2019/20

ANNUAL REPORT & ACCOUNTS

NHBC

Raising Standards. Protecting Homeowners

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Chair Alan Rubenstein reviews the business activity in the year.

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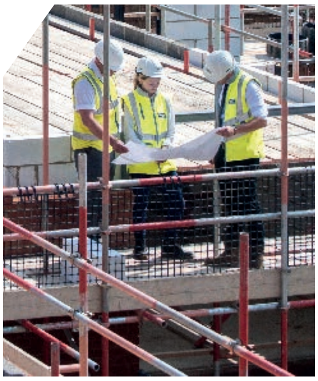
SUPPORTING OUR REGISTERED BUILDERS DURING COVID-19 AND BEYOND

CALA Homes Midlands talk to us about how they were supported during this difficult period.



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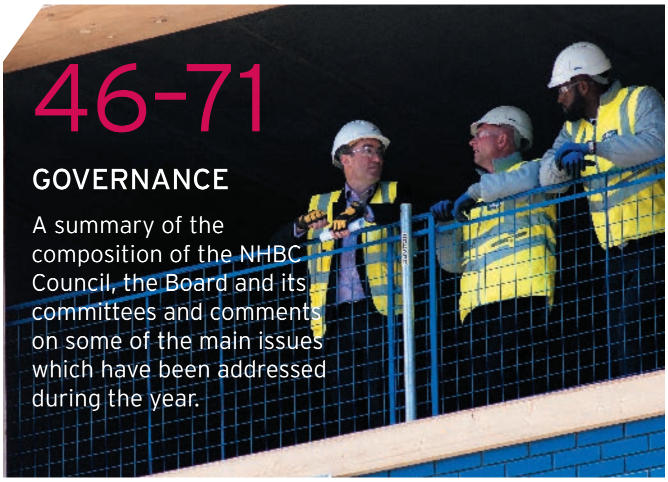
ABOUT NHBC

Our purpose is to build confidence in the construction quality of new homes by assessing, inspecting and directly insuring new homes registered with us.



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GOVERNANCE

A summary of the composition of the NHBC Council, the Board and its committees and comments on some of the main issues which have been addressed during the year.

OVERVIEW

CHAIR'S STATEMENT

I have joined NHBC at an extraordinary time, with the Covid-19 pandemic causing unprecedented global economic uncertainty affecting every business in every sector, changing our way of life and how we work together. This compounds what was already a demanding year for house building with the continued important focus on fire safety that has followed the Grenfell Tower tragedy, the political uncertainty of Brexit and a review of redress for homeowners with the Government's commitment to the introduction of a New Homes Ombudsman (NHO). In addition, our trading conditions have been challenging: persistently low investment yields mean that there needs to be an incisive focus on loss ratios and the costs of running NHBC's business, ensuring we are delivering value for homeowners and for customers whilst strengthening our balance sheet to the levels necessary to support the long-term exposures we carry.

I was attracted to becoming Chair because NHBC is a truly unique organisation. We are independent of government, homeowners and the house-building industry, giving us an unrivalled perspective and a vital role to play in these highly demanding times.

At this time of great uncertainty, it is worth reflecting on NHBC's long history and on the strength of our business, which has withstood many challenges over the decades, never faltering in our protection of homeowners nor in our determination to improve the quality of house building. Our core purpose remains unchanged since 1936, when the original memorandum of association stated, "The object for which the Council is established is the improvement of the building industry". Since then, NHBC has stayed true to that. Consumer protection in the form of a two-year warranty was introduced in the 1940s and, by the 1960s, this protection was strengthened by the introduction of a 10-year warranty, the foundation for today's Buildmark products.

I have every faith that we are well placed to support our customers now, and in the years to come, whatever difficulties we all face as we emerge from the Covid-19 outbreak. That faith is based in no small part on the many NHBC people I have had the pleasure to meet since I joined the Company in February 2020. The business is full of highly knowledgeable and passionate people with a strong collective drive to deliver NHBC's core purpose.

We are in a period of unparalleled change and, like all businesses, we must adapt to our evolving operating environment. We welcome increased government scrutiny on the quality of new homes and on ensuring they are built safely, with the health of everyone working on site being of paramount importance. The Government's commitment to the introduction of an NHO is an important development, one we welcome and support. In addition, we are working with the industry on the use of Modern Methods of Construction (MMC), which will help the drive to increase the rate of house building whilst keeping standards high. Also, we are ready to support the implementation of the Future Homes Standard which brings climate change back to centre stage as we collectively aim to deliver new homes with world-leading levels of energy efficiency by 2025.

"I HAVE EVERY FAITH THAT WE ARE WELL PLACED TO SUPPORT OUR CUSTOMERS NOW, AND IN THE YEARS TO COME"

On building safety, we have provided the full range of our expertise and knowledge to the Government, ensuring our unique perspective as an Approved Inspector and warranty insurer is informing policy development. We will continue to work closely with the Government and the Building Safety Regulator as they establish a robust, effective building control system that will contribute to the creation of safe new homes across the country, drawing on the capacity, competence and independent scrutiny we bring to bear.

Our integrated business model helps improve build quality through NHBC Standards and Building Control, inspecting robustly, managing claims, using our experience and insights to track quality issues, and providing training wherever it is needed. We have a well-established Major Projects team which ensures we deploy our depth and quality of expertise on high-rise residential buildings and other large-scale developments. We will continue to develop our overall capacity and expertise, exploiting technology and our data assets to enhance the services we provide to our customers.

To support the house-building industry and to deliver on our core purpose, NHBC must have a strong and resilient financial platform from which to operate. Corrective action to repair our balance sheet is underway, making sure that we are appropriately funded for the risks we accept and that our exposures are understood. Our insurance business must be profitable, reversing the successive underwriting losses of recent years. The Chief Executive Officer’s statement provides more information on the actions we are taking to ensure we have a sustainable base from which we can continue supporting the industry and homeowners for the long term.

CHAIR'S STATEMENT

The impact of the current Covid-19 outbreak means that the volume of house building will be reduced in the coming year and possibly beyond. However, we are confident that the fundamentals of supply and demand will lead to a recovery in due course. We will be as watchful as ever to ensure that construction quality standards maintain the positive gains seen in recent years whilst continuing to offer value-add services to help our registered customers.

In the year ahead, we will be focused on four things: strengthening our business model and balance sheet; building on our existing brand and reputational strengths; ensuring we protect homeowners from a secure position; and adding value to the sector in a distinctive and compelling way.

Turning now to Board matters, on 1 June 2020, I succeeded Isabel Hudson who served as Chair from 2011. In her nine-year tenure, Isabel overhauled the composition of the Board, brought stronger financial disciplines to bear and steered the business through a challenging period. She leaves NHBC a more confident, resilient and better-governed organisation. I would like to thank her for all her hard work and dedication and to wish her well for the future.

Ian Craston stepped down on 31 January 2020 after five years on the Board. We thank him for his balanced, insightful contribution as Chair of the Investment Committee and member of the Audit, Remuneration and Risk Committees. In addition, Sir Muir Russell left us on 31 May 2020. NHBC has had the benefit of his wise counsel over the last eight years, not least during his time as Chair of the Audit, Remuneration and Scottish Committees and as a member of the Audit, Investment and Nominations Committees.

"I AM DELIGHTED TO HAVE JOINED NHBC AS WE EMBARK ON THE NEXT STAGE OF OUR DEVELOPMENT"

We have been joined by two new independent Non-Executive Directors: Alison Burns who brings a background in executive and non-executive roles at a number of major insurance and financial service organisations; and Philip Rycroft who brings a wealth of experience from his 30 years in government service, which culminated in the role of Permanent Secretary at the Department for Exiting the EU.

As noted in last year's Annual report, Neil Jefferson left his role as Chief Operating Officer in January 2020, to become Managing Director of the Home Builders Federation. In the same month, we appointed David Campbell to the newly created role of Commercial Director. David has held a number of senior roles in house building, most recently at Telford Homes Plc, and we welcome him to the Board.

I am delighted to have joined NHBC as we embark on the next stage of our development and look forward to working with my Executive and Non-Executive colleagues in the years ahead.

Alan Rubenstein
Chair


NHBC
NHBC

CHIEF EXECUTIVE OFFICER'S STATEMENT

The Covid-19 outbreak is unprecedented, causing a sharp shock to the UK housing market and to the wider economy, with doubts over the pace and nature of recovery. This demanding environment has been heightened by new legislation on building safety and climate change, together with an ever-sharper focus from government, the media and consumers on build quality and fire safety. In addition, the trading conditions for insurance and warranty providers have been extremely challenging, leading to significant financial losses for NHBC for the past three years.

From the start of the Covid-19 pandemic, our primary objective has been to ensure the wellbeing of our employees, our customers and homeowners. We kept our business operating whilst following government advice, not endangering our colleagues or wider public health objectives.

The outbreak brought most builders' on-site activity to a virtual halt in March and April 2020, with new home registrations falling sharply, after a steady performance in the year up to that point. We took a number of decisions to protect our business during this time, including accessing the Government's Coronavirus Job Retention Scheme for employees where demand had fallen (notably for building inspectors, claims inspectors and customer service advisers). The remainder of our non-inspection employees were almost entirely working from home throughout lockdown, with our infrastructure, systems and service standards stable during this period.

As I write, the longer-term impact of the pandemic on the economy, on our customers and on consumer confidence is difficult to predict. As we look ahead, we know that conditions will remain challenging, however it is a time when our capacity, insights and expertise have come to the fore as we work closely with our registered customers on their remobilisation plans. This desire to support our customers and to aid economic recovery will not result in any compromise to standards or to the rigours of our approach. We remain committed to raising home-building standards and protecting homeowners, both now and in the future.

To deliver the exceptional service and level of support that our registered customers value, and to protect homeowners with our unrivalled 10-year Buildmark warranty, we must be strong and financially secure. We are a non-profit distributing organisation, dependent on retained earnings to bolster our balance sheet. We have suffered significant claims loss development in each of the last three years, with two main causes as reported in last year's Annual report: increased claims from properties built in the years around the last financial crisis, particularly apartment blocks; and a sharp rise in large fire-safety and cladding-related claims. In addition, there has been material strengthening of our year-end claims' provisions due to the expected economic impact from Covid-19. These balance sheet events have been exacerbated by persistently low yields, meaning that we cannot rely on income from our investment portfolio to help us compensate, as was historically the case.

Against this backdrop, we are reporting a pre-tax loss of £98m for the financial year ended 31 March 2020, with our solvency ratio below risk appetite at 135%.

Successive losses on this scale are not sustainable.

We are taking a number of actions to ensure that NHBC has a secure base on which we can continue supporting the industry for the long term. We are revising our reinsurance programme, which will deliver improved capital efficiency as well as limit our risk exposure. We are ensuring Buildmark warranty pricing better aligns premium to risk with significant increases in the price of our Buildmark products from 1 June 2020. This recalibration of warranty pricing is crucial to provide a stable platform for our policyholders, for customers and for the industry. Further refinement towards more granular, risk-based pricing will be implemented as we move forward. We continue to look for every opportunity to increase our efficiency and effectiveness, freeing up resources to invest in improving our proposition and service for customers. In addition, we continue to strengthen our claims disciplines, reducing leakage and recovering all appropriate costs. Encouragingly, large loss experience aside, we are seeing real reductions in resolution cases and underlying warranty claims from improved standards and better quality control on site.

Until the effects of the Covid-19 pandemic started to be felt in March 2020, the number of new homes registered with us was broadly similar to the prior year. In the year ended 31 March 2020, our registrations were 156,756, a 2.3% decrease from the 160,461 registrations in the prior year. In April and May 2020, registrations dropped to historically low levels and whilst they are picking up again as work resumes on site, it will take some time to get back to previous levels.

We have seen a shift this year in the mix of our registrations, with significant increases in the proportion of homes in the affordable and rental sectors. We have strengthened our relationships with Housing Associations and with local authorities as they increase their commitment to new home building. We are engaged actively with new investors, developers and operators in growing Build to Rent and Later Living markets, providing early technical input and adapting our warranty and insurance products to meet requirements.

Of course, the majority of our registrations remain in the private sale sector, delivered by our registered builder customers. We will continue to build ever-stronger relationships with this fundamental part of our customer base.

Across all the markets, our core purpose remains the same: to protect policyholders and to support the delivery of high-quality homes. We welcome the Government's focus on new home quality and commitment to implement an NHO. I am delighted to have joined the newly formed Shadow New Homes Quality Board, which will commission the appointment of the NHO, and I look forward to contributing to its important work.

It is encouraging that so many builders share our commitment to quality and service, as shown by the Home Builders Federation Customer Satisfaction Survey. The 2019 results revealed that 89% of homeowners would recommend their builder to a friend (a 2% improvement on the previous year), with 91% saying they would buy a new build home again.

We continue to invest in developing our technical risk management capability, exploiting technology and our unique data. Our inspection teams carried out over a million on-site inspections in the year, building relationships with site managers and providing valued feedback to builders. We use the data and insights from inspections and from our claims history to develop a range of construction quality services to add to our Construction Quality Reviews, which show a 6% increase in 'good/better' build stages compared with last year. We have further developed our inspection regime, introducing intermediate inspections, pre-handover benchmark inspections and enhanced attention to fire safety-related issues, with increased scrutiny on apartment buildings focusing on façade and pre-plaster elements.

"FROM THE START OF THE COVID-19 PANDEMIC, OUR PRIMARY OBJECTIVE HAS BEEN TO ENSURE THE WELLBEING OF OUR EMPLOYEES, OUR CUSTOMERS AND HOMEOWNERS"

CHIEF EXECUTIVE OFFICER'S STATEMENT

Looking forward, we are committed to further expanding our training business to help meet the needs of the industry and tackle the skills shortage; this will be increasingly important as the industry emerges from the pandemic and the wider impacts of Brexit become apparent. We delivered 14,000 training days in the year, assessed around 550 qualifications and, in the first three months of Covid-19 related 'lockdown', over 30,000 industry participants benefitted from our technical webinars.

Use of non-conventional construction methods continues to increase. Some major builders are developing their own capability across panelised and volumetric systems, whilst independent manufacturers are becoming more prominent and scalable. Across the affordable and Build to Rent sectors, developers are looking to use such systems as a means of delivering consistent quality homes at pace, whilst positively impacting the skills shortage. Our dedicated MMC team reviews new products, components and systems to assess whether they are acceptable for use in homes covered by our Buildmark warranty.

Climate change is another key area of focus. The Future Homes Standard to be introduced in 2025 will need concerted, cross-industry engagement. We will be working to support our customers to meet the challenges of the new Building Regulations in this important area. Also, we are making good progress in reducing our carbon footprint. More information on how we are incorporating climate-related financial risk into governance and management processes can be found on page 38 in our Wider impact and non-financial information statement.

It is a special anniversary year for Pride in the Job as we celebrate the industry-leading competition's 40th year. By recognising the very best site managers across the UK, showcasing best practice and rewarding excellence, we celebrate the vital role that site managers play in ensuring new homes are delivered on time, on safe sites and to exacting construction quality standards.

Our commitment to the highest possible standards of health and safety for our own people was acknowledged when we were awarded the RoSPA Gold Award for the third successive year.

As is evident from the scale and quality of the work we undertake, we could not achieve this without the dedication and professionalism of colleagues right across the Company. We aim to foster a working environment that encourages people to develop and thrive, giving every employee the opportunity to flourish professionally and personally. Leadership development has been a key area as we look to strengthen our talent pool, whilst we have continued to streamline our processes in core business areas to develop a more agile, dynamic culture.

In order to attract the best people, we aim to be a responsible, ethical and attractive employer. We have delivered initiatives this year on flexible working and on equalised and enhanced paternity leave. We are committed to being diversity confident and inclusive, introducing a women's network and an LBGTQ+ network which have been very well received.

Turning to the Chair, I am delighted to welcome Alan Rubenstein to the position and look forward to working closely with him. He will be a great asset to NHBC with his career, spanning more than 30 years, including senior roles in pensions, insurance and asset management, notably as Chief Executive of the Pension Protection Fund between 2009 and 2018. Alan has already paid tribute to our outgoing Chair, Isabel Hudson. I would like to add my personal thanks for her commitment and dedication to NHBC, and for all she has achieved over her nine-year tenure. I wish her every success for the future.

Finally, I wish to thank all my colleagues for their continued loyalty, passion and commitment this year. I am especially appreciative of their spirited, professional response to the challenges of Covid-19, which allowed us to sustain service levels to our customers in all key areas, which I know was much appreciated by them. As an insurance company with a non-profit-distributing business model, we are dedicated to supporting the industry and protecting consumers over the long term. We continue to provide unrivalled capacity, insight and expertise across inspection and insurance.

I am confident that we have the team to ensure our long-term financial security and to enable us to be better placed than ever to help improve the industry for the benefit of all our stakeholders.

Steve Wood
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S STATEMENT

The statements from the Chair and Chief Executive Officer highlight the challenging year which we have experienced, both operationally and financially. This is the third successive year in which NHBC has reported a loss, despite strong volumes and positive underlying performance in each year. The poor results over this period have been driven by the late emergence of large claims relating to underwriting years before and after the 2008 financial crisis, as well as cladding and fire safety claims on a number of apartment blocks. This year is no different in that positive underlying performance has been significantly outweighed by the impact of larger, systemic claims and the Covid-19 pandemic.

This year's revenues, underlying attritional claims experience and operating expenditure were all better than the prior year. However, adverse claims development in respect of cladding and fire safety claims, as well as the provisioning we have made for likely higher claims from the recessionary conditions caused by the Covid-19 pandemic, more than offset the favourable performance in the other areas of our business.

The overall result for the year was a pre-tax loss of £98.3m (2019: £32.7m loss before exceptional items); dominated by a loss of £107.8m (2019: £47.3m loss) in the Technical Account[1]. The Non-Technical Account, which represents the financial performance of our non-insurance activities and surplus investment asset returns, reported another year of profits at £9.5m (2019: £14.6m profit).

Our revenue streams are modest in comparison with the size of our balance sheet which is dominated by insurance claims provisions and the assets held to back those liabilities. As a result, annual profits are susceptible to large movements in the values of investments or claims provisions. Where possible, we manage the impact of market risk on investments and liabilities through our asset and liability matching approaches. However, in common with the last two years, the strengthening of claims provisions has had a disproportionately large impact on the annual profit and loss account.

The Technical Account loss was driven by four key elements:

- a further strengthening of gross technical provisions to reflect increased cladding and fire safety-related claims in high-rise buildings
- an allowance for the recessionary impact of Covid-19; partially offset by
- an increase in the level of reinsurance recoveries in response to the strengthening of the gross technical provisions, and
- the continued improvement in underlying, attritional claims experience.

NHBC's balance sheet remains dominated by invested assets and claims technical provisions. Invested assets and cash valuations declined slightly over the year to £1,615.3m (2019: £1,624.7m), primarily driven by market volatility and funds withdrawn to support claims cashflows. As highlighted above, the net technical provisions held to meet our obligations to policyholders were further strengthened during the year to £1,180.1m (2019: £1,074.4m). The increase in gross technical provisions was almost £250m. This increase was mitigated in part by £144m of reinsurance recoveries which accrued from the Group's reinsurance coverages purchased to protect the balance sheet against the risk of material adverse claims development.

1 In summary, the result from our insurance operations.

NHBC's Solvency II regulatory capital ratio, which is calculated using the Standard Formula, decreased to 135% from 152% as a result of the material net reserve deterioration and consequent loss in the year. The need to rebuild and maintain a resilient Solvency Ratio is a key focus for management and the Board who are committed to ensuring that we generate adequate margins to rebuild our capital surplus to a sustainable level. This is needed to underpin our long-term purpose of raising house-building standards and protecting homeowners.

FINANCIAL PERFORMANCE

The table below presents a summary consolidated income statement for the year ended 31 March 2020 and comparatives.

	2020	2019
Registrations (units)	156,756	160,461
	£m	**£m**
Net earned premiums	**52.6**	66.7
Net claims incurred	**(73.9)**	(119.1)
Movement in unexpired risk reserve	**(87.1)**	(17.4)
Investment return – technical account	**10.4**	35.0
Net operating expenses	**(9.8)**	(12.5)
Technical account loss	**(107.8)**	(47.3)
Other income	**78.5**	78.6
Other charges	**(76.4)**	(76.4)
Investment return – non-technical account	**7.4**	12.4
Non-technical account result before exceptional items	**9.5**	14.6
Net operating loss before exceptional items	**(98.3)**	(32.7)
Exceptional item	**-**	30.0
Loss before tax	**(98.3)**	(2.7)
Tax credit	**5.6**	0.1
Loss after tax	**(92.7)**	(2.6)

CHIEF FINANCIAL OFFICER'S STATEMENT

VOLUMES

Our registration volumes (registrations) are a key driver of our premium and inspection income and are typically a proxy of exposure on our insurance technical account. Registration volumes decreased by 2.3% in 2020 (2019: 3.5% increase) to 156,756 units, mainly due to the impact of Covid-19 in the final quarter of the year. The number of completions increased by 2.2% to 152,384 units (2019: 1.8% increase) also supported by higher affordable residential volumes. Homes under cover at 31 March 2020 increased to 1.4 million (2019: 1.3 million).

TECHNICAL ACCOUNT RESULT

As highlighted above, the Technical Account, which reflects the results of the Group's insurance activities, reported a loss of £107.8m for the year (2019: loss £47.3m). This is primarily the result of the increase in respect of the unexpired risk reserve. The increase in the unexpired risk reserve, net of reinsurance, was largely due to the strengthening of claims reserves for cladding and fire-stopping claims during the year, as well as the potential adverse economic and recessionary impacts of the Covid-19 pandemic on the future claims environment. Prior to the Covid-19 crisis, it was anticipated that underlying attritional claim reserves would have reduced, continuing the positive trend in the frequency and severity of these claims seen over recent years.

GROSS WRITTEN AND NET EARNED PREMIUMS

Gross written premium was £99.8m (2019: £95.2m) despite lower volumes. The increase reflected higher average fees driven by a greater proportion of registrations from higher value developments and an increase in road and sewer bond overrun fees. Net earned premiums decreased 21.5% to £52.6m (2019: increase 34.5%), following a change in the provision for unearned premiums. Our warranty premiums are earned in accordance with an earnings profile which follows the expected pattern of claims' emergence over the period of warranty policy coverage. During the year, the Group recognised that there has been an increase in the time it has taken for claims to emerge when compared with previous years. As a result, less premium was recognised as earned than in the prior year.

CLAIMS INCURRED

Gross claims paid in the year were £91.5m (2019: £85.6m), reflecting the payment of some large claims, offset by lower attritional claims payments. Net claims incurred decreased by 38.0% to £73.9m (2019: increase 23%) driven by the increase in the reinsurers' share of outstanding claims and lower claims handling costs. The reinsurers' share of claims increased in the year as the increase in gross claims provisions exceeded the relevant reinsurance attachment points.

UNEXPIRED RISK RESERVE

The unexpired risk reserve charge of £87.1m (2019: charge £17.4m) largely reflects the strengthening of the technical provisions to reflect the developing claims experience.

INVESTMENT RETURN ALLOCATED TO THE TECHNICAL ACCOUNT

The investment return allocated to the Technical Account reflects the return on investments used to support the technical provisions, which consist primarily of fixed interest and index linked gilts and high-grade corporate bonds. The net return was £10.4m (2019: £35.1m profit) and was driven by net investment income of £20.5m (2019: £22.1m) and unrealised losses of £10.1m (2019: gains £12.9m).

OPERATING EXPENSES

Operating expenses allocated to the Technical Account were £9.8m, a decrease from £12.5m in the year ended 31 March 2019, which reflected a lower level of insurance-related costs in relation to the overall total expenditure across the business. This follows work undertaken on process and efficiency programmes, and lower contractor support for actuarial activities which have now largely been brought in-house.

NON-TECHNICAL ACCOUNT RESULT

The Non-Technical Account profit was £9.5m (2019: £14.6m). This includes the net result from all aspects of non-insurance related activities as well as the investment return generated by surplus investment assets. The main variance year on year came from a slightly weaker investment performance.

CHIEF FINANCIAL OFFICER'S STATEMENT

Other income, which includes inspection, building control fees and income from NHBC's Services Limited business (such as Training and Health and Safety services), remained stable with prior year at £78.5m (2019: £78.6m), despite lower registration volumes following the emergence of Covid-19 in the final quarter. The combination of higher completions and modest fee increases broadly offset the lower volumes.

Total operating expenditure, excluding the 2019 impact of pension equalisation[2], across the business fell by 1.6% to £105.3m, (2019: increase 0.3%) reflecting our continued focus on managing our operating costs carefully. Other charges – such as other income – remained flat year on year at £76.4m (2019: 76.4m). Inflationary cost increases and ongoing investment in change and IT programmes were offset by gains achieved from efficiency improvement programmes.

