NHBC

Annual Report and Accounts

2023/2024

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Chair's statement

It has been a testing year for the home-building sector. Higher mortgage rates, reduced house prices and cost-of-living challenges have suppressed demand for new homes, which has had an impact on new-build registrations. At the same time, the sector has continued to grapple with the long-running challenges around skills, capacity and planning.

Despite a difficult backdrop, I am pleased we are able to report a strong set of financial results, with a pre-tax profit for the year of £156.4m (2023: £65.8m). Further details are included in the Chief Executive's report.

Being profitable and financially secure is fundamental to delivering our core purpose of improving construction quality in home building and protecting homeowners.

Quality through partnership

With some of my non-executive director colleagues, I had the pleasure of visiting our Cambridge Training Hub in September 2023 and being able to see first-hand the impact it is having in the region. We were delighted to welcome Her Royal Highness The Princess Royal, to officially open the Cambridge facility in April 2024. During her visit we demonstrated to her how our apprenticeship programmes are helping to address the skills gap in home building and how we intend to support the delivery of a pipeline of skilled talent into the industry in the future. Further details are contained in the Chief Executive's report and our Strategic Review.

Our Pride in the Job award scheme plays an invaluable role in the drive for construction quality, creating competition between individual site managers and between house builders large and small. It provides a brilliant showcase for those leading the way in quality standards, highlighting best practice. After over 40 years, the reputation of the competition is undimmed and the Supreme Awards in January 2024 was, as always, one of my personal highlights of the year.

Significant changes to the building control system

In April 2024, the Building Safety Regulator (BSR) took up its role as the regulator for the building control profession and NHBC Building Control Services Ltd was among the first to successfully achieve Registered Building Control Approver status. The scale of the work to achieve this has been significant and on behalf of the Board I'd like to express our appreciation for the efforts of all those involved.

Governance and stakeholder engagement

There have been no changes in the Board's composition over the past year.

In July 2023, the new Consumer Duty obligations, set out by the Financial Conduct Authority, came into force, requiring higher and clearer standards of consumer protection across financial services and ensuring firms put their customers' needs first. We have always taken our obligations to our homeowners very seriously and our Consumer Committee has provided Board-level focus and oversight on the work necessary to implement Consumer Duty and for the continuous improvement activities that have followed. In 2023/2024 the work of the Committee has included a review of our consumer strategy, developing and monitoring consumer outcome measures and reviewing proposed updates to our Buildmark policies and product literature.

The Grenfell Tower Inquiry report is due to be published in September. We will review the recommendations of the Inquiry and consider carefully whether there are further changes we can make, including to help ensure the UK house-building industry improves fire safety.

The Board was pleased to approve NHBC's updated Environment, Social and Governance (ESG) strategy in February and this remains a key area of focus as we continue to develop and embed strong ESG practices. The Board has also taken a keen interest in the investment and activities being undertaken to increase diversity, equity and inclusion across the business. We are signatories to the Women in Finance Charter and have an action plan based on their blueprint and, for women in technical roles, we have a new career mentoring programme launched in January 2024. In addition, together with several non-executive director colleagues, I have been delighted to spend time with the chairs of our four Be Me: employee networks to support their contribution to fostering a diverse, inclusive culture, aligned with our values.

There is a regular dialogue between the Board, our Council members and the senior management team, including visits from Council members in June 2023 and February 2024, to our London and Milton Keynes offices respectively. Our Annual General Meeting and Annual Lunch events in the autumn provide opportunities for further engagement, where Council members can question and challenge the Board on the delivery of NHBC's purpose and strategic objectives. You can read more about how the Board is engaging with all stakeholders on page 72 and about our work on ESG on page 46.

Looking forward

With a general election imminent at the time of writing, there is focus from both main parties on housing supply, quality and affordability, as well as the planning system. We have a proud history of engaging with politicians on all sides to ensure a good understanding of our role in the market and of our focus on driving up standards. Regardless of the result of the election, our focus will remain on delivering good outcomes for homeowners whilst providing excellent service to our registered builder customers and developers.

The economic outlook is more stable, with interest rates likely to have peaked. However, prospects for the housing market remain subdued whilst we wait for mortgage rates to fall and cost of living pressures to abate. Geo-political instability is at a generational high, with potential risk for further supply chain disruption adding more cost pressures for the sector. Despite these issues, the housing market remains under-supplied, giving cautious optimism for a return to growth in the medium-term, with momentum building into 2025/2026.

Home building has always been cyclical and NHBC has a long history of navigating changing economic conditions. We enter the year with a strong capital position and the financial stability to invest in important change projects and to deliver on our strategic objectives.

I would like to thank the Council, my Board colleagues, our executive management team and all our colleagues at NHBC, whose efforts and commitment have delivered another strong performance this year. I look forward to the year ahead, confident that we ready for whatever the future may hold.

Alan Rubenstein
Chair

Chief Executive Officer's statement

2023/2024 has been another demanding year for NHBC; however, we end it in a strong position, more financially secure and increasingly focused on the areas where we need to invest and to change to ensure we are fit for the future, delivering for all our stakeholders.

Financial performance

I am pleased to be able to report a strong set of financial results again this year. Sustained profitability and a strong capital position ensures we can meet future insurance obligations, deliver on our vision and drive forward with our modernisation programme.

Improved investment returns and favourable interest rate movements have contributed to a pre-tax profit of £156.4m in 2023/24. Margins in our insurance account have shown significant improvement, reflecting better pricing for risk and improved claims experience due to our work on construction quality over many years. We have further strengthened the company's capital position, with our solvency ratio at year end standing at 262% (2023: 214%), giving us a secure base for the future.

Home buyer demand was subdued during the year, affected by stubbornly high interest rates, rising mortgage costs, and persistent inflationary pressures, whilst planning challenges and an increasingly complex regulatory environment led to a significant decline in the number of new homes registered with NHBC to 99,507 (22/23: 172,579). This is the lowest annual registration total since the financial crisis of 2008/09, although it was affected by accelerated registrations in 2022/23 due to the Part L Building Regulation changes effective from June 2023. The contraction in plots registered for the private sector altered our typical balance of registrations between private sale and rental homes to 55%:45% from 65%:35% last year.

Our claims paid in 2023/24 totalled £85.7 million, significantly lower than last year (£152.1m) and more typical of a normal year.

The market and economic environment

The year has been a demanding one for house builders not simply due to the economic climate, but also because of the largest set of legislative changes that the industry has seen. Larger builders with strong balance sheets have been resilient but, unfortunately, a number of smaller builders have either become insolvent or have exited the market.

Against this backdrop, major house builders have adapted their operations. The counter-cyclical nature of alternative residential markets has provided an opportunity for bulk deals with Housing Associations and Build to Rent investors, whilst the use of incentives has helped to sustain a reasonable level of private sales. Action has been taken to reduce operating costs, to more carefully manage supply chains and to help ensure production can be increased when market conditions improve. In addition, there have been changes to the nature of ownership in the sector with some consolidation and growing private equity involvement.

Despite the challenges of the past year, there remains a strong underlying demand for both private homes and affordable housing and this gives us cause for optimism, especially once consumer confidence begins to recover and mortgage rates fall. Housing will be a prominent policy theme as we head into and beyond the general election and some stimulus may be provided to encourage demand and address some of the supply-side constraints, notably around planning.

"The year has been a demanding one for house builders not simply due to the economic climate, but also because of the largest set of legislative changes that the industry has seen."

Cambridge City Council, Timber Works, Cromwell Road

Regulatory landscape

In October 2023, significant changes to the building control system were introduced under the Building Safety Act, requiring extensive changes to our systems and processes and for our customers. In April 2024, the Building Safety Regulator (BSR) took up its role as the regulator for the building control profession. NHBC Building Control Services Ltd successfully achieved Registered Building Control Approver status, supporting over 400 of our colleagues through the BSR registration process and ensuring they can evidence the necessary competence standards as Registered Building Inspectors. We continue to work closely with the BSR, seeking to set a benchmark for future inspections.

The *Future Homes and Buildings Standards: 2023* consultation sought views from stakeholders on the Government's aim to ensure all new homes are 'net zero ready' from 2025, moving away from carbon-intensive heating and energy systems, towards solar panels and heat pumps, often installed as standard. We are working on the potential impact on NHBC Standards and policies and are engaging intensively with our house builder customers so that changes in design and construction enhance quality and deliver benefit to consumers. We continue to support the work of the Future Homes Hub on this important journey to net zero with information-sharing events like *Building for Tomorrow* and through the work of our research arm, the NHBC Foundation.

We provided data and responded to the Competition and Markets Authority (CMA), whose study on the house-building market was published in February 2024. It found that issues with the planning system, together with the limitations of speculative private development, are responsible for the persistent under-delivery of new homes. The CMA raised concerns about estate management charges, the slow adoption of roads and sewers by local authorities and the quality of some new housing after the number of owners reporting snagging issues increased over the last 10 years. We will continue to work with our registered customers, the Government and all other stakeholder to raise construction standards, improve finish quality and protect the interests of homeowners. In addition, NHBC actively supports the adoption of the New Homes Quality Code and the New Homes Ombudsman as the guardian of consumer interests and a further stimulant for improved build quality.

Strategic priorities

NHBC's raison d'être is to raise standards in house building across the UK. This year we have defined a new strategic vision - to be a quality pioneer, trusted insurer and agent of change for next-generation home building. This is our 'North star' as we continue to modernise the organisation, ensuring that our services are valued by our customers and that we remain responsive and relevant to all our stakeholders.

To support this, we are embedding a more dynamic, inclusive and collaborative culture to ensure we embrace the changes that are needed to be fit for the future and to deliver our strategic ambition.

We have launched our new online customer portals, beginning the process of moving away from legacy systems to a cloud-based infrastructure and a more agile environment. There is more to do with our digital transformation programme, focused on improving our operational effectiveness and data infrastructure, and supporting the delivery of an exemplary service to our registered customers and homeowners.

Construction quality is the cornerstone of our business, providing products, services and insights that help our registered customers move to a build right, first time approach. Our training services are a key part of this with a strategic review underway to consider how we scale up our operations to help the industry close the skills' gap whilst continuing to raise quality.

Consumers at the heart of all we do

Our all-colleague survey of April 2024 found that the statement 'consumers at the heart of all we do' was the one that resonated most with our people, reinforcing that this underlying ethos is central to how we operate at NHBC.

We were ready on 31 July 2023 for the implementation of the Financial Conduct Authority's Consumer Duty and we are proceeding with a programme of continuous improvement to the service, access and outcomes delivered for consumers. Progress is monitored through a consumer dashboard, aligned to Consumer Duty outcomes and overseen by our Board Consumer Committee.

In the year, we completed a comprehensive review of all our Buildmark products to ensure they are providing fair value. We tested, updated and retested all of our Buildmark policy documentation to make sure it is as easy as possible for consumers to understand and have been pleased to secure Crystal Mark accreditation, reflecting our move to a 'Plain English' approach. We continue to target improvements to our communications with customers and consumers, whilst our team of vulnerable customer champions ensures that we respond in a way that is appropriate to individual circumstances and characteristics.

Supporting our registered customers

It is fundamentally important that our registered customers value the support NHBC provides in helping them to build better-quality homes, particularly through our inspection, construction quality and training services. Early engagement in projects through our partnership model also means that we are helping to identify and mitigate risks of construction defects from the outset. This delivers real benefits to homeowners.

Construction Quality Reviews (CQRs) continue to be in high demand, providing independent review and reporting to support builders' own quality management processes. 3,200 CQRs were delivered in 2023/2024, which involved review of c.64,000 build stages. We are developing the range of CQRs we offer, with a view to launching trade-specific versions in 2024/2025.

We have a significant skills' gap in house building with an estimated 225,000 extra construction workers needed in the UK by 2027. A pipeline of talent, developed through high-quality apprenticeship programmes, is part of the solution and this has been an area of focus for us again this year. Having added two new locations in 2023, we now have four training hubs for bricklaying and groundworker apprentices. These hubs are undertaking essential work to develop talented and appropriately skilled individuals from a wide range of backgrounds. The retention rate for NHBC apprentices is an industry-leading 85% against a sector average of 55% and speaks to the quality of the learning experience we offer. In the year ahead, we will be looking at how we can further grow our training offering and support home builders in developing their processes and procedures, as we move towards a right first time quality assurance approach.

You can read more about the services we offer to our registered customers in the About us section on page 26.

Environmental, social and governance

We are committed to becoming a net zero company by 2050 and to reduce the carbon emissions we produce ourselves and those from our suppliers to net zero by 2040. More information on this can be found the People, communities and environment section on page 46.

We have an applied commitment to making a positive impact in the communities in which our employees live and work. 'Our Communities' is our corporate social responsibility programme which, in its first full year, has increased our levels of charitable fundraising and the number of volunteering hours completed. This makes a real difference to our charity partners, notably Crisis, Action4Youth and the Milton Keynes Food Bank.

Our people

Our business is built on our people, on their expertise, insights and attitudes. High levels of engagement and of employee satisfaction are crucial to ensuring we attract and retain a talented workforce, focused on delivering our core purpose. We conduct regular employee engagement surveys through the Peakon platform; 88% of colleagues took part in our last survey of 2023/2024 (December 2023), with our overall engagement score being in the top 5% of companies using the platform. This, and the ongoing work to develop a more agile, modern and commercial culture, and to have the right skills, competence and talent across the organisation, gives us confidence as we push forward with our ambition to create a better NHBC.

On diversity, equity and inclusion, our employee networks continue to thrive, contributing insight and helping to raise awareness as we seek to provide a work environment that is safe and enjoyable for all, where everyone feels a sense of belonging and is able to contribute, achieving their full potential.

Learning and development in 2023/2024 included specific training for all colleagues on the Consumer Duty, governance and health and safety. Preparation for those in technical roles impacted by the competency requirements under the Building Safety Act 2022 was prioritised and we will embed a wider technical competency framework across all technical roles in the year ahead. We have also continued our investment in management and leadership development to support new and aspiring leaders, strengthening our succession planning and talent pipeline. In addition, we are launching our first Business Graduate Programme in 2024.

You can read more about our work on ESG and about our people in the People, communities and environment section on page 46.

Summary and outlook

As we look forward there are uncertainties and risks in the housing market, and for NHBC as a warranty insurer and service provider. That said, I am confident that we have the appetite, capability and resources necessary to continue to be successful as a business, delivering for homeowners and for our registered customers. I would like to thank everyone at NHBC for all that has been achieved and for all that is to come.

Steve Wood
Chief Executive Officer

"Our business is built on our people, on their expertise, insights and attitudes."

Chief Financial Officer's statement

Our financial performance in 2023/2024 continues to evidence the effective implementation of the financial strategy we embarked upon in 2020 following the three years of substantial losses up to the financial year ended 31 March 2020. This year's overall results are very pleasing. We have delivered strong profits and further strengthened our balance sheet and regulatory solvency ratio. The profitable underlying operating result was further enhanced by better-than-expected surplus asset returns.

Over recent years, we have delivered financial results at the levels of profitability required to ensure that NHBC is, and will continue to be, a financially sustainable business. NHBC requires a strong balance sheet and appropriate levels of capital to ensure that we have the financial strength and long-term capital resources to continue to deliver on our purpose to support the new house-building industry in raising the quality of new homes, whilst protecting homeowners who buy new homes with the benefit of Buildmark warranty and insurance. Therefore, we will remain focused on delivering appropriate profits generated by strong operational performance and maintain our discipline on pricing and expense management.

The positive financial result for the year has also delivered an increase in our regulatory standard formula solvency ratio to 262% (2023: 214%). This was a result of a combination of higher Own Funds (available capital on a Solvency II basis) as well as a small reduction in the Solvency Capital Requirement (SCR) due to lower underwriting risk capital charges.

The profitable results for the year were delivered against a backdrop of reduced levels of income as activity slowed in the house-building industry. Gross revenue fell to £225.3m (2023: £266.9m) as the volume of registrations, completions and building control services all declined. The impact of lower volumes and activity on site was in part mitigated by higher average fees following inflation-linked price increases and a favourable mix of higher value major project volumes.

Gross claims paid in the year were lower, at £85.6m (2023: £152.1m), which reflects the value of claims payments returning to more normal levels following the large fire safety claims settled last year. The value of gross claims paid in 2022/2023 were the highest that NHBC has ever paid out in a financial year, a consequence of the very poor loss experience reported and reserved for in prior years.

Our claims experience on more recently written new business is improving. The frequency of smaller value warranty claims has been showing a positive trend overall, albeit that there was a noticeable uptick in the number of new cases reported in the second half of the year as a consequence of extremely wet weather revealing underlying building defects over the winter.

Our gross ultimate claims provisions reduced as projected future inflation started to fall and our assessment of major builder insolvency risk started to reduce in line with market indicators. This benefit was offset in part by some reserve strengthening following the insolvency of some small and medium NHBC-registered builders.

Our investment assets performed well, 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 £156.4m (2023: £65.8m), with profits in the technical account (our insurance performance) of £115.6m (2023: £66.0m). The non-technical account, which covers our non-insurance activities and surplus investment asset returns, reported a profit of £40.8m (2023: £0.2m loss). However, the non-technical result before surplus asset returns was a £12.8m loss (2023: £7.3m loss).

The profit in the technical account was driven by several moving parts: improving margins on new business, an increase in the level of projected recoveries from a further year of the quota share reinsurance programme, improving smaller value (known as attritional) claims experience and lower projected inflation as the gap reduced between the Retail Price Index (RPI) and House Rebuild Cost Inflation (HRCI). These factors all resulted in a beneficial impact on the reserving valuation of Technical Provisions.

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 continues to invest in its digital transformation programmes, strengthen its resources and meet the requirements of the new Building Safety Regulator.

However, revenue recognised on our inspection and related services was broadly in line with prior year, as lower activity on site was offset by higher average fees.

The investment return on surplus, or non-liability matching, assets was a gain of £53.6m (2023: £7.1m gain). This was driven primarily by gains in the value of corporate fixed interest securities held in the surplus asset portfolio as market pricing reduced the premium charged on those assets to reflect a lower expected risk of default (also known as tightening credit spreads).

NHBC's balance sheet is dominated by invested assets which support our claims reserves and capital surplus. Invested assets and cash valuations increased over the year to £1,520.0m (2023: decreased to £1,455.4m). The increase in the value of invested assets was primarily due to the higher yield environment and tightening credit spreads.

Claims reserves (our Net Technical Provisions) held to meet obligations to homeowners decreased to £708.1m (2023: decreased to £781.6m). Gross Technical Provisions reduced to £1,192.2m (2023: decreased to £1,338.8m). This decrease reflects £85.6m of claims payments, and improvements in reserves due to better underlying claims experience, lower projected future inflation and lower expected default rates for large builders. These gains were partly offset by charges for higher claims provisions for some small and medium builder insolvencies as well as lower discounting benefit.

Our reinsurance strategy plays an important part in our business model, providing capital protection and minimising balance sheet volatility. Reinsurance recoveries in the year on claims paid were £18.5m (2023: £28.8m).

The NHBC Defined Benefit Pension Scheme reflected an accounting surplus of £1.8m at year end (2023: surplus £7.7m). The decrease in surplus reflects the slight fall in scheme assets and a marginal increase to liabilities.

Financial performance

The table below shows a summary consolidated income statement for the year ended 31 March 2024 and comparatives.

