Annual Report & Accounts 2022/23

NHBC

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Overview

Chair’s statement

I am pleased to report another sound financial performance for NHBC this year. The house-building sector displayed continued resilience during the year, with strong sales volumes and total new-build registrations of 172,579 for the year (2022: 161,657), above plan despite a significant slowing in registrations in the second half of the year as builders responded to the more uncertain economic outlook. We have delivered a pre-tax profit for the year of £65.8m (2022: £53.7m). Maintaining an adequate level of profitability is fundamental to our core purpose of raising the construction quality of newly built homes and protecting homeowners through our warranty product. The Company’s solvency ratio (as measured by the standard formula) now stands at 214% (2022: 183%), which provides a secure financial platform from which to take the business forward.

The last year has seen a significant number of regulatory changes from the Government across building safety, energy efficiency and consumer redress. Through this period, we have continued to work constructively with officials and Ministers.

The Building Safety Act passed into legislation in April 2022 and represents the biggest change to building safety in 40 years. Nearly 50 pieces of secondary legislation across England and Wales will be required to implement its full requirements. The main provisions target ‘higher-risk’ buildings, but a stricter safety regime is being brought in across the whole built environment. We will continue to work with the Health and Safety Executive as it establishes the new Building Safety Regulator and we welcome the stronger oversight and sharper focus on competence across building control and other professions.

We anticipate the publication of the report from the Grenfell Tower Inquiry in early 2024, which we will receive as a core participant in the Inquiry, due to our wider role in the UK house-building industry. Since that tragic fire, we have worked with industry and the Government to understand the issues involved and assist, where appropriate to do so, in developing a better approach for the future. We have also reflected on opportunities for continuing improvements in our own processes as we strive to ensure that NHBC’s involvement in the UK house-building industry contributes to the delivery of safer homes for the future. When the Grenfell Tower Inquiry report is published, we will consider its recommendations carefully and look to see whether there are further changes we can make to help ensure the UK house-building industry improves fire safety.

“Our culture will reinforce the exceptional service needed for our registered customers and homeowners”

The Building Safety Act includes provision for minimum mandatory warranty standards, including the potential for a 15-year new-home warranty. Implementation of this will require secondary legislation, the timing of which is unclear. There is no precedent anywhere in the world for a warranty of this length, which makes it difficult to assess viability. We would require appropriate reinsurance cover to be able to offer builders and homeowners a 15-year product and, at present, given the reduction in capacity and the higher rates we are seeing across the reinsurance market, we cannot be confident that this support would be forthcoming. Even assuming cover could be provided, there must be a serious question as to whether the additional premiums required would represent good value for money for consumers. We continue to work with the Government and other key stakeholders to understand the implications of this policy, its deliverability into the sector and its desirability for homeowners. It would be unfortunate if this change became a distraction for the industry from a more important objective: to build right first time.

The house-building industry has set out on the journey to the Future Homes Standard and, in delivering the homes of the future, will increasingly use more Modern Methods of Construction (MMC) and higher levels of offsite production. We support the industry through these challenges with research and guidance from the NHBC Foundation, from information-sharing events such as our Building for Tomorrow conferences, and through our NHBC Accepts service. We are also supporting the Future Homes Hub as it develops a roadmap to net zero for the industry. Meanwhile, our Construction Quality Expert Panel, comprising a wide variety of industry stakeholders, meets regularly to consider broader industry issues and future challenges to help inform our approach.

It is crucial that our corporate values and behaviours facilitate achievement of our strategic ambitions and the delivery of our purpose. To this end, we have undertaken extensive work in the last year on our corporate culture. Our people already have a very strong connection to our core purpose, with our employee engagement scores consistently in the top decile. An in-depth culture review gave people across the organisation, and at all levels, the opportunity to work together to define NHBC's culture for the future. This culture will build on existing strengths whilst embedding a more dynamic, inclusive and collaborative environment that attracts and retains talented people, and that empowers teams to deliver on our purpose by giving them the appropriate resources, autonomy and accountability. Senior management is fully committed, and we have dedicated resource from all parts of the business to oversee the delivery of this programme. Our culture will reinforce the exceptional service needed for our registered customers and homeowners while we continue to instil a more commercial attitude and strengthen our insurance disciplines, all of which supports the work we are doing to ensure we comply with the requirements of the new Consumer Duty.

Chair's Statement

We have also completed a strategic review of our core operating systems and embarked on a multi-year modernisation programme. This is a significant piece of work that will see material improvements to our key operating processes and IT infrastructure, bringing benefit to our registered customers, our policyholders and our people, and making NHBC fit for the future.

Providing a high-quality service to our policyholders and putting them at the heart of our business is fundamental to all of us at NHBC. In July 2022, the Financial Conduct Authority (FCA) set out its new Consumer Duty rules, requiring higher and clearer standards of consumer protection across financial services and ensuring firms put their customers' needs first. We fully support the proposed changes, which are well aligned with our core purpose and business objectives. The Board's Consumer Committee is overseeing our Consumer Duty Implementation Plan, which includes a number of workstreams, covering areas such as the identification of, and approach to, vulnerable customers, improved clarity in our policy wordings, and a sharper focus on reviewing and monitoring consumer outcomes.

Turning to Board matters, in August 2022, we welcomed Elizabeth Austerberry as a new Independent Non-Executive Director. Elizabeth was most recently the Chief Executive of Moat Homes and has served as a Non-Executive Director at the National Housing Federation. She is also Chair of the affordable housing provider that forms part of the Octopus Group and has over 25 years of banking experience, with a focus on real estate, mortgage lending and credit analysis. Elizabeth is a member of our Board Risk and Consumer Committees.

On 30 September 2022, we said goodbye to Kate Davies, who stepped down after a six-year term as a Non-Executive Director, during which time she served on our Board Risk, Consumer and Remuneration Committees. Kate brought a fresh and different perspective, combined with a deep knowledge of the housing sector and, on behalf of myself and all her colleagues, I would like to thank her for her hard work, fun approach, dedication and insights, and wish her well for the future.

Most recently, we were saddened to hear of the untimely death of our friend and former Board colleague Jean Park, who stepped down from the Board in December 2021 and passed away in May 2023 after a relatively short illness. Our thoughts go out to her family.

The economic environment remains uncertain. We expect higher levels of inflation and interest rates, together with higher energy costs, to persist for a period, affecting consumer confidence and demand for new homes, as well as the UK economy more generally. House builders are also adapting to a more demanding regulatory regime and the challenges presented by the planning system, all of which add cost and complexity to their businesses. Taken together, we expect these factors to lead to a lower rate of registrations and completions over the next 12 months. However, we look to the year ahead with confidence. NHBC is a profitable, resilient business with a sound financial platform, and has proven over the decades to have a key role to play at times of challenge. In 2023/24, we will continue with our ambitious programme of strategic change, integrating sound environmental, societal and governance practice whilst delivering for our registered customers and policyholders.

I would like to thank all our colleagues at NHBC whose drive and commitment have delivered our strong performance this year. I am confident that we will continue to meet our key financial goals whilst delivering on our purpose: raising the standards in UK house building, championing high-quality homes and protecting homeowners.

Alan Rubenstein
Chair

Chief Executive Officer's statement

Despite a period of political upheaval and economic uncertainty, the 2022/23 year has been a successful one for NHBC. A further year of solid profits yields a strong financial platform from which to take the Company forward. The coming year will see us invest in IT transformation, business modernisation and progress our wide-ranging culture review, to ensure that NHBC is fit for the future. We must become a more modern, agile and responsive organisation in order to continue to play an important role in the house-building sector, supporting our registered customers in raising quality and safety standards, and in protecting those who buy and live in newly built homes.

Financial performance

NHBC relies on retained earnings to bolster our capital base and ensure we can invest in the health of the business. Continued profitability brings stability, ensuring we can meet future insurance obligations and support the delivery of our core purpose. The pre-tax profit of £65.8m for 2022/23 is derived from improved margins in our warranty business, stability in our Technical Provisions and improving underlying warranty claims experience.

As a monoline insurance company with long-term warranty and road and sewer bond exposure, it is important that NHBC is adequately capitalised. We continued to strengthen our capital position in 2022/23, with our solvency ratio at the year end at 214% (2022: 183%), above Board risk appetite.

New home registrations in the 2022/23 financial year were higher than expected, at 172,579 plots, in part boosted by the Part L Building Regulation changes effective from June 2023. The 2022 calendar year figures were the highest annual registrations NHBC has seen since 2007, at 191,801. That said, registrations slowed significantly from October 2022 onwards due to political turbulence, market volatility and rising economic uncertainty as higher inflation, interest rates and energy costs took hold. New home registrations in the rental sector were less affected, as Housing Associations saw increased demand for affordable homes and Build to Rent investors continued to view UK housing as an attractive asset class.

New home registrations in the 2022/23 financial year were higher than expected, at

172,579 plots

Our gross claims paid in 2022/23 were £152.1 million (2022: £104.6m), affected by a high level of settlements on fire safety claims as we meet our obligations to policyholders.

Market and economic environment

2022/23 was a year of two halves, with strong sales and higher-than-expected registration volumes in the first half of the financial year and a significant reduction in site activity and plot registrations in the second. Higher inflation and higher mortgage rates have impacted demand and we anticipate this continuing into 2023/24, where we are forecasting lower levels of registrations than 2022/23. We also expect the mix of business to change in the year ahead, with an increased bias to the affordable and Build to Rent sectors.

Despite some circumspection about the economic outlook, our largest customers remain cautiously optimistic about the ability of the sector to recover in 2024/25 and beyond. In addition, major builders are more resilient, with stronger balance sheets than during the global financial crisis of 2008/09. Smaller builders are less well-insulated, which increases the likelihood of insolvencies and industry exits from this cohort.

As the provider of a 10-year home warranty product, we must price for future inflation risks. The significant rise in the House Rebuilding Cost Index, which has been running at double the rate of the Consumer Price Index, will mean further warranty price increases in the coming year, even against what we know is a challenging trading background.

Government and regulatory factors

We have continued to invest in developing constructive relationships with the Government, Ministers and their Shadow counterparts, as well as many MPs and the Devolved Administrations, sharing our data, expertise and insights. NHBC also plays a key bridging role, bringing together leading house builders, housing associations, Government representatives and other key stakeholders.

On building safety, we have continued to influence improved practices across the sector and are liaising with the Health and Safety Executive as it establishes a new building safety regime under the Building Safety Regulator. We have enhanced our technical risk management regime, with a particular focus on fire safety and on high-rise buildings across our technical and inspection teams. Our management oversight and governance practices have also been strengthened to reinforce this. In addition, NHBC Building Control Services Limited continues to provide its services as a Registered Building Control Approver, ensuring that all relevant employees meet or exceed the necessary competence standards as Registered Building Inspectors.

The NHBC Foundation and our technical seminar series, Building for Tomorrow, have maintained their focus on building safety and the Future Homes Standard, sharing information and practical guidance on the implementation of new regulations whilst reinforcing the need to protect the interests of policyholders by maintaining high standards of construction quality.

In this challenging time for our registered builders, exacerbated by planning constraints and the demands of biodiversity net gain and nutrient neutrality, we will continue to provide a high level of service response, ensuring a resolute focus on construction quality and on building right first time.

Business transformation

We have made good progress in the year on our path to becoming a more commercial, agile and outward-looking business and we continue to invest in a demanding change programme.

Following an in-depth systems and infrastructure review last year, we are in the process of delivering IT, digital and business process transformation. Work has started to improve our digital interface with our customers, supported by a more cloud-based infrastructure. We are also upgrading our core applications, starting with a new claims system and new mobile applications for our home- and site-based teams.

Ensuring that we have an environment that develops and retains high-performing and motivated individuals is also central to our future success. It is crucial that our culture facilitates achievement of our strategic ambitions and the delivery of our purpose. To this end, we have undertaken a thorough culture and leadership review, and are rolling out a complete culture change programme in the coming year. There is more on this in the 'People' section.

Chief Executive Officer's Statement

Delivering for policyholders

We have focused on the policyholder experience in 2022/23, with improvements made in dealing with claims and complaints, ensuring we are delivering to a better quality and speed of service. In addition, we are commissioning a new Claims Management System that will streamline all aspects of the consumer journey when it is needed most, making communication easier and giving greater visibility to tracking the progress of cases. We will continue to focus on those changes that have the most impact on outcomes for policyholders, not least to ensure we do not fall short in meeting our obligations under Consumer Duty, which is being brought in by the FCA from July 2023. NHBC's Consumer Duty Implementation Plan has been overseen by our Consumer Committee, with final acceptance by the Board. Management is firmly committed to ensuring that this is implemented effectively, that we measure the impact on outcomes for consumers, and that we continue to challenge ourselves around further improvements to access, communications and service delivered.

NHBC fully supports the work of the New Homes Ombudsman, Alison MacDougall, who took up our invitation to speak at our Building for Tomorrow event series to update the sector on the first few months' operation of the service.

Delivering for our registered customers

Our partnership model with registered customers means that we have valuable services to offer from the very start of new-build projects, advising on the remediation of land for development through our Land Quality Service, reviewing early designs, inspecting construction performance and identifying quality improvements. This helps the identification and mitigation of risks, leading to a lower likelihood of construction defects. It is backed up by our on-site inspection regime and, ultimately, ensures that policyholders are protected through our Buildmark warranty and insurance products.

In the alternative residential sector, we are working to strengthen relationships with housing associations, local authorities, Build to Rent investors and Retirement Living operators. In these sectors, there is a vested interest in the property's quality performance, with rental income and the lived experience underpinned by our quality control measures, and NHBC's Buildmark Choice warranty and insurance cover.

NHBC is also an established training provider to the new-build sector, and this remains an area for investment to help address the capacity and skills shortages that persist across the industry. Our services focus on training the next generation of house builders through apprenticeships and NVQs, and on promoting competency across the whole supply chain. This will raise standards in quality, design, construction and site management, as well as creating opportunities for meaningful careers in house building.

We are opening two new training hubs in Cambridge and Hull in 2023 to add to those already established at Tamworth and Newcastle. The brick-laying programmes delivered through the hubs are designed to support the industry in providing site-ready, capable apprentices with a head start in understanding required levels of competence, Building Regulations and key aspects of quality. Our overall apprentice retention rate is 20% higher than the national average from colleges and other training providers.

The number of house-building professionals undertaking an NVQ qualification through NHBC is higher than ever, with over 480 candidates completing their qualification in the year. We also delivered nearly 20,000 delegate training days through a mix of online and face-to-face learning.

We continue to work with manufacturers who are bringing innovative construction systems to the market to ensure that they meet or exceed our Technical Requirements through NHBC Accepts. Our focus is on modular and panelised systems, extending through factory disciplines to on-site construction and erection practices, ensuring that quality and safety standards are maintained throughout, and that homebuyers' interests are protected.

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"Our partnership model with registered customers means that we have valuable services to offer from the very start of new-build projects"

Chief Executive Officer's Statement

In January 2023, we launched a new data portal to provide subscribers with instant access to the latest information on the new-build housing market. Our Residential Construction Statistics service provides weekly data on registrations, starts and completions, with 10 years' historical data and detailed geographical breakdowns available. Accessing our unique data bank can provide useful insights for planning and analysis for our registered customers, manufacturers, investors and other stakeholders.

Construction quality and technical risk management

We recognise that we have a key role to play in supporting our customers to build better-quality homes and in setting industry-leading standards that are fit for purpose as regulations and technologies evolve.

In 2023, we have delivered the last of the modules in our Technical Risk Management Programme. This has seen an evolution in our technical risk management practices, working in partnership with our registered customers to strike the right balance between quality assurance (defects prevention) and quality control (defects correction). We continue to increase our use of technology and insights from our wealth of data to improve the effectiveness of our technical risk management service whilst capturing operational efficiencies everywhere we can.

Key Stage Inspections and Construction Quality Reviews play a crucial role in improving build quality. We carried out 986,000 inspections in 2022/23, checking for compliance with NHBC's Technical Requirements and advising on remedial work where necessary, preventing defects.

Going forward, we will continue to invest in Construction Quality Services, including the development of a Quality Assurance Framework, tools and consultancy services to support house builders in their key objective: building right first time.

Environmental, social and governance

We are committed to fulfilling our obligations to reduce our environmental impact as a business, with good progress made in recent years on carbon reduction from NHBC's Scope 1 and 2 activities, with clear targets for further reductions in the current year. We are playing a leading role in supporting the delivery of greener homes, investing and supporting change in the sector, including through close collaboration with the Future Homes Hub as it develops the house-building industry's roadmap to net zero. We actively support our registered customers in meeting the requirements of the Future Homes Standard and commission relevant research through the NHBC Foundation. Alongside this, we are developing the NHBC Standards to ensure that regulatory compliance, quality and sustainability move forward in harmony and support better outcomes for policyholders.

At NHBC, we are proud to be a socially responsible business with a real commitment to having a positive impact in the communities in which our employees live and work. We work with charity partners aligned to our values and actively encourage our people to raise funds for these partners. Every colleague has two days of paid volunteering time each year, and we have increased our matched funding for money that colleagues raise for local causes and community projects.

Our people

Fundamentally, we are a people business. It is our people who build relationships, who have the expertise and the drive to make a difference to construction quality and to consumer outcomes. We continue to enhance our employee value proposition to position NHBC as an attractive, enterprising and socially responsible employer, with a clear focus on diversity, equality and inclusion. In recognition of the cost-of-living challenges facing our people, we made an additional payment of £1,000, split evenly across the winter months, to all colleagues below a set salary threshold (92% of our workforce).

We have made significant strides forward on learning and development in 2022/23, with increased investment in training for all our people, including specific training for those in technical roles and a real focus on leadership and talent development. We have also onboarded our next cohort of building inspectors and have recruited a new cohort of building control surveyor apprentices. In addition, we are implementing a new technical competency framework, which is being rolled out across 2023/24.

High levels of engagement and employee satisfaction are crucial to ensure that we retain talent and keep delivering our core purpose. This is the fourth year we have run our employee engagement survey using the Peakon platform. I am delighted that 91% of our colleagues took part in the latest survey and that our overall engagement score (March 2023: 8.6 out of 10) put us in the top 10% of companies using the platform. This gives us a solid foundation to push forward with our ambition to create a better NHBC that has a people-first culture, now and in the future.

"Our performance in 2022/23 is a statement of resilience amidst challenging economic and market conditions"

A significant cultural review project was completed in the year, with in-depth analysis of the diverse inputs and ideas for continuous improvement provided by over 700 colleagues. From that work, we have defined a strong, forward-looking culture ambition, driven through our values and new behaviours, which will enable us to put policyholders at the heart of everything we do. The culture ambition will be launched progressively in 2023, with an unrelenting cross-organisational focus on the value and quality we deliver for our registered customers and policyholders.

Our work on diversity and inclusion (D&I) has continued in the year. We conducted an anonymous diversity data-gathering exercise that had a 93% response rate. The data collected will help shape future DEI initiatives, support equality of opportunity, and help us understand and remove barriers. Related to this, we have launched our 'Be Me: Enabled' network, joining the three employee networks already in place. I am also pleased to report that we were awarded Disability Confident employer status in January 2023.

Summary and outlook

Our performance in 2022/23 is a statement of resilience amidst challenging economic and market conditions. We will continue to build our capital base and profitability whilst driving forward our ambitious transformation programme as we create a more modern, digital and agile organisation. We are committed to putting our policyholders at the heart of all our decision-making whilst continuing to enhance the quality and effectiveness of service delivered to our registered customers. We are alert to political, regulatory, economic, commercial and operational risks, all of which will continue to be actively managed.

I am very thankful to all our people for the progress made this year and proud of our shared passion and commitment to our core purpose. I look forward to seeing our new culture, our business transformation programme and our renewed focus on the consumer coming to life in the next period. We all have key roles to play as we continue to build a better version of NHBC.

Finally, I would like to thank our Chair, Alan Rubenstein, our Board members and my executive team colleagues for their energy, leadership, guidance and support. It has been invaluable.

Steve Wood
Chief Executive Officer

Chief Financial Officer's statement

Financially, 2022/23 has been a successful year for NHBC during which we have delivered another period of stable profit and an improving solvency ratio against an uncertain and volatile economic backdrop. As highlighted in Alan and Steve's statements, the regulatory environment is changing. The impact of climate change is becoming more evident. We also need to modernise and ensure that the business is as efficient as possible to deliver effectively on our purpose. Combined with the current economic challenges, this means that NHBC requires a strong balance sheet and appropriate levels of capital. This can only be delivered by us continuing to deliver appropriate profits generated by strong operational performance and maintaining our discipline on pricing and expense management.

The financial performance this year reflects the positive impact of the difficult decisions we needed to take on warranty pricing in 2020/21 following the significant losses in three consecutive years between 2018 and 2020.

The last three years have shown a return to the levels of profitability required to ensure that we are, and continue to be, a financially sustainable business now and in the future, so that we can continue to deliver on our purpose to support the new house-building industry in raising the quality of new homes, whilst protecting our policyholders who buy new homes with the benefit of a Buildmark warranty.

The positive result for the year has also delivered an increase in our regulatory standard formula solvency ratio to 214% (2022: 183%). This was a result of a combination of higher own funds (available capital on a Solvency II basis) as well as a reduction in the Solvency Capital Requirement (SCR) due to lower underwriting and market risk charges.

Our reported gross revenue increased to £266.9m (2022: £233.7m) as the volume of registrations, completions and building control services all grew. However, notwithstanding the higher volume of registrations, the period between the registration of a plot to its start date and final completion is lengthening, which increased our deferred income in the year.

Gross Claims paid to warranty holders in the year were £152.1m (2022: £104.3m). This reflects the settlement of some large, long-standing claims. The value of claims paid in 2022/23 was the highest NHBC has ever paid out in a financial year, which is a consequence of the very poor loss experience reported and reserved for in prior years, where we were, and remain, committed to meeting our obligations under the Buildmark policy when its conditions are met.

Our claims experience on new business written is improving, with the frequency of smaller, attritional claims showing positive trends. There was no material deterioration in our larger case and fire safety claims reserves, and, following the higher claims settlements in the year, our gross ultimate claims provisions reduced slightly, despite us having to substantially increase our underlying claims reserves allowances to reflect the projected impact of much higher-than-expected claims inflation.

Our asset performance was good, despite the impact of high inflation, with both the liability matching and surplus asset portfolios delivering returns in line with their respective performance benchmarks.

The overall result for the year was a pre-tax profit of £65.8m (2022: £53.7m), with profits in the technical account of £66.0m (2022: £50.5m). The non-technical account, which covers our non-insurance activities and surplus investment asset returns, reported a small loss of £0.2m (2022: £3.2m profit). The non-technical result before surplus asset returns was a £7.3m loss (2022: £12.0m profit).

"The last three years have shown a return to the levels of profitability required to ensure that we are, and continue to be, a financially sustainable business now and in the future"

The profit in the technical account was driven by several moving parts: improving margins on new business, an increase in the level of projected reinsurance recoveries reflecting a further year of the quota share programme, improving attritional claims experience and a higher discounting benefit on claims provisions as investment yields increased. The gap between the Retail Price Index (RPI) and House Rebuild Cost Inflation (HRCI) increased during the year and had a significant impact on the reserving valuation of Technical Provisions due to the long-tail nature of NHBC's liabilities.

The loss in the non-technical account before surplus asset returns was driven by two factors: a rising cost base and lower revenue recognised as earned in the period. Operating costs increased as the Company added resources to meet rising demand for its technical inspection services, implemented a new reward framework to ensure NHBC remains an attractive employer of choice, and continued investment in our IT systems.

Despite higher volumes, revenue recognised on the inspection services was lower, as we needed to defer more income to reflect the increasing time lag between the registration of a new-build plot and the time taken to start and complete the build.

The investment return on surplus, or non-liability matching, assets was a gain of £7.1m (2022: £8.8m loss). Valuation losses incurred on surplus asset portfolio fixed interest securities due to the increase in interest rates over the year were mitigated by an interest rate hedging strategy which we implemented in March 2022 and maintained throughout the financial year.

NHBC's balance sheet is dominated by invested assets and claims Technical Provisions. Invested assets and cash valuations decreased over the year to £1,455.4m (2022: decreased to £1,486.2m). The reduction in the value of invested assets was primarily the result of substantial claims payments, as well as increased risk-free yields and widening credit spreads.

Net Technical Provisions held to meet obligations to policyholders decreased to £781.6m (2022: decreased to £890.0m). Gross Technical Provisions reduced to £1,338.8m (2022: increased to £1,499.9m). This decrease reflects £152.1m of claims payments, and improvements in reserves due to a better underlying claims experience and higher discounting benefit, partly offset by charges for higher-than-expected claims inflation. Our reinsurance strategy remains a focus for the business, providing capital protection and minimising volatility in the balance sheet. Reinsurance recoveries in the year were £28.8m (2022: £2.8m). We recovered 100% of the amounts presented to reinsurers for recovery.

The NHBC Defined Benefit Pension Scheme reflected an accounting surplus of £7.7m at year end (2022: surplus £0.1m). This increase in surplus reflects the deficit repair contributions made since the triennial valuation, including an advance payment of FY 2023/24 contributions, as well as a reduction in scheme liabilities due to higher discount rates applicable this year.

Chief Financial Officer's statement

Financial performance

The table below shows a summary consolidated income statement for the year ended 31 March 2023 and comparatives.

	2023	2022
Registrations (units)	172,579	162,534
	£m	£m
Gross premiums written	185.0	149.4
Reinsurance premiums	(67.8)	(50.8)
Net premiums written	117.2	98.6
	£m	£m
Net earned premiums	56.4	45.1
Net claims incurred	(101.6)	(118.3)
Movement in unexpired risk reserve	147.5	104.5
Investment return – technical account	(21.1)	31.8
Net operating expenses	(15.2)	(12.6)
Technical account profit	66.0	50.5
Other income	81.9	84.3
Other charges	(89.2)	(72.3)
Investment return – non-technical account	7.1	(8.8)
Non-technical account (loss) / profit	(0.2)	3.2
Profit before tax	65.8	53.7
Tax credit	3.7	6.6
Profit after tax	69.5	60.3

Volumes

Our registration volumes are a key driver of our warranty premium and inspection income, and a proxy of exposure on our technical account. Registrations increased by 6.2% in 2023 to 172,579 units (2022: 28.9% increase). Completion[1] volumes increased by 5.6% to 149,056 units (2022: 20.0% increase). This activity continued to reflect overall post-lockdown growth in new-build output despite the challenges faced by the industry with materials and labour shortages. Homes under cover at 31 March 2023 increased to 1,444,768 (2022: 1,403,138).

Technical account result

The technical account, which reflects the results of the Group's insurance activities, reported a profit of £66.0m for the year (2022: £50.5m profit). The year delivered strong underlying performance, with registrations at their highest level since 2008, combined with appropriate pricing that is more reflective of our underwriting risk, well-matched insurance reserves and improving attritional claims experience.

Gross written and net earned premiums

Our warranty premiums are earned in accordance with the expected pattern of claims emergence over the period of warranty policy coverage. There has been no material change to the projected earnings profile over the period.

Gross written premium was £185.0m (2022: £149.4m), reflecting a combination of higher registration volumes and higher average warranty fees, as well as an increase in road and sewer bond overrun fees.

