



Raising Standards. Protecting Homeowners

Annual Report & Accounts 2014/15



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Key highlights

We are the UK's leading independent standard-setting body and provider of warranty and insurance for new homes.

Our purpose of improving the construction quality of new homes is underpinned by our Virtuous Circle business model - see page 24.

What we do

We work with the house-building industry to improve the construction quality of new homes.

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.

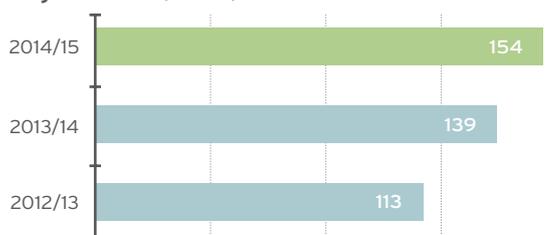
We provide protection for homebuyers through our range of Buildmark warranty products.

In 2014/15 we:

- carried out 750,000 inspections
- identified 337,000 items to be corrected by builders
- undertook 80,000 building control inspections
- completed 8,000 Health and Safety inspections
- paid claims for the benefit of homeowners totalling over £87m
- delivered 4,800 delegate days of training
- published seven NHBC Foundation reports.

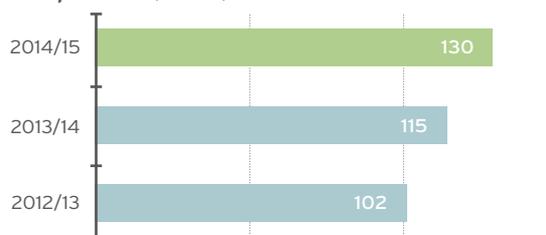
Our financial performance

Registrations ('000s)



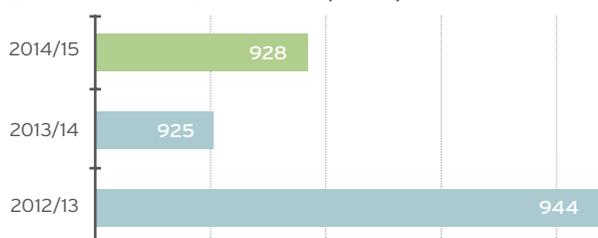
Volumes grew a further 11% in the year, with growth spread across the majority of the UK.

Completions ('000s)



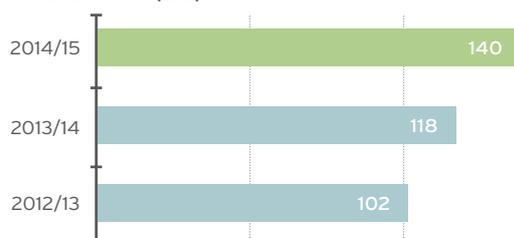
In tandem with registrations, completions were up 13% on 2013/14.

Effective homes under cover ('000s)



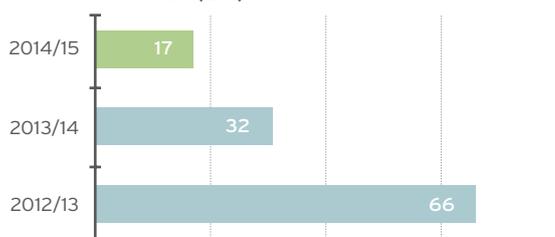
Number of effective homes under cover¹ rose by 3,000 in the year, resulting from the continued growth in registrations.

Total income (£m)



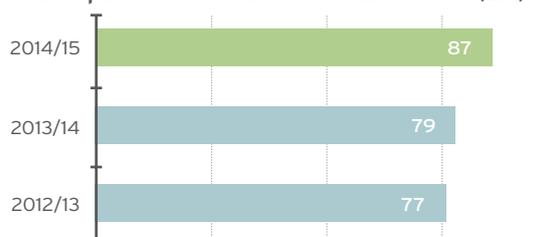
Increase in total income was driven largely by rising registration volumes.

Profit before tax (£m)



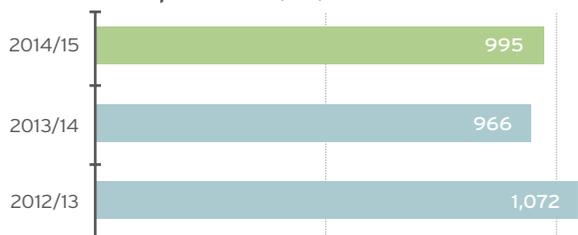
Fall in profit was largely driven by additional reserves required to set against new registrations.

Claims paid for the benefit of homeowners (£m)



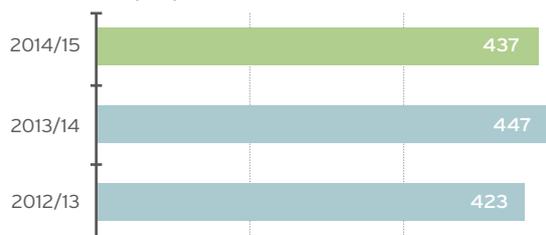
Claims paid for the benefit of homeowners increased largely due to storm claims in 2014.

Net technical provisions (£m)



Increase of 3% reflects growth in homes under cover and the continued low investment yield environment.

Net assets (£m)



Fall of 2% reflects increased pension fund deficit.

¹ NHBC provides warranty cover for 1.6m UK homes, all with variable proportions of their 10-year cover remaining. The effective homes under cover figure is derived from adding the remaining years of every warranty together and dividing by 10 to give the equivalent number of 10-year warranties.

154,173

HOMES REGISTERED IN 2014/15

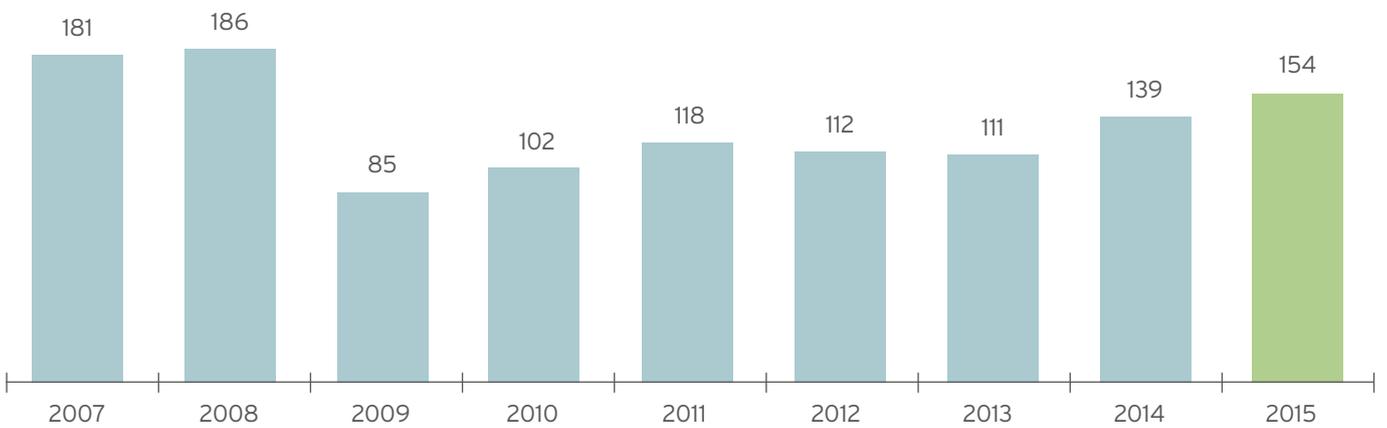
11,703

REGISTERED BUILDERS

1.6 million

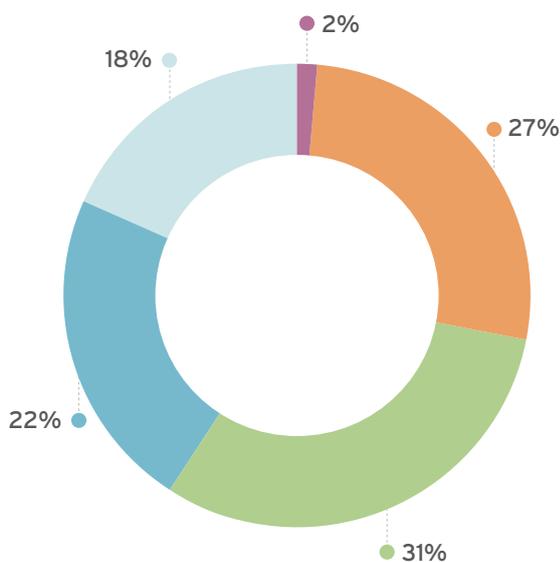
HOMES COVERED BY BUILDMARK

New build registrations ('000s)



Registration volumes are now rising year on year but there is still some way to go to reach pre-recession levels.

Registrations by type



Registrations by type		2015
Bungalows	2%	2%
Detached houses	27%	27%
Flats/maisonettes	31%	31%
Semi-detached houses	22%	22%
Terraced houses	18%	18%

The number of detached homes registered increased in the year. The volume of flats registered, whilst falling, is buoyed by the high proportion in London.

750,000

INSPECTIONS AT KEY BUILD STAGES

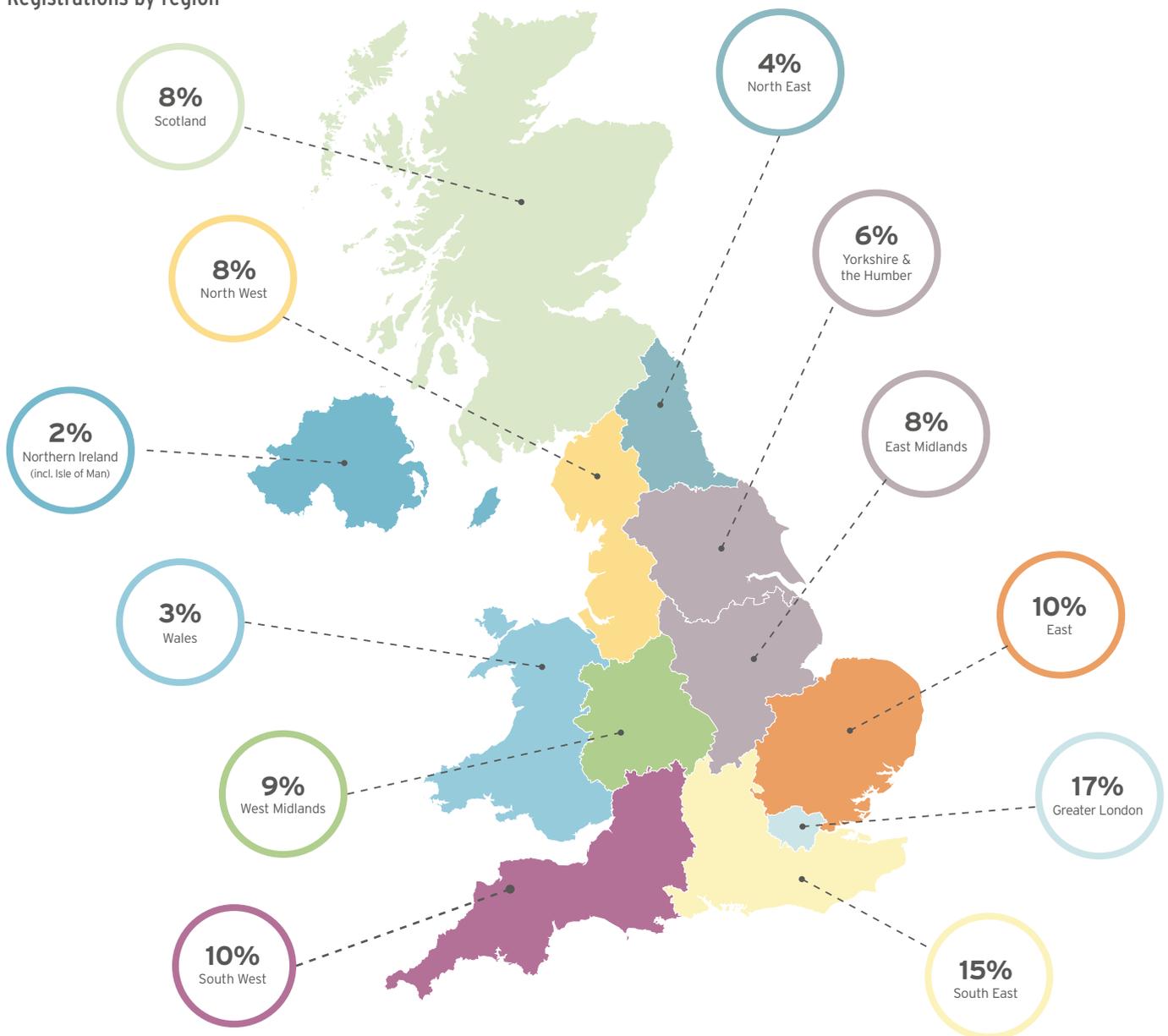
OVER 125

ADDITIONAL FRONT-LINE ROLES INTRODUCED

4,800

TRAINING DAYS CARRIED OUT

Registrations by region



The geographical spread of our Registrations in 2014/15 shows that the highest concentrations were in Southern regions, particularly Greater London and the South East. However, growth in Registrations has been experienced in almost all areas of the UK.

Our key priorities

Improve the construction quality of new homes	Support the needs of builder customers	Provide support to homeowners when they need it
<ul style="list-style-type: none"> ■ We undertake appropriate inspections of every home registered with us. ■ We analyse industry feedback on build quality and assess our claims experience to shape our Standards and support the industry. ■ We invest in research, practical guidance and training. 	<ul style="list-style-type: none"> ■ We engage with the industry to understand its needs and provide the services it requires. ■ We monitor the satisfaction of our builder customers and positively respond to feedback. 	<ul style="list-style-type: none"> ■ We work hard to support our homeowner customers when they need us and treat them fairly. ■ We monitor the satisfaction of our homeowner customers and positively respond to feedback.
In 2014/15 we: <ul style="list-style-type: none"> ■ Completed 98.2% of key stage inspections. ■ Released seven NHBC Foundation publications and funded Zero Carbon Hub research. ■ Delivered 4,800 delegate days of training. 	In 2014/15 we: <ul style="list-style-type: none"> ■ Achieved a Net Promoter Score amongst our builder customers of 48%. ■ Achieved a score of 84.2% in our Builder Satisfaction Survey. 	In 2014/15 we: <ul style="list-style-type: none"> ■ Paid claims for the benefit of homeowners exceeding £87m. ■ Achieved an average score of 4.5 out of 5 in our Homeowner Satisfaction Survey of our Claims service.
Consolidate and strengthen our reputation	Ensure we have sufficient capital to fulfil our obligations	Develop the potential of our staff and invest in their futures
<ul style="list-style-type: none"> ■ We engage with the industry, key stakeholders and government. ■ We strive to improve recognition and awareness of our brand with consumers. 	<ul style="list-style-type: none"> ■ We continuously review our pricing, investments and reinsurance to safeguard our capital. ■ We manage risks to capital through our carefully controlled risk appetite. 	<ul style="list-style-type: none"> ■ We aim to attract and retain excellent staff. ■ We engage with staff to create a great place to work built on key objectives and behaviours. ■ We invest in our staff through training and professional qualifications.
In 2014/15 we: <ul style="list-style-type: none"> ■ Achieved a score of 77% in our Stakeholder Reputation Survey. ■ Established a measure for consumer engagement with our brand and services. ■ Met with key industry and government figures, presented at political party conferences, organised MP site visits and hosted major industry events. 	In 2014/15 we: <ul style="list-style-type: none"> ■ Increased our net technical provisions by £31m to accommodate growth in registrations. ■ Held a capital surplus within our risk appetite and in excess of the Prudential Regulation Authority requirement. 	In 2014/15 we: <ul style="list-style-type: none"> ■ Welcomed 244 new colleagues to the business. ■ Agreed our diversity ambitions for the future. ■ Achieved a "One Star" accreditation in the Best Companies Employee Opinion Survey with a score of 667.

Group overview

- Chairman's statement
- Chief Executive's statement
- Chief Financial Officer's statement



Chairman's statement

It is a pleasure once again to introduce NHBC's Annual Report and Accounts in a year during which the house-building industry continued to experience positive growth. It is growth that has defined the year for NHBC, and you will read about the numerous actions we have taken to respond to the challenges of growth, including significant recruitment across our inspection teams and capital management initiatives, in the Chief Executive's and Chief Financial Officer's statements. Following the outcome of the General Election, the Government has reaffirmed that it is a political and societal imperative to increase the number of homes being built across the UK. We are committed to providing assurance to consumers when they need it, and ensuring that we do all we can to support the industry as together we work towards achieving the house-building targets set by the Government.



Last year we reported that these were interesting and challenging times for the house-building industry. It is clear that this is still the case, with the upturn in the number of new homes being built providing both opportunities and challenges for NHBC and our registered builders and developers.

The financial year 2014/15 saw a further increase of 11% on the 23% growth in registrations we reported in the previous year. There is still some way to go to reach the historic highs of well over 200,000 homes registered per year in the 1960s, but the strength of the new homes industry is positive news for both NHBC and the UK economy.

Over the years NHBC has worked hard to build its reputation through our standard-setting and warranty-provision roles in the industry, and through establishing and maintaining positive relationships with our builder customers, consumers and the wider community in which we work.

NHBC engages and works with all major political parties to ensure politicians at all levels recognise NHBC's independent and important role within the industry. We were delighted to welcome this year to our Annual Lunch, both the Minister of State for Housing and Planning Brandon Lewis MP and the then Shadow Housing Minister Emma Reynolds MP, who addressed the audience of industry representatives and laid out how their respective parties would support the building of new homes post-election. We now look forward to continuing our work at a political level with the Government and other political parties.

Despite the overall growth in the number of homes built, there has been a reduction in the number of builders on our Register to 11,700 as at 31 March 2015 from 12,500 a year earlier, with the largest builders increasing their combined market share. There are a number of factors which have led to this reduction, including small family-run businesses leaving the market as the founders retire and fewer new small businesses entering the market, single purpose vehicles who only register one-off projects with NHBC but also, thankfully, a smaller number of insolvencies across the industry.

We are acutely aware that small and medium-sized builders were some of those worst affected by the downturn in 2008, and that they are still finding many barriers to developing new homes. In October 2014 the NHBC Foundation published *"Improving the prospects for small house builders and developers"*, a report which highlighted planning, access to finance and land availability as the biggest challenges facing smaller builders, as identified by the industry itself. Since its publication, government intervention has led to improving conditions for smaller builders, including exemption from Section 106 and the Community Infrastructure Levy on developments of fewer than 10 homes, as well as launching a £25m fund to boost finance on developments of less than 15 plots.

Growth also brings an increased focus on the availability of skilled personnel in the industry. With that in mind, the issue of making the house-building industry appealing to young people and finding the next generation of builders

and developers was examined by the NHBC Foundation this year with the publication of *"A career of choice: attracting talented young people into house building"* in March 2015. The research concluded that most respondents could only identify trades such as bricklaying and plumbing from the broad range of available careers in the industry. It is clear that much more needs to be done to challenge misconceptions if the industry is to attract young people.

In common with other regulated insurance companies, NHBC operates within an industry subject to considerable regulatory change and increased levels of oversight and scrutiny. In this environment, the Board performs a fundamental role in monitoring and reviewing NHBC's activities to ensure appropriate standards of conduct and compliance. Throughout the year, regular engagement has taken place with both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The tone and outcome of these conversations has been positive and NHBC aims to maintain its good relationships with both regulators.

Of particular focus over the coming year will be NHBC's continuing preparations for Solvency II, the European Union (EU) legislative programme that will introduce an EU-wide standard means of assessing capital adequacy. NHBC's plans are well advanced and the business is confident that it will be in a position to comply with the requirements by the implementation date of 1 January 2016.

The health and safety of our employees remains high on our agenda. With house building acknowledged as the UK's second-highest risk industry, it is fundamental that NHBC continues to ensure that our technical and field-based staff are properly equipped and trained to work safely. We are pleased to report a continuation of the programme of on-site health and safety monitoring, which is now a regular feature of our risk management strategy.

During the year, we took the decision to create the new executive role of Commercial Director and CFO, combining the previous roles of Finance Director and Commercial Director, and we were pleased to welcome Chris Rash, former Group Chief Accountant at RSA Group, to this role in July 2014. Chris brings with him significant knowledge and experience from a variety of insurance markets' having previously held a number of regional CFO positions within the RSA Group.

As a result of this change, Sandra Kelly, Finance Director, and Richard Tamayo, Commercial Director, left NHBC in June 2014. We would like to thank both Sandra and Richard once again for their contributions to NHBC's success and for their many years of service. We wish them every success in their future careers.



There have also been some changes to our Non-Executive Directors during this financial year, with the departures of Robin Nicholson and Bridget McIntyre. We would like to thank them both for their important contributions to NHBC's Board and the committees which they chaired. Robin continues to work with NHBC as a member of the NHBC Foundation's expert panel.

Ian Craston was welcomed to the Board as a Non-Executive Director in September 2014, and has also become Chairman of the Investment Committee. Ian is currently Group Investment Director at RSA Group and NHBC is already benefiting from the knowledge and experience he brings.

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

A handwritten signature in black ink, appearing to read 'Isabel Hudson'.