	2024	2023
Registrations (units)	**99,507**	172,579
	£m	£m
Gross premiums written	**144.1**	185.0
Reinsurance premiums	**(54.2)**	(67.8)
Net premiums written	**89.9**	117.2
	£m	£m
Net earned premiums	**83.0**	56.4
Net claims incurred	**(59.2)**	(101.6)
Movement in unexpired risk reserve	**72.5**	147.5
Investment return – technical account	**32.8**	(21.1)
Net operating expenses	**(13.5)**	(15.2)
Technical account profit	**115.6**	66.0
Other income	**81.2**	81.9
Other charges	**(94.0)**	(89.2)
Investment return – non-technical account	**53.6**	7.1
Profit before tax	**156.4**	65.8
Tax (charge) / credit	**(22.0)**	3.7
Profit after tax	**134.4**	69.5

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 decreased by 42.3% in 2024 to 99,507 units (2023: 6.2% increase). Completion volumes decreased by 13.0% to 129,738 units (2023: 5.6% increase). The fall in volumes reflected the fall in house-building activity due to the impact of the rising interest rate environment that commenced in early 2023 which dampened consumer confidence, reduced mortgage availability and reduced new home sales rates. This had an adverse impact on our new home registrations across all our markets in the UK.

Technical account result

The technical account, which reflects the results of the Group's insurance activities, reported a profit of £115.6m for the year (2023: £66.0m profit). The year delivered strong underlying performance despite the lowest level of registrations volumes since financial year 2008/2009. Our continued focus on appropriate pricing reflective of our underwriting risk and underlying claims inflation is delivering sustainable margins alongside our improving smaller (attritional) claims experience and well-matched insurance reserves.

Gross written and net earned premiums

Our warranty premiums earn in accordance with the expected pattern of claims emergence over the period of warranty policy coverage which is reviewed annually. There has been a slight decrease to the projected earnings profile over the period.

Gross written premium was £144.1m (2023: £185.0m), driven by a reduction in the levels of warranty registrations partially offset by higher road and sewer bond fees.

Net written premiums were £89.9m (2023: £117.2m), following lower gross written premium and proportionately higher reinsurance costs as cession rates increased.

Net earned premiums increased to £83.0m (2023: £56.4m). This reflects the benefit of higher gross written premiums in recent years which are now starting to earn through to income. Furthermore, in accordance with our accounting policy for earning warranty income, our latest assessment of the expected incidence of warranty risk within the policy period indicated that warranty claims over recent years have, on average, emerged over a shorter period than previously assessed. This meant that we also recognised additional earned premium to reflect that shortened earnings pattern.

Claims incurred

Net claims incurred reduced to £59.2m in 2024 (2023: £101.6m) as the positive downward trend in smaller, attritional claims over the past few years continues. This is a result of the investment which NHBC made in its technical risk management approaches and resources, as well as builders improving their own quality control processes in recent years. We also saw a reduction in expected future levels of inflation and an improving projected economic outlook when compared to March 2023. On the downside we have experienced an increase in builder insolvencies in the year, leading to greater Insolvency claims. Gross claims paid in the year were lower, at £85.6m (2023: £152.1m), following a reduction in the number of large and complex claims settled compared to prior year.

Unexpired risk reserve

Changes in other Technical Provisions, net of reinsurance, is generally represented by the unexpired risk reserve credit of £72.5m (2023: credit £147.5m). The credit in the year is in 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.

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 gain of £32.8m (2023: loss of £21.1m), reflecting net investment income of £18.3m (2023: £16.3m), realised gains of £11.7m (2023: gain £1.2m) and unrealised gains of £4.1m (2023: loss of £37.4m). Investment fees increased marginally to £1.3m, following higher asset values.

Operating expenses

Operating expenses allocated to the technical account were £13.5m, a decrease from £15.2m in the prior year, driven by an increase in costs as we continue to invest in our insurance risk management and claims handling resources and practices which is more than offset by the increase in commission due from reinsurers.

Non-technical account result

The non-technical account delivered a profit of £40.8m (2023: £0.2m loss). 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 £12.8m (2023: £7.3m loss).

Other income, which includes inspection income recognised, building control fees and income from NHBC's Services business (such as training and construction quality services), was £81.2m and fell slightly on prior year (2023: £81.9m). Inspection income is recognised in stages as a new home is being built, and this has helped maintain the level of income recognised despite lower registrations. The impact of the lower registrations during financial year 2023/2024 will be seen in future reporting periods as the lower level of inspection income will earn through against a lower number of plots in-build.

Total operating expenditure increased by 8.8% to £138.2m (2023: 22.9% increase). This reflects the continued investment in our change programmes, higher regulatory costs and investment in our people resources. We continue our IT transformation journey, investing in appropriate resources over the year to ensure NHBC can develop, implement and ultimately benefit from new technologies, and be appropriately placed for the future. Operating costs allocated to the non-technical account (disclosed as Other Charges) rose by 5.4% to £94.0m (2023: £89.2m) in line with the investments made in resourcing.

Investment returns allocated to the non-technical account represent the returns generated on surplus investment assets. These assets (comprising corporate bonds plus equity and multi-asset funds) produced a net investment gain for the year of £53.6m (2023: £7.1m gain), primarily driven by valuation increases from tightening credit spreads. We maintained the interest rate swap implemented in 2023, which mitigated the impact of rising yields on our surplus assets. During the third quarter, we reduced the hedge ratio in order to capture some benefit from projected reductions in interest rates.

Financial position

The table below shows a summary consolidated balance sheet for the year ended 31 March 2024 and comparatives:

	2024	2023
	£m	£m
Assets		
Investments	1,520.0	1,455.4
Reinsurance	484.1	557.2
Other Assets	89.0	100.1
Total Assets	**2,093.1**	**2,112.7**
Liabilities		
Accumulated Reserves	689.3	565.6
Gross Technical Provisions	1,192.2	1,338.2
Other liabilities	211.6	208.3
Total Liabilities	**2,093.1**	**2,112.7**

Investments

The total value of the investment portfolio (including cash) increased by 4.4% (2023: 2.1% decrease), ending the year at £1,520.0m (2023: £1,455.4m). The increase was driven by unrealised gains following the tightening of credit spreads over the period.

Of the total investment portfolio, 88% (2023: 88%) was invested in high-quality fixed income and cash assets. The fixed income portfolio continues to be invested in investment-grade assets, with 99% (2023: 99%) rated BBB or higher. At the end of the year, the average duration of the liability matching portfolio was 4.7 years (2023: 4.9 years). Index-linked government bonds, which are an important tool to hedge against inflation in our claims reserves, remain a key investment class for NHBC and accounted for over 15% 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 11.0% to £1,192.2m (2023: 1,338.8m). This was due to the continued settlement of large and complex claims, positive trend of attritional claims experience in Buildmark Section 2 and 3 claims and lower projected future inflation. These decreases were partly offset by some strengthening of reserves to reflect the impact of rising builder insolvencies during the year and reduced discounting benefit as rates edged lower over the year.

Net Technical Provisions decreased by 9.7% to £708.1m (2023: £781.6m). This was primarily driven by the lower ultimate claims as described above plus the benefit of increased expected reinsurance recoveries on more recent underwriting years following the switch in 2020/2021 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 £1.8m (2023: £7.3m surplus). Deficit repair contributions of £8.0m (2023: £16.0m) were made, which reflect the Company's committed payments of deficit repair contributions for the next financial year.

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

Capital position

As of 31 March 2024, UK GAAP-accumulated capital reserves were £689.3m (2023: £565.6m). The increase of £123.7m mostly reflected the post-tax profit in the year net of some 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 262% as of 31 March 2024 (2023: 214%) 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 £145.6m to £843.9m (2023: £700.3m), because of the strong underlying operating and surplus asset performance and a marginally lower Solvency Capital Requirement.

Outlook

The performance this year reflects the beneficial outcomes of the actions we have taken in recent years to improve our technical risk management, underwriting and commercial disciplines, including implementation of the pricing required to rebuild our financial and capital position and maintain that at a level which reflects the underlying economic cost of the insurance risk we underwrite.

Underlying uncertainty and challenges of both local and global economics remain prevalent although some pressures are easing. Our business plans reflect a focus on continuing to build our financial resilience in the face of a challenging operating and economic environment. This also provides the foundation needed for NHBC to deliver the programme of strategic change necessary to continue supporting the house building industry as it recovers from a period of reduced output and also to deliver on our vision to continue to raise the standards of house building in the UK and protect the homeowners who live in those houses.

NHBC is an integral part of the new-build housing market and the UK economy through the stability and assurance we provide to homeowners. Government housing targets are likely to be challenging for the industry to deliver, but NHBC will work with the industry to support delivery of these targets whilst maintaining our commitment to quality and protection of homeowners. Using our insights, expertise and capacity, NHBC has a vital role to play in supporting house-building volume growth and quality objectives. This requires us to remain financially strong, technically adept and relevant to all our stakeholders as we build a better version of NHBC.

Paul Hosking
Chief Financial Officer

Strategic report

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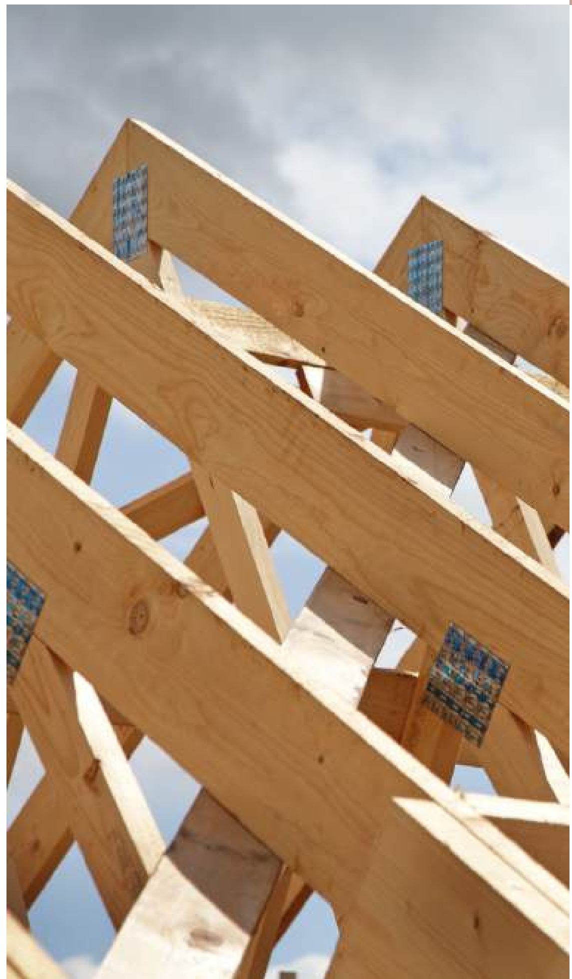
About us

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

We are a non-profit distributing organisation with no shareholders. We are independent of government and the construction industry. We are an insurance company authorised by the Prudential Regulatory Authority (PRA) and dual regulated by the PRA and the Financial Conduct Authority.

Profits generated from our trading activities are used to bolster our capital base as an insurer and to reinvest in the business to support our purpose.



Our purpose

Our purpose is to raise standards in house building. We do this by setting NHBC Standards which define the technical requirements to which homes registered with us must be built. We inspect the quality of work through an on-site inspection regime, underpinned by a warranty product to protect homeowners. We also provide a range of construction quality and training services to our registered builder and developer customers, all designed to help raise the quality of new-build homes.

We inspect the quality of work through an on-site inspection regime, underpinned by a warranty product to protect homeowners.

Our vision

Our vision is for NHBC to be a quality pioneer, trusted insurer and agent of change for next-generation home building.

A quality pioneer

- Leading and innovating in the way home building quality is defined, measured, assessed and insured.
- Valued for our expertise, insights and leadership and looked to as an organisation that builds quality into its practices, partnerships and services.

A trusted insurer

- A leading provider of new home warranty and insurance in the UK, trusted to protect homeowners nationwide.
- Recognised for our knowledge and expertise as an authority to risk assess and insure new homes.
- Financially stable with a track record of delivering good outcomes for homeowners when they need us.

An agent of change for next generation home building

- Leading, collaborating and advocating to shape the future of UK home building.
- Driving positive change for homeowners and communities by promoting safe, high-quality, sustainable UK homes.
- Advocating modern solutions and driving practical, responsible and positive change in the use of technologies and environmentally sustainable materials in UK home building.

Highlights from 2023/2024

- Further strengthened our financial resilience by increasing our Standard Formula Solvency Ratio to 262%.
- Supported house builders to deliver almost 130,000 new home completions, undertaking nearly 900,000 inspections.
- 191 hectares of future housing development land quality assured.
- Doubled the number of NHBC training hubs to four, delivering vital apprenticeship training to 445 apprentices on the skills needed to support the future of home building.
- Delivered 17,876 delegate training days and awarded 542 National Vocational Qualifications (NVQs).
- Published essential research to support house building through our NHBC Foundation, with specific reports on hazardous ground gas and future proofing against climate change.
- Reduced our Scope 1 and Scope 2 Green House Gas emissions by a further 18% from a 2020 baseline. We have now reduced emissions by 59% since 2019/2020.
- Achieved our highest ever employee engagement score of 8.7, placing us in the top 5% of companies using the Peakon survey system.

Our operating model

Our operating model is built on excellence in risk management focused on value for money and service delivery. It ensures continuous improvement and the maintenance of the highest standards across all our products and services.

Key elements of our operating model include:

- a register of builders, all of whom commit to building to NHBC Standards
- homes inspected at key stages during construction
- provision of warranty and insurance protection to homeowners
- feedback loops and data analysis which help us develop NHBC Standards and create training and construction quality services for registered customers.

Our operating model provides the opportunity to lower the frequency and severity of construction defects occurring in new homes which reduces the likelihood that homeowners will encounter issues or need to make claims.

This approach of protecting consumers via directly influencing builders is well-established. As an example, builders have reacted to consumers' interest in snagging and finish quality by purchasing more NHBC training on these topics and implementing additional internal processes to reduce defects.

Our products and services

Builder registration and NHBC Standards

NHBC Standards define the technical requirements and performance standards for the design and construction of new homes for which we have offered NHBC warranty and insurance. NHBC Standards are updated regularly based on improvements in construction practices, changes in Building Regulations and insights from the house-building industry and from NHBC's claims and resolution service data. This process drives improvements in construction quality for the benefit of homeowners.

Builders and developers on our register are bound by NHBC Rules and are required to construct homes in line with NHBC Standards.

Inspection services and technical risk management

We provide an inspection service to our registered customers as part of our technical risk management. These inspections allow us to provide feedback on construction quality to our registered customers for the new-build homes protected by our Buildmark warranty products. This is an integral part of the drive to improve construction quality for the ultimate benefit of homeowners.

Our technical risk management strategy involves working with registered customers to consider both quality control (defects correction) and quality assurance (defects prevention) with the aim of raising quality and reducing the significant costs to the industry of remedial works. We also use technology and insights from NHBC's wealth of data to enable continuous improvement.

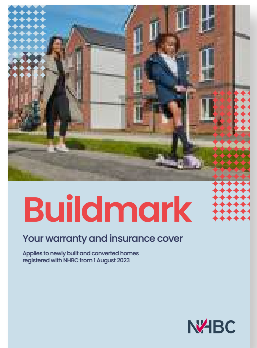
Building control

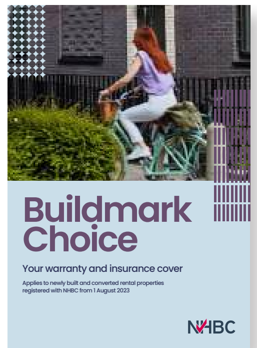
Our building control service is delivered through our wholly owned subsidiary company, NHBC Building Control Services Limited, supporting builders in meeting Building Regulations on residential, mixed-use and selected commercial projects. On 6 April 2024, NHBC Building Control Services Limited achieved registration with the Building Safety Regulator to operate as a Registered Building Control Approver under the new regulatory regime. This allows NHBC Building Control Services Limited to continue to support the industry as the largest private building control body in the UK.

Buildmark and Buildmark Choice

An industry-leading warranty and insurance product, the current Buildmark policy is comprised of deposit protection, a two-year builder warranty period underpinned by NHBC's dispute resolution service and guarantee and a further eight years of insurance cover against damage caused by defects to the structure and external envelope of the home. Buildmark is subject to terms and conditions, such as exclusions and limitations in cover.

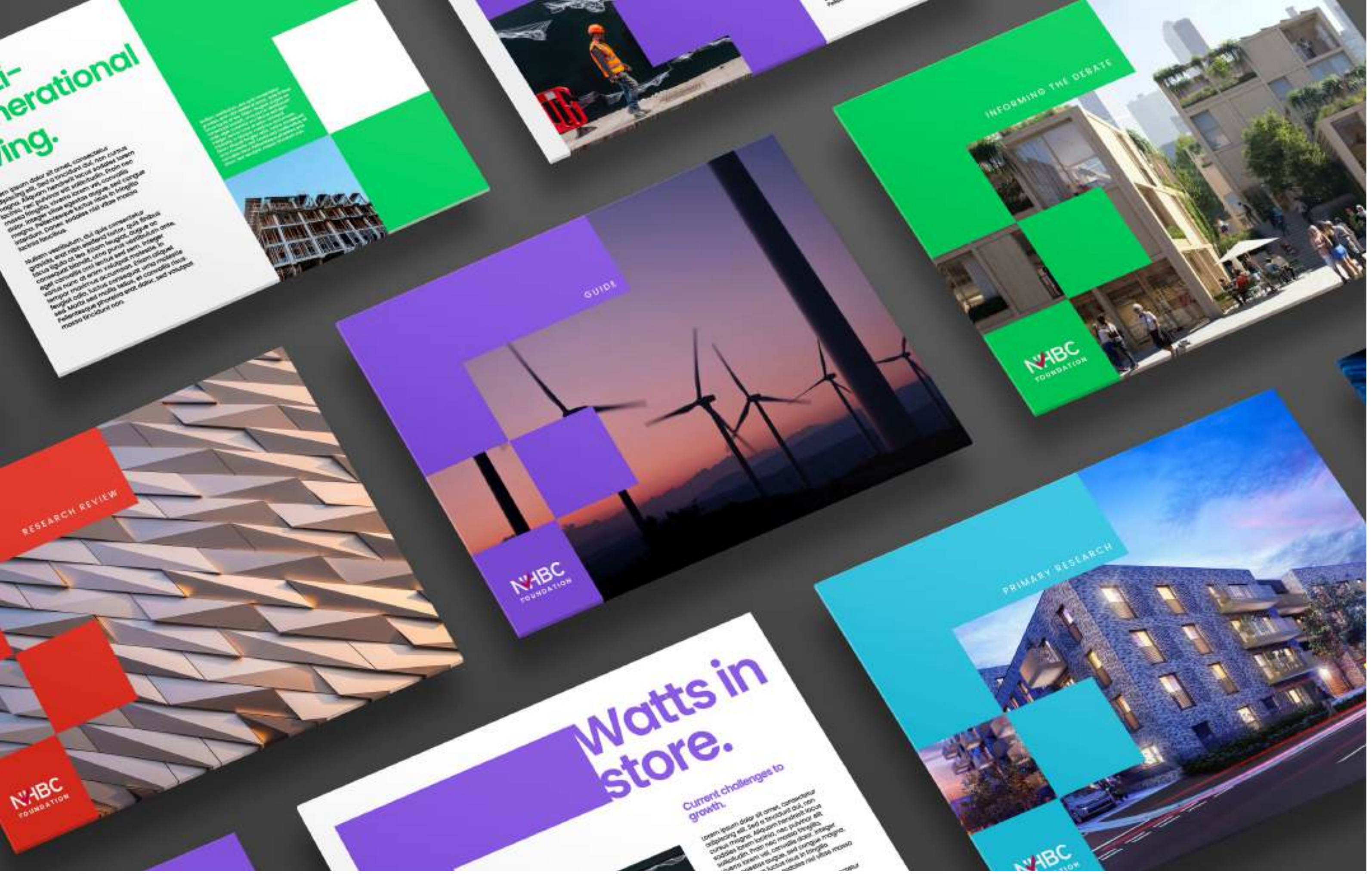
Buildmark Choice is our policy for landlords and long leaseholders of newly-built or newly-converted homes for social rental, private rental or shared ownership. The product cover and design is similar to Buildmark, adjusted to recognise that the homeowners are commercial entities.