Net written premiums were £117.2m (2022: £98.6m). Reinsurance costs increased year on year, in line with the higher gross premiums written.

Net earned premiums increased to £56.4m (2022: £45.1m), reflecting the increases in underlying gross written premiums in recent years which are now starting to earn through to income.

Claims incurred

Net claims incurred reduced to £101.6m in 2023 (2022: £118.3m). This reflects the continued positive downward trend in smaller, attritional claims over the past few years offset by some strengthening of claims reserves in the year to account for higher projected claims inflation. Claims handling costs also rose, reflecting the investments we have made both in claims department resources and claims systems to improve our claims management practices and ensure the right outcomes for policyholders. Gross claims paid in the year were higher, at £152.1m (2022: £104.6m), which was due to the settlement of some large and complex claims.

Unexpired risk reserve

Changes in other Technical Provisions, net of reinsurance, is generally represented by the unexpired risk reserve credit of £147.5m (2022: £104.5m). The increase is primarily driven by the recognition of improved margins within projected future earned premiums following the warranty premium increases implemented over the last three years, combined with no material deterioration in expected underlying claims experience.

1 Home completed and issued with an NHBC warranty and insurance certificate

Chief Financial Officer's statement

Investment return allocated to the technical account

The investments matched to the technical account are primarily fixed interest and index-linked gilts, and high-grade corporate bonds. The net return for the year was a loss of £21.1m (2022: gain of £31.8m), reflecting net investment income of £16.3m (2022: £16.2m), realised gains of £1.2m (2022: £7.0m) and unrealised losses of £37.4m (2022: gain of £10.0m). Investment fees were £1.2m, marginally below the prior year.

Operating expenses

Operating expenses allocated to the technical account were £15.2m, an increase from £12.6m in the prior year, which reflects the investment made in claims handling resources and practices, greater operational activity driven by higher volumes and higher regulatory fees.

Non-technical account result

The non-technical account reflects a loss of £0.2m (2022: £3.2m profit). This includes the net result from our non-insurance-related activities plus the investment return generated by surplus investment assets. The result, excluding surplus investment asset return, was a loss of £7.3m (2022: £12.0m profit).

Other income, which includes inspection income, building control fees and income from NHBC's Services business (such as training and construction quality services), fell by 2.8% to £81.9m (2022: £84.3m). Despite higher registration volumes, the period between registration of the plot, the start of the plot on site, and final completion increased; therefore, a greater proportion of inspection income was deferred.

> “ We have continued our IT transformation journey and made further investment in appropriate resources ”

Total operating expenditure increased by 22.9% to £127.1m (2022: 7.2% increase). This reflects the increased volumes of registrations and completions, which necessitated greater investment in both our technical inspection and claims handling teams to ensure that we continue to meet our service standards to both registered customers and policyholders. Further investment in regulatory disciplines was required following the Prudential Regulation Authority's assessment of NHBC as a Category 2 firm. We have continued our IT transformation journey and made further investment in appropriate resources over the year to ensure NHBC is able to develop, implement and ultimately benefit from new technologies, and is appropriately placed for the future. Operating costs allocated to the non-technical account (disclosed as Other Charges) rose by 23.4% to £89.2m (2022: £72.3m) in line with the investments made in resourcing.

Investment returns allocated to the non-technical account represent the return on surplus investment assets. These assets (comprising corporate bonds plus equity and multi-asset funds) produced a net investment gain for the year of £7.1m (2021: £8.8m loss), driven by valuation falls from rising yields and widening credit spreads.

Chief Financial Officer's statement

Financial position

Investments

The total value of the investment portfolio (including cash) decreased by 2.1% (2022: 11.0% decrease), ending the year at £1,455.4m (2022: £1,486.2m). The reduction was driven by unrealised losses following the rise in bond yields and widening credit spreads over the period.

Of the total investment portfolio, 88% (2022: 87%) was invested in high-quality fixed income and cash assets. The fixed income portfolio continues to be invested in investment-grade assets, with 99% (2022: 99%) rated BBB or higher. At the end of the year, the average duration of the liability matching portfolio was 4.9 years (2022: 4.4 years). Index-linked government bonds remain a key investment class for NHBC, accounting for over 29% of the bond portfolio.

During the year, we continued to follow our investment strategy of matching our insurance liabilities with high-quality gilt and corporate bonds, whilst utilising our surplus assets to enhance returns consistent with maintaining the capital efficiency of our portfolio.

Technical Provisions

Gross Technical Provisions decreased by 10.7% to £1,338.8m (2022: £1,499.9m). This was due to higher claims settlements, the continued positive trend of attritional claims experience in Buildmark Section 1, 2 and 3 claims, and a higher discounting benefit due to higher risk-free yields. These decreases were partly offset by some strengthening of reserves to reflect the impact of higher claims handling expenses and inflation projections.

Net Technical Provisions decreased by 12.2% to £781.6m (2022: £890.0m). This was primarily driven by the lower ultimate claims as cited above and the benefit of increased reinsurance recoveries following the switch in 2020/21 to quota share from an excess of loss reinsurance treaty.

As described in the notes to the financial statements, NHBC takes 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 provision. However, given 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 NHBC Defined Benefit Pension Scheme (the Scheme) had an accounting surplus of £7.3m (2022: £0.1m surplus). The change in valuation over the year was the net result of an £68.9m decrease in liabilities and a £61.7m decrease in assets. Deficit repair contributions of £16.0m (2022: £8.0m) were made, which reflect the Company's committed payments of deficit repair contributions for the current and next financial year. The advance contributions for 2023/24 were made to support liquidity positions following market volatility at the end of September 2022.

NHBC continues to work closely with the Scheme Trustee, particularly regarding the Scheme's long-term funding strategy.

Capital position

As of 31 March 2023, UK GAAP accumulated capital reserves were £565.6m (2022: £502.5m). The increase of £63.1m mostly reflected the post-tax profit in the year net of small adverse movements due to changes in the Pension Scheme actuarial assumptions.

The Group's Solvency II regulatory capital ratio, which is assessed using the standard formula, was 214% as of 31 March 2023 (2022: 183%) and above the risk appetite set by NHBC's Board. The increase in the solvency ratio was driven by higher Solvency II own funds, which increased by £33.6m to £700.8m (2022: £667.2m), and a lower SCR, due to reductions in underwriting and market risks following lower net claims provisions and investment asset valuations respectively.

Outlook

The performance this year reflects the actions NHBC has taken to rebuild our financial and capital position to ensure we can continue to deliver on our purpose for many years to come. Some of the difficult decisions we made in recent years, particularly on warranty pricing, are starting to deliver and place us in a strong position to continue to raise the standards of house building in the UK and protect the policyholders who live in those houses. Increasing our financial resilience has never been more important than now, given the highly uncertain global and local economic outlook.

On the demand side, high inflation in the UK, a cost-of-living challenge and rising interest rates affecting affordability provides headwinds for the UK new-build housing market. Meanwhile, although material availability is becoming more reliable, supply chains remain under pressure, and the industry is still not attracting enough people with the right skills to construct the homes the country needs. For NHBC, these challenges pose risks, but also opportunities.

Financial risks arise from the falling volumes and material shortages that could impair the quality of build and consequent claims experience. In addition, the rising cost of repairs as inflation remains significantly higher than its long-term trends places pressure on builders and developers which could increase insolvency levels, creating uncertainty for NHBC's Technical Provisions.

However, opportunities are there for NHBC. Our highly successful training hubs are proving popular with builders, and we will look to develop more of these across the UK to deliver skills and training for the industry. As builders look to improve quality, we continue to develop services that support their aims and assist them in delivering their homes to the highest standards.

The outlook for new registrations and other services from our registered customers remains positive, although numbers are predicted to be c.20% lower than last year. We will continue to put our policyholders at the heart of all we do and ensure that we offer the best protection we can from the products and services we provide.

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

Paul Hosking
Chief Financial Officer

Training courses, apprenticeships and NVQs

The design of our training courses and qualification programmes is informed by direct consultation with leading house builders and by the insights we gain from our inspection service and claims handling. This ensures we meet the needs of house builders with a clear focus on improving construction quality for the benefit of all. Some of our recent candidates share their thoughts on their NHBC training experience.

Lynn Johnson – from selling houses to building them

Level 4 Construction Site Supervisor apprenticeship

Lynn began the NHBC Construction Site Supervisor apprenticeship having worked as a sales advisor for Persimmon Homes for 30 years.

She said:

“It's never too late to start an apprenticeship in construction and I'm sure this will open up other opportunities for me too. At times it is hard work but it's so rewarding working as part of a team – when you see the results, and especially when people move into their new home, you feel like you've really achieved something great.”

Tom Warner – like father, like son

Level 2 Bricklaying apprenticeship

Tom works with his dad Ken, a Director at LTW Developments, an NHBC registered builder in Bolton. Having taken A levels in Biology, Chemistry and Maths, Tom realised that he preferred the idea of a more practical job and the NHBC Bricklaying apprenticeship at the Tamworth Hub was the ideal start.

"I've enjoyed being at the hub, there's lots of space to work and there's always someone around to help you. I think it's more like a real site than a college and I've been able to go on to site and apply the things I've learned straight away."

Dad Ken commented,

"It's been a great experience for him, and the apprenticeship was ideal for someone who was new to the construction industry. I feel confident he now has the necessary skills to progress his career."

Joe Powell – from dry-lining to Master's level qualification

Level 7 NVQ Diploma in Construction Senior Management

Having joined the construction industry at 18, Joe has never looked back. He began his career as a dry liner and plasterer, then became a rendering supervisor. He was later approached by Barratt Homes to be an Assistant Site Manager and promoted to a Site Manager role 2 years ago. He's recently completed his Level 7 NVQ, equivalent to a Master's Degree, that opens the door to becoming a Member of the Chartered Institute of Building.

Joe explained:

"I'd been in construction for a few years and had plenty of experience on site so I felt quietly confident on the technical side of things. Where I found myself learning new skills and having to really stretch myself more to achieve at Level 7 was around people management and managerial thinking. I sometimes found this a bit challenging but had a lot of support from my assesor who helped me consider what I was currently doing, how I could move that forward and was always available if I needed to ask questions."

Strategic report

About us

NHBC is the UK's leading independent provider of warranty and insurance for new homes. Our core purpose is to raise standards by championing high-quality homes and protecting homeowners. We do this by setting NHBC Standards that define the technical requirements to which homes registered with us must be built. We inspect the quality of construction work through an on-site inspection regime and technical risk management activities. Protection for policyholders is provided by our Buildmark and Buildmark Choice warranty and insurance products. We also provide a range of construction quality and training services to our registered customers, all designed to support our core purpose.

Independence

We are a company limited by guarantee, with no shareholders. We are independent of government and the construction industry. We are an insurance company authorised by the Prudential Regulation Authority (PRA) and dual-regulated by the PRA and the Financial Conduct Authority (FCA). Profits generated from our trading activities are used to bolster our capital base as an insurer and to reinvest in the Company to support our core purpose of raising standards in house building.

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, these 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, providing guidance on how they can be achieved. The Standards are updated regularly based on improvements in construction practices, changes in Building Regulations and the latest learnings from across the house-building industry, including from our own claims handling data and insights. This process drives improvements in construction quality for the benefit of policyholders.

Inspection services and technical risk management

We provide an inspection service to our registered customers. This takes the form of a Key Stage Inspection (KSI) regime and other inspections undertaken by NHBC building inspectors, focused on five key build stages. In 2022/23, we carried out more than 986,000 inspections. These inspections allow us to provide feedback on construction quality to our registered customers for the new-build homes protected by our warranty and insurance products. This is an integral part of the drive to improve construction quality for the benefit of policyholders, with KSIs supplemented by intermediate inspections and other quality-related services such as our in-depth Construction Quality Reviews.

During the year, we have continued to roll out new modules in our Technical Risk Management Programme, enhancing our support in the building of new quality homes and reducing the significant costs of remedial works. We continue to increase our use of technology and insights from our wealth of data. This improves the effectiveness of our technical risk management service whilst capturing operational efficiencies everywhere we can.

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

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In 2022/23, we carried out more than **986,000** inspections

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 and insurance product in 1965. This was the foundation for today's Buildmark policy. The current policy comprises deposit protection, a two-year builder warranty period underpinned by NHBC's Section 2 resolution service, and a further eight years' insurance cover against damage caused by defects to the structure and external envelope of the home. Buildmark is in line with market practices and designed to give policyholders peace of mind over the largest purchase they are ever likely to make. It is subject to terms and conditions, including exclusions and limitations in cover.

Buildmark Choice is our policy for the rental sector for both the affordable housing market and Build to Rent.

Resolution and claims service for policyholders

Our claims teams support policyholders should there be a problem with their property which falls under the protection provided by our Buildmark policy. The resolution service can help to resolve issues between the registered builder and the policyholder that have arisen during the first two years following the date of legal completion and which do not comply with NHBC Standards. The resolution service is offered at our discretion and is free to the policyholder.

Research from the NHBC Foundation

The NHBC Foundation was established in 2006, with the core principles to undertake high-quality research, publish guidance and support small and medium-sized builders in addressing the considerable challenges of delivering homes in the 21st century. The drive to zero carbon homes that are resilient to the effects of climate change is central to its current and future research programmes.

About us

Training service

Our training business continues to expand, helping house builders tackle a significant skills shortage and build high-quality homes. We support the sector through training across trades, site management and customer service roles, with a core focus on construction quality. Our apprenticeship programmes continue to grow and to receive industry-wide recognition. We opened a new training hub in Newcastle at the end of 2022 and are due to open further hubs in Cambridge and Hull in 2023. These join our original hub opened in Tamworth in May 2021. Delegate training days hit a record high through the year, with nearly 20,000 delivered, a 30% increase on last year. With an ever-increasing focus on quality, the imminent introduction of sector-wide competency frameworks and significant regulatory change, our training service continues to develop practical and pragmatic interventions for the house-building sector.

Modern Methods of Construction (MMC)

We continue to support our registered customers in the use of innovative construction, providing these techniques meet or exceed our technical standards. Launched in July 2020, our NHBC Accepts service remains central to our technical risk management process for innovative construction systems. This assessment service for manufacturers is designed to give confidence to developers, investors, lenders and policyholders in MMC.

Climate change

We are committed to supporting the Government's target of net zero by 2050. We have a track record of supporting house builders and developers on sustainability and environmental matters, and we are helping the industry to make the requirements of developing low-energy homes technically and commercially viable. We are focused on ensuring our practices are sustainable, delivering positive and lasting change across the industry and within our own operations.

Celebrating best practice

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

"Our apprenticeship programmes continue to grow and to receive industry-wide recognition"

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

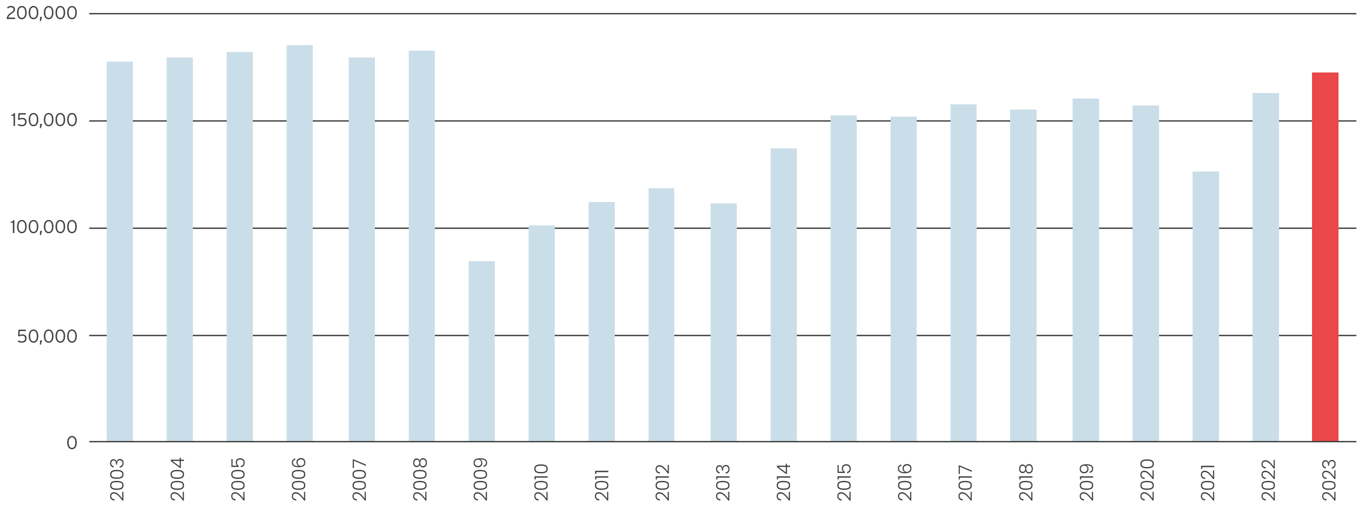
In the first half of 2022/23, UK house building remained buoyant, despite challenges that threatened to stall a sustained recovery from the initial pandemic shock. Inflation continued its steep upward trajectory, with the war in Ukraine exacerbating already rising energy and food costs. As the Bank of England responded with successive interest rate rises, mortgage rates increased and lenders reacted to an uncertain outlook by withdrawing products and tightening lending criteria. However, whilst consumer confidence fell to record-low levels, buyer demand remained high, driven by the long-term imbalance between housing supply and demand. House builders' sales figures remained robust and house price inflation continued, helping to offset the adverse impacts of materials and labour availability and cost increases (also affected by the war in Ukraine).

Continued economic uncertainty and some early indicators of market cooling (including lower house price growth rates) meant builders were circumspect in their outlook for the second half of the year, which proved well founded. Alongside significant upheaval in Government, the macroeconomic outlook worsened as inflation continued to rise, the cost-of-living crisis deepened and post-pandemic GDP growth stalled. The October 'mini budget', and the response from financial markets, exacerbated matters, as the cost of borrowing rose sharply, homebuyer demand declined and sales activity slowed.

New homes registered with NHBC in the year ended 31 March 2023 rose to 172,579 (2022: 162,534), an annual increase of 6% and the highest total since before the Global Financial Crisis. The timing of these registrations reflects the operating environment and regulatory landscape, with 39% of all 2022/23 registrations coming before changes to Building Regulations, and NHBC premium increases, which took effect from June 2022. Each subsequent quarter saw a decline in registrations, reflecting the wider market and economic uncertainty, and buyer sentiment.

The tenure mix of homes registered in the year was weighted towards private sale (71%), although this proportion declined from 2021/22 (75%). As with the overall volumes, Q1 private sale volumes were disproportionately high, followed by subsequent quarterly decline. Despite capital constraints on the sector, overall volumes of affordable/social housing increased in the year, with evidence of some builders looking to switch from private sale to affordable housing as market dynamics changed. Record levels of investment into private Build to Rent were seen during 2022, reflecting the attractiveness of UK housing as an asset class.

Registrations



Housing market outlook

The operating environment is expected to remain challenging in 2023/24, with affordability constraints reducing demand for new homes, and builders continuing to adjust to economic, regulatory and cost pressures. While the OBR is not forecasting a technical recession in the UK, a downturn in economic activity is expected, with GDP predicted to contract by 0.7% in 2023/24. This is aligned with the view of most market commentators, with low business investment, reduced labour market participation and lower productivity contributing to weak underlying growth momentum.

Household incomes remain constrained by inflationary pressures, higher interest rates and borrowing costs, and the cost-of-living crisis. Although wholesale energy prices have fallen, this is not expected to be reflected in household bills until the summer – and it will remain above historic averages. Inflation is expected to fall by the end of 2023 as measures to combat it take effect.

Government and regulatory focus on building safety, quality and climate change will continue, with builders facing increasing scrutiny and pressures from the implementation of the Building Safety Act, preparing for the Future Homes Standard, and biodiversity net gain requirements, as well as nutrient and water neutrality barriers, within the planning system.

Constraints on household incomes are expected to reduce demand for new homes in 2023/24, with house prices anticipated to fall as a result: following a period of sustained growth, consensus amongst market commentators is for a c.5%–10% fall in house prices in 2023 and into 2024, with little more than low single-digit growth in subsequent years. House builders are reining in their development plans in response, with a significant cooling in the land market and slowing output.

Despite the prevailing uncertainty, and circumspection about the immediate outlook, major builders remain cautiously optimistic about the ability of the sector to recover in 2024/25 and beyond. The imbalance of supply vs. demand for new homes continues, UK housing remains a strong asset class, and major builders' balance sheets are far stronger than during the Global Financial Crisis.

What this means for us

Financial security is a prerequisite for our long-term success, and NHBC has maintained a resolute focus on building its capital base and increasing profitability in recent years. The challenging operating environment underlines the importance of continuing to do so, to ensure we keep fulfilling our purpose, reinvesting our profits in driving improvements in construction quality and protecting homeowners.

As the house-building industry responds to the challenges it faces, in 2023/24, we expect to see a reduction in registrations for warranty cover, lower house prices and a shift in the mix of tenures away from private sale towards rental (both private and social/affordable). As the economic outlook improves, we anticipate growth will return to the market, with volumes increasing, house prices stabilising and the private sale market increasing.

Navigating this period of uncertainty means we must respond with agility to market, customer and consumer trends. This includes using our data, insights and expertise to support our purpose and enhance our reputation with all stakeholders, whilst investing in transformational business change that will modernise the business for long-term stability and success. At the same time, we will maintain a disciplined approach to underwriting and risk management, allied to a selective partnership model with registered builders and developers.

Across the business, we will continue to focus on putting policyholders at the heart of what we do, ensuring this is reinforced through our culture and our approach to performance management.

Our strategy

Our long-term strategy is unchanged and remains centred on our purpose of raising standards in house building, founded on the core pillars of championing high-quality homes and protecting homeowners.

Our purpose and strategic pillars are widely understood by the business and act as fundamental guiding principles, encouraging our people to engage with their responsibilities and feel connected to the Company and its ethos.

Continuity is a theme of our strategic plan. We are focused on the right priorities and delivering the change necessary to ensure our long-term success and allow us to deliver our purpose. This is at a time of significant economic, social and regulatory change that will have far-reaching impacts on the house-building industry. We have several strategic change programmes underway that will ensure we can effectively respond to these challenges, and these will continue throughout 2023/24.

Achieving our goals also requires us to sharpen our strategic imperatives and ensure we have the skills, attributes and behaviours necessary for success.

This means continuing to improve our commercial focus by increasing our margins, maintaining our capital base, reducing our net exposure and improving our risk selection and pricing sophistication. We will also maintain a robust approach to claims management and debt recovery, whilst growing our services business in areas that add value and support our purpose.

Our transformational programme of IT, digital and organisational process enhancement, which includes replacement of our core systems and customer portals, will help us become more modern and agile, by improving our operational effectiveness, change capacity, agility and service delivery, ensuring we are not constrained by outdated processes, systems or ways of working.

Our core purpose places social responsibility at the heart of our business, and we will continue to enhance this by implementing a strategic approach to Environmental, Social and Governance (ESG) and climate change, and embedding these dimensions into our decision-making. We will ensure compliance with the FCA's Consumer Duty, whilst delivering continuous improvement activities to further enhance our policyholder interaction and outcomes.

Achieving our strategic ambitions relies on talented, capable people and a workplace culture that enables us to thrive. Following extensive engagement with our executive leadership (Executive Committee), colleagues, Non-Executive Directors and customers during 2022/23, we have defined our target state culture and vision. In 2023/24, we will begin delivery of our culture change roadmap, facilitated by Culture Action Champions recruited from across the business to act as role models and embed our culture. We are also investing in our employee value proposition to position us as an attractive, enterprising and socially responsible employer, with a focus on diversity and inclusion. Investment will also continue in competency training for our people, particularly those in technical roles, to ensure we can continue to act as an industry thought leader and reference point for technical insight.

Our values – Excellent, Connected, Human, and Progressive – remain unchanged, and provide a behavioural framework that is embedded in our culture and which underpins performance development reviews.

During 2022/23, we continued to deliver against our strategic priorities through a series of change initiatives, with the table below highlighting how these align with our strategic pillars and progress made in key areas.

Our strategy

Strategic pillar	Description	In 2022/23, we:	With the aim of:
Championing high-quality homes	We believe our focus on improving construction quality sets us apart from our competitors. To help embed a 'right first time' approach to construction quality, we must: • continue to enhance our site-based inspection services • embrace innovation without compromising quality or consumer protection • support the house-building industry to deliver the homes of the future.	• completed developing and embedding the outcomes of our Technical Risk Management (TRM) programme, an end-to-end review of our TRM approach from design to completion • launched an additional purpose-built training hub in Newcastle in partnership with Keepmoat Homes, New Tyne West Development Company, Newcastle City Council, North of Tyne Combined Authority and Homes England, whilst continuing to develop further apprenticeship training hubs in Cambridge and Hull • worked alongside the house-building industry to develop proposals for 'multi- skilled' apprenticeship hubs • published three NHBC Foundation reports focused on house-building-related sustainability and climate change topics, whilst strengthening relationships with industry stakeholders, including the Future Homes Hub and key Government departments.	• developing our technical risk management capability to drive improvements in construction quality, leading to reduced claims volumes and a better service for registered customers • enabling a more flexible approach to TRM, including the use of technology-assisted inspections and ensuring resources and focus is targeted at areas of higher risk • underpinning our core purpose by leveraging our insights and data to identify and address areas that will help improve construction quality and, in turn, drive improved outcomes for policyholders • helping to address the skills gap in the house-building industry • influencing and supporting the industry in meeting Government targets and regulatory requirements concerning climate change and environmental responsibilities.

"In 2022/23 we launched an additional purpose-built training hub in Newcastle in partnership with Keepmoat Homes"

Strategic pillar	Description	In 2022/23, we:	With the aim of:
Protecting homeowners	We help ensure policyholders benefit from quality homes that are backed by our Buildmark warranty and insurance. We must deliver fair, timely and good outcomes for all policyholders. Our warranty pricing should appropriately reflect the risk written, and incentivise quality, customer care and claims self-repair. Our service delivery must be aligned with the requirements of our target customers.	• developed our Consumer Duty Implementation Plan to deliver necessary changes to ensure compliance with the FCA's Consumer Duty • began delivery of the change plan, divided across seven workstreams – governance, IT changes, customer understanding, customer support, price and value, products and services, and monitoring of customer outcomes – with good progress being made across all deliverables • engaged with industry stakeholders and the Government to assess the implications of the Building Safety Act legislation to introduce a 15-year warranty for new homes, and explored NHBC's options, and their impact and viability • continued the rollout of our partnership engagement model with large developers and housing associations, based on early stage engagement and shared values and behaviours.	• compliance with regulatory requirements, including those introduced under Consumer Duty, and reinforcing the importance of policyholders' needs within NHBC's strategy, service and processes • ensuring that the perspectives of key stakeholders are considered for the potential introduction of a 15-year warranty by the Government, and that we clearly explain the challenges and consequences of such a policy to the Government. We will ensure that our response is aligned to our purpose, delivers good consumer outcomes and does not compromise our long-term financial stability • embedding a structured, targeted CRM model and approach that helps us to develop strong, mutually beneficial partnership relationships, and strengthen our brand position across key stakeholder groups.
Strategic enablers	To support our ambitions across our strategic pillars, we must: • modernise our IT and digital capabilities • develop and embed our climate change strategy • ensure our culture is aligned with our purpose and strategic imperatives, with an employee value proposition that helps us attract and retain the talent we need.	• completed end-to-end mapping of core business processes • identified a preferred supplier for, and commenced delivery of, a replacement Claims system • started to recreate existing customer portals on cloud-based infrastructure • benchmarked our current practice against regulatory requirements, developing an action plan in response • established carbon reduction targets as part of our corporate scorecard • undertook a full culture review, defining our target state culture and developing a roadmap of activity to embed this in the business.	• enabling us to be a responsive, flexible business by modernising our core IT and digital capabilities, facilitating modern and agile working that improves processes for our registered customers, policyholders and colleagues • ensuring we remain a modern, responsible business aligned with regulatory, customer and societal expectations • reducing our carbon emissions • developing a dynamic, inclusive and collaborative workplace culture that enables us to achieve our purpose and empowers our people.