Isabel Hudson
Chairman

Chief Executive's statement

I am pleased to reflect that this year has been one of further growth for the house-building industry as the economy continues its recovery from recession, and I am delighted to report increases in both house-building figures and our registrations. However, it is in a growing and technically changing market with a shortage of skills that our overriding purpose of maintaining and improving the construction standard of new homes comes under most pressure. This is both an exciting and challenging time for the industry and NHBC.



In order to ensure that the risks of growth are appropriately managed, we have embarked on our largest recruitment campaign of technical roles since NHBC entered the building control market in 1985. We have now created over 125 additional frontline roles with more to follow, and taken four cohorts of trainees through our re-opened Operations Academy. I am particularly pleased that we have attracted people with a diverse range of backgrounds and experience.

Furthermore, in order to enhance our management of the risks associated with major projects, we have recently created a multi-disciplinary London-based team that will act as a single point of contact and support for more complex developments, such as multistorey apartment blocks.

During the year we also began the restructure of our Claims team to create a smoother process with greater accountability aimed at improving efficiency, reducing claims costs and enhancing the experience for builder and homeowner customers alike.

In addition to these risk mitigation actions, in a growing market and as our registrations increase, it is of vital importance that we look after our capital position and this remains a key area of focus for our Board. Capital is further stressed in the current low investment yield environment and with the added pressure of the European Solvency II Directive which places additional requirements on NHBC from a capital perspective.

This year, we have taken steps to help safeguard our capital position for the future, including a disciplined focus on our expense base, and taking the decision to increase our prices by a minimum of 4%. Furthermore we have expanded our reinsurance programme and we believe these measures are necessary to ensure that NHBC is well placed to continue to manage the pressures of growth whilst supporting the industry and fulfilling our responsibilities to our 1.6m homeowner customers.

Following the exceptional increase in our registration volumes in 2013/14 (23%), the house-building industry continues to expand with a further 11% increase for the year taking our total registrations over 154,000 for 2014/15 and exceeding the average for the last four decades (153,000). Unlike 2013/14, in which growth was driven by major investment in London and the Southeast of England, it is encouraging that growth in the year was spread across almost all UK regions, with the largest increases seen in Wales at 48% and Yorkshire and the Humber at 31%. Whilst these figures are positive news for the industry, it is worth noting that our average registrations for the years between periods of recession (1982 to 2007) exceeded 175,000.

The demographics of house building and buying are also changing, with the number of detached homes registered showing an increase once again. In 2014/15, detached homes made up 27% of our UK registrations (32% excluding London). By contrast, since 2007 the proportion of flats being built across the UK has halved, although they still represent 91% of our London registrations, driven mainly by investment in high-rise projects.

Despite the recent resurgence in the industry, most commentators agree that the UK still has a significant shortage of housing, a sentiment emphasised by the key housing messages and policies from all major political parties during the run up to the General Election. In this financial year we anticipate that growth will continue, albeit at a more modest rate than that which has been experienced in the past two years.

NHBC continues to occupy a unique position in the industry. Our core purpose of supporting the industry as an independent body with the mission to work with builders to improve the construction quality of new homes remains our key focus, as it has for the past 80 years. We achieve this through our Virtuous Circle business model of standard setting,

independent inspection, technical support and guidance underpinned by our market-leading 10-year warranty and insurance cover, Buildmark. During the year, we started the development of a Construction Quality Index and, as this evolves and becomes more robust, I hope to report on it in future years.

We have built strong relationships with all political parties and we look forward to working closely with the Government to provide the support our builder customers will need in fulfilling its various ambitions, including building 200,000 new starter homes by 2020. Engaging with politicians and ministers at all levels means that NHBC is well placed to help shape future house-building initiatives. Over the past four years we have provided input to the Housing Standards Review, an initiative to rationalise the number of building standards and technical documents that house builders need to refer to, without compromising the construction quality of new homes. Our input into the project and assistance in the development of Approved Documents has helped to ensure that our registered builders and developers will benefit from a reduction in the number of reference materials they must consult, which in turn will help to ensure consistency.

The NHBC Standards are the technical benchmark of the house-building industry, which we revise and update in response to new building methods, new products and feedback from our claims experience. We expect to publish the updated version of the Standards document in the autumn, including a new chapter on waterproofing of basements and other below-ground structures in direct response to a need identified by our claims experience and engagement with the industry. The Standards form part of our risk management process by reducing the likelihood of problems for both builders and eventual homeowners, and providing guidance covering every stage of the build process from foundations to finishes.

Our key stage inspection regime is highly valued by our builder customers as it is crucial in reducing the likelihood of potential defects, and in collecting data for analysis to improve the homes they build. In 2014/15 our inspection team carried out nearly 750,000 inspections at key build stages, identifying over 336,000 items requiring the builders' attention. In addition, we undertook over 80,000 building control inspections in our role as the largest single building control Approved Inspector in England and Wales.

As at 31 March 2015, some 1.6m homes were covered by our Buildmark policy and, despite the best endeavours of builders and our inspectors, some defects do become apparent over the life of the policy. In 2014/15, almost 11,000 homeowners directly benefited from Buildmark, with claims paid for the benefit of homeowners of over £87m.



NHBC has continued its commitment to the NHBC Foundation this year with a further £500,000 investment in research and guidance to support the industry. During its nine years, the NHBC Foundation has delivered over 60 publications on topics relevant to the challenges of new home building.

NHBC prides itself on the quality of the people we employ, and how they apply their expertise to support our customers and stakeholders. Last year, we re-launched our staff recognition scheme, the STAR Awards, which rewards those individuals and teams who best demonstrate our behaviours.

I was delighted this year with the results of the Best Companies' employee engagement survey as, for the first time since we began our annual surveys, NHBC moved up into the 'One Star' accreditation category of the 'Michelin-style' star rating system. I believe that NHBC is already a great place to work, and to have that belief endorsed in this way is a real testimony to the work we have done to develop as an employer. I am committed to ensuring that we continue that development through our engagement with, and offering to, our staff.

Finally, I would like to take this opportunity to thank all of my colleagues at NHBC for their commitment, support and contribution this year. I continue to be impressed by their professionalism, enthusiasm and dedication, and by their expertise in their various and diverse fields. I am confident that we have the people required to embrace the exciting and challenging times ahead.

A handwritten signature in black ink, appearing to read 'M Quinton', written over a white background.

Mike Quinton
Chief Executive

Chief Financial Officer's statement

2014/15 was another profitable year. Profit before tax of £17.3m (2013/14: £31.9m), down 46% from last year, reflects the impact of rising volumes and lower expected future investment returns, as well as the significant investment in our people to meet those volumes now and in the future.

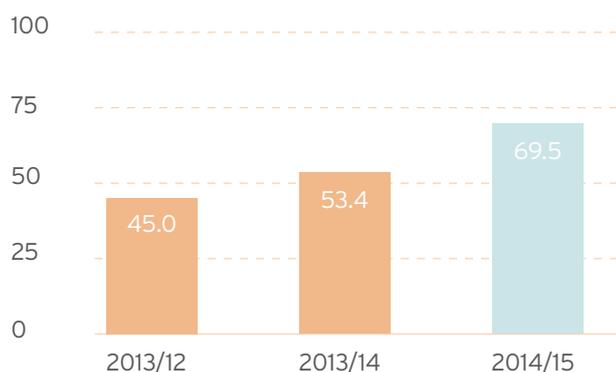
Our capital position is strong. That said, we expect volumes to continue to rise and the low-yield interest environment to persist. These factors, together with the regulatory changes which come into effect on 1 January 2016, will place a natural strain on capital. Therefore, taking the right action to safeguard our future capital, such as the recently announced price increases and the placement of additional reinsurance after the year-end, will remain a key area of focus.



Financial highlights

	2012/13	2013/14	2014/15
Registrations	113,088	138,509	154,173
Net written premiums (£m)	45.0	53.4	69.5
Earned premiums (£m)	43.0	38.3	52.4
Claims incurred (£m)	(91.9)	(119.9)	(112.8)
Other technical provisions (£m)	43.0	154.4	2.8
Investment result (£m)	77.3	(38.6)	78.2
Net operating expenses (£m)	(2.6)	(3.0)	(3.2)
Technical account result (£m)	68.8	31.2	17.4
Other operating activities (£m)	(3.1)	0.7	(0.1)
Profit before tax (£m)	65.7	31.9	17.3
Tax (£m)	(16.2)	(7.1)	(4.7)
Profit after tax (£m)	49.5	24.8	12.6

Net written premiums (£m)



Net written premiums

Net written premiums were up 30% to £69.5m. Continued strong growth in registration volumes, which rose by 11% and which was spread across the majority of the UK, contributed over half of this growth.

Profit before tax

Technical account result

Earned premiums rose 37% to £52.4m (2013/14: £38.3m) in the year due to a change in earning pattern assumptions. Premiums are earned in line with the expected claims profile over the period of cover. As we move out of recession, we have seen the incidence of Section 2 claims, which occur earlier in the ten-year warranty period, decline and consequently have reverted back to our long-term average claims earning profile, which is weighted more to the later years of the warranty period. This has meant a greater contribution to earned premium from the mid-2000 registration years, which had significantly higher volumes than those experienced since 2008.

Claims incurred fell 6%, reflecting an increase in claims paid offset by a reduction in the change in the provision for claims. Net claims paid rose by 12% to £96.5m (2013/14: £86.4m), primarily due to the settlement of storm-related claims experienced in the first half of the 2014 calendar year. Looking at the overall cost of claims, superstructure repairs such as external walls and render were the main cause of claims in the year, accounting for 39% of those reported and £32.4m (2013/14: 36%, £31.1m) of the cost. Foundations and substructure were the second-largest cost category, accounting for 12% of claims reported and £22.9m (2013/14: 13%, £11.2m) of the cost.

Investment result (£m)



Other technical provisions have fallen marginally by 1% (2013/14: -26%), reflecting a small rise in effective homes on risk offset by lower long-term inflation assumptions. Last year's significant release benefitted from reduced overall exposure as well as favourable assumption changes, including lower short-term inflation and higher assumed future investment income.

The investment result was £78.2m (2013/14: (£38.6m)), comprising gross investment income of £42.7m (2013/14: £46.0m), net realised gains of £16.2m (2013/14: £3.6m), net unrealised gains of £22.0m (2013/14: (£87.1m)) and fees of £2.7m (2013/14: £1.1m).

Gross investment income of £42.7m was down 7% on the previous year, reflecting the continued low bond yield environment. The average yield on our bond portfolios was 3.1% (2013/14: 3.1%).

Reinvestment rates in the bond portfolios at 31 March 2015 were approximately 100 bps lower than the existing bond portfolio.

Other income and other charges

Non-insurance income, which includes inspection and building control fees, grew by 11% to £64.6m. This reflects both the increase in volume of registrations and completions, and the modest average price increases of under 3% which took effect on 1 July 2014.

Other expenditure, which represents all NHBC's non-insurance related costs, increased in the year by 12% to £64.6m. The largest element of the increase was the major investment in our inspection resource, which grew by 45% to 369 people during the year. This investment is both appropriate and necessary given the increase in the volume of registrations during the year and those projected in future years.

Profit after tax

The **profit after tax** was £12.6m (2013/14: £24.8m) and includes a tax charge of £4.7m that has been recognised for the year. This charge represents an effective tax rate of 27.2% which, whilst higher than normal, includes an exceptional cost of £3.0m following agreement being reached with HMRC in respect of all prior open years.

Balance sheet

Investments

The total value of the investment portfolio (including cash) was £1.5bn, representing an increase of 2.4% over the year, mainly due to interest income, and favourable mark-to-market movements partially offset by cash withdrawn. Of the total investment portfolio, 86% was invested in high-quality fixed income and cash assets as at the year-end.

The fixed interest portfolio remains concentrated on high-quality short dated assets, with 93% of the bond portfolio investment grade, with 55% rated AA or above.

The average duration of the bond portfolio is 4.56 years (2013/14: 4.57 years). Following the purchase of increased levels of non-government bonds in 2013/14, levels have remained consistent in 2014/15, and non-government bonds make up 51% of the bond portfolio.

At the year-end, our equity holdings were £115m (2013/14: £101m).

Reserves

Net technical provisions increased by 3% (2013/14: (10%)) to £995.3m, reflecting the increase in the effective homes covered by Buildmark and a reduction in assumed future investment returns due to the low-yield investment environment, partially offset by assumed lower future inflation. Our reserving philosophy remains unchanged, with a consistent and appropriate degree of prudence maintained.

Following the 2014/15 year-end, we have purchased an Adverse Development Cover underwritten by a panel of reinsurers led by Munich Re and covering our insurance liabilities across the previous 10 generations of the Buildmark warranty between 2005 and 2014. It provides £150m of cover with an attachment point which is £100m above the aggregate expected claims for those individual generations. NHBC retains 15% of the exposure within the cover. This cover will sit alongside our existing reinsurance covers and provides useful protection against systemic adverse development over a number of generations and, more importantly, a significant capital benefit.

Capital position

We continue to monitor a range of capital measures. At 31 March 2015, accumulated reserves were £439.7m, down 1.7% from the start of the year, reflecting the retained profit for the year offset by an increase in the pension deficit.

We are focused on a number of regulatory capital measures, not least because of the impending European Solvency II Directive. During the year, we made good progress towards our Internal Model application and expect to make a submission to the PRA in 2016. Until the Internal Model is approved, our capital will be assessed under the Standard Formula methodology from 1 January 2016.

We expect volumes to continue to rise and the low-yield environment to persist, and this places a natural strain on our regulatory capital. Consequently, we remain focused on taking the right action now to safeguard our future capital, with the placement of the Adverse Development Cover and the recently announced price increases being good examples of such action.

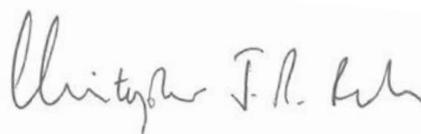
Defined benefit pension scheme

In February 2015, we agreed the pension deficit funding contributions with the Trustee following the latest triennial actuarial valuation. As at 31 March 2014 the NHBC Pension Scheme was 86% funded on the prudent measure that the Trustees are required to use, with a deficit of £27.6m. This compares with a surplus of £4.4m at 31 March 2011. Guaranteed deficit funding contributions of £3.4m were agreed and will be paid in 2015, 2016 and 2017, with the 2015 instalment having been paid in March 2015.

On an FRS 17 accounting basis, the pension fund position has deteriorated by £16.3m net of deferred tax since 31 March 2014 to a deficit of £31.7m. This is driven by an increase in mortality assumptions and a lower discount rate, offset by reductions in future inflation.

Summary

We have delivered positive results for the 2014/15 financial year. We expect to see further volume growth over the next few years and the low-yield environment to remain. Whilst this combination will continue to place a natural strain on our regulatory capital and accounting profits, the actions we have already taken, and the actions we are planning to take to safeguard future capital, mean that NHBC is well placed for the future.



Chris Rash

Commercial Director and Chief Financial Officer

Strategic report

- Who we are, what we do
- Market overview
- Our strategy
- Risks to our business
- Wider impact

Who we are, what we do

NHBC is the UK's leading independent standard-setting body and provider of warranty and insurance for new homes. Our purpose is to work with the house-building industry to raise the standards of new homes and to provide protection for homebuyers in the form of the Buildmark warranty.

NHBC invests in raising standards and activities to improve the construction quality of UK house building. We conduct research and development and work with the Government and key stakeholders to help shape housing policy.

Our activity is underpinned by our Virtuous Circle business model:



A Register of builders



Committed to building to NHBC Standards



Homes independently inspected during construction



Reassurance provided by Buildmark warranty



Standards continually improved through research, analysis, feedback and practical guidance to the industry

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

NHBC is authorised and regulated by the PRA and the FCA.



Industry-leading warranty



As the leading home warranty provider in the UK, NHBC currently provides warranty and insurance for over 1.6m homes, with a market share of approximately 80%. Our warranty and insurance product, Buildmark, covers homes from before they are built, providing protection from the exchange of contracts through to the end of the 10th year following legal completion.

Corporate structure



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

Company	Purpose
National House-Building Council	Parent company and a provider of warranty and insurance.
NHBC Building Control Services Limited	A provider of building regulation inspection services in England and Wales.
NHBC Services Limited	A provider of support services to the house-building and related industries.
PRC Homes Limited	The company did not trade during the year.
NHBC Pension Trustee Limited	The company did not trade during the year.

Key facts and figures

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

We have almost 80 years' experience in raising the build standards of new homes.

We have more than 11,700 builders on our Register.

Our builder customers registered over 154,000 plots.

Our inspectors carried out almost 750,000 inspections at key build stages in the year, identifying over 336,000 items which did not comply with NHBC Standards and required correction by our builder customers.

As the largest Approved Inspector in England and Wales, we carried out over 80,000 Building Control inspections.

We undertook around 8,000 health and safety inspections on sites across the UK.

We paid claims for the benefit of homeowners totalling £87m last year.

We delivered almost 4,800 delegate days of training to the house-building industry, including health and safety management and technical courses.

We employ approximately 1,200 people.

Standards



The NHBC Standards provide the technical benchmark for all newly built and converted homes covered by our Buildmark warranty and insurance policy, and are published as a manual for our registered builders with sections covering the design, material specification and site work for each part of the build process. The Standards document, and regular development of its content, is an integral part of our purpose to improve the construction quality of new homes. To sell a home with an NHBC Buildmark warranty, registered builders must comply with the Standards, which play an essential part in the risk management of the build process and aim to keep potential problems for the homebuyer to a minimum.

In the past year:

We published Chapter 3.2 of the Standards, covering the waterproofing of basements and other below ground structures as guidance and best practice ahead of the publication of the new 2016 Standards, when the chapter will become mandatory.

Builder registration



NHBC registered builders and developers commit to building new homes in line with the NHBC Standards and are therefore able to offer Buildmark warranty and insurance cover to their homebuyers. Before being accepted onto the NHBC Register, an individual or company will be assessed commercially through financial and other reference checks, and technically through an assessment to substantiate their ability to build to NHBC Standards. Registration also provides access to free or discounted products and services, in addition to those provided by NHBC as part of our registration package, including discounted building materials, free site valuation advice, preferential rates on home sale and exchange services, and price reductions on a range of business insurances.

In the past year:

The number of builders and developers on our Register fluctuated between 12,100 in April 2014 to a low of 11,300 in June 2014. This figure subsequently rose again to 11,700 for the end of the 2014/15 financial year.

Inspection



Every year, NHBC conducts hundreds of thousands of inspections, which are an integral part of our risk management for the Buildmark warranty product. Inspection is focused on specified key stages for each plot, and these are supplemented by other inspections based on the risk assessment conducted for each site, so that our inspectors are on site at the times when their independent quality control expertise can be most effective. Inspections generate data on construction defects and problems encountered during construction, and we use this invaluable information to develop best practice advice and guidance for our registered builders.

In the past year:

Our inspectors carried out almost 750,000 inspections, identifying over 336,000 reportable items. We launched the largest recruitment campaign of technical roles since 1985 and have increased our nationwide inspection team from 255 to 369 to support the increasing number of homes being built and the growing demand for our services.

Technical support and guidance



We provide our registered builders and developers with a single point of contact for expert construction advice, technical support and assistance, providing guidance on Standards, regulations, research and other technical issues. Advice is also provided through our regular newsletter *Technical Extra*, as well as the online TechZone and Extranet.

In the past year:

We redesigned our electronic bulletin Clicks & Mortar and began development of a Construction Quality Index which will capture data from multiple sources, including our inspection records and claims experience, to provide a metric by which the quality of new homes can be measured and ultimately demonstrated to external stakeholders.

NHBC Foundation



Established in 2006, the NHBC Foundation provides high-quality research and practical guidance to support the house-building industry and to try and solve some of the problems consumers experience with their new homes. To date, the NHBC Foundation has published over 60 reports on a wide variety of topics, including the sustainability agenda, homeowner issues and risk management.

In the past year:

The NHBC Foundation has published seven new reports, including the Department of Communities and Local Government-supported "*Avoiding rubbish design*", launched a new-look website, and refreshed the newsletters "Foundation Focus" and "Foundation Facts".

Shaping policy



NHBC is seen by the Government and the opposition parties across the UK as a trusted and valued organisation which they proactively approach for policy support and advice. NHBC staff sit on a number of industry and government committees, including the Building Regulations Advisory Committee (BRAC), the Consortium of European Building Control (CEBC) and the Association of Consultant Approved Inspectors (ACAI). Through our political engagement programme, NHBC regularly provides a platform for the industry to engage with senior policy makers through private roundtables, political party conference events and organised site visits with our registered builders, as well as hosting major industry events and keynote speeches at NHBC's offices.

In the past year:

NHBC was the only housing body to host panel events with both the Minister and Shadow Minister for Housing at the autumn party conferences, and we also welcomed both the Minister and Shadow Minister to address our Annual Lunch in 2014.

Promoting best practice



NHBC recognises the highest achievers in the industry through high-profile competitions; the Pride in the Job and Health and Safety Awards, both of which reward excellence in UK home building. These awards are an important part of NHBC's drive to raise standards and promote high quality in new home construction.