Investment returns allocated to the Non-Technical Account represent the return on surplus investment assets not held to support the technical provisions. During the year these surplus investments consisted of corporate bonds, equities and multi-asset funds. The net investment return for the year was £7.4m (2019: £12.4m). The negative impact of market volatility in the year was offset by the favourable gain made on an equity protection strategy which was placed in September 2019 for the second half of the financial year.

FINANCIAL POSITION

The total value of the investment portfolio (including cash) decreased marginally by 0.6% (2019: increase 4.2%), ending the year at £1,615.3m (2019: £1,624.7m).

Of the total investment portfolio, 92% (2019: 94%) was invested in high-quality fixed income and cash assets. The fixed income portfolio continues to be invested in investment grade assets, with 99% (2019: 99%) rated AA or higher. At the end of the year, the average duration of the portfolio was 4.6 years (2019: 4.5 years). Government bonds remain a key investment class for us, accounting for over 50% of the bond portfolio.

We disposed of all of our equity holdings after closing out the equity protection strategy in March 2020 (2019: £52.2m). Proceeds were held as cash over the year end, in part to manage liquidity through the initial stages of the Covid-19 pandemic response. The divestment from equities continues the ongoing implementation of our investment strategy which seeks to diversify the investment portfolio and enhance the portfolio's risk-return characteristics which support management of our solvency and capital.

NET TECHNICAL PROVISIONS

Net technical provisions increased by 9.8% to £1,180.2m (2019: increase 9.6%). The increase was driven by three key elements:

- the continued uncertainty surrounding the claims environment in respect of cladding and fire safety in high-rise buildings
- the impact of the Covid-19 pandemic and provisioning for the potential adverse claims experience which may result from a UK recessionary environment
- but, partially offset by the benefit of increased reinsurance recoveries as a result of the increase in gross technical provisions.

As documented in the notes to the financial statements, we take all reasonable steps to ensure we obtain and use the most appropriate information to assess and quantify known and potential claims which, along with the unexpired risk reserve, account for the largest proportion of the technical claims provisions. However, given the complexity in some claims and the inherent uncertainty of estimating the frequency and cost of future claims, it is likely that the outcome will prove different from the estimate made at the accounting date. Any adjustments required to claim amounts previously estimated, or changes in the unexpired risk reserve, will be reflected in the results of the year in which those adjustments are identified.

DEFINED BENEFIT PENSION SCHEME

The defined benefit pension scheme deficit has decreased by £17.1m during the year to £16.0m (2019: increase to £33.1m). The decrease was the result of several factors:

- a 2.8% increase in the value of our predominantly risk-free asset portfolio as we benefitted from yields falling
- a 4.6% reduction in liabilities driven primarily by reduced inflation assumptions
- a £8.0m deficit repair contribution (2019: £8.0m) made in accordance with the revised contribution schedule agreed between NHBC and the Scheme Trustee in the most recent triennial valuation.

Our management team has continued to work closely with the Scheme Trustee, particularly regarding the scheme's long-term funding strategy.

"WE ARE TAKING A NUMBER OF ACTIONS TO RETURN NHBC TO PROFITABILITY"

2 In 2019, we incurred £3.8m of pension costs to reflect the expected cost of Guaranteed Minimum Pension equalisation.

CAPITAL

At 31 March 2020, accumulated reserves were £373.7m (2019: £455.4m). The reduction reflected the post-tax losses incurred in the year, partially offset by the favourable valuation movements on the pension scheme.

The Group's Solvency II regulatory capital ratio, which is assessed using the Standard Formula, was 135% at 31 March 2020 (2019: 152%). The decrease in the solvency ratio was driven by combination of a fall in net assets due to the accounting loss for the year as well as an increase in the Solvency Capital Requirement due to the increase in the technical provisions.

Given the combination of the uncertain claims environment, the longer-term impact of the Covid-19 pandemic and the ongoing negotiations with respect to the UK's exit from the European Union, action has already been taken and more is planned to ensure that we rebuild and safeguard our capital position for the long term. Our main route to capital raising is through retained earnings, therefore we have implemented significant increases to our Buildmark warranty prices with effect from 1 June 2020, ensuring premium better matches risk. In addition, we have made changes to our reinsurance programme which will deliver improved capital efficiency as well as limit our claims exposure.

OUTLOOK

Whilst the loss after tax reported for the year is very disappointing, it should be recognised that this is driven by two key factors – our commitment to meet obligations to policyholders in respect of cladding and fire safety claims, and the adverse impact of the Covid-19 pandemic.

We are taking a number of actions to return NHBC to profitability in order to rebuild and protect our capital base against the volatility inherent in the balance sheet.

These actions include the 'reset' of our warranty prices effective from 1 June 2020, which reflects a more granular, risk-based approach. We will continue to review and change our approaches to claims management and handling processes. Also, we are working with our registered customers to improve the services we deliver to help manage the technical risks within their planning, design and build processes. Further, we will continue our programme of work to improve operational efficiency, removing non-value-added costs and reducing claims leakage.

This will enable us to continue investing in our people, products and services to deliver our long-term core purpose of building confidence in the construction quality of new homes and reduce claims for homeowners.

Paul Hosking
Chief Financial Officer

SUPPORTING OUR REGISTERED BUILDERS DURING COVID-19 AND BEYOND

CALA Homes Midlands use NHBC for Buildmark cover on all their developments as well as Building Control. We talked to Matt Knight, their Construction Director to see how CALA were impacted by the pandemic and how we were able to support their business during this difficult period.

"WHEN THE GOVERNMENT IMPLEMENTED ITS LOCKDOWN IN MARCH, WORK ON OUR SITES STOPPED IMMEDIATELY. OUR WHOLE COMPANY ETHOS IS PEOPLE FIRST AND SO SHUTTING ALL SITES AS QUICKLY AS POSSIBLE WAS THE ONLY OPTION."

"FROM THE START, I WAS IMPRESSED WITH THE INFORMATION WE RECEIVED FROM OUR NHBC REGIONAL DIRECTOR. HE KEPT US INFORMED THROUGHOUT THE LOCKDOWN PERIOD AND, WHEN WE WERE READY TO START CAREFULLY PHASING SITES BACK INTO OPERATION, NHBC WERE THERE READY TO SUPPORT US. WE SHARED OUR PLANNED ROLL-OUT WITH THEM AND THEY PUT THEIR INSPECTION RESOURCE IN PLACE ACCORDINGLY."

Furloughed CALA Homes staff were also able to make use of the Virtual Training we offered with many taking advantage of the free technical webinars as well as attending the online version of our three-day defects prevention course.

Matt was particularly pleased to know that we were able to continue with our Pride in the Job competition this year, despite the difficulties presented by national site closures.

"IT GAVE OUR FURLOUGHED SITE MANAGERS A MASSIVE BOOST WHEN THEY KNEW THAT PRIDE IN THE JOB WAS CONTINUING THIS YEAR, THAT ALL THEIR HARD WORK STILL HAD A CHANCE TO BE RECOGNISED. AS SOMEONE WITH A SITE MANAGEMENT BACKGROUND I CAN TELL YOU THAT THAT COMPETITION REALLY MEANS SOMETHING.

IT'S OUR INDUSTRY'S OSCARS AND IF YOU'RE PROUD OF WHAT YOU DO, IT'S THE BEST THING EVER TO HAVE YOUR WORK RECOGNISED IN THAT WAY."

We're looking forward to supporting CALA Homes Midlands as we emerge from the pandemic and continuing the great partnership we have developed. Matt agrees:

"I WOULD RECOMMEND NHBC 100%. WE GET CONSISTENCY ACROSS OUR SITES FROM THE INSPECTION TEAM AND WE KNOW THAT WE'RE WORKING IN PARTNERSHIP WITH THEM TO DELIVER THE BEST QUALITY HOMES FOR HOMEOWNERS. THE DATA I RECEIVE ON MY SITES IS REALLY USEFUL AND IF I HAVE A TECHNICAL QUERY, I KNOW THAT OUR INSPECTION MANAGER OR REGIONAL DIRECTOR WILL BE ON HAND TO TALK IT THROUGH TO RESOLUTION."

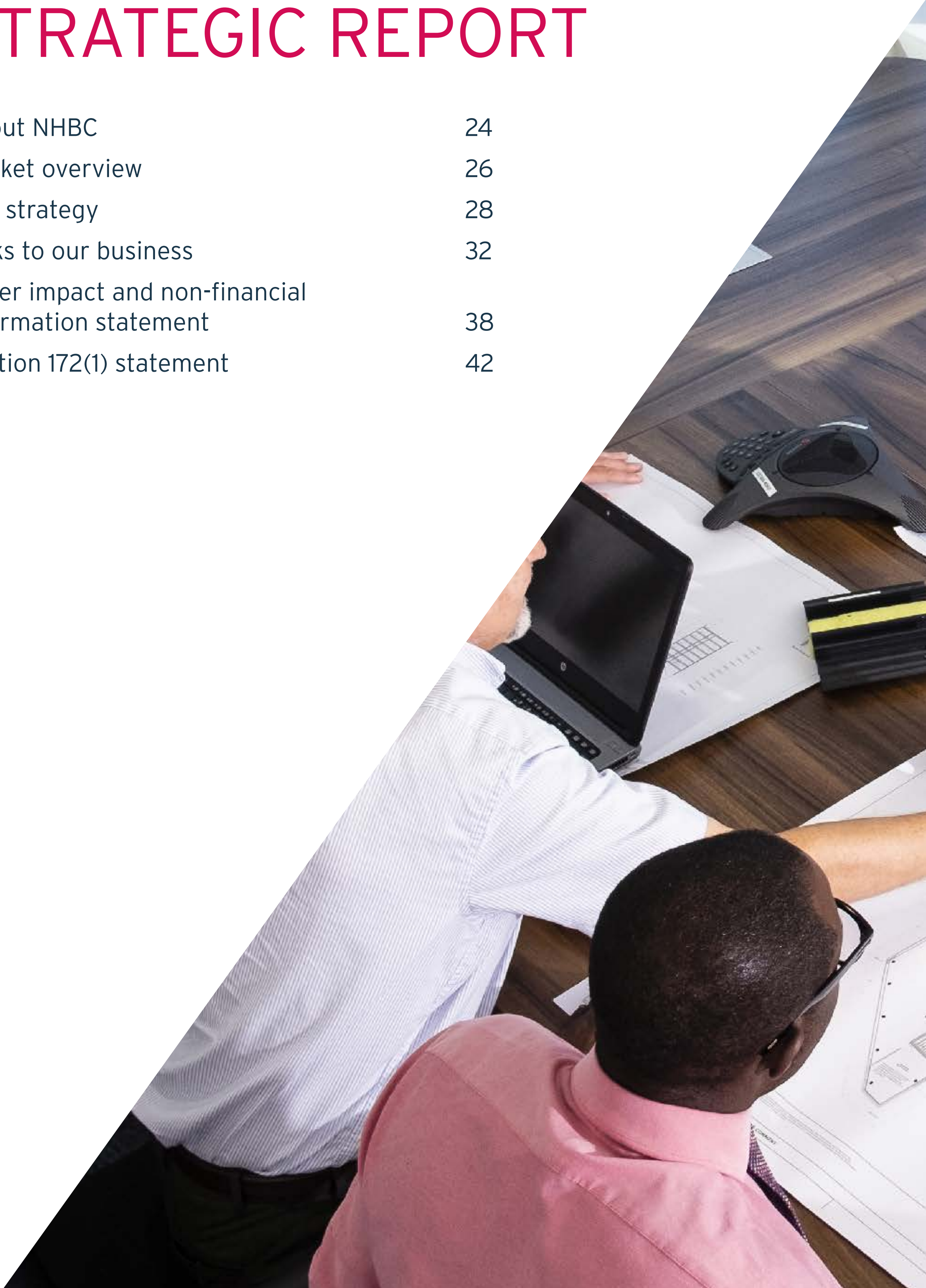
Matt Knight
Construction Director, CALA Homes Midlands

CASE STUDY

"I WOULD RECOMMEND NHBC 100%. WE KNOW THAT WE'RE WORKING IN PARTNERSHIP WITH THEM TO DELIVER THE BEST QUALITY HOMES FOR HOMEOWNERS."

The case studies do not form part of the strategic report, the directors' report, the directors' remuneration report, or the UK GAAP financial statements.

STRATEGIC REPORT



ABOUT NHBC

We are the UK's leading independent provider of warranty and insurance for new homes. Our purpose is to build confidence in the construction quality of new homes by assessing, inspecting and directly insuring new homes registered with us. We use our unrivalled expertise, data and training services to support our registered customers to improve the construction quality of new homes and provide protection for the homeowners who purchase them.

INDEPENDENCE

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

BUILDER REGISTRATION AND THE NHBC STANDARDS

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

The NHBC Standards define the technical requirements and performance standards for the design and construction of new homes and provide guidance on how these can be achieved. Through the consistent application of the NHBC Standards by all registered builders and developers, homeowners should benefit from a new home build process that is compliant with the relevant building and fire-safety regulations and which incorporates leading practices in the construction industry.

INSPECTION SERVICES

We provide an inspection service to our registered customers. This takes the form of independent inspections, undertaken at key build stages, as identified in the NHBC Standards. Last year, we conducted over a million inspections, with feedback provided to our registered customers for every new build home protected by our Buildmark warranty product. This is an integral part of the drive to improve construction quality for the benefit of homeowners, with these 'key stage inspections' being supplemented by intermediate inspections and other services:

- Construction Quality Services: a range of additional services focused on raising build quality, including Construction Quality Reviews, Construction Quality Forums, Build Quality Inspections and Bespoke Workshops
- Building Control Services: delivered by our wholly owned subsidiary company, NHBC Building Control Services Limited, supporting builders in meeting the government-set Building Regulations on residential, mixed-use and selected commercial projects.

BUILDMARK – AN INDUSTRY-LEADING WARRANTY AND INSURANCE PRODUCT

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

"WE USE OUR UNRIVALLED EXPERTISE, DATA AND TRAINING SERVICES TO SUPPORT OUR REGISTERED CUSTOMERS TO IMPROVE THE CONSTRUCTION QUALITY OF NEW HOMES AND PROVIDE PROTECTION FOR THE HOMEOWNERS WHO PURCHASE THEM."

RESOLUTION AND CLAIMS SERVICE FOR HOMEOWNERS

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

RESEARCH AND INSIGHT

Through detailed site reviews, inspection and claims data, we provide an impartial view of build quality and identify areas in the house-building process that the construction sector is finding particularly challenging. Using our extensive technical expertise, we seek to raise standards by providing guidance, training and supporting interventions to our registered customers, focusing on areas affecting the quality of new build homes.

The NHBC Foundation provides in-depth research and practical guidance to support the house-building industry, whilst NHBC Services Limited, our wholly owned subsidiary, provides training services to our registered customers.

In addition, we mandate our Standards to our registered customers, updating them regularly based on improvements in construction practices and the latest learnings across the house-building industry. This process continues to drive improvements in construction quality for the benefit of homeowners.

CELEBRATING BEST PRACTICE

Our Pride in the Job and Health and Safety Awards are an important part of our drive to promote high standards and safe working practices in new home construction. Pride in the Job recognises the best site managers building new homes in the UK, whilst the Health and Safety Awards recognise builders with the best health, safety and wellbeing practice.

LG MODULAR HOMES

MARKET OVERVIEW

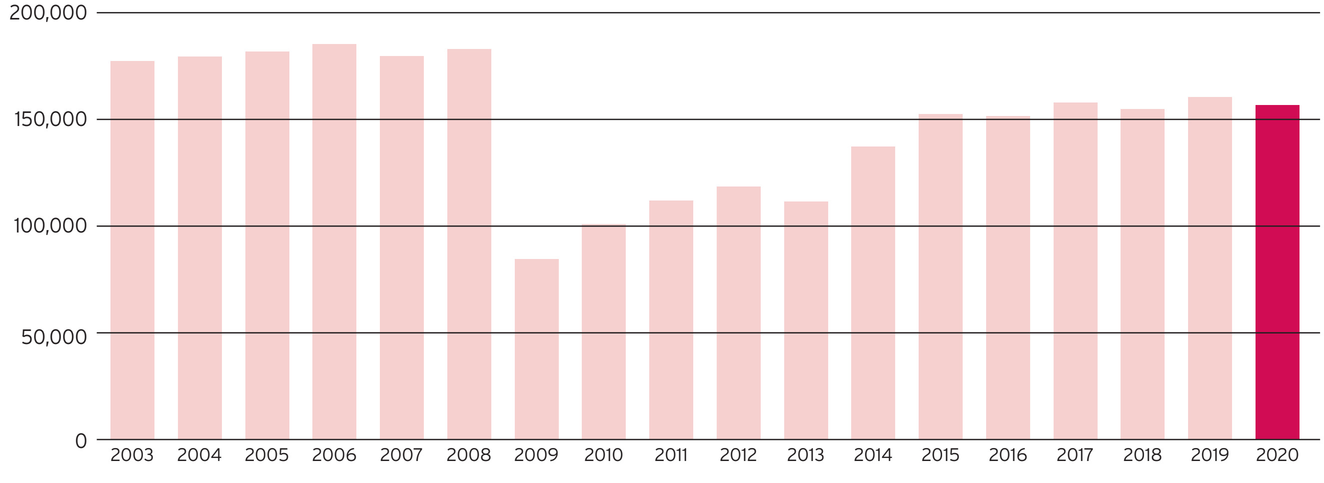
We operate in the UK new house-building sector, the health of which is the primary driver of our business performance and growth. We monitor a range of metrics to ensure we are well positioned to respond to emerging opportunities and threats.

UK HOUSING MARKET

The housing market in the UK remained relatively stable in the financial year ended 31 March 2020 and experienced modest growth prior to the Covid-19 pandemic. House prices in both new and second-hand markets continued to gradually increase, continuing the trend of recent years. The demand for new homes continues to outstrip supply, and incentive schemes such as Help to Buy have continued to support new build housing supply.

New homes registered with us in the year ended 31 March 2020 were 156,756 (2019: 160,461), a fall of 2.3%. However, until March 2020, when the Covid-19 pandemic and associated restrictions started to impact, registrations were broadly in line with prior year figures. Nevertheless, registrations in the year were the second highest since before the housing market crash in 2009, following the financial crisis of 2008.

REGISTRATIONS



In April 2020, registrations fell to historically low levels, and whilst we expect them to rise again as operating restrictions are increasingly lifted and activity resumes, it will take the industry and its supply chain a period of time to return to previous levels. Of course, the recovery will depend on the duration and extent of the impact of Covid-19.

The mix of registrations in the year changed, as the proportion of registrations for affordable and rental homes increased significantly, particularly from housing associations and local authorities as they increase their commitment to new home building. We have also seen growth from investors and developers in the Build to Rent and Later Living markets. The majority of our registrations continue to come from the registered builder customers operating in the private sale sector.

During the financial year ended 31 March 2020, we maintained our market share within a range of 75% to 85% of the UK home warranty market. This is based on the number of NHBC registered homes on which building activity has commenced (known as ‘starts’), expressed as a percentage of government-reported UK starts over the same period.

We continue to maintain our leading position as a provider of inspection services and new build warranty among high-volume developers and to build on a strong and growing presence in the affordable housing, private Build to Rent, and local authority sectors.

"THE IMPACT OF COVID-19 HAS COMPOUNDED AN ALREADY CHALLENGING AND CHANGING ENVIRONMENT FOR HOUSE BUILDING"

HOUSING MARKET OUTLOOK

Pre-Covid-19, the Government's aim was to raise the supply of new homes to 300,000 a year by the mid-2020s, a significant increase on current activity levels. To date, the Government has not revised this target but, given the significant impacts of the pandemic, this aim will now be even more difficult to achieve.

The underlying fundamentals of the housing market should support a recovery in house building, with significant pent-up demand, larger builders being more financially resilient than in previous recessions, good mortgage availability and lowest-ever interest rates, as well as significant support from government, both direct and indirect.

However, the unprecedented global economic uncertainty created by Covid-19 will impact the house-building sector, with the volume of new homes registered and constructed being reduced in the coming year and possibly beyond. The pace of recovery will depend on how and when the restrictive measures such as social distancing can be eased, and how quickly consumer confidence and house sale transactions pick up.

Most major developers took swift action to reduce costs in the short term, such as through use of the Government's Coronavirus Job Retention Scheme, cancelling dividends, reducing executive pay and slowing land purchases in the short term. All such actions were designed to preserve cash and better position developers for recovery.

The Covid-19 pandemic has exacerbated supply chain challenges. Although approximately 80% of construction materials used in the UK are UK-produced, some materials, such as timber and mechanical and electrical equipment are largely imported. Also, the temporary closure of manufacturer production lines and transportation challenges resulting from the pandemic will have an impact.

Most major housebuilders began to remobilise in May 2020, an encouraging sign for the industry, and the Government remains very supportive of the industry, with strong impetus to ramp up production as quickly as possible where it is safe to do so.

Consumer confidence will have been affected by concerns over financial uncertainty and employment security, which will dampen demand and, combined with other factors, result in a fall in house prices in the short term. Banks and mortgage lenders remain better placed to support consumers and businesses in the recovery than in the 2008 financial crisis. Lenders initially took action to reduce mortgage availability (driven by restrictions on valuations and a need to focus staff on mortgage holiday enquiries), but the second half of April 2020 saw the number of new and reintroduced products rising week on week.

The impact of Covid-19 has compounded an already challenging and changing environment for house building, with regulatory changes relating to fire safety following the Grenfell Tower tragedy and the Government's intention to introduce a New Homes Ombudsman. Continuing uncertainty surrounding the UK's departure from the European Union remains a concern for the industry, particularly around the availability of sufficient labour and materials.

WHAT THIS MEANS FOR US

The significant fall in the expected level of registrations and on-site activity in the short term has ramifications for NHBC, as it does for the industry at large. We have already taken steps to safeguard our financial stability and will continue to work with our registered customers and wider stakeholders to assess the expected levels of demand for our services. We will use our capacity, insights and expertise to support, their response to the Covid-19 pandemic and the recovery that follows. In providing our support we will continue to focus on construction quality, ensuring our profitability and protecting homeowners.

OUR STRATEGY

Our core purpose is to build confidence in the construction quality of new homes and to protect homeowners.

We do this by:

- assessing, inspecting and directly insuring new homes registered with us
- using our unrivalled expertise, data and training to drive improvements
- safeguarding our financial strength, scale and independence.

As a market-leading business established for almost 85 years, we must be strong and financially secure so that we can continue to deliver the exceptional service and level of support our registered customers value, and to protect homeowners with our 10-year Buildmark warranty.

We are a non-profit distributing business with no shareholders. We directly insure the homes registered with us, carrying the insurance risks on our balance sheet rather than relying on a third-party insurer, as a broker or managing general agent would do. This model helps ensure our independence and commitment to our purpose and the industry. However, it also means that we are dependent on the retained earnings from the services and products we provide.

We have suffered significant losses in each of the last three years, driven by increased claims from properties built in the years around the financial crisis; and a significant increase in large fire-safety and cladding-related claims. These events have been compounded by the effect of the Covid-19 pandemic and the low interest rate environment, which has meant that we have not been able to rely on our investment income, as we have in the past.

In response, our strategy over the next few years aims to return us to a sound financial footing, improving our capital position so we can withstand further claims development and wider economic impacts. This is to be done via a combination of actions: pricing to more accurately reflect the insurance risks we are taking on through our 10-year Buildmark warranty products; changing our reinsurance programme to lessen our exposure to claims; reducing our expenditure by taking a more commercial approach to our claims liabilities and recoveries; and improving operational efficiency and effectiveness.

Our objectives are to be:

- stable and financially secure
- commercial, with profit as the route to delivering our purpose
- data and risk-management driven
- industry-leading for technical expertise with a value-add consultancy approach
- focused on customers' needs, working in partnership with a more diversified customer base
- accessible, efficient and transparent for homeowners
- agile, using modern technology that enables the business and drives efficiencies
- self-confident with a stand-out reputation, trusted by industry and government.

A MARKET-LEADING BUSINESS ESTABLISHED FOR ALMOST

85 years

OUR STRATEGY

During the year we have continued to work on delivering against our five strategic priorities. The table below highlights some of the initiatives we have been working on and their expected outcomes.

FOCUS AREA: ENSURING FINANCIAL VIABILITY		
	In the financial year NHBC:	With the aim of:
We must ensure that our financial position is stable and well-managed to deliver our promise to our 1.4 million Buildmark policyholders, and to sustain our investment in efforts to improve construction quality. To achieve this, we are focused on ensuring product profitability, adequate margins and a capital position that is secure to enable us to support future liabilities. We will safeguard our capital position through product and pricing decisions, investment strategy, appropriate reinsurance, tight claims management and cost control.	Increased prices based on analysis of historic claims experience and risk profiling. Continued our Simplify Programme across the business, improving processes and efficiency, delivering over £1.5m of savings per annum. Continued to refine our financial analysis, projection tools and methods to manage financial risks, including investigating more capital efficient reinsurance strategies.	Safeguarding our capital base through increased revenue in response to the higher than expected claims costs and for future exposure. Streamlining processes and identifying options to enhance customer service and reduce operating costs. Improved and more accurate financial control and risk management.