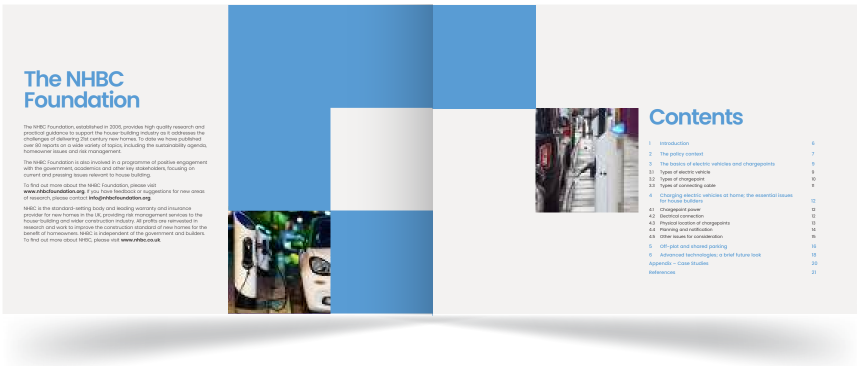
Resolution and claims

Our Claims team is there to support homeowners should there be a problem with their property which falls under the protection provided by our Buildmark policy. The resolution service, which is free to access for the homeowner, is offered at our discretion and can help to resolve issues between the builder and the homeowner that have arisen during the first two years following legal completion where there is non-compliance with NHBC Standards.



NHBC Foundation

The NHBC Foundation, established in 2006, provides high-quality research and practical guidance to support the house-building industry as it focuses on delivering sustainable new homes in the 21st century. The NHBC Foundation is involved in a programme of positive engagement with the Government, academics and other key stakeholders, focusing on issues relevant to house building.



NHBC FOUNDATION

Training and education provision

Training and education provision plays a key role in addressing the growing skills gap in house building. We are supporting the next generation of tradespeople and site managers through our apprenticeship programmes and dedicated training hubs where apprentices can learn the skills needed to build high-quality new homes. Additionally, we continue to support those who are already part of the house-building industry by offering NVQs, webinars and a wide range of training courses focused on quality, customer care, site management and trades.

Construction Quality Services

The Construction Quality team reviews quality on site via our Construction Quality Reviews (CQRs). Data and intelligence gathered from CQRs, our Inspection and Claims services and from Customer Satisfaction Surveys provide insight that is fed back to builders to improve construction quality. The insights are valued by the industry, government and external bodies, and provide invaluable feedback to help shape NHBC's approach to risk acceptance and technical risk management.

Land Quality Service

As part of an ongoing commitment to quality throughout the build process, our Land Quality Service can de-risk land for house builders, strategic land developers and others bringing forward land for residential development. Our team of specialist geotechnical and geo-environmental engineers thoroughly assesses all types of land at the pre-development stage, whether it is a brownfield site, land that is geotechnically challenging, greenfield or a marginal site.

Data services and consultancy

NHBC's data offers insight into construction quality and new build activity valued by our registered customers, product manufacturers, mortgage lenders, investment firms and other stakeholders. Data can be accessed via the Residential Construction Statistics platform, which provides UK-wide data on residential new-build construction, housing registrations, starts and completions, regional trends and housing types, or through a bespoke data service tailored to individual customer requirements.

Customer Satisfaction Surveys

Since 2004, we have been carrying out surveys to measure homeowner satisfaction. Homeowners are contacted at eight weeks after legal completion and again at nine months. The standard Customer Satisfaction Survey offering is available free to registered builders, with bespoke questions and in-depth reporting services accessible via an online platform.

More information on NHBC's products and services is available at nhbc.co.uk.

Market overview

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

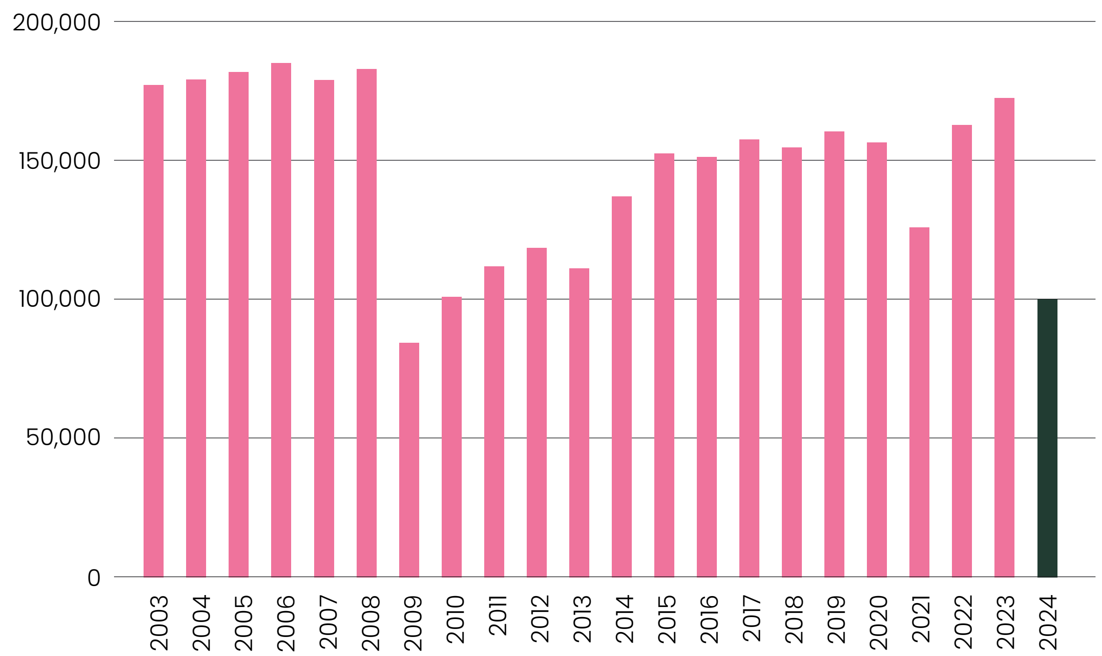
UK housing market

The UK housing market is traditionally cyclical, with growth and contraction aligned with wider economic performance. A buoyant economy drives consumer confidence, availability of finance and in turn, housing transactions. In 2023/2024, the economic challenges that began to manifest in the latter part of 2022/2023 continued. Economic growth stagnated, and the Bank of England implemented successive interest rate rises to combat a headline rate of inflation that proved more stubborn than many expected.

In the first half of 2023/2024 lenders responded to this uncertainty by withdrawing products and increasing mortgage rates. This impacted the affordability of mortgages for prospective home buyers, and restricted household budgets for existing homeowners - with over a million fixed rate deals estimated to have ended in 2023, alongside wider inflationary pressures and limited Government incentives to boost demand – consumer confidence and demand was significantly impacted. Alongside these economic headwinds, a challenging planning system and tightening regulatory regime added cost and complexity to house builders' businesses.

Consequently, buyer demand fell significantly against 2022/2023, with house builders reporting reduced sales rates, and many revising their volume forecasts downwards.

Registrations



New homes registered with NHBC in the year ended 31 March 2024 fell to 99,507 (2023: 172,579), with a 42% year-on-year decrease meaning the highest annual total of registrations since the Global Financial Crisis has been followed by the lowest. The timing of these registrations was reflective of wider economic challenges. Whilst Q1 was relatively robust (c.37,000 homes registered), quarterly registration volumes declined in Q2 and Q3. A modest uplift was seen in the first three months of 2024, as the economic outlook started to improve, consumer confidence increased, and mortgage rates began to ease.

The overall reduction in home registrations was driven by the contraction of the private sale market, where volumes were down c.57% against 2022/2023. Affordable and private rental tenures proved more resilient, with volumes in line with long-term averages and the traditionally counter-cyclical nature of alternative residential sectors providing opportunities for house builders to agree partnerships and bulk sales deals with Housing Associations and institutional investors, and partially mitigate the impact of the declining private sale market.

The fall in 2023/2024 home registration volumes should be considered in the context of the above-average registrations in 2022/2023, when a significant number of additional homes were registered prior to changes to Building Regulations in June 2023. This is believed to have had an adverse effect on 2023/2024 registration volumes, compounding the impact of a stagnating economy and declining consumer confidence.

The sales price of new-build homes registered with NHBC increased by c.3% year on year, contrasting with the wider housing market which saw price falls. An increased use of sales incentives by house builders (eg mortgage support and improved specifications), helped maintain the 'new build premium', alongside lower running costs compared to second-hand homes.

Housing market outlook

The UK has a long-term imbalance of supply and demand of new homes across all tenures, a situation compounded by an increasing (and ageing) population, and a need to replace or improve existing housing stock. Such fundamentals support volume growth when the economic environment and consumer sentiment are conducive to it doing so.

Although the operating environment is expected to remain challenging in 2024/2025, an improving economic outlook provides grounds for cautious optimism. With the headline rate of inflation having fallen and expected to stabilise, and markets pricing in interest rate reductions as a result, buyer activity should be stimulated, particularly in the second half of 2024/2025.

With forecasted house prices falls not materialising to the levels anticipated in 2023/2024, market commentators have moderated their views on continued declines in 2024/2025. Most expect low single digit percentage falls or minor growth, whilst NHBC expect sales prices of homes registered to remain flat in 2024/2025, followed by growth in subsequent years.

With a general election imminent at the time of writing, housing is expected to be a key area of focus for political parties. Whilst this creates short-term uncertainty, greater long-term clarity on Government housing policy is expected to support housing market growth. Regardless of the election outcome, Government and regulatory focus on building safety, house building quality and climate change will continue. Improving the planning system will also need to be a priority of any government if the UK is to deliver housing at the required pace and scale, with both major and SME builders citing this a key barrier to growth.

The house-building industry has historically shown a remarkable ability to adjust to market strains and whilst some of the economic headwinds are expected to abate, a continued resilience will be needed to navigate an uncertain, challenging period. Major builders remain optimistic about the ability of the sector to do so and are starting to look ahead to a period of growth, particularly in the second half of 2024/2025.

What this means for NHBC

Actions taken in recent years to bolster our balance sheet and capital base mean we are well positioned to continue to support the industry through this challenging period. However, the gradual nature of the expected recovery means we must continue our focus on financial resilience. Our financial stability is fundamental to our ability to continue to fulfil our purpose of driving improvements in construction quality and protecting homeowners, whilst delivering tangible value and excellent service levels to key stakeholders.

We expect to see an increase in new home registrations in 2024/2025, with a greater proportion of those registrations coming from the private sale market. The percentage of registrations from alternative residential sectors (such as affordable and private rental) will remain above long-term averages because of the comparatively low private sale volumes, changes in some major builders' strategic focus, and continued investment into the UK private Build to Rent market.

We will maintain a disciplined approach to underwriting and risk management, allied to a selective partnership model with registered builders and developers.

Our strategy

Our long-term strategy is unchanged and remains centred on delivering our purpose of 'raising standards in house building', founded on the core principles of:

- championing high quality homes
- protecting homeowners.

Our purpose is enduring, widely understood, and resonates with our people and the wider industry. To provide greater clarity around how we deliver our purpose over the longer-term, we have defined our strategic vision–; to be a quality pioneer, trusted insurer, and agent of change for next-generation home building'.

This defines our direction and focus, and helps us identify what we need to change, improve, or develop, whilst avoiding distractions. It serves as a stable reference point in a changing market and operating environment, helping leadership and colleagues to remain focussed on long-term goals. Having this clarity will help instil confidence, reinforce our resilience and foster commitment.

Our strategic imperatives of being commercially focused; modern and agile; socially responsible; and developing and retaining talented, capable people also remain. These provide continuity and represent what we need to do to achieve our purpose and vision.

Our strategy is centred around delivery of support to house builders through standard-setting, guidance, inspection, training and construction quality services focused on championing high quality at every stage of construction. These activities are focused on improving the quality of the homes delivered by house builders, reducing the frequency and severity of defects in construction and thus improving the experience of homeowners. Our Buildmark warranty products provide protection to homeowners should this be required.

Our shorter-term strategy takes into account the economic and political uncertainty, continued heightened regulatory change and changing consumer and customer dynamics. In this environment, we are focused on financial stability and investment in modernising our business, to ensure we are well-positioned to support the industry as the housing market recovers and demand for new homes increases as economic pressures ease. We are investing in embedding our more collaborative and change-ready culture, and in digital transformation to modernise our approach and improve our agility in responding to changing customer needs and expectations more swiftly.

We are also focused on continuing to develop and grow our range of construction quality and training services, to support house builders with the technical skills and quality assurance processes required to improve build quality from the outset.

Performance

Against the challenging market backdrop, we have made good progress against several key strategic focus areas in 2023/2024. However, we must maintain a sharp focus on balancing a demanding change programme against delivery of business as usual activities, whilst minimising distraction risk, allocating appropriate resources to activities and ensuring robust governance over our strategic change portfolio.

Some key activities delivered during 2023/2024 are summarised below. Further information on performance against key strategic focus areas in 2023/2024 is included as part of the Directors' Remuneration Report on page 93.

Commercially focussed

In 2023/2024, we:

- Launched two further purpose-built apprenticeship training hubs in Hull (in partnership with apprenticeship provider EN:Able Futures) and Cambridge (in partnership with house builder The Hill Group). Alongside hubs in Tamworth and Newcastle, these hubs will support the next generation of house builders and help combat the national skills gap and housing shortage. While hubs initially focussed on bricklaying apprenticeships, they have been expanded to include a Level 2 Groundworker apprenticeship.

Modern and agile

In 2023/2024, we:

- Upgraded our document management system and our telephony system as part of our IT modernisation programme. We also made progress towards implementing enhanced customer portals which will be fully rolled out in 2024/2025, and developing our replacement Claims system, due to be delivered by the end of the 2024/2025 financial year.

Socially responsible

In 2023/2024, we:

- Continued delivery against our ESG strategy, including reducing our Scope 1 and 2 emissions, further electrification of our car fleet and engaging a provider to support measuring and managing our supply chain (both in terms of carbon emissions and their adherence to modern slavery requirements).
- Continued our partnership with the Future Homes Hub to support the industry in achieving net zero targets and the Future Homes Standard requirements.
- Following the Consumer Duty coming into force on 31 July 2023, we have delivered several continuous improvement activities to ensure we continue to deliver good consumer outcomes. This includes embedding policies, progressing actions from annual product assessments, introducing revised consumer MI reporting, and an enhanced QA framework focussed on consumer outcomes.
- Forged strong connections with our charity partners, Crisis, Action4Youth, WorkTree, MK Food Bank and MK Community Foundation, establishing multi-layered relationships that range from donations and sponsorship, to fundraising, volunteering and strategic support.
- Increased 'our Communities' time for volunteering/ fundraising from one to two days per year for all colleagues and doubled the matched funding entitlements (to £500 for individuals and £1,000 for groups). In September 2023, 11 colleagues cycled from London to Paris, raising over £43k for our charity partners.

Talented, capable people

In 2023/2024, we:

- Supported c.400 colleagues through the implementation of the new Building Safety Regulator regime, and the requirement to demonstrate competence against the relevant competency framework.
- Drove continual improvements in our Peakon employee engagement, with our December 2023 score of 8.7 being the highest we have ever achieved and placing us in the top 5% of UK companies using Peakon.

In 2024/2025 we have the following high-level targets against each of our strategic imperatives:

Commercially focussed:

- Maintain strong, reciprocal relationships with builders, supporting the industry as it recovers whilst pursuing growth from customers aligned with our values and business model.
- Develop and grow profitable training and construction quality services that add value and support our purpose and vision.
- Maintain our strong capital position and ensure our costs and claims processes are well managed, while improving our risk selection and pricing sophistication.

Modern and agile:

- Continue our transformational programme of IT, data, digital and organisational process enhancement, elevating our service delivery and efficiency to consumers and customers, and ensuring we are not constrained by outdated processes, systems, or ways of working. This includes the roll out of enhanced customer portals and delivery of our new Claims system which will enable improvements in our service to homeowners.

Socially responsible:

- Ensure we continue to meet our obligations under the Consumer Duty and improve our consumer interactions and outcomes through process changes, IT improvements and enhanced communications.
- Deliver our ESG commitments, including progressing towards our target of being net zero from our own operations by 2040, developing our supply chain emissions reporting, and increasing take up of our Communities volunteering time and charity fundraising.

Talented, capable people:

- Progressing our DE&I strategy by increasing female representation in technical roles and ethnic minority representation across the workforce and maintaining or improving our position in the Peakon culture index.
- Deliver our roadmap of activities to drive a more dynamic, inclusive and collaborative culture, addressing identified areas for improvement and developing metrics to measure our success.

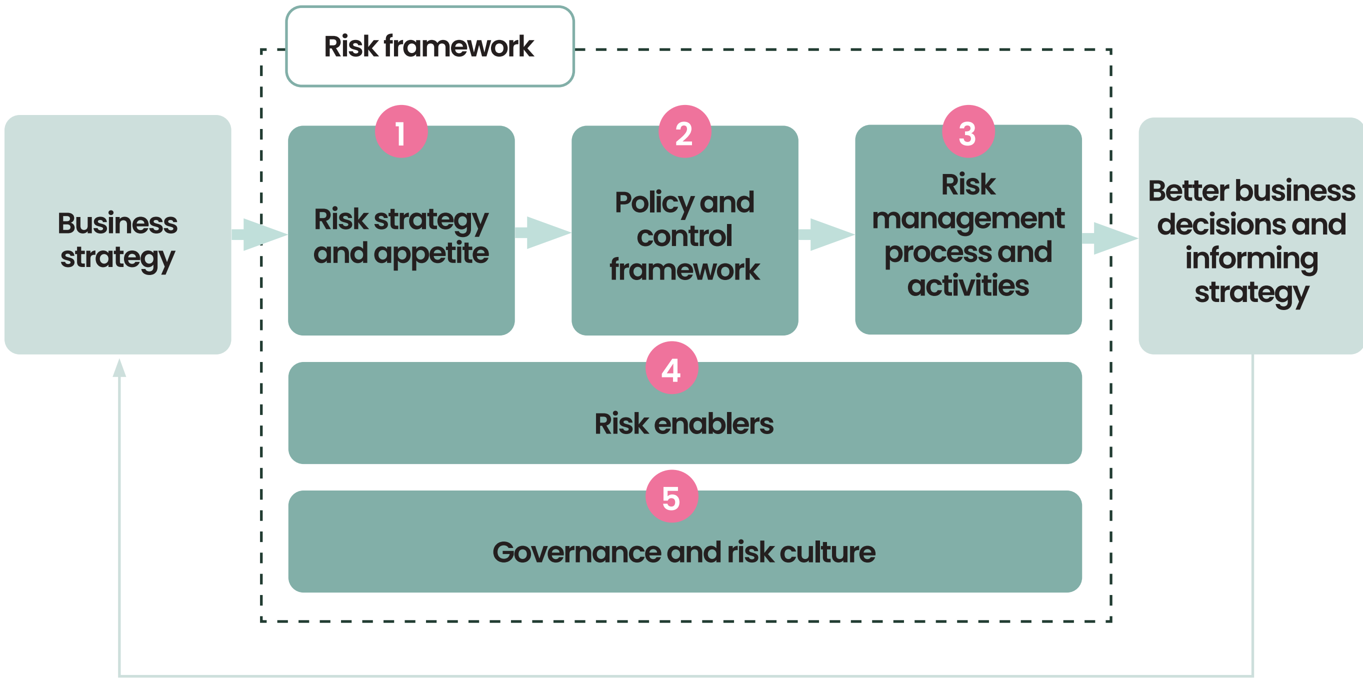
Underpinning our purpose, vision and strategy are our culture and values. By developing a dynamic, inclusive, and collaborative culture we will empower our people to achieve our vision and deliver our purpose. Our values – Excellent, Progressive, Human, and Connected - remain unchanged and provide a behavioural framework that is embedded in our culture, and which underpins performance development reviews.