In the past year:

From a pool of 15,000 site managers, we awarded 430 Pride in the Job Quality awards, 55 Seal of Excellence awards and five Supreme awards at the 10 regional and one national gala events. For the Health and Safety awards, we awarded 54 Commended, 22 Highly Commended, eight Regional, four National and three Special awards at a gala ceremony hosted by Mike Quinton and Sir Clive Woodward OBE.

NHBC Building Control Services Limited (BCS)



BCS is the largest building control body in England and Wales, and celebrates its 30th anniversary in 2015. BCS provides building control, the process of helping builders to ensure that Government-set Building Regulations are met on residential, mixed-use and commercial projects of all sizes and complexities, delivering dedicated support and technical advice for builders and their professional advisers. BCS is central to NHBC's purpose of raising standards and protecting homeowners, and also supports the Government and the wider construction industry on regulation changes and other related matters.

In the past year:

BCS carried out building control on over 80,000 new homes across the private and affordable housing sectors.

NHBC Services Limited (Services)



Health and safety

Services offers a range of health and safety services, including guidance on the Construction (Design and Management) Regulations, site waste management plans, health and safety audits, site inspections and training, as well as an online management reporting system to view and share health and safety site performance.

In the past year:

Services carried out around 8,000 health and safety inspections.

Energy and sustainability

Services provides sustainability and energy feasibility reports for planning to help builders meet the demanding targets within the Code for Sustainable Homes and other BREEAM assessments.

In the past year:

Services provided over 11,000 Energy Performance Certificates and Simplified Building Energy Model ratings, as well as 11,500 Standard Assessment Procedure ratings.

Land Quality Endorsement (LQE)

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

In the past year:

LQE carried out 27 projects with the potential for 23,000 plots.

Customer satisfaction

Since 2004, NHBC has conducted the National New Homes Survey for the benefit of the home-building industry and to facilitate the Home Builders Federation's Star Rating Scheme for builders. The survey is carried out at periods of eight weeks and nine months after legal completion. With well over 100,000 questionnaires sent out annually, and a response rate of between 50% and 75%, the survey data provides the most compelling insight in the industry concerning the performance of house builders.

In the past year:

NHBC received over 66,000 responses from both questionnaires and the online dashboard reports that we have developed are now used by the majority of the largest house builders to monitor and benchmark their customer satisfaction levels and drive improvements.

Training and industry support

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

In the past year:

Services delivered almost 4,800 training days in health and safety management and technical training to the house-building industry.



Market overview

NHBC operates in the UK new housing industry, and the health of this sector is the primary driver of our own business performance and growth.

UK housing market

With further growth in the UK economy and most economic indicators showing improvement on the previous year, the UK new housing industry has continued its recovery, as demonstrated by a further 11% growth in our housing registrations for 2014/15, which followed the 23% growth experienced in 2013/14. Importantly, the growth in 2014/15 has not been confined to London and the South East of England, with evidence of growth visible across the UK.

Significant challenges have been experienced, particularly in terms of material and labour shortages caused by this rapid growth. Whilst the material shortage issues have abated and continue to do so, the availability of skilled labour remains a challenge for home builders and the industry in general with labour costs rising as a result of increased demand.

Mortgage lending has increased for the second year running with the value of mortgage approvals for house purchases for the year to 31 March 2015 rising very slightly by 0.25% on the previous 12 months to £122.1b. However, the overall number of mortgage approvals for house purchase for the year to March 2015 fell by 5.5% on the previous 12-month period to 744,382. This appears to have largely been driven by falling numbers in the latter half of 2014, but since December the number of approvals has increased, hitting a six-month high of 61,523 in February 2015 before falling slightly to 61,341 in March 2015 (source: Bank of England). Government incentives such as the Help to Buy scheme have played a key role in supporting the new-build industry's growth.

House prices

Demand for homes continues to outstrip supply and, as a result, house prices rose to an average of £273,000 for March 2015, representing a 9.6% increase over the year (source: Office of National Statistics).

The average house price of all new homes registered with NHBC in 2014/15 was £315,000, representing a 10% increase on the 2013/14 average of £286,000.

Housing market outlook

Demand for new housing is anticipated to continue to grow, albeit with the rate of growth slower than has been experienced in 2014/15. Supply of new housing is unlikely to be able to meet the demand in the short term, which could continue to drive up house prices, but also labour and material costs.

The Government has announced specific policies, including the building of 200,000 new Starter Homes for first-time buyers under 40 and the extension of the Help to Buy Equity Loan scheme to the end of the decade. These policies are designed to support house-builders, mortgage lenders and homebuyers in order to encourage continued growth to help meet consumer demand.

Market share

NHBC's average warranty market share for the UK remains around 80%. These statistics are based on the number of NHBC registered homes on which build activity commenced (starts) as a percentage of government starts for the UK for the same period, as well as trend data over the past four quarters.

Key facts and figures

We had an 11% growth in our housing registrations for 2014/15, which followed the 23% growth experienced in 2013/14.

The average house price of all new homes registered with NHBC in 2014/15 was £315,000, representing a 10% increase on the 2013/14 average of £286,000.

NHBC's average warranty market share for the UK remains around 80%.

The average registrations over the last four decades was 153,000 per year.

What this means for NHBC

This positive market outlook, supported by a number of Government initiatives, brings with it both opportunities and risks, some of which overlap:

Opportunity	Risk
Further significant growth in the housing stock is required to meet demand.	Growth may bring downward pressure on the quality of house building due to materials and skills shortages and inexperienced new entrants.
Strong growth in private house building will largely be delivered by NHBC registered major house builders.	The expected increase in volumes as a result of industry growth creates an increased capital requirement due to the need to set aside additional insurance reserves.
New business models are required to supplement private developers to meet the demand for affordable homes to buy or rent.	Low investment yields and interest rates combined with the move to the European Solvency II regime brings heightened pressure on our capital position.
The Government is driving changes to house-building standards and targeting major increases in the number of new homes being built each year. We must develop frameworks to support the industry.	Innovation in meeting housing demand will bring risks as more 'off-site' and fast-track/low-skill building methods are trialled, and as house builders change designs to produce more sustainable homes.
The pace of change in the digital world will provide us with opportunities and challenges as customers turn increasingly to digital sales and interactions.	

Registration volumes

Our registration volumes have increased in each of the last three years and, at 154,173, registrations in 2014/15, were the highest we have experienced since before the recession, exceeding the average over the last four decades.

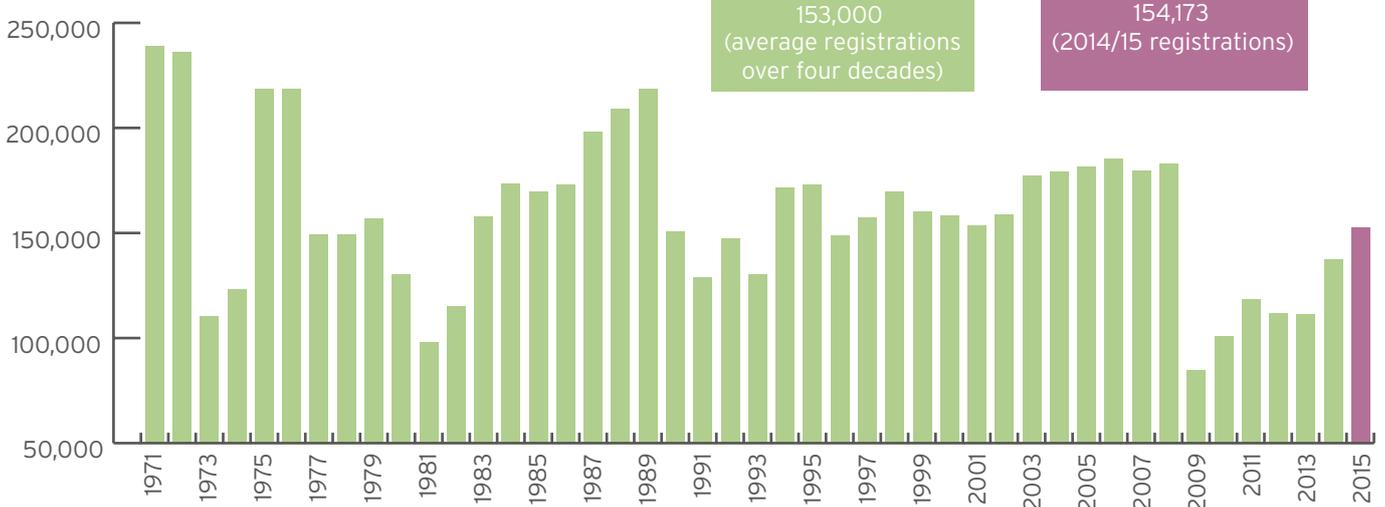
Registration volumes over time

The average registrations over the last four decades was 153,000 per year. The peak of 240,000 in 1971 has not been exceeded since, whilst the low of 84,000 came in 2009.

Competition

The new home warranty market is competitive and with growth anticipated to continue, supported by government initiatives, it is likely that competition will increase in the coming years. We consider that we have two major competitors, who share a single underwriter, and seven further competitors.

UK registrations 1971 to 2015



Our strategy

NHBC's purpose is to work with the industry to help improve the construction quality of new homes in the UK for the benefit of consumers.

We believe that a home built by an NHBC registered builder to NHBC Standards, independently inspected by an NHBC inspector and with the further reassurance of a 10-year NHBC Buildmark warranty, is the mark of a quality new home for homebuyers. Our objective is to ensure that the industry and consumers share this belief.

Our purpose of improving the construction quality of new homes is underpinned by our Virtuous Circle business model:

Our business model: the Virtuous Circle

- A Register of builders.
- Committed to building to NHBC Standards.
- Homes independently inspected during construction
- With the reassurance provided by the Buildmark warranty.
- Standards which are continually improved through research, analysis, feedback and practical guidance to the industry.

The key priorities supporting our purpose include:

Capital

The twin impact of volume growth and a low investment yield environment, combined with the move to the new European Solvency II regime, brings heightened pressure on our capital position. In such an environment, we aim to safeguard our capital position through our approach to pricing, our investment strategy and appropriate reinsurance.

Market share

A high market share ensures that we can engage with and support the majority of the industry, ensuring that our Standards of new home construction are prevalent in the UK. Maintaining our market share at an appropriate level therefore remains a priority. We aim to achieve this through our ongoing engagement with the industry and by ensuring we provide a competitive offering to our customers, combined with services which set us apart from our competitors.

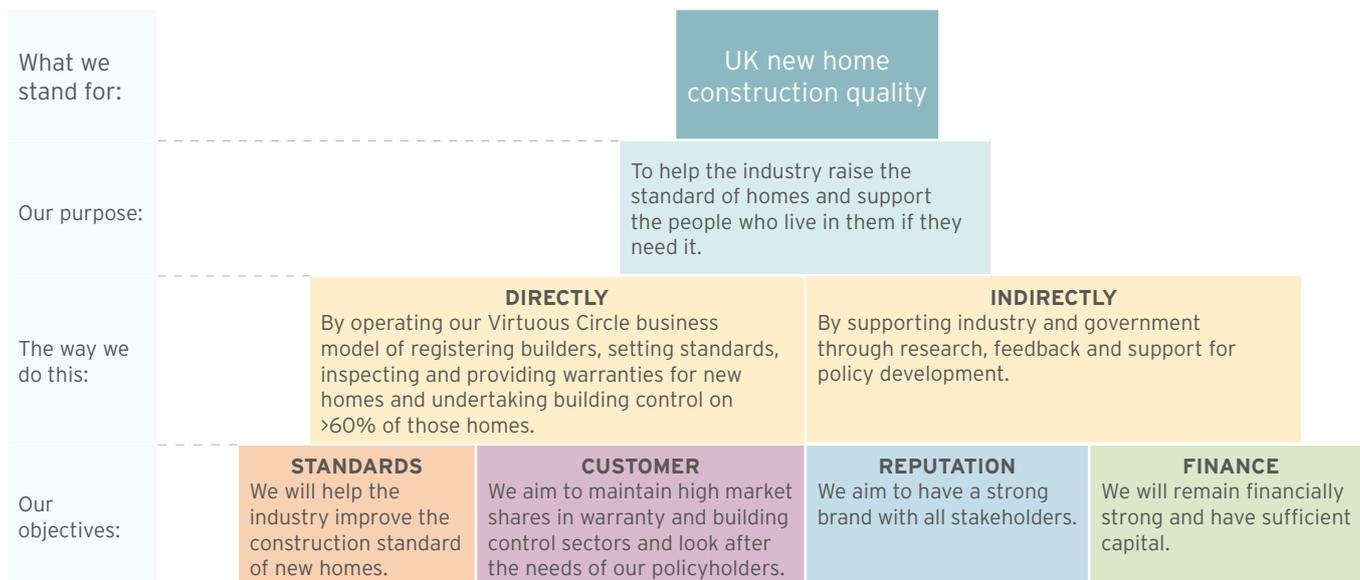
Product and brand development

Continuous review and development of our products and services helps us to continue to cater to the changing needs of the industry. Enhancing consumer awareness of NHBC and its products and services is a priority for NHBC. If consumers and homebuyers identify NHBC as the leading name in home warranty, consumer demand and expectation for an NHBC registered home will increase, creating greater demand from the industry for our products and services and underpinning our market share. We aim to do this through engagement with the industry and the Government, and by implementing initiatives to engage with consumers at an earlier stage in the homebuying process, and with existing homeowners after purchase.

Four pillars of activity

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





Standards In a growing and technically changing market with a shortage of skills, we must work hard to help the industry maintain quality and improve the construction standard of new homes.	Customer Our customers (house builders and homeowners) are at the centre of all we do. If we are to retain our market share in a competitive market, we must be obsessive about understanding and meeting the needs of our customers and providing a more compelling offer than our competitors.
Reputation Our independent and ethical positioning is one of the cornerstones of maintaining a strong brand and reputation. We must be meticulous in meeting our own regulatory and compliance obligations, as well as supporting the Government and the industry in achieving desirable standards of house building.	Finance We must remain financially strong and have sufficient capital in order to deliver our promise to our 1.6 million Buildmark policyholders, with the resources to continue to invest in improving house-building standards.

Our everyday operational activity will remain key to our success as a business. In addition to this activity, we will give greater focus to initiatives that deliver the following:

Standards

- Analysis and industry feedback on build quality and claims experience.
- Radical approaches to reducing the potential for defects in new homes.
- Investment in research, practical guidance and support for changes to house-building standards frameworks.

Customer

- Providing homeowners with better access to information to help manage their home.
- Research to improve our understanding of house-builder and homeowner needs and develop our products to meet these needs.

- Programmes to develop our people, simplify processes and deliver customer service the NHBC way.
- Developing our online channel to market.
- Taking advantage of growth in house building across different sectors in the market.

Reputation

- Brand building with consumers.
- Working with the Government and industry to help shape the future of UK house building.

Finance

- Ensuring our capital position is sufficient to support the organisation's purpose and priorities.
- Efficiency of cost base and claims spend.
- Examples of our priorities and key performance indicators.

Examples of our priorities and key performance indicators

What?	How?	Why?	Targets/activities	2014/15 outcome
<p>Maintain and improve the construction quality of new homes.</p>	<ul style="list-style-type: none"> ■ Ensure suitable inspections of every home registered. ■ Analyse industry feedback on build quality and claims experience. ■ Invest in research, practical guidance and industry training. 	<ul style="list-style-type: none"> ■ Undertaking a high proportion of inspections at key stages reduces the opportunity for defects to occur. ■ Analysis allows us to provide targeted training to the industry and change our Standards to address areas of frequent claims experience. ■ Identifying emerging materials and practices allows us to develop appropriate new Standards to manage risks. ■ Tailored training for our registered builders and the industry improves knowledge and practice on site. 	<ul style="list-style-type: none"> ■ Undertake 97.5% of key stage inspections on every home registered. ■ Secure a minimum of 60% take up of our building control service across all of our warranty business. ■ NHBC Foundation research. ■ Core funding and support for Zero Carbon Hub (ZCH). ■ Provide training to the industry on appropriate and current topics. 	<ul style="list-style-type: none"> ■ 98.2% ■ 65.3% ■ Seven NHBC Foundation publications. ■ ZCH delivered its business plan targets, including publication of pioneering research and recommendations in the area of building energy performance. ■ 4,800 delegate training days delivered.
<p>Maintain a warranty market share of sufficient size to support our priorities and look after the needs of our customers.</p>	<ul style="list-style-type: none"> ■ Ensure our builder customers and key industry stakeholders are satisfied with our services. ■ Ensure we meet our homeowner customers' expectations and treat them fairly. 	<ul style="list-style-type: none"> ■ Monitoring the satisfaction of these groups allows us to measure how well we are meeting the needs of the industry, and those of our homeowners, and to respond to changing requirements. 	<ul style="list-style-type: none"> ■ Achieve a Net Promoter Score of more than 40% as judged by our builder customers. ■ Monitor the satisfaction of our builder customers across our range of services via our Builder Satisfaction Survey. ■ Achieve an average score of 4.25/5 or above on homeowner satisfaction surveys of our repair contractors' performance. ■ Achieve an average score of 4.25/5 or above on homeowner satisfaction surveys. 	<ul style="list-style-type: none"> ■ 48% ■ 84.2% ■ 4.24 ■ 4.5

What?	How?	Why?	Targets/activities	2014/15 outcome
Consolidate and engage with the industry, key stakeholders and government.	<ul style="list-style-type: none"> Improve recognition of our brand with consumers and strengthen our reputation. 	<ul style="list-style-type: none"> Engagement with these groups allows us to build our reputation across the industry and test awareness of our brand, the products we offer and how well we deliver them. 	<ul style="list-style-type: none"> Achieve a score of 77% or more in our Stakeholder Reputation survey. Establish a measure for consumer engagement with our brand and awareness of our services. 	<ul style="list-style-type: none"> 77% Measure established for 2015/16.
Develop the potential of our staff and invest in their futures.	<ul style="list-style-type: none"> Attract and retain excellent staff. Create a great place to work built on key objectives and behaviours. 	<ul style="list-style-type: none"> To ensure we can continue to deliver the high standards of service our customers expect and that our staff perform to the best of their abilities and continually develop. 	<ul style="list-style-type: none"> Achieve a Best Companies Employee Engagement survey score of over 640. 	<ul style="list-style-type: none"> 667
Ensure we have sufficient capital to fulfil our obligations.	<ul style="list-style-type: none"> Ongoing assessment of our capital position and strategy by reviewing our pricing, investments and reinsurance in relation to industry growth and demand. 	<ul style="list-style-type: none"> We must remain financially strong and have sufficient capital to deliver our promise to our 1.6 million Buildmark policyholders and fulfil our regulatory obligations. We must also have the resources to continue to invest in raising standards and providing key services to the industry. 	<ul style="list-style-type: none"> Ensure our technical provisions remain sufficient to meet potential claims expenditure. Ensure our capital surplus remains within our risk appetite and meets the requirements of our regulator. 	<ul style="list-style-type: none"> Technical provisions sufficient at £995m. Capital surplus remains within risk appetite and exceeds the PRA requirement.

Risks to our business

NHBC's primary role and core purpose is to work with the home-building and wider construction industry to raise the standard of new homes and to provide protection for homeowners. As such, the identification and the management of risk lies at the heart of our business.

Section 1 - NHBC's Approach to Risk Management

NHBC's primary objective is to work with the home-building and wider construction industry to raise the construction standard of new homes and to provide protection to homeowners when they need it. As such, the identification and management of risk is fundamental to achieving NHBC's objectives and lies at the heart of the business.

The Board recognises the importance of a strong risk management culture and has overseen the development and implementation of a company-wide risk management and governance framework. It accepts that it does not have complete control over every factor affecting NHBC's strategic objectives and that NHBC operates in an environment of inherent uncertainty. However, it manages risk in a way which creates and protects value whilst ensuring that customers are treated fairly and the interests of all its stakeholders are safeguarded.

As an insurer, NHBC will be subject to the requirements of the Solvency II Directive, which has a significant impact on NHBC's risk management framework. As the Directive's implementation date approaches, risk and governance processes are being further developed to meet both the needs of our business and the European Insurance and Occupational Pensions Authority (EIOPA) regulations.

Section 2 - Risk Governance

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

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

Further details of Board and Committee structures are set out on pages 38 to 47.

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. The internal control framework is designed to ensure that the minimum standards of control defined in the policies are achieved.



Section 3 - Risk Management

Overview

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 their being realised. Accordingly, the risk framework needs to be flexible enough to react to unexpected circumstances and ensure a suitable risk response. NHBC manages this by having in place a series of risk management processes, including:

- risk and control assessments maintained at function and company level which are managed by risk owners in conjunction with the Risk and Compliance team
- a process for managing risk events involving formal reporting, root cause analysis, impact evaluation and mitigation
- emerging risk assessments, reviewing risks for which the timing and effects are uncertain but which could have severe impacts on our business
- nominated individuals within each business function who provide risk and compliance support for their business areas.

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.

The business areas within each line of defence and the risk and control processes they undertake are subject to review and challenge by two key Board sub-committees.

Risk appetite

NHBC’s risk appetite aligns to the key areas of business activity, known as the ‘Four Pillars’. See pages 24 and 25 for further details. Risk appetite statements with risk tolerances and key indicators have been developed for the key areas, including:

- market share
- reputation
- inspection and technical risk
- underwriting risk
- financial resilience
- conduct risk.