FOCUS AREA: BUILDING REPUTATION AND BRAND		
	In the financial year NHBC:	With the aim of:
A strong brand and reputation enable us to attract customers and influence the construction quality of a substantial proportion of the new homes market. This provides access to extensive data that can be used to influence the standards of new homes. In addition, we must focus on developing a better understanding of customer needs, ensuring we continue to deliver market-leading service and products. We will reinforce our independent voice with a clear and confident position, bringing information on construction quality to broader attention and clearly demonstrating our work to improve outcomes for homeowners.	Continued engagement with Government and industry stakeholders concerning the Building a Safer Future Independent Review of Building Regulations and Fire Safety. Invested in our new Business Development team focused on new and emerging markets, tailoring our services and product offerings to suit.	Supporting and influencing policy makers in the development of the future of Building Regulations, ensuring safety and construction quality remain the focus. Improving our service and relationships in growing markets so we can continue to support construction quality across the industry.

FOCUS AREA: EXPLOITING DATA AND TECHNOLOGY		
	In the financial year NHBC:	With the aim of:
We are focused on making better use of our substantial data assets to better inform how we work, and to provide greater insights and services to our customers. We continue to explore opportunities to innovate by using available technology, both internally to improve processes and service, and on site to help customers.	Completed the rollout of an upgraded operating system, including new hardware to all staff across the business. Launched our Data Strategy, including new governance forums and processes, and created a data warehouse and reporting tools to improve consistency and the quality of analysis..	Delivering enhanced technology in all areas of the business, including on site, to better support our registered customers and improve efficiency. Ensuring that we maximise our opportunities in relation to data and bring the necessary consistency and controls to it.

FOCUS AREA: IMPROVING CONSTRUCTION QUALITY

	In the financial year NHBC:	With the aim of:
Our focus on improving construction quality sets us apart from our competitors. This encompasses research, guidance, training, and the support provided to registered customers from concept to completion of their build projects. We will continue to use our expertise to improve construction quality, enhancing our customers' quality control and helping to provide improved homes for consumers. We have made significant investments in our inspection and technical resources to allow our inspectors more time on site and to introduce additional services – such as Construction Quality Reviews – helping reduce defects in new homes. We are committed to continuing to deliver our range of technical expertise and interventions, influencing behaviour on site to improve the build quality of new homes. We are also focused on influencing the industry's approach to construction through engagement with key organisations and stakeholders, such as the Home Building Skills Partnership, Home Builders Federation, and government. We will continue to drive the quality agenda to help the industry develop the skills and focus required to enable construction quality to continue to improve.	Launched our Technical Risk Management (TRM) Review, an end-to-end review of our technical risk management approach from design to completion. In 2020, we began piloting proposed changes to our TRM processes with over 20 customers, designed to increase our effectiveness and better support customers to drive up construction quality. Grown our dedicated team focused on Modern Methods of Construction (MMC). Developed a dedicated service to review MMC manufacturers' products (to launch in Q3 2020). Made further changes to the Inspection process to add greater focus on fire safety. Enhanced fire checks and façade inspections to review cladding systems on all blocks of flats registered with NHBC.	Better support for customers through the construction process to identify potential risks sooner and more accurately, reduce the likelihood of defects or claims, and provide a more tailored service to our registered customers. We also aim to scale up the use of technology, such as photography or video, to increase the number of interventions we can provide on site. Delivering a sustainable, integrated process for reviewing MMC, both on site and off site. Promoting our profile and capability in the assessment of innovative construction methods. Providing supporting information on MMC to manufacturers and customers. Supporting our registered builders in improving their construction processes with regard to fire safety.

FOCUS AREA: DEVELOPING LEADERSHIP, TALENT AND CULTURE

	In the financial year NHBC:	With the aim of:
We aim to foster a working environment that encourages our people to develop and thrive, giving every employee the opportunity to flourish professionally and personally. During the year, we have worked to embed our new Values and Behaviours (launched in 2019), ensuring these are integrated with our performance review and staff awards processes. Several initiatives are ongoing to enhance employee fulfilment and engagement, including our employee engagement survey, our commitment to a more diverse workforce and culture, revised talent development and succession planning programmes (e.g. a Future Leaders' Programme), and a series of wellbeing initiatives.	Embedded our newly created Company values in our performance review and staff recognition processes. Quarterly employee engagement surveys testing our commitment to diversity and inclusion, with increased survey frequency in areas undergoing Simplify Programme changes. Launched our Future Leaders' Programme to develop future senior management candidates through training, coaching and mentoring.	A common way of operating and behaving within the business and linking reward to values, with a sharper focus on talent development and succession planning. Increasing engagement within the business to deliver on our strategic focus areas and ensuring employees have a voice in changes to the business. Ensuring we are developing and investing in our talent of the future.

RISKS TO OUR BUSINESS

OUR APPROACH TO RISK MANAGEMENT

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

RISK GOVERNANCE

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

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

Further details of Board and Committee structures are set out in the Governance section.

RISK MANAGEMENT

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

- risk and control assessments maintained at function and company level which are actively managed by risk owners in conjunction with the Risk Management team
- a process for managing events
- identified staff within each business function providing risk and compliance support for operational colleagues, and
- a policy framework confirming the Board's minimum standards of control in key risk areas, with each policy owned by an Executive Committee member and reviewed and approved in accordance with an agreed policy review cycle.

THE RISK OPERATING MODEL

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

FIRST LINE OF DEFENCE – OPERATIONAL FUNCTIONS	SECOND LINE OF DEFENCE – SUPPORT FUNCTIONS	THIRD LINE OF DEFENCE – ASSURANCE
Business teams operate systems of internal control. Executive Committee members are responsible for managing risk in their areas. They and their management teams are the people best placed to understand and manage most risks.	The Risk and Compliance team support, review, and challenge business team activity. They report to the Chief Risk Officer who reports to the CEO and is also accountable to the Executive Risk Committee and the Board Risk Committee.	The Internal Audit team provides an independent view of the effectiveness of risk and control management. The Internal Audit team reports to the Audit Committee.

RISK APPETITE

The Board sets our risk appetites to align to the key areas of our strategic framework (see pages 28 to 31 for further details). Key risk indicators have been established for 15 appetites that relate to the main strategic objectives.

OUR RISK PROFILE

COVID-19

The world has faced unprecedented challenges and companies have had to react quickly to accommodate changing working and consumer behaviours. We incepted our Covid-19 Response Team in the early stages of the virus's development in the UK. The Covid-19 Response Team is chaired by the CEO and formed from senior employees across the business. The short-term plan was to ensure staff were safe and kept up to date on government advice and NHBC's actions. This was achieved through increased communication and flexible working arrangements. We had to navigate through operational challenges to enable our employees to work from home, which included ensuring our processes and IT infrastructure could accommodate the new working pattern with increased loads on network access points. Operational risks therefore increased in the short term but have since levelled out and now remain stable and under review.

Covid-19 has impacted global investment markets with substantial volatility experienced towards the end of the financial year. We had previously elected to limit our exposure to equities through a short-term hedging strategy involving financial derivatives. This minimised the financial impact and NHBC subsequently divested from its direct equity holdings. The impact to the Company's insurance liabilities has been estimated and incorporated in the year-end valuation. The resulting increased technical provisions have led to a reduction in available capital and a solvency ratio below the Board's capital risk appetite – see sections below for further information.

The pandemic materialised in the UK around the time the Board was reviewing the forthcoming business plan. The changes in the economic and business environment meant that the business plan has had to be reworked and the Board have been holding regular update calls to oversee this process.

Our present focus is to ensure that our working environments – policyholders' homes, customer building sites and our offices – are safe for employees to return to when the time is right, and to provide support and advice for employees who need it. Covid-19 is expected to have a long-lasting effect on the UK economy, where we are already seeing the early signs of a downturn. We will continue to implement the actions needed to manage and mitigate risks arising from the pandemic but will also look for opportunities to embed new working practices which will benefit the Company in the future.

RISKS TO OUR BUSINESS

PRINCIPAL RISKS

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

Principal risks that are managed in the pursuit of our objectives are provided below, with further detail contained in note 6 to the Financial Statements.

KEY RISKS	KEY MITIGANTS AND CONTROLS
Strategic	
Failure to define and implement a strategy to deliver our strategic objectives which accommodates the changing environment in which we operate.	The strategy is challenged through the Own Risk and Solvency Assessment (ORSA) process where an independent view of the strategy and business plan is provided to the Board to support decision making.
Failure to ensure adequate financial performance and a sustainable capital position.	We monitor and manage our performance against the Board approved plan and risk appetites
Insurance	
Failure to identify and manage significant changes in the propensity for builders to self-repair building defects.	We have well-defined metrics in place and continually manage builders' performance. We are prepared to take proactive action where required.
Failure to identify significant issues with a building system or widely-used building component resulting in significant consumer dissatisfaction and claims costs.	We have well-defined claims information and are able to monitor for specific trends. There is a feedback loop between claims and the technical team to ensure the root causes of issues are identified and rectified.
Failure to adequately mitigate exposure to the insolvency of one or more large builder clients resulting in significant claims costs.	We give consideration to options for mitigating against potential builder insolvency. In addition, a new risk appetite is being devised to improve the visibility of this risk and support proactive management intervention.
Failure to price risks accordingly taking into consideration our experience and potential future risk trends.	A thorough assessment of our pricing structure has taken place this year, which resulted in material price increases to rectify loss-making business. The impact of the new pricing structure on performance will be monitored and further actions may take place if required.
Market	
Failure to adequately mitigate investment risks arising from market volatility, which results in an inability to fund policy obligations and meet regulatory capital requirements.	We adopt a buy and maintain approach within our investment portfolio, with a focus on high-quality fixed income and government or quasi-government holdings. Assets are closely matched with insurance liabilities to hedge volatility. The investment position is regularly monitored to ensure exposure remains within an agreed appetite.

KEY RISKS	KEY MITIGANTS AND CONTROLS
Pension	
Failure to forecast and plan for additional pension fund contributions, which result in a reduction in net assets and an inability to replenish capital reserves.	The fund's assets are matched to the liabilities in the pension scheme. We have an agreed plan to fund the pension scheme and close its deficit.
Regulatory	
Changes in UK regulations affecting our operations and business model.	We carry out regulatory horizon scanning to ensure any areas impacted by changing regulations are able to prepare in good time. We maintain an open relationship with our regulators and are committed to supporting the regulatory agenda.
Operational	
Failure to embed compliant operational and governance processes, causing poor conduct towards homeowners and increased claims costs. Failure in IT controls leading to a cyber attack or data loss. Failure to protect customer or policyholder information adequately. Failure to respond to a deterioration in industry build quality.	IT and cyber risk remain a key focus, with the risk of cyber threats increased due to remote working. The first and second lines of defence have been working together to ensure our approach to managing those risks is robust and constantly evolving. Control effectiveness is assessed every six months across the organisation through the Risk and Control Assessment process. We are working to implement a new technical risk management process which will enable us to work proactively in the early stages of the building development process and to focus on riskier sites.

RISKS TO OUR BUSINESS

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 business. Examples of risks currently under review include:

- the impending economic downturn as a result of Covid-19 and its, as yet unknown, impact on NHBC and the UK housing market, including demand for new homes, mortgage availability and general economic uncertainty
- the economic risks resulting from the UK's departure from the EU, and the effect it may have on the UK housing market including on the supply of labour for the construction industry
- the operational implications of climate change to the building industry and the corresponding evolving nature of NHBC's exposure, including to financial risks from potentially increased claims as well as to strategic and reputational risks from evolving consumer sentiment
- the changes in the Government's approach to housing standards and the building control framework in the UK, including the exact role of the New Homes Ombudsman and consultation on building safety legislation
- technological issues, including the ever-increasing threats to cyber security as well as the need to support a productive workforce in a more remote-working environment in the future.

RISK AND CAPITAL

The Board pays particular attention to NHBC's solvency position given our limited options to raise capital as a company limited by guarantee. The primary basis we use to quantify this risk is the Solvency Capital Requirement (SCR) which is calculated as Solvency II Own Funds at risk in a one-in-200-year loss event over a one-year time horizon. The table below shows NHBC's Standard Formula solvency position as at 31 March 2020.

NHBC SURPLUS CAPITAL

	2020	2019
Eligible own funds	**£561m**	£621m
Solvency capital requirement (SCR)	**£416m**	£409m
Solvency II surplus	**£145m**	£212m
Solvency ratio	**135%**	152%

As at 31 March 2020, NHBC's capital surplus on a Solvency II Standard Formula basis was £145m, with a solvency ratio of 135% which is below the Board's capital risk appetite of 140%. As a result, the business is considering the appropriate course of action to address this issue and to increase the Company's financial viability through a range of potential capital management actions. Following the year end, we have changed our reinsurance programme to a proportional quota share arrangement which better reflects the reinsurance requirements of the business and is also a more capital efficient arrangement. We continue to evaluate our reinsurance requirements and will use further risk transfer to manage our exposure where this is felt necessary.

We also undertake an ongoing Own Risk and Solvency Assessment (ORSA) which provides for the continual review of the Company's risks, capital requirements and strategic direction. This ongoing assessment comprises a range of different activities, processes and reports.

WIDER IMPACT AND NON-FINANCIAL INFORMATION STATEMENT

The Board has a duty to achieve NHBC's purpose of building confidence in the construction quality of new homes. It does this by having regard for the interests of our customers, our people, our relationship with our suppliers and the impact of our operations on the communities in which we operate, and to ensure that we maintain a reputation for high standards of business conduct.

Our business model (see About NHBC on page 24) supports our core aims of raising construction quality standards and protecting homeowners. Our policies and processes are designed to be proportionate to the risks we have identified and sufficiently flexible to respond effectively should they arise.

EMPLOYEES

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

Following several years of growth, our workforce has stabilised in the last two years at approximately 1,250 of these, 550 are based at our head office in Milton Keynes, with the remaining 700 located across the UK.

The Covid-19 pandemic has of course brought particular challenges for our business and for our employees. We took a number of decisions to protect our business during this time, including, after consultation with our Staff Association, accessing the Government's Coronavirus Job Retention Scheme for employees in the parts of our business where demand had fallen (most notably for building inspectors, claims inspectors and customer service advisers).

Those employees on furlough leave have been supported by their managers and have received regular ongoing communications of both an official and unofficial nature, with teams being encouraged to keep in regular contact. As conditions change and demand rises, we are bringing furloughed colleagues back into the business.

Employees who have continued to work throughout the lockdown period have been supported with flexible working arrangements and emergency leave to assist them with their domestic caring responsibilities. Additional communications on working safely from home and looking after mental health have also been shared, together with the arrangements that are being made at the Milton Keynes office for return of some employees when it is prudent to do so.

We are committed to encouraging diversity and inclusion in everything we do in order to support our registered customers, policyholders and colleagues. We are a signatory to the Women in Finance charter and are working towards the goals it set in 2016, to increase the number of women in senior roles, whilst recognising that changing the demographic of our employees will take time to achieve.

We have recently published our third Gender Pay Gap report. This report shows an improvement in the mean gender pay gap to 14.9% (2019: 15.5%). This continues to be better than the national average and gaps reported in the financial and insurance services sector (32.7%) and construction (15.3%).

Our results continue to be driven primarily by the tendency for males to occupy a larger proportion of higher-paid technical roles as well as senior positions within the business. We are proud though that our Executive Committee has a 50:50 male to female ratio.

We continued to develop market-leading initiatives this year to support the commitments above. These include:

- introduction of a Women's Network
- the introduction of an LBGTQ+ Network
- ensuring that all people managers have a diversity and inclusion (D&I) objective
- ensuring our policies are gender neutral, including equalising and enhancing paternity leave.

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

We are proud to be a partner of the Living Wage Foundation, with minimum pay levels for employees across the UK exceeding the National Living Wage set by government.

WIDER IMPACT AND NON-FINANCIAL INFORMATION STATEMENT

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

We recognise the importance of providing an environment that ensures the health, safety and wellbeing of our employees, contractors and others affected by our activities. For the third year running, we were awarded the internationally recognised Royal Society for the Prevention of Accidents (RoSPA) Gold Award for our health and safety standards.

CORPORATE SOCIAL RESPONSIBILITY

We believe in creating a positive impact in the communities in which our employees live and work and have a range of partnerships and initiatives in place to support that. In May 2019, we were proud to begin working with Crisis as our corporate charity partner. We continue our matched funding scheme for employees' charitable fundraising for non-corporate causes, as well as enabling employees to take two additional days' leave a year to volunteer for causes important to them.

RESPECT FOR HUMAN RIGHTS

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

ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

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

ENVIRONMENTAL MATTERS

Our direct environmental impact is minimised primarily through internal processes with 100% of the waste from our Milton Keynes, London and Scotland offices being recycled. We have invested over the last six years in energy efficient lighting and voltage optimisation, enabling us to reduce energy consumption by 7% year on year. Consumption of electricity at our head office is down 47% over this six-year period. We have committed to reduce this by a further 5% over the course of the next two financial years. We run an extensive car fleet as part of our operations and have reduced average CO_2 emissions by 15% in recent years. Our fleet strategy identifies further opportunities in this area as vehicle technology evolves.

We have established a Climate Change Steering Group in the year to oversee working groups looking at three main programmes: our environmental impact as a business; how we can influence and support the house-building industry to meet government targets and regulatory requirements; and our financial and non-financial exposures from climate change. We have the potential to have a significant indirect environmental impact through our influence on construction methods, through the NHBC Standards and through the energy-related research reports commissioned by the NHBC Foundation.

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

Work has continued on the implementation of our Responsible Investment (RI) framework, taking account of material environmental, social and governance (ESG) factors. When selecting asset managers to manage our investments, we have a strong preference for asset managers that integrate robust RI practices into their investment philosophy and processes. We frequently monitor the individual investments held in our portfolio with each holding scored for its impact on ESG matters. We use this information as part of an annual review of our asset managers' performance against our RI framework objectives.

Currently there are no explicit policies or key performance indicators used to shape or measure our environmental impact. Instead, this is managed as a general corporate aim.

"FOR THE THIRD YEAR RUNNING, WE WERE AWARDED THE INTERNATIONALLY RECOGNISED ROSPA GOLD AWARD FOR OUR HEALTH AND SAFETY STANDARDS."

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

CONSUMPTION OF GAS

For the year ended 31 March 2020, the annual quantity of emissions in tonnes of carbon dioxide equivalent and kWh resulting from activities for which we are responsible are shown in the table below.

	CO_2 TONNES	kWh
Consumption of gas	182	994,302
Consumption of fuel for the purposes of transport	2,030	8,408,277

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

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

CONSUMPTION OF ELECTRICITY

For the year ended 31 March 2020, the annual quantity of emissions in tonnes of carbon dioxide equivalent and kWh resulting from our purchase of electricity for our own use is shown in the table below.

	CO_2 TONNES	kWh
Consumption of electricity	316	1,245,347

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

ANNUAL EMISSIONS

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

	CO_2 TONNES PER FTE	kWh PER FTE
Annual emissions	2.079	8,504.733

The annual emissions relate to activities for which we are responsible. The full-time equivalent employees are equivalent to figures disclosed on the note 13 to the accounts.

SECTION 172(1) STATEMENT

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

In the decisions taken during the year, the Board has considered its responsibilities under s172 of the Companies Act 2006 and has acted in accordance with those responsibilities during the year to promote the success of the Group.

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

- standing agenda points and papers presented at each Board meeting
- updates and training on key items, split between risk and compliance and wider issues such as climate change and longer-term sustainability
- rolling agenda of matters to be considered by the Board throughout the year, this includes a Board strategy day upon which the Group Business Plan is based
- hosting of an Annual Lunch for all key stakeholders, suppliers, registered customers and regulators with whom we work to ensure they understand the purpose of the work that we do and how they contribute.

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

STAKEHOLDER	ENGAGEMENT / KEY DECISIONS
Employees We have around 1,250 committed employees whose technical knowledge and expertise is recognised in the industry. We value them and look for ways to engage with them and provide opportunities for their professional and personal development.	The Board takes an active role in the engagement with employees. We run a quarterly staff engagement survey which achieves very high response rates, with an average over the year of 88%. Our eNPS score (a measure of being prepared to recommend NHBC as an employer) has risen from 37 to 48 over the same period with 58% of employees who responded identifying themselves as promoters. We also have a People and Culture Forum which is chaired by the Commercial Director and considers how we can develop our polices and approaches to our workplace. The Executive Directors present and take questions at annual company-wide roadshows. Before each Board meeting talent breakfasts are held, allowing Non-Executive Directors to meet and discuss business issues with a range of employees from across the business. The Chair also holds one to one meetings with key management personnel who do not sit on the Board. We work closely with the Staff Association (details on page 38 of the report) with a quarterly presentation from one of the Executive Directors to the Staff Association Committee. In addition, professional development is encouraged throughout the Company to ensure competence is developed in line with employee and market expectations.
NHBC Council The Chair and Chief Executive Officer form part of the Council appointments committee to engage and support the selection of Council members who are equipped with the requisite knowledge to both challenge and support the business.	The Board hosts the Annual General Meeting in November where Council members can question the Board on NHBC activities and decisions. The range of stakeholders on the Council ensures that regular dialogue is held between Board members, senior managers and the Council. Further details on the Council can be found on page 52 of this report.

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STAKEHOLDER	ENGAGEMENT / KEY DECISIONS
Policyholders A key part of our core purpose is the protection of our policyholders as well as supporting our registered customers to deliver high-quality new build homes for homeowners. This purpose is recognised across the organisation and engagement and dialogue with our policyholders is key to us developing our warranty cover to meet their needs.	During the year we implemented changes to Section 4 of the NHBC Buildmark Policy. The decision to make this change was taken in February 2019 and included a discussion of the benefits and adverse impacts to policyholders. Although challenging, it was felt that for the long-term interest of policyholders the removal of this cover for new customers from October 2019 onwards was appropriate. There are six positions on the NHBC Council which are currently held by policyholders.
Registered customers Our registered customers are key to achieving our aims to build confidence in the quality of new homes. Open dialogue, depth of relationships and working in partnership are key to this.	The importance of long-term relationships across our various registered customer segments is key to the development of quality new build homes in the UK. The Executive Team hold regular individual meetings and joint events across our range of customers to understand their needs and requirements in terms of our products and services, and to discuss the challenges the industry faces.
Regulators We are authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and Financial Conduct Authority (FCA). Our building control activities are overseen by the Construction Industry Council Approved Inspector Register and approved by the Construction Industry Council.	We have open and transparent relationships with our regulators. The Executive and Non-Executive Directors have regular meetings with the regulators to discuss specific business, governance and regulatory matters. A standing regular update is provided to the Board through the Board Risk Committee on all regulatory matters.
Community We recognise the importance we play as an employer and contributor to our local communities and we are committed to supporting them through our people and resources.	Our corporate charity partner is Crisis. As well as fundraising, this relationship also provides opportunities for our employees to use their skills to support the charity. We engage with local communities across the UK, particularly in Milton Keynes where we support local charities through regular fundraising and the provision of our people to support their work. We offer every employee two days' leave to support local charities. This work is communicated to the Board through the Chief Executive Officer.

We are committed to continue with appropriate engagement of our key stakeholders and will continue these activities during the financial year ending 31 March 2021.

The strategic report was approved by the Board on 3 July 2020.

Steve Wood
Chief Executive Officer

CUSTOMER SATISFACTION

Whenever we investigate a claim and carry out repairs for a homeowner under Buildmark or Buildmark Choice cover, we send a customer satisfaction survey to capture their feedback. The following are a selection of quotes from recent feedback we've received, reproduced with the homeowners' permission.

CRACKED AND DAMAGED ROOF TILES

Cracked and damaged roof tiles were responsible for water ingress into Mrs B's home. We investigated and approved the claim under Buildmark, which was then efficiently resolved.

"I FOUND THE WHOLE PROCESS FROM START TO FINISH VERY PROFESSIONAL, COURTEOUS AND INFORMATIVE. THE LADY WHO INITIALLY BOOKED OUR APPOINTMENT WAS LOVELY AND MOST HELPFUL AND THE GUYS WHO ERECTED THE SCAFFOLDING WERE POLITE, AS WERE THE ROOFERS."

Mrs B, Chorley

FAILED CAVITY TRAY OVER FLAT ROOF

A failed cavity tray over the flat roof at the rear of her property was causing water ingress into Miss H's lounge area. We determined that this was a valid claim under her Buildmark policy and repairs were carried out by one of our approved contractors. Miss H was also given a cash settlement for the redecoration works.

"NHBC WAS PROMPT, SUPPORTIVE AND RESOLVED MY ISSUES QUICKLY DESPITE COVID-19 RESTRICTIONS. THE CONTRACTOR WAS KNOWLEDGEABLE AND EFFICIENT, COMPLETING THE REPAIR WITHIN ONE DAY AND LEAVING THE AREA CLEAN AND TIDY AFTER COMPETITION OF THE WORK."