Risks to our business

Our approach to risk management and risk governance

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, used by management and the Board to understand risk exposure, with risk response identified and implemented where exposure falls outside of appetite.

We 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 holistically. The diagram below provides an overview of our Risk Management Framework:



Activities supporting this include horizon scanning and the anticipation of emerging risks, risk and control assessments carried out by risk owners and the identification and response to risk incidents. This is supported by a policy framework that seeks to establish minimum standards in relevant risk areas.

NHBC maintains a robust risk governance framework. Key governance forums with risk responsibilities include the Board, Board Risk Committee and Executive Risk Committee (ERC). During 2023 a Non-Financial Risk Committee was established as a second line of defence committee, reporting to the ERC specifically to enhance further oversight over areas of operational risk. Further details of Board and Board Committee structures are set out on page 78.

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 of risk ownership, oversight and assurance that support the effective management of risk and the achievement of our strategic objectives.

Our risk profile and key risks

The key risks to achieving our strategic objectives are reviewed and reported on a quarterly basis to the Board Risk Committee. Internal Audit also reviews the adequacy of the key controls designed to mitigate these risks as part of its risk-based audit cycle. Our overarching risks fall into four categories – Strategic, Financial, Insurance, and Operational risks, demonstrated in the diagram below:

NHBC's risk taxonomy overview

Strategic risk	Financial risk	Insurance risk	Operational risk		Outcomes
Strategy design	Market	Underwriting	Products, services and business practices	Regulatory compliance	Solvency
Strategy execution	Liquidity	Reserve	Financial crime	People & culture	Profit stability
	Counterparty credit	Catastrophe (exceptional loss)	Business disruption & system failure	Technology & infrastructure	Liquidity
	Pension	Reinsurance	Cyber	Physical security	Consumer (homeowner)
			Health and Safety	Data Management	Reputation
			Third Party	Model management	
			Change Management		

The risk taxonomy provides a common language for describing the risk universe NHBC operates within and enables the aggregation of risk in various ways. Our risk taxonomy is structured around a Cause – Event – Outcome model and comprises three layers (from an event perspective), with Level 1 being the highest-level, broadest categorisation: Strategic, Financial, Insurance and Operational.

Level 2 and Level 3 risks are aligned to these with increasing granularity at each layer. The risk taxonomy also defines the Outcomes that have the greatest potential to affect the successful delivery of our purpose and strategy: Solvency, Profit Stability, Liquidity, Consumer (homeowner) and Reputation. All risk events have the potential to affect these outcomes.

Strategic risk

NHBC's business model is derived from the purpose of the organisation; to raise standards in house building by championing high-quality homes and to protect homeowners. The focus on this core purpose exposes NHBC to risks attendant with being a specialist, monoline firm, including that performance deviates from plan due to unanticipated external factors.

NHBC accepts this risk though seeks to maintain sufficient financial and operational resilience that it can continue to support its builder and homeowner customers through periods of stress. Financial performance is stressed as part of our business planning and shows the organisation remains resilient to an economic downturn. There are actions available to management to help mitigate this risk, particularly pricing and expense management.

Financial risk

The risk of reductions in earnings and/or value due to market movements, lack of liquidity or counterparty behaviour 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.

Insurance risk

The drivers of NHBC's insurance risk profile include the propensity of registered customers to self-repair building defects, issues with a building system or common components, the insolvency of one or more large, registered customers, inadequate pricing or the failure of a reinsurance counterparty.

To manage these risks NHBC has well-defined metrics in place to monitor registered customers and reinsurer performance. The organisation uses claims and inspection information to monitor specific trends and there is a feedback loop between claims, inspection and underwriting to ensure the root causes of issues are identified and rectified. Our pricing analysis continues to evolve, and further actions have been taken this year to enhance our approach to risk-based pricing.

Operational risk

In common with peers across the industry NHBC is exposed to the risk that it fails to maintain adequate processes, sufficient or sufficiently experienced people and systems capability. As well as causing operational or financial disruption to the business the crystallisation of these risks may impact on compliance with regulatory or legal obligations. Uniquely, NHBC is also exposed to the risk that ineffective technical risk management results in low-quality homes being built, potentially leading to increased claims, reputational damage and consumer dissatisfaction.

NHBC accepts that operational risks are inherent to our business model and we seek to reduce these where appropriate, but also accept 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 Risk Management Framework, with the expectation that exposure is managed within Board risk appetite. 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.

NHBC carries out regulatory horizon scanning and gap analyses to ensure new regulations are understood and effectively implemented. We respond to Government and regulatory consultations, either directly or through industry bodies.

We take 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.

Emerging risks

In addition to risks being actively managed, we undertake emerging risk assessments to identify areas that could have a significant impact on the business in the future. Risks currently under review include: the implications of climate change for the building industry and NHBC's exposures, risks from changing methods of construction, the evolving financial services regulatory landscape, including operational resilience and resolution planning. NHBC also continues to adapt to technological issues including cyber and security risks.

People, communities and environment

We are committed to operating responsibly, embedding sustainability across our operations and positively impacting our people and communities.

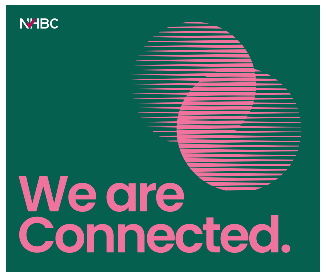
People

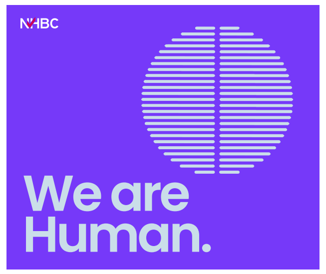
Our business is built on talented people with stand-out expertise. We care about one another. We work together as one connected team with the insight, diverse perspectives and industry knowledge to deliver exceptional outcomes for our registered customers and homeowners. We take pride in making a difference. 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.

Inclusive culture

We foster 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 across functions to drive creativity and bring innovative ideas to life. We look to the future and work together 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 individual contribution and have the support they need to reach their full potential.

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





Current workforce

Our workforce stands at c.1,300. We have approximately 600 employees based at our main offices in Milton Keynes and London. We have embedded hybrid working to ensure flexibility and efficiency, with each business area agreeing locally what is required in line with business needs. We have a further 700 field and home-based employees located across the UK, mostly comprising building inspectors, engineers, surveyors and claims investigators.

Narrowing the gender pay gap

We continue to focus on narrowing the mean gender pay gap which, based on data at 5 April 2023, now stands at 14.3% (2022: 17.8%, 2021: 15.2%) with our median gender pay gap currently 15.6% (2022: 19.1%, 2021: 16.6%). The biggest reduction in the gap this year is due to our April 2023 pay review which included a top-up to bring certain employees up to the target salary level for their role.

The current mean and median gender pay gaps result from variations in the number of men and women at different levels and in different areas within our business, mainly due to the under-representation of women in higher-paid senior leadership and technical positions. This challenge is not unique to NHBC and is also reported by many organisations in the financial services and construction sectors.

Female to male employee ratio

Across NHBC, our female to male ratio averaged 1:2. This ratio is skewed, in common with the house-building sector overall, by the predominance of men in construction and technical roles. In non-construction related departments and roles at NHBC, females make up 26% of our workforce and males 20%. This year we continued to engage in initiatives to help improve our gender mix. These included our reverse mentoring scheme, where the majority of reverse mentors were women from ethnic minority backgrounds and from non-construction areas within the business.

In October 2023, we supported 'MK Innovates', a STEM event for local schools and colleges where the first day was dedicated to women and girls. We also conducted a training needs analysis of women in technical roles which resulted in a Career Mentoring Programme being launched in January 2024. As the majority of women in technical roles are field or home-based we became a member of the online development and networking platform 'Everywoman' in January.

During the year, we have encouraged women to be nominated and apply for our leadership development programmes which has resulted in an overall increase in female representation on our Leadership Foundations programme from 27% of the cohort in 2022 to 50% in 2023. In addition, for female rising talent, we have identified an external development programme in which 12 women (mostly from technical areas) will take part, to create a pipeline of future managers and leaders.

People with a disability

We seek to provide a work environment that is safe and inclusive for all, where everyone feels able to participate and achieve their full potential. We take a positive and inclusive approach to disability and long-term health conditions for all our colleagues, whether they are joining us with a disability or health condition or if this develops during their working life.

We are committed to inclusion and diversity and welcome applications from all people. We are members of the Government's Disability Confident Employer Scheme, working towards our level two status.

We ask all applicants whether they need any particular arrangements or adjustments for any part of the recruitment and selection process, making it clear that adjustments are available – for the application process, the interview, the job itself and any training they may undertake. All new starters complete a pre-employment medical questionnaire and where required, a risk assessment, and any necessary adjustments are put in place before they start work and kept under continuous review.

Mandatory DE&I training is given to all employees which includes the provisions under the Equality Act 2010. Education on disability inclusion is available through events,

For people who share they have a disability or long-term health condition, we monitor and measure data on their hiring, development, promotion and leaving which informs our DE&I strategy and action plan.

awareness communications and signposting to resources for all colleagues, plus a variety of eLearning modules for managers.

For people who share they have a disability or long-term health condition, we monitor and measure data on their hiring, development, promotion and leaving which informs our DE&I strategy and action plan.

Be Me: Networks

Employee networks

We have four employee networks: Be Me: Proud, Be Me: Race Equality, Be Me: Women and Be Me: Enabled, which was launched in April 2023. We also became members of PurpleSpace, the world's only networking and professional development hub for disabled employees, network and resource group leaders and allies from all sectors and trades. Be Me: Enabled has already raised awareness of long-term conditions such as prostate cancer, mental illness and neurodivergence.

In June 2023, we became diversity champions of Stonewall who are helping us to formulate an action plan to ensure even more of our people from the LGBTQ+ community are represented and have fair access to opportunities.

For the second year, we supported the '10,000 Black Interns programme' offering nine placements across the business in technical and non-technical areas. During Race Equality Week, we were awarded the prestigious Race Equality Bronze Trailblazing Award and were told that our application *"… stood out for its real impact and dedication to driving positive change"*.

Race Equality Network

Proud Network

Enabled Network

Women's Network

The Executive Directors also engage with colleagues through a series of internal conferences spread over the financial year.

Armed Forces Covenant and Veterans' Network

We are committed to the Armed Forces Covenant and are Silver Award holders under the Defence Employer Recognition Scheme, reflecting our positive approach to recruiting service personnel and offering flexibility to reservists so they can fulfil their training and mobilisation commitments. A Veterans' Circle connects our 29 former service people from around the business.

Continuing to build our culture

Our work continues after the full culture review undertaken in 2023. NHBC has a strong culture which underpins the delivery of our vision and purpose and creates an environment where colleagues contribute to the changes we need. Improvements in culture are focused on six key areas: agility, collaboration, empowerment, inclusivity, innovation and better homeowner outcomes. These are brought to life through company-wide initiatives and in our values and behaviours which are measured as part of our annual personal development review process for each member of staff; they are reflected in salary and bonus awards and underpin the judging criteria for our internal recognition scheme.

Employee engagement

High levels of engagement and employee satisfaction are crucial to ensure that we retain talent and keep delivering our core purpose. We are moving into our fifth year of our employee engagement survey using the Peakon platform. 88% of our colleagues took part in the latest survey and our overall engagement score in December 2023 (8.7 out of 10) put us in the top 5% of companies using the platform. This gives us a solid foundation to push forward with our ambition to create a better version of NHBC that is built on its people.

The Executive Directors also engage with colleagues through a series of internal conferences spread over the financial year. At these conferences, in addition to operational updates, the Executive Directors also provide insights relating to financial and economic factors affecting the performance of the Company.

NHBC also encourages employee involvement in the Company's performance through its annual bonus scheme. The bonus scheme forms an important part of NHBC's overall reward framework.

Additionally, the Executive Directors continue to work closely with the Staff Association including a quarterly presentation to the Staff Association Committee, helping to bring Company and employee interests together.

Learning and development

We have continued to progress the learning and development of our people in 2023/2024. This includes providing targeted training on Consumer Duty, increased governance and health and safety training for all our people, and support and development for the circa 400 colleagues in technical roles impacted by the new Building Safety Regulations. We are continuing to invest in management and leadership development to support new and aspiring leaders as well as developing and launching our first Business Graduate Programme.

Staff Association

We have an officially recognised trade union, the NHBC Staff Association, 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 Staff Association works with both the TUC and GFTU, having access to high-quality advice and best practice from across the trade union spectrum.

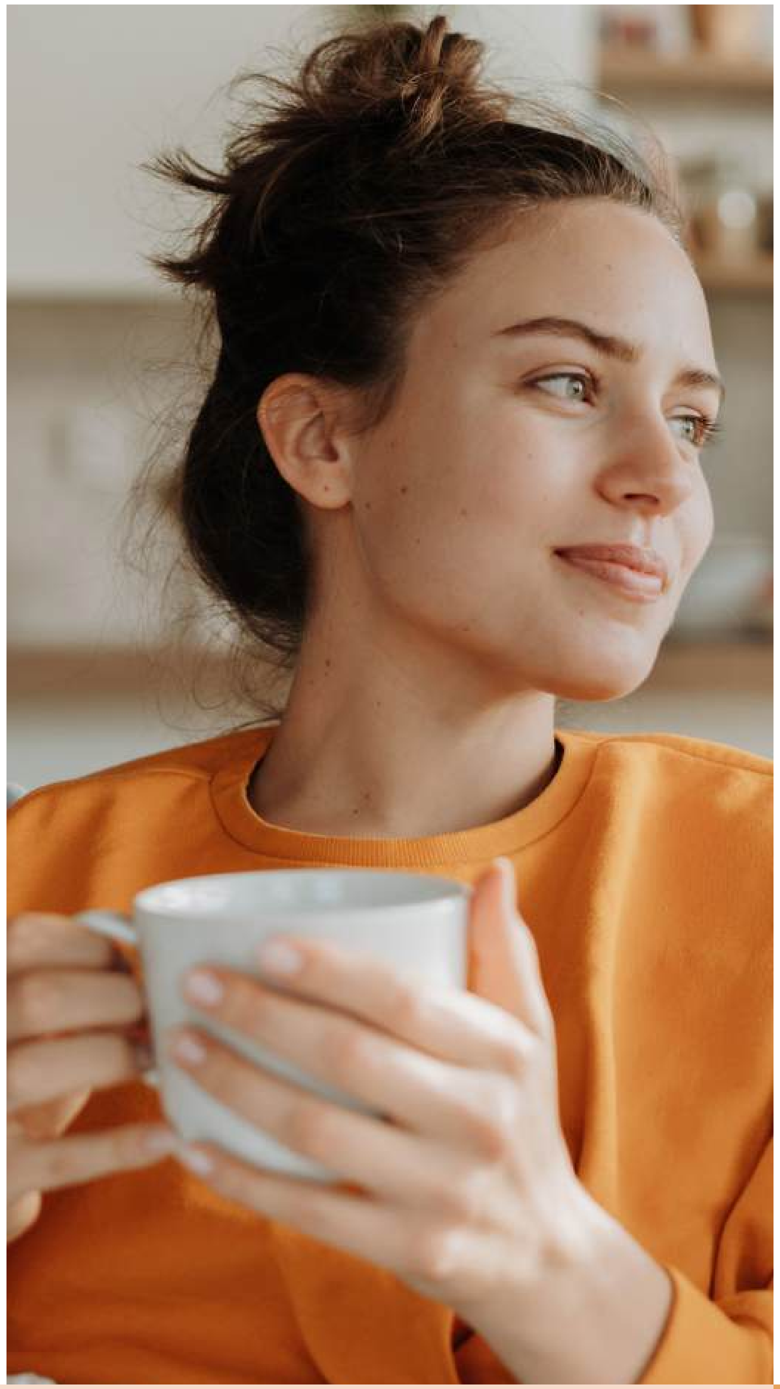
Health and safety

We recognise the importance of providing an environment that supports the health, safety and wellbeing of our people. 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 where we have secured Gold Award status for seven consecutive years. Based on this performance, we were delighted to receive our third prestigious Gold Medal this 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 across higher risk areas and often alone, we have introduced a more advanced lone/safe working system, which ensures that each colleague has access to constantly monitored emergency support at any time if required.

We have focused on our Operations Health and Safety Management System to ensure it is robust and commensurate to NHBC requirements and are proud to have been certified to ISO45001 across all our operating areas. This involved an extensive audit of our management system by the British Standards Institute resulting in a strong performance report throughout all areas of the business.



Anti-corruption and anti-bribery

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.

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 work undertaken on homeowners' 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 annually on our website. Our suppliers must complete a Due Diligence 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 prior to engagement with the supplier.

Wellbeing

We wish all colleagues to be empowered to live their healthiest lives possible and have a number of initiatives in place to support colleagues with their physical, mental, financial and social wellbeing.

80 colleagues are trained Mental Health First Aiders and 20 of those are dedicated Wellbeing Champions who help to design and deliver wellbeing initiatives. We also offer a range of benefits and tools that include a 24/7 employee assistance programme, personalised financial guidance from Nudge and a wellbeing app provided by Aviva.

80 colleagues are trained Mental Health First Aiders and 20 of those are dedicated Wellbeing Champions who help to design and deliver wellbeing initiatives.

Communities

'our Communities' is our internal programme through which we deliver initiatives that make a real and lasting difference to the communities in which we operate and where our people live and work.

Through our Communities we work with national and local charity partners who are aligned with our values, supporting the work that they do through corporate sponsorship, fundraising, volunteering and other initiatives. We support colleagues' fundraising for the charities that matter most to them, through our matched funding scheme and with two paid days per colleague each year for volunteering.

Our charity partners

Over the year we have worked with local and national charities: Crisis, Marie Curie, Action4Youth, MK Community Foundation, Worktree, MK Food Bank, Youthbuild UK, and more.

c.£37,000 paid in matched funding benefiting 34 different charities supported by colleagues.

Highlights from 2023/2024

For the 2023/2024 year, we are pleased to report the following highlights from the our Communities programme:

Charitable contributions totalling c.£118,000, including:

- Corporate sponsorships of c.£81,000 to support the work of our charity partners.
- c.£37,000 paid in matched funding benefiting 34 different charities supported by colleagues.

Over 2,400 hours of our Communities time was used by our people to give back and help others through volunteering or fundraising for our charity partners and other community groups and charities across the country.

Over 1,900 items and 190 food parcels donated to the MK Food Bank.

Through the impact of our Communities programme, NHBC was nominated for the Milton Keynes Business Achievement Awards and shortlisted as a finalist in the Business Impact in the Community category.