This risk appetite framework will be reviewed and developed further during 2015.

The Risk Operating Model

Board Risk Committee		Audit Committee
		
Review and challenge		Review and challenge
		
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.	Oversight 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. Additional assurance is provided by NHBC’s external auditors.

Section 4 - 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.

Risk area	Key risks
Strategic	Failure to define and implement a strategy which accommodates the changing environment in which NHBC operates or delivers NHBC's strategic purpose.
	Failure to maintain a material market share, resulting in an inability to fulfil its core purpose.
Insurance	Failure to forecast and plan for a material and sustained increase in the value of claims, resulting in a reduction in profit and an inability to replenish capital reserves.
	Failure to influence decreasing building standards, resulting in a detrimental impact on policyholders and increased claims costs.
	Failure to identify significant issues with a building system or widely used building component, resulting in a significant and detrimental impact on policyholders and increased claims costs.
	Failure to mitigate exposure to the insolvency of one or more builder clients, resulting in significant claims costs.
Market	Failure to forecast and mitigate losses or changes in the returns from investment assets, resulting in an inability to fund policy obligations and meet regulatory capital requirements.
	Failure in the capital forecasting process, resulting in an inability to fund policy obligations, maintain market share and meet regulatory capital requirements.
Conduct and operational	Failure to embed compliant operational and governance processes, resulting in poor conduct towards policyholders.
	Failure to maintain stable technology, resulting in an unacceptable standard of customer service.
Pension	Failure to forecast and plan for additional pension fund contributions, resulting in a reduction in profit and an inability to replenish capital reserves.

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 are outlined below:

- Political, including consideration of the competitive environment in which NHBC operates, changes to housing policy and other areas of Government policy.
- Environmental, including long-term changes to weather patterns.
- Technological, including innovation in building systems and processes.

- Economic, including future changes in housing demand and the long-term direction of financial markets.
- Legal, including changes to the regulatory environment affecting the home-building market.

Section 5 - Risk and Capital

The NHBC Board and the PRA require NHBC to hold sufficient capital. A primary objective of the NHBC risk management framework is to ensure that the level of capital held by NHBC is both adequate and aligned to the changing risk profile of the business.

NHBC operates an internal capital model in conjunction with its risk management framework to fulfil this objective. It is also used to ensure that the quality and class of capital is appropriate, conforms to regulatory requirements and is consistent with the company's risk appetite.



Wider impact

Every day, our people work to raise standards in house building. NHBC continues to invest in its people to enable them to thrive and contribute to delivering the success of the business sustainably.

Living our values

To ensure that our values permeate into how we act and how we work towards our priorities, we recognise that the way in which we do things is just as important as what we do. There are six behaviours that our staff hold each other accountable for:

Delighting the customer

Doing what we say we will

Staying ahead of the competition

One NHBC

Professional excellence

Delivering a successful business

These behaviours are embedded in everything we do, and form an important part of our personal development review process, upon which salary progression and any bonuses are based.

Recruitment

With house-building volumes rising and the industry showing sustained growth, in 2014/15 we launched our biggest recruitment campaign since the 1980s.

244 new colleagues joined NHBC during the year (2013/14: 133), the vast majority of whom will be supporting our front-line inspection and building control services. Conversely, voluntary staff turnover remained low at 7.6% (2013/14: 6.7%) with 110 leavers in the year (2013/14: 125).

Diversity

We believe in maintaining high ethical standards and treating all people fairly and consistently. Underlying our commitment to equality is the fundamental belief in the rights of all employees, customers and contractors to be treated with dignity and respect, free from any form of discrimination.

Having well-qualified employees with a variety of perspectives, backgrounds and experience is one of NHBC's strengths. We recruit from diverse backgrounds in order to meet the current and future needs of the house-building industry.

In 2014/15 NHBC:

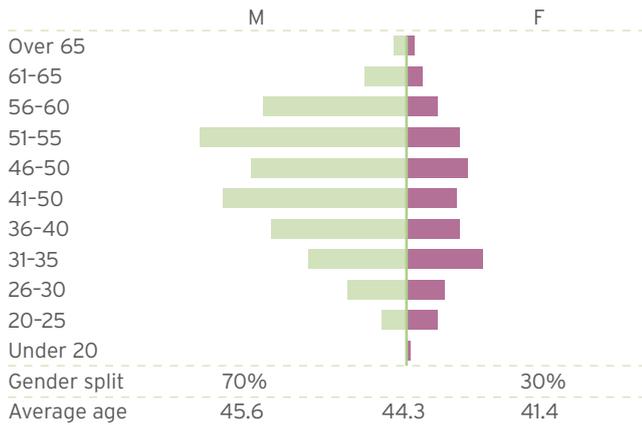
- engaged third party reviews of our diversity, equality and equal pay practices
- introduced a 'quiet room' at our head office for contemplation or practice of faith
- published research via the NHBC Foundation on 'attracting talented young people into house building'
- actively contributed to the Construction Industry Council Diversity Panel
- agreed our diversity ambitions for the future.

NHBC is increasing its focus on building a diverse workforce. In the context of a low turnover rate, it is our ambition that by 2020 we will have:

- increased the overall percentage of women in our workforce from 30% to 34%
- doubled the number of ethnic minority employees in our workforce to 12%
- doubled the number of employees who are disabled or living with long-term health impairments to 13%.

The senior management team is 26% female, which is unchanged from 2013/14. Composition of the Board is cited in the Governance section on pages 38 to 47.

NHBC staff age and gender distribution



NHBC is a member of the Business in the Community Opportunity Now and Race for Opportunity campaigns.

There are no discrimination related cases to report for the financial year. Eight flexible working requests were made in the financial year (2013/14: Eight).

Staying safe and well

NHBC remains committed to a policy of effectively managing all aspects of health and safety. This commitment extends to all business units, workplaces, employees and others affected by our activities.

As an employer, we recognise that achieving high standards of health and safety is an integral part of business performance, and we take all reasonably practicable steps to ensure continual improvement of health and safety standards.

Accepting that house building is a high-risk industry, and with more than a third of our employees directly working in a building site environment daily, our health and safety risk management strategy is proportionate to this level of risk. Key aspects of this strategy are based on the HSE 'Plan, Do, Check' model. This model ensures that we have effective processes and procedures for managing health and safety, and that these are understood and implemented by our managers and staff. The model requires that we check how well these processes are understood and implemented, and we achieve this by auditing a sample of managers annually. This year 13% of managers were audited with a result of 98% compliance achieved.

Building on last year's health and safety training programme, which saw more than 600 staff receiving bespoke health and safety training, this year we focused on refreshing and enhancing that training.

Highlights and achievements

Maintained low staff turnover

Welcomed 240 new colleagues

Agreed our diversity ambitions

Reduced absence

Engaged employees (Best Companies 'One Star' accreditation)

Reduced our accident rate by 42%, none of which required reporting to the HSE

Reduced CO₂ emissions of our company car fleet

632 professional memberships

53 staff supported in community initiatives

Whilst accidents should never be accepted as inevitable, there will be occasions when they occur. Over the past three years we have worked hard to inform staff about the causes of accidents and how these can be prevented. This year we have been encouraged by a reduction in our number of accidents, with just 19 being recorded, none of which required a report to the HSE (2013/14: 32, two of which required a report to the HSE).

In 2014/15 we:

- delivered health and safety training to more than 550 of our staff working in high- and medium-risk roles
- carried out 16 days of 'independent' health and safety verification monitoring of Building Inspectors across 84 sites
- saw a 42% reduction in the number of accidents recorded, with none requiring a report to the HSE.

Developing and supporting staff

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

If colleagues want to specialise or broaden career horizons, they receive personalised support to help make the next step in their career when the opportunity arises.

All employees have access to a range of specific courses in standard and NHBC-specific IT software to develop softer skills such as delivering effective presentations and written and verbal communications.

Supporting professional progression, NHBC funds 632 subscriptions to over 50 professional membership organisations (2013/14: 650) which demonstrates the broad range of expertise amongst our employees and our belief in the importance of maintaining this.

During 2014/15:

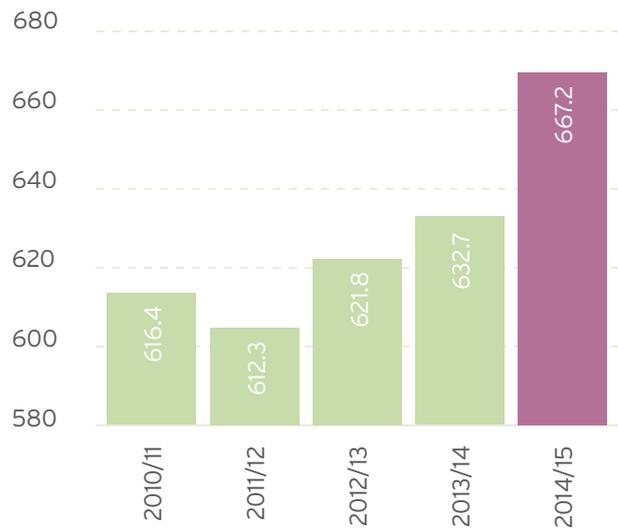
- senior manager development centres were attended by 31 colleagues
- management development centres were attended by 80 colleagues
- all staff received Personal Development Reviews, including conversations about their development, a minimum of twice a year.

We continue to provide support to staff at key milestones in their life. Maternity and paternity benefits above statutory minimum are offered and, to help our employees make informed decisions about retirement, pre-retirement seminars are made available according to demand across the UK.

Our range of supportive policies have meant that we again experienced a high return rate after maternity leave for 2014/15 of 87% (2013/14: 100%), with 7% of staff accommodated on flexible or part-time contracts.



Employee engagement scores



Employee engagement and open communications

We are delighted that NHBC achieved ‘One Star’ accreditation for the first time since introducing the annual Employee Opinion Survey in 2008. The survey, conducted by Best Companies, showed improvements in all aspects of how people felt about their job, including their team, their manager, the company and the senior managers and Executives. The completion rate of 93%, also a record for NHBC, indicates that staff feel comfortable to share their views and contribute to the future success of NHBC.

We continue to keep everyone informed about company performance, major business challenges and all other relevant matters using a variety of channels. Leaders regularly connect with staff through bi-annual Roadshows which reach over 95% of all staff, and the popular transparent online question and answer forum ‘Open Mike’.

The cross-functional team that deliver internal communications were highly commended by the Chartered Institute for Public Relations in the #insidestory awards for 2014/15.

Where we work

In order to give NHBC national coverage, 55% of staff are based in locations around the UK, working in the field or at home. NHBC has offices in London, Belfast and Edinburgh, with our head office in Milton Keynes. There is an active Home and Field Working Group that works to reduce barriers to engagement and deliver practical advice and solutions to the challenges of remote working.

Recognising excellence

Our peer-nominated staff recognition scheme, the STAR Awards, were introduced in 2014 and link exceptional performance to NHBC's behavioural competencies for those that demonstrated work and behaviour exemplifying our values. 349 nominations were made for individuals, with a further 54 for teams. Awards were presented to the seven winners at a gala evening in central London.

Pay and benefit

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

Over 95% of our staff are members of our Defined Contribution pension scheme, unchanged from 2013/14, and the scheme has been re-accredited to the Pension Quality Mark Plus Standards.

We are also proud to be a partner of the Living Wage Foundation, with our minimum pay levels for direct employees across the UK exceeding the national Living Wage. We also work with suppliers to pay the Living Wage to on-site contractors.

Staff Association

The NHBC Staff Association (SA) is a members' trade union that acts as the consultative voice for employees at NHBC and provides support to members during formal proceedings. It is officially recognised by NHBC, with terms of reference and Articles of Association signed and supported by the Chief Executive. The SA is registered with the Certification Office for Trade Unions and Employers' Associations.

The SA was created because, for an organisation with as diverse a portfolio as ours, it would be extremely difficult to find a truly suitable union; although staff are free to join other unions as they wish. All staff at NHBC have the annual opportunity to elect a group of representatives for three-year terms, with elections organised by business area and geographical location. Those representatives then internally elect an executive committee which oversees the running of the SA. As at the end of 2014/15, there were 663 members of the SA, representing 57% of all staff (2013/14: 603 and 60%).

Supply chain

It is important to us that we know who we are doing business with so we choose suppliers using established principles which ensure that we, and the supplier, act ethically and responsibly.



Average fleet emissions (g/CO₂/km per car)



Matched funding for employee causes



Our environment

As providing inspections remains a critical part of our business model to raise standards in the house-building industry, the miles we cover remain our biggest operational environmental impact. Our fleet CO₂ emissions reduced in the year to an average of 108.2g/CO₂/km (2013/14: 118.2g/CO₂/km).

We continue to invest in our workspaces, demonstrated by the introduction of a quiet room, a creative room, additional meeting spaces and landscaping of our outside spaces for staff.

Community

Having a positive impact in the communities in which we operate is important to us. NHBC raised £25,026 for our staff-selected charity, Cancer Research UK, in 2014/15, bringing the total of our partnership to £36,960.

Recognising that colleagues have many different charities they wish to contribute to, 53 causes were supported by the popular matched funding scheme in 2014/15.

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

The strategic report was approved by the Board on 25 June 2015.

Mike Quinton
Chief Executive

Governance

- Board
- Council
- Corporate governance report
- Directors' report
- Audit Committee report
- Board Risk Committee report
- Investment Committee report
- Remuneration Committee report
- Nominations Committee report
- Consumer Committee report
- Standards Committee report
- Scottish Committee report
- Northern Ireland Committee report

Board

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



Isabel Hudson

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



Mike Quinton

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



Sir John Harman

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



Stewart Baseley

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



Ian Craston

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



Ian Davis

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



Greg Fitzgerald

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



Neil Jefferson

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



Jean Park

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



Chris Rash

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



Sir Muir Russell

Sir Muir Russell 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, and is currently the Chairing Member of the Judicial Appointments Board for Scotland and Chairman of the Board of Trustees of the Royal Botanic Garden Edinburgh. Sir Muir is also Chairman of the Audit and Scottish Committees.



Dame Helena Shovelton

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

Council

Mr A Baddeley-Chappell
Council of Mortgage Lenders

Mr S Baseley
NHBC Board appointment

Mr D Birkbeck
Design for Homes

Mr M Black
Home Builders Federation

Ms J Bourne
Council of Mortgage Lenders

Mr A Burd
British Standards Institute

Mr P Caplehorn
Construction Products Association

Mr C Carr
Federation of Master Builders

Sir John Carter
Honorary Vice-President

Mr D Cochrane
Scottish Committee

Mr A Collett
British Property Federation

Mrs R Connolly
Warranty Holder

Mr I W L Cook
Council of Mortgage Lenders

Mr I Craston
NHBC Board appointment

Mr A Cripps
Royal Institution of Chartered Surveyors

Mr I Davis
NHBC Board appointment

Mrs S Dean
Warranty Holder

Mr B Derbyshire
Housing Forum

Mr G Fitzgerald
NHBC Board appointment

Mr G Fogden
Home Builders Federation

The Rt. Hon. the Lord Fowler
Honorary Vice-President

Mr C Fudge
Construction Products Association

Mr W C Gair
Home Builders Federation

Mr R Hardy
Building Research Establishment

Sir John Harman
NHBC Board appointment

Ms C Harrigan
Joseph Rowntree Trust

Mr M Hayward
National Association of Estate Agents

Mr K Hinton
Warranty Holder

Mr J Hood
Northern Ireland Committee

Mr B Hook
Royal Institution of Chartered Surveyors

Mrs I Hudson
NHBC Board appointment

Mr B A P Hunt
Appointments Committee

Mr C Hunt
British Board of Agrément

Mr K Ireland
Federation of Master Builders

Mr N Jefferson
NHBC Board appointment

Ms A Kaye
Institute of Consumer Affairs

Mr L Livermore
Trading Standards Institute

Mrs A J Lowe
Warranty Holder

Mr D McCallum
Chartered Institute of Housing

Mr D McLeod
Scottish Committee

Ms J Park

NHBC Board appointment

Sir Michael Pickard

Honorary Vice-President

Mr M N Quinton

NHBC Board appointment

Mr C Rash

NHBC Board appointment

Mr C Richardson

Warranty Holder

Mr A Rowan

Northern Ireland Committee

Mr J Roycroft

Institution of Civil Engineers

Mr T R Roydon

Home Builders Federation

Sir Alastair Muir Russell

NHBC Board appointment/Scottish Committee

Mr P Sellwood

Energy Saving Trust

Mr T Sharpe

Scottish Committee

Dame Helena Shovelton

NHBC Board appointment

Mr J Slater

Home Builders Federation

Ms S Speirs

Scottish Committee

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

Law Society



Corporate governance report

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

NHBC Council

NHBC is a private company limited by guarantee; it does not have shares and does not pay dividends. While this form of incorporation is unusual for a company that operates commercially, it is not uncommon; for instance, Network Rail and Bupa are both large companies that are limited by guarantee.

NHBC's governing body comprises 58 individual members who are known collectively as the NHBC Council. Council members are drawn from a range of organisations that are interested in or associated with the house-building industry and some also serve on NHBC Committees.

Council members perform a role that is similar to that of shareholders. The difference is that while Council members have guaranteed to contribute the sum of £1.00 to the company should it be wound-up, unlike shareholders they have no other financial interest or investment in NHBC.

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

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

- alterations to NHBC's constitution
- the appointment of the auditors
- the appointment of Council members
- ratifying a decision of the Board to appoint a director for a term exceeding nine years.

In accordance with NHBC's Articles of Association, Council members may serve for two five-year terms. Following the reorganisation of the Council in 2009, the first five-year term of the members appointed at that time came to an end at the AGM in September 2014.

Leading up to the AGM enquiries were made with the organisations that sponsored those members and in some cases they decided to nominate new members.

Also, during the year the Council Appointments Committee, whose role includes inviting sponsoring bodies to nominate one or more persons for membership of the Council and making recommendations on memberships to the Council, agreed to invite the following organisations to nominate a member:

- The National Association of Estate agents.
- British Standards Institution.
- Building Research Establishment.
- Trading Standards Institute.

At the AGM, the Council approved the recommendations of the Council Appointments Committee, and the list of Council members shown on pages 42 and 43 of the report reflects the appointments that were made at the AGM and any changes that have occurred since then, up to and including 1 June 2015.



Derwenthorpe - York - Barratt East Yorkshire

In addition to the AGM, Council members have some other opportunities to engage with NHBC. Following the appointments in 2014, we held an induction session to introduce the new members to the company and to highlight the main aspects of our operation and activities. During the year NHBC holds events in partnership with some of the organisations that nominate Council members, which have included policy events at the political party conferences. Some workshop sessions have also been held with Council members covering NHBC's strategic approach to the provision of web-based information services and to the development of our brand. Additionally, the Chairman has hosted two dinners with senior representatives of organisations that nominate members to the Council. At those events, matters of interest and concern to the industry, such as the volume of new homes being built in the UK and construction quality, were discussed.

NHBC Council – representation by category (as at 1 June 2015)

NHBC Board	12
Scottish Committee	4
Northern Ireland Committee	2
Warranty holders	5
Industry bodies	16
Professions	5
Vice presidents	3
Financial services	3
Consumer	2
Other	6
Total	58

NHBC Board

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

Board composition

Biographical information on each of the directors is contained on pages 38 to 42.

Balance of Executive and Non-Executive Directors

Chairman	1
Senior independent director	1
Non-Executives	6
Executives	4

Length of service - Non-Executive Directors

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

Gender split of Board Directors

Male	9
Female	3

Board gender diversity vs. FTSE 100 and FTSE 250

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

NHBC Board (continued)

Under the Articles, which are reflected in the letter of appointment, we appoint Non-Executive Directors for an initial three-year term. They may then be reappointed by and at the discretion of the Board for a further period not exceeding three years and then for a further period, gain not exceeding three years (i.e. up to nine in total). Should the Board decide to extend the term by a further period, ratification of their decision is sought from the Council at the next General Meeting following the date of the appointment.

At the AGM in September 2014, the Council ratified the Board's decision to extend Stewart Baseley's appointment for a further three years, until May 2017. At that point, Mr Baseley will step down and a successor will be sought.

As referred to in the report on the Investment Committee, NHBC successfully identified a Non-Executive Director with investment management experience, and Ian Craston was appointed to the Board in September 2014. Ian has also taken over as Chairman of the Investment Committee. In June and August 2014 respectively, Robin Nicholson and Bridget McIntyre stepped down from the Board.

The changes mentioned above bring the number of directors on the Board to 12. The Board now has seven standing committees, and most Non-Executive Directors serve as the Chairman of one committee and sit on two others.

Given NHBC's role within the home-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 proper oversight and governance of the Company at Board level.

Two directors, Stewart Baseley and Greg Fitzgerald, do not fulfil the test of independence in accordance with the UK Corporate Governance Code (the Code): Mr Baseley because he is the Executive Chairman of the Home Builders Federation (HBF) and has been a member of the NHBC Board for longer than nine years, and Mr Fitzgerald because he is a director of a company which has business relationships with NHBC.