Miss H, Oldham

WATER DAMAGE TO BEDROOM AND BATHROOM CEILINGS

Mr F noticed that water was entering the roof space and causing water damage to the ceilings of a bedroom and en-suite bathroom. We investigated and found that this was a valid claim under his Buildmark policy. Our remedial works contractors attended Mr F's home to complete the necessary repairs.

"I COULD NOT HAVE EXPECTED BETTER SERVICE AND PROFESSIONALISM FROM NHBC THROUGHOUT MY CLAIM. EXCELLENT SERVICE THROUGHOUT BY ALL THEIR TRADESMEN, FROM THE OFFICE BEING KEPT UP-TO-DATE WITH WHEN WORKS WOULD GET DONE TO ALL THE OPERATIVES THAT CARRIED OUT THE WORK... ALSO HOW CLEAN AND TIDY THE WORK WAS LEFT."

Mr F, Southampton

CASE STUDY

The case studies do not form part of the strategic report, the directors' report, the directors' remuneration report, or the UK GAAP financial statements.

GOVERNANCE

NHBC
TC 1

THE BOARD

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

ALAN RUBENSTEIN

Chair

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

ISABEL HUDSON

Chair

Isabel Hudson left NHBC on 31 May 2020 after joining the NHBC Board in June 2011 as Deputy Chair and being appointed Chair in November 2011. Isabel is a member of the RSA Insurance Group plc board, where she is the Senior Independent Director, and she sits on the BT Group plc board.

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

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

Isabel is also an ambassador for Scope, a UK charity, and has 37 years' experience in the insurance industry in the UK and mainland Europe.

STEVE WOOD

Chief Executive Officer

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

PAUL HOSKING

Chief Financial Officer

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

DAVID CAMPBELL

Commercial Director

David joined us in January 2020 in the newly created role of Commercial Director, with overall responsibility for Marketing & Communications, Business Development, Training, Health & Safety Services, Product Management, Customer Services and NHBC's team of Regional Directors.

With over 30 years' experience in the house-building industry, including the last eight spent as Group Sales and Marketing Director of Telford Homes PLC, David brings a wealth of experience to the role and a wide appreciation of the real estate process.

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

NEIL JEFFERSON

Chief Operating Officer

Neil left NHBC on 5 December 2019. Neil was our Chief Operating Officer and was appointed to the Board in April 2012. Neil is a Chartered Builder and has held various positions within the Company with his most recent roles on the Board being Managing Director and Business Development Director. Neil was also the Chief Executive of the Zero Carbon Hub between 2008 and 2016.

PAUL BISHOP

Senior Independent Director

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

ALISON BURNS

Non-Executive Director

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

THE BOARD

IAN CRASTON

Non-Executive Director

Ian Craston left NHBC on 31 January 2020 after joining the Board in September 2014. He was the Chair of NHBC's Investment Committee and was also a member of the Board Risk Committee and the Remuneration Committee. Ian is currently Group Investment Director at RSA, a position he has held since 2002. He has over 30 years' experience within the investment industry having started with RSA's fund management company in 1987. He has held a number of investment roles including head of Bond Management and Head of Group Client Management. In Ian's current role at RSA Group his remit also includes responsibility for RSA's treasury function and the management of its pension scheme exposures.

KATE DAVIES

Non-Executive Director

Kate Davies joined the Board in October 2016. Kate became Chief Executive of Notting Hill Housing in 2004, and following the merger with Genesis Housing Association in April 2018, she became Chief Executive of Notting Hill Genesis, a 65,000 home association, with over 90% of its stock in London. Kate was previously Chief Executive of Servite Houses and Director of Housing in Brighton & Hove City Council. She has experience in local government and the private and voluntary sectors. Kate is a Board advisor of yld, a software engineering and design consultancy. She is a member of our Board Risk Committee.

JEAN PARK

Non-Executive Director

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

SIR MUIR RUSSELL

Non-Executive Director

Sir Muir Russell left NHBC on 31 May 2020 after joining the Board in May 2012. He graduated from the University of Glasgow in 1970 with first class honours in Natural Philosophy. He joined the Scottish office and, during his 33 years as a civil servant, was Secretary of the Scottish Development Agency, Principal Private Secretary to the Secretary of State for Scotland, Permanent Under Secretary of State to the Scottish Office and Permanent Secretary to the Scottish Executive following devolution. He then served as Principal and Vice Chancellor of Glasgow University for six years. He was the Chairing member of the Judicial Appointments Board for Scotland from 2008 to 2016 and is Chairman of the Board of Trustees of the Royal Botanic Garden Edinburgh. He was the Chair of our Audit, Remuneration and Scottish Committees and a member of our Audit, Investment and Nominations Committees.

PHILIP RYCROFT

Non-Executive Director

Philip Rycroft joined the Board in September 2019. Prior to that, he worked in the Department for Exiting the European Union between March 2017 and March 2019, from October 2017 as Permanent Secretary. From June 2015 to March 2019 he was head of the UK Governance Group in the Cabinet Office, with responsibility for advising ministers on all aspects of the Constitution and devolution. From May 2012 to May 2015, he was the Director General in the Office of the Deputy Prime Minister. Through his career, Philip worked in a variety of roles, in the civil service in Scotland and London, in the European Commission and in business. Philip is a member of NHBC's Investment Committee and Remuneration Committee.

STEPHEN STONE

Non-Executive Director

Stephen Stone joined the Board in November 2016 bringing vast experience in the house-building industry across a range of models and tenures.

He is currently Non-Executive Chairman of the partnership housebuilder Keepmoat as well as being a Non-Executive Director of the House Builders Federation and Orbit Group where he also Chairs Orbit Homes.

He was the Chief Executive of Crest Nicholson plc from 2005, becoming Chairman in March 2018 until his departure in October 2019.

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

THE COUNCIL

Below is a list of members of the Council as at 1 June 2020.

Mr P Andrew
Home Builders Federation

Mr J Armstrong
Northern Ireland Committee

Mr R Barnes
Warranty Holder

Mr S Baseley
Home Builders Federation

Ms J Bennett
UK Finance

Mr P Bishop
NHBC Board Appointment

Mr M Black
Home Builders Federation

Mrs A Burns
NHBC Board Appointment

Mr D Campbell
NHBC Board Appointment

Mr P Caplehorn
Construction Products Association

Sir John Carter
Honorary Vice-President

Ms C Compton-James
The Housing Forum

Mrs K Davies
NHBC Board Appointment

Mrs S Dean
Warranty Holder

Mr B Derbyshire
Royal Institute of British Architects

Mr N Fluck
Law Society

The Rt. Hon. Lord Fowler
Honorary Vice-President

Mr M Hayward
The National Association of Estate Agents

Mr J Hood
NHBC Northern Ireland Committee

Mr B Hook
Royal Institution of Chartered Surveyors

Mr P Hosking
NHBC Board Appointment

Mrs I Hudson
Honorary Vice-President

Ms L Hughes
Association of British Insurers

Mr K Ireland
Federation of Master Builders

Ms A Kaye
Institute of Consumer Affairs

Mr R Kidals
Warranty Holder

Mr P Knox
House Builders Association

Mr L Livermore
Trading Standards Institute

Mr J Low
Scottish Committee

Mr G McDonald
Home Builders Federation

Mr S McKenzie
Scottish Committee

Ms A Moir
Warranty Holder

Mr J Owen
Joseph Rowntree Trust

Mrs M Palmer
Warranty Holder

Ms J Park NHBC Board Appointment
Sir Michael Pickard Honorary Vice-President
Mr A Rintoul Warranty Holder
Mr A Rubenstein NHBC Board Appointment
Dr P Rycroft NHBC Board Appointment
Mr P Sellwood Energy Saving Trust
Professor T Sharpe NHBC Scottish Committee
Mr J Slater Home Builders Federation
Mr D Sookhoo Royal Institute of British Architects
Ms A Stanning Warranty Holder
Mr M Stones UK Finance
Mr S Stone NHBC Board Appointment
Mr E Taylor The Royal Society for the Prevention of Accidents
Mr G Watts Construction Industry Council
Mr S Wood NHBC Board Appointment

CORPORATE GOVERNANCE REPORT

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

NHBC COUNCIL

NHBC is a private company limited by guarantee and its governing body comprises individual members, known collectively as the NHBC Council. Council members are drawn from a range of organisations that are interested in, or associated with, the house-building industry.

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

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

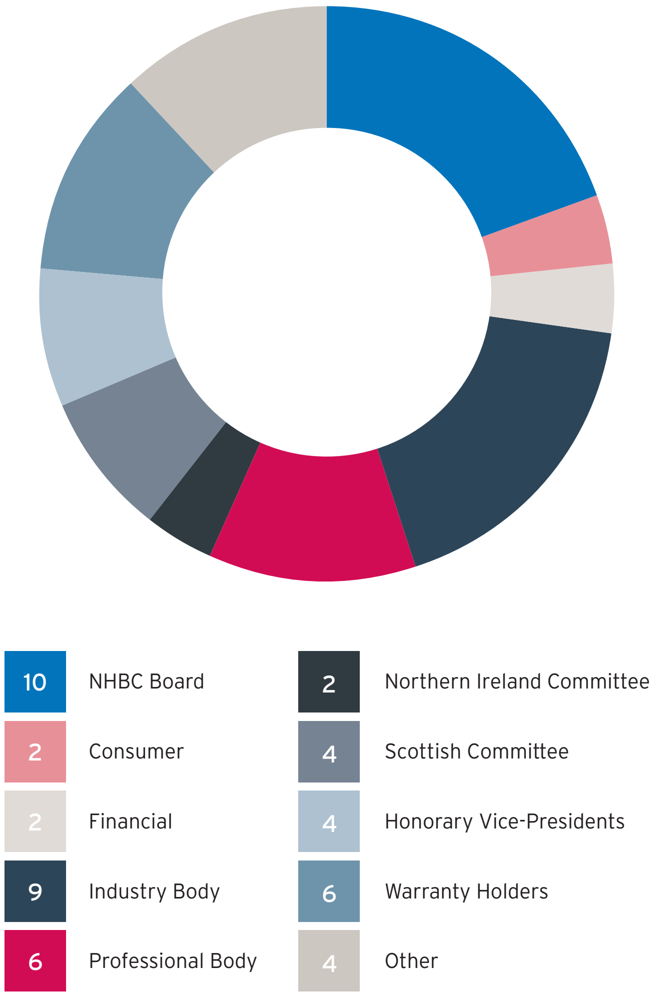
- alterations to our constitution
- the appointment of the Auditors, and
- the appointment of Council members.

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

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

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

NHBC COUNCIL REPRESENTATION BY CATEGORY



NHBC BOARD

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

BOARD COMPOSITION

Biographical information on each of the directors is contained on pages 48 to 51.

BALANCE OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

Chair	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	3
Other Non-Executives	2
Executives	3

LENGTH OF SERVICE OF NON-EXECUTIVE DIRECTORS

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

GENDER SPLIT OF BOARD OF DIRECTORS

Male	7
Female	3

BOARD GENDER DIVERSITY VERSUS FTSE 100 AND FTSE 250[3]

	FTSE 100	FTSE 250	NHBC
	(June 2019) %	(June 2019) %	(June 2020) %
Female Directors	32.1	27.3	30.0
Female Executive Directors	10.9	8.4	-
Female Non-Executive Directors	38.9	32.8	42.9

3 The Female FTSE Board report 2019 - www.cranfield.ac.uk/som/expertise/changing-world-of-work/gender-leadership-and-inclusion-centre/female-ftse-board-report.

CORPORATE GOVERNANCE REPORT

All directors make a declaration of their interests to the Board which includes any actual or potential conflicts they may have. Those issues are considered by the Board and recorded in a register held for that purpose and kept under review, as appropriate. Should the Board discuss any matter which relates to a declared interest, or which could give rise to a conflict, our approach is that the director concerned may take part in some or all of the discussion of the issue, but will leave the meeting when a decision is to be made. Two Directors, Kate Davies and Stephen Stone, work within the new house-building industry and their membership of the Board is to ensure an appropriate breadth of skills, experience and industry views are represented.

A review of Board effectiveness is carried out annually. Following an external review in 2017 and an internal review in 2018, an internal review was again carried out in 2019. This built on the actions from the previous two years' reviews and found that improvements had continued to be made in areas including clarification of culture and values, and Board succession.

Over the course of the past year, the Board has received briefings on the Modern Methods of Construction, the Construction Quality Index, Senior Managers and Certification Regime, and the Solvency II Internal Model. Individual directors have also attended a range of house-building and insurance conferences, seminars and other events arranged through consultants and other organisations with whom we are associated.

BOARD ATTENDANCE

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

BOARD MEMBER	MEETINGS TO ATTEND	MEETINGS ATTENDED	ATTENDANCE %
Paul Bishop	6	6	100
Alison Burns[1]	3	3	100
David Campbell[2]	1	1	100
Ian Craston[3]	4	4	100
Kate Davies	6	5	83
Paul Hosking	6	6	100
Isabel Hudson[4]	6	6	100
Neil Jefferson[5]	4	4	100
Jean Park	6	6	100
Alan Rubenstein[6]	2	2	100
Sir Muir Russell[7]	6	6	100
Philip Rycroft[8]	4	4	100
Stephen Stone	6	6	100
Steve Wood	6	6	100

1 Alison Burns joined the Board on 15 October 2019.

2 David Campbell joined the Board on 15 April 2020.

3 Ian Craston left the Board on 31 January 2020.

4 Isabel Hudson retired from the Board on 31 May 2020.

5 Neil Jefferson left the Board on 5 December 2019.

6 Alan Rubenstein joined the Board on 11 February 2020.

7 Sir Muir Russell retired from the Board on 31 May 2020.

8 Philip Rycroft joined the Board on 27 September 2019.

OUR COMMITTEES

The Board delegates certain matters to the Audit, Board Risk, Investment, Nominations, Remuneration and Consumer Committees which report to it. The roles of each of the committees are detailed in the respective committee reports on pages 62 to 70. These reports reflect the current memberships of each committee and highlight some of the work which they have undertaken during the year under review.


KGUARD
NHBC

DIRECTORS' REPORT

The directors submit their Annual report and Accounts for NHBC, together with the consolidated financial statements of NHBC and its subsidiary companies (the Group), for the year ended 31 March 2020. The Directors' report required under the Companies Act 2006 comprises this Directors' and Corporate Governance report, the Directors' Remuneration report and the disclosures in the Wider impact and non-financial information statement section of the Strategic report.

RESULTS

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

DIRECTORS

The directors at the date of this report are shown, together with their biographical details, in the Governance section on page 48.

DIRECTORS' INTERESTS AND INDEMNITY ARRANGEMENTS

At no time during the year did any director hold a personal interest in any contract of significance with the Company or any of its subsidiary undertakings although some of our directors are also directors of some of NHBC's builder customers, suppliers and industry partners. We trade in the normal course of business, on an arm's-length basis, with all these parties and material transactions with related parties are disclosed in note 36 on page 159 to the financial statements.

We have purchased, and maintained throughout the year, directors' and officers' liability insurance in respect of the Company and our directors.

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

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

GOING CONCERN

The directors have assessed the Group's going concern. Their assessment considered NHBC's strategy, balance sheet, solvency capital requirement, and Group's principal risks (see Risks to our business' section on page 32) that include the impact of Covid-19. Their assessment also included consideration of the Group's medium-term business plan which forecasts the Group's profitability, cash flows, balance sheet, and capital position under Solvency II.

Covid-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. Covid-19, as well as measures to slow the spread of the virus, have since had a significant impact on NHBC's operations and financial position. We took some immediate actions to help mitigate the impact of some of the challenges that will inevitably arise in the short to medium term. In addition, since year end we have been able to consider the impact of Covid-19 and other market volatility in preparing an updated business plan.

The key immediate actions taken were:

- to establish a Covid-19 response team to oversee and direct management actions to address the operational challenges that arose and continue to do so to enhance the frequency of our communications with housebuilders and developers, the Government, key suppliers and employees
- to increase our cash coverage levels to ensure we could meet our liabilities as they fall due in light of expected falling cash inflows
- to strengthen our UK GAAP Technical Provisions by £105m as at 31 March 2020 to make provision for potential recessionary impact of Covid-19 on our in-force warranty portfolio.

In preparing the updated business plan we:

- updated our trading and operating activity outlook through review of public forecasts, discussions with key customers and industry bodies, experience from previous downturns, internal knowledge of the new build home construction industry, and the knowledge gained operating in the first few months of the pandemic
- updated our economic outlook through review of publicly available forecasts and information – the most significant assumptions relate to invested asset returns and inflation trends (including house price inflation and HRCI)
- as part of the Own Risk and Solvency Assessment process, we subjected the business plan to stress testing which involves the construction of reasonably foreseeable scenarios, including those aligned to the principal risks, which test the robustness of the business plan when key variables are flexed both individually and in unison (the principal risks can be found on page 34)
- considered availability of actions where a business plan scenario suggests a decrease in projected Solvency II solvency ratio below the Board's risk appetite levels.

Having reviewed the output of the business plan the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' RESPONSIBILITIES

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

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

DIRECTORS' REPORT

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

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

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

Each of the directors listed in the Strategic report confirms that, to the best of their knowledge:

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

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

INFORMATION	SECTION IN ANNUAL REPORT	PAGE
Business review	Strategic report	22
Research & development activities	Strategic report	22
Financial risk management	Strategic report	22
Corporate responsibility governance	Wider impact and non-financial information statement	38
Action on employee participation	Wider impact and non-financial information statement	38
Disclosure of information to the auditor	Directors' report	58
Directors in office during the year	Corporate governance report	54
Details of qualifying third-party indemnity provisions	Directors' report	58
Future developments of the business	Chief Executive Officer's report	10
Rules governing appointments of directors	Corporate governance report	54
s172 Statement	s172 Statement	42
Streamlined energy and carbon reporting	Wider impact and non-financial information statement	38

This report was approved by the Board of Directors on 3 July 2020 and signed on behalf of the Board by:

Anne Durkin
Company Secretary
3 July 2020

AUDIT COMMITTEE REPORT

AUDIT COMMITTEE MEMBER	MEETINGS TO ATTEND	MEETINGS ATTENDED	ATTENDANCE %
Paul Bishop (Chair)	4	4	100
Ian Craston[1]	3	3	100
Jean Park	4	4	100
Alison Burns[2]	1	1	100

1 Ian Craston left the Audit Committee on 31 January 2020.

2 Alison Burns joined the Audit Committee on 18 December 2019.

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

- monitoring the integrity of the financial statements, significant financial reporting issues and returns to regulators
- monitoring the adequacy and effectiveness of NHBC's systems of control and frameworks
- monitoring the scope, objectivity, performance and overall effectiveness of both external and internal auditors
- monitoring the adequacy of whistle-blowing and fraud systems
- making recommendations to the Board to be put to the members at the Annual General Meeting in relation to the appointment, reappointment and removal of external auditors and oversee the selection process for new auditors.

The members of the Audit Committee are all independent Non-Executive Directors. In addition to the members, the following routinely attend the Audit Committee meetings: The Chair of the Board; Chief Executive Officer; Chief Financial Officer; Head of Finance; Head of Actuarial; internal auditors Grant Thornton LLP; and external auditors Deloitte LLP.

ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2020

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

- reviewing the Annual report and Accounts to ensure that NHBC follows good practice having regard to its status as a private, non-profit distributing company and the needs of its stakeholders
- approving the external and internal audit plans
- discussing with management and external advisors, Willis Towers Watson (WTW), the approach to reserving and the assumptions used to assess the level of reserves
- reviewing developments in the UK accounting framework as they apply to NHBC's financial statements under UK GAAP
- reviewing the internal audit reports submitted by Grant Thornton LLP
- undertaking Audit Committee effectiveness review
- quarterly review of all accounting, tax and capital reporting requirements
- reporting on its activities to the Board.

FINANCIAL REPORTING

In considering the draft Annual report and Accounts, the Audit Committee paid particular attention to key areas of subjective judgement which generally were in relation to the calculation of the provisions for claims.

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

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

EXTERNAL AUDIT

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

- valuation of claims provisions
- management override of controls
- Covid-19.

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

INTERNAL AUDIT

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

During the year, Grant Thornton completed reports on most items in the plan and they were reviewed by the Audit Committee. No material control weaknesses were identified. Planned work has been completed since the year end.

BOARD RISK COMMITTEE REPORT

BOARD RISK COMMITTEE MEMBER	MEETINGS TO ATTEND	MEETINGS ATTENDED	ATTENDANCE %
Paul Bishop	5	4	80
Kate Davies	5	5	100
Jean Park (Chair)	5	5	100
Stephen Stone	5	5	100
Alison Burns[1]	2	2	100

1 Alison Burns joined the Board Risk Committee on 18 December 2019.

The principal role of the Board Risk Committee (BRC) is to:

- review the effectiveness of NHBC's risk management framework
- oversee and advise the Board on the current risk exposures of the Company and adherence to risk appetite
- challenge the identification, assessment and mitigation of significant risks
- review and challenge NHBC's approach to the overall management of risk, capital and strategy through the Own Risk and Solvency Assessment (ORSA) process and stress and scenario framework
- oversee the development of NHBC's Internal Model.

The members of the BRC are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the following routinely attend the BRC meetings: The Chair of the Board; Chief Executive Officer; Chief Finance Officer; Chief Risk Officer; Head of Actuarial; and internal auditors Grant Thornton LLP.

ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2020

It has been a significantly challenging year for NHBC, and the BRC has been very active in challenging management on their response to the issues that have arisen throughout the period.

The BRC met five times during the financial year and the following is a summary of the material items the committee has focused on.

- The BRC has reviewed, challenged and approved the assessments undertaken as part of NHBC's ORSA process. This includes agreeing the approach for stress testing and scenario modelling activity carried out by the business as part of its annual planning exercise as well as agreeing a plan of action to combat the financial risks from climate change. Several assessments have also taken place throughout the year to consider the viability of NHBC's current business model, the associated risks – including those relating to cladding and fire-stopping claims – and their potential impact on its solvency ratio.
- We continued to develop our capital management framework, with the BRC providing extensive challenge throughout the ongoing development of the Company's capital management strategy, as well as to specific performance targets relating to capital efficiency (e.g. return on capital). Work was also undertaken throughout the year to further develop the Company's Recovery & Resolution Plan. The plan, required by the Prudential Regulatory Authority, focuses on potential capital management options that we may need to call upon in times of stress.
- A new reinsurance strategy was introduced for the upcoming financial year. The excess of loss reinsurance treaty was replaced with a new whole account quota share reinsurance arrangement. The change was overseen and challenged by the BRC and the implementation of the strategy will continue to be monitored by the committee. The BRC also continues to assess the Company's ongoing reinsurance requirements, including consideration of whether further reinsurance for the existing liabilities is appropriate.
- The BRC continued to monitor NHBC's risk profile against its agreed risk appetites and this is an area that has received significant focus this year – specifically the solvency risk appetite and whether this remains suitable in the current operating environment. A new return on capital risk appetite has also been developed to ensure we are accruing enough capital to deliver our long-term strategy and remain a viable business into the future.
- The BRC are regularly informed of progress on the development of our new capital model, which is intended to drive the calculation of NHBC's Solvency II capital requirement and required economic capital. The output of the new model was taken into consideration when developing the new reinsurance strategy.
- The BRC continued to monitor the progress being made in the implementation of the Insurance Distribution Directive. In addition, it has monitored the effective implementation of new legislation, including the Senior Managers & Certification Regime (SMCR) which came into effect in December 2019. The BRC has actively discussed other important aspects of upcoming legislation and regulations, and their impact on the business, including on matters such as climate change and operational resilience.
- The BRC has continued to undertake deep-dive reviews which focus on specific risk areas. These have covered topics such as competition, prudential regulation and political risk (including Brexit).
- Finally, Covid-19 and its impact on the UK economy and housing market is a material risk to NHBC and, whilst early in the global pandemic, this was discussed at length at the March 2020 BRC meeting. The BRC will continue to monitor this emerging risk into the forthcoming year.

INVESTMENT COMMITTEE REPORT

INVESTMENT COMMITTEE MEMBER	MEETINGS TO ATTEND	MEETINGS ATTENDED	ATTENDANCE %
Paul Bishop	3	2	66
Ian Craston (Chair)[1]	2	2	100
Jean Park	3	3	100
Sir Muir Russell[2]	3	1	33
Philip Rycroft[3]	1	1	100
Alan Rubenstein (Chair)[4]	1	1	100

1 Ian Craston left the Investment Committee on 31 January 2020.

2 Sir Muir Russell left the Investment Committee on 31 May 2020.

3 Philip Rycroft joined the Investment Committee on 18 December 2019.

4 Alan Rubenstein joined the Investment Committee and assumed the position of Chair on 11 February 2020.

The principal role of the Investment Committee is to:

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

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

ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2020

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

NHBC operates a prudent investment strategy based on a strong allocation to high-quality bonds.

