31 March 2017.

	2017			2016 restated		
	Gross provisions	**Reinsurance assets**	**Net**	Gross provisions	Reinsurance assets	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Provision for unearned premiums	**(409,526)**	**42,864**	**(366,662)**	(382,776)	36,920	(345,856)
Claims outstanding	**(275,610)**	**-**	**(275,610)**	(270,854)	-	(270,854)
Unexpired risk reserve	**(414,851)**	**34,006**	**(380,845)**	(426,740)	38,623	(388,117)
	(1,099,987)	**76,870**	**(1,023,117)**	(1,080,370)	75,543	(1,004,827)

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 and 5: these sections of policy periods for Buildmark begin after the end of Section 2 for a period of eight years, i.e. years three to 10 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.

Notes to the financial statements for the year ended 31 March 2017

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 now 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 covers.

To convert from the 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 approved by management and is informed using a scenario approach.

The switch to basing the UK GAAP calculations on the Solvency II methodology represents a significant change versus the 31 March 2016 approach and, as a result, the comparative figures have been restated under the new methodology.

24.3 Risk concentration

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

24.4 Assumptions

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

- Exceptional losses
- Builder behaviour
- Social inflation
- Economic conditions – cost inflation (HRCI)
- Economic conditions – housing market
- 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 £100 million. 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 and components are used. Larger sites pose a greater risk due to the likely degree of commonality in the build process. Likewise, sites built by the same builder, particularly if they are quite close geographically, are more likely to exhibit common defects.

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

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

24.4.2 Builder behaviour

For defects reported in years three to 10 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
- Builders who stay loyal to NHBC are incentivised by NHBC's pricing mechanism to keep claim levels low.

Amongst other considerations, comparisons of claim frequencies between current and previously registered[19] builders are used to determine builder behaviour assumptions.

24.4.3 Social inflation

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

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

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

24.4.4 Cost inflation

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

- General materials and labour cost inflation
- More specific issues, such as more stringent Building Regulations and health and safety requirements.

The HRCI is considered the best available approximation due to its specific reference to construction cost inflation.

To derive the long-term HRCI inflation assumption, the approach of estimating a long-term average future HRCI / RPI differential and combining it with the RPI assumptions has been taken.

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 Discount rate

Future investment returns are allowed for when assessing the present value of future liabilities. Consistent with the requirements for Solvency II, the GAAP liabilities are discounted using the 31 March 2017 EIOPA yield curve.

[19] Previously registered builders are builders not currently on NHBC's Register.

Notes to the financial statements for the year ended 31 March 2017

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:

	2017	2016 restated
	£'000	£'000
At 1 April	382,776	431,838
Increase / (decrease) in provision	26,750	(49,062)
At 31 March	409,526	382,776

24.6 Movements in the gross provision for claims

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

	2017	2016 restated
	£'000	£'000
At 1 April	270,854	270,512
Increase in provision	4,756	342
At 31 March	275,610	270,854

24.7 Movements in the gross unexpired risk reserve

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

	2017	2016 restated
	£'000	£'000
At 1 April	426,740	376,692
(Decrease) / increase in provision	(11,889)	50,048
At 31 March	414,851	426,740

24.8 Loss development table[20]

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

	Development year																
£'000 (Financial reporting year)	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15+	Claims incurred in the financial year ended 31 March 2017
Prior	258,844	28,682	24,751	25,557	29,307	25,342	25,809	28,762	16,267	16,005	13,801	11,652	6,976	5,971	4,744	4,008	4,008
2003	60	1,047	1,763	2,143	3,163	5,839	6,150	5,931	6,224	6,180	10,585	5,422	5,181	4,606	961		961
2004	26	527	2,909	2,762	4,116	4,637	6,641	6,621	6,708	9,098	10,312	10,486	6,880	2,345			2,345
2005	49	829	1,585	3,346	5,684	5,204	5,904	4,733	6,818	11,474	9,200	10,055	6,346				6,346
2006	18	513	1,498	3,563	6,992	5,621	6,647	7,661	7,433	9,402	8,487	7,119					7,119
2007	12	475	2,392	6,142	5,491	8,230	10,425	6,334	11,549	11,600	12,740						12,740
2008	37	947	3,887	3,916	7,686	5,592	9,786	12,957	12,603	16,523							16,523
2009	44	1,196	2,023	2,454	5,905	4,588	6,033	5,896	2,918								2,918
2010	97	633	2,607	2,461	4,231	3,051	3,487	3,236									3,236
2011	34	1,059	3,845	2,902	3,784	4,565	173										173
2012	35	846	2,243	2,056	2,635	2,047											2,047
2013	301	650	1,436	2,052	2,319												2,319
2014	89	742	1,551	2,700													2,700
2015	13	324	2,320														2,320
2016	-	278															278
2017	21																21
																	66,054
Claims handling and other charge																	23,514
																	89,568

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.