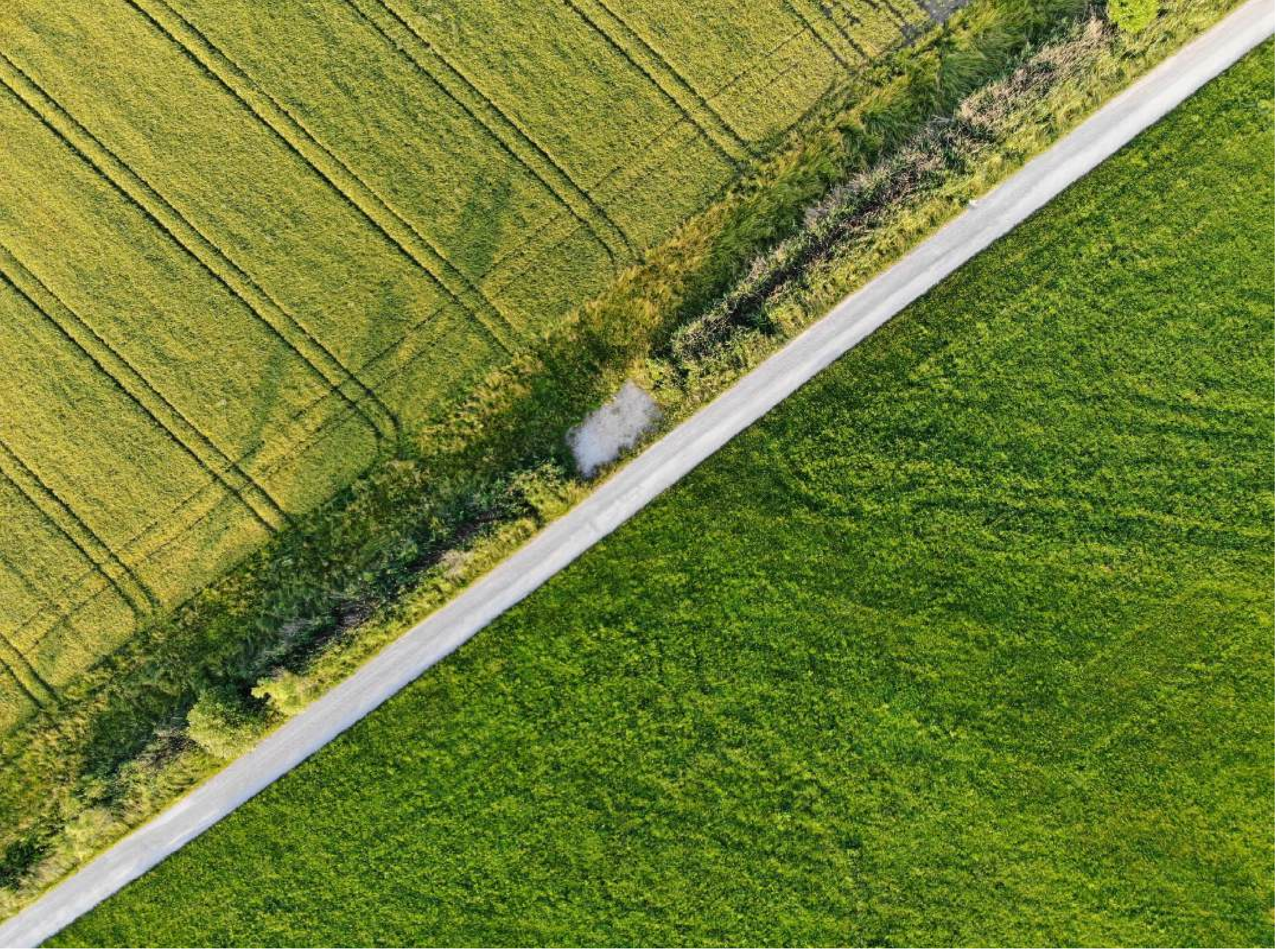
Payroll Giving

Payroll Giving was introduced in December 2023, enabling colleagues to make tax-efficient donations to their chosen charities through convenient monthly pay deductions.

Looking ahead to 2024/2025

Building on the success of the first year of our Communities, in 2024/2025 we will continue to work with our charity partners, maintaining our levels of sponsorship and support through a programme of events and activities. We are introducing new initiatives that will help us to give back and help others using our skills and knowledge to raise awareness of careers in our business and in home building through employability events with local schools in conjunction with Worktree and Action4Youth.

Whilst 21% of colleagues used the allocated two days paid our Communities time for volunteering and supporting charitable and community initiatives nationally, we aim to increase volunteering participation in 2024/25 by encouraging greater take up through communications and increased organised volunteering opportunities.



Environment

Climate-related financial disclosure

Climate change is the challenge of our time. We are already seeing some of the physical effects as our climate evolves as well as the practical and operational impacts of greater regulation and planning requirements. We have a track record of supporting the home-building industry on sustainability and environmental matters. We continue to work with the industry to help make the requirements to develop low-energy homes technically and commercially viable. We are committed to supporting the Government's ambition to achieve net zero carbon by 2050, and are focused on ensuring our practices are sustainable, delivering positive and lasting change across the industry and within our own operations.

NHBC's Environmental Strategy was approved by the Board in June 2023. As part of this strategy, we are committed to being net zero from our own operations and those of our suppliers by 2040 (Scope 1 and 2 emissions, and Scope 3 emissions related to operational activities), and to be fully net zero by 2050 (including Scope 3 emissions from invested assets).

As the leading warranty and insurance provider for new homes in the UK we recognise the important role we have to play in influencing and supporting the home-building industry to transition to net zero.

There are five key areas of strategic focus within our Environmental Strategy:

1 - Investments

We invest responsibly, taking account of material environmental social governance (ESG) risks, and implementing NHBC's Stewardship responsibilities. We believe that investing responsibly and achieving strong long-term returns are not mutually exclusive, seeking to achieve sustainable long-term returns by investing in well governed and sustainable assets. We employ ESG screening across our segregated bond portfolios as part of our approach to responsible investing, for example highly carbon intensive entities cannot be purchased. We also allocate some of our surplus assets to global renewable power infrastructure which is helping to fund the transition to a net zero future. Our liability matching investments are primarily held in UK government bonds (gilts), creating reliance on the UK Government's net zero transition. We are committed to ensuring our invested assets are net zero by 2050.

2 - Operations

We have a target to be net zero from our own operations and our supply chain by 2040. Significant progress has been made in respect of Scope 1 and 2 emissions, decarbonising the vehicle fleet and reducing emissions from our owned properties.

3 - Industry engagement

To identify the opportunities for influencing and supporting the industry in meeting Government targets and regulatory requirements concerning climate change and environmental responsibilities.

4 - Effectively managing evolving insurance risk

To identify and effectively mitigate future insurance risk connected with new build methodologies and technologies.

5 - Monitoring and collaboration

Ensuring NHBC remains well-informed, adaptive and an industry figure in the evolving climate landscape.

We recognise the importance of disclosure as part of our journey to achieve net zero carbon and to support our position in influencing the industry in which we operate. In this section we provide an overview of the multi-faceted climate-related risks facing our business and our strategies in managing those risks.

Governance

We have a defined governance structure for assessing and managing climate-related risks and opportunities and making decisions pertaining to our Climate Change Strategy. Key activities are led through workstreams which report into our management committee structure. The key decision-making bodies are highlighted below:

Board and Board Committees

- Board: Oversight and approval of NHBC's ESG and investment strategies, including the approach to Responsible Investment. Approval of Board level risk appetites.
- Board Risk Committee: Oversee NHBC's exposure in managing financial risks from climate change and other relevant sustainability risks.
- Remuneration Committee: Ensure appropriate ESG elements are included within NHBC's remuneration framework.
- Audit Committee: Oversight of the integrity of NHBC's financial statements and related public statements, including in respect of climate change.

Management Committees

- Executive Committee: Responsible for management oversight of all climate change related matters, including strategy, risk and exposure management, pricing, NHBC Standards development, NHBC carbon footprint reduction and the meeting of external disclosure reporting requirements. The Executive Committee is responsible for recommending climate change and ESG strategies for approval at Board.
- Environmental Steering Committee: Responsible for the development and implementation of NHBC climate change strategy. Maintain oversight of all climate change activity to ensure prioritisation and alignment with strategy, and identification and management of climate-related risks and opportunities.
- Asset and Liability Committee: Oversight of adherence to the Responsible Investment Policy.
- Pricing Committee: Ensure we appropriately price for expected future claims, including climate-related risks.
- Product Governance Group: Oversee product development and policy wording change to manage and mitigate future claims risk such as evolving regulations affecting new homes as they adapt to climate change.
- Technical Quality Strategy Board: Responsible for the development of NHBC Standards including future climate-related considerations.

Risk framework and climate-related risks

Identification and assessment of climate-related risks

We have classified climate change as an emerging risk and have increased our focus and integration into the Risk Management Framework and risk taxonomy over the last two years. We treat climate risk as a cross-cutting risk that can emerge through changing the frequency, severity and correlation between existing risk types and outcomes.

During 2023, we engaged professional advisors to carry out a materiality assessment and to identify climate-related risks and opportunities which could have a potential impact on NHBC's business. Following NHBC subject matter expert input and analysis of a range of documentation, risk taxonomy and primary risk events, a qualitative assessment of climate-related causes/drivers and impacts that could potentially change our risk profile and main risk types was produced. The most significant areas of risk for NHBC and the actions being taken to manage them are identified below. We have categorised potential climate-related risk impacts as short, medium and long term as below:

- **Short term** – the period up to the end of 2026, based on our existing three-year business planning process.
- **Medium term** – 2027 to 2035, aligned to the duration of our warranty product and a reasonable business planning horizon.
- **Long term** – defined as the period from 2035 onwards.

The table opposite outlines examples of potential impacts of climate change on physical and transitional risk within NHBC's current risk profile.

Potential impacts and opportunities driven by physical and transition risk factors	NHBC impacted risk areas	Time horizon	Actions to mitigate
Increased costs and/or volume of claims and impacts on the time to settle claims resulting from greater severity and frequency of claims caused by weather events.	Insurance risk (underwriting and reserve)	Medium to long term	Our Environmental Strategy includes work to identify future insurance risks from climate change and mitigating actions, including relating to the impact of changing weather patterns and severity on our claims experience. Supplier relationship management is undertaken for NHBC's Remedial Works Contractors and supplier network to ensure performance against service level agreements. Capacity planning and operational resilience plans are in place to support the Claims function with increased workload resulting from a weather event driving a surge in claims contacts.
Rebuild and repair costs of claims increasing, combined with an inability to reprice and adjust premiums quickly enough in response to: • carbon taxes • more stringent Building regulations • new or low carbon technology or materials not sufficiently monitored or appropriately adopted by the industry.	Insurance risk (underwriting and reserve)	Medium to long term	NHBC's pricing analysis includes review of factors such as Modern Method of Construction (MMC), claims cost inflation and future regulation standards changes. Our Environmental Strategy includes work to mitigate future insurance risk through pricing, claims, and reserving considerations. Our Standards, Innovation and Research and Underwriting departments are resourced to consider new technologies, methods and materials used in house building and to set appropriate standards and underwriting criteria in line with NHBC's risk appetites.
NHBC Standards not adequately supporting the home-building industry to transition to net zero compromising its influence and standing in the industry potentially damaging reputation with various stakeholders (builders, customers, consumers, industry and Government) and impacting our technical risk management capabilities.	Strategic risk / Operational risk	Medium to long term	Strong links with Government, the Future Homes Hub and other key organisations are maintained via regular engagement. Close monitoring and work through our Environmental Steering Group will ensure we maintain our position appropriately in the areas where we have the specific expertise ie, standards, regulations, quality and claims. Our Standards, Innovation and Research team has appropriately resourced to ensure we proactively work with the industry to develop appropriate Standards for MMC and climate technologies and provide guidance to our customers.
NHBC is deploying some of its invested asset portfolio to support the transition to net zero and is therefore exposed to potential collective failure and/or lack of support for net zero transition. For example, conditions for the companies and projects being funded by NHBC may result in failure or underperformance. The allocation to impact and green investments is modest and although NHBC could potentially do more in the future it is unlikely to be a proportion of the balance sheet to which failure or poor returns significantly impacts overall solvency.	Financial risk	Long term	Our overall investment portfolio is largely UK Fixed Income (with a large proportion in Gilts) reflecting our liability matching strategy, with surplus assets invested in a mixture of public and private investments. Within the restrictions of our reserving requirements and taking into account the duration of the portfolio at <10 years, there are limited exposures to long-term climate transition and physical risks beyond UK Government exposure. Through our selection, ongoing assessment and due diligence of asset managers, we ensure that ESG factors and RI are integrated into our investment philosophy, mandate and processes and those of our asset managers.
Risk of lack of data availability and/or transparency for externally-sourced data (eg from our supply chain) and for NHBC invested assets from investment managers and general market to mandate, monitor and demonstrate alignment to net zero ambition.	Operational risk	Short term	Investment managers have all major data licenses to gain best possible access to relevant information. NHBC is transparent with, and accountable for, the investment managers we invest in, providing robust selection criteria in line with our RI principles and ensuring these are adhered to. During the financial year 2023/2024 we invested in third party tools to support the collection and analysis of our supply chain carbon emission data.
Costs and other resource impacts associated with the transition to a lower-carbon economy may increase over time (enhanced emissions/climate-related reporting obligations and increased carbon pricing driving an increase in NHBC operating cost base (eg travel, property, utilities, etc.).	Operational risk	Short to medium term	Annual business planning and quarterly forecasting cycle reforecasts operating costs versus budgets and Group Business Plan (GBP). Our corporate affairs partners and advisors keep us informed of any expected changes in carbon taxation/levies etc in advance of any taxes being introduced. Regular assessment of the requirements of Climate-related Financial Disclosure (CFD) reporting, including training and continuing professional development for relevant staff.
Failure to meet NHBC's carbon reduction targets due to differing emissions targets between NHBC and suppliers. NHBC may be unable to influence suppliers they rely on to decarbonise at a rate that supports NHBC decarbonising targets.	Strategic risk / Operational risk	Medium to long term	We have invested in third party tools to better understand the CO^2 of our key suppliers and help them to identify their carbon emission levels and how they can reduce them. Our procurement tender decisions have an environmental element against which suppliers are assessed.

The outcome of the analysis feeds into the Environmental Strategy and priorities within the different climate change workstreams and identifying where further activities, including modelling may be required.

Integration of climate risks within NHBC's Risk Management Framework

Risk strategy and appetite

In 2023, we reviewed our approach to risk appetite and the risk taxonomy. As part of this review climate change was considered as a cross-cutting risk that can influence many existing risk types. In 2024, consideration will be given to develop a climate risk appetite to reflect the latest ESG strategy with consideration of how metrics should be linked throughout the risk taxonomy.

1. Policies and control framework

The risk policy framework was updated in 2023. Policies are revisited on a scheduled cycle to ensure they are aligned to the framework and to ensure appropriate content is included for material climate risk exposures as identified as part of the materiality assessment.

2. Risk management process and activities

As outlined above, a materiality and risk assessment were undertaken during 2023 covering key risk categories which would be impacted from a climate change perspective. These risks were reviewed by the respective business owners and will be reviewed and reported as part of the different workstreams included in the Environmental Steering Group. An overview of key risk categories is provided in the Risk section of the report on page 42.

3. Risk enablers

Climate risk is not considered a standalone risk, as it can potentially impact all risk categories underlying the risk taxonomy and associated risk outcomes. Work will continue to integrate climate change into affected risk events as we mature our approach. Further information on our risk framework and key risks is available in the Risk section on page 42 of the report.

4. Governance and risk culture

Governance for climate change is led by the Board supported by the Executive Committee, the Climate Change Steering Group and supporting management committees. The Board provides oversight and approval of the ESG strategy including the approach to Responsible Investment.

The Three Lines of Defence Model has been adopted to ensure that there is clear accountability within the business to manage risks including climate risk in an effective and efficient manner.

Scenario analysis

The nature of NHBC's business model and products result in several challenges in establishing an effective climate risk management framework. The risks associated with the asset side of our balance sheet are well understood and consistent with other insurance undertakings and, as such, there are various risk management approaches that can be applied.

We have considered the impact of a range of qualitative climate scenarios, based on the Climate Biennial Exploratory Scenarios (CBES) which have been widely adopted, on the NHBC business model. These includes three scenarios:

1. Early Action (EA): Global warming is successfully limited to 1.8°C by 2050 and 1.5°C by the end of the century, with an orderly transition to a lower-carbon world.
2. Late Action (LA): Global warming is limited to 1.8°C by 2050 but then remains at this level, representing a delayed and more disorderly transition.
3. No Additional Action (NAA): Global warming reaches 3.3°C by 2050, rising to 4.1°C by the end of the century, representing a lessening of government ambition on emissions with no additional actions taken to address climate change.

As part of these scenarios, we considered both risks arising from physical impacts of changes in weather and climate extremes, and transition risks arising from transition of the economy and public policy in response to climate change.

The key considerations for our business model fundamentally relate to factors which could affect:

- Claims experience (both physical and transitional) eg:
  - Less time suitable for construction/repairs to be undertaken due to higher frequency of extreme weather events preventing repairs works/making them more costly.
  - More frequent extreme weather can reveal construction defects otherwise undetected (eg water ingress).
  - Foundation subsidence due to changes in soil characteristics (eg moisture levels).
  - New methods/materials used to meet climate requirements: builders have less experience of their use in construction and NHBC inspectors have less experience with what to look for during inspection.
  - Climate regulation impact the cost of materials, and therefore the cost of repairs.
- Business operations:
  - Less time suitable for inspections due to adverse weather, resulting in fewer inspections being carried out impacting registration volumes and income.
  - Changes in regulation can have an impact on the construction industry changing the business landscape and therefore NHBC's risk profile.
  - Changes in climate or materials/methods used can result in NHBC needing to change Standards, inspection processes, re-train staff and/or acquire different skills.
  - Reinsurance markets will be subject to climate risk and will be undergoing their own transitions, which may result in changes to processes, pricing, claims settlement, or the availability of reinsurance.

- Business continuity impacts such as increased remote working and reliance on virtual inspections and claims investigations if weather restricts travel/commuting. Homes would become more difficult to work from due to challenges of heating/cooling.
- Increased correspondence/contacts resulting from higher claims experience driven by increased frequency and/or severity of weather events.
- Impacts to our premises, such as higher costs of heating/cooling, physical damage from weather events resulting in higher repair/maintenance costs, costs of insurance.

- Asset returns:
  - NHBC's main holdings are in sovereign debt and financial sector corporate bonds, therefore exposure to physical risks is not material.
  - Sovereign debt: Follows the risk for the UK in general; government debt default due to climate change is highly unlikely; it may be (though a remote probability) that the cost of implementing policies causes the UK Government to introduce a cap on RPI-linked gilts.

    Financial sector: Exposed to climate risk through secondary impact of core activities, particularly in concentrations of lending, asset management and trading to carbon intensive industries. Changes in regulation to comply with policies will increase costs and, if transition is disorderly, could create balance sheet volatility, and therefore changes in perceived risk (credit spreads widen); defaults are unlikely as a result of climate change policies.

Under all scenarios, temperatures rise which also increases the occurrence of extreme weather events and changes in weather. NHBC considers extreme weather as part of its business continuity plans, with employees provided with suitable equipment to work remotely should commuting become unfeasible. We also ensure appropriate 'surge' plans are in place in key departments such as Claims, where significant weather events can lead to a higher volume of contacts to NHBC. The impacts of other factors, such as higher claims and reinsurance costs, impacts to asset returns, and higher operating costs are well understood and modelled as part of annual business planning.