Risks to our business

Our approach to risk management

Risk management is at the core of NHBC's purpose to raise standards in house building. Our risk strategy is to take risk consistent with our purpose of protecting homeowners and championing high-quality homes. It places particular emphasis on maintaining sufficient capital under severe but plausible scenarios, ensuring liquidity to meet our customer responsibilities, limiting volatility of returns and enhancing our reputation through strong consumer, customer, colleague and societal outcomes.

NHBC's Risk Management Framework seeks to ensure that all material risks are identified, assessed, managed, monitored and reported. Our risk appetite defines the amount of risk that we are willing to accept in the pursuit of our objectives and sets the boundaries within which we are prepared to operate. These are supported by quantitative and qualitative measures of risk which are used by management and the Board to understand risk exposure, with mitigating actions taken where a metric falls out of appetite.

We operate in a dynamic environment and aim to identify and assess key risks that might impact the business in advance of them crystallising. The Risk Management Framework is sufficiently flexible to react to unexpected circumstances and ensure risks are managed on a holistic basis. We manage this through a series of risk management activities, including:

- a regulatory horizon scanning process to support the identification, analysis and management of key regulatory changes
- a process for identifying and managing emerging risks
- risk and control assessments that are actively undertaken by risk owners in conjunction with the Risk Management team
- a process for managing risk incidents and ensuring lessons are learnt from these and near miss events
- a policy framework to ensure minimum standards of control in relevant risk areas.

Risk governance

The Board has established a risk governance framework. Key governance forums with risk responsibilities include the following:

- the Board is responsible for the approval of Board-level risk appetites
- the Board Risk Committee oversees the development and implementation of the risk framework - this includes reviewing NHBC's risk appetite and risk profile in relation to all financial and non-financial risks
- the Executive Risk Committee monitors the risk profile of the business and takes action to ensure risks are appropriately identified and managed
- several management committees report to the Executive Risk Committee, providing focus on areas such as conduct, financial and operational risks.

Further details of Board and Board Committee structures are set out on page 60.

The risk operating model

Risk responsibilities across the organisation are split using the widely recognised 'three lines of defence' model. It combines three separate but integrated elements that help us to manage risks effectively and support the achievement of our strategic objectives. These are described below.

First line of defence – operational functions	Second line of defence – support functions	Third line of defence - assurance
Business areas are responsible for identifying, assessing and managing risks consistent with NHBC's Risk Management Framework. Executive Committee members own relevant risks in their areas.	The Risk and Compliance function develops and maintains the Risk Management Framework. The team provides guidance, advice and challenge to the business to support the Board in discharging its responsibilities in relation to risk management and regulatory compliance. As well as reporting to the Chief Executive Officer, the Chief Risk Officer also reports to the Executive Risk Committee and the Board Risk Committee.	Internal audit provides independent assurance on NHBC's control framework. Internal audit reports to the Audit Committee.

Risks to our business

Our risk profile

Key risks

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

Key risks	Key mitigants and controls
Strategic	
The UK economy could experience a worse downturn than currently expected, lowering consumer confidence and reducing the demand for new homes and associated quality and training services.	Financial performance has been stressed as part of our GBP and shows the business remains resilient to a market downturn. Financial performance is routinely monitored by senior management, and proactive actions could include price increases, expense reduction or business restructuring, if deemed appropriate.
The risk that secondary legislation is passed that enforces the minimum warranty standards and 15-year warranty requirement within the Building Safety Act.	NHBC continues to assess the implications of offering a 15-year warranty product and the potential options we have to address the associated change in our business risk profile. In addition, we are in regular dialogue with key regulatory and industry bodies.
Financial	
Failure to identify and manage significant changes in the propensity for registered customers to self-repair building defects.	We have well-defined metrics in place and continually monitor registered customers' performance. We take proactive action where this is required.
Failure to identify significant issues with a building system or widely used building components, resulting in significant consumer dissatisfaction and claims costs.	We use claims and inspection information to monitor specific trends. There is a feedback loop between claims, inspection and underwriting to ensure the root causes of issues are identified and rectified.
Failure to adequately mitigate exposure to the insolvency of one or more large, registered customers, resulting in significant claims costs or an increase in the volume of small and medium-sized builders entering insolvency in response to market conditions.	This risk is actively managed by NHBC using information gathered on site and through analysis of registered customers' financial performance. There are metrics in place to monitor this, and we continue to assess options to further manage or mitigate this risk.
Failure to price risk accordingly, taking into consideration our experience and potential future risk trends.	Our pricing analysis continues to evolve, and further actions have been taken this year to improve our approach to risk-based pricing.
Failure of a reinsurance counterparty to meet its obligations, resulting in an increased level of insurance risk compared with expectations.	We assess the financial strength of all reinsurance counterparties before transacting with them and monitor their credit quality on an ongoing basis to ensure we are aware of any potential changes that could impact our reliance on their respective reinsurance treaties.
Market	
Failure to adequately manage investment risks arising from market volatility, resulting in an inability to meet policy obligations and 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 manage potential basis risk. The investment position for both the liability matching portfolio and our surplus assets is monitored regularly to ensure exposure remains within the agreed appetite.

Key risks	Key mitigants and controls
Conduct and compliance risk	
The risk of inappropriate employee behaviour, product management process and consumer journey, leading to loss of reputation or regulatory censure/fines	We have a clear accountability and oversight of consumer outcomes, with the consumer journey overseen by the Consumer Strategy Group and Board-level Consumer Committee.
The risk of NHBC failing to identify and implement regulations appropriately.	We carry out regulatory horizon scanning and gap analyses to ensure new regulations are understood and effectively implemented. Consumer Duty is the key piece of regulation that has received focus during the financial year. Multiple business areas are involved in ensuring that we meet the requirements from 1 July 2023 in line with FCA expectations.
The risk of UK regulations and legislations adversely impacting our business model.	We carry out thorough assessments of any identified regulatory or legislative changes affecting our business model. Depending on the materiality, this may include business impact assessments, supported by third-party experts where appropriate. In addition, we respond to government and regulatory consultations, either directly or through industry bodies.
The risk of NHBC inappropriately responding to financial crime.	We have internal policies and procedures to manage these risks, overseen by the Executive Risk Committee and supported by regular reporting to the Audit Committee.
Technical construction risks	
The risk that ineffective technical risk management results in low-quality homes being built, leading to increased claims, reputational damage and customer dissatisfaction.	NHBC follows a robust approach to technical risk management which includes site inspections, technical assessments, setting standards and delivering Construction Quality Reviews. We have made changes to the way we deliver technical risk management activities, utilising technology to enhance our processes and following a more flexible and risk-based approach to technical risk management.
Operational	
The risk of loss due to inadequate or failed processes or systems, human error or external events. The key risks within this category relate to cyber, technology and infrastructure, business interruption, third party, people, change delivery and data.	NHBC accepts that operational risks are inherent to our business model, seeking to reduce these where appropriate, but also accepts that, in some instances, operational risk drivers are outside of our control. All operational risks identified have mitigating controls in place to reduce the residual risk exposure, aligned to the Group's Enterprise Risk Management Framework, with the expectation that exposure is managed within Board risk appetite.

Emerging risks

In addition to risks being actively managed, we undertake emerging risk assessments to identify risks that could have a significant impact on the business in the future. Examples of risks currently under review include:

- the operational implications of climate change for the building industry and the corresponding evolving nature of our exposure, including financial risks from potentially increased claims, as well as strategic and reputational risks from emerging consumer attitudes
- the implementation of the Building Safety Act and the potential consequences for the construction industry
- the evolving financial services regulatory landscape and increased regulatory expectations, including the implementation of Consumer Duty, the expectations for enhanced operational resilience, and the need for appropriate recovery and resolution planning
- 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.

Wider impact and non-financial information statement

We run our business with regard for the interests of our registered customers, our policyholders, our people, our relationships with our suppliers and the impact of our operations on the communities in which we operate, ensuring that we maintain a reputation for high standards of conduct.

Our business model (see page 28) supports our core aims of raising standards in house building and protecting policyholders. Our policies and processes are designed to be proportionate to the risks we have identified and sufficiently flexible to respond effectively should those risks materialise.

Employees

Our business is built on talented people with stand-out expertise. We care about one another. We work together as one connected team with the insight, diverse perspectives and industry knowledge to deliver exceptional outcomes for registered customers and our policyholders. We take great pride in making a difference. Together, we improve house-building standards across the nation. We innovate and adapt to meet the needs of an ever-changing world. We live our values – Excellent, Human, Connected and Progressive – and we deliver on our purpose.

We offer our people a collaborative and inclusive environment where teams are empowered with the resources, autonomy and accountability to make a positive impact. We encourage our people to explore new ideas, test boundaries and adopt new ways of working. We work together, across functions, to drive creativity and bring innovative ideas to life. We look to the future and we work in an agile way. That means seeking feedback and acting on it, as well as rewarding high performance that promotes quality and delivers commercial impact. Most of all, it means working every day to make our culture more inclusive, where people are valued for their unique contribution and have the support they need to reach their full potential.

We have a long-term commitment to resilience and sustainability, where we focus on delivering great outcomes today and building a better future tomorrow. Our culture keeps us relevant in an industry that's constantly changing. Our success relies on our people, who continually raise house-building standards. We forge strong bonds with registered builders, housing associations and developers nationwide. We deliver robust, market-leading insurance for policyholders. We put homeowners at the heart of everything we do. Our culture is designed to help us build a better NHBC.

Our workforce stands at c.1,300. We maintain our head office location in Milton Keynes (approximately 600 employees). We have harnessed hybrid working to ensure we maximise the different ways of working for the future, with each business area agreeing locally what is required in terms of office and home, split in line with business needs. We have a further 700 field- and home-based employees located across the UK, comprising building inspectors, engineers, surveyors and claims investigators.

We published our seventh Gender Pay Gap Report. This shows a widening in the mean gender pay gap to 17.8% (2021: 15.2%, 2020: 13.4%). 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 Company. The widening in the mean gender pay gap was driven by the reward framework review and subsequent pay review, which aligned all NHBC roles to the market, meaning the higher-paid technical roles in some cases received larger pay increases than in previous years. The realignment was undertaken at a role level, using

> **"We have a long-term commitment to resilience and sustainability, where we focus on delivering great outcomes today and building a better future tomorrow"**

benchmarks, and does not consider gender. However, the result of the review meant that, on average, males were awarded £679 more than females.

Across NHBC, our female to male ratio averaged 32% vs. 68%, reducing to 13% vs. 87% for technical roles. We engaged in a number of initiatives in the year to help address this disparity. These included our second reverse mentoring scheme, where the majority of reverse mentors were women from non-technical areas of the Company; joining Women into Construction, which presented at one of our Be Me: Women's Network events; participating in the 10,000 Black Interns programme, where 75% interns were female and, of those, 50% were placed in technical areas; and working with the Home Builders Federation (HBF) and the Construction Industry Council (CIC) on the Diversity, Equity and Inclusion (DEI) agenda, including bringing in and developing more women in construction. Our Executive Committee, other senior leaders and people managers have all participated in both unconscious bias and allyship training. We are also implementing a new applicant tracking system which will enable us to reach wider audiences of women in the construction industry, with blind recruitment, diverse interview panels and unconscious bias training for all interviewers.

Regarding disability, we offer and make reasonable adjustments to anyone who requests this at the time of application/interview, and when employed. We collect disability data and other diversity-related information from employees through our voluntary diversity survey. For colleagues who become disabled during their employment with us, we arrange an occupational health assessment to help identify what reasonable adjustments are needed to enable them to continue in their current role. If they are unable to do so, even with reasonable adjustments, we explore other potential roles. Training, career development and promotion opportunities are available to all, with reasonable adjustments being made as required. We were awarded Disability Confident Employer status in January 2023.

Wider impact and non-financial information statement

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

We 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 works with both the TUC and GFTU, having access to high-quality advice and best practice from across the trade union spectrum.

Health and safety

We recognise the importance of providing an environment that supports the health, safety and wellbeing of our people. Achieving high standards of health and safety is an integral part of our business performance and a core business priority. Through the annual targets that we set ourselves, we work hard to promote a culture of continuous improvement.

To benchmark our health and safety performance, we have taken part in the annual Royal Society for the Prevention of Accidents (RoSPA) Health & Safety Awards since 2016. For the second year running, we were delighted to receive a prestigious Gold Medal, having secured Gold Award status for the sixth consecutive year.

A key component of our risk management strategy is to continually review and identify areas that represent the greatest health or safety risk to our people. With many employees now working flexible or hybrid hours, we recognised that a more comprehensive workplace assessment needed to be introduced. This was successfully rolled out to all our employees who required it, ensuring each person had an individual and bespoke assessment to cover their working environments, either at home, in the office or a combination of both.

Recognising that the construction industry is one of the most dangerous environments to work in, and with almost a third of our employees inspecting building sites daily, we place significant emphasis on ensuring that our building inspectors are properly equipped and trained to do this safely. This year, we delivered a face fit training and testing programme for all relevant colleagues.

> " We believe in creating a positive impact in the communities in which our employees live and work "

With accidents being a measure of health and safety performance, we have introduced a modern, digital reporting system that ensures all incidents are reported to and actioned by our health and safety department. The system allows us to look at trends and analyse the areas that require improvement. Our accident rates are low, which is encouraging, and our reporting rates have steadily increased.

Corporate social responsibility

We believe in creating a positive impact in the communities in which our employees live and work. In October 2022, we re-launched our corporate social responsibility programme under the name 'Our Communities'. This better reflects our approach to supporting the communities in which we operate and how we work with charity partners that are aligned with our values.

We actively encourage our employees to participate in 'Our Communities' activities and events, working with, and fundraising for, our charity partners. Each employee has two days' paid volunteering time, and we offer matched funding for money raised by our people for their own local causes and communities.

Our corporate charity partners are Crisis, Action4Youth, Worktree, Milton Keynes Foodbank and MK Community Foundation.

Respect for human rights

We respect the human rights of all those impacted, directly or indirectly, by our actions. This includes the supply chain for NHBC's operational expenditure and for remediation activities undertaken on policyholders' properties in relation to our Buildmark warranty and insurance product. We have a Procurement Code of Conduct to ensure our people are aware of our responsibilities, and our Modern Slavery Statement is published on our website. Our suppliers must complete a Pre-Qualification Questionnaire which includes confirmation that they have read our Modern Slavery Statement and are compliant with the Modern Slavery Act. We request copies of our suppliers' own Modern Slavery Statements and details of how their organisation mitigates the risks of slavery and human trafficking within their business. These are reviewed by our Procurement team, and any concerns addressed with the supplier and/or our Head of Procurement prior to engagement with the supplier.

Anti-corruption and anti-bribery matters

We expect high standards of ethical behaviour from all our employees at every level, including maintaining the highest possible standard of integrity in all business relationships. To support this, we have implemented a Risk Management Framework which includes specific policies and procedures to prevent bribery and corruption and other forms of financial crime, such as the Financial Crime and Conflicts of Interest policies. These clearly define employees' roles and responsibilities while complying with relevant legislation and regulation such as the UK Bribery Act. Our Employee Handbook also sets out our zero tolerance of bribery or corruption.

Processes have been implemented to control the risk of bribery and corruption, including regular risk assessments, mandatory training for employees, due diligence of third-party relationships, gifts and entertainment and conflicts of interest procedures, and a whistleblowing portal. These support the outcomes of maintaining a culture of integrity and ethics, and seeking to prevent, detect and report financial crime, including bribery and corruption. Our Chief Risk Officer is accountable to the Board, providing regular reporting on financial crime matters, including a quarterly report to the Audit Committee evidencing the effectiveness of controls and the management of financial crime risk associated with our activities.

Wider impact and non-financial information statement

Environmental matters

We are continuing our climate change journey and are formalising our zero carbon strategy to be net zero on or before 2050.

Our approach to carbon reduction and supporting the industry to reduce its emissions is built on four workstreams, overseen by a steering group:

- working with the industry on climate resilience, focused on how NHBC can make a positive contribution whilst ensuring that there is no adverse impact on homeowners
- working with the industry to help ensure that Government objectives for climate change can be met in ways that are technically and commercially viable
- ensuring we reduce NHBC's environmental impact and support the drive to net zero carbon
- meeting all regulatory reporting requirements in respect of the financial risks of climate change.

Our Scope 1 and 2 emissions are 40% lower than they were in 2019/2020[2]. The main drivers for this reduction are the move to a low emission vehicle fleet, improvements to our offices and the procurement of green utilities.

Since the launch of the ULEV fleet list in April 2021, we have seen over 94% of Company car drivers choose an electric or hybrid vehicle. As delivery continues in the coming year, we are expecting to see further increases in the number of electric and hybrid vehicles, and by the end of 2025, we estimate that 95% of the Company car fleet will be electric or hybrid.

Improvements to our office environment continue. Any maintenance and work on our buildings always has an environmental lens in decision-making, with recent developments such as installing LED lighting and renewable power for our Milton Keynes office and installation of electric vehicle charging points.

In June 2022, we held an environment day to raise awareness amongst our employees of what NHBC is doing to reduce its carbon footprint, but also what employees can do in their day-to-day lives to reduce their own carbon footprint.

Our Scope 3 emissions are dominated by our investment portfolio, which accounts for c.95% of total company emissions. Given its significance, during 2022, we appointed specialist consultant support to establish a robust and independent suite of climate-related metrics following the guidance of the Partnership for Carbon Accounting Financials (PCAF). Training was provided for the Board on the construct of Scope 3 emissions (both financial and non-financial) and how our investment managers and other subject matter experts view the industry's transition to net zero.

NHBC's investment portfolio predominantly consists of index-linked gilts (UK Government) and corporate bonds. Despite accounting for around 45% of NHBC's in-scope assets under management (AuM), more than 80% of the carbon footprint of the portfolio is attributed to the sovereign allocation. We have therefore adopted a 2050 net zero target for our investment portfolio consistent with that of the UK Government's climate transition objectives and will periodically assess and review the performance of this against our broader climate ambitions. We are keen to reduce the carbon intensity of our investment portfolio and have adopted a principal-driven approach built on achieving reduction objectives whilst simultaneously using our capital to influence positive change in the real economy e.g. working with our investment managers to influence corporate entities that issue investments, to reduce their carbon footprint well in advance of 2050.

Our Responsible Investment (RI) framework takes into account a range of ESG factors. We work with asset managers that integrate robust RI practices into their investment philosophy and processes. We monitor and report internally on the ESG credentials of our investments, which forms part of our asset manager performance reviews.

Our RI framework supports the funding of impact investing to effect positive outcomes for climate change; we invest in a global renewable power infrastructure that is helping to finance the transition to a lower-carbon energy network, and our strategy is to increase our proportion of investments in more environmentally friendly investments, should the opportunities arise to do so.

During 2023/24, we will further develop policies on our environmental impact together with key performance indicators that will support effective implementation of our strategy.

2 NHBCs base year

Streamlined Energy and Carbon Reporting (SECR)

For the year ended 31 March 2023, the annual quantity of emissions in tonnes of CO_2 equivalent and kWh resulting from activities for which we are responsible is shown in the table below. We have seen reductions year on year, primarily driven through the electrification of the car fleet as cited above.

	CO_2 tonnes		kWh	
	2023	2022	**2023**	2022
Consumption of gas	**158**	164	**869,751**	895,963
Consumption of fuel for the purposes of transport	**381**	1,359	**1,644,102**	5,825,687

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

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

For the year ended 31 March 2023, the annual quantity of emissions in tonnes of CO_2 equivalent and kWh resulting from our purchase of electricity for our own use is shown in the table below. The electricity consumption figures are from our leased offices in London, Belfast and Edinburgh. Our Milton Keynes office is powered by renewable sources. The electricity for transport has increased which reflects the switch towards an electric and hybrid car fleet.

	CO_2 tonnes		kWh	
	2023	2022	**2023**	2022
Consumption of electricity	**219**	225	**1,145,469**	1,070,165
Consumption of electricity for the purposes of transport	**117**	–	**609,683**	–

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	
	2023	2022	**2023**	2022
Annual emissions	**0.7**	1.6	**3,468.0**	6,957.0

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

Section 172(1) statement

Our Board has individually and collectively fulfilled its obligations as set out in Section 172 of the Companies Act 2006, as summarised in the table below and evidenced throughout these financial statements. The directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of NHBC for the benefit of our Council members and key stakeholders. As a company without shareholders, we focus on the long-term achievement of our purpose and reinvest our profits to raise standards in house building and to protect homeowners through our warranty products. Our key stakeholder groups include our policyholders, registered customers, the NHBC Council, regulators, suppliers, the communities we operate within and our employees. The Board endeavours to understand the interests, views and concerns of our key stakeholder groups as our business model and strategy is developed and implemented, and to promote NHBC's long-term sustainability and success.

The key strategic decisions taken during the financial year were informed and supported by stakeholder engagement activities as set out below. For each key strategic decision, the Board considers the likely consequences of any decision in the long term, identifies stakeholders that may be affected, and carefully considers their interests and any potential impact as part of the decision-making process. The Board is cognisant of the need to maintain a reputation for high standards of business conduct. Taking into consideration our business and the environment in which we operate, the directors are aware of the responsibility they have to ensure that the decisions they make are for the benefit of the Company and the wider house-building industry. In March 2023, the Board approved the Group Business Plan, which set out the revised plan for the business that will be implemented over the next five years. In doing so, the Board considered the economic and market outlook for the house-building sector, including expected impacts on our registered customers and policyholders, alongside Government and regulatory factors. This plan continues our progress in building NHBC's capital base, increasing profitability, and investment in key areas of strategic change necessary to achieve our purpose. During the year, the Board endorsed the scope of a programme of work focused on delivering modern and agile processes, improved capability, capacity and the flexibility to adapt to the needs of policyholders, registered customers and colleagues.

The work of the Board is informed by regular updates on industry-wide and political engagement with the Government, Ministers and their Shadow counterparts, as well as many MPs, the Devolved Administrations and policy makers. NHBC monitors Government policy that may impact on NHBC and adopts a strategic response to policy developments which supports our objectives of raising standards and protecting homeowners.

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

- standing agenda items and papers presented at each Board meeting
- updates and training on key items, split between risk and compliance
- rolling agenda of matters to be considered by the Board throughout the year, including a Board strategy day from which the Group Business Plan is developed
- regular contact with key stakeholders through attendance at a range of meetings and events, some of which are hosted by NHBC.

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

Stakeholders and why they are important to us	Stakeholder engagement and key strategic decisions during the financial year
Our people	
We have c.1,300 employees whose technical knowledge and expertise are recognised in the industry, and who are crucial to the organisation's success. 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 employee engagement and was kept informed of engagement with employees, which it fully supported. The Board receives updates on the results of the employee engagement survey which is undertaken bi-annually. Feedback from these surveys supports NHBC in prioritising how we continue to ensure the Company attracts and retains employees and enhances its workplace. In response to the cost-of-living crisis, we supported employees with one-off payments, which the Remuneration Committee and Board were supportive of. The Board is responsible for setting the Company's culture and, during the year, it endorsed an organisation-wide review of culture. The Board reinforced its commitment to strengthening NHBC's culture to drive delivery of quality outcomes, to empower people to be agile and innovative, and place homeowners at the heart of the Company's decision-making and actions, securing the Company's future success. The Board recognises the benefits of a diverse workforce and an inclusive culture, and there has been significant investment and activity to increase D&I. The Board received updates on a diversity data-gathering exercise to help shape future DEI initiatives, support equality of opportunity, and help us understand and remove barriers. The Chair, along with several Non-Executive Directors, met with the chairs of our Be Me: Employees Networks twice during the year to understand the work of our employees and allies to ensure a positive work environment which fosters a diverse, inclusive workplace aligned with NHBC's values. The Executive Directors presented and took live questions at a series of company-wide conferences this year and continue to work closely with the NHBC SA, with a quarterly presentation from one of the Executive Directors to the SA Committee. The Board and its committees receive updates during the year on people matters, including talent and succession, leadership development, inclusion and diversity, the gender pay gap and incentives. The Audit Committee also receives reports on issues raised through NHBC's internal confidential whistleblowing service. In support of talent development and succession, quarterly 'talent lunches' are arranged for employees with NEDs. This provides reciprocal insight to both employees and NEDs, with NEDs using their knowledge and experience to give advice on career and development, and present employees with an opportunity to discuss their responsibilities and challenges, as well as providing more detail on some of the inner workings of the business that NEDS do not typically see. For further information on how we engage with our people, please see the 'Our people' and 'Remuneration Committee' sections.

Section 172(1) statement

Stakeholders and why they are important to us	Stakeholder engagement and key strategic decisions during the financial year
NHBC Council	
NHBC is governed by an independent council of c.53 individual members drawn from a diverse range of organisations that are interested in, or associated with, the UK house-building industry.	The Board engages with Council members at the Annual General Meeting and Annual Lunch, which was held in November 2022 and provides the members with the opportunity to question and challenge the Board on the delivery of NHBC's purpose and strategic objectives. The range of stakeholders on the Council ensures that regular dialogue is held between Board members, senior managers and the Council. In June 2022 and in March 2023, Council members were invited to meet with Executive Directors and senior management at our Milton Keynes and London offices respectively. As well as business performance and strategy updates, the Council members received updates on how the Company is implementing Consumer Duty and, through the work of the NHBC Foundation, its focus on climate change and sustainability. During the year, we launched our regular Council newsletter to support Council members in their understanding of NHBC, its strategy and operations. Council members who are also members of the Council's Northern Ireland and Scottish Committees support and inform our work, monitoring and reviewing NHBC's activities, and promoting the objectives and activities of NHBC within their respective regions. For further information on our Council, please see the Corporate Governance Report in the NHBC Council section.
Policyholders (also referred to as consumers)	
A key part of our core purpose is the protection of our policyholders. Engagement and dialogue with our policyholders are key to us developing our warranty and insurance cover to meet their needs.	Providing a high-quality service to our policyholders and putting them at the heart of our business is fundamental. The Board fully supports the changes proposed by the FCA's Consumer Duty that set higher and clearer standards of consumer protection, and the Consumer Committee oversees the Company's work to implement this. As noted above, the Board considers the interests, views and concerns of policyholders as our business model and strategy is developed and implemented. The work of the Board is informed by regular updates from the Consumer Committee, and insights from consumer engagement activity are included in reports to the Board and updates from Executive Directors. During the year, the Board has been closely monitoring political, legal and regulatory developments to consider the potential impacts on policyholders. The Consumer Committee receives regular reporting on consumer experience, consumer journeys, consumer service levels and outcomes, and consumer-related strategic initiatives, and engages with the leadership team to ensure our performance meets policyholders' expectations. The Consumer Committee 'hears' from our policyholders via insights from policyholder surveys and by listening to our focus groups and takes these into account as part of its annual review of the Buildmark policy. For further information on how we engage with our policyholders, please see the 'Delivering for policyholders' and 'Consumer Committee Report' sections.