As stated at the AGM in 2014, NHBC continues to benefit from the contribution made by Mr Baseley, which draws on his many years of experience of the industry and commerce in general. Additionally, his position as the Executive Chairman of HBF means that he is uniquely placed to advise the Board on the activities, influences and pressures within the industry and also on the direction of government policy (both present and future).

All directors make a declaration of their interests to the Board, which includes any actual or potential conflicts of interest they may have. Those issues are considered by the Board, recorded in a register held for that purpose, kept under review and approved 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 the discussion but does not participate in any decision and may leave the meeting while a decision is made.

A review of Board effectiveness is carried out annually. In 2012 and 2013, a questionnaire-based approach was used. In 2014 an external review was conducted which is in line with the three-yearly cycle referred to in the Code. For the 2015 review the Board completed a series of online questionnaires designed by an independent corporate governance consultancy. The outcome of the reviews is fully discussed by the Board and agreement reached on an action plan for the future.

Actions arising from recent reviews have included: reducing the overall size of the Board and considering how to spread the committee workload among the Non-Executive Directors, giving greater visibility to succession planning, ensuring that the information provided to the Board is suitably clear and concise, and improving the visibility of the Board across NHBC.

Board attendance

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

Board member	Meetings to attend	Meetings attended	Attendance %
Isabel Hudson (Chairman)	6	6	100%
Sir John Harman (SID)	6	6	100%
Stewart Baseley	6	5	83%
Ian Craston ¹	3	3	100%
Ian Davis	6	6	100%
Greg Fitzgerald	6	5	83%
Neil Jefferson	6	6	100%
Sandra Kelly ²	1	1	100%
Bridget McIntyre ³	2	2	100%
Robin Nicholson ⁴	2	2	100%
Jean Park	6	6	100%
Mike Quinton	6	6	100%
Chris Rash ⁵	3	3	100%
Sir Muir Russell	6	6	100%
Dame Helena Shovelton	6	6	100%
Richard Tamayo ⁶	1	1	100%

1 Ian Craston joined the Board in September 2014.

2 Sandra Kelly stepped down from the Board in June 2014.

3 Bridget McIntyre stepped down from the Board in August 2014.

4 Robin Nicholson stepped down from the Board in June 2014.

5 Chris Rash joined the Board in September 2014.

6 Richard Tamayo stepped down from the Board in June 2014.

NHBC's Committees

In September 2014, the Board agreed to change the membership of the core governance committees. The committee reports which follow reflect the current membership of each committee following those changes. The reasons for making the changes were to:

- spread the workload of committee membership more evenly among the Non-Executives while making best use of their skills and experience
- provide greater Non-Executive support to the Consumer and Standards Committees
- refresh the composition of various committees.

The role of the committees

The Committees section of the report on pages 50 to 64 highlights just some of the work which the committees have undertaken during the year under review.

Directors' report

The directors submit their Annual Report and Accounts for NHBC, together with the consolidated financial statements of the NHBC Group, for the year ended 31 March 2015. 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 profit and loss account on pages 88 and 89.

Directors

The directors as at the date of this report are shown together with their biographical details in the Strategic Report. During the year and up to the date of this Report, there have been the following changes to the Board. Sandra Kelly and Richard Tamayo left the Board in June 2014. Chris Rash was appointed to the Board in September 2014. Robin Nicholson and Bridget McIntyre left in June and August respectively. Ian Craston was appointed in September 2014.

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 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 30 on page 115 to the financial statements.

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

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

There is no arrangement or understanding with any 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, PwC, 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 PwC 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 enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently
- make 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	15
Disclosure of information to the auditor	Directors' report	48
Directors in office during the year	Board	38
Details of qualifying third party indemnity provisions	Directors' report	48
Corporate responsibility governance	Wider impact	32
Post balance sheet events	Notes to the financial statements	96
Future developments of the business	Chief Executive report	10
Rules governing appointments of directors	Corporate governance report	44

By order of the Board.



J P Hastings FCIS
Company Secretary
25 June 2015

Audit Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Sir Muir Russell (Chairman)	3	3	100%
Stewart Baseley ¹	2	2	100%
Greg Fitzgerald ²	1	1	100%
Bridget McIntyre ³	1	1	100%
Jean Park	3	3	100%
Dame Helena Shovelton ⁴	2	2	100%

1 Stewart Baseley joined the Committee in September 2014.

2 Greg Fitzgerald stepped down from the Committee in September 2014.

3 Bridget McIntyre stepped down from the Committee in August 2014.

4 Dame Helena Shovelton joined the Committee in September 2014.

Items covered included:

Assessment of external auditor independence and effectiveness

Insurance reserving assumptions

The Directors' Report and Accounts

Internal audit reports

Accounting issues - the financial control framework, developments in accounting practice;

The development of reporting and disclosure in the Annual Report

Internal audit reports

External audit plan for 2015/16

Internal audit plan for 2015/16

Insurance reserving

Accounting issues - reserving assumptions for 2014/15, accounting policies and balance sheet review

Review of non-audit fees

The principal role of the Committee is to:

- review and recommend to the Board the approval of the Annual Report and Accounts
- review financial returns to regulators
- review and where necessary challenge the effectiveness of risk control processes, the consistency of accounting policies, the clarity of disclosure in financial reports, and whether NHBC has followed appropriate accounting standards and taken into account the views of the external auditor
- monitor NHBC's whistleblowing system through which employees are able to report, confidentially, on matters of concern.

The members of the Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chairman of the Board, Chief Executive, Commercial Director and CFO, Company Actuary, Head of Finance, Grant Thornton (internal audit) and PwC (external audit).

Activities during 2014/15

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 to ensure that NHBC follows good practice having regard to its status as a private, non-profit distributing company and the needs of our stakeholder and wider audience
- approving the external and internal audit plans
- discussing with both the Company Actuary and external advisers, Towers Watson, the approach to reserving and the assumptions used to assess the level of reserves within the context of the accounting and ABI (Association of British Insurers) rules
- reviewing developments in the UK accounting framework as they apply to NHBC
- reviewing the internal audit reports submitted by Grant Thornton
- reporting on its activities to the Board.

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:

- claims provisions
- revenue recognition
- management controls
- the investment portfolio
- pension scheme liabilities.

Reserving

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

NHBC is required at all times to hold reserves that are sufficient to cover liabilities arising out of insurance contracts, so far as can be reasonably foreseen. In view of that requirement, we take a cautious and prudent approach with 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 its 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'.

For 2014/15, a list of internal audit focus areas was identified. Grant Thornton has completed reports on all those items in the plan and they have been reviewed by the Committee. The areas on which reports were prepared included:

- reinsurance
- complaints management
- underwriting
- the Solvency II programme
- change management
- data security.

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

Board Risk Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Jean Park (Chairman)	7	7	100%
Ian Craston ¹	4	4	100%
Greg Fitzgerald	7	6	86%
Sir John Harman ²	3	3	100%
Isabel Hudson	7	5	71%
Bridget McIntyre ³	3	1	33%

¹ Ian Craston joined the Committee in September 2014.

² Sir John Harman stepped down from the Committee in September 2014.

³ Bridget McIntyre stepped down from the Committee in August 2014.

Items covered included:

Capital model approach and key assumptions

Risk management reporting, including Solvency II and Own Risk and Solvency Assessment (ORSA)

Risk appetite principles

Capital analysis

Assessment of 2014/15 year-end surplus capital

Risk appetite reviews

Annual validation plan

Solvency II programme

Consideration of reinsurance cover

Compliance monitoring reporting

Pension scheme investment strategy

Mid-year risk and capital assessment

The principal role of the Committee is to:

- review the effectiveness of NHBC's risk management framework
- oversee and advise the Board on the current risk exposures of the company
- consider and advise the Board on NHBC's overall risk appetite, tolerance and strategy
- review and challenge NHBC's planning and readiness for the implementation of a Solvency II-compliant risk and capital management framework
- challenge the identification, assessment and mitigation of significant prudential and conduct risks
- consider, review and ensure compliance with NHBC's policies relating to material risks
- examine NHBC's ORSA.

The members of the Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend Committee meetings: the Chief Executive, Commercial Director and CFO, Company Actuary, Head of Risk and Compliance, Grant Thornton (internal audit) and external actuarial advisers when requested.

Activities during 2014/15

In the performance of its duties the Committee met seven times during the financial year. The Committee oversaw the development of several material items, including the following

The risk management framework

The Committee reviewed the proposed development of the risk management framework. This included assessing how NHBC would manage conduct risk and successfully incorporate it into the wider risk framework. The Committee worked with the Consumer Committee to co-ordinate its support in managing conduct risk and ensure that our policyholders receive fair outcomes in their dealings with NHBC.

The Committee also reviewed and discussed the newly developed risk appetite statements and their alignment to NHBC's strategic priorities. Assessment of the adequacy and relevance of the metrics used to measure compliance with the risk appetite statements was also undertaken.

Solvency II and capital management

As part of NHBC's preparatory work for the forthcoming implementation of the Solvency II Directive on 1 January 2016, the Committee has provided oversight of the various activities related to this during the year, including:

- review and guidance relating to NHBC's Solvency II preparation programme
- agreement of the Solvency II validation activity plan for 2014/15 and 2015/16
- assessment of NHBC's capital modelling approach, including consideration of the key assumptions used in the capital projections and challenging the outputs from the model
- consideration of NHBC's ORSA process and report
- providing advice on the regulatory engagement process.

Regulatory compliance

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

- reviewing and approving the annual compliance monitoring plan and assessment of the findings that resulted from that monitoring activity
- assessing and challenging management's progress in the resolution of outstanding items identified from prior monitoring reviews
- reviewing NHBC's readiness to respond to relevant impending regulatory changes.

Policy review and approval

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

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

Other items of note

In addition to the above initiatives, the Committee also undertook a range of activities within its remit of reviewing and challenging the management of risk. Examples include:

- reviewing NHBC's risk profile and assessment of the company level risk register as well as individual key risks within it
- considering the restructure of NHBC's investment portfolio
- reviewing the exposure to NHBC from the investment profile of the pension scheme
- supporting the Remuneration Committee in the assessment of management achieving bonus targets associated with levels of surplus capital
- a series of training sessions on Solvency II.

For further details on how Board Risk Committee supports the wider risk management framework, please refer to the 'Risks to our business' section on pages 28 to 30.

Investment Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Ian Craston (Chairman) ¹	2	2	100%
Sir John Harman ²	1	1	100%
Isabel Hudson ³	1	1	100%
Jean Park	3	3	100%
Sir Muir Russell	3	3	100%

¹ Ian Craston joined the Committee in September 2014.

² Sir John Harman stepped down from the Committee in September 2014.

³ Isabel Hudson stepped down from the Committee in September 2014.

Items covered included:

Transition reports, quarterly reports from Towers Watson on investment performance, investment manager meetings (including Insight, Credit Suisse, PIMCO, Invesco and Blackrock) pension scheme investment and funding

Investment strategy

Custody arrangements, the implications for investment in a low-yield environment, review of investment managers' fees

The principal role of the Committee is to:

- review strategic asset allocation and make recommendations to the Board
- establish strategy for the company's investment portfolio and review its implementation, performance and its compliance with risk tolerances
- monitor the activities and conduct of its appointed investment fund managers.

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

Activities during 2014/15

Early in 2014, the transition of the portfolio into the new investment structure was completed and this year will be the first full year in which the new arrangements have operated.

The asset allocation of the portfolio is now:

Indexed linked bonds	41%
Corporate bonds	39%
Equities	8%
Gifts	6%
Cash and short-term treasury bills	6%

The total return from the portfolio over the year has been 5.5%, driven principally by interest income.

In last year's "Annual Report" we said that we were looking to recruit a Non-Executive Director with specific investment management experience. The outcome of that search was the appointment of Mr Ian Craston to the Board with effect from 16 September 2014. Ian's biographical details are set out on page 39 of the report. As was intended, Ian also took over as the Chairman of the Committee.



The Committee met on three occasions during the year, and its main activities were to establish strategy for the company's investment portfolio, review its implementation, review performance and compliance with risk tolerances, as well as monitor the activities and conduct of its appointed fund managers. The Committee is supported in these activities by Towers Watson, who are NHBC's investment advisers. The role of Towers Watson is to assist NHBC in the operation of their investment portfolios, including the provision of investment advice, facilitation of the implementation of agreed strategies as well as the delivery of disposition and performance data.

NHBC uses a number of external fund managers to implement its chosen strategies. The performance of these managers is regularly reviewed by the Committee to ensure it remains compliant with the company's strategy aims and assess the returns delivered. The overall level of fees paid to investment managers has been reviewed and in general the fee structure is believed to compare favourably with the market. Should NHBC decide to invest in any different asset classes, the level of fees will be a consideration at that time.

NHBC operates a core prudent investment strategy, based on a strong allocation to high-quality bonds. In the current economic environment, where investment yields remain at historically low levels, the Committee has been considering whether any changes need to be made to the portfolio in order to enhance the return while retaining a prudent approach consistent with the capital base of the company.

In setting its investment strategy, the Committee has agreed that NHBC should not invest directly in bonds issued by:

- major customers
- suppliers of materials to the house-building industry
- firms that might approach NHBC to improve the product
- housing associations.

The remit of the Committee also includes an overview of the investment strategy of NHBC's defined benefit pension fund. This is undertaken through an annual meeting with the Chairman of the Pension Scheme Trustees. Currently, the trustees are planning to gradually move the assets which they hold into a lower-risk portfolio comprising a mix of UK gilts, index-linked gilts and investment-grade corporate bonds. NHBC supports that plan and we are working with the trustees and our mutual advisers to develop a plan that will help both parties to achieve their objectives over the coming years.

NHBC will continue to operate a prudent investment strategy concentrated in high-quality assets supporting the financial strength of the company. With the likely continuation of the current low-yield environment, the Committee will continue to review strategic alternatives to enhance the returns generated whilst maintaining this high-quality structure. This will include the review of investments generating additional income in return for lower liquidity.

Remuneration Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Sir John Harman (Chairman) ¹	4	4	100%
Ian Craston ²	4	4	100%
Greg Fitzgerald	7	6	86%
Bridget McIntyre ³	3	3	100%
Dame Helena Shovelton ⁴	3	3	100%

¹ Sir John Harman joined the Committee in September 2014.

² Ian Craston joined the Committee in September 2014.

³ Bridget McIntyre stepped down from the Committee in August 2014.

⁴ Dame Helena Shovelton stepped down from the Committee in September 2014.

Items covered included:

Consideration of Executive Directors' bonus scheme measures

Design of the bonus schemes for 2015/16

Review of Executive Directors' and senior managers' contracts of employment

Evaluation of gender-related pay differentials

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.

Activities during 2014/15

In addition to discussing the issues regarding Executive Directors' remuneration and the annual salary settlement, which included a review of performance against bonus scheme measures for 2013/14, and the design of the schemes for 2014/15 and 2015/16, the Committee also considered some other related matters.

In order to assist the Committee to determine the appropriate level of salary to be recommended for the Executive Directors, consultants were engaged to develop

an appropriate benchmarking methodology. Their report highlighted the difficulty in trying to identify a suitable benchmark for NHBC; however, it did provide an objective overview of the market that informed and assisted the Committee in coming to a view on the level and content of remuneration packages that are appropriate for NHBC's Executive Directors.

A review of the contracts of employment with the Executive Directors and senior managers took place to ensure that they are up to date and reflect modern practice. Where appropriate, new contracts are being agreed.

A review was also undertaken of gender-related pay differentials within NHBC. The outcome showed that while there is a marked difference between the average pay for male and female employees, it is because of a preponderance of male employees in higher-paid, mainly technical, roles. For employees in the same role there is no pay differential, and an analysis of performance appraisals also showed no gender bias. In light of the review NHBC is taking steps to attract more suitably qualified women into roles traditionally occupied by men.

For more details on the Remuneration Committee please refer to the remuneration report on pages 65 to 82.

Nominations Committee report

Membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Isabel Hudson (Chairman)	3	3	100%
Stewart Baseley ¹	1	1	100%
Greg Fitzgerald ²	2	1	50%
Sir John Harman	3	3	100%
Sir Muir Russell	3	3	100%

¹ Stewart Baseley stepped down from the Committee in September 2014.

² Greg Fitzgerald joined the Committee in September 2014.

Items covered included:

Recommendations for Executive and Non-Executive appointments (Mr C Rash and Mr I Craston); membership of Board committees; senior management succession and the future direction and composition of the Standards Committee

The composition of the Consumer Committee, the development of senior managers and appointments to the Standards Committee

A review of Board composition, Non-Executive Directors' extensions of term, Executive Director and senior management succession planning, Board effectiveness review, appointments to the Consumer Committee and a review of the Chairman's activities

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.

Activities during 2014/15

The two significant appointments that were made during the year were Chris Rash as Commercial Director and Chief Financial Officer, and also Ian Craston as a Non-Executive Director and Chairman of the Investment Committee. Their biographical details are given on pages 39 and 41.

At the Non-Executive level, the Committee is concerned to ensure that the mix of skills and experience is appropriate to the business and that succession is planned in an orderly manner. Over the coming year Sir Muir Russell, Dame Helena Shovelton and Jean Park will each complete their initial three-year term and the Board has agreed the Nominations Committee's recommendation to offer all them a second three-year term. At the AGM in 2014, the Council ratified the Board's decision to extend Stewart Baseley's term of office until mid-2017 and consideration is being given to some possible successors.

The Committee has reviewed NHBC's plans for succession across the Executive Directors and senior management team. Over the course of the year a series of development centres

have been held which have identified a number of employees with the potential and ambition to take on more senior roles. As a result, some of those employees have been included in the broader succession plan and the development of their careers is being considered.

Since taking over as Chairman of the Standards Committee (in September 2012), Stewart Baseley has reviewed the work of that committee and begun to broaden its role by focusing on a range of wider, more strategic, issues. An aspect of the review has been to ensure that the composition of the Standards Committee supports its wider role, and that has led to the Nominations Committee considering proposal for changes and recommendations to the Board, in particular the appointments of Michael Black (Group Production and Quality Control Director, Bovis Homes) and Garry McDonald (Procurement & Sustainability Director, Miller Homes) as members of the Standards Committee. The appointment of Cliff Fudge (Technical Director at H+H UK Limited) has also been extended for a three-year period from August 2014.

During the year, Ron Gainsford OBE (Vice President and formerly CEO of the Trading Standards Institute) stood down from the Consumer Committee following nine years' service. NHBC is very grateful to him for the interest he took in the work of that Committee and for the contribution he made to it. His retirement increased the number of vacancies on the Consumer Committee and, following a selection procedure, the Nominations Committee recommended that both Mr Ian Warwick (from the Trading Standards Institute) and Mrs Susan Dean, a Buildmark warranty holder) should be appointed. The Board has agreed to that recommendation and they both took up their positions on the Consumer Committee with effect from June 2015.

Consumer Committee report

Board membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Dame Helena Shovelton (Chairman)	4	4	100%
Stewart Baseley	4	3	75%
Sir John Harman ¹	3	3	100%
Robin Nicholson ²	1	1	100%

¹ Sir John Harman joined the Committee in September 2014.
² Robin Nicholson stepped down from the Committee in June 2014.

Items covered included:

Treating customers fairly updates, NHBC claims customer satisfaction survey, media updates, Consumer Code for Homebuilders

Update from the Chairman of the Consumer Code for Homebuilders, Buildmark policy development, the Customer Knows: Customer Known project, Consumer Affairs updates, Claims reports

Product development and consumer marketing, conduct risk, customer satisfaction surveys

Consumer awareness strategy, Buildmark review and Standards Committee updates

The principal role of the Committee is to:

- review NHBC’s management information and performance in relation to Treating Customers Fairly, claims, complaints and customer satisfaction
- review the research carried out with homeowners to assess their satisfaction with remedial works and the results of mystery shopping exercises conducted with NHBC
- consider and recommend new terms of reference that ensure the Committee’s view is sought on NHBC’s customer facing activities, such as the review of the Buildmark policy
- keep abreast of the progress and activities of the Consumer Code for Homebuilders
- develop and maintain a consumer strategy
- review the management of conduct risk and resolution of any conduct risk issues reported, giving confidence to the Board Risk Committee and FCA that this risk area is subject to rigorous independent scrutiny.

Activities during 2014/15

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 involvement with organisations holding an interest in consumer affairs.

Over the last year the Committee has met on four occasions to discuss and advise on matters that have an impact on consumers and the assistance NHBC provides should homeowners experience problems with their homes. During the year, work commenced on the development of a Consumer Strategy to support the aims of the Committee in ensuring a consumer focus exists within the company.

The Buildmark policy provides valuable protection to new home owners. 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 has been involved in reviewing the policy and has provided feedback on the wording and cover on offer. In addition, a new insurance product specifically designed for flats is being developed and the Committee is involved with this work.

It is important that NHBC fulfils the requirements of its financial conduct regulator, the FCA. To monitor NHBC's performance for the fair treatment of its policyholders, the Committee reviewed data on claims, complaints, products and inspections, providing advice and suggestions for improvements where appropriate. The Committee has also been made aware of developments and news from the FCA, including its thematic review and consultation paper on complaint handling.

The progress and continuing success of the Consumer Code for Homebuilders remains of key interest to the Committee and an update on the Code is provided at each meeting. One of the main recommendations from the Committee was that the Code becomes a Trading Standards Approved Code, and an application was submitted in March 2015.