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

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

During the year, the Investment Committee has:

- presided over the implementation of the simplification of the global equity portfolio, with a reduction in managers from three to two, and then the disposal prior to the end of the financial year
- continued to work with the Trustee of the NHBC Defined Benefit Pension Scheme in order to gradually move pension scheme assets into a more low-risk portfolio
- been supported in its role by external investment advisors whose role is to assist NHBC with the provision of investment advice in specialist areas.

REMUNERATION COMMITTEE REPORT

REMUNERATION COMMITTEE MEMBER	MEETINGS TO ATTEND[5]	MEETINGS ATTENDED	ATTENDANCE %
Paul Bishop	4	4	100
Alison Burns[1]	1	1	100
Ian Craston[2]	3	3	100
Sir Muir Russell (Chair)[3]	4	4	100
Philip Rycroft[4]	1	1	100

1 Alison Burns joined the Remuneration Committee on 18 December 2019.
2 Ian Craston left the Remuneration Committee on 31 January 2020.
3 Sir Muir Russell left the Remuneration Committee on 31 May 2020.
4 Philip Rycroft joined the Remuneration Committee on 18 December 2019.
5 There were two extraordinary Remuneration Committee meetings held outside the normal Remuneration Committee meetings.

The principal role of the Remuneration Committee is to:

- establish the approach to remuneration across NHBC and to review remuneration trends
- agree the pay and benefits for employees, including any payments made under bonus schemes and any changes to employee benefit structures
- review and determine:
  - the pay and benefits of the Chief Executive Officer and the other Executive Directors
  - the fee paid to the Chair.

All members of the Remuneration Committee are independent Non-Executive Directors and their biographies are given on page 48 to 51. The Chair of the Board, Chief Executive Officer, Head of Human Resources, and other members of the management team also attend the meeting where appropriate.

ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2020

As part of its regular activities the Remuneration Committee agreed the annual staff salary settlement and any changes to the Executive Directors' salaries. Further details of director's remuneration are set out on page 76. Another of the Remuneration Committee's regular tasks is to review the performance against the bonus scheme scorecard for the current year and review the various bonus targets and measures for the forthcoming year. Independent scrutiny of the bonus measures is provided by the Board Risk Committee which audits the results and comments on the measures and proposed targets from a risk standpoint. Additionally, NHBC's actuarial consultants validate the capital calculations.

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

NOMINATIONS COMMITTEE REPORT

NOMINATIONS COMMITTEE MEMBER	MEETINGS TO ATTEND[3]	MEETINGS ATTENDED	ATTENDANCE %
Paul Bishop	1	1	100
Isabel Hudson (Chair)[1]	1	1	100
Jean Park	1	1	100
Sir Muir Russell[2]	1	1	100

1 Isabel Hudson left the Committee on 31st May 2020 and Alan Rubenstein became Chair of Nominations Committee on 1 June 2020.

2 Sir Muir Russell left the Nominations Committee on 31 May 2020.

3 There were nine extraordinary meetings of the Committee held to discuss the recruitment of a new NHBC Chair and two additional Non-Executive Directors.

The principal role of the Nominations Committee is to:

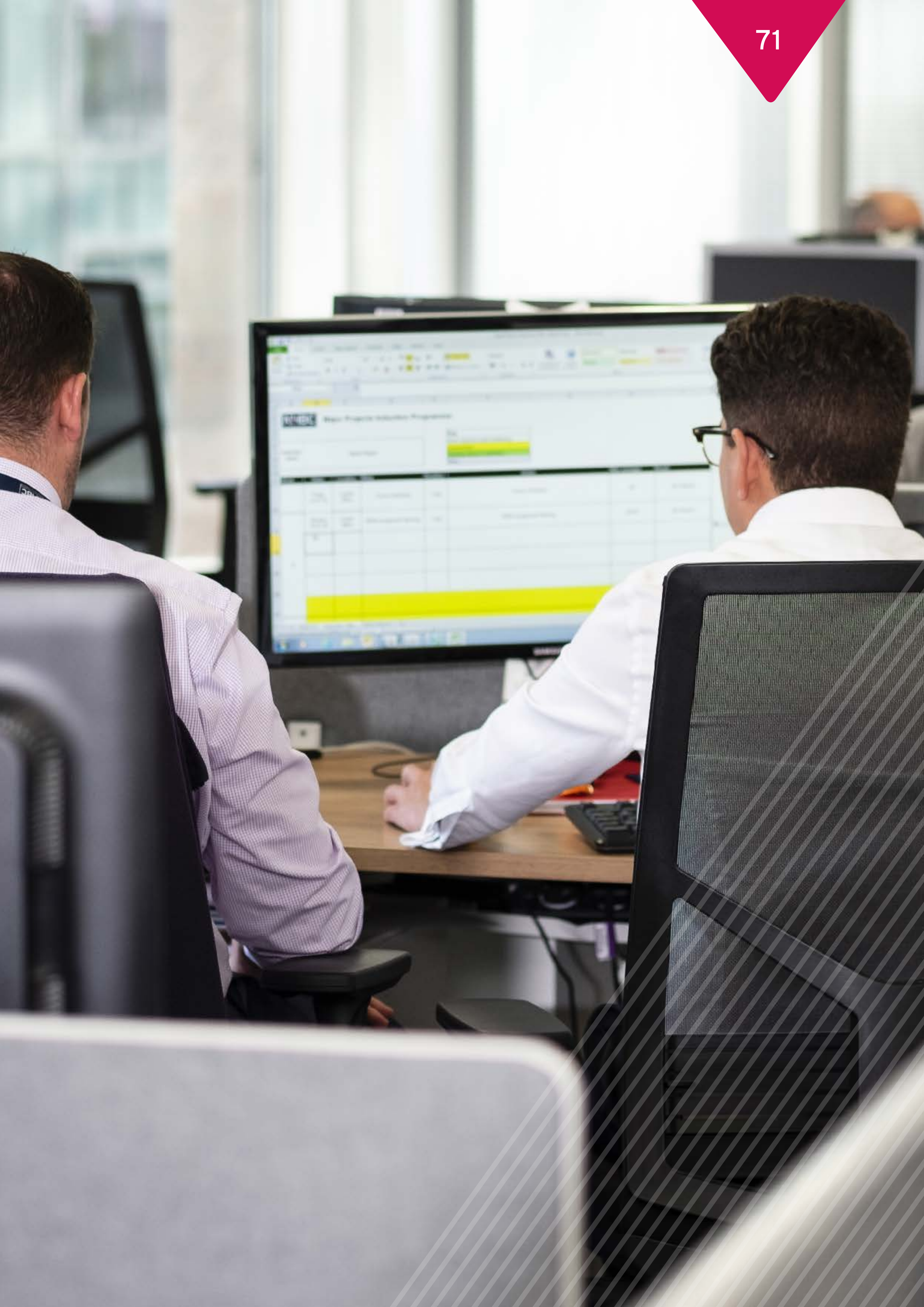
- review the size, structure and composition of the Board
- consider the succession plans for the Board and Senior Executives
- identify and recommend candidates to the Board to fill vacancies as they arise
- keep under review the leadership needs of NHBC, both Executive and Non-Executive, with a view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

Members of the Nominations Committee are all independent Non-Executive Directors and their biographies are given on pages 48 to 51. The Chief Executive Officer and the Head of Human Resources also attend the meetings, where appropriate.

ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2020

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

- appointment of Alison Burns for an initial term of office of three years
- appointment of Philip Rycroft for an initial term of office of three years
- appointment of Alan Rubenstein for an initial term of office of three years
- appointment of David Campbell to the position of Commercial Director and member of the Board.



BUILDING RELATIONSHIPS IN THE AFFORDABLE AND RENTAL SECTORS

Given the increase in the proportion of homes registered with NHBC in the affordable and rental sectors, we have strengthened our relationships with registered providers and local authorities as they expand their commitment to building new homes.

Housing association Aster Group is one such client. Providing homes across the south of England, Aster has an ambitious development programme which includes joint ventures, land acquisition, developer-led Section 106 schemes and Community Land Trusts. It plans to deliver over 10,700 homes in the next seven years.

NHBC provides Buildmark Choice warranty and insurance cover for the homes they have built, as well as building control services on a number of the developments.

Supporting Aster through a direct relationship is an important part in NHBC being more than just a warranty and insurance provider.

"THE SERVICE WE GET FROM NHBC IS OVER AND ABOVE WHAT WE EXPECTED. THE BUSINESS DEVELOPMENT TEAM AND OUR REGIONAL DIRECTOR ARE PROACTIVE IN REACHING OUT TO US. WE HAVE A DIRECT POINT OF CONTACT AND REGULAR MEETINGS TO TALK ANY ISSUES THROUGH. WE PARTICULARLY APPRECIATED THE TRAINING THAT THEY PROVIDED TO OUR DEVELOPMENT TEAM ON THE BUILDMARK CHOICE COVER AND HOW NHBC OPERATES. OVERALL, IT'S A VERY POSITIVE RELATIONSHIP AND NHBC ARE ALWAYS RESPONSIVE."

Amanda Donaldson, Head of New Business and Delivery

CASE STUDY

The case studies do not form part of the strategic report, the directors' report, the directors' remuneration report, or the UK GAAP financial statements.

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 2020.

Following my appointment as Chair of the Remuneration Committee on 31 May 2020, I would like to thank my predecessor, Sir Muir Russell, for his excellent work in this role over the past two and a half years. I look forward to this new role with my first duty being the signing of this report on behalf of the Board.

As a committee, our role is to ensure that our remuneration policy aligns with the Board approved strategy and performance. The committee has responsibility for reviewing remuneration for all NHBC employees, including Executive Directors and senior managers. It assesses the appropriateness of remuneration packages in line with the Company's business needs and the Board's aim of delivering an appropriate and competitive level and mix of remuneration when compared with companies of a similar scale and complexity to NHBC. This is done while ensuring that the principles of sound and prudent risk management are fully considered and that excessive risk-taking is neither encouraged nor rewarded.

For further information concerning the activities of the Remuneration Committee please see Remuneration Committee report on page 68.

This report is split into the following sections:

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

REMUNERATION POLICY AND THE LINK TO LONG-TERM BUSINESS PERFORMANCE

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

The annual bonus scheme applies to Executive Directors and the wider employee population and is calculated based on individual and business performance. Performance for the purposes of determining the annual bonus is assessed based on a balanced scorecard with a mix of financial and non-financial performance conditions.

Individual bonus amounts are then determined based on individual performance throughout that year. For our more senior employees, a proportion of any bonus is deferred and paid out in later years.

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

2019 / 20 PERFORMANCE AND REMUNERATION OUTCOMES

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

- ensuring financial viability: variable pay is contingent on meeting capital, legal and regulatory criteria as well as on the annual performance of the business
- improving construction quality: variable pay is linked directly to measures of standards of construction
- core business performance: variable pay is aligned to achievement of strategic business plan targets which include customer, cultural and employee measures.

Notable factors in the financial year bearing on remuneration outcomes included:

- a significant financial loss for the Group, primarily driven by large loss claims development which in turn impacted NHBC's solvency ratio
- increased management and control over operating expenses
- delivery of key standard-raising objectives and completion of specific business change activities.

Despite targets being achieved in some areas, the committee deemed it appropriate to exercise its discretion over the 2019-20 bonus schemes due to the scale of the financial loss and the ongoing economic uncertainties faced due to Covid-19. As a result, no bonus will be awarded in respect of 2019/20 for any employees, including the Executive Directors.

2020 / 21 REMUNERATION DECISIONS

2020/21 will be a busy year at NHBC with respect to remuneration.

During the course of 2020/21, the committee will focus on ensuring that remuneration supports delivery of our business priorities and our purpose. The remuneration policy will be designed to meet the needs of the business and will take account of corporate governance best practice. The design of the annual bonus scheme will focus alignment between performance and pay outcomes.

The committee also reviews arrangements for the wider organisation and will be working alongside management on a broad review of our reward strategy and frameworks, aimed at improved transparency and more effective decision making with respect to reward.

"WE ARE AWARE THAT THE UNCERTAINTIES PRESENTED BY COVID-19 WILL NEED TO BE CONSIDERED THOUGHTFULLY"

We are aware that the uncertainties presented by Covid-19 will need to be considered thoughtfully. In addition to the discretion applied regarding the 2019/20 bonus scheme, the Remuneration Committee has already taken the following decisions in light of this current climate:

BASE SALARY

To date no increases have been awarded for 2020/21 for any employees, including Executive Directors. Typically, these are effective in July and included in this report. However, current uncertainties due to Covid-19 have led NHBC to defer any decision on annual pay increases to September.

ANNUAL BONUS

Also, as a result of the effects of Covid-19, the decision as to whether to run a formal bonus scheme for 2020/21 has been deferred until September 2020. While the principle of rewarding people for their performance remains, deferring a decision to September is hoped will permit more effective setting of performance measures and targets that better reflect the needs of the business in its environment following the outbreak of Covid-19.

On behalf of the Committee, I appreciate your time in reading our Directors' Remuneration report and I hope that you find it accessible and informative.

Approved by the Board and signed on its behalf by

Alison Burns
Chair, Remuneration Committee
3 July 2020

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION POLICY

There have not been any material changes to the overall NHBC Remuneration Policy this year. Executive remuneration packages are structured so that they:

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

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

NHBC REMUNERATION POLICY FOR BOARD DIRECTORS - SUMMARY	
Executive Directors' remuneration	
Element, purpose and link to strategy	**Policy and operation**
Basic pay To provide core market related pay to attract and retain the required level of talent and designed to promote the long-term success of NHBC.	Annual review, with changes typically taking effect from 1 July each year. The review is informed by: ■ relevant pay data from companies of similar size and complexity ■ levels of increase awarded to other employees of NHBC ■ individual and business performance ■ any changes in roles and responsibilities.
Annual bonus To incentivise the Executive Directors to achieve pre-determined annual targets.	Awards are based on both personal performance and achievement against a balanced scorecard. Targets are set annually, and pay-out determined against those targets. The committee takes input from the Chief Risk Officer, the Risk and the Audit Committee as part of its decision making. The annual bonus is a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the outcome should it be considered appropriate. On-target company and personal performance is 50% of the Chief Executive Officer's bonus-able earnings and 40% for other Executive Directors.
Annual bonus deferral Deferral of an element of the bonus pay out provides alignment with the long-term nature of the Company's interests and aids retention of key personnel.	Annual bonuses have a deferral element (Chief Executive Officer 50%, other Executive Directors 40%) with 40% of the balance being released each year. Deferred awards are subject to performance adjustment at the discretion of the Remuneration Committee, if it comes to light that awards were made in error or where new information is made available that would have changed the value of the original award.
Malus / Clawback Allows cash awards to be recovered before or after release and unvested deferred bonus awards to be forfeited and reduced under certain circumstances.	NHBC operates a clawback period of three years from the date of payment of a bonus award, including payments of deferred awards where applicable. At any time within the clawback period, the committee may in its absolute discretion require a senior employee to repay the cash amount they have received in respect of such bonus awards. In addition, the committee may apply a performance adjustment, and override the bonus formulae to award a lower or zero bonus for any employee, if it considers that to be appropriate. This also applies to unvested deferred annual bonus awards (including reduction of the bonus bank down to zero).

NHBC REMUNERATION POLICY FOR BOARD DIRECTORS - SUMMARY	
Executive Directors' remuneration	
Element, purpose and link to strategy	**Policy and operation**
Pension To provide retirement benefits and remain competitive in the market.	NHBC provides a competitive employer defined contribution pension plan, the Group Personal Pension Plan (GPPP), operating salary sacrifice for pension contributions. Executive Directors have the opportunity to participate with a maximum employer contribution rate of 10.5% for any new appointments, or to receive a contribution to a personal pension. Alternatively, they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits.
Benefits To provide benefits as part of a competitive remuneration package, enabling the Company to attract and retain the right level of talent necessary to deliver its strategy.	Benefits are provided on a market related basis. NHBC reserves the right to deliver benefits to Executive Directors depending on their individual circumstances, which may include a company car or cash allowance, life insurance, accommodation and private medical insurance.
Non-Executive Directors' remuneration	
Element, purpose and link to strategy	**Policy and operation**
Chair and Non-Executive Directors' fees To attract individuals of skill and experience to serve as Chair and as Non-Executive Directors.	Non-Executive Directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairmanship of Board committees and membership of the Board Risk Committee or Audit Committee. The Chair receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties. The Chair and other Non-Executive Directors do not participate in any bonus or performance plans or pension arrangements.

DIRECTORS' REMUNERATION REPORT

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

EXECUTIVE DIRECTORS' CONDITIONS OF EMPLOYMENT	
Notice period	Up to 12 months (by the Executive and the Company)
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary, certain fixed benefits and pension. There is no entitlement to compensation for loss of the opportunity to earn variable pay. Contracts do not contain change of control provisions.
Remuneration and benefits	The operation of the annual bonus scheme is at the Company's discretion.
Pension	All Executive Directors have the opportunity to participate in the defined contribution pension scheme, to receive contributions to a personal pension plan, or take cash where impacted by the lifetime or annual allowance. For any new appointments, the maximum amount payable for pension benefit is 10.5% of salary which is aligned to the maximum value available to employees.
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.
Car allowance	A car or equivalent cash allowance is received, as varied from time to time.
Holiday entitlement	Range between 29 to 32 days plus public holidays dependent on length of service.
Private medical insurance	Private medical insurance is provided for each Executive Director and their partner. The Chief Executive Officer benefits from family cover. However, no payments are made in lieu if the Executive Director opts for reduced or no cover.
Sickness	Varies according to length of service and rises to a maximum of 100% of basic salary for six months and 50% for following six months, after 10 years' service.
Non-compete	Various non-compete clauses are included in all Executive Director contracts and seek to prevent the poaching of NHBC employees within 12 months of leaving.
Contract dates	The dates of current contract commencement for current directors are as follows: ■ David Campbell – 6 January 2020 ■ Paul Hosking – 23 January 2017 ■ Steve Wood – 30 June 2017

EXTERNAL BOARD APPOINTMENTS

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

Further details of our policy on recruitment and promotions, service contracts, and payments for loss of office can be found in our remuneration policy as set out in the 2018/19 NHBC Annual report.

ANNUAL REMUNERATION REPORT

THE REMUNERATION COMMITTEE

The Remuneration Committee sets the remuneration for all NHBC employees including the Executive Directors. The committee reviews the effectiveness of the remuneration policy and strategy and all bonus schemes are established and monitored by the committee.

The Remuneration Committee report on page 62 outlines its function, membership, attendance, and activities undertaken during the financial year. The full terms of reference for the Remuneration Committee are available from the Company Secretary.

ALL-EMPLOYEE REMUNERATION

The committee takes an active role in overseeing remuneration arrangements for the wider employee population.

NHBC conducts regular salary benchmarking both internally and externally against the wider market, to ensure our employee pay rates remain appropriate. We also offer all employees the opportunity to participate in the annual bonus scheme as well as the opportunity to select a range of benefits as part of their total reward package.

NHBC is a Living Wage employer and is committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees.

The committee also reviews the CEO pay ratio, which is set out below for 2019/20:

CEO PAY RATIO		
Upper quartile	Median	Lower quartile
7:1	8:1	11:1

The committee also reviews wider workforce pay policies and trends to ensure that they are considered when setting Executive Director pay.

DIRECTORS' REMUNERATION REPORT

REMUNERATION FOR THE PAST YEAR (YEAR ENDED 31 MARCH 2020)

SUMMARY TABLE OF EXECUTIVE DIRECTORS' REMUNERATION – AUDITED

The remuneration of individual directors, was as follows:

REMUNERATION FOR EXECUTIVE DIRECTORS

£000s		Salary[1]	Allowances[2]	Taxable benefit[3]	Pension[4]	Annual bonus award[5]	Additional bonus award[6]	Compensation for loss of office	**Total**
Paul Hosking	**19/20**	**201**	**58**	**3**	**-**	**-**	**-**	**-**	**262**
	18/19	199	57	2	-	54	-	-	312
Neil Jefferson[7]	**19/20**	**157**	**44**	**2**	**-**	**-**	**-**	**-**	**203**
	18/19	195	57	2	-	53	83	-	390
David Campbell[8]	**19/20**	**51**	**4**	**1**	**3**	**-**	**-**	**-**	**59**
	18/19	-	-	-	-	-	-	-	-
Steve Wood	**19/20**	**305**	**48**	**13**	**-**	**-**	**-**	**-**	**366**
	18/19	296	47	12	-	96	-	-	451

1 The salary amounts quoted above represent basic salary less any salary sacrifice arrangements. Salary payable in 2019/20 prior to salary sacrifice arrangements: Paul Hosking: £214k, David Campbell £53k.

2 Include entitlements taken as cash such as car or payment in lieu of employer pension benefits.

3 Taxable benefits comprise private medical insurance, medicals and accommodation.

4 Pension reflects employer contributions to the Defined Contribution pension scheme where applicable.

5 The annual bonus stated is that awarded in the financial year prior to any deferral.

6 Neil Jefferson received an exceptional bonus in July 2018 following interim appointment as Managing Director and agreed handover period to Steve Wood.

7 Neil Jefferson left NHBC on 31 December 2019.

8 David Campbell joined NHBC on 6 January 2020 as key management personnel fulfilling the role of Commercial Director. David Campbell officially became a Director of NHBC on 15 April 2020.

DEFERRED BONUS OPPORTUNITY

The table below provides additional information on the deferred bonus for each of the Executive Directors who served the Company during the financial year ended 31 March 2020.

DEFERRED BONUSES PER EXECUTIVE DIRECTOR

£'000	19/20 Annual bonus award[1]	Annual bonus payable in year ending 31 March 2020	Annual bonus deferred	Deferred bonus as at 31 March 2019	Amount of bonus paid with respect to prior year bonus awards	Deferred bonus as at 31 March 2020
Paul Hosking	-	-	-	44	(18)	26
Neil Jefferson	-	-	-	62	(16)	46
Steve Wood	-	-	-	78	(32)	46
David Campbell	-	-	-	-	-	-

DIRECTORS' REMUNERATION REPORT

NON-EXECUTIVE DIRECTORS

The table below shows the date of appointment of current Non-Executive Directors as well as the date of the end of the appointment:

NON-EXECUTIVE DIRECTOR APPOINTMENTS	DATE OF APPOINTMENT	APPOINTMENT END DATE
Isabel Hudson	01/06/2011	31/05/2020
Paul Bishop	01/11/2016	31/10/2022
Ian Craston	16/09/2014	31/01/2020
Kate Davies	05/10/2016	04/10/2022
Jean Park	10/12/2012	09/12/2021
Sir Muir Russell	15/05/2012	31/05/2020
Stephen Stone	05/10/2016	04/10/2022
Philip Rycroft	26/09/2019	14/10/2022
Alison Burns	15/10/2019	14/10/2022
Alan Rubenstein	11/02/2020	19/02/2023

Non-Executive Directors are generally appointed on three-year terms, agreed by the Board. Appointment end date reflects the current position based on the terms agreed. They may then be reappointed by and at the Board's discretion for any further period not exceeding three years and then for a further period, again not exceeding three years (i.e. up to nine years in total). If this period is exceeded, any extension is agreed by the Board, and ratification of their decision is sought from the Council at the next AGM following the date of the appointment.

APPROACH TO NON-EXECUTIVE DIRECTORS' FEES

Typically, Non-Executive Directors' fees are reviewed annually. However, as with pay increases for all employees, any review is deferred until September 2020. As a result of this, there are no increases to report.

FEES TO BE PAID TO THE CHAIR AND NON-EXECUTIVE DIRECTORS (£)	FROM 1 JULY 2020	FROM 1 JULY 2019
Chair of the Company	**140,000**	140,000
Board membership	**40,942**	40,942
Additional fees are paid as follows:		
Senior Independent Director	**3,160**	3,160
Committee Chair per committee chaired (Board Risk Committee and Audit Committee)	**12,000**	12,000
Committee Chair per committee chaired (Investment Committee and Remuneration Committee)	**9,000**	9,000
Additional committee membership fee (for membership of Audit Committee or Board Risk Committee)	**3,000**	3,000

SUMMARY TABLE OF NON-EXECUTIVE DIRECTORS' REMUNERATION - AUDITED

£'000	2020		2019	
	Fees	**Expenses[6]**	Fees	Expenses
Paul Bishop	**59**	**-**	58	-
Ian Craston[1]	**44**	**-**	52	-
Kate Davies	**44**	**-**	42	-
Isabel Hudson	**144**	**4**	141	5
Jean Park	**56**	**5**	55	3
Sir Muir Russell[2]	**58**	**8**	57	4
Dame Helena Shovelton[3]	**-**	**-**	26	-
Stephen Stone	**44**	**-**	43	-
Philip Rycroft[4]	**22**	**2**	-	-
Alison Burns[5]	**21**	**-**	-	-
Alan Rubenstein[6]	**20**	**-**	-	-

1 Ian Craston retired from the Board on 31 January 2020.
2 Sir Muir Russell left the Remuneration Committee on 31 May 2020.
3 Dame Helena Shovel ton retired from the Board on 30 September 2018.
4 Phillip Rycroft joined the Board on 26 September 2019.
5 Alison Burns joined the Board on 15 October 2019.
6 Alan Rubenstein joined the Board on 11 February 2020.