Stakeholders and why they are important to us	Stakeholder engagement and key strategic decisions during the financial year
Registered customers	
Our registered builders and developers are key to achieving our aims to build confidence in the quality of new homes. Open dialogue, depth of relationships and working in partnership are key to this.	Long-term constructive relationships across our registered customer segments are key to the development of quality new-build homes in the UK. The Board comprises individuals with knowledge of, and direct involvement with, the house-building sector. This experience and insight also informs Board decision-making. During the year, the Board received updates on work to develop our partnership model with our registered customers, engaging with them as early as possible in the design and development process, alongside regular updates on the market and different segments of our customer base. Board members have the opportunity to hear from our registered customers during our annual employee roadshows, where there is a focus on discussing key topical areas and issues, including the future outlook of the sector, skills and sustainability. The Board endorsed the work of our Standards, Innovation and Research team to ensure the NHBC Standards respond to evolving Building Regulations and the Future Homes Standard. Planned areas of focus for 2023/24 include MMC, standards for tall buildings and climate change/energy initiatives. Our approach is informed by our Construction Quality Expert Panel, comprising a wide variety of industry stakeholders, which meets regularly to consider broader industry issues and future challenges.
Suppliers and partners	
We have many suppliers that support us in the delivery of our products and services to registered customers and policyholders. It is important that we build strong relationships with our supply partners to provide a resilient and quality service.	It is important to the business that we have strong relationships with our suppliers so that we can benefit from each other's businesses. All supplier activity is managed in accordance with the Procurement and Supplier Management Policy and ensures that we manage activity in accordance with regulatory, customer, data governance, corporate responsibility, finance and contractual issues. The Board approves the Modern Slavery Statement outlining our commitment and activities to combat instances of slavery and human trafficking within our business and supply chain. NHBC was recognised as a Fast Payer in 2022 by Good Business Pays, paying invoices on average within 21 days and 96% of invoices within 60 days. NHBC is a living wage employer, and our supplier contracts include a commitment to pay not less than the living wage to eligible employees if supplying services to NHBC.

Section 172(1) statement

Stakeholders and why they are important to us	Stakeholder engagement and key strategic decisions during the financial year
Regulators	
We are authorised by the PRA and regulated by the PRA and the FCA. Our building control activities are overseen by the Construction Industry Council Approved Inspectors Register (CICAIR) and approved by the Construction Industry Council (CIC).	We maintain a constructive and transparent relationship with our regulators. Directors and senior managers have regular meetings with the regulators to discuss specific business, governance and regulatory matters. A standing update is provided to the Board through the Board Risk Committee on all regulatory matters. Two key pieces of work this year which our regulators have been kept informed of were: • our Consumer Duty Implementation Plan, overseen by our Consumer Committee and approved at Board level • the development of our Economic Capital Model, which will support NHBC in improving our modelling of financial risks and supporting decision-making. In addition to the PRA, FCA and CICAIR, we monitor other key stakeholder relationships, including HMRC, HSE, ICO and The Pensions Regulator. Following the enactment of the Building Safety Act, passed into legislation in April 2022, the Board continues to monitor evolving and emerging guidance in relation to new requirements the Act introduces. The Board also receives updates on our engagement with the Health and Safety Executive as it establishes the new Building Safety Regulator and implements the Building Safety Regime.
Communities and the environment	
We recognise the importance of contributing to our communities through a range of support activities: volunteering, financial support and long-term partnerships.	In October 2022, we re-launched our corporate social responsibility programme, 'Our Communities', and invited the charitable organisations we support to present to our employees on their purpose and the support they are looking for. Our corporate charity partner is Crisis, and we also work with smaller charities more locally, particularly in the Milton Keynes area. Our charity partners are aligned to our values, and we encourage our employees to volunteer to support their work (providing two days' paid volunteering time each year) or raise funds for local causes and community projects (which we support through matched funding). During the year, the Board endorsed NHBC's approach to understanding and responding to the challenges and opportunities from climate change. The Board reaffirmed the investment strategy and NHBC's approach to RI, incorporating the organisation's pledge to meet the net zero carbon objective ahead of 2050 to achieve sustainable long-term returns by investing in well-governed and sustainable assets. The Board also completed training on the Task Force on Climate-related Financial Disclosures (TCFD) requirements and managing climate investment risk. For further information on how we engage with the house-building industry, the Government and other stakeholders in relation to climate change impacts, please see the 'Strategic Report – Wider impact and non-financial information statement' section. More information on how the Board assesses climate risks and opportunities is included in 'Environmental matters' section.

We are committed to appropriate engagement of our key stakeholders, and this will continue during the financial year ending 31 March 2024.

The Strategic report was approved by the Board on 29 June 2023.

Steve Wood
Chief Executive Officer


NHBC

Shared goals and a valued partnership

We talked to Richard Oldroyd, Divisional Chairman at Bloor Homes about the company's relationship with NHBC and the value it brings.

NHBC is keen to work in partnership with its registered customers. Do you see the relationship that way?

"We do see our relationship with NHBC as a partnership, working towards the same goal to deliver a quality product. Both sides have made a conscious effort to develop the relationship. We know that if we've got a problem we can just pick up the phone and vice versa. Ultimately, it's our customers who benefit."

What makes NHBC stand out from other warranty and building control providers?

"Your reputation, your quality of service and the fact you're trying to drive the same agenda as us, we're not just buying a service from NHBC, it's the partnership."

What NHBC service makes the biggest difference to quality?

"The NHBC Construction Quality Reviews (CQRs) have been a complete game-changer in terms of driving up standards and improving the technical knowledge in our construction teams. I would even say that CQRs are changing the industry. Most of the larger builders have CQRs from NHBC and, given we are often using the same subcontractors, we all benefit from the increased knowledge and relevant training that the trades get through the CQR process."

What value does the relationship between Bloor Homes and NHBC bring?

"At Bloor, we're all about quality. We spend more time focusing on the quality of the homes we deliver than anything else. It is the basis of every decision we make and we know that NHBC shares the same goal. We want to deliver great customer satisfaction and NHBC wants to raise standards across the industry. By working together on quality, we reduce claims and expend less money on issues further down the line by delivering a great product to the customer."

BLOOR HOMES®

“At Bloor, we’re all about quality. We spend more time focusing on the quality of the homes we deliver than anything else. It is the basis of every decision we make and we know that NHBC shares the same goal.”

“The NHBC Construction Quality Reviews have been a complete game-changer.”

Image credit: Bloor Homes

Governance

Corporate governance report

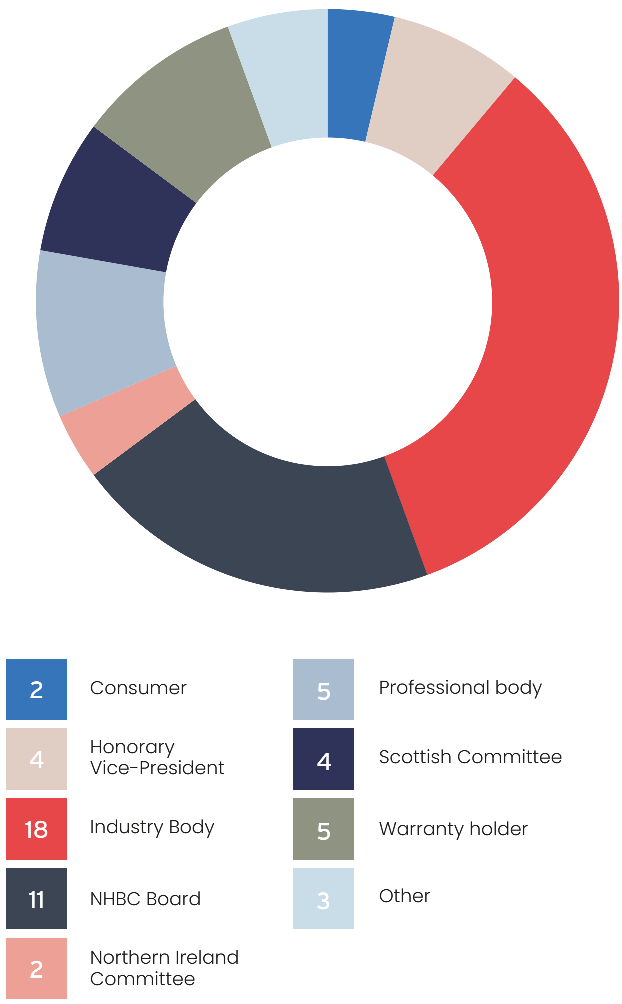
This Corporate Governance report sets out how we are governed, the governance framework we operate within and how the Board and its Committees operated during the financial year.

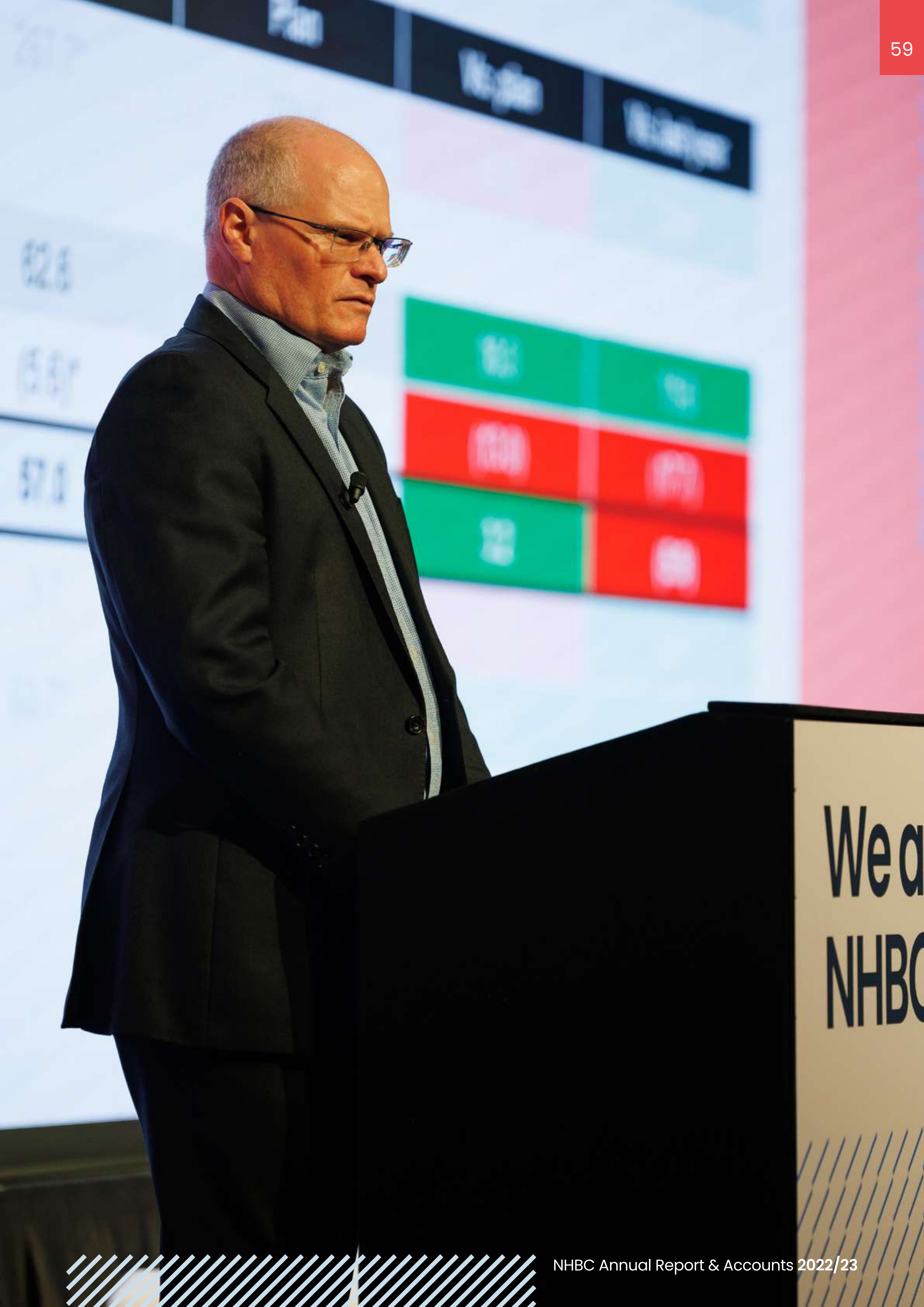
NHBC Council

NHBC is a private company limited by guarantee, and the NHBC Council, its governing body, comprises individual members drawn from a range of organisations which are interested in, or associated with, the house-building industry. The Council is not involved in the day-to-day running of the Company which is overseen by the Board, but it does receive the Directors' Report and Audited Accounts and approve the appointments of the auditors and Council members. Council members have the opportunity to question and challenge the Board on delivery of NHBC's purpose and strategic objectives at the Annual General Meeting (AGM).

In accordance with our Articles of Association, appointment or reappointment as a member of the NHBC Council is recommended by the Council Appointments Committee and Council Members may serve a maximum of two five-year terms on a voluntary basis. The Council Appointments Committee comprises the Chair, the Chief Executive Officer and three members of the Council (who are not also members of the Board). Non-Board members of the Council Appointments Committee are recommended by the Board and approved by the Council. During the financial year Council Members were invited to our Milton Keynes and London offices for an overview of NHBC's performance and strategic objectives, alongside updates on the market, political and government policy space within which NHBC operates. Council Members had the opportunity to hear from our senior leadership on key strategic initiatives including: what we are doing as a business and, externally through the NHBC Foundation, in relation to climate change and sustainability; the impact of the FCA's Consumer Duty for us and how we are focusing on driving consumer understanding and delivering good consumer outcomes; our approach to Major Projects; our response to the evolving regulatory environment for the building sector; and our work to support our employees and develop our organisational culture.

NHBC Council representation by category




Plan

Board

Our Board is an experienced and diverse Board with a variety and balance of skills to ensure it fulfils its role is to promote the long-term success of NHBC.

Below are biographies of current directors as well as those who served in the financial year.

Alan Rubenstein
Chair

▲ (Chair)

Appointed on: 11 February 2020

Alan Rubenstein joined NHBC in February 2020 in the role of Non-Executive Director and Chair of the Investment Committee and became the NHBC Chair in June 2020. With over 30 years' experience in pensions, insurance, asset management and investment banking, he has held a range of senior roles, including CEO of the Pension Protection Fund between 2009 and 2018. In addition to his role at NHBC he is currently a Non-Executive Director of Fidelity International's UK holding company and Chair of its investment platform business, a Trustee Director of the British Coal Staff Superannuation Scheme and Chair of the Scheme's Investment Sub-Committee, and a Non-Executive Director and Chair of the Investment Committee of Pool Reinsurance Company Ltd.

Elizabeth Austerberry
Non-Executive Director

✤✦

Appointed on: 1 August 2022

Elizabeth Austerberry joined the NHBC Board in August 2022 as an Independent Non-Executive Director. Elizabeth was most recently the CEO at Moat Homes. During her time at Moat, Elizabeth was also a Non-Executive Director at the National Housing Federation and chaired its Audit and Risk Management Committee. Prior to joining Moat, Elizabeth held Director roles at Ernst & Young, Savills and DTZ (now Cushman's) specialising in the finance of residential real estate. Elizabeth is also Chair of the affordable housing provider which forms part of the Octopus Group and has over 25 years of banking experience, with a focus on real estate, mortgage lending and credit analysis.

Paul Bishop
Senior Independent Director

✤ (Chair) ▲❖

Appointed on: 1 November 2016

Paul Bishop joined the NHBC Board in November 2016 and was appointed Senior Independent Director in January 2018. He has over 30 years' experience in the financial services industry and insurance sector, primarily as a Partner at KPMG where he was the European lead for Insurance Consulting. Paul retired from KPMG in 2014. Paul is also a Non-Executive Director and Chair of the Audit Committee at Just Group and Zurich Assurance Ltd.

Alison Burns
Non-Executive Director

✶(Chair) ❖▲

Appointed on: 15 October 2019

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

David Campbell
Chief Operating Officer[3]

♦

Appointed on: 15 April 2020

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

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

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

- ▲ Member of the Nominations Committee
- ✤ Member of the Board Risk Committee
- ✦ Member of the Consumer Committee
- ❖ Member of the Audit Committee
- ✶ Member of the Remuneration Committee
- ♦ As an Executive Director this person is not a member of any Board Committees

Paul Hosking
Chief Financial Officer (CFO)

♦

Appointed on: 23 January 2017

Paul Hosking joined NHBC in 2016. He is a qualified Chartered Accountant with 30 years' post-qualification experience working in the UK and European insurance markets. Paul qualified with PricewaterhouseCoopers and spent a number of years at the firm, after 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 where, as CFO, he helped the company establish insurance businesses in five European countries and Australia, alongside a number of wider executive management and operational responsibilities.

Philip Rycroft
Non-Executive Director

✶

Appointed on: 26 September 2019

Philip Rycroft joined the NHBC Board in October 2019. Prior to that, he worked in the Department for Exiting the European Union between March 2017 and March 2019, from October 2017 as Permanent Secretary. From June 2015 to March 2019, Philip was Head of UK Governance Group in the Cabinet Office, with responsibility for advising ministers on all aspects of the constitution and devolution. From May 2012 to May 2015, he was the Director General in the Office of the Deputy Prime Minister. Throughout his career, he worked in a variety of roles in the civil service in Scotland and England, in the European Commission and in business. Philip is Chair of the Portman Group, sits on the Council of York University and is an Independent Non-Executive for PWC UK, he is also a Non-Executive Director of UK Accreditation Service. Philip chairs our Scottish Committee.

3 David Campbell served as Commercial Director during the year and was appointed Chief Operating Officer on 13 April 2023

Board

Stephen Stone
Non-Executive Director

✶✦

Appointed on: 5 October 2016

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

He is currently Non-Executive Director of the Home Builders Federation, Ilke Homes, Miller Homes and Orbit Group, where he also chairs Orbit Homes.

Stephen was the CEO of Crest Nicholson plc from 2005, becoming Chair in March 2018 until his departure in October 2019.

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

Dr Teresa Robson-Capps
Non-Executive Director

❖ (Chair) ✤▲

Appointed on: 1 July 2021

Dr Teresa Robson-Capps joined the NHBC Board in July 2021 as an Independent Non-Executive Director. Teresa brings with her a wealth of experience in executive and non-executive roles across the financial services, retail, technology and mobile industries, including a senior executive role at HSBC UK. She is currently Non-Executive Director of Fidelity U.K. Holdings, Liverpool Victoria General Insurance Group Limited, Liverpool Victoria Insurance Company Limited, Allianz Holdings JaJa Finance Ltd and is an Independent Non-Executive Director and Chair of the Audit Committee at Avida Finance. Teresa is a Fellow of CIMA and holds a doctorate in Management Accounting & Control.

Tesula Mohindra
Non-Executive Director

✦ (Chair) ❖✤

Appointed on: 1 July 2021

Tesula Mohindra joined the NHBC Board in July 2021 as an Independent Non-Executive Director. Tesula is a qualified Chartered Accountant with over 25 years' experience in the financial sector. She had a broad career encompassing investment banking as well as the establishment of start-up businesses. Tesula was previously a Managing Director at JP Morgan and UBS, specialising in corporate finance for financial institutions and pension funds. She was also a founding member of the management team of Paternoster, the specialist bulk annuity insurer. Since then, she has worked as an independent corporate finance consultant. Tesula is also a Non-Executive Director of the RAC Group and on the board of Close Brothers Group Plc and a Trustee of Variety, the Children's Charity.

Steve Wood
Chief Executive Officer

♦

Appointed on: 30 June 2017

Steve Wood joined the NHBC Board as CEO in June 2017. He was previously the CEO of Paymentshield, UK Managing Director at Ecclesiastical Insurance Group and Managing Director at FirstAssist Group. Prior to that he 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. In addition to his NHBC responsibilities, Steve is a Director of the New Homes Quality Board.


Glover
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Built. On reputation
Built.
On
trust.
NHBC

Our governance framework

Role of the Board

The Board is collectively responsible for promoting the long-term success of NHBC. This is delivered through agreeing and overseeing the implementation of NHBC's strategy, which develops and promotes the collective vision of NHBC's purpose and culture. The Board ensures that the business has the necessary framework in place to deliver on this from reviewing resourcing to deliver strategic objectives, to monitoring its financial performance and ensuring suitably robust controls and risk management procedures are in place. Additionally, the Board ensures that NHBC maintains effective governance considering both its constitution and the regulatory framework in which it operates.

The Board delegates certain matters to the Audit, Board Risk, Consumer, Nominations and Remuneration Committees which report to it. Each Committee Chair reports to the Board on its activities after each meeting.

Board and Board Committee attendance

The following table sets out Board meeting attendance during the financial year. In addition to the scheduled meetings including a Board strategy day there were six unscheduled Board meetings called at short notice. The Chair also held regular meetings with the directors and Non-Executive Directors without management in attendance.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Consumer Committee
Number of meetings held:	13	5	5	5	3	5[5]
Alan Rubenstein	13/13				3/3	
Elizabeth Austerberry[1]	7/9[3]		3/3			3/3
Paul Bishop	12/13[3]	5/5	5/5		3/3	
Alison Burns	13/13	5/5		4/5[4]	3/3	
David Campbell	11/13[3]					
Kate Davies[2]	4/4		2/2			
Paul Hosking	13/13					
Tesula Mohindra	12/13[3]	4/5[3]	5/5			5/5
Teresa Robson-Capps	11/13[3]	5/5	5/5		3/3	
Philip Rycroft	12/13[3]			5/5		
Stephen Stone	10/13[3]			5/5		4/5
Steve Wood	13/13					

1 Elizabeth Austerberry joined the Board on 1 August 2022. Meeting not attended as a result of unexpected personal reasons.

2 Kate Davies retired from the Board on 30 September 2022.

3 Meetings not attended related to unscheduled or rescheduled meetings called at short notice.

4 Meeting not attended due to unexpected illness.

5 The Consumer Committee also has an external advisory member from the Council, Ann Kaye, who attended all meetings during the financial year.

Balance of Executive and Non-Executive Directors

Chair	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	5
Other Non-Executives	1
Executives	3

Length of service of Non-Executive Directors

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

Gender split of Board of Directors

Male	7
Female	4

Board gender diversity versus FTSE 100 and FTSE 250[4]

	FTSE 100	FTSE 250	NHBC
	(June 2022) %	(June 2022) %	(June 2022) %
Female Directors	39.6	38.9	36.4
Female Executive Directors	16.8	12.1	0.0
Female Non-Executive Directors	45.5	45.3	50.0

4 The Female FTSE Board Report 2022 - https://www.cranfield.ac.uk/som/research-centres/gender-leadership-and-inclusion-centre/female-ftse-board-report

Our governance framework

Conflict of interest

In accordance with the Companies Act 2006, the Articles of Association allow the Board to authorise potential conflicts of interest should any arise. The decision to authorise a conflict of interest is only made by non-conflicted directors (i.e., those who have no interest in the matter being considered) and in making such a decision the directors note they must act in a way they consider, in good faith, will be most likely to promote the success of NHBC for the benefit of its stakeholders as a whole. All Board members are invited to declare any actual or potential conflicts of interest to the Board, which are then recorded in the director's register of interests (the Register). The Register is maintained by the Company Secretary and is subject to annual review and re-authorisation of notified interests by the Board. Should the Board discuss any matter which relates to a declared interest, or an interest which could give rise to a conflict, the director concerned may take part in some or all of the discussion of the issue but will leave the meeting when a decision on the relevant issue is to be made. The directors are reminded of their continuing obligations in relation to potential or actual conflicts of interest at the start of each Board and Board Committee meeting and are required to annually review and confirm their external interests, which helps to determine whether they can continue to be considered independent. Two Non-Executive Directors, Elizabeth Austerberry and Stephen Stone, are involved with the new house-building industry, and their membership of the Board is to ensure an appropriate breadth and depth of skills, experience and industry views are represented.

Board and committee evaluation

The effectiveness of NHBC's Board and its committees is key to our long-term success. The Board undertakes a rigorous evaluation process annually to assess how it and each of its committees are performing. The evaluation was conducted through a separate questionnaire for the Board and each of its committees and completed by all directors. The results of the evaluation were reviewed on a one-to-one basis with the Chair and presented and discussed at the Board meeting in June 2022 (in line with best practice for regulated private companies, an externally facilitated effectiveness evaluation is carried out every three years, the next externally facilitated Board evaluation will be completed in 2024).

> **"The effectiveness of NHBC's Board and its committees is key to our long-term success."**

Following discussion, the Board agreed that it, and its committees, remained effective and identified areas to further enhance the Board's effectiveness which include (i) increased engagement with senior management from across the organisation to support talent development (ii) enhancing the Board's understanding of the organisational culture programme; (iii) post-Covid increasing opportunities for in-person meetings and (iv) improving the quality and concise nature of papers for the Board.

Induction, training and development

Non-Executive Directors are required to have sufficient current and relevant knowledge and experience, including sector experience, to understand the key activities and risks involved in the business model and to provide effective challenge across the major business lines of the Company. When joining NHBC, Non-Executive Directors, including Elizabeth Austerberry in August/September 2022, participate in a robust induction programme which includes one-to-one induction meetings with members of first-, second- and third-line senior management and mandatory risk, compliance and HR training. Ongoing training or additional needs are identified on a regular basis by Non-Executive Directors, following annual review of the Board evaluation and recommended by management, taking account of regulatory/legislative/governance/business developments. During the financial year, the Board participated in internal training sessions on topics including Task Force on Climate-related Financial Disclosures and Climate Investment Risk, the Economic Capital Model, Consumer Duty and What it means to be a Category 2 Insurer & Corporate Governance. Further training sessions have been incorporated into the Board Training plan for 2023.

Build to Rent with Lendlease at Elephant Park

Lendlease's first BTR development in the UK, Elephant Park, is an ambitious project. Featured on the BBC's Interior Design Masters programme, the team worked with the London Borough of Southwark Partnership to deliver a combination of BTR, shared ownership and opportunities to buy. We are delighted to have supported this innovative development through the provision of warranty and asset protection.

Stephanie Barbabosa, Head of Build to Rent at Lendlease says,

> **"Working with NHBC to provide us with warranty and asset protection across Elephant Park really gave us peace of mind throughout the process."**

The vision:

Lendlease's vision for the development was to breathe new life into this part of London and it has already helped create a thriving 13,000m^2 retail area and established Elephant Park as a large new green space. Its other aims included:

- becoming the UK's first climate positive development upon completion in 2025
- building an energy hub providing net-zero carbon heat and hot water to the homes at Elephant Park
- the creation of 6,000 new jobs, including 5,000 in construction
- and 3,000 new homes, 25% of which would be affordable housing.

The results:

Elephant Park is now a thriving and attractive space that has made the most of the rich history of the area while also maximising its current potential. 44% of the BTR properties were fully leased in the first three months of opening, with ongoing interest from across the UK.