For our insurance liabilities the characteristics of the warranty product, its duration and the evolving nature of the house-building industry pose challenges in establishing a consistent effective risk management approach for climate change-related risks at this time. Historic data regarding claims or specific building techniques is limited in its effectiveness in assessing the potential future implications for latent defect risks. Many of the construction techniques that will be used at scale in the future are not directly comparable with traditional building approaches and given this, traditional technical risk management strategies will need to evolve with new regulatory standards, products, materials and methods of construction. Material areas of risk (eg systemic technical events) may be different in shape, concentration, and exposure. Similarly existing physical risk models may require adaption to reasonably reflect the principal factors that are likely to influence claims behaviour and repairability of defects. We are working with providers of physical risk models to understand the translation factors required to make these increasingly effective.

The transition behaviours and outcomes of our builder customers will also play a key role in understanding the climate risk exposure for NHBC.

We recognise that obtaining a comprehensive understanding of climate-related risks and opportunities is vital before further developing modelling activities to ensure the most relevant drivers are captured and can be considered across a range of use cases. In addition, the outputs from the evaluation and materiality assessment of climate risks completed in the year are supporting our work to enhance our approach to modelling of climate change scenarios.

Measurement

Given the longer-term nature of NHBC's products and business model when compared with the broader insurance industry, we are taking a longer-term approach to the development of broader climate metrics and associated targets appropriate to our business.

Our initial targets that exist today focus on reducing Scope 1 and 2 emissions from a base line financial year ended 31 March 2020. Scope 1 are direct emissions from sources that are owned or controlled by the company and Scope 2 are emissions released into the atmosphere from the use of purchased energy. These measures target year-on-year reduction and are included in the annual bonus targets of all staff and included in the Long-Term Incentive Plan (LTIP) for senior executives. The calculations of our non-investment carbon emissions are calculated annually and verified by an external advisor.

	CO_2e tonnes				
	2024	2023	2022	2021	2020
NHBC defined Scope 1	**1,053**	1,520	1,377	1,409	2,203
NHBC defined Scope 2	**4.3**	2.6	2.0	150	380

The general trend has been reduction in both Scope 1 and Scope 2 emissions. Most of Scope 1 emissions relate to NHBC's vehicle fleet. Covid-19 impacted numbers of business miles travelled resulting in generally lower emissions from 2020 to 2022. As business activity recovered, the emissions picked up. However, over the last three years NHBC has been implementing a strategy to electrify its vehicle fleet and as a result, despite continuing increase in business activity, has achieved reductions in its Scope 1 emissions.

Scope 2 emission have reduced as NHBC switched to providers of electricity that rely on renewable sources of energy generation.

We also provide some metrics as part of our Streamlined Energy and Carbon Reporting (SECR), please see below.

Streamlined Energy and Carbon Reporting (SECR)

For the year ended 31 March 2024, the annual quantity of emissions in tonnes of CO_2 equivalent (CO_2e) and kWh resulting from activities for which we are responsible involving combustion of gas and consumption of fuel for the purposes of transport is shown in the table below.

	CO_2e tonnes		kWh	
	2024	2023	**2024**	2023
Combustion of gas	**170**	158	**930,498**	869,751
Consumption of fuel for the purposes of transport	**402**	1,483	**1,661,901**	6,185,588
	572	1,641	**2,592,399**	7,055,339

Combustion 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 our corporate vehicle fleet. The CO_2 and kWH metrics are based on business miles travelled and how the vehicle is powered (eg diesel or petrol), with conversion factors supplied by BEIS based on an Average Car type. For business mileage by our modest utilisation of hybrid vehicles we apply either diesel or petrol conversion factors (ie, do not make allowance for power generated by internal electric motors) leading to a slightly more prudent estimate of the CO_2 and kWH metrics.

Combustion of gas metrics have stayed broadly steady whilst consumption of fuel for the purpose of transport has reduced. This is due to two factors:

- We are in the process of migrating our vehicle fleet to mostly electric vehicles and over the year ended 31 March 2024 the proportion of vehicles consuming diesel and petrol has notably reduced. Over the year, we have recorded 80.3% of our business milage being covered by pure electric or plug-in hybrid vehicles (2023: 28.6%).
- The number of business miles has reduced as inspection activity has declined relative to prior year.

For the year ended 31 March 2024, the annual quantity of emissions in tonnes of CO_2 equivalent and kWh resulting from our purchase of electricity for our own use including for the purposes of transport is shown in the table below.

	CO_2e tonnes		kWh	
	2024	2023	**2024**	2023
Consumption of electricity	**230**	219	**1,112,471**	1,145,469
Consumption of electricity for the purposes of transport	**267**	117	**1,292,344**	604,299
	497	336	**2,404,815**	1,749,768

Consumption of electricity 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 electricity for the purposes of transport principally relates to our corporate vehicle fleet. The CO_2 and kWH metrics are based on business miles travelled and how the vehicle is powered (eg pure electric vehicle or plug-in hybrid), with conversion factors supplied by BEIS based on an Average Car type.

Consumption of electricity metrics have stayed broadly steady whilst consumption of electricity for the purpose of transport has increased as a greater proportion of the fleet are electric vehicles.

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_2e tonnes per FTE		kWh per FTE	
	2024	2023	**2024**	2023
Annual emissions	**0.8**	1.6	**3,876.8**	7,152.8

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

Stakeholder engagement

During the accounting period, the Board of Directors has individually and collectively fulfilled its obligations in line with section 172 of the Companies Act 2006 to promote the long-term success of NHBC for the benefit of our Council members and key stakeholders.

The Board's principal role is to agree and oversee the implementation of NHBC's strategy and ensure that NHBC maintains an appropriate standard of governance regarding the constitution, the principles of the UK Corporate Governance Code as appropriate and the regulatory framework in which the company operates. The Board must also consider all stakeholders relevant to a decision.

The Board recognises that stakeholder engagement is key to understanding what matters to our stakeholders and the impact of decisions. As part of the decision-making process, they assess the impact and the probable consequences of any decision and are mindful that in some situations, the interests of different stakeholders may conflict.

Our key stakeholder groups include homeowners, 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 all stakeholder groups in line with the development and implementation of our business model and strategy and to promote NHBC's long-term sustainability and success.

We have c.1,300 employees whose technical knowledge and expertise is recognised in the industry and who are crucial to delivering our purpose as a sustainable business over the long term.

How the Board makes decisions

The Directors collectively bring a diverse range of skills, knowledge, experience and stakeholder expertise. During the year, the Board enhanced how it is appraised of the considerations made by senior management introducing simpler, clearer and more succinct reports. As part of its discussions, the Board and its committees provide rigorous evaluation and challenge to ensure a decision promotes long-term sustainable success.

The key strategic decisions taken during the financial year were informed and supported by stakeholder engagement activities as set out in this section. The Board receives regular updates from the Executive Directors and through reporting to and from Committees which details any substantial stakeholder engagement. In addition, there are standing agenda items at each meeting to ensure that the Board receives relevant updates on all our key stakeholders.

NHBC monitors government policy that may impact its business and adopts a strategic response to policy developments which support our objectives of raising standards and protecting homeowners.

Key strategic decisions taken by the Board during 2023/2024

- Approved the Group Business Plan that will be implemented over the next three years. It considers the economic and market outlook for the house-building sector including expected registered customer, homeowner, 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.
- Approved the updated scope of a programme focussed on delivering modern and agile technology and processes, to improve capability, capacity and flexibility.
- Approved the Environmental Social Governance (ESG) Strategy, including our aim to be net zero from our own operations and our supply chain by 2040 and our commitment to broader sustainability, social responsibility and diversity, equity and inclusion in our business and the communities in which we operate.

How the Board has engaged with our stakeholders

Our people

We have c.1,300 employees whose technical knowledge and expertise is recognised in the industry and who are crucial to delivering our purpose as a sustainable business over the long term. We value our colleagues and actively engage with them and look to provide opportunities for their professional development.

The Board takes an active role in employee engagement, receiving updates on the results of colleague engagement surveys (undertaken quarterly in 2023/2024). These surveys provide insight on colleague sentiment and demonstrate a commitment to ensuring we can attract and retain talent.

The Board received regular updates on NHBC's culture enhancement programme, focused on delivery of quality outcomes, empowerment, innovation and placing homeowners at the heart of decision-making.

The Board encourages a diverse workforce and an inclusive culture and is supportive of investment and activities to increase diversity, equity and inclusion (DE&I). The Board received updates on a data-analysis exercise to help shape future DE&I initiatives, support equality of opportunity and help management understand and remove barriers. The Chair, along with several non-executive directors (NEDs), meets with the chairs of our Be Me: Employees Networks bi-annually to support the work of our colleagues and allies to ensure a positive work environment and foster a diverse, inclusive workplace aligned with NHBC's values. NEDs also joined Be Me: Employee Network sessions with internal and external speakers sharing their experiences of Women's, LGBTQ+, disability and race equality matters.

The Executive Directors engaged with colleagues at a series of internal conferences during the year and continue to work closely with the Staff Association (SA) including a quarterly presentation to the SA Committee.

The Board and its committees receive regular updates on people matters, including talent and succession, leadership development, inclusion and diversity, gender pay gap and incentives. The Audit Committee also receives reports on issues raised through NHBC's Speak Up internal confidential whistleblowing service. Quarterly 'Talent lunches' are held for colleagues to engage with our NEDs to support talent development and succession. These provide insights to both employees and NEDs, with NEDs using their knowledge and experience to offer advice on career development and providing colleagues with an opportunity to discuss their responsibilities, challenges and greater detail on the business operations that NEDs do not typically see.

Our members

NHBC is governed by an independent council of 53 individual members representing a diverse range of organisations that are interested in, or associated with, the house-building industry.

The Board engages with Council members at the Annual General Meeting and Annual Lunch (held in September and November 2023) and at additional organised events during the year. At these events, Council members can question and challenge the Board and management on delivery of NHBC's purpose and strategic objectives. This ensures that regular dialogue is held between Board members, management and the Council.

In June 2023 and in February 2024, Council members were invited to meet with Executive Directors and management at our London and Milton Keynes offices respectively. As well as business performance and strategy updates, Council members received updates on our approach to implementing Consumer Duty, our focus on climate change and sustainability, the political and policy landscape, underwriting and the NHBC Standards.

Council members receive a regular newsletter to support them in their understanding of NHBC, its strategy and operations.

Council members who are also members of the Council's Northern Ireland and Scottish Committees also support and inform our work monitoring, reviewing and promoting NHBC's objectives and activities within their respective regions.

For further information on our Council, please see the Corporate Governance Report, 'NHBC Council' section.

Homeowners (also referred to as consumers or policyholders)

A key part of our core purpose is the protection of homeowners. Regular engagement and dialogue with our homeowners is key to developing our products 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, setting higher and clearer standards of consumer protection. The Consumer Committee continues to oversee how the Company is implementing this.

The Board receives 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 impacts for homeowners.

The Consumer Committee receives reports on homeowner experience, service levels and outcomes and homeowner-related strategic initiatives. It engages with management to ensure our performance meets homeowners' expectations. The Consumer Committee's understanding of homeowners' views is informed by insights and commentary from homeowner surveys and by listening to our focus groups.

For further information on how we engage with homeowners, please see the 'Delivering for homeowners' and 'Consumer Committee Report' sections.

Registered customers

Long-term, constructive relationships with our registered customers (builders and developers) are key to achieving our aim to raise standards in house building. Open dialogue, depth of relationships and working in partnership are key to this.

The Board includes individuals with knowledge of and direct involvement with the house-building sector. Their experience and insight inform Board discussion, challenges and decision-making. During the year the Board received updates on enhancement and expansion of our partnership model with our registered customers. This included the benefits of early engagement and regular updates on the market. Insights on the various segments of our customer base are provided by the Executive Directors and management at each Board meeting.

Suppliers and partners

Our suppliers support us in the delivery of our products and services to registered customers and homeowners. It is important that we have strong relationships with our suppliers, benefiting from each other's skills and experience, to provide a resilient and high-quality service.

All supplier activity is managed in accordance with the Procurement and Supplier Management Policy which ensures that we manage activity in accordance with regulatory, registered customer, data governance, corporate responsibility, finance and contractual issues.

The Board approves the Modern Slavery Statement outlining our commitment and activities to prevent instances of slavery and human trafficking within our business and supply chain. Our supplier contracts include a commitment to pay not less than the living wage to eligible employees if supplying services to NHBC.

Regulators

As an insurance company, NHBC is authorised by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). During 2023/2024, our building control activities were overseen by the Construction Industry Council Approved Inspector Register (CICAIR) and approved by the Construction Industry Council (CIC). From 6 April 2024, NHBC Building Control Services Ltd was registered by the Building Safety Regulator as a Registered Building Control Approver.

We maintain constructive and transparent relationships with all our regulators. Directors and senior managers meet regularly with our regulators to discuss specific business, governance and regulatory matters. Our regulators also engage with us to discuss their objectives, priorities and concerns as well as how they affect our business.

A standing update is provided to the Board through reporting from the chief executive officer and the Board Risk Committee on all regulatory matters.

Two key pieces of work this year which the PRA have been kept informed of were:

Development and validation of our Economic Capital Model which will support the business in improving the modelling of financial risks and related decision making.

Stress and scenario testing analysis which assesses the impact of extreme but plausible events to the Company's risk profile, financial position, operations, business model and strategy. Stress and scenario testing supports management in better understanding risk exposure and the effectiveness of potential mitigating actions.

In addition to the PRA, FCA, CICAIR and the Building Safety Regulator, we monitor other key stakeholder relationships, including HMRC, HSE, ICO and The Pensions Regulator.

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.

During the year the Board endorsed NHBC's approach to understanding and responding to the challenges and opportunities from climate change. The Board also approved the ESG strategy and reaffirmed the commitment to be net zero from our own operations by 2040.

For further information on our corporate social responsibility activities and how we engage with the house-building industry, Government and other stakeholders in relation to climate change impacts, please see the 'People, communities and environment' section.

Strategic report sign-off

We are committed to engagement with our key stakeholders, and will continue to focus on this, and ways to continuously improve engagement in the financial year ending 31 March 2025.

The Strategic report was approved by the Board on 25 June 2024.

Steve Wood
Chief Executive Officer

"A key part of our core purpose is the protection of homeowners. Regular engagement and dialogue with our homeowners is key to developing our products to meet their needs."

Governance

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Corporate governance report

This Corporate Governance report[1] sets out how we are governed and how the Board and its Committees operated during the financial year.

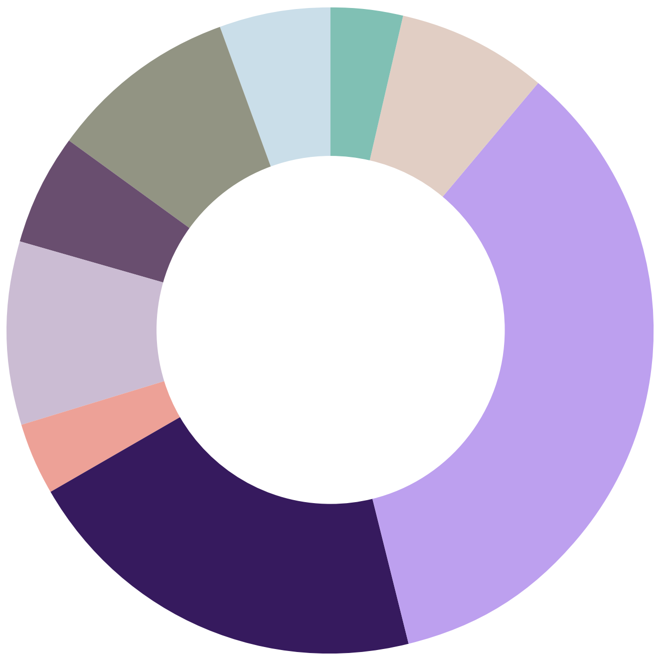
NHBC Council

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. It receives the Directors' Report and Audited Accounts and approves appointment 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 Company's Annual General Meeting (AGM).

For more information on the Council please see the s172 Statement: 'Our members' section.

NHBC Council representation by category

Consumer
Honorary Vice-President
Industry body
NHBC Board
Northern Ireland Committee
Professional body
Scottish Committee
Warranty holder
Other



1 NHBC is not required to follow the Corporate Governance Code but makes some voluntary disclosures to enhance reader's understanding of the business

Board

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

Below are biographies of our current directors who all served in the financial year and date of the signing of the accounts.

Alan Rubenstein

Board Chair

Committee membership:
Nominations Committee (Chair)

Appointed: NED: 11 February 2020, Board Chair: 14 May 2020

Alan has 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. Alan's external appointments include Non-Executive Director of Fidelity International's UK holding company and Chair of its investment platform business, Trustee Director of the British Coal Staff Superannuation Scheme and Chair of the Scheme's Investment Sub-Committee, Senior Independent Director and Chair of the Investment Committee of Pool Reinsurance Company Limited and Trustee Director of Dignity Funeral Trusts Limited and Trustee of a series of associated trusts. Alan is a Fellow of the Faculty of Actuaries.

Elizabeth Austerberry

Non-Executive Director

Committee membership:
Board Risk Committee,
Consumer Committee

Appointed: 1 August 2022

Elizabeth has over 25 years of banking experience, with a focus on real estate, mortgage lending and credit analysis. She 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 and Wakefield) specialising in the finance of residential real estate. Chair of the affordable housing provider which forms part of the Octopus Group. Elizabeth's is also Chair of NewArch Homes Limited.

Paul Bishop

Senior Independent Director

Committee membership:
Board Risk Committee (Chair),
Audit Committee, Nominations Committee

Appointed: 1 November 2016

Paul 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's external appointments include Non-Executive Director and Chair of the Audit Committee Zurich Assurance Limited, Non-Executive Director and Chair of the Audit Committee at AXA XL Insurance Company Limited and AXA XL Underwriting Agencies Limited and Non-Executive Director & Board Chair of Metlife UK Limited. Paul is also a Qualified Chartered Accountant and Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW).

Alison Burns

Non-Executive Director

Committee membership:
Remuneration Committee (Chair), Audit Committee,
Nominations Committee

Appointed: 15 October 2019

Alison 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 Bank of Ireland (UK) plc. Alison's external appointments include Non-Executive Director and Chair of the Remuneration and Nominations Committee at Railpen, Non-Executive Director of Railway Pension Investments Limited and Director HBSLM Ltd.

David Campbell
Chief Operating Officer

Committee membership:
As an Executive Director David is not a member of any Board Committees.

Appointed: 15 April 2020

David has over 30 years' experience in the house-building industry. He has overall responsibility for NHBC's team of Regional Directors, Business Development, Commercial Services, Customer Services, Marketing & Communications and Director of Business Change. Before joining NHBC David held roles on the board of Telford Homes plc and 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. David is also an Executive Director of NHBC Services Limited.

Paul Hosking
Chief Financial Officer

Committee membership:
As an Executive Director Paul is not a member of any Board Committees.

Appointed: 23 January 2017

Paul is a qualified Chartered Accountant with over 30 years' experience working in the UK and European insurance markets. Before joining NHBC, he held roles at PricewaterhouseCoopers, QBE Insurance (UK) and 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. Paul is also an Executive Director of Zero Carbon Hub Limited and PRC Homes Limited. Paul is also a Chartered Accountant (South Africa) and member of South African Institute of Chartered Accountants.

Tesula Mohindra
Non-Executive Director

Committee membership:
Consumer Committee (Chair), Audit Committee, Board Risk Committee

Appointed: 1 July 2021

Tesula has over 25 years' experience in the financial services industry including the investment banking sector. Tesula was previously a Managing Director at JP Morgan and UBS, specialising in corporate finance for financial institutions and pension funds. Tesula was also a founding member of the management team of Paternoster, the specialist bulk annuity insurer. She has also worked as an independent corporate finance consultant. Tesula's external appointments include Non-Executive Director and Chair of the Audit and Risk Committees of the RAC Group (Holdings) Limited and subsidiaries, Non-Executive Director of Close Brothers Group Plc & Close Brothers Limited and Trustee of Variety, the Children's Charity. Tesula is a qualified Chartered Accountant and Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW).