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

APPROVAL BY THE BOARD

The Directors' Remuneration report was reviewed and approved by the Board on 3 July 2020.

Alison Burns
Chair of the Remuneration Committee

HOW NHBC VIRTUAL TRAINING PROVIDED THE INDUSTRY WITH LOCKDOWN LEARNING

NHBC has been providing training to the industry for over 25 years, delivering technical training and qualifications to a broad range of professionals as a key part of our purpose to support the delivery of high-quality new homes.

We deliver around 13,500 delegate training days each year based on a portfolio of 30 technical courses. With the onset of the Covid-19 pandemic it soon became clear that face-to-face training had to be suspended and that a virtual alternative was needed.

From April, we began running two Virtual Training webinars a day: quite an increase on the two webinars per month we usually ran. Darryl Stewart, Head of Training and Analysis explains:

"AT THAT POINT, WITH THE UK ON STANDSTILL, WE WANTED TO ENSURE THAT BUILDERS AND THE SUPPLY CHAIN WERE MAKING THE MOST OF THEIR TIME OFF-SITE. WE COULD BE QUITE AGILE AROUND THE WEBINARS AS WE ALREADY HAD CONTENT FROM OUR FACE-TO-FACE TRAINING SESSIONS."

These Virtual Training webinars covered a wide range of topics including NHBC Standards, Building Regulations and good practice on-site. The appetite for training outside the traditional classroom setting was extraordinary, with attendance levels and the positive feedback received surpassing all our expectations. During the lockdown period we delivered 90 webinars to more than 30,000 participants, equivalent to over 14,000 training days.

We were pleased to be able to support the industry during such a difficult time and to give so many people the opportunity to learn or refresh their technical knowledge. Now, as the industry returns to operations on site, we are adapting our training business to work within the ongoing Covid-19 restrictions.

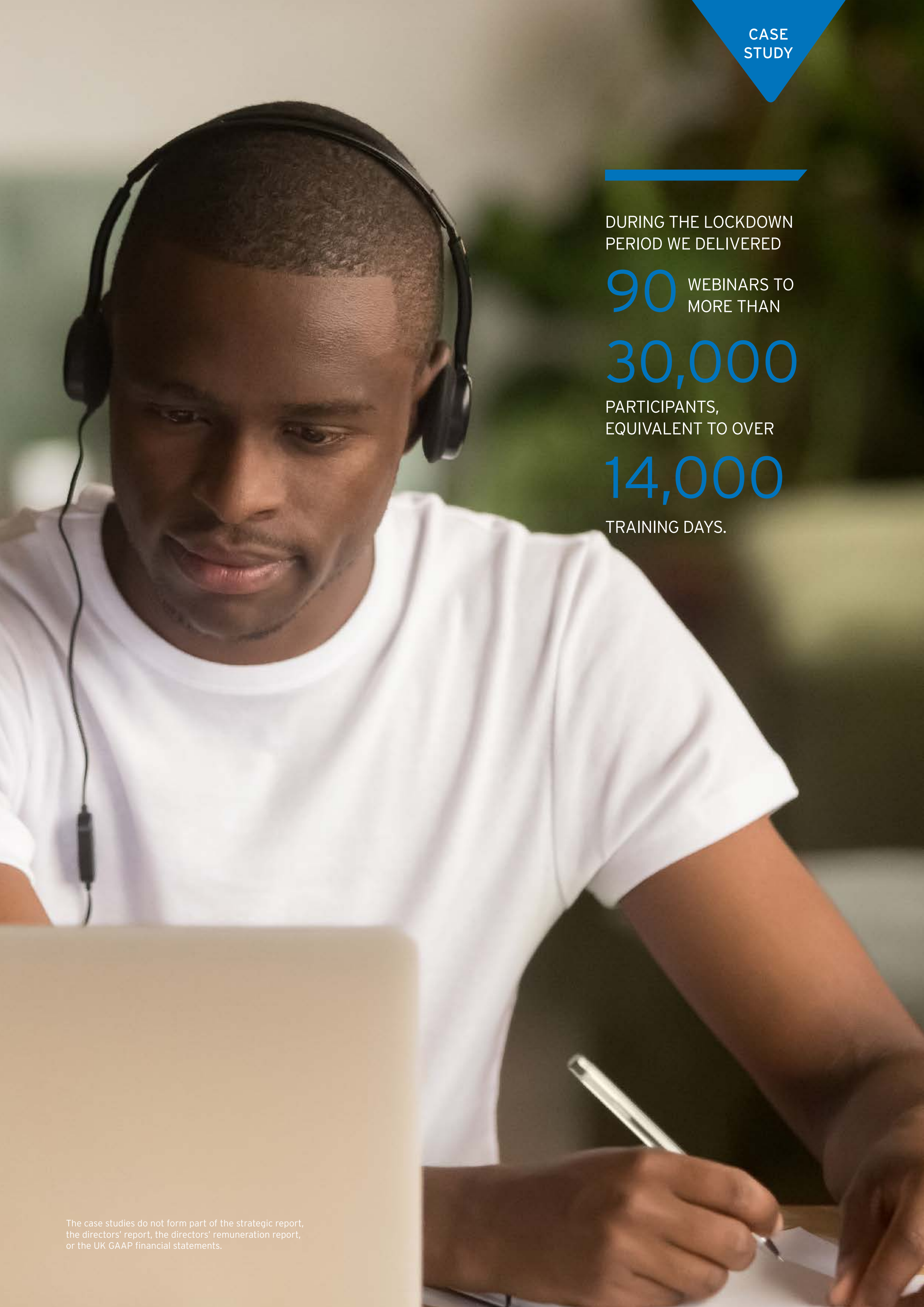
We have already converted many of our longer face-to-face training courses for online delivery, with a particular focus on maintaining engagement and checking understanding. As Darryl says:

"WHEN YOU ARE FACE-TO-FACE YOU CAN GAUGE THE LEVEL OF INTEREST AND UNDERSTANDING EASILY. ONLINE, THERE NEEDS TO BE A LOT OF WORK TO MAINTAIN THAT ENGAGEMENT AND TEST UNDERSTANDING. YOU NEED TO ENSURE REGULAR AUDIENCE INTERACTION AND QUESTIONING OF ATTENDEES.

"WE DO THIS THROUGH INTERACTIVE POLLS, QUIZZES, CHAT FACILITIES AND GROUP DISCUSSIONS. WE ALSO USE SOME VERY USEFUL MONITORING TOOLS WITHIN OUR SOFTWARE TO ENSURE 100% OF THE AUDIENCE IS FOCUSSED ON THE COURSE."

Many of our customers claim for the funding of their training programmes, so we have worked with the Construction Industry Training Board to make sure that our adapted Virtual Training courses meet their standards and eligibility criteria. Darryl reflects:

"VIRTUAL TRAINING HAS TAKEN A LEAP FORWARD. ALTHOUGH WE HAVE BEEN FORCED INTO THIS SITUATION, MANY OF OUR CUSTOMERS REALLY APPRECIATE THE BENEFITS AND EFFICIENCY OF VIRTUAL TRAINING. IT HAS BEEN A REAL LEARNING CURVE FOR ALL OF US, WHERE NHBC REMAINS COMMITTED TO VIRTUAL TRAINING AS A KEY PART OF OUR OFFERING. PANDEMIC ASIDE, IT IS LIKELY WE WILL MAINTAIN A BLENDED DELIVERY APPROACH."



CASE STUDY

DURING THE LOCKDOWN PERIOD WE DELIVERED

90 WEBINARS TO MORE THAN

30,000

PARTICIPANTS, EQUIVALENT TO OVER

14,000

TRAINING DAYS.

The case studies do not form part of the strategic report, the directors' report, the directors' remuneration report, or the UK GAAP financial statements.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NATIONAL HOUSE-BUILDING COUNCIL

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

1 Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 15.1 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

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

2 Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: ■ The valuation of gross insurance claims reserves Within this report, key audit matters are identified as follows: Newly identified Similar level of risk Increased level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £3.63m (2019: £4.55m) which was determined on the basis of 1% of net assets (2019: 1% of net assets).
Scoping	The parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited and NHBC Services Limited, were subject to a full scope audit.
Significant changes in our approach	There have been no significant changes in our audit approach.

3 Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: ■ the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or ■ the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

4 Key audit matters

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

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

4.1 Valuation of gross insurance claims reserves

Key audit matter description	
	The gross insurance claims reserves comprise both claims outstanding and the unexpired risk reserve and as at 31 March 2020 total £916.9 million (2019: £708.8 million) as detailed in Note 5.9 Insurance Contracts (significant accounting polices) and Note 25 Insurance Liabilities (financial disclosure). The judgements which are made by management in determining both the actuarial best estimate and the margin for uncertainty are by far the most significant in terms of their impact on the Group's financial position. Specifically, we have identified the following three key areas of focus for our audit given their significance to the Group's result and the level of judgement involved: 1. The key assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims; 2. The methodology and assumptions applied in valuing the incurred but not reported (IBNR) provision for cladding claims. 3. The methodology and assumptions applied in setting the booked margin. **Key audit matter focus areas** 1 The methodology and assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims. Attritional Loss claims relating to Sections 2 and 3 of NHBC's Buildmark product, as defined in note 25.1 to the financial statements, are projected based on historical claims experience using standard actuarial techniques. The Group estimates future House Rebuilding Cost Index ('HRCI') changes when projecting the future cost of these Attritional losses. This claims inflation assumption, which has a significant impact on the amount reserved given the long tail nature of the policies underwritten, has a high level of estimation uncertainty and we therefore identified this as a key audit matter. Historical claims experience for Large Losses is more limited than for Attritional Losses and is not available for Exceptional Losses, whereas the number of large sites on risk in recent years has increased. This increases the risk of claims of this nature arising in future. Management therefore exercises significant judgement in determining the frequency and severity assumptions used in reserving for Large and Exceptional Loss claims, which increases the risk of material misstatement of the balance either through error or fraud. 2 The methodology and assumptions applied in valuing the IBNR provision for cladding claims. Following the Grenfell Tower fire in 2017 and the resulting focus on cladding materials, the Group continues to assess its exposure to future claims of this nature and reserve for them accordingly. In determining the frequency and severity of cladding claims that have not been reported as of the reporting date, management has exercised a significant level of judgement and as a result we have identified the data, methodology and assumptions applied in determining the actuarial best estimate for cladding claims as a key audit matter. 3 The methodology and assumptions applied in setting the booked margin. The booked margin is derived by considering a range of adverse scenarios which are added to the actuarial best estimate in order to allow for the inherent uncertainty in valuing the reserves. Due to the significant level of management judgement required in setting the margin, there is a risk that the scenarios selected and their respective weightings are not reasonable, leading to the possibility of manipulation of the booked reserve period on period.

How the scope of our audit responded to the key audit matter	1 The methodology and assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims. We have gained a detailed understanding of the end to end claims and reserving process, and obtained an understanding of relevant controls. We have also tested relevant controls over actuarial data reconciliations, claims controls and have tied claims and policy data to source systems which provides assurance over the completeness and accuracy of the underlying data used in the Group's actuarial calculation. Having done this, we worked with our Deloitte actuarial experts to: ■ Assess and challenge the HRCI assumption used within the calculation, leveraging observable market data to benchmark the assumption and assess reasonableness; ■ Assess and challenge the frequency and severity assumptions used for Large and Exceptional Losses by reviewing management's analysis and expert judgements that support the selected assumptions, and challenging the justification for those assumptions in light of alternative assumptions available; ■ Inspect and challenge the peer review report prepared by management's external actuarial expert in order to identify any material issues with management's methodology or assumptions; and ■ Assess the competence and objectivity of management's expert in their role as peer reviewer. 2 The methodology and assumptions applied in valuing the IBNR provision for cladding claims. We gained a detailed understanding of the process that management went through to determine the best estimate liability and obtained an understanding of relevant controls within this process. Having done this, we worked with our Deloitte actuarial experts to: ■ Assess and challenge management's assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating the number of tower blocks returning to NHBC as a claim; ■ Considering any alternative assumptions which could reasonably be applied, including those considered by management and the impact of those on the result; ■ Challenge whether the methodology used is appropriate and test that it has been applied accurately in the manual calculation process; and ■ Recalculate Section 4 reserves to assess accuracy of the calculation. Further to this on a sample basis, we tested the completeness and accuracy of the data underpinning the calculation by inspecting and challenging evidence; and assessed and challenged the key assumptions determined by management through benchmarking against third-party evidence where available. 3 The methodology and assumptions applied in setting the booked margin. We have worked with our Deloitte actuarial experts to challenge management's qualitative and quantitative justifications for the margin held over the actuarial best estimate, including the scenarios selected, each scenario's respective weighting, and the key assumptions applied within each scenario. In addition to this we have analysed the consistency of the margin with previous reporting periods through inspection of the peer review report prepared by management's external actuarial expert and assessing management's booked reserve as a percentage of the expert's actuarial best estimate year on year.
Key observations	We have determined the valuation of gross insurance claims reserves to be reasonable.

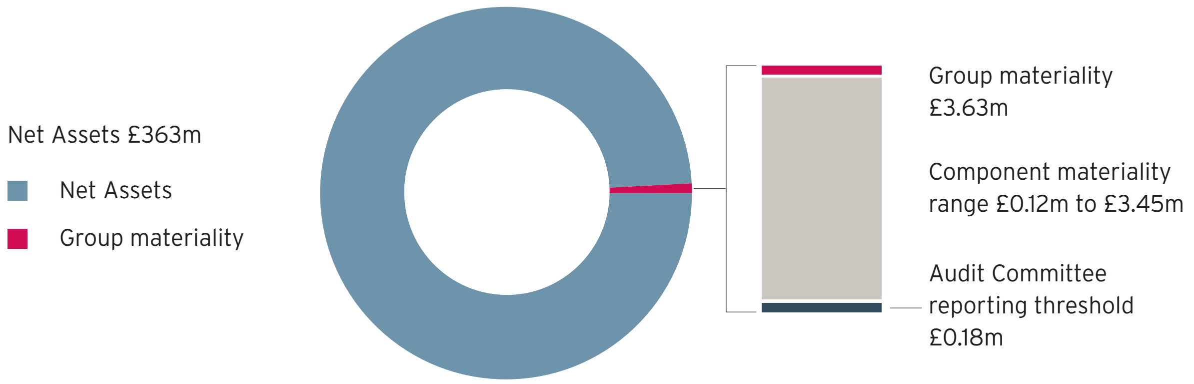
5 Our application of materiality

5.1 Materiality

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

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

	GROUP FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
Materiality	£3.63m (2019: £4.55m)	£3.45m (2019: £4.32m)
Basis for determining materiality	Materiality was determined as approximately 1% (2019: 1%) of net assets.	Materiality was determined as approximately 0.95% (2019: 0.95%) of net assets.
Rationale for the benchmark applied	The majority of the Group's operations are carried out by the parent company. We determined that the critical benchmark for the Group was net assets. National House-Building Council is a non-profit distributing organisation and the primary users of the financial statements are the council members, who look to the accumulated reserves and the stability of the Company that is limited by guarantee to gain comfort over the Group's ability to settle insurance claims as they fall due.	



5.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group and company performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

a We have audited the Group for a number of years and so have knowledge of both the Group and the environment it operates in;

b Our ability to rely on controls over a number of significant business processes;

c Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

5.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £182k (2019: £227k) for the Group audit and £173k (2019: £216k) for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

6 An overview of the scope of our audit

6.1 Identification and scoping of components

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

This resulted in the parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited applying a materiality of £233k (2019: £239k) and NHBC Services Limited applying a materiality of £129k (2019: £127k), being subject to a full scope audit by the Group engagement team. These three entities represent the principal trading and service operations of the Group and account for 100% of the Group's net assets, 100% of the Group's gross earned premium and 100% of the Group's loss.

6.2 Our consideration of the control environment

The audit approach included relying on the key manual and automated controls over the following business processes: revenue, claims; and expenses. We also involved IT specialists to test the general IT controls over key systems, such as the revenue system, the claims system and Agresso the general ledger system.

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

7 Other information

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

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

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

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

We have nothing to report in respect of these matters.

8 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

9 Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

10.1 Identifying and assessing potential risks related to irregularities

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

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

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

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. This included the Group's regulatory solvency requirements.

10.2 Audit response to risks identified

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

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11 Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

12 Matters on which we are required to report by exception

12.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

12.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

13 Other matters

13.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board in May 2016 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 March 2016 to 31 March 2020.

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

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

14 Use of our report

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

Adam Addis (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
3 July 2020

STEWART MILNE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TECHNICAL ACCOUNT – GENERAL BUSINESS

		2020		2019	
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	8	**99,810**		95,172	
Outward reinsurance premiums		**(11,084)**		(13,887)	
Net premiums written		**88,726**		81,285	
Change in the gross provision for unearned premiums		**(41,253)**		(19,760)	
Change in the provision for unearned premiums, reinsurers' share		**5,151**		5,125	
Change in the net provision for unearned premiums		**(36,102)**		(14,635)	
Earned premium, net of reinsurance			**52,624**		66,650
Allocated investment return transferred from the non-technical account			**10,390**		35,068
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		**(91,469)**		(85,595)	
- Reinsurers' share		**-**		5	
Net claims paid		**(91,469)**		(85,590)	
Change in provision for claims					
- Gross amount		**(57,829)**		(60,874)	
- Reinsurers' share		**75,363**		27,354	
Change in the net provision for claims		**17,534**		(33,520)	
Claims incurred, net of reinsurance			**(73,935)**		(119,110)
Changes in unexpired risk reserve, net of reinsurance			**(87,121)**		(17,408)
Net operating expenses	11		**(9,803)**		(12,470)
Balance on the technical account for general business			**(107,845)**		(47,270)

NON-TECHNICAL ACCOUNT

	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Balance on the general business technical account			**(107,845)**		(47,270)
Investment income	12		**57,323**		64,965
Unrealised gains on investments		**11,623**		29,248	
Unrealised losses on investments		**(48,588)**		(44,427)	
Net unrealised losses on investments	12		**(36,965)**		(15,179)
Investment expenses and charges			**(2,570)**		(2,327)
Allocated investment return transferred to the general business technical account			**(10,390)**		(35,068)
Other income	8		**78,519**		78,574
Other charges			**(76,419)**		(76,379)
Exceptional item	17		**-**		30,000
Loss on ordinary activities before taxation			**(98,347)**		(2,684)
Tax on loss on ordinary activities	16		**5,643**		82
Loss for the financial year			**(92,704)**		(2,602)
Other comprehensive income					
Remeasurements of net defined benefit obligation	29	**9,840**		(4,512)	
Movement on deferred tax relating to pension deficit	21	**1,131**		-	
Revaluation of tangible assets		**39**		38	
Other comprehensive income / (loss) for the year, net of tax			**11,010**		(4,474)
Total comprehensive loss for the year			**(81,694)**		(7,076)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2020 £'000	2019 £'000
Assets			
Investments			
Land and buildings	18	**9,806**	9,856
Other financial investments		**1,562,754**	1,597,890
		1,572,560	1,607,746
Reinsurers' share of technical provisions			
Provision for unearned premiums	24	**56,917**	51,766
Claims outstanding	24	**107,948**	32,585
Unexpired risk reserve	24	**69,771**	6,598
		234,636	90,949
Debtors			
Debtors arising out of direct insurance operations	20	**8,297**	5,412
Deferred tax	21	**6,682**	-
Other debtors	20	**7,527**	5,471
		22,506	10,883
Other assets			
Tangible assets	22	**1,982**	2,394
Cash at bank and in hand		**52,496**	26,771
		54,478	29,165
Prepayments and accrued income			
Accrued interest and rent		**13,102**	15,478
Deferred acquisition costs	23	**12,379**	11,721
Other prepayments and accrued income		**8,307**	9,728
		33,788	36,927
Total assets		**1,917,968**	1,775,670

	Note	2020 £'000	2019 £'000
Liabilities			
Reserves			
Revaluation reserve		**382**	343
Retained earnings		**373,298**	455,031
		373,680	455,374
Technical provisions			
Provision for unearned premiums	24	**497,865**	456,612
Claims outstanding	24	**401,659**	343,830
Unexpired risk reserve	24	**515,251**	364,956
		1,414,775	1,165,398
Creditors			
Creditors arising out of direct insurance operations	28	**30,016**	29,632
Other creditors	28	**10,455**	11,372
		40,471	41,004
Accruals and deferred income		**73,037**	80,806
Defined benefit pension plan deficit	29	**16,005**	33,088
Total liabilities		**1,917,968**	1,775,670

The notes on pages 110 to 159 are an integral part of these financial statements.

The financial statements on pages 102 to 159 were authorised for issue by the Board of directors on 3 July 2020 and were signed on its behalf.

P Hosking
(Chief Financial Officer)

Company registration 00320784

COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2020 £'000	2019 £'000
Assets			
Investments			
Land and buildings	18	**9,806**	9,856
Investments in Group undertakings and participating interests	19	**6,405**	5,860
Other financial investments		**1,562,754**	1,597,890
		1,578,965	1,613,606
Reinsurers' share of technical provisions			
Provision for unearned premiums	24	**56,917**	51,766
Claims outstanding	24	**107,948**	32,585
Unexpired risk reserve	24	**69,771**	6,598
		234,636	90,949
Debtors			
Debtors arising out of direct insurance operations	20	**8,297**	5,412
Deferred tax	21	**6,682**	-
Other debtors	20	**5,893**	3,931
		20,872	9,343
Other assets			
Tangible assets	22	**1,982**	2,394
Cash at bank and in hand		**52,194**	26,496
		54,176	28,890
Prepayments and accrued income			
Accrued interest and rent		**13,102**	15,478
Deferred acquisition costs	23	**12,379**	11,721
Other prepayments and accrued income		**8,011**	9,479
		33,492	36,678
Total assets		**1,922,141**	1,779,466

	Note	2020 £'000	2019 £'000
Liabilities			
Reserves			
Revaluation reserve brought forward		6,104	5,394
Other comprehensive income for the year		583	710
Retained earnings brought forward		448,634	456,231
Loss for the year		(93,518)	(3,085)
Other comprehensive income for the year		10,971	(4,512)
		372,774	454,738
Technical provisions			
Provision for unearned premiums	24	498,480	457,247
Claims outstanding	24	401,659	343,830
Unexpired risk reserve	24	515,540	364,956
		1,415,679	1,166,033
Creditors			
Creditors arising out of direct insurance operations	28	30,016	29,632
Other creditors	28	20,556	21,326
		50,572	50,958
Accruals and deferred income		67,111	74,649
Defined benefit pension plan deficit	29	16,005	33,088
Total liabilities		1,922,141	1,779,466

The notes on pages 110 to 159 are an integral part of these financial statements.

The financial statements on pages 102 to 159 were authorised for issue by the Board of directors on 3 July 2020 and were signed on its behalf.

P Hosking
(Chief Financial Officer)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	RETAINED EARNINGS	REVALUATION RESERVE	TOTAL
	£'000	£'000	£'000
Balance as at 1 April 2018	462,145	305	462,450
Loss for the year	(2,602)	-	(2,602)
Other comprehensive income for the year	(4,512)	38	(4,474)
Total comprehensive income for the year	(7,114)	38	(7,076)
Balance as at 31 March 2019	**455,031**	**343**	**455,374**
Loss for the year	**(92,704)**	**-**	**(92,704)**
Other comprehensive income for the year	**10,971**	**39**	**11,010**
Total comprehensive income for the year	**(81,733)**	**39**	**(81,694)**
Balance as at 31 March 2020	**373,298**	**382**	**373,680**

COMPANY STATEMENT OF CHANGES IN EQUITY

	RETAINED EARNINGS	REVALUATION RESERVE	TOTAL
	£'000	£'000	£'000
Balance as at 1 April 2018	456,231	5,394	461,625
Loss for the year	(3,085)	-	(3,085)
Other comprehensive income for the year	(4,512)	710	(3,802)
Total comprehensive income for the year	(7,597)	710	(6,887)
Balance as at 31 March 2019	**448,634**	**6,104**	**454,738**
Loss for the year	(93,518)	-	(93,518)
Other comprehensive income for the year	10,971	583	11,554
Total comprehensive income for the year	(82,547)	583	(81,964)
Balance as at 31 March 2020	**366,087**	**6,687**	**372,774**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2020 £'000	2019 £'000
Net cash from operating activities before interest received	32	**47,380**	(2,795)
Interest received		**35,743**	36,407
Taxation received		**184**	916
Net cash generated from operating activities		**83,307**	34,528
Cash flow from investing activities			
Payments to acquire tangible fixed assets	22	**(511)**	(1,597)
Receipts from disposal of tangible fixed assets		**16**	-
		(495)	(1,597)
Net increase in cash and cash equivalents		**82,812**	32,931
Cash and cash equivalents at the beginning of the year		**70,636**	37,705
Cash and cash equivalents at end of year		**153,448**	70,636
Cash and cash equivalents consists of:			
Cash at bank and in hand		**52,496**	26,771
Deposits with credit institutions (included in other financial investments)		**4,614**	65
Treasury bills and liquidity funds (included in other financial investments)		**96,338**	43,800
Cash and cash equivalents		**153,448**	70,636

NOTES TO THE FINANCIAL STATEMENTS

1 Company information

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

2 Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value and in accordance and comply with:

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

The consolidated financial statements for the year ended 31 March 2020 comprise those of the Company and its subsidiary companies (together referred to as the Group).