Image credit: Lendlease

Case study

Audit Committee report

Audit Committee member	Appointed to the Committee
Teresa Robson-Capps (Chair)	23 September 2021 (Chair: 9 December 2021)
Paul Bishop	1 November 2016
Alison Burns	18 December 2019
Tesula Mohindra	23 September 2021

The members of the Audit Committee are all Independent Non-Executive Directors. In addition to the members, the Chair; Chief Executive Officer; Chief Financial Officer; Head of Finance; Chief Risk Officer; Internal Auditors (BDO LLP) and External Auditors (Deloitte LLP) regularly attend meetings.

The Audit Committee assists the Board in its oversight of statutory and regulatory reporting by assessing the integrity of NHBC's financial reporting and systems of internal control, reserving and investment management, monitoring NHBC's whistleblowing policies; and monitoring the independence and performance of the internal audit function and the external auditors.

Activities during the financial year ended 31 March 2023:

- Reviewed and approved annual statutory and regulatory reporting including the Annual Report and Accounts, Solvency Financial Condition Report and Regulatory Supervisory Report for year ended 31 March 2022.
- Reviewed and challenged the methodologies and assumptions used to produce the UK GAAP and Solvency II best estimate Technical Provisions.
- Reviewed an independent report from external advisors, Willis Towers Watson (WTW), on NHBC's approach to reserving.
- Endorsed the scope of an independent review of the actuarial reserving process with Barnett Waddingham.
- Reviewed the actuarial function report setting out the Chief Actuary's opinion of the appropriateness of the Technical Provisions.
- Monitored the independence of the external auditor and agreed the materiality level of the external audit.
- Approved and monitored compliance with the Non-Audit Services Policy.
- Monitored the independence of the external auditor and agreed the materiality level of the external audit.
- Reviewed the level of reinsurance recoveries.
- Approved the internal audit plan and internal audit charter, reviewed internal audit reports and monitored the progress of the implementation of agreed recommendations.
- Reviewed regular reports on accounting, tax and capital reporting requirements.
- Reviewed the quarterly investment report monitoring NHBC's investments and portfolio performance and confirming that there were no breaches of compliance with investment guidelines or investment market risk appetite in the financial year.
- Reviewed reports on the effectiveness of the internal controls over financial reporting and standard formula calculations.
- Reviewed reports from the external auditor, Deloitte, including Audit Quality Indicators.
- Reviewed the quarterly Speak Up, Fraud and Money Laundering Report (noting that there were no material instances reports of whistleblowing, fraud, money-laundering or bribery).
- Reviewed developments in the UK accounting framework as they apply to NHBC's financial statements under UK GAAP and approved the accounting policies to be adopted in the Annual Report and Accounts for year ended 31 March 2023.
- Noted that management has commenced its review on implementation of the Task Force on Climate-Related Financial Disclosures requirements applicable to NHBC.

Financial reporting

In considering the draft Annual Report and Accounts, the Audit Committee paid particular attention to key areas of subjective judgement, which generally related to the calculation of claims provisions.

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

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

External audit

As part of the review of the accounting statements the Audit Committee discussed the audit plan with the external auditor and discussed the changing reporting environment and emerging audit trends. The Audit Committee monitored the performance of the external auditors using a set of audit quality indicators developed in the previous financial year.

Annually the Audit Committee reviews both the effectiveness and the independence of the external auditor.

Internal audit

Internal audit is outsourced to BDO LLP (BDO). A regular focus of the Audit Committee is agreement of the annual internal audit plan, monitoring the progress of BDO's work and reviewing the audit reports and management actions arising.

During the financial year, BDO completed reports on most items in the plan and provided analysis which helps management to have an oversight of controls. This year the themes were evenly spread across processes, documentation, management information, and project and risk management. No material control weaknesses were identified, and the improvements recommended have plans in place to ensure they are addressed.

To provide a more objective view of internal audit's performance, a survey was completed by both management and Non-Executive Directors. The results of the survey were discussed with BDO to implement actions that will ensure that maximum impact from the audits is delivered. Regular surveys will continue to be undertaken to support the continuous development and effectiveness of internal audits.

BDO report on thematic views from their audit results over time to aid the improvement of the internal controls of the organisation.

Board Risk Committee report

Board Risk Committee member	Appointed to the Committee
Paul Bishop (Chair)	1 November 2016 (Chair: 9 December 2021)
Elizabeth Austerberry	1 August 2022
Kate Davies[1]	1 September 2018
Tesula Mohindra	23 September 2021
Teresa Robson-Capps	23 September 2021

1 Kate Davies retired from NHBC on 30 September 2022

Following the appointment of Elizabeth Austerberry to the Board Risk Committee in August 2022, members are all Independent Non-Executive Directors. In addition to the members, the Chair, the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer (CRO) and Internal Auditors (BDO) also regularly attend Committee meetings.

The Board Risk Committee assists the Board in its oversight of risk by reviewing and assessing the: effectiveness of NHBC's Risk Management Framework, risk strategy, risk appetite and risk profile, the methodology for determining the capital requirements and stress and scenario testing these requirements, NHBC's system of financial and non-financial internal controls and risk management; risk assessments on strategic or significant transactions, compliance with regulatory requirements, NHBC's exposure in managing financial risks from climate change and other relevant sustainability risks, and monitoring current and emerging risk exposures.

Activities during the financial year ended 31 March 2023

- Reviewed, challenged and approved the assessments undertaken as part of NHBC's Own Risk Solvency Assessment (ORSA) process. This included 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 took place throughout the year to consider the viability of NHBC's current business model, the associated risks including those relating to deteriorating economic conditions, builder insolvency and reduced reinsurance capacity in the market, climate change impacts and cyber attack and their potential impact on NHBC's solvency ratio.
- Reviewed the Risk Management Framework including proposed approach for setting Board risk appetite and the supporting Risk Appetite Framework.
- Supported the assessment of the business's ongoing reinsurance requirements and approved the renewal of three reinsurance treaties.
- Reviewed regular reports from the CRO monitoring the enterprise risk profile and exposures against agreed risk appetite, the overall political and regulatory landscape and key areas of current and emerging regulatory focus.
- Monitored the development of the Economic Capital Model which is intended to be used in informing business decisions in a number of areas including capital planning, reinsurance strategy, risk appetite, investment strategy and product design; and supported the CRO in developing the approach to validating the Economic Capital Model outputs including independent assurance.
- Monitored the effective implementation of new legislation and active discussion of other important aspects of upcoming legislation and regulations, and their impact on the business, including on matters such as climate change and operational resilience.
- Undertook 'deep-dive' reviews on specific risk areas including topics such as technical risk management in relation to MMC and the National Fire Chiefs Council's position statements on Modern Methods of Construction and Single Staircases Policy.
- Approved the recovery and resolution plan, including capital management actions and thresholds as well as reviewing governance and the impact on key stakeholders in the event of financial difficulties or failure.
- Approved an updated approach to the operating policy framework to support the business's internal control framework.
- Approved Risk and Compliance monitoring plans and training principles for risk management and compliance responsibilities for all employees.
- Approved the new Risk Function's organisational structure to align with business need.
- Supported the work of the Remuneration Committee recommending proposed amendments to the Solvency II (SII) framework for identifying SII Employees to align with regulatory expectations for a Category 2 firm of NHBC's size and scale.

Consumer Committee report

Consumer Committee member	Appointed to the Committee
Tesula Mohindra (Chair)	1 January 2022
Elizabeth Austerberry	1 August 2022
Stephen Stone	1 January 2022
Ann Kaye[1]	1 January 2022

1 NHBC Council member and external advisory member to the Committee

The members of the Consumer Committee are all Non-Executive Directors, the majority of whom are Independent including a representative of the NHBC Council acting as an advisory member of the Consumer Committee. In addition to the members, the Chair, Chief Executive Officer, Chief Risk Officer, Claims Director, and Head of Compliance and Conduct Risk regularly attend Committee meetings.

The Consumer Committee assists the Board in its oversight of consumer matters by reviewing, challenging and assessing consumer outcome-related metrics and insights that demonstrate how consumer understanding, differentiating consumer need and experience and fair value for consumers is considered in the consumer journey from product literature and product development to consumer engagement and communications.

The Committee also monitors the regulatory landscape in respect of consumer matters with a focus on ensuring compliance with Consumer Duty requirements and advising the Board's Remuneration Committee on whether remuneration and reward systems adequately drive good consumer outcomes.

Activities during the financial year ended 31 March 2023:

- Reviewed regular management information focused on consumer outcome related measures and material consumer trends.
- Reviewed product literature and policy wording including an external review undertaken by Promontory to evaluate the product governance framework and challenged whether product reviews and product development had adequately considered differentiating consumer understanding and needs. Improving consumer communications and understanding remains a priority for the Committee.
- Received regular updates on Consumer Affairs matters including monitoring and reviewing the approach to complaints, complaints service levels and root cause analysis and Financial Ombudsman Service upheld complaints.
- Reviewed the approach to complex claims looking at insights into the current portfolio of complex claims and the initiatives being put in place to improve claims handling and support management of claims volumes.
- Reviewed consumer feedback including Consumer Brand Index and NHBC homeowner policyholder satisfaction research.
- Reviewed regular reports from the Head of Compliance and Conduct Risk on key areas of consumer related regulatory focus and compliance including Consumer Duty.
- Monitored the regulatory landscape in respect of consumer matters including review of the vulnerable customer policy for compliance with the Equality Act 2010.
- Reviewed, challenged and monitored delivery of the Consumer Duty Implementation Plan which was approved by Board during the financial year. The Committee continues to focus on monitoring delivery of the plan.


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2023

Nominations Committee report

Nominations Committee member	Appointed to the Committee
Alan Rubenstein (Chair)	11 February 2020 (Chair: 11 February 2020)
Paul Bishop	1 January 2018
Alison Burns	1 June 2020
Teresa Robson-Capps	9 December 2021

The Nominations Committee assists the Board in its oversight of Board composition, Board and executive succession, talent development, culture, diversity, equity and inclusion initiatives.

The Nominations Committee members are all Independent Non-Executive Directors. In addition, the Chief Executive Officer, and the Human Resources Director also regularly attend Committee meetings.

Activities during the financial year ended 31 March 2023:

- Worked with executive search firm Russell Reynolds on the recruitment and appointment of a new Independent Non-Executive Director (Elizabeth Austerberry).
- Recommended the renewal of three-year terms for Alison Burns and Philip Rycroft as Independent Non-Executive Directors on the expiry of their current terms in September and October 2022 respectively.
- Recommended the re-appointment of Alan Rubenstein as an Independent Non-Executive Director and Chair of the Board for a second term of three years.
- Received regular updates on the culture review and development activity to strengthen and refocus the culture of NHBC to manage key risks and enhance delivery of its vision, purpose and strategy.
- Received insights from employee engagement surveys noting a positive trend in the business's overall rating.
- Received updates on and considered the talent, leadership development and succession plans and initiatives for executive and senior leadership. Received diversity and inclusion updates including diversity data insights to inform pay gap reporting and benchmarking.

Remuneration Committee Report

Remuneration Committee member	Appointed to the Committee
Alison Burns (Chair)	18 December 2019 (Chair: 1 June 2020)
Philip Rycroft	18 December 2019
Stephen Stone	1 January 2021

The members of the Remuneration Committee are all Non-Executive Directors, the majority of whom are independent. In addition to the members, the Chair, Chief Executive Officer, Human Resources Director, and PwC, independent advisors to the Committee, also regularly attend Committee meetings.

Activities during the financial year ended 31 March 2023:

- Approved the remuneration proposals for the Chief Executive Officer, Executive Leadership and Solvency II (SII) regulated employees including Long-term Incentive Plan for Executives and the Directors' Remuneration Policy taking into account work to implement Consumer Duty and delivery of good consumer outcomes.
- Approved the annual pay award for all employees, Executive Leadership Material Risk Takers.
- Approved the annual fee increase for the Chair of the Board.
- Approved the approach to the 2022-2023 annual bonus scheme award.
- Reviewed regular reports on the business's performance to inform the assessment of the bonus scorecard.
- Approved the annual objectives of the Chief Executive Officer, Executive Directors and Executive management.
- Considered the performance of Executive management and approved bonus awards for the Chief Executive Officer, Executive Leadership and Solvency II regulated employees taking into account delivery of consumer outcomes, the current and prospective risks which NHBC may face to its financial performance and the risk culture.
- Approved the Director's remuneration report for inclusion in the Annual Report and Accounts for year ended 31 March 2023.
- Approved the Remuneration Policy Statement (RPS) for 2022/23 under Solvency II.
- Reviewed the methodology for identifying material risk takers and approved the Solvency II regulated employee list.
- Received regular market updates from PwC reporting on remuneration outcomes for FTSE 250 companies including peer analysis and compensation trends.
- Supported the award of cost-of-living payments for 92% of employees.
- Reviewed the gender and ethnicity pay gap and approved the gender and ethnicity pay gap report.


NHBC
Keepmoat Homes
KeepSafe
STABILA

Land Quality Service on a technically complex site for Bellway Homes

NHBC's Land Quality Service (LQS) team was commissioned by Bellway Homes North West to secure a technical opinion on the acceptability of the proposals for the redevelopment of former farmland in Deeside, Wales into residential dwellings.

The challenge

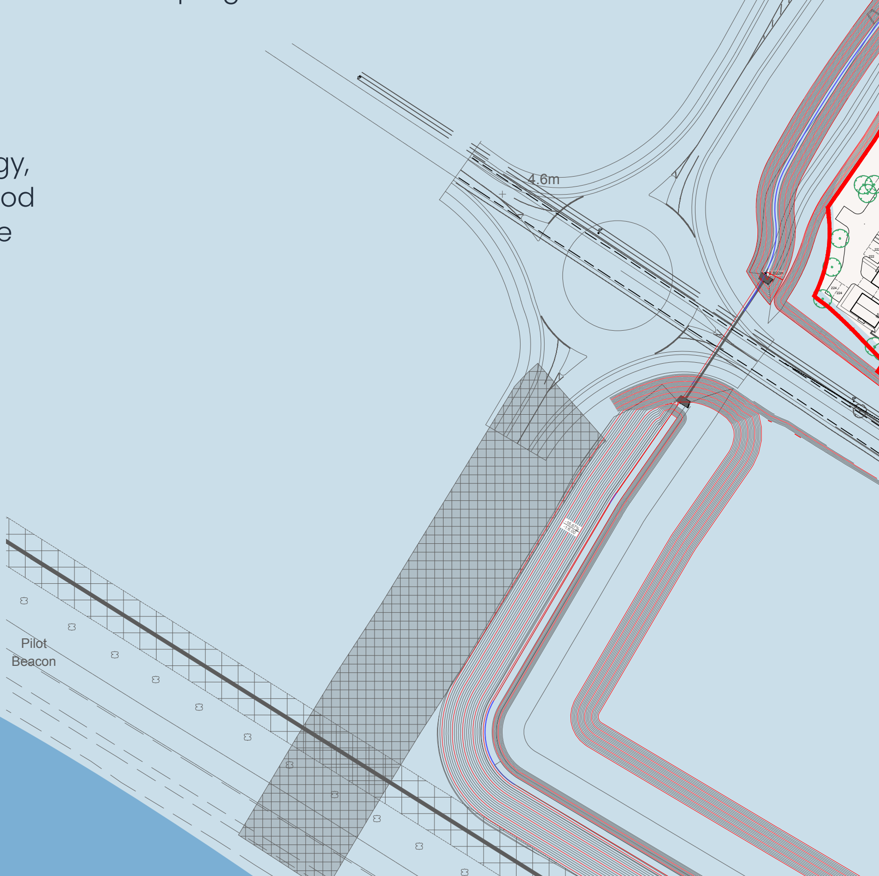
The site is on former estuarine land that had been reclaimed over 200 years ago. Such sites often present geotechnical challenges due to the variable nature of the deposits which present potential settlement issues requiring careful technical considerations. In addition, former ponds also presented localised issues with organic deposits and potential contaminants of concern.

Securing a Stage 1 to 3 Certificate of Land Quality

Our LQS team worked with Bellway Homes to issue the Stage 1 Certificate of Land Quality by reviewing available site information and data sets. This supported their subsequent development of a detailed Earthworks Strategy, addressing the need to raise site levels for flood protection and measures required to mitigate any potential for differential settlement.

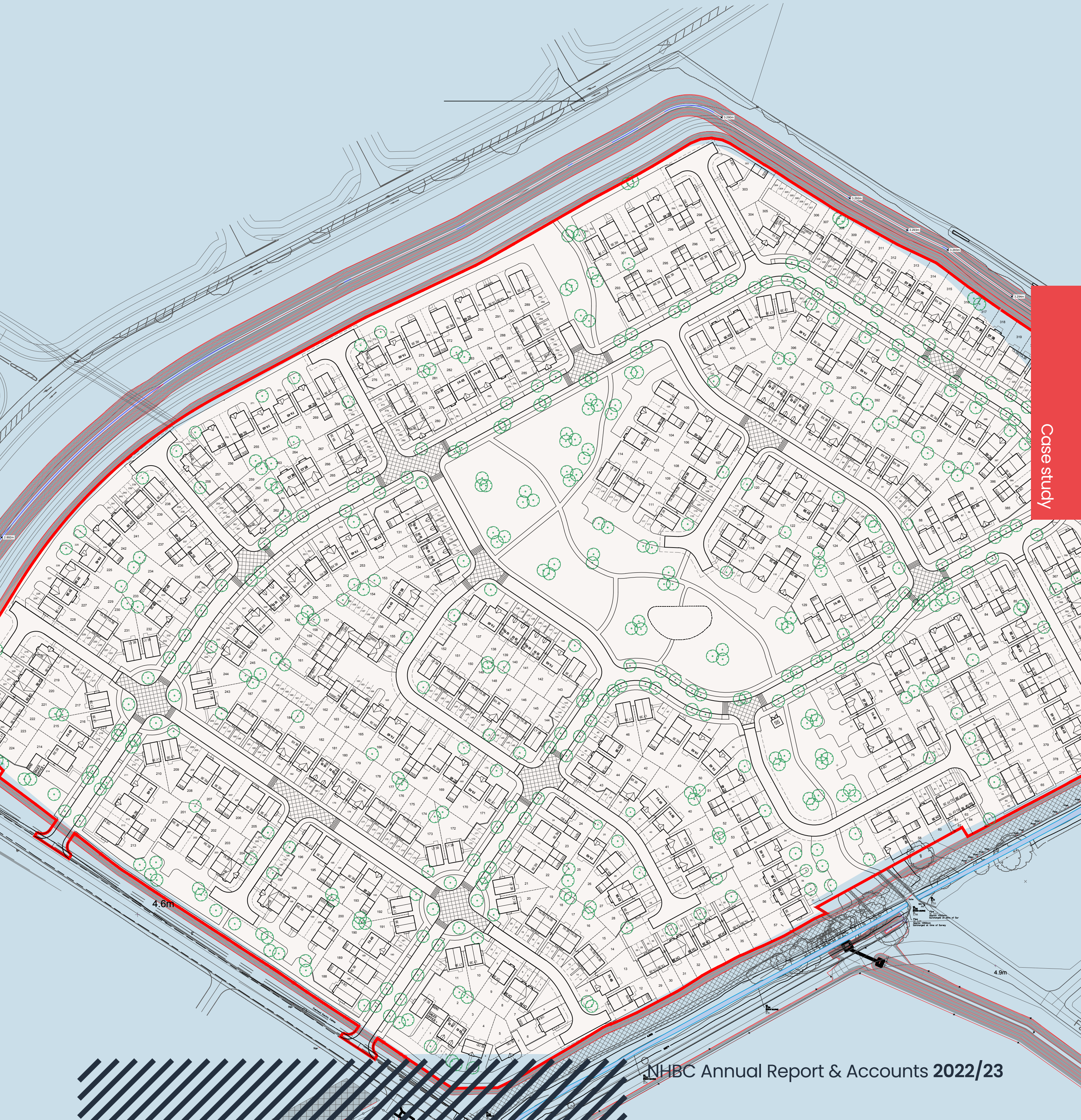
There was also a fundamental change in the strategy for the reuse of soils requiring a Materials Management Plan and Verification. This helped the development of a refined Remediation Strategy to support both the tendering stage and planning, this formed the Stage 2 Certificate of Land Quality.

The LQS team will now assist during the Stage 3 verification process which will include regular site visits and the production of further phased certificates for the development as it progresses.



> **“ The LQS team gave us the confidence to develop a technically complex site by providing unrivalled expertise. By guiding us through the process we were able to progress with the development successfully and potentially avoid any costly re-visits to works already undertaken. ”**

Adrian Johnson, Technical Manager at Bellway Homes



Directors' remuneration report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The Chair's annual statement

On behalf of the Board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2023.

This is my third year as Chair of the Remuneration Committee during which NHBC has made real progress in remuneration governance and processes including increased focus on the wider workforce.

Remuneration policy and the link to long-term business performance

Our remuneration policy is designed to support the business strategy, to promote the long-term sustainable success of the business and is designed to align remuneration with our purpose and values. The Executive Directors and wider employee population all participate in the annual bonus scheme, which rewards the achievement of individual and business performance targets. For the purposes of determining the annual bonus, performance is assessed by reference to a mix of financial and non-financial performance conditions aligned to the Group Business Plan. Independent scrutiny of the bonus is provided by the Board Risk Committee and Audit Committee who validate the results. Additionally, NHBC's actuarial consultants independently assure the capital calculations. For our more senior employees and material risk takers, a proportion of any bonus is deferred and paid out in later years, providing a long-term retention mechanism. In 2022, the Long-term Incentive Plan was first granted to senior employees within the business which provides further alignment with the long-term business performance and allows NHBC to motivate, retain and attract high-quality individuals.

Our employees

In April 2023, NHBC's salaries increased by an average of 5.8% for all colleagues to ensure NHBC continues to remain competitive in attracting, motivating and retaining talent and rewarding the workforce fairly. In addition to the annual increase, in the year, NHBC made a cost-of-living payment of £1,000 to 92% of its employees (with exception of senior employees) in recognition of the rising cost of living.

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 Remuneration Committee maintains oversight of the gender pay gap and Chief Executive Officer pay ratio to inform their decision making on matters under their remit.

During the year, we continued to regularly engage in dialogue with employees using channels such as employee forums, the Staff Association and our engagement survey, as well as more targeted interactions where needed.

2022/23 performance and remuneration outcomes

The annual bonus for 2022/23 was approved by the Remuneration Committee and the measures included a range of financial measures, non-financial measures and personal performance which ensured outcomes reflected the overall performance of the Group and the individual. Given the performance in 2022/23, the financial element of the annual bonus vested at 102.8%. The Committee's assessment of the non-financial element was 58% which resulted in a combined outcome of 161% of target.

Looking ahead to 2023/24

As we look forward to 2023/24, the Remuneration Committee will continue to ensure that the Directors' Remuneration Policy which was implemented in 2022/23 continues to meet the needs of the business and reflects evolving corporate governance practices and provides strong alignment between pay and performance. The Remuneration Committee also understands the importance of ESG and good consumer outcomes for NHBC and will continue to ensure that there is a direct link to variable remuneration with the inclusion of ESG and consumer measures within the annual bonus and/or Long-Term Incentive Plan (LTIP) where appropriate.

The Remuneration Committee continues to review arrangements for the wider organisation and this year will be working alongside management on NHBC's overall employer proposition to ensure it remains appealing and relevant to existing and future employees.

This report was approved by the Board on 29 June 2023 and signed on behalf of the Board by:

Alison Burns
Chair, Remuneration Committee

Directors' Remuneration Policy table

The following section summarises our Directors' Remuneration Policy following review this year which resulted in some minor amendments from the policy approved on 1 April 2022.

This policy is drafted such that the remuneration package for Executive Directors is structured such that it is:

- aligned to NHBC's short term and long-term strategy
- appropriately competitive to retract and retain key talent
- not promoting unacceptable behaviours or encouraging unacceptable risk-taking -in particular, the variable remuneration 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.

Element	Strategic alignment and operation	Maximum opportunity	Performance measures
Base salary	Base salaries are set at an appropriate level to attract and retain Executive Directors with the right skill set to deliver NHBC's strategic objectives. Salaries are reviewed annually, with changes typically taking effect from 1 April 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.	There is no maximum salary opportunity. Any salary increases will generally reflect our standard approach to all-employee salary increases across the Group. Higher increases may be made in a range of circumstances where the Committee considers that a larger increase is appropriate, including (but not limited to): • a new appointment; a change in role • adoption of additional responsibilities • development of the individual in the role; increased size, scope or complexity of the organisation • alignment to market levels. Any increases in base salaries will be considerate of the impact this will have on other elements of remuneration and the total compensation package.	There are no performance measures for base salary.

Element	Strategic alignment and operation	Maximum opportunity	Performance measures
Pension	Provides a basis for savings to provide an income in retirement. NHBC provides a competitive employer defined contribution pension plan, the Group Personal Pension Plan (GPPP), operating salary sacrifice for pension contributions to provide Executive Directors with an income for retirement. Executive Directors have the opportunity to participate or to receive a contribution to a personal pension. Executive Directors may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits.	The maximum employer contribution rate is 10.5% of salary for Executive Directors except for the Chief Financial Officer who is on a legacy arrangement at 20% of salary. Further, the maximum rate for any new appointments is 10.5% of salary, aligned to the maximum offered to all other employees.	There are no performance measures for pension.
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.	Benefits available to Executive Directors are aligned in a proportionate manner with benefits offered to the wider workforce.	There are no performance measures for benefits.
Annual Bonus	To incentivise and reward the Executive Directors to achieve pre-determined annual targets at the discretion of the Remuneration Committee. Performance measures and weightings are determined annually and will align with the key strategic priorities of NHBC which may vary from year to year in line with the Group Business Plan. Threshold performance will result in an outcome of 20% of maximum whilst target performance will result in an outcome of 50% of maximum. Maximum performance will result in an outcome of 100%. Outcomes are subject to Remuneration Committee discretion which includes downwards risk adjustment for ex-ante and ex-post risk. Annual bonuses have a deferral element (Chief Executive Officer 50%, other Executive Directors 40%) in cash for a period of three years, vesting no faster than pro-rata. The rate of deferral may be adjusted to meet future developments in regulatory requirements. Malus and clawback provisions apply to the upfront and deferred elements of the annual bonus.	Annual bonus awards are subject to an annual limit of 80% of salary for the Executive Directors.	Performance measures will include a combination of both financial and non-financial measures with the financial measures accounting for at least 40% of the bonus. The Remuneration Committee retains the discretion to adjust formulaic outcomes if they do not represent the overall financial performance of NHBC. Full details of the specific performance measures, targets and ranges will be disclosed retrospectively.