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

The Committee has a specific role on behalf of the Board to ensure that information provided by the business is suitably challenged so that consumer interests and outcomes are not adversely affected through inadequate processes, products and service. A conduct risk framework for the business has been put together and the Committee reviews the data and assesses the potential impact and risk to the consumer so that if appropriate the relevant controls and improvements can be implemented.

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



Standards Committee report

Board membership and attendance

Committee member	Meetings to attend	Meetings attended	Attendance %
Stewart Baseley (Chairman)	3	3	100%
Sir John Harman ¹	2	2	100%
Isabel Hudson ²	1	1	100%
Robin Nicholson ³	0	0	n/a
Dame Helena Shovelton	3	3	100%

¹ Sir John Harman joined the Committee in September 2014.
² Isabel Hudson stepped down from the Committee in September 2014.
³ Robin Nicholson stepped down from the Committee in June 2014.

Items covered included:

Basements, house-building standards (pitched roof campaign, Standards online, Foundation Depth Calculator app, Defects Hub), development of NHBC Standards, NHBC Foundation updates

Raising standards projects (the underlying causes of defects, improving the construction of foundations), lessons learned from the 2013/14 storms and ZCH updates

Access to roof voids, cracking noises from plasterboard ceilings and Chapter 5.4 'Waterproofing of basements and other below ground structures'

Construction quality audits, inspection service review, and standards re-write technical changes to NHBC Standards

The principal role of the Committee is to:

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



Activities during 2014/15

During the year the Standards Committee was reshaped to focus its attention on more strategic issues. This is achieved by making best use of all available sources of information to improve the quality of home building, thereby reducing the likelihood of future defects and protecting homeowners.

The Standards Committee is one of six committees with specific delegated responsibility by the Board of Directors (there also two National Committees representing Scotland and Northern Ireland and a Standards Review Group focused on technical matters).

Membership of the Standards Committee has also evolved and, in 2014, Geoff Fogden, Ian Cook, Bill Murdoch, Ronnie Scott and Harold Rackham left the Committee, and Garry McDonald, Michael Black, Dr Tim Sharp, Sir John Harman and Dame Helena Shovelton joined.

The Committee met on three occasions during 2014 and, in addition, a House-Building Standards conference was held in April 2014. The conference was well attended by members of the Standards Committee, Standards Review Group and Scottish and Northern Ireland Technical sub-committees, in addition to a number of influential people from across the industry.

Whilst the Committee approved a number of amendments to the NHBC Standards throughout the year, it also approved the introduction of a complete new chapter developed in

conjunction with the industry - *'Waterproofing of basements and other below ground structures'*. This formed part of an extensive campaign aimed at assisting the industry to improve construction of below ground structures, reduce defects and costs. The Committee also approved the re-write of NHBC Standards in their entirety, and work on this has progressed well during the year.

Other 'raising standards' campaigns were run in response to analysis of claims experience in relation to foundations and external masonry walls. A major project that aimed to identify opportunities to reduce the number of defects in new homes significantly by exposing underlying causations and then generating initiatives to reduce their occurrence and impact began in April. The project went on to detail a 'future vision' that will shape a number of initiatives and attract the time of the Standards Committee over the coming years. These initiatives include the development and introduction of Construction Quality Audits, development of a Construction Quality Index, macro analysis of audit data to inform and influence industry practice, a Register of Site Managers, research into the true cost of defects to the industry and research into the opportunities that off-site construction offers in terms of construction quality.

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

Scottish Committee report

Membership and attendance

Committee

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

Items covered included:

- Director's report - this includes an update on activities, the housing market, relationships with stakeholders and competition
- Inspection report
- Claims report
- Consumer Committee
- Executive Director report

The principal role of the Committee is to:

- review the local market along with the political and economic environment in Scotland
- review NHBC's financial performance in Scotland, including data on claims, inspection and NHBC Services
- consider Scottish Building Control practices and identify where NHBC might assist local authorities by becoming involved in the inspection of construction works for new homes.

The NHBC Scottish Committee meets on a quarterly cycle and the content of the meetings ensures the Committee has the information necessary to oversee and monitor NHBC's activities in Scotland.

Activities during 2014/15

The following standing agenda items provide updates on the local business and economic environment and NHBC's key operational activities in Scotland:

- Directors' report.
- Quarterly update reports from Inspection, Finance, Claims and Services.
- Quarterly updates from the Consumer, and Standards Committee meetings.
- Quarterly updates from the Legal Advisor to the Scottish Committee.
- Quarterly feedback from the Board meetings.

Over the past year the Committee has been provided with specific updates on internal NHBC initiatives covering the Consumer Code, Product Development and Marketing, Customer Satisfaction Surveys, the Home User Guide and various claims in Scotland. The Committee engaged with our Head of Legal regarding rule changes affecting registered builders in Scotland and welcomed the attendance of our CEO and the NHBC Chairman during the year.



Quartermile - Edinburgh - Quartermile Management Services

Northern Ireland Committee report

Membership and attendance

Committee

Five on the Committee, including two Council members.

Items covered included:

- Director's report - this includes an update on activities, the housing market, relationships with stakeholders and competition
- Inspection report
- Claims report
- Consumer Committee
- Executive Director report

The principal role of the Committee is to:

- review the local market along with the political and economic environment in Northern Ireland
- consider NHBC's performance in Northern Ireland, including data on claims, inspection and NHBC Services
- consider Northern Ireland Building Control practices and identify where NHBC might assist local authorities by becoming involved in the inspection of construction works for new homes.

Activities during 2014/15

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

During the year the Committee has received updates on internal NHBC initiatives relating to the Consumer Code, Product Development and Marketing, Customer Satisfaction Surveys and the Home User Guide, and reviewed various claims in Northern Ireland.

NHBC remains an influential voice in the local housing sector, with frequent requests to speak at events, including those organised by the Bank of Ireland, RICS, and the NI Federation of Roofing Contractors. The Committee also remains involved in Government initiatives, including the Housing Supply Forum.

Directors' remuneration report



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 2015.

The Board welcomes the recent advances in reporting of remuneration policy and implementation under the UK Corporate Governance Code and this report, as last year, aims to provide a high level of transparency and accountability by adopting good practice under that Code. As NHBC does not have shareholders, full compliance with all the Code requirements is not available to us.

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

This report has two components:

- The Directors' Remuneration Policy Report (pages 69 to 75), 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 2015/16.
- The Annual Implementation Report (pages 76 to 82), which is audited by PwC.



Summary of the year 2014/15

Our remuneration policy links Executive pay and the company-wide bonus scheme to NHBC's strategic objectives, in particular:

- To build long-term capital and financial strength: variable pay is aligned to the assessment of the financial strength of our business to allow NHBC to provide capacity to meet the demand for 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, which is assessed by a number of key financial, operational and people measures.

The overall design of the remuneration policy is as it was in the previous year, but the Committee has undertaken a review of variable pay, leading to amendments adopted by the Board for application from 2015/16 onwards. These amendments have been designed to strengthen the link between variable pay and the achievement of the company's strategic objectives. The main features of the changes are as follows:

- To incentivise the creation of medium-term financial strength. The Board will now use regulatory capital measures which have to be met in order to trigger the payment of bonus. In tandem with the existing provisions for bonus deferral and clawback, these provide a much stronger link with longer-term financial stability, meeting one of the key requirements of the Governance Code.
- Simplify and clarify the way in which the scheme incentivises staff at all levels by reducing the number of measures.
- To rebalance the way in which measures of personal performance and company performance come together to determine the bonus payment. With an effective scheme of performance assessment now in place throughout the company, we are able to use it to give more weight to personal performance for the majority of staff, while the more senior the role in the company, the greater the weight given to corporate performance.
- Agree the compensation for loss of office for two Executive Directors who left the business. The payments were in line with policy and no discretionary amounts were included.



Llachau Fram - Wales - Lovell Partnerships (South Wales)

In addition to our work on the bonus scheme, we have reviewed Executive Directors' total remuneration and its appropriateness in the marketplace. In the light of changes in the Executive team, we have taken the opportunity to review their contracted conditions of employment to ensure that they are aligned with current best practice.

This year has been one of significant recruitment for NHBC, as we have increased our inspector workforce. This is an important investment in the future and ensures that NHBC is appropriately resourced to meet rising volumes and provide greater focus on site standards. The Committee has therefore paid close attention to where we pitch our pay offers in the variety of markets in which we recruit.

2015 remuneration outcomes

In 2014/15 NHBC has successfully met the demands of customers and homeowners as new house-building volumes continue to grow following the 2008 financial crisis. Particular performance highlights include:

- ensuring regulatory capital levels remain above the risk appetite
- increasing the employee opinion survey engagement score by 7.3%
- delivering new IT-led solutions to home builders to assist them in building better quality homes
- continuing to be the warranty provider of choice for home builders of all sizes for more than 80% of new homes built in the UK
- continuing to achieve strong builder customer satisfaction in excess of 48 as measured by the Net Promoter Score.

2015 Remuneration outcomes (continued)

NHBC's overall profit was lower than the previous year, primarily driven by rising warranty volumes and lower future investment income, both of which drive an increase in the level of the insurance reserves (technical provisions).

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

	2014/15	2013/14
	£k	£k
Mike Quinton	446	451
Ian Davis	265	285
Neil Jefferson	258	288
Chris Rash ¹	345	-

1. Chris Rash joined NHBC on 14 July 2014. The salary figure amount includes reimbursement for a £55k retention payment owed to his previous employer.

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

Individual performance in 2014/15 against annual incentive plan			
	Target (%)	Stretch (%)	Actual (%)
Mike Quinton	45.0	90.0	42.5
Ian Davis	37.5	75.0	47.1
Neil Jefferson	37.5	75.0	35.4
Chris Rash	37.5	75.0	50.7

Of the bonuses awarded, 50% has been deferred for the Chief Executive and 40% for the Business Development and Operations Directors. The Commercial Director and Chief Financial Officer does not have a deferral to his bonus this year; this was due a contractual commitment made upon appointment in July 2014. He will participate in the deferred annual bonus scheme with effect from 2015/16.

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

Executive Directors' salaries			
Director	Position	From 1 July 2015	From 1 July 2014
		£	£
Mike Quinton	Chief Executive	271,000	265,000
Ian Davis	Operations Director	153,500	149,350
Neil Jefferson	Business Development Director	159,500	156,000
Chris Rash	Commercial Director and CFO	236,300	230,000

Sir John Harman

Chairman, Remuneration Committee

25 June 2015

Part A: Directors' remuneration policy report

This report is presented in the spirit of recent changes in reporting requirements on remuneration matters for companies with a UK governance profile. The report describes how the Board has complied 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 2015/16 financial year. It is consistent with the policy applied in 2014/15 apart from an alteration to the annual bonus scheme. The bonus scheme for 2015/16 introduces revised weightings allocated to company and personal performance. The more senior the employee, the greater the proportion of their bonus opportunity is based on company performance.

General policy

Table 1 overleaf provides an overview of our remuneration policy for Executive Directors. For an overview of the remuneration policy for Non-Executive Directors see page 74.

Executive remuneration packages are structured so that they:

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



Table 1: Remuneration policy for Executive Directors - overview

Element, purpose and link to strategy	Policy and operation	Maximum opportunity	Performance measures
<p>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.</p>	<p>Annual review, with changes taking effect from 1 July each year. The review is informed by:</p> <ul style="list-style-type: none"> ■ 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. 	<p>The Remuneration Committee will apply the factors set out in the previous column in considering any salary adjustments during the period of this policy.</p>	<p>Any movement in salary takes account of individual's performance.</p>
<p>Annual bonus To incentivise the Executive Directors to achieve annual targets. Deferral provides alignment with the long-term nature of the Company's interests and aids retention of key personnel.</p>	<p>Awards are based on performance in the year. Targets are set annually and pay-out determined against those targets.</p> <p>Discretion remains with the Committee to amend the bonus pay-out taking account of financial, market and other considerations.</p> <p>Annual bonuses are deferred (Chief Executive 50%, other Executive Director's 40%), with 40% of the remaining balance being released each year.</p>	<p>Maximum bonus opportunity is 90% of base salary for the Chief Executive (75% for the other Executive Directors).</p> <p>On-target company, and personal performance is 45% of the Chief Executive's salary and 37.5% for other Executive Directors. The Chief Executive's bonus is weighted 85% on company performance and 15% on personal performance. The other Executive Directors bonus weighting is 80% company performance and 20% personal performance.</p> <p>Minimum bonus opportunity (once thresholds have been met) is 10% of on target performance.</p> <p>Company performance below threshold would result in no bonus being paid. Individual performance below threshold would result in no bonus being paid.</p>	<p>Performance is assessed against a range of relevant financial, employee, customer, house-building standards raising, NHBC reputation and personal targets.</p> <p>The annual bonus is a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the out-turn (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concerns.</p>
<p>Pension To provide retirement benefits and remain competitive in the market.</p>	<p>NHBC provides a competitive employer sponsored pension plan.</p> <p>All Executive Directors are eligible to participate in the Group Personal Pension Plan (GPPP). Executive Directors receive a contribution to the 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.</p>	<p>Defined contribution or cash equivalent</p> <p>A contribution of 20% of base salary for Executive Directors up to a maximum of £40,000.</p> <p>Where cash is taken by the Executive Directors in lieu of pension this is adjusted to reflect the additional employer national insurance.</p> <p>CARE scheme Deferred CARE pensions provided to the Business Development Director and the Operations Director are indexed in line with CPI.</p>	<p>N/A</p>

Table 1: Remuneration policy for Executive Directors - overview (continued)

Element, purpose and link to strategy	Policy and operation	Maximum opportunity	Performance measures
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 EDs depending on their individual circumstances, which may include a cash car allowance, life insurance and private medical insurance.	Benefits are set at a level which the Committee considers is appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. The Remuneration Committee reviews the policy on benefits annually, and will monitor the costs in practice to ensure that they are appropriate.	N/A

Notes to Table 1: Remuneration policy

Annual performance measures

For 2015/16 the annual bonus measures are based on the achievement of strategic objectives and individual's performance is then overlaid. The performance metrics and relative weighting of the individual's bonus are:

Financial	50%
Homeowner and builder customer satisfaction	15%
Reputation	15%
Raising of house-building standards	10%
Employee engagement	10%

Consistency of Executive remuneration throughout NHBC

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

Stating maximum amounts for the remuneration policy

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

Recruitment remuneration policy

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

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

Potential rewards under various scenarios: financial year 2015/16

£'000s	Minimum			On-target			Maximum		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Mike Quinton	344	-	344	344	122	466	344	244	588
Ian Davis	202	-	202	202	58	260	202	115	317
Neil Jefferson	209	-	209	209	60	269	209	120	329
Chris Rash	302	-	302	302	89	391	302	177	479
Total	1,057	-	1,057	1,057	329	1,385	1,057	656	1,713

The remuneration table above provides an illustration of the future total remuneration for each Executive Director in respect of the remuneration opportunity for 2015/16 under different performance scenarios. Variable pay represents the bonus award opportunity that can be earned in the year. 50% of the Chief Executive and 40% of the Executive Director's bonuses are deferred, to be released over future years, subject to performance.

Minimum earnings	Base salary, benefits 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 an 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 2014/15 and the maximum amount that could be awarded to each Executive Director at the end of financial year 2015/16.

Deferred bonus opportunity 2015/16

Chris Rash does not have a deferral to his bonus this year; this reflects a contractual commitment made upon his appointment in July 2014. He will participate in the deferred annual bonus scheme with effect from 2015/16.

£'000s	Balance accrued	Release
Mike Quinton	104	41
Ian Davis	49	19
Neil Jefferson	45	18
Chris Rash	-	-
Total	198	78

Directors' employment contracts and letters of appointment

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

Table 2: Executive directors' conditions of employment

Notice period	Up to 12 months (by the Executive and the Company).	
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary, certain fixed benefits and pension. By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. Contracts do not contain change of control provisions.	
Remuneration and benefits	The operation of the annual incentive scheme is at the Company's discretion.	
Pension	All Directors have the opportunity to participate in the defined contribution scheme or take cash where impacted by the lifetime or annual allowance. Payments will be made into a defined contribution scheme at 20% of base salary until the annual allowance of £40,000 is reached. Any pension due above this is paid as salary.	
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.	
Car allowance	A car or equivalent cash allowance is received, as varied from time to time.	
Holiday entitlement	29 days with service plus public holidays subject to extension for long service awards to 32 days.	
Other benefits	Other benefits include private medical insurance and participation in the Company's pension scheme.	
Private medical insurance	Private medical insurance is provided for each Executive Director and their partner. The Chief Executive benefits from family cover. However, no payments are made in lieu if an Executive Director opts for reduced or no cover.	
Sickness	Varies according to length of service and rises to a maximum of 100% of basic salary for six months and 50% for six months after five years' service.	
Non-compete	Various non-compete clauses are included in all Executive Director contracts and seek to protect NHBC business and employees from poaching within 12 months of leaving.	
Contract dates	Director	Date current contract commenced
	Mike Quinton	15 October 2012
	Ian Davis	1 December 2006
	Neil Jefferson	1 April 2012
	Chris Rash	14 July 2014

Policy on payment for loss of office

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

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

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

Non-Executive Directors

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

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

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

Director	Date of appointment	Appointment end date
Isabel Hudson	1 June 2011	31 May 2017
Sir John Harman	1 January 2009	31 December 2017
Stewart Baseley	16 May 2004	15 May 2017
Ian Craston	16 September 2014	15 September 2017
Greg Fitzgerald	1 June 2010	31 May 2016
Bridget McIntyre	1 July 2009	31 August 2014
Robin Nicholson	12 June 2007	11 June 2014
Jean Park	10 December 2012	9 December 2015
Sir Muir Russell	15 May 2012	14 May 2018
Dame Helena Shovelton	27 September 2012	26 September 2018

Part B: Annual implementation report

This section of the report sets out how NHBC has implemented its remuneration policies for directors in the course of 2014/15 and how the remuneration policy will be implemented for 2015/16. This is in accordance with the requirements of the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Alignment of Group strategy with Executive remuneration

The Committee considers alignment between NHBC's strategy and the remuneration of its Executive Directors is critical. Our 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 clawback in certain conditions. As well as rewarding the achievement of objectives, variable remuneration can be reduced potentially to zero if performance thresholds are not met.

Committee membership and attendance

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

Table 5: Committee membership and attendance			
Committee member	Meetings to attend	Meetings attended	Attendance %
Sir John Harman (Chairman) ¹	4	4	100%
Ian Craston ²	4	4	100%
Greg Fitzgerald	7	6	86%
Bridget McIntyre ³	3	3	100%
Dame Helena Shovelton ⁴	3	3	100%

1 Sir John Harman joined the Committee as Chairman on 16 September 2014.

2 Ian Craston joined the Committee on 16 September 2014.

3 Bridget McIntyre resigned as Chairman and stepped down from the Committee on 31 August 2014.

4 Dame Helena Shovelton stepped down from the Committee on 16 September 2014.

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

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

Table 6: Attendees of the Committee during 2014/15		
Attendee	Position	Comments
Jonathan Hastings	Company Secretary	Attended as secretary to the Committee
Isabel Hudson	Chairman	Attended by invitation
Sandra Kelly	Finance Director	Attended as Executive Director responsible for advising on remuneration policy
Mike Quinton	Chief Executive	Attended by invitation
Jacqueline Moore	Head of HR	Attended to advise on remuneration policy
Sharon Summers	HR Manager	Attended to advise on remuneration policy
Louise Neilson	Compensation and Benefits Business Partner	Attended to advise on remuneration policy

During the year, the Committee received advice from KPMG LLP which is a member of the Remuneration Consultants Group and adheres to its Code of Conduct. KPMG LLP was formally appointed with effect from 23 January 2014 following a competitive tender process. KPMG LLP fees were paid on completion of work.

Implementation of remuneration policy for 2015/16

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

Basic salaries

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

Director	Position	From 1 July 2015	From 1 July 2014
		£	£
Mike Quinton	Chief Executive	271,000	265,000
Ian Davis	Operations Director	153,500	149,350
Neil Jefferson	Business Development Director	159,500	156,000
Chris Rash	Commercial Director and CFO	236,300	230,000
Sandra Kelly	Finance Director	-	150,000
Richard Tamayo	Commercial Director	-	148,000

Annual bonus

The maximum annual bonus opportunity and deferral rates will remain at the levels set out in the policy section of this report. During the year, the annual bonus scheme was changed to increase the proportion of annual bonus directly attributed to company performance. The Chief Executive's bonus for 2015/16 will be calculated with a weighting of 85% attributed to overall company performance and 15% on personal objectives. The other Executive Director's bonuses are calculated using an 80%/20% weighting respectively.

Whilst we are not disclosing the 2015/16 bonus targets due to commercial sensitivity, we will provide an explanation of 2015/16 bonus payments together with performance against measures and targets in the 2015/16 report.

Pension

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

Approach to Non-Executive Directors' fees

The Chairman's and Non-Executive Director fees were last reviewed in 2013 and limited changes were made. Table 8 shows the fees paid to the Chairman and Non-Executive Director's for 2015/16.