Unless stated otherwise, the consolidated financial statements are presented in Great British Pound (GBP), which is the Group's presentation and functional currency, and rounded to the nearest £'000.

NHBC, the parent company, has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. NHBC's loss for the year was £93.5m (2019: loss of £3.1m) with other comprehensive income for the year being a profit of £11.6m (2019: loss of £3.8m).

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

3 Going concern

After reviewing the Group's forecasts and projections, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. For further information see paragraph on going concern in the Director's report on page 58.

4 Critical accounting judgements and estimation uncertainty

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

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

FINANCIAL STATEMENT AREA	CRITICAL JUDGEMENTS	RELATED ACCOUNTING POLICIES AND NOTES
Insurance and reinsurance contracts	Determination of builder behaviour assumptions Determination of exceptional losses assumptions Determination of cost inflation assumption	Note 5.9 - Insurance contracts Note 24 – Insurance contract liabilities and associated reinsurance
Revenue recognition on inspection and building control service	Determination of the stage of completion	Note 5.3 – Other income Note 8 - Turnover
Defined benefit pension scheme	Determination of assumptions for mortality, discount rate, inflation and the rate of increase in pensions	Note 5.10.3 - Defined benefit pension scheme Note 29.1 - Defined benefit pension scheme

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

FINANCIAL STATEMENT AREA	RELATED ACCOUNTING POLICIES AND NOTES
Insurance and reinsurance contracts	Note 5.9 - Insurance contracts Note 24 - Insurance contract liabilities and associated reinsurance
Fair value of land and buildings	Note 5.5 - Investment in land and buildings Note 18 - Land and buildings
Deferred income taxes	Note 5.4 - Taxation Note 21 - Deferred tax asset
Defined benefit pension scheme	Note 5.10.3 - Defined benefit pension scheme Note 29.1 - Defined benefit pension scheme

5 Summary of significant accounting policies

5.1 Basis of consolidation

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

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

5.2 Investment return

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

5.3 Other income

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

Upon registering a plot with NHBC, the builder customer benefits from the use of NHBC's key stage inspection service. The Inspection Service establishes a quality control process designed to ensure construction meets NHBC Standards. NHBC's subsidiary NHBC Building Control Services Limited provides a building control service, an optional service offered by the Group which assists builder customers in meeting government-set Building Regulations.

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

Builders and developers require registration with NHBC in order to access the NHBC inspection service on new homes they build or develop. A one-off joining fee is payable by the builder to enter the register. The joining fee is recognised as revenue in full at the invoice date. An annual registration renewal fee is charged to remain on the register. The registration runs concurrently with the Group's financial year with new registrations issued up to the end of the financial year. The registration fee is recognised as revenue on an accruals basis.

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

5.4 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

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

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

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

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

5.5 Investment in land and buildings

Land and buildings predominantly occupied by the Group for its own purposes are valued at open market valuation. Full valuations are made by professionally qualified external valuers at least every three years. In the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required. Fair value is primarily derived using comparable recent market transactions on arm's length terms[4].

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

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

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

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

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

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

5.6 Investment in subsidiaries

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

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

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

5.7 Other financial investments

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

5.8 Tangible assets

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

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

- Computer equipment – 3 to 5 years
- Fixtures and fittings – 5 years

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

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

5.9 Insurance contracts

5.9.1 Classification

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

5.9.2 Premiums written

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

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

5.9.3 Unearned premiums

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

5.9.4 Deferred acquisition costs

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

5.9.5 Claims incurred

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

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

5.9.6 Unexpired risk reserve

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

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

The provisions are inevitably subject to inherent uncertainties because of the range of factors which could give rise to potentially significant claims over the 10-year or greater period covered by the unexpired risk provision. The time expected to elapse between the inception of policies, the manifestation of events giving rise to claims and the notification to, and settlement by, the Group of such claims accentuate these uncertainties.

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

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

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

5.9.7 Reinsurance

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

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

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

5.10 Employee benefits

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

5.10.1 Short-term benefits

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

5.10.2 Defined contribution pension scheme

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

5.10.3 Defined benefit pension scheme

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

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

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

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

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

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

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

5.11 Impairment of non-financial assets

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

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

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

5.12 Lease assets

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

The Group does not have finance leased assets.

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

5.13 Provisions and contingencies

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

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

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

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

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

5.14 Foreign currency

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

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

5.15 Related party transactions

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

5.16 Financial instruments

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

5.16.1 Financial assets

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

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

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

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

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

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

5.16.2 Financial liabilities

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

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

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

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

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

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

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

5.17 Statement of cash flows

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

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

5.17.1 Offsetting

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

6 Risk management

The current principal risks of the Group and how they are managed through the Risk Management Framework are outlined on page 32.

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

- insurance
- market
- credit
- liquidity
- pension.

6.1 Insurance / underwriting risk

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

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

6.1.1 Pricing risk

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

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

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

6.1.2 Claims risk

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

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

6.1.3 Reserving risk

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

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

6.1.4 Concentration risk

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

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

6.1.5 Use of reinsurance

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

6.2 Market risk

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

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

6.2.1 Interest rate risk

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

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

The fair value of the Group's portfolio of fixed income securities is inversely correlated to changes in market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 121.

6.2.2 Inflation risk

Inflation risk is defined as the risk that:

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

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

6.2.3 Equity price risk

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

The Group continues to limit its equity exposure in line with the Group's risk preferences. At 31 March 2020 0.18% (2019: 6.46%) of the overall managed portfolio was invested in equities. The Group invests in equities through pooled funds. The Group's equity investments are globally diversified and include both developed and emerging markets equities. The Group's strategy ensures that the equity portfolio is sufficiently diversified thereby reducing exposure to individual equities.

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

Sensitivities to changes in equity prices are presented on page 121.

6.2.4 Property price risk

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

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

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

6.2.5 Currency risk

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

The Group's exposure to currency risk is predominantly through its equity investments. The underlying investments of the equity funds are denominated in a wide selection of currencies. At 31 March 2020 overseas equities represented a majority (2019: majority) of equity investments.

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

6.2.6 Derivative risk

The Group directly holds derivatives, in the form of foreign currency forward contracts, interest rate swaps, and equity futures, to partially mitigate the currency risk of its equity and overseas bond investments and the market risk of its equity investments. The Group had no other derivative exposures.

6.2.7 Sensitivity analysis

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

	INCREASE / (DECREASE) IN STATEMENT OF COMPREHENSIVE INCOME		INCREASE / (DECREASE) IN OTHER COMPREHENSIVE INCOME		INCREASE / (DECREASE) IN TOTAL RESERVES	
	2020	2019	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(15,914)**	(16,867)	**-**	-	**(15,914)**	(16,867)
Impact on equities and funds of a 15% fall in value	**(17,939)**	(15,486)	**-**	-	**(17,939)**	(15,486)
Decrease of property markets of 15%	**(1,298)**	(1,298)	**(108)**	(104)	**(1,406)**	(1,402)

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

Insurance contract sensitivity analysis is included in note 27.

6.3 Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Areas particularly exposed to credit risk are:

- Investments
- Group's customers
- Reinsurance assets

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

6.3.1 Investments

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least BBB in accordance with the Group's credit rating assignment methodology (second highest rating available from S&P, Moody's & Fitch approved credit rating agencies) at the time of purchase.

6.3.2 Group's customers

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

6.3.3 Reinsurance assets

The Group is exposed to credit and concentrations of risk with individual reinsurers. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. Group policy dictates that reinsurers have a financial strength rating of at least A-[5]. The policy requires consideration of the degree of diversification the reinsurers provide as a group and concentration of risk with individual counterparties.

6.3.4 Credit enhancements

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

However, the Group holds certain security in relation to specific sections of its insurance product. At 31 March 2020 the Group held £26m (2019: £26m) of builder customer deposits. The Group has additional credit enhancements with respect to Major Projects which include, but are not limited to, land charges.

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

6.3.5 Credit risk exposure and ageing of financial and insurance assets

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 March 2020. The total is of financial assets that are neither past due or impaired.

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

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 March 2019. The total is of financial assets that are neither past due nor impaired.

	AAA	AA	A	BBB	BB	NOT RATED	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	7,587	902,112	178,607	361,077	1,405	-	1,450,788
Equity and other variable yield securities	-	-	-	-	-	103,237	103,237
Derivatives	-	-	-	-	-	-	-
Reinsurers' share of insurance contract liabilities	-	69,959	15,697	-	-	5,293	90,949
Insurance and non-insurance trade debtors	-	-	-	-	-	10,688	10,688
Other debtors	-	-	-	-	-	195	195
Deferred tax asset	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	70,636	70,636
	7,587	**972,071**	**194,304**	**361,077**	**1,405**	**190,049**	**1,726,493**

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

NOTES TO THE FINANCIAL STATEMENTS

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

	NEITHER PAST DUE OR IMPAIRED	0 TO 90 DAYS	91 TO 180 DAYS	181 DAYS TO 360 DAYS	361 DAYS AND OVER	PROVISION FOR IMPAIRMENT	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	1,341,472	-	-	-	-	-	1,341,472
Equity and other variable yield securities	119,592	-	-	-	-	-	119,592
Derivatives	738	-	-	-	-	-	738
Reinsurers' share of insurance contract liabilities	234,636	-	-	-	-	-	234,636
Insurance and non-insurance trade debtors	10,892	3,959	919	407	125	(641)	15,661
Other debtors	163	-	-	-	-	-	163
Deferred tax	6,682	-	-	-	-	-	6,682
Cash and cash equivalents	153,448	-	-	-	-	-	153,448
	1,867,623	**3,959**	**919**	**407**	**125**	**(641)**	**1,872,392**

Table below represents the ageing of the financial and insurance assets held by the Group as at 31 March 2019.

	NEITHER PAST DUE OR IMPAIRED	0 TO 90 DAYS	91 TO 180 DAYS	181 DAYS TO 360 DAYS	361 DAYS AND OVER	PROVISION FOR IMPAIRMENT	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	1,450,788	-	-	-	-	-	1,450,788
Equity and other variable yield securities	103,237	-	-	-	-	-	103,237
Derivatives	-	-	-	-	-	-	-
Reinsurers' share of insurance contract liabilities	90,949	-	-	-	-	-	90,949
Insurance and non-insurance trade debtors	7,573	2,219	536	387	290	(317)	10,688
Other debtors	195	-	-	-	-	-	195
Deferred tax	-	-	-	-	-	-	-
Cash and cash equivalents	70,636	-	-	-	-	-	70,636
	1,723,378	**2,219**	**536**	**387**	**290**	**(317)**	**1,726,493**

6.3.6 Impairment of assets

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

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

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

	2020	2019
	£'000	£'000
At 1 April	317	344
Impairment loss recognised	(47)	(41)
Bad debt provision recognised in year	371	14
At 31 March	641	317

NOTES TO THE FINANCIAL STATEMENTS

6.4 Liquidity risk

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

6.4.1 Maturity analysis of financial liabilities

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

As at 31 March 2020:

	LESS THAN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	FIVE TO TEN YEARS	GREATER THAN TEN YEARS	TOTAL	CARRYING VALUE IN THE STATEMENT OF FINANCIAL POSITION
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	(93,876)	(81,868)	(162,120)	(59,119)	(4,676)	(401,659)	(401,659)
Trade creditors	(4,295)	-	-	-	-	(4,295)	(4,295)
Other creditors	(36,176)	-	-	-	-	(36,176)	(36,176)
	(134,347)	**(81,868)**	**(162,120)**	**(59,119)**	**(4,676)**	**(442,130)**	**(442,130)**

As at 31 March 2019:

	LESS THAN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	FIVE TO TEN YEARS	GREATER THAN TEN YEARS	TOTAL	CARRYING VALUE IN THE STATEMENT OF FINANCIAL POSITION
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	(110,573)	(70,458)	(101,349)	(51,444)	(10,006)	(343,830)	(343,830)
Trade creditors	(4,321)	-	-	-	-	(4,321)	(4,321)
Other creditors	(36,683)	-	-	-	-	(36,683)	(36,683)
	(151,577)	**(70,458)**	**(101,349)**	**(51,444)**	**(10,006)**	**(384,834)**	**(384,834)**

6.5 Pension risk

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

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

6.5.1 Investments

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

- 52.5% in investments that share characteristics with the long-term liabilities of the Scheme, comprising of corporate bonds (22.5%), LDI (30.0%)
- 47.5% in return seeking assets compromising equities (15.0%), diversified growth funds (18.75%), multi-asset credit (7.5%) and senior private debt (6.25%).

Note 29.1.4 discloses the value of the Scheme's investments.

6.5.1.1 Investments – currency risk

The Scheme is subject to indirect currency risk from its investments in Sterling priced pooled investment vehicles which hold underlying overseas equities denominated in foreign currency. To limit currency risk, the Scheme has set a benchmark of investing 75% of the developed overseas equity allocation in pooled investment vehicles that hedge this indirect currency risk into Sterling.

The Scheme's investment in diversified growth funds, and a new investment in a senior private debt fund which all consist of underlying investments across a range of asset classes and regions, also exposes the Scheme to indirect currency risk. This exposure is not explicitly hedged as a matter of course as the manager may vary currency exposures in implementing their investment strategy with the aim of generating additional returns for the Scheme.

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

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

6.5.1.2 Investments – interest rate risk

The Scheme is subject to interest rate risk because of the Scheme's indirect investments in government bonds, corporate bonds, and geared government bonds. Interest rate risk also exists in relation to the Scheme's liabilities. The Scheme's net exposure to interest rate risk is the difference between the liability and asset interest rate exposures.

The Scheme's bond assets are invested under a Liability Driven Investment approach. At the year end, these assets were invested such that the interest rate exposure of the portfolio matches approximately 65% of the Scheme's liabilities. Under this strategy, if interest rates fall and all else is equal, the value of the matching investments will rise to match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise and all else is equal, the matching investments will fall in value, as will the actuarial liabilities due to an increase in the discount rate.

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

The Scheme has an exposure to other fixed income assets through the diversified growth funds, senior private debt, and multi-asset credit. The interest rate exposure that these asset classes introduce is taken by the investment manager as part of its investment strategy to add value.

6.5.1.3 Investments – other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities, diversified growth funds (comprising primarily of bonds, equities and more illiquid assets such as infrastructure and property), multi-asset credit, senior private debt fund, bonds and cash.

The Scheme has a target asset allocation of 47.5% of investments being held in return seeking investments. The Scheme manages and mitigates the risk associated with this exposure to overall price movements by constructing a diverse portfolio of investments across various markets, sectors and regions using a number of investment managers.

At the year end, the return seeking portfolio represented 42.9% of the total investment portfolio (2019: 53.2%).

The Scheme is also exposed to other price risk as a result of the corporate bond holdings within pooled funds. These could fall in value if credit spreads widen. The Scheme has considered this risk when setting an appropriate strategic allocation to corporate bonds.

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In addition, the Scheme is exposed to other price risk arising from the liabilities, specifically, inflation risk associated with pension liability increases and longevity risk associated with the length of time that pensioner benefits will need to be paid. Inflation risk is mitigated through the Liability Driven Investment portfolio in a similar manner to interest rate risk. At the year end, the inflation hedge ratio was approximately 60% of the Scheme's liabilities. The Scheme does not currently hold investments to manage longevity risk. If in future affordable products become available, aimed at schemes similar in size and nature to this Scheme, that effectively mitigate such risk, the Scheme will consider these products.

6.5.1.4 Investments – credit risk

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

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

The pooled investment arrangements used by the Scheme comprise unit-linked insurance contracts, unit trusts and other pooled investment vehicles. The Scheme is therefore directly exposed to credit risk arising from these pooled investment vehicles and may be indirectly exposed to credit risks arising on the underlying investments held by these pooled investment vehicles. The Scheme's holdings in pooled investment vehicles are not rated by credit rating agencies. The Scheme manages and monitors the credit risk arising from the Scheme's pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

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

Investments backing unit-linked insurance contracts are comingled with the insurer's own assets and direct credit risk is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight. In the event of default by the insurer, the Scheme may be protected by the Financial Services Compensation Scheme (FSCS) and may be able to make a claim for at least 100% of its policy value, although noting that compensation is not guaranteed. The Scheme carries out due diligence checks on the appointment of new pooled investment managers and will consider any changes to the operating environment of the pooled manager.

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

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

6.5.2 Liabilities

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

6.5.2.1 Liabilities – discount rate

It is important to note that FRS 102 accounting standard requires the discount rate to be set with reference to the yields on high-quality (usually taken to mean AA rated) corporate bonds irrespective of the actual investment strategy of the Scheme. Therefore, the market will drive the discount rate.

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

6.5.2.2 Liabilities – inflation risk

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

6.5.2.3 Liabilities – longevity risk

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

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

6.5.2.4 Liabilities – sensitivity analysis

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

	2020	2019
Decrease discount rate by 0.25% (2019: 0.25%)	**£11m**	£11m
Increase inflation rate by 0.25% (2019: 0.25%)	**£10m**	£10m
Increase life expectancy by 1 year (2019: 1 year)	**£10m**	£11m

7 Capital management

The Group is headed by a company limited by guarantee, has no external shareholders, is exclusively funded through retained earnings, and maintains an efficient capital structure, consistent with the Group's risk profile and the regulatory requirements of its business.

The Group's capital is exclusively comprised of retained earnings and revaluation reserves.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to maintain financial strength and resilience including protecting capital from shocks or excessive volatility
- to satisfy the requirements of Solvency II, policyholders and regulators
- to allocate capital efficiently to support growth.

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

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

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

Since 1 January 2016, the Company has been subject to the requirements of the Solvency II Directive and must hold sufficient capital to meet its Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The Company calculates its SCR in accordance with the Standard Formula prescribed in the Solvency II regulations. The Company aims to maintain own funds around 155% (the solvency ratio) of these minimum requirements over the medium term. At 31 March 2020, under Solvency II, the solvency ratio was 135% (2019: 152%).

The Company is compliant with PRA and Solvency II requirements.

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8 Turnover

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

	2020		2019	
	£'000	£'000	£'000	£'000
Insurance activities		**99,810**		95,172
Other activities				
Inspection services	**63,733**		63,754	
Registration fee income	**5,553**		5,902	
Other services supporting the industry	**9,233**		8,918	
Other activities		**78,519**		78,574
		178,329		173,746

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

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

9 Particulars of business

The table below shows the insurance activities split by class.

	2020		2019	
	CREDIT & SURETYSHIP	MISCELLANEOUS	CREDIT & SURETYSHIP	MISCELLANEOUS
	£'000	£'000	£'000	£'000
Gross premiums written	**11,940**	**87,870**	13,173	81,999
Gross premiums earned	**15,577**	**42,980**	12,875	62,537
Gross claims incurred	**2,776**	**146,522**	4,371	142,098
Gross operating expenses	**1,512**	**10,173**	1,954	12,165
Reinsurance balance	**(3,305)**	**135,908**	(2,193)	24,846

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

10 Movements in prior year's claims provisions

	2020	2019
	£'000	£'000
Net claims provisions brought forward at 1 April	**311,245**	277,724
Net payments during the year in respect of these provisions	**(77,142)**	(82,752)
Net claims provisions carried forward in respect of claims provided at 1 April	**(203,095)**	(236,455)
Movement in prior year's provision	**31,008**	(41,483)

11 Net operating expenses

	2020	2019
	£'000	£'000
Acquisition costs	**1,982**	2,241
Increase in deferred acquisition costs provision	**(658)**	(144)
Administrative expenses	**10,361**	12,022
Reinsurance commission	**(1,882)**	(1,649)
	9,803	12,470

Administrative expenses include the cost of general business levies as well as other administrative expenditure attributed directly to insurance activities. The Group does not pay commissions for direct business that includes acquisition, renewal and collection.

12 Investment return

	2020	2019
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	**73**	63
Income from financial assets at fair value through consolidated statement of comprehensive income	**33,837**	36,182
Gains / (losses) on derivative contracts	**24,645**	(2,614)
Income from land and buildings	**2**	19
Net (losses) / gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	**(1,234)**	31,315
	57,323	64,965
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	**(2,570)**	(2,327)
Net unrealised losses on financial assets at fair value through consolidated statement of comprehensive income	**(36,965)**	(15,179)
	17,788	47,459

Net interest expense on the defined benefit pension scheme £757,000 (2019: £820,000) is recognised in other charges within the consolidated statement of comprehensive income.

Interest payable £Nil (2019: £Nil) in respect of taxation is recognised in other charges within the consolidated statement of comprehensive income.

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

13 Employee information

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

	2020	2019
Insurance activities	**208**	231
Other direct activities	**835**	821
Administration	**173**	179
	1,216	1,231

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

Staff costs for the above persons were:

	2020	2019
	£'000	£'000
Wages and salaries	**55,342**	55,811
Social security costs	**6,707**	6,790
Pension costs	**8,619**	11,683
	70,668	74,284

The pension costs include a past service cost of £nil (2019 £3.76m) relating to the NHBC Defined Benefit Pension Scheme. Further information is disclosed in note 29.1 – Defined benefit pension scheme.

14 Director emoluments

	2020	2019
	£'000	£'000
Aggregate emoluments	**1,419**	1,639
Company pension contributions to defined contribution schemes	**3**	-
	1,422	1,639

Retirement benefits are accruing to one director (2019: none) under the Group's defined contribution pension scheme and no directors (2019: none) under the defined benefit pension scheme.

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

The Company does not have a share option scheme.

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

	2020	2019
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	366	451

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

The Directors' remuneration report on page 74 provides further detailed disclosures of directors' remuneration.

15 Profit on ordinary activities before taxation

Profit on ordinary activities is stated after:

15.1 Auditor remuneration

	2020	2019
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company and Group financial statements	218	180
Non-audit services and fees payable to the Company's auditors and its subsidiary companies for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	10	10
- Other services pursuant to legislation, including the audit of the regulatory return	95	91
	323	281

15.2 Impairment of trade receivables

	2020	2019
	£'000	£'000
Impairment of trade receivables	371	14

15.3 Operating lease charges

	2020	2019
	£'000	£'000
Land and buildings	355	355
Motor vehicles	2,877	2,945
	3,232	3,300

15.4 Research and development

	2020	2019
	£'000	£'000
Research and development expenditure expensed	**1,036**	1,248

16 Income tax

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

	2020		2019	
	£'000	£'000	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	**-**		-	
Adjustment in respect to prior periods	**(92)**		(82)	
Total current tax		**(92)**		(82)
Deferred tax				
Origination and reversal of timing differences	**(22,744)**		(8,225)	
Adjustment in respect of prior periods including impact of change in tax rate	**(2,051)**		-	
De-recognition of deferred tax asset	**19,244**		8,225	
Total deferred tax		**(5,551)**		-
		(5,643)		(82)

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

	2020	2019
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**1,870**	(767)
Impact of change in tax rate	**(662)**	-
De-recognition of deferred tax asset	**(2,339)**	767
	(1,131)	-

16.3 Reconciliation of tax charge

Tax assessed for the period is higher (2019: higher) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	2020	2019
	£'000	£'000
Loss on ordinary activities before tax	**(98,347)**	(2,684)
Loss multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	**(18,686)**	(510)
Effects of:		
- Income not chargeable for tax purposes	**(3,984)**	(8,834)
- Expenses not deductible for tax purposes and permanent differences	**56**	157
- Adjustments in respect of prior years	**(92)**	(82)
- Adjustment to deferred tax charge in respect of previous periods	**(2,181)**	962
- Movement in un-provided deferred tax asset	**19,244**	8,225
	(5,643)	(82)

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

16.4 Tax rate changes

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

A UK corporation tax rate of 19% from 1 April 2020 was substantially enacted on 17 March 2020, as a result deferred tax has been calculated at 19% as at 31 March 2020 (2019: 17%).

17 Exceptional item

In the financial year ended 31 March 2019 NHBC has received proceeds from settlement of legal claims. The proceeds relate to a dispute that has been settled on confidential terms.

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18 Land and buildings

The land and buildings have been revalued as at 31 March 2020.