[20] NHBC has not included full claims development tables as required by FRS 103 Paragraph 4.8. Following the review of NHBC's reserving methodology and consequent changes in the accounting policy as described in Note 39 to these financial statements, it has not been practicable to prepare a set of gross and net developments that would fully meet the disclosure requirements of UK GAAP.

Notes to the financial statements for the year ended 31 March 2017

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:

	2017	2016 restated
	£'000	£'000
At 1 April	36,920	32,709
Increase in provision	5,944	4,211
At 31 March	42,864	36,920

25.3 Movements in reinsurers' share of the unexpired risk reserve

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

	2017	2016 restated
	£'000	£'000
At 1 April	38,623	7,094
(Decrease) / increase in provision	(4,617)	31,529
At 31 March	34,006	38,623

25.4 Effect of changes in assumptions and estimates during the year

The effect of changes in assumptions on reinsurance assets follows that of the effect of changes in assumptions on insurance liabilities.

26 Insurance contract sensitivity analysis

This note shows how the consolidated statement of comprehensive income would have been affected if changes in certain risk variables that were possible at the end of the reporting period had occurred.

The following table provides an indication of some of the single factor changes adopted by the Group and the corresponding adverse impact on the insurance liabilities. An increase in the liability is equal to the charge in the consolidated statement of comprehensive income.

	2017			2016 restated	
Assumption	Sensitivity tested	Gross liability	Net liability	Gross liability	Net liability
	%	£m	£m	£m	£m
Increase in claim frequency	+2.0	12.1	11.1	11.9	10.9
Long-term HRCI inflation	+1.0	51.1	44.4	50.2	43.7
Discount rate	-0.25	13.8	12.8	13.6	12.6

The sensitivity analysis has been derived using the internal reserving model to inform the Group's decision-making process and also for identification and management of risks within the business.

The above analyses are based on a change in an assumption, while holding all other assumptions constant and assuming 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.

The method and assumptions used in the modelling of sensitivity analysis were updated during the year.

27 Creditors

	Group		Company	
	2017 £'000	2016 restated £'000	2017 £'000	2016 restated £'000
Creditors arising out of direct insurance operations				
Trade creditors	4,847	3,681	4,847	3,681
Builder deposits	30,030	28,686	30,030	28,686
	34,877	32,367	34,877	32,367
Other creditors				
Trade creditors	657	753	657	753
Amount due to subsidiary undertakings	-	-	14,128	8,960
Corporation tax	501	-	-	-
Other taxation and social security	5,970	5,092	4,912	4,148
Other creditors	3,637	4,393	3,609	4,294
	10,765	10,238	23,306	18,155

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

Builder deposits are deposited with the Group as surety by builder customers.

28 Post-employment benefits

The Group operates two pension schemes for its employees: a defined benefit pension scheme (the Scheme) and a defined contribution pension scheme. The amount recognised in the consolidated statement of financial position is as follows:

	Note	2017 £'000	2016 restated £'000
Defined benefit pension scheme	28.1		
Total market value of Scheme assets		203,415	182,844
Present value of Scheme liabilities		(251,314)	(216,169)
Deficit in the Scheme		(47,899)	(33,325)

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

	Note	2017 £'000	2016 restated £'000
Defined benefit pension scheme	28.1		
Current service cost		-	-
Net interest expense		1,157	1,251
		1,157	1,251
Defined contribution pension scheme	28.2	7,264	6,421
		8,421	7,672

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

	Note	2017 £'000	2016 restated £'000
Defined benefit pension scheme	28.1		
Experience gains / (losses) on assets		**18,790**	(10,999)
Actuarial (losses) / gains on liabilities		**(37,326)**	10,221
Experience gains on liabilities		**1,719**	4,923
		(16,817)	4,145

28.1 Defined benefit pension scheme

For certain employees, the Group operates a UK defined benefit pension scheme whereby benefits are determined with reference to an employee's salary. This defined benefit scheme exposes the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk. The pension expense charged to the statement of comprehensive income makes no allowance for actuarial gains and losses during the year. Actuarial gains and losses are instead recognised in other comprehensive income in the year that they occur.