Directors' Remuneration Policy table

Element	Strategic alignment and operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP)	To incentivise and reward the Executive Directors to achieve predetermined long-term targets of NHBC at the discretion of the Remuneration Committee. Awards are typically granted annually. Awards are subject to performance measures which are measured over a three-year period from 1 April in the year of grant. Awards will vest to the extent performance measures have been met after three years. Vested awards will be subject to an additional holding period where the value of the award will track the Group's Return on Capital Employed (ROCE). The value of the award can go up or down over the period. 50% of the award will be released 4 years from the date of grant and settled in cash. The remaining 50% will be released 5 years from the date of grant and settled in cash. Threshold performance will result in an outcome of 20%, whilst target performance will result in an outcome of 50% of maximum. Maximum performance will result in an outcome of 100% Outcomes are subject to Remuneration Committee discretion which includes downwards risk adjustment for ex-ante and ex-post risk. Malus and clawback provisions apply over the vesting and holding period respectively.	LTIP awards are subject to an annual limit of 80% of salary for Executive Directors.	Performance measures will include a combination of both financial and non-financial measures accounting for at least 40% of the LTIP each. The Remuneration Committee retains the discretion to adjust formulaic outcomes if they do not represent the overall financial performance of NHBC. Full details of the specific performance measures, targets and ranges will be disclosed in the implementation section of the annual report on remuneration for the year prior to the LTIP grant.
Non-Executive Directors	To attract individuals with skills and experience to serve as Chair and as a Non-Executive Director. Non-Executive Directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairmanship of Board committees and membership of the Remuneration Committee, 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 incentive or performance plans or pension arrangements.	The maximum fees payable to Non-Executive Directors are as follows: • Chair - £172,000 • Board membership - £54,000 • SID - £10,000 • Committee Chair Senior Management Function (SMF) (Audit, Risk, Remuneration) - £12,000 • Committee Chair non SMF £9,000 • Committee member (Audit, Investment, Risk, Remuneration) - £3,000	There are no performance measures for Non-Executive Directors.

This Policy has been designed to ensure compliance with remuneration regulatory requirements applicable to NHBC. The Remuneration Committee retains discretion to amend this Policy if required to do so to ensure compliance with any new or amended requirements.

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 2021/22 NHBC Annual Report which can be found on our website **here**.

Annual Report on remuneration

Single total figure of remuneration for the year ended 31 March 2023 - Executive Directors

£,000	Year	Salary	Taxable Benefits	Annual Bonus	Bonus deferral	Pension	Total Remuneration	Total Fixed	Total Variable
Steve Wood	2022/23	332	27(i)	208	104	35	602	394	208
	2021/22	308	27(ii)	204	102	33	572	368	204
Paul Hosking	2022/23	229	17	125	50	46	417	292	125
	2021/22	219	17	115	46	44	395	280	115
David Campbell	2022/23	233	17	146	58	14	410	264	146
	2021/22	223	17	135	54	13	388	253	135

(i) includes £9,418 for accommodation provided

(ii) includes £9,348 for accommodation provided

Annual bonus for year ended 31 March 2023

The annual bonus for the year ended 31 March 2023 was based on a combination of commercially focused (36%), other strategic measures (24%) and personal performance (40%) with targets set by the Remuneration Committee to align with corporate strategic objectives. In line with last year, the vesting of the annual bonus was subject to three gateway measures (which if not met would result in no bonus), specifically:

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

The annual 2022/23 bonus overall outcomes were 62.6% of base salary for the Chief Executive Officer, 54.6% of base salary for the Chief Financial Officer and 62.6% of base salary for the Chief Operating Officer. Final assessment of these outcomes did not result in any discretionary adjustments by the Remuneration Committee.

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

Director	Maximum bonus (% of salary)	Actual bonus outcome				Percent deferred (% of bonus)
		(% of target)	(% of max)	(% of salary)	£	
Steve Wood	80%	156.6%	78.3%	62.6%	£208k	50%
Paul Hosking	80%	136.6%	68.3%	54.6%	£125k	40%
David Campbell	80%	156.6%	78.3%	62.6%	£146k	40%

Directors’ Remuneration Policy table

Breakdown – Corporate KPIs

Corporate KPIs (60%)	Weighting	Threshold performance	Target performance	Stretch performance	Actual performance	Vesting outcome (% of max)
Adjusted Operating Profit[5]	36%	£43.0m	£54.0m	£70.0m	£73.7m	102.8%
Opex ratio		45.0%			45.2%	
Growth in non-insurance income		£92.0m			£94.5m	
Quality (CQI take up)		30			32	
Change programs	24%	Phoenix (Digital Transformation Programme): ensure delivery plan and roadmap TRM: 12 modules to be adopted / sustained			Achieved	58.0%
Homeowners		Net Promoter Score (NPS)			Achieved	
Environment		Reduction in NHBC’s scope 1 & 2 carbon footprint of 15%			Achieved	
Peakon results		Maintain and improve employee engagement score or to a level above NHBC’s Peakon true benchmark			Achieved	
Voluntary attrition		Attrition rate to be less than 15%			Achieved	
D&I		Positively influence female headcount recruitment / retention to increase by +5% or more. Ethnicity disclosure rate to 90%.			Not achieved in aggregate. However, ethnicity disclosure rate was achieved.	
Risk		Mandatory compliance and assurance actions			Achieved	

5 Adjusted Operating Profit is the measure of profit for bonus purposes and is NHBC’s profit before tax less the surplus asset return performance and adjustment for certain items not subject to bonus considerations.

Breakdown – Personal KPIs

Personal KPIs (40%)	Weighting	Vesting outcome (% of max)	Comments
Steve Wood	40%	75%	Overall, this has been a good year, with the business making positive progress towards our goals. The Chief Executive Officer has done a particularly good job in a number of areas, not least in bringing negotiations on most of our major outstanding Section 4 claims with builders to a satisfactory conclusion. Good progress has been made on defining the Customer Journey and implementing the changes required to ensure good customer outcomes, as set out in the Consumer Duty Implementation Plan. The Chief Executive Officer's authentic style of personal leadership continues to shine through strongly. This is reflected both in the Peakon results, which continue to improve and now place us in the top 10% of our peer group and the leadership the Chief Executive Officer has given on the culture program. The Chief Executive Officer's personal franchise within the building industry and with Government continues to be excellent, which stands him and us in good stead.
Paul Hosking		50%	The Chief Financial Officer has had a solid year with good direction and guidance given to direct reports and their teams. He has built effective peer relationships based on mutual trust and respect, working particularly well with the Chief Operating Officer. Good leadership and time commitment were given to culture review (Executive Committee sponsor for nine months). Effective settling in of new Chief Actuary. Acceptance of separation of change and strategy functions (transferred to Chief Digital and Technology Officer).
David Campbell		75%	The Chief Operating Officer has developed the commercial leadership team, which is increasingly effective externally with stronger ownership, purpose and backbone. He has a stronger and more aligned working relationship with Operations teams. He has successfully built personal credibility externally, including with C-suite at major builders. He has been particularly effective/resolute in builder Section 4 negotiations; tackled with conviction and enthusiasm, leveraging Claims and Legal expertise where needed. He was a visibly committed lead on D&I, actively promoting internal networks and instilling confidence in others.

Directors' Remuneration Policy table

The table below provides additional information on vesting of annual bonus deferred from previous years for each of the Executive Directors who served the Company during the financial year ended 31 March 2023 in line with the Policy. All deferrals are operated in cash and payments will be made in July 2023.

	Annual bonus deferral vesting from prior years
Steve Wood	£58,120
Paul Hosking	£26,754
David Campbell	£26,455

Single total figure of remuneration for the year ended 31 March 2023 – Non-Executive Directors

£,000	Year	Fees	Taxable Benefits	Total Remuneration
Paul Bishop	2022/23	79.0	0.0	79.0
	2021/22	60.0	0.0	60.0
Alison Burns	2022/23	69.0	0.6	69.6
	2021/22	57.0	0.0	57.0
Kate Davies	2022/23	29.0	0.0	29.0
	2021/22	44.0	0.0	44.0
Tesula Mohindra	2022/23	69.0	0.0	69.0
	2021/22	38.0	0.0	38.0
Dr Teresa Robson-Capps	2022/23	69.0	1.2	70.2
	2021/22	41.0	0.0	41.0
Stephen Stone	2022/23	60.0	0.0	60.0
	2021/22	48.0	0.0	48.0
Alan Rubenstein	2022/23	172.0	3.0	175.0
	2021/22	143.0	0.0	143.0
Philip Rycroft	2022/23	65.0	1.2	66.2
	2021/22	53.0	0.0	53.0
Elizabeth Austerberry	2022/23	40.0	0.0	40.0
	2021/22	0.0	0.0	0.0

Payments to past directors

A payment of £15,591 was made in July 2022 to former Executive Operations Director Neil Jefferson as part of the ongoing release of residual deferred bonus bank. A final release is due to be paid subject to Remuneration Committee approval in July 2023 of £15,591.

Appropriateness of Executive Director pay

The Remuneration Committee reviews the Executive Directors' total remuneration each year in the light of pay in the wider workforce and Company performance to assess whether the outcome is appropriate. One metric that is taken into account for these purposes is the CEO to Employee pay ratio and the trend in this metric since its inception. The Remuneration Committee also reviews wider workforce pay policies and trends to ensure that they are taken into account when setting Executive Director pay.

CEO pay ratio

Year	Method	Ratio at 25th percentile	Ratio at median	Ratio at 75th percentile
2022/23	Option A	13:1	11:1	9:1
2021/22	Option A	14.1	11.1	9.1
2020/21	Option A	15:1	12:1	9:1

Employee at	25th percentile	Median	75th percentile
Total pay and benefits	£42k	£50k	£63k
Salary	£39k	£45k	£56k

The table below sets out the relative importance of spend on pay in 2022/23 compared to Operating Profit (key financial measure for NHBC):

£m	2022/23	2021/22	% change
Spend on pay	85.3	70.0	21.8
Operating profit[6]	58.6	62.5	(6.1)

Implementation of the Directors' Remuneration Policy for 2023/24

Executive Director remuneration for 2023/24

Set out below is a summary of how the Policy will be implemented for 2023/24 for Executive Directors

	Steve Wood	Paul Hosking	David Campbell
Salary	£345,000	£238,200	£242,300
Salary change (%)	4%	4%	4%
Maximum bonus opportunity (% salary)	80%	80%	80%
Maximum LTIP opportunity (% salary)	80%	80%	80%

The Remuneration Committee has agreed that for 2023/24 salaries will be increased by 4% for the Executive Directors and Executive Team. The 4% increase is lower than that of the wider workforce (increases of between 5% and 6% for lower paid employees to support with cost-of-living pressures). Salary increases are effective from 1 April 2023. There are no changes to our employer pension contributions which are reviewed annually.

6 Profit before tax less investment return allocated to the non-technical account.

Directors' Remuneration Policy table

Details of the annual bonus metrics for 2023/24 are set out below. Targets and ranges will be disclosed retrospectively.

2023/24 annual bonus			Weighting
Commercially focused	**Operating profit:** NHBC profit for the year excluding return on surplus assets	35%	60%
	Growth in non-insurance income: Increase in revenue for non-insurance products and services	10%	
	Operating expense (opex) ratio: Achieve the target % ratio of total operating expenditure to total revenue	10%	
	Quality: Delivery of the phase 2 benefits of the quality improvement programme	5%	
Modern & Agile	**Phoenix delivery:** Delivery of the agreed elements of the Digital Transformation Project	5%	15%
	Homeowners: Implement good outcomes for consumers	5%	
	Culture: Delivery of the agreed elements of the culture change programme	5%	
Social responsibility	**Environment:** Further reductions in Scope 1 and 2 carbon emissions versus the 2019/20 baseline	5%	5%
Talented and capable people	**Employee Engagement:** Maintain or improve the company-wide employee engagement score	10% combined weighting	10%
	Voluntary attrition: The levels of voluntary attrition to be below a given level		
	D&I: Improvement in female headcount recruitment and retention		
Risk	**Risk:** Complete assurance actions on time	10%	10%

Details of the LTIP metrics for 2023/24 are set out below:

2023/24 LTIP		Weighting	Threshold (20% vesting)	Target (50% vesting)	Stretch (100% vesting)
Financial	Cumulative Operating Profit. Operating result	20%	£96m	£120m	£144m
	Return on Capital	20%	8%	9%	10%
	Solvency Ratio	20%	185%	191%	196%
Non-financial	Phoenix (Digital Transformation Programme) Delivery	20%	80%	90%	100%
	ESG: Scope 1 and Scope 2 Emissions	10%	30%	40%	50%
	ESG: To Drive Internships and Graduate Recruitment to support our diversity ethnicity mix	10%	13%	15%	17%

With regards to the 2022/23 LTIP, due to the timing of implementation last year, details of measures and weightings were not included in the 2021/22 Annual Report with a commitment to make this disclosure in the following year. The 2022/23 measures included Cumulative Operating Profit (20%), Return on Capital (20%), Solvency Ratio (20%), Quality (20%) and ESG (20%).

Non-Executive Director fees for 2023/24

Set out below is a summary of how the Policy will be implemented for 2023/24 for Non-Executive Directors.

	Fee	% change
Chair	£178.9k	4%
Board membership	£56.2k	4%
Senior Independent Director	£10.4k	4%
Committee chair (SMF)	£12.5k	4%
Committee chair (Non SMF)	£9.4k	4%
Committee member	£3.2k	7%

Remuneration Committee advisors

During the course of 2022/23, PwC were our independent advisors. PwC were appointed as independent advisors in September 2020 by the Remuneration Committee as part of a competitive selection process.

The Remuneration Committee monitors the advice provided to them to ensure its independence and objectivity. Fees to PwC for advice given in respect of directors' remuneration for the year ended 31 March 2023 were £139,521.

The Remuneration Committee also received input from the Executive Directors, Human Resources, Risk & Compliance and Finance throughout the year.

Approval by the Board

The Directors' Remuneration Report was reviewed and approved by the Board on 29 June 2023.

Alison Burns
Chair of the Remuneration Committee.

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 2023. The Directors’ Report required under the Companies Act 2006 comprises this Directors’ and Corporate Governance Report, the Directors’ Remuneration Report and the disclosures in the ‘Wider impact and non-financial information statement’ section of this report.

Results

The Group’s results for the year are shown in the consolidated statement of comprehensive income on page 115.

Directors

The directors at the date of this report are shown, together with their biographical details, in the Governance section on page 56.

Directors’ interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings although some of our directors are involved with registered customers, suppliers and partners in the new house-building industry. We trade in the normal course of business, on an arm’s length basis, with all these parties and material transactions with related parties are disclosed in note 35 on page 176 to the financial statements.

We have directors’ and officers’ liability insurance in place in respect of the Company and our directors, together with indemnities for the directors, to the extent permitted by English law and the Company’s Articles of Association. There are no other qualifying third-party indemnity provisions in place.

Details of directors’ remuneration, service contracts, and employment contracts are set out in the Directors’ remuneration report. Details of how directors manage potential conflicts of interest are included in the Corporate Governance 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, SCR and Group's principal risks (see Risks to NHBC's business' section on page 38). 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.

NHBC reported another year of profits in financial year 2022/23 and continues to strengthen its balance sheet, seeing registrations and completions increase to the highest levels since 2007/08. The solvency ratio stood at 214% at 31 March 2023, a c.31% point increase on prior year.

The current high inflation environment, combined with rising interest rates is placing pressure on household finances and that is likely to have an impact on new home demand. That said, the industry is resilient, and house builders and developers remain positive about the outlook over the next few years. The industry skills and supply chain challenges are expected to persist and combined with regulatory change, the business and its people remain watchful as we enter the new financial year.

As a result of these challenges management are focussed on:

- regular monitoring of inflation impacts on the business, ensuring we are well matched for core inflation, and are pricing and reserving appropriately for higher house rebuild cost inflation
- continued engagement with Government and policy makers in respect of building safety, energy efficiency in new homes and consumer redress, ensuring that the quality of new-build homes is a key component of the industry and policy roadmap
- regular dialogue with customers and other key stakeholders to ensure we understand their needs and remain at the forefront of the industry
- ensuring NHBC delivers sustainable profits to provide the financial resilience and capital strength to allow it to take advantage of opportunities as they arise and withstand claims events should they arise for the benefit of our policyholders
- running regular scenario analysis to understand the impact of economic and regulatory change on the business and establishing plans for mitigation of any downside events.

Having reviewed the output of the business plan and the scenarios the directors have a reasonable expectation that the Company and the Group 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' report

Directors' responsibilities

The directors are responsible for preparing the Annual 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Company for that period.

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

- elect suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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	26
Research and development activities	Strategic report	26
Financial risk management	Strategic report	26
Corporate responsibility governance	Wider impact and non-financial information statement	43
Action on employee participation	Wider impact and non-financial information statement	43
Disclosure of information to the auditor	Directors' report	96
Directors in office during the year	Corporate governance report	58
Details of qualifying third-party indemnity provisions	Directors' report	96
Future developments of the business	Chief Executive Officer's report	10
Rules governing appointments of directors	Corporate governance report	58
s172 statement	s172 statement	48
Streamlined energy and carbon reporting	Wider impact and non-financial information statement	43

This report was approved by the Board on 29 June 2023 and signed on behalf of the Board by:

Kim Bromley
Company Secretary

Customer satifaction

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.

Vermin were entering Mr B's home through an uncapped soil stack in the loft. We were promptly able to investigate and approve the claim, offering a cash settlement.

"NHBC offer a friendly, understanding, professional and very efficient service. Communication is first class and engaging. This company is highly recommended."

Mr B, Luton

Water ingress was damaging Mr C's living room wall when he contacted us. After investigating his claim, we were able to support him in negotiating with the builder to repair the fault and the damage.

"I was very nervous about engaging with NHBC even though it was well within my right as a new home owner. The case handler was very supportive and understanding. I'm thankful of the support given and the apparent resolution of my issue."

Mr C, Swansea

Mrs R reported water ingress from her roof which had caused damage to her kitchen. After a quick investigation, Mrs R accepted a cash settlement to arrange the repairs herself.

"I have never had to deal with a building claim before and I found everybody I spoke to considerate, polite and kind. The claim was dealt with quickly and efficiently and as quick as it could be. The overall experience was very good."

Mrs R, Hungerford

Mr C had a problem with a roof verge cracking and falling to the house and garage. He was happy to accept a cash settlement for completion of the repair work.

"Very professional service, made the process stress free and easy to follow by explaining things in layman's terms."

Mr C, Essex

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

1 Opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income
- the consolidated and parent company statement of financial position
- the consolidated and parent company statements of changes in equity
- the consolidated cash flow statement
- the related notes 1 to 37, excluding the capital management disclosure in note 7, calculated in accordance with Solvency II regime which is marked unaudited.

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

2 Basis for opinion

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

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

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

3 Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the valuation of gross insurance claims reserves. The key audit matter remains a similar level of risk to the prior year.
Materiality	The materiality that we used for the group financial statements was £7.1m (2022: £5.0m) which was determined on the basis of 1.25% of net assets (2022: 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	We have increased the percentage applied in determining materiality based on consideration of potential ranges of materiality from our chosen benchmark applied by other comparable companies and alternative benchmarks such as net Technical Provisions.

4 Conclusions relating to going concern

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

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

- we evaluated management's method to assess going concern including an assessment of management's forward-looking business plan
- we challenged future profit forecasts and management's underlying business plan to support key forward-looking assumptions such as future building registration volumes and inflation rate assumptions by performing sensitivity analysis of these assumptions
- we assessed the impact of economic conditions including builder behaviour and persistent high inflation on the future capital position of the group
- we evaluated the historical accuracy of forecasts prepared by management by comparing previous forecasts against actual results achieved
- we assessed the appropriateness of going concern disclosures.

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

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

5 Key audit 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.

5.1 Valuation of gross insurance claims reserves

Key audit matter description	The gross insurance claims reserves comprise both provision for claims and the unexpired risk reserve and as at 31 March 2023 totalled £621.9 million (2022: £879.7 million) as detailed in Note 5.9 Insurance Contracts (significant accounting polices) and Note 24 Insurance Liabilities (financial disclosure). The judgements which are made in determining both the actuarial best estimate and the margin for uncertainty are 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 valuing the actuarial best estimate for Section 2 attritional, Section 3 attritional, large and exceptional loss claims 2 the assumptions applied in valuing the incurred but not reported (IBNR) provision for Section 4 cladding claims 3 the assumptions applied in setting the booked margin for UK GAAP reporting. **Key audit matter focus areas** 1 The assumptions applied in determining the actuarial best estimate for Section 2 attritional, Section 3 attritional, large and exceptional loss claims. Attritional Loss claims relating to Sections 2 and 3 of the group's Buildmark product, as defined in note 24.1 to the financial statements, are projected based on historical claims experience using standard actuarial techniques. The group estimates future House Rebuilding Cost Index ('HRCI') changes when projecting the future cost of these attritional losses. Given the ongoing uncertainty in the UK's inflation environment, the selection of this claims inflation assumption which is highly judgemental and has a significant impact on the amount reserved given the long tail nature of the policies underwritten. This assumption represents a key source of estimation uncertainty for the group which increases the susceptibility of the balance to material misstatement due to error and fraud. These have been included within Note 4 of the disclosure notes to the financial statements. Moreover, the current economic uncertainty particularly around builder behaviour and appropriately reserving for the uncertainty is a source of estimation uncertainty for the group. We note uncertainty on the claims provisions at this year end, in view of the current inflationary pressures. Directors therefore exercise 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 assumptions applied in valuing the IBNR provision for Section 4 cladding claims Following the Grenfell Tower fire in 2017 and the resulting focus on cladding claims, the group continues to assess its exposure to claims of this nature and reserve for them accordingly. In determining the frequency and severity of cladding claims, directors have exercised a significant level of judgement and as a result we have identified the assumptions applied in valuing the IBNR provisions for Section 4 cladding claims as a key audit matter. Whilst we note that developers signing the Government's fire safety remediation contracts reduces the historical level of judgement applied to the builder recovery assumption, the Section 4 claims reserves are sensitive to changes in the assumption which continues to involve an exercise of judgement from directors. 3 The assumptions applied in valuing the booked margin for UK GAAP reporting Actual claims experience may differ from the historical pattern on which the actuarial best estimate is based and the cost of settling individual claims may exceed that reserved for. Consequently, management adds a margin to the actuarial best estimate to arrive at the booked Technical Provisions. This margin is determined by considering a range of adverse economic and non-economic scenarios and reflects the inherent uncertainty in estimating the ultimate losses on claims, over and above that which can be projected actuarially as a best estimate based on underlying claims development data. The appropriate and consistent margin to recognise is an area of significant director judgement. In light of uncertainties around future economic conditions including recessionary impacts, inflation and builder behaviour, we have identified the margin as an area of key audit focus given its susceptibility to management bias.

How the scope of our audit responded to the key audit matter	For each of the key audit matter focus areas, we have gained an understanding of the end-to-end claims and reserving process and obtained an understanding of the relevant controls. We have tested the relevant controls over actuarial data reconciliations and claims controls. Additionally, we reconciled claims and policy data to source systems to assess the completeness and accuracy of the underlying data used in the group's actuarial calculation. 1 The assumptions applied in determining the actuarial best estimate for Section 2 attritional, Section 3 attritional, large and exceptional loss claims We worked with our actuarial specialists to: • inspect NHBC's documentation and key reserving files to conclude on reasonableness of assumptions applied • challenge the HRCI assumption used within the calculation, leveraging observable market data to benchmark the assumption and assess reasonableness • challenge the frequency and severity assumptions used for large and Exceptional Losses by assessing the analysis and director judgements that support the selected assumptions, and assessing the justification for those assumptions in light of alternative assumptions available. 2 The assumptions applied in valuing the IBNR provision for Section 4 cladding claims We worked with our actuarial specialists to: • Challenge the assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating future claims; • Consider any alternative assumptions which could reasonably be applied, including those considered by management and the impact of those on the result; and • Challenge the builder self-repair assumptions by identifying relevant publicly available information and meeting with legal counsel and key management personnel to consider whether contradictory evidence exists. 3 The assumptions applied in valuing the booked margin for UK GAAP reporting. We gained an understanding of the process that management went through to determine the best estimate liability and obtained an understanding of relevant controls within this process. We have worked with our actuarial specialists to assess 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. Performed a 'stand back' test to challenge the level of prudence and consistency of the margin with previous reporting periods in light of the level of uncertainties that existed at each respective reporting date.
Key observations	We conclude that the assumptions used in the calculations of the gross insurance claims reserves are appropriate.

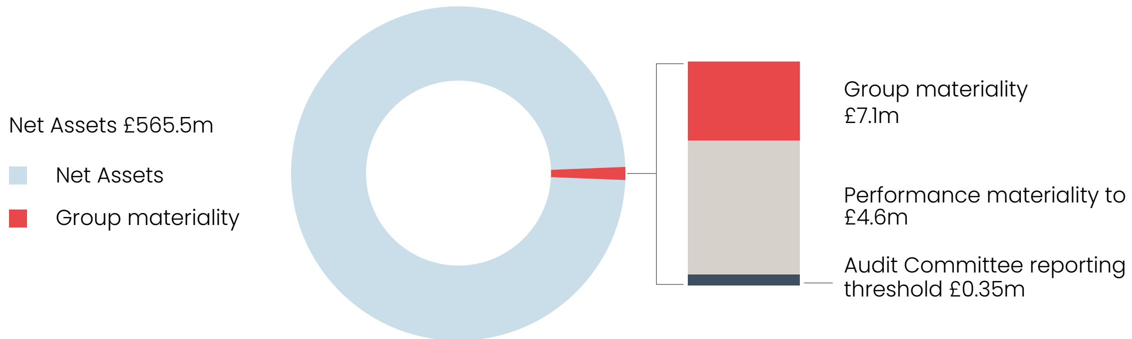
6 Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£7.1 million (2022: £5.0 million)	£6.7 million (2022: £4.7 million)
Basis for determining materiality	Materiality was determined as 1.25% of net assets (2022: 1.0% of net assets). We have increased the percentage applied in determining materiality based on consideration of potential ranges of materiality from our chosen benchmark applied by other comparable companies and alternative benchmarks such as net Technical Provisions.	Parent company materiality equates to 1.20% of parent company net assets (2022: 0.95% of parent company net assets), which is capped at 95% of group materiality (2022: 95%).
Rationale for the benchmark applied	We determined that the critical benchmark for the group was net assets. The group 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.	



6.2 Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	65% (2022: 65%) of group materiality	65% (2022: 65%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) we have audited the group for a number of years and so have knowledge of both the group and the environment it operates in b) our ability to rely on controls over a number of significant business processes c) a number of corrected and uncorrected misstatements in historical periods.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.35 million (2022: £0.25 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1 Identification and scoping of components

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

Group materiality is used for setting audit scope and the assessment of uncorrected misstatements. Materiality is set for each significant component in line with the components proportion of the chosen benchmark. This is capped at the lower of 95% of group materiality and the component materiality determined for a standalone audit. Most of the group's operations are carried out by the parent company, which accounts for 100% of gross premiums written and 98% of net assets within the group. This resulted in the parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited applying a materiality of £277k (2022: £249k), and NHBC Services Limited applying a materiality of £153k (2022: £129k), being subject to a full scope audit by the group engagement team. Consistent with prior year, these three entities represent the principal trading and service operations of the group and account for 100% of the group's net assets, 100% of the group's gross earned premium and 100% of the group's profit after tax.

7.2 Our consideration of the control environment

IT Controls

In planning our audit, we identified three systems that were material to the group's financial reporting processes. These systems handled data relating to gross written premium, claims and expenses and we intended to rely on the IT and business controls associated with these systems. Having worked with our IT specialists to assess the operating effectiveness of the IT controls associated with these systems, as well as the wider general IT control environment across the group, we were able to rely upon the IT controls associated with these systems.