	THE GROUP AND THE COMPANY
	£'000
Cost or valuation	
At 1 April	**10,093**
Additions	**-**
Revaluation	**25**
Disposals	**-**
At 31 March	**10,118**
Depreciation	
At 1 April	**237**
Charge	**163**
Revaluation	**(88)**
Disposals	**-**
At 31 March	**312**
Net book value at 31 March 2020	**9,806**
Net book value at 31 March 2019	9,856

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

	THE GROUP AND THE COMPANY	
	2020	2019
	£'000	£'000
Freehold	**8,650**	8,650
Long leasehold	**720**	695
Short leasehold improvements	**436**	511
	9,806	9,856

All land and buildings are regularly revalued in accordance with the Group's stated accounting policy as set out in note 5.5. The last valuations were performed as at 31 March 2020. 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	
	2020	2019
	£'000	£'000
Cost	**14,115**	14,115
Accumulated depreciation based on cost	**(2,056)**	(1,893)
	12,059	12,222

The Group's reversal of previous impairment losses taken to the consolidated statement of comprehensive income amounted to £74,000 (2019: £114,000).

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

19 Investment in Group undertakings and participating interests

19.1 Investment in participating interests - Group

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

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

19.2 Investment in Group undertakings - Company

	2020	2019
	£'000	£'000
At 1 April	**5,860**	5,189
Revaluation	**545**	671
At 31 March	**6,405**	5,860
Analysed as:		
NHBC Building Control Services Limited	**4,354**	4,098
NHBC Services Limited	**1,781**	1,492
PRC Homes Limited	**270**	270
NHBC Pension Trustee Limited	**-**	-
Zero Carbon Hub Limited	**-**	-
Gowan Close Management Company Limited	**-**	-
	6,405	5,860

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The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2020 they were as follows:

- NHBC Building Control Services Limited - issued and fully paid 50,000 £1 ordinary shares. NHBC Building Control Services Limited is an Approved Inspector for Building Regulation purposes in England and Wales.
- NHBC Services Limited - issued and fully paid 50,000 £1 ordinary shares. NHBC Services Limited provides services to the house-building and related industries.
- PRC Homes Limited - issued and fully paid 100 £1 ordinary shares. PRC Homes Limited did not trade during the year.
- NHBC Pension Trustee Limited - issued and fully paid 100 £1 ordinary shares. NHBC Pension Trustee Limited arranges the provision of pensions to many of NHBC's present and past employees. NHBC Pension Trustee Limited did not trade during the year.
- Zero Carbon Hub Limited – Company limited by guarantee under the control of the Group. Zero Carbon Hub Limited did not trade during the year.
- Gowan Close Management Company – Company limited by guarantee under control of the Group. Gowan Close Management Company is a property management company.

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

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

20 Debtors

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**8,297**	5,412	**8,297**	5,412
Debtors arising out of reinsurance operations	**-**	-	**-**	-
	8,297	5,412	**8,297**	5,412
Other debtors				
Trade debtors	**7,364**	5,276	**5,730**	3,736
Corporation tax	**-**	92	**-**	92
Other debtors	**163**	103	**163**	103
	7,527	5,471	**5,893**	3,931

Trade debtors includes £Nil (2019: £Nil) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £641,000 (2019: £317,000).

21 Deferred tax asset

	GROUP	COMPANY
	£'000	£'000
At 1 April	-	-
Charge to the consolidated statement of comprehensive income	5,551	5,551
Charge to other comprehensive income	1,131	1,131
	6,682	**6,682**

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Trade Losses	**5,551**	-	**5,551**	-
Deferred tax related to defined benefit pension plan liability	**1,131**	-	**1,131**	-
	6,682	-	**6,682**	-

The annual review of the recoverability of the deferred tax asset has indicated that it is not probable that the Group will generate the taxable profits required to support the full recognition of the asset. As at 31 March 2020 deferred tax assets of £6,682,000 (2019: £nil) have been recognised for both the Group and the Company, with additional deferred tax assets of £39,979,000 (2019: £23,073,000) for the Group and £39,967,000 (2019: £23,058,000) for the Company not being recognised.

Due to the indexation of the properties that the Group holds, it is unlikely that any gains will arise in the foreseeable future. Therefore, no deferred tax has been provided with respect to existing capital tax losses that arose on the disposal of buildings. The undiscounted value of these losses is £241,000 based on a prevailing tax rate of 19% (2019: £216,000 at 17%).

22 Tangible assets

THE GROUP AND THE COMPANY	COMPUTER EQUIPMENT	FIXTURES AND FITTINGS	TOTAL
	£'000	£'000	£'000
Cost or valuation			
At 1 April	6,904	5,274	12,178
Additions	361	150	511
Disposals	(305)	(15)	(320)
At 31 March	**6,960**	**5,409**	**12,369**
Depreciation			
At 1 April	4,904	4,880	9,784
Charge	712	211	923
Disposals	(305)	(15)	(320)
At 31 March	**5,311**	**5,076**	**10,387**
Net book value at 31 March 2020	**1,649**	**333**	**1,982**
Net book value at 31 March 2019	2,000	394	2,394

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

23 Deferred acquisition costs

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

	2020	2019
	£'000	£'000
At 1 April	**11,721**	11,577
Acquisition costs deferred during the year	**1,982**	2,241
Amortisation	**(1,324)**	(2,097)
At 31 March	**12,379**	11,721

24 Insurance contract liabilities and associated reinsurance

The following notes explain how the Group, and the Company, calculates its liabilities to policyholders for insurance products it has sold. Note 25 covers insurance contract liabilities. Note 26 details the reinsurance recoverable on insurance contract liabilities whilst note 27 presents sensitivity analysis on insurance contract liabilities and associated reinsurance.

The following is a summary of the Group insurance contract provisions and related reinsurance assets as at 31 March 2020.

	2020			2019		
	GROSS PROVISIONS	**REINSURANCE ASSETS**	**NET**	GROSS PROVISIONS	REINSURANCE ASSETS	NET
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Provision for unearned premiums	**(497,865)**	**56,917**	**(440,948)**	(456,612)	51,766	(404,846)
Claims outstanding	**(401,659)**	**107,948**	**(293,711)**	(343,830)	32,585	(311,245)
Unexpired risk reserve	**(515,251)**	**69,771**	**(445,480)**	(364,956)	6,598	(358,358)
	(1,414,775)	**234,636**	**(1,180,139)**	(1,165,398)	90,949	(1,074,449)

The following is a summary of the Company insurance contract provisions and related reinsurance assets as at 31 March 2020.

	2020			2019		
	GROSS PROVISIONS	**REINSURANCE ASSETS**	**NET**	GROSS PROVISIONS	REINSURANCE ASSETS	NET
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Provision for unearned premiums	**(498,480)**	**56,917**	**(441,563)**	(457,247)	51,766	(405,481)
Claims outstanding	**(401,659)**	**107,948**	**(293,711)**	(343,830)	32,585	(311,245)
Unexpired risk reserve	**(515,540)**	**69,771**	**(445,769)**	(364,956)	6,598	(358,358)
	(1,415,679)	**234,636**	**(1,181,043)**	(1,166,033)	90,949	(1,075,084)

25 Insurance liabilities

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

25.1 Insurance product

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

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

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

Sections 3, 4 & 5: The policy periods for these Sections of Buildmark begin after the end of Section 2 for a period of eight years, i.e. years three to 10 following legal completion. Like Section 1, these Sections are exclusively concerned with obligations undertaken by NHBC to the homeowner to provide an indemnity in the event of certain events. Section 4 of the policy which provides extra cover for building regulations is no longer offered for policies starting from 1 October 2019.

NOTES TO THE FINANCIAL STATEMENTS

25.2 General methodology

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

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

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

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

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

25.3 Risk concentration

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

25.4 Assumptions

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

- exceptional losses
- builder approach to self-repair
- social inflation
- economic conditions - cost inflation (HRCI)
- economic conditions - housing market
- other material estimates
- discount rate.

25.4.1 Exceptional losses

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

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

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

NHBC is also exposed to large losses from individual developments.

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

25.4.2 Builder behaviour

For defects reported in years three to 10 of the policy term there is no contractual obligation for builders to undertake repairs themselves, but some do voluntarily. This is because:

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

Among other considerations, comparisons of claim frequencies between current and previously registered[6] builders are used to determine builder behaviour assumptions.

25.4.3 Social inflation

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

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

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

25.4 4 Economic conditions – cost inflation

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

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

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

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

25.4.5 Economic conditions – housing market

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

6 Previously registered builders are builders not currently on the NHBC Register.

NOTES TO THE FINANCIAL STATEMENTS

25.4.6 Other material estimates

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

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

- base cost of claim per flat – this is the expected claim cost if the claim is accepted and paid in full
- likelihood of a claim – the probability that an investigation takes place and uncovers a valid claim
- expected recovery proportion – representing bespoke assessment of recovery and subrogation.

The cost of future Section 4 claims on high rise flats is then calculated as a function of above assumptions.

25.4.7 Discount rate

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

25.5 Movements in the gross provision for unearned premiums

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 April	**456,612**	436,851	**457,247**	437,675
Increase in provision	**41,253**	19,761	**41,233**	19,572
At 31 March	**497,865**	456,612	**498,480**	457,247

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £13.4m increase (2019: £14.5m release) in the gross provision for unearned premiums. The release was recognised in the statement of comprehensive income, offset by movements in the unexpired risk reserve.

25.6 Movements in the gross provision for claims

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 April	**343,830**	282,956	**343,830**	282,956
Increase in provision	**57,829**	60,874	**57,829**	60,874
At 31 March	**401,659**	343,830	**401,659**	343,830

25.7 Movements in the gross unexpired risk reserve

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 April	**364,956**	343,492	**364,956**	343,492
Increase / (decrease) in provision	**150,295**	21,464	**150,584**	21,464
At 31 March	**515,251**	364,956	**515,540**	364,956

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25.8 Loss development tables[7]

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

	DEVELOPMENT YEAR							
£'000	0	1	2	3	4	5	6	7
Financial reporting year								
Prior	367,568	35,138	32,941	39,145	45,299	33,949	34,737	31,613
2006	18	513	1,490	3,497	6,966	5,632	6,667	7,577
2007	12	475	2,392	6,115	5,303	8,073	10,150	6,171
2008	37	947	3,862	3,910	7,555	5,318	9,729	12,870
2009	44	1,132	2,003	2,247	5,841	4,160	5,855	6,220
2010	94	633	2,430	2,556	3,796	3,077	3,614	3,332
2011	34	557	3,782	3,160	4,048	4,608	173	3,203
2012	35	677	2,266	1,809	2,790	2,075	2,137	13,557
2013	301	650	1,422	2,052	2,319	1,856	4,390	3,495
2014	89	742	1,376	2,772	2,738	3,917	1,923	
2015	13	324	2,320	1,114	2,496	2,347		
2016	-	278	1,359	1,069	993			
2017	21	327	878	205				
2018	-	34	1,753					
2019	-	254						
2020	-							
Claims handling and other charge								

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

	DEVELOPMENT YEAR								
	8	9	10	11	12	13	14	15+	**Claims incurred in the financial year ended 31 March 2020**
	37,797	34,087	30,559	26,034	13,755	15,109	6,850	5,922	**5,922**
	7,362	9,408	8,264	7,246	6,770	15,100	576		**576**
	11,595	11,685	12,899	9,411	12,722	1,861			**1,861**
	12,356	16,600	13,437	19,454	9,908				**9,908**
	2,926	4,930	8,462	14,636					**14,636**
	5,423	5,148	6,368						**6,368**
	4,461	23,961							**23,961**
	15,431								**15,431**
									3,495
									1,923
									2,347
									993
									205
									1,753
									254
									-
									89,633
									(15,698)
									73,935

26 Reinsurance assets

This note details the reinsurance recoverable on the Group's insurance liabilities.

26.1 Assumptions

The assumptions, including discount rates used for reinsurance contracts, follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

26.2 Movements in reinsurers' share of provision for unearned premiums

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 April	**51,766**	46,641	**51,766**	46,641
Increase in provision	**5,151**	5,125	**5,151**	5,125
At 31 March	**56,917**	51,766	**56,917**	51,766

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £1.2m increase (2019: £1.3m release) in the gross provision for unearned premiums. The release was recognised in the statement of comprehensive income, offset by movements in the unexpired risk reserve.

26.3 Movements in reinsurers' share of provision for claims

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 April	**32,585**	5,231	**32,585**	5,231
Increase in provision	**75,363**	27,354	**75,363**	27,354
At 31 March	**107,948**	32,585	**107,948**	32,585

26.4 Movements in reinsurers' share of the unexpired risk reserve

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
At 1 April	**6,598**	2,542	**6,598**	2,542
Increase / (decrease) in provision	**63,173**	4,056	**63,173**	4,056
At 31 March	**69,771**	6,598	**69,771**	6,598

27 Insurance contract sensitivity analysis

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

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

		2020		2019	
ASSUMPTION	SENSITIVITY TESTED	GROSS LIABILITY	NET LIABILITY	GROSS LIABILITY	NET LIABILITY
	%	**£m**	**£m**	£m	£m
Increase in claim frequency	+2.0	**18.0**	**15.7**	14.3	13.3
Long-term HRCI inflation	+1.0	**54.5**	**46.8**	50.6	43.7
Discount rate	-0.25	**15.7**	**12.9**	13.5	12.4

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

The above analyses are based on a change in an assumption, while holding all other assumptions constant, and assume that no management action is taken. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

The analysis has not considered the impact of the above changes on the valuation of the Group's assets and liabilities other than insurance assets and liabilities. The above analysis is presented gross of the corresponding tax credits or charges.

Sensitivities relating to cladding and fire-stopping related claims are as follows:

- 10% increase in average claims cost/claims frequency will result in £4.5m increase in net insurance liabilities

An increase in the liability is equal to the charge in the consolidated statement of comprehensive income. Comparative information is not available.

28 Creditors

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**3,516**	3,653	**3,516**	3,653
Builder deposits	**26,500**	25,979	**26,500**	25,979
	30,016	29,632	**30,016**	29,632
Other creditors				
Trade creditors	**779**	668	**779**	668
Amount due to subsidiary undertakings	**-**	-	**11,100**	11,158
Other taxation and social security	**5,966**	6,057	**5,059**	4,972
Derivative financial instruments	**1,315**	-	**1,315**	-
Other creditors	**2,395**	4,647	**2,303**	4,528
	10,455	11,372	**20,556**	21,326

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

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

29 Post-employment benefits

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

		2020	2019
	Note	**£'000**	£'000
Defined benefit pension scheme	29.1		
Total market value of Scheme assets		**221,534**	216,137
Present value of Scheme liabilities		**(237,539)**	(249,225)
Deficit in the Scheme		**(16,005)**	(33,088)

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

	Note	**2020 £'000**	2019 £'000
Defined benefit pension scheme	29.1		
Past service cost		**-**	3,760
Interest income		**(5,615)**	(5,691)
Interest expense		**6,372**	6,511
		757	4,580
Defined contribution pension scheme	29.2	**8,619**	7,923
		9,376	12,503

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

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

	Note	**2020 £'000**	2019 £'000
Defined benefit pension scheme	29.1		
Experience gains on assets		**98**	3,778
Actuarial (losses) / gains on liabilities		**7,927**	(8,105)
Experience (losses) / gains on liabilities		**1,815**	(185)
		9,840	(4,512)

29.1 Defined benefit pension scheme

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

The funding requirements of the Scheme are based on a separate actuarial valuation for funding purposes for which the assumptions differ from the assumptions disclosed below. The last valuation was performed on 31 March 2017. In order to value the defined benefit obligation at 31 March 2020, the results of the valuation were updated in an approximate manner by a qualified actuary. Contributions to the Scheme are assessed in accordance with the advice of qualified actuaries. The Group made contributions into the Scheme of £8,000,000 during the year ended 31 March 2020.

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

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29.1.1 Principal financial assumptions

A comprehensive actuarial valuation of the Scheme, using the projected unit credit method, was carried out at 31 March 2017 by Willis Towers Watson LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2020	2019
	%	%
Consumer price inflation	**2.00**	2.40
Retail price inflation	**2.50**	3.30
Rate of increases (normally indexed)	**2.80**	3.60
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**2.30**	2.60

It was assumed that members commute 25% of their pension for tax free cash, 80% of male members and 60% of female members were married and males were three years older than females.

The assumptions adopted for mortality are in line with SAPS S2PA Light base tables, with an allowance for future improvements in line with the CMI (2019) 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 2020 are 23 (2019: 22) years and 26 (2019: 25) years respectively.

29.1.2 Reconciliation of Scheme assets and liabilities

	ASSETS	LIABILITIES	TOTAL
	£'000	£'000	£'000
At 1 April 2019	216,137	(249,225)	(33,088)
Interest income / (expense)	5,615	(6,372)	(757)
Benefits paid	(8,316)	8,316	-
Actuarial gain on change of assumptions	-	7,927	7,927
Experience gain on liabilities	-	1,527	1,527
Change in value of money purchase transfer funds	(288)	288	-
Company contributions	8,000	-	8,000
Return on plan assets excluding interest income	386	-	386
At 31 March 2020	**221,534**	**(237,539)**	**(16,005)**

29.1.3 Total cost recognised as an expense

	2020	2019
	£'000	£'000
Past service cost	**-**	3,760
Interest expense	**6,372**	6,511
	6,372	10,271

The 2019 past service cost of £3.76m was a result of the recent High Court judgment in the Lloyds Banking Group case on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pensions.

29.1.4 Fair value of Scheme assets

	2020	2019
	£'000	£'000
Equity instruments	**28,052**	31,826
Liability driven investments	**80,383**	67,829
Private market investments	**3,818**	-
Corporate debt instruments	**16,157**	31,740
Diversified growth funds	**40,105**	41,122
Diversified Credit Fund	**42,953**	29,100
Other and cash and cash equivalents	**10,066**	14,520
	221,534	216,137

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

29.1.5 Return on plan assets

	2020	2019
	£'000	£'000
Interest income	**5,615**	5,691
Return on plan assets excluding interest income	**386**	3,778
	6,001	9,469

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

29.1.6 Deficit funding contributions

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

	£'000
31 March 2021	8,000
31 March 2022	8,000
31 March 2023	8,000
31 March 2024	8,000
	32,000

Nothing in the agreement precludes the Group from making payments of higher contributions or from making payments earlier than scheduled in the table above.

29.2 Defined contribution pension scheme

The Group operated a stakeholder defined contribution pension scheme during the year. The amount recognised as an expense for the defined contribution scheme was:

	2020	2019
	£'000	£'000
Current period contributions	8,619	7,923

At 31 March 2020 contributions of £Nil (2019: £634,000) were outstanding.

30 Fair value methodology

30.1 Basis for determining the fair value hierarchy

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

When using alternative valuation methods to value Level 3 financial instruments, the Group relies as little as possible on Group-specific inputs and makes maximum use of relevant market inputs including the following:

- quoted prices for identical or similar assets or liabilities in markets that are not active
- inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads
- market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

Valuation methods that the Group employs typically include:

- market approach which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or groups of assets and liabilities
- income approach which converts future amounts, such as cash flows, income or expenses, to a single current amount
- cost approach, or current replacement cost approach, which reflects the amount that would be required currently to replace the service capacity of an asset.

There were no transfers between levels from prior year.

30.2 Fair value hierarchy analysis

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

		2020			2019		
		LEVEL 1	LEVEL 3	TOTAL	LEVEL 1	LEVEL 3	TOTAL
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Assets at fair value							
Land and buildings	18	**-**	**9,806**	**9,806**	-	9,856	9,856
Other financial investments		**1,562,754**	**-**	**1,562,754**	1,597,890	-	1,597,890
		1,562,754	**9,806**	**1,572,560**	1,597,890	9,856	1,607,746
Liabilities at fair value							
Derivative financial instruments		**(1,315)**	**-**	**(1,315)**	-	-	-

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

		2020			2019		
		LEVEL 1	LEVEL 3	TOTAL	LEVEL 1	LEVEL 3	TOTAL
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Assets at fair value							
Land and buildings	18	**-**	**9,806**	**9,806**	-	9,856	9,856
Investments in group undertakings and participating interests	19	**-**	**6,405**	**6,405**	-	5,860	5,860
Other financial investments		**1,562,754**	**-**	**1,562,754**	1,597,890	-	1,597,890
		1,562,754	**16,211**	**1,578,965**	1,597,890	15,716	1,613,606
Liabilities at fair value							
Derivative financial investments		**(1,315)**	**-**	**(1,315)**	-	-	-

At the year-end, the Group and the Company did not recognise Level 2 assets and liabilities as valued under the fair value hierarchy basis. Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 140. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 151.

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31 Financial instruments

The table below presents the Group and the Company's financial instruments, excluding insurance and reinsurance contracts. Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 140.

		GROUP		COMPANY	
		2020	2019	**2020**	2019
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value[8]					
Index-linked gilts		**594,570**	749,986	**594,570**	749,986
Fixed interest gilts		**52,306**	97,078	**52,306**	97,078
Super-national bonds		**98,307**	-	**98,307**	-
Corporate bonds		**596,289**	603,724	**596,289**	603,724
UK treasury bills and short-term deposits		**96,338**	43,800	**96,338**	43,800
Illiquid credit fund		**73,180**	-	**73,180**	-
Strategic asset allocation		**46,412**	50,996	**46,412**	50,996
Equities		**-**	52,241	**-**	52,241
Derivative financial instruments		**738**	-	**738**	-
		1,558,140	1,597,825	**1,558,140**	1,597,825
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	20	**15,661**	10,688	**14,027**	9,148
Other debtors	20	**163**	195	**163**	195
Deposits with credit institutions		**4,614**	65	**4,614**	65
Cash at bank		**52,496**	26,771	**52,194**	26,496
		72,934	37,719	**70,998**	35,904
Financial liabilities measured at fair value					
Derivative financial instruments	28	**1,315**	-	**1,315**	-
Financial liabilities measured at amortised cost					
Trade creditors	28	**4,295**	4,321	**4,295**	4,321
Other creditors	28	**34,861**	36,683	**33,862**	35,479
Amounts owed to group undertakings	28	**-**	-	**11,100**	11,158
		39,156	41,004	**49,257**	50,958

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

31.1 Derivative financial instruments

During the year the Group entered into forward currency contracts, interest rate swaps and equity futures in order to mitigate certain equity and overseas bond risks. As at 31 March 2020 the Group and Company held the following unexpired derivatives:

	2020			2019		
	NOTIONAL VALUE	ASSET	LIABILITY	NOTIONAL VALUE	ASSET	LIABILITY
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Currency forwards	**5,831**	**236**	**-**	-	-	-
Interest rate swaps	**6,248**	**259**	**(338)**	-	-	-
Equity future	**28,219**	**243**	**(977)**	-	-	-
		738	**(1,315)**		-	-

32 Note to the statement of cash flows

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

	2020	2019
	£'000	£'000
Loss for the financial year	**(92,704)**	(2,602)
Tax on loss on ordinary activities	**(5,643)**	(82)
Loss on ordinary activities before tax	**(98,347)**	(2,684)
Depreciation and decrease in value of assets	**1,086**	1,188
Increase in revaluation reserve	**(74)**	(114)
Increase in technical provisions	**105,690**	65,564
Realised gains on investments and fixed assets	**(24,610)**	(28,052)
Decrease in unrealised gains on investments	**37,362**	14,576
(Increase) / decrease in insurance debtors	**(2,885)**	26
(Increase) / decrease in other debtors	**(2,148)**	1,409
Decrease / (increase) decrease in prepayments and accrued income	**770**	(2,362)
Increase / (decrease) in insurance creditors	**384**	(3,230)
(Decrease) / increase in other creditors	**(2,232)**	1,683
(Decrease) / increase in accruals and deferred income	**(7,769)**	6,913
Differences on recognition of defined benefit pension scheme	**(7,243)**	(3,420)
Interest received	**(33,837)**	(36,256)
Payments to acquire investments	**(647,663)**	(589,936)
Receipts from disposal of investments	**728,896**	571,900
Net cash flow from operating activities before interest received	**47,380**	(2,795)

NOTES TO THE FINANCIAL STATEMENTS

33 Provisions for other liabilities

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

34 Contingent liabilities

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

35 Capital and other commitments

At 31 March 2020, the Group has committed to a deficit repair plan in respect to its defined benefit pension scheme. The particulars of the arrangement are outlined in note 29.1.6 - Deficit funding contributions. The Group and the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2020	2019
	£'000	£'000
Within one year	**2,622**	2,565
Between one and five years	**2,256**	2,644
Over five years	**-**	-
	4,878	5,209

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

36 Related party transactions

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

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

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

	2020	2019
	£'000	£'000
Contributions to CCHB	**244**	185
Amount due from NHBC	**14**	62

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

37 Reserves

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

38 Liability of members

At 31 March 2020 there were 49 (2019: 53) 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.

GLOSSARY

MEANINGS OF KEY WORDS AND PHRASES

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

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

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