The funding requirements of the Scheme are based on a separate actuarial valuation for funding purposes for which the assumptions differ from the assumptions disclosed below. The last valuation was performed on 31 March 2014. In order to value the defined benefit obligation at 31 March 2017, the results of the valuation were updated in an approximate manner by a qualified actuary. Contributions to the Scheme are assessed in accordance with the advice of qualified actuaries. The Group made contributions into the Scheme of £3,400,000 over the year ended 31 March 2017.

The measurement of the defined benefit obligation includes no allowance for any future discretionary increases to pensions in payment.

28.1.1 Principal financial assumptions

A comprehensive actuarial valuation of the Scheme, using the projected unit credit method, was carried out at 31 March 2014 by Towers Watson, the independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2017 %	2016 restated %
Consumer price inflation	**2.25**	2.10
Retail price inflation	**3.25**	3.10
Rate of increases (normally indexed)	**3.25**	3.15
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**2.65**	3.50

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

The assumptions adopted for mortality are in line with SAPS S2PA Light base tables, with an allowance for future improvements in line with the CMI (2016) 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 2017 are 23 (2016: 23) years and 26 (2016: 26) years respectively.

Following the changes to The Occupational Pensions (Revaluation) Order 2010, the indexation applied to accrued benefits during service for employed members and deferred benefits before retirement age is based on the Consumer Prices Index rather than the Retail Prices Index.

28.1.2 Reconciliation of Scheme assets and liabilities

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 April 2016	182,844	(216,169)	(33,325)
Interest income / (expense)	6,272	(7,429)	(1,157)
Benefits paid	(7,891)	7,891	-
Actuarial loss on change of assumptions	-	(37,326)	(37,326)
Experience gain on liabilities	-	2,147	2,147
Change in value of money purchase transfer funds	428	(428)	-
Company contributions	3,400	-	3,400
Return on plan assets, excluding interest income	18,362	-	18,362
At 31 March 2017	**203,415**	**(251,314)**	**(47,899)**

28.1.3 Total cost recognised as an expense

	2017	2016 restated
	£'000	£'000
Current service cost	**-**	-
Interest expense	**7,429**	7,403
	7,429	7,403

28.1.4 Fair value of Scheme assets

	2017	2016 restated
	£'000	£'000
Equity instruments	**35,753**	61,917
Government debt instruments	**-**	22,806
Corporate debt instruments	**89,430**	48,897
Diversified growth funds	**60,132**	42,637
Diversified credit fund	**14,917**	-
Other and cash and cash equivalents	**3,183**	6,587
	203,415	182,844

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

	2017	2016 restated
	£'000	£'000
Interest income	**6,272**	6,152
Return on plan assets less interest income	**18,362**	(10,690)
	24,634	(4,538)

The return on plan assets is recognised in other comprehensive income in the consolidated statement of comprehensive income.

Notes to the financial statements for the year ended 31 March 2017

28.1.6 Deficit funding contributions

In order to meet the funding deficit, the Group has agreed a funding plan with the pension trustee. Further scheduled contributions are set out in the table below:

	£'000
1 April 2018	3,400
1 April 2019	3,400
1 April 2020	3,400
1 April 2021	3,400
	13,600

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:

	2017	2016 restated
	£'000	£'000
Current period contributions	7,264	6,421

At 31 March 2017, contributions of £591,000 (2016: £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
- Market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

Valuation methods that the Group employees 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
- 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 the prior year.

29.2 Fair value hierarchy analysis

The table below presents the analysis of the Group's assets and liabilities that have been measured at fair value by the fair value hierarchy. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		2017			2016 restated		
		Level 1	Level 3	Total	Level 1	Level 3	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Assets at fair value							
Land and buildings	17	-	9,776	9,776	-	10,122	10,122
Other financial investments		1,562,096	-	1,562,096	1,450,686	-	1,450,686
		1,562,096	9,776	1,571,872	1,450,686	10,122	1,460,808
Liabilities at fair value		-	-	-	-	-	-

The table below presents the analysis of the company's assets and liabilities that have been measured at fair value by the fair value hierarchy. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		2017			2016 restated		
		Level 1	Level 3	Total	Level 1	Level 3	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Assets at fair value							
Land and buildings	17	-	9,776	9,776	-	10,122	10,122
Investments in group undertakings and participating interests	18	-	9,090	9,090	-	5,045	5,045
Other financial investments		1,562,096	-	1,562,096	1,450,686	-	1,450,686
		1,562,096	18,866	1,580,962	1,450,686	15,167	1,465,853
Liabilities at fair value		-	-	-	-	-	-

At the year-end, the Group and the company did not recognise Level 2 assets and liabilities as valued under the fair value hierarchy basis. Details of the Group and the company's insurance and reinsurance contracts are disclosed on page 115. Details of the Group and the company's defined benefit pension scheme are disclosed on page 122.