Business processes and financial reporting controls

In planning our audit, we identified business processes that were material to the group's financial reporting. These processes spanned the group's material transactions and account balances including gross written premiums, claims, expenses, and the reserving process relating to reconciliation of data. Of these, we intended to rely on the relevant controls associated with these processes. Having completed our testing over the relevant controls associated with these cycles, through a combination of current period testing and controls rotation approach where we place reliance on controls tested in prior periods, we concluded that we were able to rely upon the relevant controls associated with these cycles. 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.

7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including management's implementation of their Climate Change Steering Group ("Steering Group"). The Steering Group has been established to identify and address material risks arising from climate change. Based on the assessment, management has concluded that the impact of climate-related risk is not material to the financial statements in the short term.

We have performed a risk assessment of the financial impact of climate-related risk on the financial statements and concluded that there is currently no material impact arising from climate change. In doing so we considered the estimates and judgements applied to the financial statements and how climate risks impact their valuation. We assessed management's disclosure relating to climate risks in the strategic report and considered whether information included in the disclosure on page 41 is consistent with our understanding of the business and the financial statements.

8 Other information

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

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

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

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

We have nothing to report in this regard.

9 Responsibilities of directors

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

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

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

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

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets
- results of our enquiries of management, in-house legal counsel and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- 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 relevant internal specialists, including tax, pensions, IT, financial instruments, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

11.2 Audit response to risks identified

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

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims
- 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
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12 Opinions on other matters prescribed by the Companies Act 2006

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

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

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

13 Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit
- 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
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

14 Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board in May 2016 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 31 March 2016 to 31 March 2023.

14.2 Consistency of the audit report with the additional report to the Audit Committee

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

15 Use of our report

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

Claire Clough
ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 June 2023

Consolidated statement of comprehensive income

Technical account – general business

		2023		2022	
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	8	184,964		149,448	
Outward reinsurance premiums		(67,716)		(50,867)	
Net premiums written		117,248		98,581	
Change in the gross provision for unearned premiums		(96,735)		(81,365)	
Change in the provision for unearned premiums, reinsurers' share		35,913		27,859	
Change in the net provision for unearned premiums		(60,822)		(53,506)	
Earned premium, net of reinsurance			56,426		45,075
Allocated investment return transferred from the non-technical account			(21,119)		31,836
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		(152,139)		(104,592)	
- Reinsurers' share		28,795		2,751	
Net claims paid		(123,344)		(101,841)	
Change in provision for claims					
- Gross amount		37,457		(102,091)	
- Reinsurers' share		(15,708)		85,669	
Change in the net provision for claims		21,749		(16,422)	
Claims incurred, net of reinsurance			(101,595)		(118,263)
Changes in unexpired risk reserve, net of reinsurance			147,483		104,469
Net operating expenses	11		(15,194)		(12,575)
Balance on the technical account for general business			66,001		50,542

Non-technical account

		2023		2022	
	Note	£'000	£'000	£'000	£'000
Balance on the general business technical account			**66,001**		50,542
Investment income	12		**41,237**		45,401
Unrealised gains on investments		**21,966**		29,779	
Unrealised losses on investments		**(74,399)**		(49,482)	
Net unrealised losses on investments	12		**(52,433)**		(19,703)
Investment expenses and charges			**(2,822)**		(2,654)
Allocated investment return transferred to the general business technical account			**21,119**		(31,836)
Other income	8		**81,912**		84,315
Other charges			**(89,259)**		(72,347)
Profit on ordinary activities before taxation			**65,755**		53,718
Tax on profit on ordinary activities	16		**3,676**		6,551
Profit for the financial year			**69,431**		60,269
Other comprehensive income					
Remeasurements of net defined benefit obligation	28	**(8,468)**		14,086	
Movement on deferred tax relating to pension deficit	20	**2,125**		(2,676)	
Revaluation of tangible assets		**(14)**		(4)	
Other comprehensive (expense) / income for the year, net of tax			**(6,357)**		11,406
Total comprehensive income for the year			**63,074**		71,675

Consolidated statement of financial position

	Note	2023 £'000	2022 £'000
Assets			
Investments			
Land and buildings	17	**9,652**	9,366
Other financial investments	29	**1,421,331**	1,454,270
		1,430,983	1,463,636
Reinsurers' share of Technical Provisions			
Provision for unearned premiums	23	**341,396**	305,483
Claims outstanding	23	**196,303**	212,011
Unexpired risk reserve	23	**19,489**	92,360
		557,188	609,854
Debtors			
Debtors arising out of direct insurance operations	19	**10,625**	10,571
Deferred tax	20	**21,021**	15,281
Other debtors	19	**11,666**	10,842
		43,312	36,694
Other assets			
Tangible assets	21	**1,224**	1,043
Cash at bank and in hand		**34,121**	31,901
		35,345	32,944
Prepayments and accrued income			
Accrued interest and rent		**11,235**	9,578
Deferred acquisition costs	22	**17,923**	15,714
Other prepayments and accrued income		**9,034**	8,187
		38,192	33,479
Defined benefit pension plan surplus	28	**7,715**	74
Total assets		**2,112,735**	2,176,681

	Note	2023 £'000	2022 £'000
Liabilities			
Reserves			
Revaluation reserve		**124**	138
Retained earnings		**565,457**	502,369
		565,581	502,507
Technical Provisions			
Provision for unearned premiums	23	**716,967**	620,232
Claims outstanding	23	**456,959**	494,416
Unexpired risk reserve	23	**164,895**	385,249
		1,338,821	1,499,897
Creditors			
Creditors arising out of direct insurance operations	27	**35,124**	36,396
Other creditors	27	**20,964**	33,398
		56,088	69,794
Accruals and deferred income		**152,245**	104,483
Total liabilities and reserves		**2,112,735**	2,176,681

The notes on pages 124 to 179 are an integral part of these financial statements.

The financial statements on pages 104 to 179 were authorised for issue by the Board of Directors on 29 June 2023 and were signed on its behalf.

Paul Hosking
Chief Financial Officer

Company registration 00320784

Company statement of financial position

	Note	2023 £'000	2022 £'000
Assets			
Investments			
Land and buildings	17	**9,652**	9,366
Investments in group undertakings and participating interests	18	**11,625**	8,987
Other financial investments	29	**1,421,331**	1,454,270
		1,442,608	1,472,623
Reinsurers' share of Technical Provisions			
Provision for unearned premiums	23	**341,396**	305,483
Claims outstanding	23	**196,303**	212,011
Unexpired risk reserve	23	**19,489**	92,360
		557,188	609,854
Debtors			
Debtors arising out of direct insurance operations	19	**10,625**	10,571
Deferred tax	20	**21,044**	15,321
Other debtors	19	**9,746**	8,784
		41,415	34,676
Other assets			
Tangible assets	21	**814**	838
Cash at bank and in hand		**33,548**	31,451
		34,362	32,289
Prepayments and accrued income			
Accrued interest and rent		**11,235**	9,578
Deferred acquisition costs	22	**17,923**	15,714
Other prepayments and accrued income		**8,696**	8,040
		37,854	33,332
Defined benefit pension plan surplus	28	**7,715**	74
Total assets		**2,121,142**	2,182,848

	Note	2023 £'000	2022 £'000
Liabilities			
Reserves			
Retained earnings		**553,089**	492,730
Revaluation reserve		**11,649**	9,025
		564,738	501,755
Technical Provisions			
Provision for unearned premiums	23	**717,811**	620,984
Claims outstanding	23	**456,959**	494,416
Unexpired risk reserve	23	**164,895**	385,249
		1,339,665	1,500,649
Creditors			
Creditors arising out of direct insurance operations	27	**35,124**	36,396
Other creditors	27	**41,838**	48,514
		76,962	84,910
Accruals and deferred income		**139,777**	95,534
Total liabilities and reserves		**2,121,142**	2,182,848

The Company's profit for the year was £66.7m (2022: profit of £57.6m) with other comprehensive income for the year being a loss of £3.7m (2022: profit of £14.0m).

The notes on pages 124 to 179 are an integral part of these financial statements.

The financial statements on pages 104 to 179 were authorised for issue by the Board of Directors on 29 June 2023 and were signed on its behalf.

Paul Hosking
Chief Financial Officer

Consolidated statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2021	430,690	142	430,832
Profit for the year	60,269	-	60,269
Other comprehensive income / (expense) for the year	11,410	(4)	11,406
Total comprehensive income / (expense) for the year	71,679	(4)	71,675
Balance as at 31 March 2022	**502,369**	**138**	**502,507**
Profit for the year	69,431	-	69,431
Other comprehensive expense for the year	(6,343)	(14)	(6,357)
Total comprehensive income / (expense) for the year	63,088	(14)	63,074
Balance as at 31 March 2023	**565,457**	**124**	**565,581**

Company statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2021	423,747	6,425	430,172
Profit for the year	57,573	-	57,573
Other comprehensive income for the year	11,410	2,600	14,010
Total comprehensive income for the year	68,983	2,600	71,583
Balance as at 31 March 2022	**492,730**	**9,025**	**501,755**
Profit for the year	66,702	-	66,702
Other comprehensive (expense) / income for the year	(6,343)	2,624	(3,719)
Total comprehensive income for the year	60,359	2,624	62,983
Balance as at 31 March 2023	**553,089**	**11,649**	**564,738**

Consolidated statement of cash flows

	Note	2023 £'000	2022 £'000
Net cash from operating activities before interest received	31	**(24,829)**	(18,258)
Interest received		33,725	28,722
Taxation paid		(539)	(2,766)
Net cash generated from operating activities		**8,357**	7,698
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(812)**	(441)
Payments to acquire land and buildings	17	**-**	-
Receipts from disposal of land and building		**-**	479
		(812)	38
Net increase in cash and cash equivalents		**7,545**	7,736
Gains and losses on cash and cash equivalents		**(684)**	987
Cash and cash equivalents at the beginning of the year		**79,152**	70,429
Cash and cash equivalents at end of year		**86,013**	79,152
Cash and cash equivalents consist of:			
Cash at bank and in hand		**34,121**	31,901
Deposits with credit institutions (included in other financial investments)		**12,330**	4,292
Treasury bills and liquidity funds (included in other financial investments)		**39,562**	42,959
Cash and cash equivalents		**86,013**	79,152

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)
- 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 2023 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 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 96.

4 Critical accounting judgements and estimation uncertainty

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

Major area of judgement on policy application is summarised below:

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

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

Financial statement area	Related accounting policies and notes
Insurance and reinsurance contracts	Note 5.9 - Insurance contracts Note 23 - Insurance contract liabilities and associated reinsurance
Defined benefit pension scheme	Note 5.10.3 - Defined benefit pension scheme Note 28.1 - Defined benefit pension scheme

5 Summary of significant accounting policies

5.1 Basis of consolidation

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

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

5.2 Investment return

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

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

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

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

Notes to the Financial Statements

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 registered 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 registered customers in meeting government-set Building Regulations.

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

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

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

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

5.4 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that 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. Valuations are made by professionally qualified external valuers annually. Fair value is primarily derived using comparable recent market transactions on arm's length terms[7].

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.

7 The value of each of the properties is assessed in accordance with the relevant parts of RICS Valuation – Global Standards which incorporate the International Valuation Standards and the RICS UK national supplement. In particular, Fair Value of each of the properties has been determined in accordance with IVS104. Under these provisions, the term "Fair Value" means "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Notes to the Financial Statements

5.7 Other financial investments

Other financial investments are stated at market value. The fair values of quoted investments in active markets are based on current bid prices, excluding any accrued interest. The fair values of unlisted securities and quoted investments for which there is no active market, are established by using valuation techniques corroborated by independent third parties. These may include reference to the current fair value of other investments that are substantially the same and discounted cash flow analysis. Financial investments carried at fair value are measured using different valuation inputs categorised into a three-level hierarchy, as outlined in note 29. Changes in the fair value are recognised in the non-technical account in the consolidated statement of comprehensive income.

5.8 Tangible assets

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

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

- computer equipment - 3 to 5 years
- fixtures and fittings - 5 years.

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

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

5.9 Insurance contracts

5.9.1 Classification

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

5.9.2 Premiums written

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

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

5.9.3 Unearned premiums

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

5.9.4 Deferred acquisition costs and commissions receivable

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

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

5.9.5 Claims incurred

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

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

5.9.6 Unexpired risk reserve

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

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

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

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

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

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

5.9.7 Reinsurance

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

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

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

5.10 Employee benefits

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

5.10.1 Short-term benefits

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

5.10.2 Defined contribution pension scheme

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

5.10.3 Defined benefit pension scheme

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

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

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

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

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

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

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

5.11 Impairment of non-financial assets

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

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

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

5.12 Lease assets

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

The Group does not have finance leased assets.

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

5.13 Provisions and contingencies

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

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

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

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

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

5.14 Foreign currency

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

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

5.15 Related party transactions

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

5.16 Financial instruments

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

5.16.1 Financial assets

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

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

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

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

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

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

5.16.2 Financial liabilities

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

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

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

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

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

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

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

5.17 Statement of cash flows

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

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

5.17.1 Offsetting

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

Notes to the Financial Statements

6 Risk management

The current principal risks of the Group and how they are managed through the Risk Management Framework are outlined on page 38.

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 and 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 a recommendation to the Audit Committee which has 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 135.

6.2.2 Inflation risk

Inflation risk is defined as the risk that:

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

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

6.2.3 Equity price risk

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

The Group continues to limit its equity exposure in line with the Group's risk preferences. The Group invests in equities through pooled funds. The Group's equity investments are globally diversified and include both developed and emerging markets equities. The Group's strategy ensures that the equity portfolio is sufficiently diversified thereby reducing exposure to individual equities.

The Company holds equity investments in its subsidiaries, which are carried at fair value. These assets are exposed to the operational risks of those entities.

Sensitivities to changes in equity prices are presented on page 135.

6.2.4 Property price risk

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

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

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

6.2.5 Currency risk

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

The Group's exposure to currency risk is predominantly through its investment portfolio that includes equity funds and bond holdings. The underlying investments of the equity funds are denominated in a wide selection of currencies given the well diversified global strategy. Overseas bond investments are denominated in US Dollars and Euros.

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

6.2.6 Derivative risk

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

6.2.7 Sensitivity analysis

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

	Increase / (decrease) in statement of comprehensive income		Increase / (decrease) in other comprehensive income		Increase / (decrease) in total reserves	
	2023	2022	**2023**	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(12,073)**	(12,976)	**-**	-	**(12,073)**	(12,976)
Impact on equities and funds of a 15% fall in value	**(24,417)**	(23,540)	**-**	-	**(24,417)**	(23,540)
Decrease of property markets of 15%	**(1,407)**	(1,361)	**(41)**	(44)	**(1,448)**	(1,405)

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

Insurance contract sensitivity analysis is included in note 26.

6.3 Credit risk

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

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

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

Areas particularly exposed to credit risk are:

- investments
- Group's customers
- reinsurance assets.

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

6.3.1 Investments

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

6.3.2 Group's customers

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

6.3.3 Reinsurance assets

The Group is exposed to credit and concentrations of risk with individual reinsurers. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. Group policy dictates that reinsurers have a financial strength rating of at least A-[8]. 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 2023, the Group held £31m (2022: £29m) of builder customer deposits. The Group has additional credit enhancements with respect to Major Projects which include, but are not limited to, land charges.

6.3.5 Credit risk exposure and ageing of financial and insurance assets

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group at 31 March 2023. The total is of financial assets that are neither past due nor impaired.

	AAA	AA	A	BBB	BB	B and below	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	102,776	477,106	230,561	355,918	12,060	266	2,827	1,181,514
Equity and other variable yield securities	-	-	-	-	-	-	162,781	162,781
Derivatives	-	-	-	-	-	-	25,144	25,144
Reinsurers' share of insurance contract liabilities	-	411,275	66,808	-	-	-	79,105	557,188
Insurance and non-insurance trade debtors	-	-	-	-	-	-	17,900	17,900
Other debtors	-	-	-	-	-	-	4,391	4,391
Deferred tax asset	-	-	-	-	-	-	21,021	21,021
Cash and cash equivalents	-	-	-	-	-	-	86,013	86,013
	102,776	**888,381**	**297,369**	**355,918**	**12,060**	**266**	**399,182**	**2,055,952**

The following table provides information about the aggregated credit risk exposure for financial assets of the Group at 31 March 2022. The total is of financial assets that are neither past due nor impaired.

	AAA	AA	A	BBB	BB	B and below	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	92,736	560,994	203,011	347,065	13,170	515	3,561	1,221,052
Equity and other variable yield securities	-	-	-	-	-	-	156,931	156,931
Derivatives	-	-	-	-	-	-	29,035	29,035
Reinsurers' share of insurance contract liabilities	-	496,168	80,598	-	-	-	33,088	609,854
Insurance and non-insurance trade debtors	-	-	-	-	-	-	17,999	17,999
Other debtors	-	-	-	-	-	-	3,414	3,414
Deferred tax asset	-	-	-	-	-	-	15,281	15,281
Cash and cash equivalents	-	-	-	-	-	-	79,153	79,153
	92,736	**1,057,162**	**283,609**	**347,065**	**13,170**	**515**	**338,462**	**2,132,719**

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

The table below represents the ageing of the financial and insurance assets held by the Group at 31 March 2023.

	Neither past due nor 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	1,181,514	-	-	-	-	-	1,181,514
Equity and other variable yield securities	162,781	-	-	-	-	-	162,781
Derivatives	25,144	-	-	-	-	-	25,144
Reinsurers' share of insurance contract liabilities	557,188	-	-	-	-	-	557,188
Insurance and non-insurance trade debtors	11,514	2,523	2,266	1,579	990	(972)	17,900
Other debtors	4,391	-	-	-	-	-	4,391
Deferred tax	21,021	-	-	-	-	-	21,021
Cash and cash equivalents	86,013	-	-	-	-	-	86,013
	2,049,566	**2,523**	**2,266**	**1,579**	**990**	**(972)**	**2,055,952**

The table below represents the ageing of the financial and insurance assets held by the Group at 31 March 2022.

	Neither past due nor 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	1,221,052	-	-	-	-	-	1,221,052
Equity and other variable yield securities	156,931	-	-	-	-	-	156,931
Derivatives	29,035	-	-	-	-	-	29,035
Reinsurers' share of insurance contract liabilities	609,854	-	-	-	-	-	609,854
Insurance and non-insurance trade debtors	13,565	1,868	1,167	1,155	1,024	(780)	17,999
Other debtors	3,414	-	-	-	-	-	3,414
Deferred tax	15,281	-	-	-	-	-	15,281
Cash and cash equivalents	79,153	-	-	-	-	-	79,153
	2,128,285	**1,868**	**1,167**	**1,155**	**1,024**	**(780)**	**2,132,719**

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:

	2023	2022
	£'000	£'000
At 1 April	**780**	774
Impairment loss recognised	**(79)**	(58)
Bad debt provision recognised in year	**271**	64
At 31 March	**972**	780

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.

At 31 March 2023:

	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	(116,897)	(117,313)	(151,237)	(57,849)	(13,663)	(456,959)	(456,959)
Trade creditors	(5,739)	-	-	-	-	(5,739)	(5,739)
Other creditors	(50,349)	-	-	-	-	(50,349)	(50,349)
Derivatives	(1,101)	(962)	(4,047)	(1,596)	(1,828)	(9,534)	(9,534)
	(174,086)	**(118,275)**	**(155,284)**	**(59,445)**	**(15,491)**	**(522,581)**	**(522,581)**

At 31 March 2022:

	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	(112,505)	(130,827)	(188,647)	(50,224)	(12,213)	(494,416)	(494,416)
Trade creditors	(8,581)	-	-	-	-	(8,581)	(8,581)
Other creditors	(61,213)	-	-	-	-	(61,213)	(61,213)
Derivatives	(2,888)	-	(3,425)	-	(1,827)	(8,140)	(8,140)
	(185,187)	**(130,827)**	**(192,072)**	**(50,224)**	**(14,040)**	**(572,350)**	**(572,350)**

6.5 Pension risk

Pension risk is the risk that the NHBC Defined Benefit Pension Scheme (the Scheme) surplus turns into a deficit that 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:

- 86.0% in investments that share characteristics with the long-term liabilities of the Scheme, comprising of corporate bonds (43.0%), LDI (43.0%)
- 14.0% in return seeking assets comprising multi asset credit (8.0%) and senior private debt (6.0%)

Note 28.1.4 discloses the value of the Scheme's investments.

6.5.1.1 Investments – currency risk

The Scheme is subject to direct currency risk because investments totalling £9.2m (2022: £8.4m) are held in non-sterling currencies.

The Scheme is subject to indirect currency risk because the underlying holdings of the pooled investment vehicles held may be denominated in a non-sterling currency and are not fully currency hedged by the investment manager. The value of holdings subject to this risk total £78.7m (2022: £95.5m). This value includes pooled investment vehicles that have only a partial exposure to currency risk.

Unhedged currency exposure risk is managed by investing in a diversified manner across a range of currencies. In addition, overseas currency exposure arising on underlying multi-asset credit holdings is GBP hedged.

6.5.1.2 Investments – interest rate risk

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

The Trustee has set a benchmark allocation of 86.0% to LDI and other matching asset bonds. If interest rates fall, the value of these assets will rise to help match a proportion of the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these assets will fall in value (as will the actuarial liabilities) due to an increase in the discount rate. As at year end, the Trustee expects these assets to capture c.90% (2022: 85%) of the change in actuarial liability value due to interest rate movements.

The Scheme has exposure to interest rate risk via Multi-Asset Credit and Senior Private Debt as well. The interest rate risk they introduce is expected to be low and/or taken by the investment manager as part of its investment process to add value.

6.5.1.3 Investments – other price risk

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

The Scheme has set a target allocation of 14.0% to non-matching bond assets. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various growth fixed income markets.

6.5.1.4 Investments – credit risk

To gain exposure to certain asset classes in a cost-effective way (in both monetary and governance terms), the Scheme is invested in pooled investment vehicles. Therefore, the Scheme is directly exposed to credit risk of these pooled investment vehicles. The value of assets invested in pooled funds and therefore directly exposed to credit risk as a result of this at year end was £174.9m (prior year: £236.1m).

The Scheme is subject to indirect credit risk due to bonds, OTC derivatives, repurchase agreements and cash held within pooled investment vehicles. The value of assets exposed indirectly to credit risk as a result of this at year end was £174.9m (prior year: £205.7m). This value includes pooled investment vehicles that have only a partial allocation to these asset classes. Some of the pooled investment vehicles may also undertake stock lending which will also introduce indirect credit risk.

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

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

6.5.2 Liabilities

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

6.5.2.1 Liabilities – discount rate

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

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

6.5.2.2 Liabilities – inflation risk

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

6.5.2.3 Liabilities – longevity risk

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

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

6.5.2.4 Liabilities – sensitivity analysis

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

	2023	2022
Decrease discount rate by 0.25% (2022: 0.25%)	**£6m**	£10m
Increase inflation rate by 0.25% (2022: 0.25%)	**£5m**	£7m
Increase life expectancy by 1 year (2022: 1 year)	**£6m**	£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.

7.1 Solvency Capital Requirement (SCR) (unaudited)

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 SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations. The Company has a solvency ratio risk appetite at the balance sheet date of 165%. At 31 March 2023, under Solvency II, the solvency ratio was 214% (2022: 183%).

The Company is compliant with PRA and Solvency II requirements.

8 Turnover

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

		2023		2022
	£'000	£'000	£'000	£'000
Insurance activities		**184,964**		149,448
Other activities				
Inspection services	**62,414**		69,235	
Registration fee income	**4,587**		4,815	
Other services supporting the industry	**14,911**		10,265	
Other activities		**81,912**		84,315
		266,876		233,763

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.

		2023		2022
	Credit & suretyship	**Miscellaneous**	Credit & suretyship	Miscellaneous
	£'000	**£'000**	£'000	£'000
Gross premiums written	**23,442**	**161,522**	20,366	129,082
Gross premiums earned	**21,327**	**66,902**	16,289	51,794
Gross claims incurred	**(487)**	**115,169**	2,045	204,638
Gross operating expenses	**1,982**	**13,654**	1,733	10,984
Reinsurance balance	**(1,010)**	**(90,135)**	(837)	16,226

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

	2023	2022
	£'000	£'000
Net claims provisions brought forward at 1 April	**282,405**	265,983
Net payments during the year in respect of these provisions	**(123,358)**	(101,783)
Net claims provisions carried forward in respect of claims provided at 1 April	**(255,107)**	(282,970)
Movement in prior year's provision	**(96,060)**	(118,770)

11 Net operating expenses

	2023	2022
	£'000	£'000
Acquisition costs	**4,006**	2,837
Increase in deferred acquisition costs provision	**(2,209)**	(1,387)
Administrative expenses	**13,839**	11,267
Reinsurance commission	**(442)**	(142)
	15,194	12,575

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

	2023	2022
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	**606**	10
Income from financial assets at fair value through consolidated statement of comprehensive income	**29,910**	27,407
Gains on derivative contracts	**20,289**	12,165
Loss on sale of premises	**-**	(41)
Net gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	**(9,568)**	5,860
	41,237	45,401
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	**(2,822)**	(2,654)
Net unrealised losses on financial assets at fair value through consolidated statement of comprehensive income	**(52,433)**	(19,703)
	(14,018)	23,044

Net interest income on the defined benefit pension scheme £109,000 (2022: expense of £362,000) is recognised in other charges within the consolidated statement of comprehensive income.

The Company paid interest to its subsidiary companies on intercompany balances. No other 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:

	2023	2022
Insurance activities	**235**	216
Other direct activities	**801**	725
Administration	**195**	179
	1,231	1,120

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

Employee costs for the above persons were:

	2023	2022
	£'000	£'000
Wages and salaries	**66,935**	55,047
Social security costs	**8,779**	6,988
Pension costs	**9,617**	8,013
	85,331	70,048

14 Director emoluments

	2023	2022
	£'000	£'000
Aggregate emoluments	**2,073**	1,856
Company pension contributions to defined contribution schemes	**14**	22
	2,087	1,878

Retirement benefits are accruing to one director (2022: one) under the Group's defined contribution pension scheme and no directors (2022: 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:

	2023	2022
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	**602**	572

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

The Directors' remuneration report on page 82 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

	2023	2022
	£'000	£'000
Audit services, pursuant to legislation:		
- Fees payable to the Company's auditors for the audit of the Company and Group financial statements	304	282
- The audit of the Company's subsidiaries, pursuant to legislation	29	11
- The audit of the occupational pension scheme, pursuant to legislation	8	15
Audit related assurance services:		
- Fees in respect of the audit of the Solvency and Financial Condition Report ("SFCR")	83	56
	424	364

15.2 Impairment of trade receivables

	2023	2022
	£'000	£'000
Impairment of trade receivables	271	64

15.3 Operating lease charges

	2023	2022
	£'000	£'000
Land and buildings	238	370
Motor vehicles	3,051	2,752
	3,289	3,122

15.4 Research and development

	2023	2022
	£'000	£'000
Research and development expenditure expensed	-	645

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

Notes to the Financial Statements

16 Income tax

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

	2023		2022	
	£'000	£'000	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	-		-	
Adjustment in respect to prior periods	(61)		(191)	
Total current tax		(61)		(191)
Deferred tax				
Origination and reversal of timing differences	1,935		2,184	
Adjustment in respect of prior periods including impact of change in tax rate	923		(2,851)	
(Recognition) / De-recognition of deferred tax asset	(6,473)		(5,693)	
Total deferred tax		(3,615)		(6,360)
		(3,676)		(6,551)

16.2 Tax income included in other comprehensive income

	2023	2022
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	(1,615)	2,676
Impact of change in tax rate	(510)	-
Recognition of deferred tax asset	-	-
	(2,125)	2,676

16.3 Reconciliation of tax charge

Tax assessed for the period is lower (2022: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2023 of 19% (2022: 19%). The differences are explained below:

	2023	2022
	£'000	£'000
Profit on ordinary activities before tax	**65,755**	53,718
Profit multiplied by the standard rate of tax in the UK of 19% (2022: 19%)	**12,493**	10,206
Effects of:		
- Income not chargeable for tax purposes	**(10,578)**	(8,086)
- Expenses not deductible for tax purposes and permanent differences	**20**	65
- Adjustments in respect of prior years	**(61)**	(192)
- Adjustment to deferred tax charge in respect of previous periods	**923**	(2,851)
- Movement in un-recognised deferred tax asset	**(6,473)**	(5,693)
	(3,676)	(6,551)

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

16.4 Tax rate changes

A UK corporation tax rate of 25% from 1 April 2023 was substantively enacted on 24 May 2021, as a result deferred tax has been calculated at 25% at 31 March 2023 (2022: 25%).