Dr Teresa Robson-Capps
Non-Executive Director

Committee membership:
Audit Committee (Chair), Board Risk Committee, Nominations Committee

Appointed: 1 July 2021

Teresa has a wealth of experience in executive and non-executive roles across the financial services, retail, technology and mobile industries, including five years at HSBC where she led the direct bank sales and service, became Head of Strategy and Planning and Deputy Head on the merger of the direct bank and First Direct. Teresa's external appointments include Independent Non-Executive Director on the Board of FIL Holdings (UK) Limited, member of its Audit Committee and Chair of FIL Investment Services (UK) Limited, Independent Non-Executive Director and Senior Independent Director of Allianz Holdings plc, and Independent Non-Executive Director and Senior Independent Director of the following subsidiary companies: Liverpool Victoria General Insurance Group Limited and Liverpool Victoria Insurance Company Limited, Allianz Insurance plc, Allianz (UK) Limited, Highway Insurance Company Limited, and Chair of the Customer Conduct Committee and member of the Audit, Risk and Nominations and Compensation Committees, Independent Non-Executive Director and Chair of the Audit Committee at Avida Finance (Sweden). Teresa is a Fellow of The Chartered Institute of Management Accountants and holds a PhD in Management Control and Accounting.

Philip Rycroft
Non-Executive Director

Committee membership:
Remuneration Committee

Appointed: 26 September 2019

Philip has over 30 years' experience as a policy professional in government. He has deep expertise in the workings of government at all levels in the UK and in constitutional and devolution matters. He worked on the Scottish Referendum and the EU Referendum and led on preparations for Brexit. He was at the centre of events in the UK Coalition Government from mid-2012 to May 2015. He has huge experience across a wide range of policy areas and understands the relationship between business and government. Philip Chairs our Scottish Committee. Philip's external appointments include Director and Chair of the Portman Group, Council member of York University, Independent Non-Executive for PWC UK, Non-Executive Director of UK Accreditation Service, Non-Executive Director Our Scottish Future and Non-Executive Director The Promise Scotland.

Stephen Stone
Non-Executive Director

Committee membership:
Remuneration Committee, Consumer Committee

Appointed: 5 October 2016

Stephen is a Chartered Architect with over 40 years' experience in various positions in the construction and house-building industry and has more recently been an 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. Stephen's external appointments include Non-Executive Director of Orbit Group Limited and Orbit Homes (2020) Limited, Non-Executive Director of Castle-Builder Topco Ltd (Holding company for Miller Homes Limited), Non-Executive Director of Flint Housing Limited, Director of Flint Asset Manager Limited, LLP Designated Member of WS GP LLP and Non-Executive Director of Chiltern Place Property Limited. Stephen is also a Member of the Royal Institute of British Architects.

Steve Wood
Chief Executive Officer

Committee membership: As an Executive Director Steve is not a member of any Board Committees.

Appointed: 30 June 2017

Steve Wood has over 40 years' experience within the insurance industry. Before joining NHBC Board as Chief Executive Officer in June 2017, he was previously Chief Executive at Paymentshield Limited, UK Managing Director at Ecclesiastical Insurance and Managing Director at FirstAssist Group. Prior to that, he held senior positions at RSA Insurance Group plc. Steve is also an Executive Director of Zero Carbon Hub Limited and PRC Homes Limited. Steve's external appointments include Non-Executive Director of the New Homes Quality Board and Non-Executive Director Future Homes Hub Limited. Steve is also a Fellow of the Chartered Insurance Institute.

Our governance framework

Role of the Board

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

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, one unscheduled Board meeting was called at short notice. The Chair also held regular meetings with the executive directors and with non-executive directors without management in attendance.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Consumer Committee
Number of meetings held:	**(7)**	**(5)**	**(6)**	**(5)**	**(2)**	**(5)**
Alan Rubenstein	7/7				2/2	
Elizabeth Austerberry	6/7		5/6			5/5
Paul Bishop	5/7	5/5	6/6		2/2	
Alison Burns	7/7	4/5		5/5	2/2	
David Campbell	7/7[3]					
Paul Hosking	7/7					
Tesula Mohindra	7/7	5/5	6/6			5/5
Teresa Robson-Capps	7/7	5/5	5/6[3]		2/2	
Philip Rycroft	7/7			5/5		
Stephen Stone	7/7			4/5[3]		4/5[3]
Steve Wood	7/7					

Balance of executive and non-executive directors

Chair	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	6
Executives	3

Length of service of non-executive directors

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

Gender split of Board of Directors

Male	7
Female	4

Board gender diversity versus FTSE 100 and FTSE 250[2]

	FTSE 100	FTSE 250	NHBC
	(June 2022) %	(June 2022) %	(June 2024) %
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

Conflict of interest

In accordance with the Companies Act 2006, the Articles of Association allow the Board to authorise potential conflicts of interest if one arises. The decision to authorise a conflict of interest is only made by non-conflicted directors (ie, those who have no interest in the matter being considered) and in making such a decision those 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 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 committee meeting and required to annually review and confirm their external interests, which informs the analysis of 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 ensures 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 annual evaluation process to assess how it and each of its committees are performing. In the financial year 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 November 2023 (in line with best practice for regulated private companies, an externally facilitated Board effectiveness evaluation is carried out every three years, the next externally facilitated Board evaluation will be completed in 2024).

Following discussion, the Board agreed that both it, and its committees, remained effective and identified areas to further enhance the Board's effectiveness which include (i) increased engagement with senior management to support talent development (ii) enhancing the Board's understanding of the culture programme; (iii) considering areas to enhance stakeholder engagement 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, participate in a robust induction programme which includes 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 Future Ways of Working, the Economic Capital Model, Consumer Duty and training to inform corporate restructure proposals. Further training sessions have been incorporated into the Board training plan for 2024.

For the Board's key activities during 2023/2024:

- approved the Annual Report & Accounts, Solvency Financial Condition Report and Regulatory Supervisory Returns in June 2023
- approved the adoption of the economic capital model for use by the business to help manage risk and provide insight into strategic decision making
- received regular reports concerning employee health, safety and wellbeing for colleagues working in NHBC's offices and on sites managed by our registered customers
- reviewed updates on NHBC's Standards including developments in standards, innovation and research in response to the impact of the Future Homes Standard
- received regular reports from the chief executive officer on engagement with key stakeholders including events hosted by NHBC for our registered customers and industry stakeholders
- approved the Consumer Duty Implementation Plan and reviewed progress with continuous improvement activity informed by consumer insights from homeowner engagement
- supported the development of NHBC Training Services focused on addressing the skills gap, supporting the house-building industry with apprenticeships and developing competency requirements in response to evolving regulatory requirements.

For further information on the Board's key activities, please see the s172 statement.

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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 Audit Committee assists the Board in overseeing NHBC's statutory and regulatory reporting by:

- assessing the integrity of its financial reporting and systems of internal control, reserving and investment management
- monitoring NHBC's whistleblowing policies; and the independence and performance of the internal audit function and the external auditors.

Key activities during the financial year ended 31 March 2024

Financial and regulatory reporting

- Approved annual statutory and regulatory reporting including the Annual Report and Accounts, Solvency and Financial Condition Report for year ended 31 March 2024, considering key areas of subjective judgement.
- Reviewed and challenged the methodologies and assumptions used to produce the UK GAAP and Solvency II best regulatory Technical Provisions.
- Approved the appointment of an independent advisor to review and report on the adequacy of NHBC's year-end UK GAAP and Solvency II regulatory Technical Provisions.
- Reviewed independent reports on NHBC's year-end Solvency II Technical Provisions, UK GAAP insurance liabilities and NHBC's reserving processes and reinsurance models.
- Reviewed the actuarial function report setting out the Chief Actuary's opinion of the appropriateness of the Technical Provisions.
- Reviewed reinsurance recoveries.
- Reviewed regular reports on accounting, tax, capital and investment activity and portfolio performance (noting no breaches of compliance with investment guidelines or investment market risk appetite in the financial year).
- Reviewed regular Speak Up, Fraud and Money Laundering Report (noting no material instances reports of whistleblowing, fraud, money laundering, or bribery in the financial year).
- Noted that management has commenced its review of Climate-Related Financial Disclosures reporting requirements applicable to NHBC.

Internal audit

The Internal Audit Function is outsourced to BDO LLP (BDO). BDO's audit reports provided analysis to provide management with oversight of internal controls and provide assurance in relation to the integrity of such systems. No material control weaknesses were identified, and the improvements recommended are being addressed.

Approved the internal audit plan and internal audit charter, reviewed internal audit reports and monitored the progress of the implementation of agreed recommendations.

Approved the appointment of a new Head of Internal Audit and agreed to develop a co-sourced internal audit model during 2024.

Reviewed and monitored the performance and independence of BDO.

External audit

Reviewed reports from the external auditor, Deloitte LLP, and monitored the performance and independence of the external auditors using a set of Audit Quality Indicators.

Reviewed developments in the UK accounting framework which apply to NHBC's financial statements under UK GAAP and approved the relevant accounting policies.

Discussed the audit plan with the external auditor including the changing reporting environment and emerging audit trends.

Agreed the materiality level of the external audit.

Discussed the approach to the tender of services provided by the external auditor in line with audit firm rotation requirement for public interest entities.

Collaboration between Committees

- Supported the Board Risk Committee in its oversight of financial risk and liquidity risk exposures against risk appetite including challenging the adequacy and effectiveness of the internal financial control processes embedded into the Risk Management Framework.
- Worked collaboratively with the Remuneration Committee to confirm that the Audit Committee were not aware of any matters concerning NHBC's financial position that would prevent the payment of the 2022/2023 annual bonus award.

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
Tesula Mohindra	23 September 2021
Teresa Robson-Capps	23 September 2021

The Board Risk Committee assists the Board in its oversight of risk by reviewing and assessing the ongoing appropriateness 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 of these requirements, NHBC's system of 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.

Key activities during the financial year ended 31 March 2024

Risk management

- 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 and scenario testing including activities which support financial and operational resilience. Throughout the year several assessments took place to consider the viability of NHBC's current business model in the context of various scenarios, the associated risks and their potential impact on NHBC's risk outcomes including solvency.
- Approved the updated Risk Management Framework including risk categorisation model.
- Monitored NHBC's risk profile which remained broadly consistent in most areas.
- Supported the assessment of the business's ongoing reinsurance requirements and approved the renewal of quota-share reinsurance treaties.
- Monitored the development of the Economic Capital Model (ECM) and recommended to the Board its use in informing business decisions in relevant areas along with other internal and external economic, market and financial information.
- Received regular updates on regulatory engagement focused on the economic and market environment, capital modelling, stress and scenario testing, builder relationships, SME insolvency, pricing and monitored and discussed the effective implementation of new legislation, upcoming legislation and regulations, and impact on the business, including climate change, operational resilience and Consumer Duty.
- Approved the recovery plan, including management actions and the thresholds for these demonstrating NHBC's ability to respond to significant financial distress.
- Approved risk policies in line with the updated approach to the policy framework supporting the business's internal control framework.
- Approved risk and compliance monitoring plans consistent with a holistic approach to assurance also reflecting internal audit activities.
- Reviewed the proposals for the development of our Resolution Plan to fulfil regulatory resolution planning requirements.
- Received regular updates on and challenged management on operational resilience progress.
- Undertook 'deep dive' reviews on specific risk areas including cyber risk, credit risk management and technical risk management and potential exposure to Road and Sewer Bond portfolio claims.

Collaboration between Committees

- Supported the Remuneration Committee through recommending proposed amendments to the Solvency II (SII) framework for identifying SII regulated employees to align with regulatory expectations and to the Risk Adjustment Framework for the 2023/2024 bonus scorecard to ensure decision making appropriately considers consumer impacts along with other factors consistent with the Company's purpose, values and strategy.
- Worked collaboratively with the Audit Committee to avoid duplication of discussion on common subjects including oversight of progress with delivery of NHBC's strategic change initiatives and to review the coordination between the second line risk and compliance monitoring and third line internal audit plans.
- Supported the Consumer Committee with its risk oversight of consumer outcomes.

For further information on our approach to risk management and risk governance, please see the 'Risks to our business' section.

Consumer Committee report

Consumer Committee member	Appointed to the Committee
Tesula Mohindra (Chair and Board Duty Consumer Champion)	1 January 2022
Elizabeth Austerberry	1 August 2022
Stephen Stone	1 January 2022
Ann Kaye	1 January 2022 (retired 31 December 2023)

The Consumer Committee assists the Board in its oversight of consumer matters by reviewing and challenging consumer outcome-related definitions, metrics and insights that demonstrate how consumer understanding, different consumer needs, consumer experience and fair value is considered in the consumer journey. The Consumer Committee monitors the regulatory landscape in respect of consumer matters with a focus on Consumer Duty requirements. The Committee also advises the Board's Remuneration Committee on whether remuneration and reward systems adequately support good consumer outcomes.

Key activities during the financial year ended 31 March 2024

Ensuring good consumer outcomes

- Reviewed the Consumer Strategy setting out how we ensure consumers are at the heart of our decision-making and delivery of our strategy and purpose.
- Reviewed regular management information focused on consumer outcome-related measures involving people and culture, products and services, price and value, consumer understanding, and consumer support.
- Received updates on enhancements to the governance framework that oversees product performance and reviewed the findings of target market, fair price and value assessments evaluating the value and outcomes our products provide to our registered consumers. Provided challenge on whether product reviews and product development adequately considered different consumer understanding and needs.
- Reviewed consumer feedback in relation to sale of products and mystery shopping results in relation to builder customer sales teams explaining NHBC's policy requirements to consumers and considered activities for improving consumer experience.
- Reviewed proposed updates to product literature and policy wording incorporating feedback received from the Plain English review and the consumer research undertaken by Consumer Strategy Group. 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.
- Received regular updates on how we are improving support for our vulnerable customers and ensuring our services are accessible, including working with charity partners.
- Reviewed the approach to complex claims looking at insights into the current portfolio and the initiatives being incorporated to improve complex claims handling and management of complex claims.
- Received regular reports on second line assurance and oversight activities with consumer matters and emerging regulatory matters.

Consumer Duty requirements

- Reviewed, challenged and monitored delivery of the Consumer Duty Implementation Plan including independent assurance activity undertaken by the second line and third line. In July 2023 the Committee recommended to the Board the assessment report setting out NHBC's compliance with Consumer Duty requirements.

Collaboration between Committees

- Supported the Remuneration Committee's review of how NHBC's remuneration structures align with the Consumer Duty obligations, and how the remuneration framework supports executive and employee objectives aligning to delivery of the Consumer Duty assessment report and subsequent implementation plan.
- Reviewed and recommended to the Risk Committee consumer policies to support the business's internal control framework and setting out expectations for delivery of good consumer outcomes and governance framework for regulated insurance products.

For further information on how we engage with homeowners, please see the 'Delivering for homeowners' section.

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 both the Board and its Committee's composition and structure ensuring they are effective and aligned to NHBC's strategic priorities; leading on Board and executive succession ensuring there is a formal, rigorous and transparent process for the appointment of Board members; talent development; culture, diversity, equity and inclusion initiatives supporting a diverse and inclusive company culture.

Activities during the financial year ended 31 March 2024:

- Assessed composition of the Board and its Board Committees in terms of skills, experience, diversity, and capacity and the balance of executive and non-executive directors. Reviewed individual director interests, external appointments and conflict authorisations recorded in the Directors Register of Interests as part of its assessment of the Board's independence. For further information, please see the 'Our Governance Framework'.
- Regularly reviewed progress with the culture review and subsequent development activities to strengthen NHBC's culture and enhance delivery of its vision, purpose and strategy, providing challenge and insights on deliverables and metrics.
- Provided feedback on process and progress to appoint a firm to conduct the External Board Performance Evaluation in 2024.
- Assessed insights from employee engagement surveys noting the business's positive overall rating and increase in rating and challenged management to review providing segmented data to deepen insights and learnings. For further information on employee engagement, see the 'Our people' section.
- Analysed talent, leadership development and succession plans and initiatives for executive and senior leadership, to ensure we have a high performing leadership team to support NHBC's purpose and strategy delivery and requested data on diversity metrics to be provided to highlight progress in increasing diversity across various talent initiatives.
- Discussed and evaluated progress on diversity, equity and inclusion strategic initiatives including reviewing data analysis, providing feedback and insights. The Board is committed to having a diverse and inclusive leadership team which provides a range of perspectives and insights and the challenge needed to support good decision making.

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 Remuneration Committee is responsible for establishing a formal and transparent procedure for developing and implementing the policy on remuneration and setting remuneration for the Board Chair, the executive directors members of senior management and individuals identified as Solvency II staff. The Remuneration Committee ensures that the Remuneration Policy is aligned with the business strategy, as well as the risk management strategy and profile of NHBC. Oversight of remuneration across the wider employee population is also a key focus for the Remuneration Committee, including assessing the impact on all employee groups when making decisions on executive remuneration practices or outcomes.

Activities during the financial year ended 31 March 2024

Remuneration and benefits

- Approved the remuneration proposals for the chief executive officer, executive Leadership and Solvency II (SII) regulated employees including the Long-term Incentive Plan for executives and the Directors' Remuneration Policy considering work to implement Consumer Duty and delivery of good consumer outcomes.
- Approved the annual pay award for all employees including executive Leadership and material risk takers.
- Approved the annual fee increase for the Chair of the Board ensuring appropriate alignment with the wider workforce and market practice.
- Reviewed the methodology for identifying material risk takers and approved the Solvency II regulated employee list.
- Received regular market updates from PwC and Farient Advisors reporting on remuneration outcomes for FTSE 250 companies including peer analysis and compensation trends across a range of different industry lenses in order to provide a balanced and rounded view of the market. Endorsed the evolution of the reward framework enhancing the pay for performance approach to pay decisions and supporting talent acquisition and retention.
- Worked with the Remuneration Committee advisors to undertake a benchmarking exercise of the Remuneration of the executive directors and Executive Committee members, including an assessment of the appropriateness of NHBC's peer groups for pay benchmarking purposes.
- Commenced a detailed review of executive remuneration in conjunction with the remuneration advisors to ensure that Remuneration Policy, practices and disclosures remain fit for purpose, and reflect critical business priorities which are sufficiently consumer and risk focussed.

Performance and market updates

- Approved the approach to the 2023/2024 annual bonus scheme award to motivate and reward colleagues who contribute to the success of the business and perform strongly according to set expectations across key focus areas aligned to the NHBC's business strategy.
- The Committee reviewed and challenged first and second assurance that our approach to remuneration is consistent with delivering good consumer outcomes.
- Reviewed regular reports on NHBC's performance to inform the assessment of the bonus scorecard.
- Approved the annual objectives of the chief executive officer, executive directors and executive management and Solvency II staff that support NHBC's strategic and risk objectives and within a framework aligned to NHBC's long-term interests.
- 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.
- The Committee reviewed and challenged the approach to performance review ratings informing bonus outcomes to ensure they remained appropriate.
- Approved the Directors' Remuneration Report for inclusion in the Annual Report and Accounts for year ended 31 March 2024.
- Approved the Remuneration Policy Statement (RPS) for 2023/2024 fulfilling Solvency II requirements confirming NHBC's remuneration policies and practices.
- Reviewed gender and ethnicity pay gap analysis and approved for publication the gender pay gap reporting.
- Conducted a competitive tender process for the independent remuneration adviser.