Position	From 1 July 2015	From 1 July 2014
	£	£
Chairman of the Company	128,750	128,750
Board membership	36,100	35,300
Additional fees are paid as follows:		
- Senior independent director	3,170	3,100
- Committee Chairman (per committee)	7,875	7,700

Single total figures of remuneration for 2014/15 - Executive Directors (audited information)

Table 9a below sets out in the required form the total 2014/15 remuneration for each of our Executive Directors who served with the Company during the year.

£'000s	Salary ¹	Taxable benefits ²	Pension ³	Annual bonus award ⁴	Of which			Total
					Amount in cash	Amount deferred	Annual bonus releases	
Mike Quinton	263	18	53	112	56	56	32	446
Ian Davis	148	17	30	70	42	28	14	265
Neil Jefferson	155	17	31	55	33	22	15	258
Chris Rash ⁵	221	11	27	86	86	0	0	345
Sandra Kelly ⁶	277	33	36	0	0	0	9	346
Richard Tamayo ⁷	373	13	0	0	0	0	8	386

1 The salary amounts quoted above represent basic salary.

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

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

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

5 Chris Rash joined NHBC on 14 July 2014. The salary figure amount includes reimbursement for a £55k retention payment owed to his previous employer.

The amount included in the annual bonus award was a contractual commitment made at the time of his appointment and is not subject to deferral.

6 Sandra Kelly left NHBC on 30 June 2014. The amounts above included payments for loss of office of £301k. The deferred bonus represents amounts earned in financial years 2012/13 and 2013/14 that are to be paid in equal instalments over the next four financial years.

7 Richard Tamayo left NHBC on 30 June 2014. The amounts above included payments for loss of office of £338k. The deferred bonus represents amounts earned in financial years 2012/13 and 2013/14 that are to be paid in equal instalments over the next four financial years.

Table 9b below sets out in the required form the total 2013/14 remuneration for each of our Executive Directors who served with the Company during the year.

Table 9b: Total 2013/14 Executive Directors' remuneration									
£'000s	Salary ¹	Taxable benefits ²	Pension ³	Annual bonus award ⁴	Of which			MTIP award ⁵	Total
					Amount in cash	Amount deferred	Annual bonus releases		
Mike Quinton	257	19	50	125	62	63	14	-	451
Ian Davis	158	18	29	54	32	22	8	26	285
Neil Jefferson	161	18	28	61	37	24	9	20	288
Sandra Kelly	156	13	29	61	37	24	9	26	285
Richard Tamayo	175	20	50	55	33	22	7	26	326

- The salary amounts quoted above include payments for holidays earned in previous financial years but not taken, which were paid during the financial year. This arrangement was available to all employees and is now closed. The amounts were as follows: Ian Davis £13,603, Neil Jefferson £13,462, Sandra Kelly £7,628, Mike Quinton £4,615 and Richard Tamayo £27,828.
- Taxable benefits comprise car, car allowance, fuel for Richard Tamayo (£4,642) and private medical insurance.
- Pension reflects either the increase in value of the defined benefit, DC contributions or cash if they are impacted by the relevant lifetime or annual limits.
- The annual bonus stated is that awarded in the financial year.
- The MTIP bonus stated is that awarded in the financial year and reflects the period from April 2011 to March 2014. The scheme ceased to exist on 31 March 2014.

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

Annual bonus

Table 10 below sets out NHBC's performance against the 2014/15 KPIs. It also shows how these outcomes have translated into bonus payments. Details of the actual targets have not been disclosed as they are deemed to be commercially sensitive.

Table 10: NHBC performance against KPIs			
	Weighting (% of total opportunity)		
	Target (%)	Stretch (%)	Actual (%)
Financial (profit, capital and expenditure)	47.5	57.0	39.2
Homeowner and builder customer satisfaction	20.0	24.0	23.2
Raising of house-building standards	12.5	15.0	7.0
Reputation	10.0	12.0	13.9
Employee engagement	10.0	12.0	11.2
Total	100.0	120.0	94.5

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

Table 11: Individual performance in 2014/15 against annual incentive plan

	Target (%)	Stretch (%)	Actual (%)
Mike Quinton	45.0	90.0	42.5
Ian Davis	37.5	75.0	47.1
Neil Jefferson	37.5	75.0	35.4
Chris Rash	37.5	75.0	50.7

Chris Rash joined NHBC on 14 July 2014. The annual bonus award was a contractual commitment made at the time of his appointment and is not subject to deferral.

Pension

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

Single total figure of remuneration for 2014/15 - Non-Executive Directors (audited information)

Table 12: Non-Executive Directors' remuneration

	2014/15	2013/14
	£'000s	£'000s
Isabel Hudson	128	123
Sir John Harman	46	43
Stewart Baseley	43	42
Ian Craston ¹	33	0
Greg Fitzgerald	35	34
Bridget McIntyre ²	18	42
Robin Nicholson ³	7	36
Jean Park	46	47
Sir Muir Russell	47	42
Dame Helena Shovelton	43	42
Total	446	451

1 Ian Craston served as a Board observer from 24 June 2014 and joined the Board on 16 September 2014.

2 Bridget McIntyre stepped down from the Board on 31 August 2014.

3 Robin Nicholson stepped down from the Board on 11 June 2014.

Historical Chief Executive remuneration outcomes

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

Table 13: Historical Chief Executive remuneration outcomes				
	Chief Executive	2012/13	2013/14	2014/2015
Annual bonus payment (as % of maximum) ²	Mike Quinton ¹	52%	55%	47%
Annual bonus release from deferred pool (as % of maximum) ³	Mike Quinton ¹	-	100%	100%
Chief Executive single figure of remuneration (£'000s)	Mike Quinton ¹	195	451	446

¹ Mike Quinton joined the Board with effect from 15 October 2012.

² 50% of the annual bonus under the annual scheme effective from 2012/13 is deferred. This represents the proportion of the maximum that could be paid.

³ 40% is released from the pool annually subject to satisfactory performance and this represents the proportion of the maximum that could be released.

Percentage change in Chief Executive remuneration

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

Table 14: Percentage change in Chief Executive remuneration		
	Basic salary	Bonus
Chief Executive	3.1%	-10.4%
Rest of employees ¹	5.5%	-6.4%

¹ The basic salary increase is an average salary settlement agreed between the company and the Staff Association. The 2014/15 salary increases reflected the requirement to retain skills in key areas and included performance related pay. The range of base salary increases for staff ranged between 0% and 20%.

Relative importance of spend on pay

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

Table 15: Relative importance of spend on pay			
	2014/15	2013/14	% change
Total profit before tax (£'000s)	17.3	31.9	(45.7)
Total staff costs (£'000s) ¹	54.7	50.8	7.6

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

¹ Total staff costs include salary, national insurance, pension contributions, overtime, private healthcare, bonuses and redundancy.

External board appointments

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

Currently Mike Quinton holds one external Non-Executive Directorship being appointed to the British Board of Agrément on 25 November 2013. NHBC invoiced £6,409 during the year in respect of his appointment and any monies received will be donated to the company's chosen charity Cancer Research UK.

Consideration by the directors of matters relating to directors' remuneration

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

- make recommendations to the Board regarding the Company's remuneration policy in respect of the Board Chairman, Executive Directors, members of senior management and the overall staff pay increases, taking account of all legal and regulatory requirements and provisions of best practice
- work with the Risk Committee to ensure that risk and risk appetite are properly considered in setting the remuneration policy for the Group
- review and determine the remuneration of the Chairman of the Board and the terms of employment and remuneration of individual Executive Directors, including any specific recruitment or severance terms
- review and recommend to management the level and structure of senior management remuneration
- approve the Company's reward strategy, including any changes to the strategy and note the total bonus pool
- select, appoint and determine terms of reference for independent remuneration consultants to advise the committee on remuneration policy and levels of remuneration
- have regard to remuneration trends across the Company when setting remuneration policy for Executive Directors
- ensure that remuneration arrangements for all employees are commensurate with promoting ethical behaviour
- ensure the effectiveness of the process for assessing the senior management group for talent and succession planning purposes, ensuring appropriate reward for performance
- 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 June 2015.



Sir John Harman

Chairman of the Remuneration Committee

UK GAAP financial statements



UK GAAP financial statements

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Scotswood Road - Newcastle - Barratt Homes

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

Report on the financial statements

Our opinion

In our opinion, the financial statements, defined below:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's profit and cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom GAAP
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the 'financial statements'), which are prepared by National House-Building Council, comprise:

- consolidated and parent company balance sheets as at 31 March 2015
- consolidated profit and loss account for the year then ended
- consolidated cash flow statement for the year then ended
- consolidated statement of total recognised gains and losses for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom GAAP).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). 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
- 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 other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities set out on page 48, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.



Mark Bolton (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

25 June 2015

Consolidated profit and loss account, technical account – general business

For the year ended 31 March 2015

	Notes	2015		2014	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	2	75,813		59,985	
Outward reinsurance premiums		(6,289)		(6,623)	
Net premiums written		69,524		53,362	
Change in the gross provision for unearned premiums		(18,970)		(17,980)	
Change in the provision for unearned premiums, reinsurers' share		1,805		2,960	
Change in the net provision for unearned premiums		(17,165)		(15,020)	
Earned premiums, net of reinsurance			52,359		38,342
Allocated investment return transferred from the non-technical account			78,189		(38,665)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(96,634)		(86,365)	
Reinsurers' share		98		-	
Net claims paid		(96,536)		(86,365)	
Change in the provision for claims					
Gross amount		(16,116)		(33,535)	
Reinsurers' share		(153)		(2)	
Change in the net provision for claims		(16,269)		(33,537)	
Claims incurred, net of reinsurance			(112,805)		(119,902)
Changes in other technical provisions, net of reinsurance			2,789		154,400
Net operating expenses	4		(3,148)		(2,998)
Balance on the technical account for general business			17,384		31,177

Consolidated profit and loss account, non-technical account – general business

For the year ended 31 March 2015

	Notes	2015		2014	
		£'000	£'000	£'000	£'000
Balance on the general business technical account			17,384		31,177
Investment income	5		58,937		49,535
Unrealised gains on investments		52,748		7,793	
Unrealised losses on investments		(30,759)		(94,905)	
Net unrealised (losses)/gains on investments	6		21,989		(87,112)
Investment expenses and charges	1.7		(2,737)		(1,050)
Allocated investment return transferred to the general business technical account			(78,189)		38,665
Other income	2		64,577		58,218
Other charges			(64,619)		(57,490)
Profit on ordinary activities before tax			17,342		31,943
Tax on profit on ordinary activities	11		(4,727)		(7,131)
Retained profit for the financial year			12,615		24,812

Consolidated statement of total recognised gains and losses

		2015	2014
	Notes	£'000	£'000
Surplus for the financial year		12,615	24,812
Actuarial loss relating to pension scheme	24.1.12	(25,127)	(8,473)
Deferred taxation relating to pension scheme actuarial loss	24.1.7	4,830	1,536
Transfer to profit and loss account reserve		(7,682)	17,875
Revaluation reserve movement	18	31	47
Total gains recognised since last annual report		(7,651)	17,922

Consolidated balance sheet at 31 March 2015

		2015	2014
Assets	Notes	£'000	£'000
Investments			
Land and buildings	13	9,250	8,703
Other financial investments	14	1,488,046	1,448,135
		1,497,296	1,456,838
Reinsurers' share of technical provisions			
Provision for unearned premiums		32,709	30,904
Claims outstanding		-	153
Other technical provisions	20	107,572	128,300
		140,281	159,357
Debtors			
Debtors arising out of direct insurance operations	16	5,593	2,342
Deferred tax	21	481	397
Other debtors	16	16,635	11,798
		22,709	14,537
Other assets			
Tangible assets	17	10,272	9,139
Cash at bank and in hand		16,741	22,381
		27,013	31,520
Prepayments and accrued income			
Accrued interest and rent		14,938	14,082
Deferred acquisition costs		10,765	9,826
Other prepayments and accrued income		2,149	1,832
		27,852	25,740
Total assets		1,715,151	1,687,992

Consolidated balance sheet at 31 March 2015 (continued)

		2015	2014
Liabilities	Notes	£'000	£'000
Reserves			
Revaluation reserve	18	133	102
Profit and loss account	18	439,523	447,205
Accumulated reserves		439,656	447,307
Technical provisions			
Provision for unearned premiums		431,838	412,868
Claims outstanding		177,482	161,366
Other technical provisions	20	536,998	560,515
		1,146,318	1,134,749
Creditors			
Creditors arising out of direct insurance operations	22	32,279	31,144
Other creditors, including taxation and social security	23	10,817	11,729
		43,096	42,873
Accruals and deferred income		54,386	47,623
Total liabilities, excluding pension deficit		1,683,456	1,672,552
Defined benefit pension plan deficit	24.1.4	31,695	15,440
Total liabilities		1,715,151	1,687,992

The financial statements on pages 88 to 115 were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:



Isabel Hudson
(Chairman of the Council)



Mike Quinton
(Chief Executive)

Company registration 00320784

Parent company balance sheet at 31 March 2015

		2015	2014
Assets	Notes	£'000	£'000
Investments			
Land and buildings	13	9,250	8,703
Investments in group undertakings and participating interests	15	4,874	4,874
Other financial investments	14	1,488,046	1,448,135
		1,502,170	1,461,712
Reinsurers' share of technical provisions			
Provision for unearned premiums		32,709	30,904
Claims outstanding		-	153
Other technical provisions	20	107,572	128,300
		140,281	159,357
Debtors			
Debtors arising out of direct insurance operations	16	5,593	2,342
Deferred tax	21	478	392
Other debtors	16	15,598	11,683
		21,669	14,417
Other assets			
Tangible assets	17	10,272	9,139
Cash at bank and in hand		16,626	21,874
		26,898	31,013
Prepayments and accrued income			
Accrued interest and rent		14,938	14,082
Deferred acquisition costs		10,765	9,826
Other prepayments and accrued income		1,581	1,254
		27,284	25,162
Total assets		1,718,302	1,691,661

Parent company balance sheet at 31 March 2015 (continued)

		2015	2014
Liabilities	Notes	£'000	£'000
Reserves			
Revaluation reserve	18	4,907	4,875
Profit and loss account	18	435,556	443,518
Accumulated reserves	19	440,463	448,393
Technical provisions			
Provision for unearned premiums		431,838	412,868
Claims outstanding		177,482	161,366
Other technical provisions	20	536,998	560,515
		1,146,318	1,134,749
Creditors			
Creditors arising out of direct insurance operations	22	32,279	31,144
Other creditors, including taxation and social security	23	17,865	18,409
		50,144	49,553
Accruals and deferred income	25	49,682	43,526
Total liabilities excluding pension deficit		1,686,607	1,676,221
Defined benefit pension plan deficit	24.1.2	31,695	15,440
Total liabilities		1,718,302	1,691,661

The financial statements on pages 88 to 115 were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:



Isabel Hudson
(Chairman of the Council)



Mike Quinton
(Chief Executive)

Consolidated cash flow statement for the year ended 31 March 2015

	Notes	2015		2014	
		£'000	£'000	£'000	£'000
Operating activities					
Net cash inflow from operating activities	26		6,650		12,487
Taxation					
Corporation tax paid			(6,300)		(7,858)
Net cash outflow from taxation			(6,300)		(7,858)
Capital					
Purchase of tangible fixed assets	17		(5,623)		(5,300)
Sale of tangible fixed assets			1,484		1,798
Purchase of land and buildings	13		(106)		(74)
Net cash outflow from capital expenditure			(4,245)		(3,576)
(Decrease)/increase in cash in the financial year	28		(3,895)		1,053
Cash flows were invested as follows:					
Net portfolio investment					
Purchase of shares and variable income securities		3,903		100,001	
Sale of shares and variable income securities		(3,897)		-	
			6		100,001
Purchase of fixed income securities		1,712,560		2,032,986	
Sale of fixed income securities		(1,689,964)		(2,149,064)	
			22,596		(116,078)
Net cash inflow/(outflow) on portfolio investments	28		22,602		(16,077)
(Decrease)/increase in cash holdings	27		(26,497)		17,130
Net (disinvestment)/investment of cash flows	28		(3,895)		1,053

Notes to the financial statements for the year ended 31 March 2015

1.0 Accounting policies

1.1 Basis of preparation

The Group financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, in accordance with the Companies Act 2006 and provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('SI2008/410') relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') dated December 2005, as amended in December 2006.

The financial statements have been prepared in accordance with UK applicable accounting standards which have been applied consistently throughout the year.

1.2 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 March each year.

1.3 Basis of accounting

1.3.1 Insurance technical result

The technical result is determined on an annual basis whereby the incurred cost of claims and related expenses, together with any change in other technical provisions, is charged against the earned proportion of premiums, net of reinsurance, as follows:

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 balance sheet.

Unearned premiums

The Company's insurance policies provide protection to policyholders for financial years 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 Company 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 balance sheet date.

Acquisition costs

Acquisition costs, which represent the direct and indirect costs incurred in the conclusion of insurance contracts, are deferred and amortised over the financial year in which the related premiums are earned.

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 incurred 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 Company 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.

Notes to the financial statements for the year ended 31 March 2015 (continued)

Unexpired risk provisions

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 balance sheet 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 reinsurer's 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 Company 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 company, the impact of large losses, including those made evident by extreme weather or latent defects caused by defective building materials, the effect of increases in cover and changes in consumer expectations and in the legal environment. Because of these inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision.

The Company 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 balance sheet date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

The Company in setting its unexpired risk provisions takes account of the future investment income that will be generated between the balance sheet date and settlement of the expected claims on the assets held to cover such provision.

Reinsurance recoveries

Reinsurance recoveries are the amounts which will be recovered under the reinsurance policies in force at the balance sheet date, assuming that the estimates of claims outstanding and future claims in respect of the unexpired risks prove to be correct. An assessment is made of the recoverability of reinsurance having regard to market data on the financial strength of each of the Company's reinsurers.

1.3.2 Tangible assets

The cost of tangible assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The expected useful economic lives used are:

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

1.3.3 Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences, including revaluation gains and losses on investments. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the financial year, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

Notes to the financial statements for the year ended 31 March 2015 (continued)

1.3.4 Investments

Land and buildings predominantly occupied by the Company for its own purposes are valued at open market valuation. Full valuations are made by external professionally qualified valuers at least every three years. In the intervening years these valuations are updated by directors with the assistance of independent professional advice as required. Any increases or decreases in values are transferred to the revaluation reserve. Where valuations are below historic net book value, the loss in value is directly charged to the profit and loss account. Such properties are then depreciated over the lower of 50 years, the remaining life of the lease, or an estimate made by an external professionally qualified valuer of their remaining economic life.

Investments in Group undertakings are valued in the Company's financial statements by reference to the net assets of those undertakings with any surplus on revaluation taken to the revaluation reserve. Any permanent diminution in value is charged to the profit and loss account.

Other financial investments are stated at market value (valued on a bid basis) excluding any accrued interest, with any realised or unrealised appreciation or diminution in value during the year being accounted for separately in the non-technical account.

1.3.5 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 profit and loss account in the financial year in which the transaction occurs. They represent the difference between the sales proceeds and purchase price (in both cases excluding accrued interest).

Movements in unrealised gains and losses on investments are also taken through the profit and loss account and represent the difference between the valuation at the balance sheet 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.

1.3.6 Transfer of investment return

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.

1.3.7 Other income and other charges

Other income represents sales of goods and services relating to the construction of good quality housing. Other income is stated excluding value added tax. Other income is recognised on an accruals basis. Other charges represent non-technical account expenditure.

1.3.8 Pension costs

Defined benefit scheme

The Group operates a defined benefit pension scheme. The pension liability recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each financial year.

Net expected return on the pension scheme comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the financial year. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

Defined contribution scheme

The Group also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable. The assets of this scheme are held separately from those of the Group in independently administered funds.

Notes to the financial statements for the year ended 31 March 2015 (continued)

1.3.9 Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

02 Segmental information

Group activities consist of two main segments within the United Kingdom, being insurance activities and other activities relating to the efficient construction of good-quality housing. The direct underwriting operations of the Group consist primarily of one class of business, being pecuniary loss insurance. Turnover, which is gross insurance premiums written and other income, and surplus before tax are derived wholly from continuing operations.