Notes to the Financial Statements

17 Land and buildings

The land and buildings have been revalued at 31 March 2023.

	The Group and the Company
	£'000
Cost or valuation	
At 1 April	**9,866**
Additions	**-**
Revaluation	**380**
Disposals	**-**
At 31 March	**10,246**
Depreciation	
At 1 April	**500**
Charge	**166**
Revaluation	**(72)**
Disposals	**-**
At 31 March	**594**
Net book value at 31 March 2023	**9,652**
Net book value at 31 March 2022	**9,366**

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	
	2023	2022
	£'000	£'000
Freehold	**9,150**	8,750
Long leasehold	**270**	290
Short leasehold improvements	**232**	326
	9,652	9,366

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 at 31 March 2023. 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	
	2023	2022
	£'000	£'000
Cost	**13,749**	13,749
Accumulated depreciation based on cost	**(2,244)**	(2,078)
	11,505	11,671

The Group's impairment gain taken to the consolidated statement of comprehensive income amounted to £466,000 (2022: gain of £317,000).

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

18 Investment in Group undertakings and participating interests

18.1 Investment in participating interests - Group

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

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

18.2 Investment in Group undertakings - Company

	2023	2022
	£'000	£'000
At 1 April	**8,987**	6,383
Revaluation	**2,638**	2,604
At 31 March	**11,625**	8,987
Analysed as:		
NHBC Building Control Services Limited	**8,079**	6,502
NHBC Services Limited	**3,276**	2,215
PRC Homes Limited	**270**	270
NHBC Pension Trustee Limited	**-**	-
Zero Carbon Hub Limited	**-**	-
	11,625	8,987

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2023 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.

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

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

19 Debtors

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**10,625**	10,571	**10,625**	10,571
Debtors arising out of reinsurance operations	**-**	-	**-**	-
	10,625	10,571	**10,625**	10,571
Other debtors				
Trade debtors	**7,275**	7,428	**5,355**	5,370
Corporation tax	**1,600**	1,000	**1,600**	1,000
Other debtors	**2,791**	2,414	**2,791**	2,414
	11,666	10,842	**9,746**	8,784

Trade debtors includes £Nil (2022: £Nil) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £972,000 (2022: £780,000).

20 Deferred tax asset

	Group	Company
	£'000	£'000
At 1 April	**15,281**	**15,321**
Charge to the consolidated statement of comprehensive income	**3,615**	**3,598**
Charge to other comprehensive income	**2,125**	**2,125**
	21,021	**21,044**

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Trade Losses	**21,550**	13,861	**21,550**	13,861
Deferred tax related to defined benefit pension plan asset	**(1,921)**	(14)	**(1,921)**	(14)
Excess of depreciation over capital allowances	**883**	1,076	**906**	1,116
Other timing differences	**509**	358	**509**	358
	21,021	15,281	**21,044**	15,321

The Group and Company had taxable losses carried forward of £192,280,000 (2022: £179,280,000). 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. At 31 March 2023 deferred tax assets of £21,021,000 (2022: £15,281,000) have been recognised for the Group and £21,044,000 (2022: £15,321,000) for the Company, with additional deferred tax assets of £26,520,000 (2022: £30,957,000) for the Group and £26,520,000 (2022: £30,957,000) for the Company not being recognised. There is no expiry date on any of the Group or Company deferred tax assets.

It is expected that the Group and Company will utilise £7,759,000 (2022: £3,223,000) of the deferred tax asset in the following financial year as tax losses are utilised.

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 £498,000 based on a prevailing tax rate of 25% (2022: £496,000 at 25%).

21 Tangible assets

The Group	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	7,280	5,725	13,005
Additions	483	329	812
Disposals	-	(62)	(62)
At 31 March	**7,763**	**5,992**	**13,755**
Depreciation			
At 1 April	6,622	5,340	11,962
Charge	507	124	631
Disposals	-	(62)	(62)
At 31 March	**7,129**	**5,402**	**12,531**
Net book value at 31 March 2023	**634**	**590**	**1,224**
Net book value at 31 March 2022	658	385	1,043

The Company	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	7,280	5,498	12,778
Additions	483	78	561
Disposals	-	(62)	(62)
At 31 March	**7,763**	**5,514**	**13,277**
Depreciation			
At 1 April	**6,622**	**5,318**	**11,940**
Charge	507	78	585
Disposals	-	(62)	(62)
At 31 March	**7,129**	**5,334**	**12,463**
Net book value at 31 March 2023	**634**	**180**	**814**
Net book value at 31 March 2022	658	180	838

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

22 Deferred acquisition costs

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

	2023	2022
	£'000	£'000
At 1 April	15,714	14,326
Acquisition costs deferred during the year	4,006	2,837
Amortisation	(1,797)	(1,449)
At 31 March	17,923	15,714

23 Insurance contract liabilities and associated reinsurance

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

The following is a summary of the Group insurance contract provisions and related reinsurance assets at 31 March 2023.

	2023			2022		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	(716,967)	341,396	(375,571)	(620,232)	305,483	(314,749)
Claims outstanding	(456,959)	196,303	(260,656)	(494,416)	212,011	(282,405)
Unexpired risk reserve	(164,895)	19.489	(145,406)	(385,249)	92,360	(292,889)
	(1,338,821)	557,188	(781,633)	(1,499,897)	609,854	(890,043)

The following is a summary of the Company insurance contract provisions and related reinsurance assets as at 31 March 2023.

	2023			2022		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	(717,811)	341,396	(376,415)	(620,984)	305,483	(315,501)
Claims outstanding	(456,959)	196,303	(260,656)	(494,416)	212,011	(282,405)
Unexpired risk reserve	(164,895)	19,489	(145,406)	(385,249)	92,360	(292,889)
	(1,339,665)	557,188	(782,477)	(1,500,649)	609,854	(890,795)

Notes to the Financial Statements

24 Insurance liabilities

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

24.1 Insurance product

The majority of the Group's insurance liabilities arise as a result of the sale of the Buildmark and Buildmark Choice products. The Buildmark product is NHBC's warranty and insurance product for newly built or newly converted homes. Buildmark Choice is specially designed to protect landlords of newly built or newly converted homes which are built to be rented out or for shared ownership in the private, affordable or social housing sectors. The Buildmark and Buildmark Choice products sold by NHBC, the Company, both protect a homeowner in three separate ways which can be divided into three temporal periods.

Section 1: Prior to completion of the house purchase, 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: 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 and Buildmark Choice begin after the end of Section 2 for a period of eight years, i.e., years three to ten following legal completion. Like Section 1, these Sections are exclusively concerned with obligations undertaken by NHBC to the homeowner to provide an indemnity in the event of certain events.

From 1 October 2019, NHBC no longer provided Section 4 cover as part Buildmark or Buildmark Choice products. Section 4 provided insurance for health and safety issues arising from a builder's failure to meet certain Building Regulations within years 3-10 of the policy.

Also, from 1 October 2019, Section 5 of the Buildmark and Buildmark Choice products (cover for contaminated land), was deleted and instead formed part of the Section 3.

Note that Section 1 of the Buildmark Choice cover is optional.

24.2 General methodology

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

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

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

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

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

24.3 Risk concentration

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

24.4 Assumptions

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

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

24.4.1 Exceptional losses

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

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

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

NHBC is also exposed to large losses from individual developments.

24.4.2 Builder behaviour

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

- some builders are keen to offer a high level of service to their customers to maintain their reputation as a quality builder
- 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[9] builders are used to determine builder behaviour assumptions.

9 Previously registered builders are builders not currently on NHBC's register.

24.4.3 Social inflation

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

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

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

24.4.4 Economic conditions – cost inflation

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

- general materials and labour cost inflation
- 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/RPI differential and combining it with the RPI assumptions has been taken.

24.4.5 Economic conditions – housing market

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

24.4.6 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.

In order to calculate future claims the model uses claim estimate amounts provided by the claims team in relation to notified claims and adds an amount in relation to claims not yet notified. This additional amount relies on scaling factors picked using internal claims data overlaid by expert judgement allowing for the unique features of this emerging claim type.

These estimates are then adjusted for expected recoveries.

24.4.7 Discount rate

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

24.4.8 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	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 April	**620,232**	538,867	**620,984**	539,525
Increase in provision	**96,735**	81,365	**96,827**	81,459
At 31 March	**716,967**	620,232	**717,811**	620,984

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £4.2m increase (2022: £14.3m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income.

24.5 Movements in the gross provision for claims

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

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 April	**494,416**	392,325	**494,416**	392,325
(Decrease) / increase in provision	**(37,457)**	102,091	**(37,457)**	102,091
At 31 March	**456,959**	494,416	**456,959**	494,416

24.6 Movements in the gross unexpired risk reserve

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

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 April	**385,249**	539,741	**385,249**	539,741
Decrease in provision	**(220,354)**	(154,492)	**(220,354)**	(154,492)
At 31 March	**164,895**	385,249	**164,895**	385,249

Notes to the Financial Statements

24.7 Loss development tables[10]

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

Financial reporting year

	Development year								
£'000	0	1	2	3	4	5	6	7	8
Prior	784	10,719	29,626	47,826	63,541	72,010	86,379	83,447	100,836
2008	42	965	4,219	4,152	7,584	5,255	9,664	13,398	12,557
2009	45	1,056	2,048	2,072	5,730	4,294	5,761	5,615	4,316
2010	97	673	2,452	2,580	3,880	3,467	4,014	3,974	6,062
2011	37	580	3,512	3,321	4,432	4,849	2,679	3,628	4,234
2012	15	566	2,305	1,809	3,176	2,279	2,495	4,264	25,746
2013	323	674	1,336	2,325	2,541	2,199	4,866	3,916	5,730
2014	89	777	1,355	2,987	2,687	4,329	2,284	3,255	11,475
2015	13	364	2,395	1,263	2,703	2,329	2,764	2,342	10,473
2016	–	294	1,395	1,014	1,209	2,648	2,877	3,786	
2017	21	333	908	243	897	1,182	1,626		
2018	1	37	1,784	648	1,240	4,348			
2019	–	267	72	813	1,033				
2020	–	0	219	2,216					
2021	–	14	3,502						
2022	60	5,459							
2023	3,573								

Claims handling and other charge

10 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								
	9	10	11	12	13	14	15	16+	**Claims incurred in the financial year ended 31 March 2023**
	111,008	116,366	94,230	66,460	48,409	23,728	8,058	33,638	**(4,076)**
	15,805	13,060	17,970	11,544	7,541	45,579	6,629		**6,629**
	5,343	9,144	15,755	1,984	12,369	(4,091)			**(4,091)**
	5,602	7,040	2,082	17,888	(838)				**(838)**
	25,094	13,189	2,537	8,745					**8,745**
	12,658	5,056	8,654						**8,654**
	11,440	5,945							**5,945**
	16,002								**16,002**
									10,473
									3,786
									1,626
									4,348
									1,033
									2,216
									3,502
									5,459
									3,573
									72,986
									41,696
									114,682

25 Reinsurance assets

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

25.1 Assumptions

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

25.2 Movements in reinsurers' share of provision for unearned premiums

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

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 April	**305,483**	277,624	**305,483**	277,624
Increase in provision	**35,913**	27,859	**35,913**	27,859
At 31 March	**341,396**	305,483	**341,396**	305,483

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £1.8m increase (2022: £7.3m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income, offset by movements in the unexpired risk reserve.

25.3 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	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 April	**212,011**	126,342	**212,011**	126,342
(Decrease) / increase in provision	**(15,708)**	85,669	**(15,708)**	85,669
At 31 March	**196,303**	212,011	**196,303**	212,011

25.4 Movements in reinsurers' share of the unexpired risk reserve

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

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 April	**92,360**	142,383	**92,360**	142,383
Decrease in provision	**(72,871)**	(50,023)	**(72,871)**	(50,023)
At 31 March	**19,489**	92,360	**19,489**	92,360

26 Insurance contract sensitivity analysis*

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

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

		2023		2022	
Assumption	**Sensitivity tested**	**Gross liability**	**Net liability**	Gross liability	Net liability
	%	**£m**	**£m**	£m	£m
Increase in claim frequency	+2.0	**11.0**	**10.3**	12.7	9.1
Long-term HRCI inflation	+1.0	**62.9**	**54.9**	55.1	38.6
Discount rate	-0.25	**11.9**	**10.7**	13.5	9.9

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

The above analyses are based on a change in an assumption, while holding all other assumptions constant, and assume that no management action is taken. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

The analysis has not considered the impact of the above changes on the valuation of the Group's assets and liabilities other than insurance assets and liabilities. The above analysis is presented gross of the corresponding tax credits or charges.

Sensitivities relating to cladding and fire-stopping related claims are as follows:

- 10% increase in average claims cost/claims frequency will result in £7.3m increase in net insurance liabilities (2022: £6.6m increase).

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

* Prior year sensitivities have been restated to follow a consistent methodology with sensitivities as at 31 March 2023

27 Creditors

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**4,494**	7,321	**4,494**	7,321
Builder deposits	**30,630**	29,075	**30,630**	29,075
	35,124	36,396	**35,124**	36,396
Other creditors				
Trade creditors	**1,245**	1,260	**1,245**	1,260
Amount due to subsidiary undertakings	**-**	-	**22,156**	16,694
Other taxation and social security	**6,619**	8,996	**5,575**	7,574
Derivative financial instruments	**9,534**	8,140	**9,534**	8,140
Amounts due to financial institutions	**-**	10,271	**-**	10,271
Other creditors	**3,566**	4,731	**3,328**	4,575
	20,964	33,398	**41,838**	48,514

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

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

28 Post-employment benefits

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

		2023	2022
	Note	**£'000**	£'000
Defined benefit pension scheme	28.1		
Total market value of Scheme assets		**177,423**	238,690
Present value of Scheme liabilities		**(169,708)**	(238,616)
Surplus in the Scheme		**7,715**	74

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

	Note	2023 £'000	2022 £'000
Defined benefit pension scheme	28.1		
Interest income		**(6,559)**	(4,842)
Interest expense		**6,450**	5,204
		(109)	362
Defined contribution pension scheme	28.2	**9,617**	8,013
		9,508	8,375

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	2023 £'000	2022 £'000
Defined benefit pension scheme	28.1		
Experience loss on assets		**(75,511)**	(2,179)
Actuarial gains on liabilities		**76,251**	16,844
Experience loss on liabilities		**(9,208)**	(579)
		(8,468)	14,086

28.1 Defined benefit pension scheme

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

The funding requirements of the Scheme are based on a separate actuarial valuation for funding purposes for which the assumptions differ from the assumptions disclosed below. The last valuation was performed on 31 March 2020. In order to value the defined benefit obligation at 31 March 2023, 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 £16,000,000 during the year ended 31 March 2023.

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

Notes to the Financial Statements

28.1.1 Principal financial assumptions

A comprehensive actuarial valuation of the Scheme, using the projected unit credit method, was carried out at 31 March 2020 by Willis Towers Watson, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2023	2022
	%	%
Consumer price inflation	**2.40**	3.10
Retail price inflation	**3.30**	3.60
Rate of increases (normally indexed)	**3.65**	3.85
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**4.85**	2.70

It was assumed that members commute 25% of their pension for tax free cash, 80% of male members and 70% of female members were married and males were three years older than females.

The assumptions adopted for mortality are in line with SAPS S3PA Light base tables, with an allowance for future improvements in line with the CMI (2021) tables with a 1.25% long-term trend and 10% weighting to 2020 and 2021 data. The resulting average remaining life expectancy for a male and female aged 65 as at 31 March 2023 are 23 (2022: 23) years and 25 (2022: 25) years, respectively.

28.1.2 Reconciliation of Scheme assets and liabilities

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 April 2022	238,690	(238,616)	74
Interest income / (expense)	6,559	(6,450)	109
Benefits paid	(8,315)	8,315	-
Actuarial gain on change of assumptions	-	76,251	76,251
Experience loss on liabilities	-	(9,274)	(9,274)
Change in value of money purchase transfer funds	(66)	66	-
Company contributions	16,000	-	16,000
Return on plan assets excluding interest income	(75,445)	-	(75,445)
At 31 March 2023	**177,423**	**(169,708)**	**7,715**

28.1.3 Total cost recognised as an expense

	2023	2022
	£'000	£'000
Interest expense	**6,450**	5,204

28.1.4 Fair value of Scheme assets

	2023	2022
	£'000	£'000
Equity instruments	-	30,364
Liability driven investments	**75,029**	97,128
Private market investments	**9,164**	8,447
Corporate debt instruments	**13,101**	16,879
Diversified growth funds	-	34,029
Diversified Credit Fund	**73,562**	45,054
Other and cash and cash equivalents	**6,567**	6,789
	177,423	238,690

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

28.1.5 Return on plan assets

	2023	2022
	£'000	£'000
Interest income	**6,559**	4,842
Return on plan assets excluding interest income	**(75,445)**	(1,201)
	(68,886)	3,641

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

28.1.6 Deficit funding contributions

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

	£'000
31 March 2024	-
31 March 2025	**8,000**
31 March 2026	**8,000**
31 March 2027	**4,000**
	20,000

Expected contributions for the 31 March 2024 year totalling £8,000,000 were advanced and paid in the 31 March 2023 financial year. Nothing in the agreement precludes the Group from making payments of higher contributions or from making payments earlier than scheduled in the table above.

28.1.7 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:

	2023	2022
	£'000	£'000
Current period contributions	9,617	8,013

At 31 March 2023 contributions of £Nil (2022: £Nil) were outstanding.

29 Fair value methodology

29.1 Basis for determining the fair value hierarchy

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

When using alternative valuation methods to value Level 3 financial instruments, the Group relies as little as possible on Group-specific inputs and makes maximum use of relevant market inputs including the following:

- quoted prices for identical or similar assets or liabilities in markets that are not active
- inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads
- market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

Valuation methods that the Group 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.

29.2 Fair value hierarchy analysis

The table below presents the analysis of the Group's assets and liabilities that have been measured at fair value by the fair value hierarchy at 31 March 2023. The table excludes the defined benefit pension scheme surplus and insurance and reinsurance contracts.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at fair value					
Land and buildings	17	**-**	**-**	**9,652**	**9,652**
Other financial investments		**1,294,418**	**114,956**	**11,957**	**1,421,331**
		1,294,418	**114,956**	**21,609**	**1,430,983**
Liabilities at fair value					
Derivative financial instruments		**-**	**(9,534)**	**-**	**(9,534)**

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 at 31 March 2022. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at fair value					
Land and buildings	17	-	-	9,366	9,366
Other financial investments		1,321,804	128,171	4,295	1,454,270
		1,321,804	128,171	13,661	1,463,636
Liabilities at fair value					
Derivative financial instruments		-	(8,140)	-	(8,140)

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 at 31 March 2023. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		Level 1	Level 2	Level 3	Total
	Note	£'000	£'000	£'000	£'000
Assets at fair value					
Land and buildings	17	**-**	**-**	**9,652**	**9,652**
Investments in group undertakings and participating interests		**-**	**-**	**11,625**	**11,625**
Other financial investments		**1,294,418**	**114,956**	**11,957**	**1,421,331**
		1,294,418	**114,956**	**33,234**	**1,442,608**
Liabilities at fair value					
Derivative financial instruments		**-**	**(9,534)**	**-**	**(9,534)**

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 at 31 March 2022. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		Level 1	Level 2	Level 3	Total
	Note	£'000	£'000	£'000	£'000
Assets at fair value					
Land and buildings	17	-	-	9,366	9,366
Investments in group undertakings and participating interests		-	-	8,987	8,987
Other financial investments		1,321,804	128,171	4,295	1,454,270
		1,321,804	128,171	22,648	1,472,623
Liabilities at fair value					
Derivative financial instruments		-	(8,140)	-	(8,140)

Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 156. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 167.

30 Financial instruments

The table below presents the Group and the Company's financial instruments, excluding insurance and reinsurance contracts. Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 156.

		Group		Company	
		2023	2022	**2023**	2022
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value [11]					
Index-linked gilts		**361,652**	439,936	**361,652**	439,936
Fixed interest gilts		**19,990**	19,001	**19,990**	19,001
Super-national bonds		**97,282**	88,284	**97,282**	88,284
Overseas government bonds		**8,318**	7,184	**8,318**	7,184
Corporate bonds		**694,272**	666,648	**694,272**	666,648
UK treasury bills and short-term deposits		**39,562**	42,959	**39,562**	42,959
Illiquid credit and private equity funds		**111,316**	103,432	**111,316**	103,432
Strategic asset allocation		**51,465**	53,499	**51,465**	53,499
Derivative financial instruments		**25,144**	29,035	**25,144**	29,035
		1,409,001	1,449,978	**1,409,001**	1,449,978
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**17,900**	17,999	**15,980**	15,941
Other debtors	19	**4,391**	3,414	**4,391**	3,414
Deposits with credit institutions		**12,330**	4,292	**12,330**	4,292
Cash at bank		**34,121**	31,901	**33,548**	31,451
		68,742	57,606	**66,249**	55,098
Financial liabilities measured at fair value					
Derivative financial instruments	27	**9,534**	8,140	**9,534**	8,140
Financial liabilities measured at amortised cost					
Trade creditors	27	**5,739**	8,581	**5,739**	8,581
Other creditors	27	**40,815**	53,073	**39,533**	51,495
Amounts owed to group undertakings	27	**-**	-	**22,156**	16,694
		46,554	61,654	**67,428**	76,770

11 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.

Notes to the Financial Statements

30.1 Derivative financial instruments

During the financial year, the Group entered into forward currency contracts and interest rate swaps to mitigate certain equity and bond risks. The Group also entered into inflation swaps to mitigate certain insurance liability risks. At 31 March 2023 the Group and Company held the following unexpired derivatives:

			2023			2022
	Notional value	Asset	Liability	Notional value	Asset	Liability
	£'000	£'000	£'000	£'000	£'000	£'000
Currency forwards	200,421	2,405	(158)	182,439	193	(2,887)
Interest rate swaps/futures	117,603	14,006	(1,672)	470,086	20,368	(3,425)
Inflation swaps	639,107	8,733	(7,704)	117,603	8,474	(1,828)
		25,144	(9,534)		29,035	(8,140)

31 Note to the statement of cash flows

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

	2023	2022
	£'000	£'000
Profit for the financial year	69,431	60,269
Tax on profit on ordinary activities	(3,676)	(6,551)
Profit on ordinary activities before tax	65,755	53,718
Depreciation and decrease in value of assets	797	897
Increase in revaluation reserve	(466)	(317)
Decrease in Technical Provisions	(108,410)	(34,541)
Realised gains on investments and fixed assets	(16,021)	(13,094)
Decrease in unrealised gains on investments	50,834	10,695
Increase in insurance debtors	(54)	(1,481)
Increase in other debtors	(224)	(2,883)
(Increase) / decrease in prepayments and accrued income	(3,056)	212
Decrease in insurance creditors	(1,272)	(121)
(Decrease) / increase in other creditors	(3,557)	1,126
Increase / (decrease) in accruals and deferred income	47,762	(211,013)
Differences on recognition of defined benefit pension scheme	(16,109)	(7,638)
Interest received	(35,259)	(28,124)
Payments to acquire investments	(4,751,782)	(794,849)
Receipts from disposal of investments	4,746,233	1,009,155
Net cash flow from operating activities before interest received	(24,829)	(18,258)

32 Provisions for other liabilities

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

33 Contingent liabilities

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

34 Capital and other commitments

At 31 March 2023, the Group has committed to a deficit repair plan in respect to its defined benefit pension scheme. The particulars of the arrangement are outlined in note 28.1.6 - Deficit funding contributions. The Group and the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Within one year	**3,156**	2,268	**3,140**	2,268
Between one and five years	**3,534**	2,805	**3,438**	2,805
Over five years	**-**	-	**-**	-
	6,690	5,073	**6,578**	5,073

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

In the financial year, NHBC has committed, as part of a subscription agreement, to invest into a private investment fund. Outstanding commitment at 31 March 2023 was £17.3m (2022: £18.2m). The commitment is payable on demand.

Notes to the Financial Statements

35 Related party transactions

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

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

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

	2023	2022
	£'000	£'000
Contributions to CCHB	**160**	224
Amount due from NHBC	**58**	-

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

36 Reserves

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

37 Liability of members

At 31 March 2023, there were 53 (2022: 50) members of the Council. Under the Articles of Association, the liability of each of the members is limited by guarantee to a maximum of £1.

Meanings of key words and phrases

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

attritional losses	Claims less than £1m in value
builder, customer, builder customer, registered customers, registered builders	The person, firm or company who is responsible for building a home
Buildmark	The protection NHBC and the builder provide for a home
claim outstanding	The amounts provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the reporting date, including incurred but not reported claims and claims handling expenses, less amounts already paid in respect of those claims
claims handling	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the overhead costs) which are separate to the cost of settling the claim itself with the policyholder
consumer, homeowner, policyholder	The person (or people) who entered into the contract for a home, or any person (or people) who take over the freehold, commonhold or leasehold title of the property, or, where this applies, any mortgage provider who has taken possession of a home
deferred acquisition costs	Costs arising from the conclusion of insurance contracts that are incurred during a reporting period, but which relate to a subsequent reporting period
exceptional losses	Claims over £20m in value
FCA	Financial Conduct Authority. The regulatory authority with responsibility for the conduct of the UK financial services industry
gross written premium	Total revenue generated through sale of insurance products before considering reinsurance and is stated irrespective of whether payment has been received
large losses	Claims between £1m and £20m in value
net earned premium	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period
net incurred claims	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claim payments and movements in claims reserves and claims handling expenses in the period
net written premium	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers
NHBC, the Company	National House-Building Council. The ultimate parent entity of the Group
non-technical account	Non-insurance activities
operating profit	Profit before tax less investment return allocated to the non-technical account
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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