Notes to the financial statements for the year ended 31 March 2017

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 115.

		Group		Company	
		2017	2016 restated	**2017**	2016 restated
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value[21]					
Index-linked gilts		**631,472**	634,969	**631,472**	634,969
Fixed-interest gilts		**162,321**	102,040	**162,321**	102,040
Corporate bonds		**574,568**	571,443	**574,568**	571,443
UK treasury bills and short-term deposits		**71,882**	40,840	**71,882**	40,840
Shares and other variable yield		**121,528**	95,180	**121,528**	95,180
		1,561,771	1,444,472	**1,561,771**	1,444,472
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**10,700**	10,669	**8,617**	8,882
Other debtors	19	**746**	1,753	**746**	1,753
Amounts owed by group undertakings	19	**-**	-	**92**	1,019
Deposits with credit institutions		**325**	6,214	**325**	6,214
Cash at bank		**33,345**	19,848	**33,180**	19,531
		45,116	38,484	**42,960**	37,399
Financial assets that are equity instruments measured at cost less impairment		**-**	-	**-**	-
Financial liabilities measured at fair value		**-**	-	**-**	-
Financial liabilities measured at amortised cost					
Trade creditors	27	**5,504**	4,434	**5,504**	4,434
Other creditors	27	**40,138**	38,171	**38,551**	37,128
Amounts owed to group undertakings	27	**-**	-	**14,128**	8,960
		45,642	42,605	**58,183**	50,522

The Group and the company have no direct exposure to derivative financial instruments (2016: none).

[21] All debt securities and shares held are listed on a recognised investment exchange and are actively traded. The quoted price is the bid price. Stated before accrued interest.

31 Note to the statement of cash flows

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.

	2017	2016 restated
	£'000	£'000
Profit for the financial year	65,147	22,854
Tax on profit on ordinary activities	2,044	(14,617)
Profit on ordinary activities before tax	67,191	8,237
Depreciation and decrease in value of assets	2,507	4,117
Increase in revaluation reserve	(72)	(177)
Increase / (decrease) in technical provisions	18,290	(34,412)
Realised gains on investments and fixed assets	(19,019)	(14,734)
(Increase) / decrease in unrealised gains on investments	(55,126)	45,019
(Increase) / decrease in insurance debtors	(57)	630
Decrease / (increase) in other debtors	1,033	(42)
Increase in prepayments and accrued income	(6,759)	(214)
Increase in insurance creditors	2,510	88
Increase in other creditors	26	1,875
Increase in accruals and deferred income	12,826	3,472
Accrued interest on current tax account	(95)	(168)
Differences on recognition of defined benefit pension scheme	(2,243)	(2,149)
Interest received	(37,078)	(39,759)
Payments to acquire investments	(1,094,232)	(875,625)
Receipts from disposal of investments	1,081,518	832,669
Net cash flow from operating activities before interest received	(28,780)	(71,173)

32 Provisions for other liabilities

The Group and the company have no provisions for other liabilities that have not been disclosed elsewhere in the financial statements.

Provision for deferred taxation is disclosed in Note 20 – Deferred tax asset.

33 Contingent liabilities

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

34 Events after the end of the reporting period

The Group has no direct exposure to the 14 June 2017 Grenfell Tower fire. It is possible that there will be wider political, regulatory and legal outcomes which will emerge following the Government's investigations into the fire. Given the significant uncertainty of the scope and ultimate conclusion of these investigations, it is not possible to determine what the ramifications, if any, of this event are for claims against the Group's insurance coverage and building control business.

Notes to the financial statements for the year ended 31 March 2017

35 Capital and other commitments

At 31 March 2017, 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:

	2017	2016 restated
	£'000	£'000
Within one year	2,399	179
Between one and five years	3,373	2,191
Over five years	181	586
	5,953	2,956

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

36 Related-party transactions

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

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

Ian Davis, Executive Director of NHBC, is a Director of The Housing Forum Limited (The Housing Forum). Mehban Chowdery is an employee of NHBC and a Director of The Housing Forum. NHBC is also engaged in the provision of various administrative services to The Housing Forum. The table below presents transactions with The Housing Forum.