	Turnover		Surplus before tax		Net assets	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance activities	75,813	59,985	17,384	31,177	221,862	225,547
Other activities	64,577	58,218	(42)	766	217,794	221,760
Total	140,390	118,203	17,342	31,943	439,656	447,307

03 Movements in prior year's claims provisions

	2015	2014
	£'000	£'000
Net claims provisions brought forward as at 1 April	161,213	127,676
Net payments during the year in respect of these provisions	(72,807)	(63,338)
Net claims provisions carried forward in respect of claims provided at 1 April	(96,024)	(76,191)
Movement in prior year's provision	(7,618)	(11,853)

04 Net operating expenses

	2015	2014
	£'000	£'000
Acquisition costs	1,855	1,761
Increase in deferred acquisition costs	(939)	(783)
Administrative expenses	2,232	2,020
Net operating expenses	3,148	2,998

Notes to the financial statements for the year ended 31 March 2015 (continued)

05 Investment income

		2015	2014
	Notes	£'000	£'000
Income from investments other than participating interests			
Income from land and buildings		53	55
Income from listed investments		42,618	45,821
Income from other investments and deposits		89	108
Net gains on realisation of listed investments	6	16,177	3,551
		58,937	49,535

06 Unrealised gains on investments

		2015	2014
	Notes	£'000	£'000
Net unrealised gains brought forward as at 1 April		42,298	129,410
Net realised gains during the year transferred to investment income	5	(16,177)	(3,551)
Increase/(decrease) in the value of other financial investments held during the year	28	38,166	(83,561)
Net unrealised increase/(decrease) on investments		21,989	(87,112)
Net unrealised gains carried as at 31 March		64,287	42,298

07 Investment expenses and charges

		2015	2014
		£'000	£'000
Investment management expenses		2,737	1,050

Notes to the financial statements for the year ended 31 March 2015 (continued)

08 Employee information

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

	2015	2014
	No	No
Insurance activities	222	227
Other direct activities	705	624
Administration	161	150
	1,088	1,001

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

Staff costs for the above persons were:

	2015	2014
	£'000	£'000
Wages and salaries	43,525	39,760
Social security costs	5,041	4,351
Pension costs	9,352	7,259
	57,918	51,370

09 Directors' emoluments

	2015	2014
	£'000	£'000
Aggregate emoluments	1,765	1,947
Aggregate compensation for loss of office	639	-
Company pension contributions to defined contribution schemes	124	58

Retirement benefits are accruing to three directors (2014: two) under the Group's defined contribution scheme and no directors (2014: two) under the defined benefit 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.

Highest-paid director

	2015	2014
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	446	451

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

The Directors' remuneration report on page 65 provides further detailed disclosures of Directors' remuneration.

The audited elements of the Directors' remuneration report are on pages 76 to 82.

Notes to the financial statements for the year ended 31 March 2015 (continued)

10 Profit on ordinary activities before tax

	2015	2014
Profit on ordinary activities before tax is stated after:	£'000	£'000
Depreciation charge for year		
Other land and buildings	174	173
Tangible owned fixed assets	3,569	3,189
Auditors' remuneration for audit services		
Fees payable to the Company's auditors for the audit of the Company and group financial statements	141	134
Non-audit services and fees payable to the Company's auditors and its subsidiary companies for other services		
The audit of the Company's subsidiaries, pursuant to legislation	9	9
Other services pursuant to legislation, including the audit of the regulatory return	14	14
Taxation services	229	227
Other services not included above	36	6
Operating lease rentals		
Land and buildings	104	89

11 Tax on profit on ordinary activities

	Notes	2015	2014
Tax on profit on ordinary activities		£'000	£'000
UK corporation tax			
Current at 21% (2014: 23%)		754	7,156
Deferred at 20% (2014: 21%)		967	311
Under/(over) provision in respect of prior years			
Current		3,047	17
Deferred		(41)	(353)
		4,727	7,131
Comprising			
Current taxation		3,801	7,173
Deferred taxation	21	(84)	(268)
Deferred taxation on pension contributions in excess of pension charges	24.1.7	1,010	226
		4,727	7,131

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

Notes to the financial statements for the year ended 31 March 2015 (continued)

Factors affecting current and future tax charges

During the year, as a result of the reduction in the UK corporation tax rate to 20% that was enacted on 2 July 2013 and effective from 1 April 2015, the relevant deferred tax balances have been re-measured.

The current tax charge for the year is higher (2014: lower) than the standard rate of corporation tax in the UK (21%) for the following reasons:

	2015	2014
	£'000	£'000
Profit on ordinary activities before tax	17,342	31,943
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013: 24%)	3,642	7,347
Effects of:		
Income not chargeable for tax purposes	(118)	(147)
Expenses not deductible for tax purposes	(2)	22
Adjustments in respect of prior years	3,047	17
Depreciation higher than capital allowances	141	182
Realisation of timing difference on technical provisions	(1,848)	-
Pension contributions in excess of pension charges	(1,061)	(248)
Current corporation tax charge on surplus on ordinary activities for the year	3,801	7,173

The deferred tax movement in the year is shown as follows:

	2015	2014
	£'000	£'000
Origination and reversal of timing differences with respect to capital allowances	(14)	21
Origination and reversal of timing differences with respect to general provisions	(50)	6
Adjustment to deferred tax charge in respect of previous periods	(41)	(353)
Effect of decreased tax rate on opening asset	21	58
Deferred tax movement in the year	(84)	(268)

12 Parent company

The retained profit dealt with in the profit and loss account of the Company for the year ended 31 March 2015 is £12.3 million (2014: £24.3 million). As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in these financial statements.

Notes to the financial statements for the year ended 31 March 2015 (continued)

13 Investments: land and buildings

	The Group and the Company	
	£'000	
Cost or valuation		
At 1 April 2014		8,703
Additions		106
Gain on revaluation		441
Disposals		-
As at 31 March 2015		9,250
Depreciation		
At 1 April 2014		-
Charge for the year		174
Revaluations		(174)
Disposals		-
As at 31 March 2015		-
Net book value at 31 March 2015		9,250
Net book value at 31 March 2014		8,703

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

	The Group and the Company	
	2015	2014
	£'000	£'000
Freeholds	8,983	8,428
Long leaseholds	267	275
	9,250	8,703

All land and buildings are regularly revalued in accordance with the Company's stated investments accounting policy (as set out in note 1.3.4). 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	
	2015	2014
	£'000	£'000
Cost	14,171	14,065
Accumulated depreciation based on cost	(2,769)	(2,480)
Net book value based on cost	11,402	11,585

Notes to the financial statements for the year ended 31 March 2015 (continued)

14 Investments: other financial investments

	The Group and the Company			
	2015		2014	
	Market value	Cost	Market value	Cost
	£'000	£'000	£'000	£'000
Debt securities and other fixed interest securities				
UK government	699,489	668,576	696,121	652,631
Non-UK government	6,532	6,511	33,296	32,829
Corporate bonds	571,228	552,391	509,101	511,281
Other	94,536	94,536	87,057	87,057
	1,371,785	1,322,014	1,325,575	1,283,798
Shares and other variable yield	115,080	100,564	100,522	100,001
Deposits with credit institutions	1,181	1,181	22,038	22,038
	1,488,046	1,423,759	1,448,135	1,405,837

All debt securities and shares held are listed on a recognised investment exchange.

Other debt securities and other fixed interest securities primarily consist of UK government treasury bills and investments in short-term, high-liquidity funds.

15 Investment in group undertakings and participating interests

In the parent company balance sheet, investments in group undertakings and participating interests are valued at their net asset value or £Nil if the net asset value is negative. In the parent company balance sheet, investments in group undertakings and participating interests are valued at £4,874,000 (2014: £4,874,000) in accordance with the Company's accounting policies. The resulting gain over book value of £4,774,000 (2014: £4,774,000) is included in the Company's revaluation reserve.

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2015 they were as follows:

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

The Company entered into a joint venture agreement in respect of the Consumer Code For Home Builders (CCHB). The CCHB 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 NHBC's financial statements.

Notes to the financial statements for the year ended 31 March 2015 (continued)

16 Debtors

Debtors arising out of direct insurance operations	The Group and the Company	
	2015	2014
	£'000	£'000
Other debtors	5,593	2,342

Other debtors	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Amount owed by subsidiary undertakings	-	-	1,124	1,744
Other debtors	16,635	11,798	14,474	9,939
	16,635	11,798	15,598	11,683

Included in the other debtors figure above for both the Group and the Company is £9,218,000 (2014: £7,215,000) representing the cost of properties which have either been purchased from policyholders or purchased to provide alternative accommodation for policyholders. Expected future claims costs related to these properties are included within the provision for claims outstanding.

17 Tangible assets

The Group and the Company	Motor vehicles	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2014	11,798	3,207	4,157	19,162
Additions	4,658	524	441	5,623
Disposals	(3,540)	-	-	(3,540)
As at 31 March 2015	12,916	3,731	4,598	21,245
Depreciation				
At 1 April 2014	4,590	2,332	3,101	10,023
Charge for the year	2,710	463	396	3,569
Disposals	(2,619)	-	-	(2,619)
As at 31 March 2015	4,681	2,795	3,497	10,973
Net book value at 31 March 2015	8,235	936	1,101	10,272
Net book value at 31 March 2014	7,208	875	1,056	9,139

Notes to the financial statements for the year ended 31 March 2015 (continued)

18 Reserves

	Group		Company	
	Profit and loss account	Revaluation reserve	Profit and loss account	Revaluation reserve
	£'000	£'000	£'000	£'000
At 1 April 2014	447,205	102	443,518	4,875
Profit for the financial year	12,615	-	12,335	-
Net actuarial loss on pension scheme	(20,297)	-	(20,297)	-
Revaluation of land and buildings	-	31	-	31
Revaluation surplus, on group undertakings and participating interests	-	-	-	1
As at 31 March 2015	439,523	133	435,556	4,907

19 Reconciliation of movements in accumulated reserves

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Profit for the financial year	12,615	24,812	12,335	24,281
Net actuarial loss on pension scheme	(20,207)	(6,937)	(20,297)	(6,937)
Other net recognised gains/(losses) relating to the year	31	47	32	244
Net (deduction)/addition to accumulated reserves	(7,651)	17,922	(7,930)	17,588
Opening accumulated reserves	447,307	429,385	448,393	430,805
Closing accumulated reserves	439,656	447,307	440,463	448,393

20 Other technical provisions

Unexpired risks provision	The Group and the Company	
	2015	2014
	£'000	£'000
Gross	536,998	560,515
Reinsurance	(107,572)	(128,300)
Net	429,426	432,215

The unexpired risk provision is stated after taking account of future investment income of £131 million (2014: £136 million).

Notes to the financial statements for the year ended 31 March 2015 (continued)

21 Deferred tax

	Group	Company
	£'000	£'000
Deferred tax		
As at 1 April 2014	397	392
Charge to the profit and loss account	84	86
As at 31 March 2015	481	478

Deferred tax has been fully provided in the financial statements as follows:

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Other short-term differences	75	21	75	21
Excess of depreciation over capital allowances	406	376	403	371
	481	397	478	392

Due to the indexation of the properties NHBC 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 arising on disposal of buildings. The undiscounted value of these losses is £183,000 based on prevalent tax rate of 20% (2014: £192,000 at 21%).

22 Creditors arising out of direct insurance operations

	The Group and the Company	
	2015	2014
	£'000	£'000
Amounts falling due in less than one year	32,279	31,144

Included in the above are £27.7 million (2014: £25.7 million) of builders' deposits. These monies are deposited with the Company as surety by individual builders.

23 Other creditors, including taxation and social security

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Amount owing to subsidiary undertakings	-	-	8,443	7,835
Corporation tax	2,453	4,116	2,167	3,869
Other creditors	8,364	7,613	7,255	6,705
	10,817	11,729	17,865	18,409

Notes to the financial statements for the year ended 31 March 2015 (continued)

24 Pensions and retirement benefits

24.1.1 Defined contribution scheme

The Group operated a stakeholder defined contribution scheme during the year. Pension contributions in respect of this scheme were £5,711,000 (2014: £2,542,000). There were no prepaid or accrued contributions to this scheme at the year-end.

24.1.2 Defined benefit scheme

The NHBC Pension Scheme is a funded defined benefit scheme. It is a career averaged revalued earnings scheme. Pension cost and provision figures are assessed in accordance with the advice of a professionally qualified actuary. The actuarial method used for valuations of the NHBC Pension Scheme is the projected unit method.

The Scheme is closed to new entrants.

Future accrual of benefits within the Scheme ceased with effect from 31 March 2014.

24.1.3 Principal financial assumptions

The financial assumptions used to calculate scheme liabilities under FRS 17 on the projected unit basis are:

	31 March 2015	31 March 2014
	%	%
Consumer price inflation rate	2.10	2.60
Rate of in-service revaluation pension entitlements	2.10	2.60
Rate of increase of pensions in payment	3.15	3.85
Rate of increase for deferred pensioners	2.10	2.60
Discount rate	3.30	4.40

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 (2013) 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 2015 are 24 (2014: 21) years and 27 (2014: 24) years respectively. The assumption for life expectations have increased compared with last year as a result of the Scheme Actuary carrying out a postcode analysis on the membership as part of the 2014 triennial valuation of the Scheme. This postcode analysis supported a more prudent assumption for mortality expectations and will be used in future accounting periods unless and until any further analysis on the membership is carried out.

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.

Notes to the financial statements for the year ended 31 March 2015 (continued)

24.1.4 Market value of assets and expected rate of return

The fair value of the assets at 31 March 2015 and expected rates of return were:

	Longer-term rate of return expected at 31 March 2015	Value at 31 March 2015	Longer-term rate of return expected at 31 March 2014	Value at 31 March 2014	Longer-term rate of return expected at 31 March 2013	Value at 31 March 2013
	%	£'000	%	£'000	%	£'000
Equities	6.70	109,251	7.30	99,347	7.40	94,153
Bonds	2.90	74,577	3.90	62,325	3.60	61,735
Property	-	-	-	-	7.20	8,840
Other	2.60	7,002	3.10	8,812	3.40	1,155
Total market value of assets		190,830		170,484		165,883
Present value of scheme liabilities		(230,449)		(190,028)		(178,031)
(Deficit) in the Scheme		(39,619)		(19,544)		(12,148)
Related deferred tax asset		7,924		4,104		2,794
Net pension deficit recognised in the balance sheet		(31,695)		(15,440)		(9,354)

The expected return on scheme assets for the following financial year is determined by considering the long-term expected returns available on the assets held at the beginning of that financial year. Next year FRS 17 will be replaced with FRS 101/102 and these assumptions will not be required. However, they have been shown in this disclosure for comparison purposes.

There are no amounts included in the fair value of the scheme assets that consists of NHBC's own financial instruments or any property occupied by or assets used by NHBC.

24.1.5 Reconciliation of present values of scheme liabilities

	31 March 2015	31 March 2014
	£'000	£'000
Opening present value of scheme liabilities	190,028	178,031
Interest cost	8,234	7,769
Current service cost	-	4,094
Member contributions	-	22
Benefits paid	(5,791)	(6,343)
Actuarial loss on change of assumptions	34,242	6,670
Experience loss/(gain) on liabilities	3,624	(217)
Change in value of money purchase transfer funds	112	2
Closing present value of scheme liabilities	230,449	190,028

Notes to the financial statements for the year ended 31 March 2015 (continued)

24.1.6 Reconciliation of present values of scheme assets

	31 March 2015	31 March 2014
	£'000	£'000
Opening present value of scheme assets	170,484	165,883
Benefits paid	(5,791)	(6,343)
Company contributions	3,400	3,294
Member contributions	-	22
Expected return on assets	9,886	9,646
(Loss)/gain on assets	12,739	(2,020)
Change in value of money purchase transfer funds	112	2
Closing present value of scheme assets	190,830	170,484

24.1.7 Deferred taxation

	£'000
Deferred taxation asset on scheme deficit at 1 April	4,104
Amount credited to the statement of recognised gains and losses	4,830
Amount charged to the profit and loss account	(1,010)
Deferred taxation asset on scheme deficit at 31 March	7,924

24.1.8 Amounts charged to operating profit

Due to the closure of the Scheme to future accrual on 31 March 2014 a current service cost of £Nil (2014: £4,094,000) has been charged to operating profit in respect of the defined benefit scheme.

24.1.9 Amount charged to other finance expense

Analysis of amounts that have been (charged)/credited to other finance income in respect of the defined benefit scheme under the requirements of FRS 17:

	31 March 2015	31 March 2014
	£'000	£'000
Interest on pension scheme liabilities	(8,234)	(7,769)
Expected return on pension scheme assets	9,886	9,646
Net income credited to other finance income	1,652	1,877

24.1.10 Actual return on scheme assets

The actual return on scheme assets was £22,625,000 (2014: £7,626,000).

Notes to the financial statements for the year ended 31 March 2015 (continued)

24.1.11 Statement of total recognised gains and losses

Analysis of amounts recognised in the statement of total recognised gains and losses in respect of defined benefit scheme:

	31 March 2015	31 March 2014
	£'000	£'000
Actual return less expected return on pension scheme assets	12,730	(2,020)
Experience (loss)/gain arising on scheme liabilities	(3,624)	217
Change in assumptions underlying the scheme liabilities	(34,242)	(6,670)
Actuarial loss	(25,127)	(8,473)
Cumulative actuarial gains and losses brought forward	(64,266)	(55,793)
Cumulative actuarial gains and losses carried forward	(89,393)	(64,266)

24.1.12 History of experience gains and losses

	2015	2014	2013	2012	2011
	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(230,449)	(190,028)	(178,031)	(156,244)	(135,153)
Fair value of scheme assets	190,830	170,484	165,883	148,700	145,050
(Deficit)/surplus in the scheme	(39,619)	(19,544)	(12,148)	(7,544)	9,897
(Loss)/gain on scheme assets	12,739	(2,020)	9,856	(3,175)	(435)
Percentage of scheme assets	6.68%	1.18%	5.94%	2.14%	0.30%
Experience (loss)/gain on scheme liabilities	(3,624)	217	237	2,823)	-
Percentage of the present value of Scheme liabilities	1.57%	0.11%	0.13%	1.81%	0.00%
Total (loss)/gain recognised in statement of total recognised gains and losses before adjustment for tax	(25,127)	(8,473)	(5,817)	(19,441)	13,990)
Percentage of the present value of scheme liabilities	10.90%	4.46%	3.27%	12.44%	10.35%

25 Accruals and deferred income

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Accruals	19,313	19,217	18,910	18,673
Certificate fees in advance	34,097	27,560	30,772	24,853
Other deferred income	976	846	-	-
	54,386	47,623	49,682	43,526

Certificate fees received in advance represents amounts set aside to cover the cost of inspection of homes under construction and their subsequent certification. These amounts are released from the balance sheet to the non-technical account in approximately the same financial year as the related inspection costs are incurred.

Notes to the financial statements for the year ended 31 March 2015 (continued)

26 Reconciliation of profit on ordinary activities before tax to net cash flow from operating activities

	2015	2014
	£'000	£'000
Profit on ordinary activities before tax	17,342	31,943
Depreciation and decrease in value of assets	3,743	3,362
Increase in revaluation reserve	(584)	(115)
Increase/(decrease) in technical provisions	30,645	(105,843)
Realised gains on investments and fixed assets	(16,740)	(4,192)
(Increase)/decrease in unrealised gains on investments	(21,989)	87,112
(Increase)/decrease in insurance debtors	(3,251)	502
Increase in other debtors	(4,837)	(2,050)
Increase in prepayments and accrued income	(2,112)	(2,619)
Increase in insurance creditors	1,135	47
Increase/(decrease) in other creditors	750	(322)
Increase in accruals and deferred income	6,763	5,739
Increase in accrued interest on current tax account	837	-
Difference between pension charge and cash contributions	(5,052)	(1,077)
Net cash inflow from operating activities	6,650	12,487

27 Change in cash holdings

	At 31 March 2015	Cash flow	At 31 March 2014	Cash flow	At 31 March 2013
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	16,741	(5,640)	22,381	12,281	10,100
Deposits with credit institutions	1,181	(20,857)	22,038	4,849	17,189
	17,922	(26,497)	44,419	17,130	27,289

Notes to the financial statements for the year ended 31 March 2015 (continued)

28 Movement in cash, portfolio investments and financing

	At 31 March 2015	Cash flow	Changes to market value	At 31 March 2014	Cash flow	Changes to market value	At 31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	115,080	6	14,552	100,522	100,001	521	-
Fixed income securities	1,371,785	22,596	23,614	1,325,575	(116,078)	(84,082)	1,525,735
Portfolio investments	1,486,865	22,602	38,166	1,426,097	(16,077)	(83,561)	1,525,735
Deposits with credit institutions	1,181	(20,857)	-	22,038	4,849	-	17,189
Other financial investments	1,488,046	1,745	38,166	1,448,135	(11,228)	(83,561)	1,542,924
Cash at bank and in hand	16,741	(5,640)	-	22,381	12,281	-	10,100
Total	1,504,787	(3,895)	38,166	1,470,516	1,053	(83,561)	1,553,024

29 Guarantees and financial commitments

Annual commitments for the year ending 2015 in respect of non-cancellable operating leases for both the Group and the Company are as follows:

	2015	2014
	£'000	£'000
Operating leases on land and buildings which expire:		
Within one year	-	7
Between one and five years	97	-
Over five years	-	97
	97	104

Notes to the financial statements for the year ended 31 March 2015 (continued)

30 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 (Housing Forum). Mehban Chowdery is an employee of NHBC and a director of the Housing Forum. NHBC is also engaged in provision of various administrative services to the Housing Forum. The table below presents transactions with the Housing Forum.

	2015	2014
	£'000	£'000
Sales to the Housing Forum	57	50
Purchases from the Housing Forum	10	9
Amount due to NHBC	-	58

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

	2015	2014
	£'000	£'000
Purchases from ZCH	400	250
Amount due to NHBC	649	328

NHBC has entered into a joint venture with MD Insurance Services Limited under the name of 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.

	2015	2014
	£'000	£'000
Contributions to CCHB	175	150
Amount due from NHBC	50	50

31 Liability of members

At 31 March 2015 there were 58 (2014: 58) members of the Council. Under the Articles of Association the liability of each of the members is limited by guarantee to a maximum of £1.

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

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