	2017	2016 restated
	£'000	£'000
Sales to The Housing Forum	41	70
Purchases from The Housing Forum	11	12
Amount due to NHBC	27	72

Neil Jefferson, Executive Director of NHBC, is also the Chief Executive and a Director of Zero Carbon Hub Limited (ZCH). NHBC is also engaged in provision of various administrative services to ZCH. The table below presents transactions with ZCH.

	2017	2016 restated
	£'000	£'000
Purchases from ZCH	-	400
Amount due to NHBC	8	414

NHBC has entered into a joint venture with MD Insurance Services Limited under the name of Consumer Code for Home Builders Limited (CCHB). CCHB operates a code providing protection and rights to purchasers of new homes. Ian Davis, Executive Director of NHBC, is a Director of CCHB. The table below presents transactions with CCHB.

	2017	2016 restated
	£'000	£'000
Contributions to CCHB	131	235
Amount due from NHBC	-	-

See Note 14 and the directors' remuneration report on page 62 for disclosure of the directors' remuneration.

37 Reserves

For the Group and the company, retained earnings include all current and prior period retained profits and losses.

The Group revaluation reserve comprises movements arising on the revaluation of land and buildings. The company revaluation reserve comprises movements arising on the revaluation of land and buildings and the investment in subsidiary companies.

38 Liability of members

At 31 March 2017, there were 57 (2016: 55) 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.

39 Changes in accounting policy

Following a review of the Group accounting policies after the introduction of Solvency II, FRS 102, and FRS 103 the Group has decided to change certain accounting policies in order to improve transparency and consistency within its financial reporting.

39.1 Transfer of claims property purchases to claims outstanding

The Group occasionally purchases properties in order to fulfil obligations under insurance contracts. A small number of properties are held by the Group at the reporting date and will be disposed of in the future to partially recover the costs of the original transaction.

To bring into line with Solvency II, under the new accounting policy the Consolidated Statement of Financial Position treatment of these properties is to include the asset within Claims Outstanding as a future recovery. Previously the properties were held within Other Debtors. Within the Consolidated Statement of Comprehensive Income the cost of the property will be recognised in Claims Paid at the point of purchase, previously the cost was account for through Technical Provisions. The new treatment better reflects the economic substance of the transaction.

The impact on the financial statements is as follows:

	2017	2016	Aggregate of prior periods
	£'000	£'000	£'000
Consolidated statement of comprehensive income – technical account			
Claims paid	**498**	883	(9,218)
Change in provision for claims	**170**	(663)	8,017
Claims incurred	**668**	220	(1,201)
Changes in unexpired risk reserve	**(668)**	(220)	1,201
Consolidated statement of financial position, and company statement of financial position			
Other debtors	**(7,837)**	(8,335)	(9,218)
Technical provisions – claims outstanding	**7,524**	7,354	8,017
Technical provisions – unexpired risk reserve	**313**	981	1,201

Notes to the financial statements for the year ended 31 March 2017

39.2 Technical provision methodology

The UK GAAP insurance contract liability calculations are now 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 covers.

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.

The switch to basing the UK GAAP calculations on the Solvency II methodology represents a significant change versus the 31 March 2016 approach and, as a result, the comparative figures have been restated under the new methodology.

The aggregate impact on the financial statements is as follows:

	2016	Aggregate of prior periods
	£'000	£'000
Consolidated statement of comprehensive income – technical account		
Change in provision for claims – gross amount	13,810	(101,047)
Change in unexpired risk reserve, net of reinsurance	(14,760)	58,627
Balance on the general business technical account	(950)	(42,420)
Consolidated statement of comprehensive income – non-technical account		
Profit on ordinary activities before tax	(950)	(42,420)
Consolidated statement of financial position, and company statement of financial position		
Reinsurers' share of technical provisions – unexpired risk reserve	(161,382)	(100,478)
Technical provisions – claims outstanding	(87,237)	(101,047)
Technical provisions – unexpired risk reserve	205,249	159,105
Retained earnings	43,370	42,420

Due to the necessity for an additional actuarial model in order to quantify the impact of these changes on the current year figures, it is not practicable to calculate, or disclose, the impact on the current year figures.

Kevin Jones

Director for South Wales Region, Redrow Homes

"NHBC has a long track record of providing an excellent service to our customers," says Kevin. "I've worked alongside NHBC for over 20 years and consider them to be one of the leading suppliers of building control, warranty and insurance cover in the UK. They continue to deliver an independent, rigorous and consistent inspection process. As a result, NHBC is respected by builders and customers alike, and therefore plays a key role in Redrow's drive to continually improve quality and service for customers."

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

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