Collaboration between Committees

Reviewed and approved recommendations from the Board Risk Committee on proposed amendments to the framework for identifying employees subject to certain Solvency II regulatory expectations, the assessment of whether any adjustment was appropriate for senior management year-end bonus payments considering current and prospective risks to NHBC financial performance, the risk culture and behaviours exhibited during the year, and an updated risk adjustment framework for 2023/2024 bonuses to align with developments in the organisational Risk Management Framework and Consumer Duty expectations.

Directors' Remuneration Report

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The Chair's annual statement

On behalf of the Board and the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2024. This marks my fourth year as Chair of the Committee. During this time NHBC has continued to make good progress in remuneration governance. This has included actively assessing how the Committee's decisions on all aspects of executive remuneration are reflective of our business and risk environment, as well as considering how they impact the wider workforce, whilst continuing to deliver good consumer outcomes.

During the year, a new HR Director was appointed as well as a new Head of Reward. Both have assisted the Committee, in collaboration with our Remuneration Committee advisors (new advisors were also appointed as part of a competitive tender process towards the end of the financial year).

Business context

As outlined in the chief executive officer's statement, 2023/2024 was a challenging year for the economy and the house-building industry, with new build activity below prior year. NHBC's financial performance, despite registrations being lower than budgeted, has been strong. The operating result has been bolstered by continuing favourable trends in the underlying warranty claims experience and favourable performance across our asset portfolio.

Turning to other aspects of our business that affect the bonus scorecard, there are three key highlights. First, we have made good progress under Consumer Duty with another year of improvement in how consumers access and understand our products and in ensuring consumers receive fair outcomes and value in what they receive from NHBC, especially in relation to claim settlements and in how we deal with vulnerable customers. In addition, our Buildmark product secured Crystal Mark accreditation this year as we have sought to make our wordings clearer and to be more 'plain English' in form. Secondly, where things haven't gone quite so well is in relation to Project Phoenix. This is a major, complex digital transformation programme necessary to make NHBC fit for the future as we move off our legacy platforms, some of which are 20 or more years old.

We have experienced challenges as we moved to implementation on some aspects, particularly 'MyReports', an important digital interface for our builder customers, and on the approach to ensuring our business data is secure, assured and that there are no discontinuities as we transition to our new environments. This data element has meant that our new claims system has been put back by 15 months to April 2025.

Unfortunately, we failed to hit our targeted Phoenix programme dates this year, but the good news is that we have a better resourced and more realistic delivery plan laid out over the next two years or so. Phoenix is receiving a lot of attention from senior management and departmental heads, and we have strengthened overall governance, including through to Board because of the programme's significance.

On a more positive note, the recent 'Your thoughts' survey, showed us that we have a highly engaged workforce of talented and capable people. And our overall engagement score of 8.7 held us in the top 5% of companies that use the same survey.

Review of Remuneration Policy and its implementation

Towards the end of the year, we commenced a review of our Remuneration Policy (the Policy) and incentive design to simplify the current structure, ensure it remained motivating and competitive, reflected the latest regulatory guidance and was consistent with NHBC's business strategy and philosophy.

The Committee held detailed discussions with management and our external advisors, with the objective of streamlining and simplifying the design of our annual bonus and LTIP (now in its second year) to focus on fewer, yet more impactful metrics.

In addition, the Committee considered in detail its approach to risk and consumer adjustment for incentive outcomes to ensure that risk and consumer outcomes are appropriately considered. During the year a detailed review of NHBC's progress in meeting its Consumer Duty obligations was undertaken, with significant input from the Consumer Duty Committee. This has resulted in a revised approach to how Consumer Duty obligations will be reflected in the annual bonus metrics, reflecting the importance that is placed on this at NHBC.

This will continue to evolve but a number of important revisions were made to the Policy and its implementation for 2024/2025. A summary of the changes is below.

Changes to the Policy

Annual bonus

Deferral: the proportion of annual bonus deferral for the chief executive officer, as described above, has been aligned with the other executive directors at 40%, vesting pro-rata at a rate of 50% at the end of year one, and 25% at the end of years two and three.

LTIP

Maximum Opportunity under LTIP: following a detailed benchmarking exercise undertaken in collaboration with our external advisors, the maximum opportunity available under the LTIP has been increased to 100% of salary for executive directors (from 80%) in order to address the market competitiveness issues identified and to extend the time horizon of our remuneration arrangements to reflect the long-term nature of our business.

Return on Capital Employed (ROCE) tracker: the ROCE tracker, which applied over the two-year holding period has been removed from the Policy to reduce complexity in the plan.

Non-Policy changes

Metrics: whilst there is some continuity of metrics for both the annual bonus and LTIP, the number of metrics has been reduced in both plans to simplify and remove overlap, emphasising the critical strategic milestones that are relevant to NHBC. Details of the metrics that will apply for the forthcoming year and LTIP cycle are outlined on pages below.

Underpins: whilst gateway measures remain, these have been strengthened and made more specific for risk (which is no longer a separate metric in either plan) and solvency ratio, being fundamental to the appropriateness of any pay out. Whilst Group profit and solvency ratio are binary gateway measures, the risk gateway is based on an overall assessment by the chief risk officer.

Personal performance weighting on annual bonus: For the award to be made in 2024/2025 the weighting relating to the personal element on the annual bonus has been reduced from 50% of the overall bonus to 20%. This is to align more closely with external market practice.

The Committee believes these changes will make our remuneration arrangements simpler, more motivating and more appropriate to the unique nature of our business.

Supporting our employees

At NHBC we continue to strive to ensure that reward is fair. Oversight of the reward framework for all of our employees is a priority. Committee decisions on executive pay practices and outcomes are always discussed in the context of the impact on the wider workforce, endeavouring to ensure that there is no detrimental effect to any particular group of employees.

In April 2024, NHBC's salaries increased by an average of 5.7% for all colleagues. This year, we have taken a further step in the direction of performance-related pay. All employees received a 4% flat increase negotiated with the Staff Association, with an additional discretionary budget allocated by heads of department. This discretionary budget is allocated using a number of pre-agreed guidelines, including improving positions against internal and external pay levels, demonstrating competence and performance in role, possessing niche skills and future potential, and exemplifying the NHBC values and behaviours linked to our desired culture.

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. All employees also participate in the annual bonus scheme.

This year we saw the gender pay gap narrow and initiatives to get more female representation in technical roles, such as building controllers, are underway. During the year, there has been an increase in the number of female regional directors and a 50:50 split between men and women on the business leadership programme. In addition to overseeing the gender and ethnicity pay gaps, the Committee plays a key role in ensuring that the broader DE&I strategy is applied in practice through relevant measures in the annual and long-term incentive plans. The Committee also maintains oversight of the chief executive officer pay ratio to inform their decision making on matters under their remit.

During the year, NHBC continued to regularly engage in dialogue with employees using channels such as our engagement survey, and our focus continues to be on analysing and implementing actions to further improve employee engagement. NHBC also engages regularly through employee forums and the Staff Association, providing further opportunities for employees to give feedback during the year on how fairly they feel they are rewarded.

The 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.

2023/2024 performance and remuneration outcomes

In overseeing remuneration outcomes, the Committee assessed performance through a number of lenses, including overall business performance, consumer experience and regulatory requirements to examine if formulaic outcomes were reasonable or whether any adjustment was required.

For the year under review, annual bonuses were based on a range of financial and non-financial measures detailed in the annual bonus scorecard, as well as personal performance.

During 2023/2024, the financial element of the annual bonus vested at 70%. The Committee's assessment of the non-financial element was 63%. Although financial performance was strong, and some progress was made on the non-financial elements, non-insurance income, OpEx ratio, Phoenix and DE&I metrics were not met and accordingly this resulted in a combined formulaic outcome of 133% (2022/2023: 162%).

The Committee carefully considered the scorecard outcome in the context of the broader business performance, the experience of consumers, and within the regulatory environment, with input and validation from the Audit and Risk Committee, as well as NHBC's actuarial consultants. Upon management's recommendation, the Committee determined that an adjustment was required to the formulaic scorecard assessment. Specifically, in acknowledgement of the work still needed on the culture project, instead of stretch (10%), the metric vested at on-target performance (5%). This resulted in an overall scorecard outcome of 128%.

The Committee also considered the personal performance of the chief executive officer, chief financial officer and chief operating officer to determine the personal element of the bonus outcome.

The Committee believes the outcome of the annual bonus to be fair and appropriate and that the Remuneration Policy has operated as intended.

Looking ahead to 2024/2025

The Committee considers all elements of executive director pay as well as reviewing the implications for the broader workforce. As we look forward to 2024/2025, the Committee will continue to ensure that the Directors' Remuneration Policy which was implemented in 2022/2023 and amended as detailed above continues to meet the needs of the business and reflects evolving corporate governance practices, providing strong alignment between pay and performance.

Base salary

The Committee reviewed the base salary of the executive directors for 2024/2025 and applied the same process as for the wider workforce, with a flat 4% increase to salary, as well as a discretionary proportion (determined by the Chair for the chief executive office, and by the chief executive office for the other executive directors). Whilst the process was aligned to the broader employee population, the Committee made a decision that in future, executive directors' base salary will only be subject to inflationary increases applicable to all employees and will only be adjusted if there is a change in role or responsibilities, or to address a significant gap to market position.

Annual bonus

The maximum opportunity remains unchanged for executive directors at 80% of salary under the Policy.

The deferral proportion for the chief executive officer, as described above, has been aligned with the other executive directors at 40%, vesting pro-rata at a rate of 50% at the end of year one, and 25% at the end of years two and three.

The weighting of the personal performance element within the overall annual bonus has been reduced from 50% to 20% to align more closely with market practice. As described above, the number of annual scorecard metrics has been reduced from 13 to eight. This allows for greater simplicity and focus on critical business priorities, with less overlap with the LTIP. For 2024/2025 the scorecard weighting will increase from 50% to 80% of the overall annual bonus (with the remaining 20% being determined by personal performance). Risk measures are now a specific underpin which must be achieved before any bonus can be paid.

LTIP

As detailed above, to focus on NHBC's long-term sustainable performance, the pay mix for executive directors has been amended to emphasise long term strategic priorities, with stretching business objectives. The maximum opportunity under the LTIP for executive directors for the 2024/2025 LTIP grant has been increased to 100% which puts a greater proportion of pay at risk and enables adjustment to be made if performance is not reflective of the wider business and consumer experience.

Metrics have been reviewed as detailed above to streamline the number of metrics and remove duplication with the annual bonus, as well as emphasising delivery of Phoenix, a key strategic imperative, and our social commitment to consumers and the environment.

Similarly, to the annual bonus, risk acts as an underpin to the 2024/2025 plan.

Closing remarks

In what has been a challenging year for the industry as a whole, as a committee we have endeavoured to make our decisions in a manner that drives performance and rewards results, whilst ensuring that the best outcomes are delivered for our builder customers and consumers. The Committee looks forward to considering our future remuneration approach, with the aim of fostering and encouraging ongoing alignment to an open and transparent culture.

This report was approved by the Board on 25 June 2024 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 (Policy). Following a review this year, as highlighted in the Committee Chair's statement, a number of amendments to the current Policy, which was approved on 1 April 2023, have been proposed. The key changes are detailed below and included in the policy table that follows:

Annual bonus

- The current Policy required a 50% proportion of annual bonus to be deferred for the chief executive officer. This has been aligned with the other executive directors at 40%, and will vest for all executive directors pro-rata, at a rate of 50% at the end of year one, and 25% at the end of years two and three.

LTIP

- The maximum opportunity available under the LTIP has been increased to 100% of salary for executive directors (from 80%) in order to address market competitiveness issues identified as part of a benchmarking exercise undertaken during the year, and to extend the time horizon of NHBC's remuneration arrangements to reflect the long-term nature of the business.
- The ROCE tracker, which applied over the two-year holding period has been removed from the Policy to reduce complexity in the plan.

The Committee considers that the revised Policy provides a stronger alignment between remuneration and NHBC's strategy. The Policy is drafted with the intention that the remuneration package for executive directors is structured to ensure that:

- an appropriate balance is maintained between the fixed and variable elements of remuneration
- remuneration arrangements strike an appropriate balance between NHBC's short-term and long-term strategy, recognising that NHBC is a long-term performance business with cyclical volatility
- the overall package is appropriately competitive to attract and retain key talent
- remuneration does not promote unacceptable behaviours or encourage 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, taking account of the risk profile of the Group.

The table below provides an overview of NHBC's Remuneration Policy for Executive Directors.

Element and strategic alignment	Operation	Maximum opportunity	Performance measures
Base salary Provides a competitive fixed level of remuneration to attract and retain executive directors with the right skill set to deliver NHBC's strategic objectives and to reflect the individual's role, position, skills and contribution.	Base salaries are paid in cash. 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 • wider workforce increases.	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.
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 Provided 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.	Set at a level which the Committee considers appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. 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.

Element and strategic alignment	Operation	Maximum opportunity	Performance measures
Annual bonus To incentivise and reward the executive directors to achieve pre-determined annual targets which are aligned to NHBC's strategy, at the discretion of the Remuneration Committee. A deferral element provides alignment with the long-term goals and regulatory requirements and aids retention of key talent.	Payment of any bonus is based on performance over the financial year, with any underpins (gateways) and targets set annually up-front. Before performance against targets is assessed, the Committee determines if the thresholds for pre-determined gateways have been achieved. Pay out is then determined by the Committee, dependent on performance against those targets, alongside the Committee's assessment of the quality of earnings and review of risk. Performance measures and weightings are a combination of financial and non-financial elements. The non-financial metrics may be both strategic and personal and are determined annually, aligned with the key strategic priorities of NHBC, and 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 risk adjustment for ex-ante and ex-post risk. Annual bonuses are paid in cash after the end of the year and have a deferral element of 40% in cash over a period of three years. The rate of deferral may be adjusted to meet future developments in regulatory requirements. The deferred element is not subject to any further performance conditions, save for continued employment. 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 is assessed against a range of relevant financial, and non-financial measures, with the financial performance being a major factor in determining bonus pay-out. Underpins (gateways) are reviewed annually and normally include a minimum level of performance in relation to profits, solvency ratio and risk management. The Remuneration Committee retains the discretion to adjust formulaic outcomes if they do not adequately reflect the underlying performance of NHBC or individual contribution. Full details of the specific gateways, performance measures, targets and ranges will normally be disclosed retrospectively to the extent possible and when not commercially sensitive.

Element and strategic alignment	Operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan To incentivise and reward the Executive Directors to achieve predetermined longer-term targets which focus on the long-term sustainable growth of NHBC and to aid retention of key talent.	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. Before performance against targets is assessed to determine the extent to which an award vests, the Committee determines if the thresholds for pre-determined gateways have been achieved. Vesting is also subject to the Committee's assessment of underlying performance and a review of risk. Vested awards will be subject to an additional two-year holding 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 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 100% of salary for Executive Directors.	Vesting of awards will be dependent on performance measures which will include a combination of both financial and non-financial (strategic) measures. The minimum weighting for the financial measures will be 50%. Underpins (gateways) are reviewed at the beginning of each three-year period and normally include a minimum level of performance in relation to profits, solvency ratio and risk management. The Remuneration Committee retains the discretion to adjust formulaic outcomes if they do not represent the underlying financial performance of NHBC or individual contribution Full details of the specific gateways, performance measures, targets and ranges will normally be disclosed in the implementation section of the annual report (to the extent possible and when not commercially sensitive) on remuneration for the year prior to the LTIP grant.

Element and strategic alignment	Operation	Maximum opportunity	Performance measures
Non-executive directors To attract individuals with skills and experience to serve as Chair and as a non-executive director.	The Board as a whole is responsible for setting the remuneration of the non-executive directors, other than the Chair whose remuneration is determined by the Committee. Non-executive directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairship of Board Committees and membership of the Remuneration Committee, Board Risk Committee, Audit Committee and Consumer Committee. The Chair receives a fixed annual fee. Fees are paid monthly in cash. Fees are reviewed annually, taking into account market data and trends, and the scope of specific Board duties. Additional reviews may take place in exceptional circumstances, to ensure that fees remain appropriate in the context of the Group's size and complexity and to reflect the time commitment required. The Chair and other non-executive directors do not participate in any incentive or performance plans or pension arrangements. Non-executive directors are reimbursed for reasonable expenses.	There is no prescribed maximum for fees payable to non-executive directors. In aggregate fees paid to all non-executive directors will not exceed the limit set out in the Company's Articles of Association. In general, the level of fee increase for the non-executive directors will be set taking account of any change in responsibility and the general rise in salaries across the UK workforce. Full details of the non-executive director fees for FY 2024/2025 are disclosed in the implementation section of the annual report on remuneration for the year.	There are no performance measures for NEDs.

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.

Annual Report on remuneration

This section of the report sets out how NHBC implemented its Policy during 2023/24 and how it intends to implement the Policy for 2024/2025.

Committee membership and the activities during the year are detailed on page 86.

Single total figure of remuneration for the year ended 31 March 2024 - executive directors

The table below sets out a single figure for the total remuneration received by each executive director during the year ended 31 March 2024 and the prior year.

£,000	Year	Salary	Taxable benefits	Annual bonus	Bonus deferral	Pension	Total remuneration	Total fixed	Total variable
Steve Wood[3]	2023/24	345	28	157	79	36	567	409	157
	2022/23	332	27	208	104	35	602	394	208
Paul Hosking	2023/24	235	17	109	43	48	408	299	109
	2022/23	226	17	125	50	46	414	292	125
David Campbell	2023/24	233	16	135	54	15	399	264	135
	2022/23	224	17	146	58	14	401	264	146

Paul Hosking's pension is based on a legacy arrangement rate of 20% of salary. The Committee are aware that it is good governance to align the rate of pension contribution for executive directors with that available to the rest of the workforce and for any new appointment the maximum rate would therefore be 10.5%.

Annual bonus for year ended 31 March 2024

As highlighted in the chief financial officer's statement, this year's overall results were positive. We achieved strong profits and further strengthened both our balance sheet and regulatory solvency ratio. The profitable underlying operating result was bolstered by better-than-expected surplus asset returns. However, the target for non-insurance income was not met, partly due to lower volumes and reduced inspection activity. Additionally, operating expenditure was lower than budgeted, driven by slightly lower occupancy rates and timing differences in project spending.

In 2023/2024, the weighting of key performance indicators (KPIs) for the senior leadership group was aligned with that of the entire workforce, set at 50% for corporate measures and 50% for personal measures.

The annual bonus for the year ended 31 March 2024 was based on a combination of commercially focused (30%) other strategic measures (20%) and personal performance (50%) with targets set by the 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 operating 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 2023/2024 bonus overall outcomes were 45.6% of base salary for the chief executive officer, 45.6% of base salary for the chief financial officer and 55.6% of base salary for the commercial director.

The Committee were satisfied, after detailed input from the chief financial officer, that the underlying financial position of NHBC was accurately reflected. Additionally, following input from the chief risk officer, the Committee were also satisfied that risk had been appropriately managed throughout the year, reflecting the experience of stakeholders including customers and consumers.

Final assessment of the formulaic outcome relating to metrics within the annual scorecard resulted in a discretionary downward adjustment by the Remuneration Committee for the culture measure, in recognition of the work still needed to be undertaken.

3 Steve Wood's taxable benefits include £9,418 for accommodation provided

The Committee reviewed the Chair's assessment of the chief executive officer's performance against his personal objectives, and the chief executive officer's assessment of the chief financial officer and chief operating officer's respective performance against their objectives and determined that the assessments were a reasonable reflection of each individual's performance, and considered whether any adjustment to outcome based on the personal development review score assigned was warranted. The Committee determined that no adjustment was necessary.

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%	114%	57%	45.6%	£157,448	50%
Paul Hosking	80%	114%	57%	45.6%	£108,601	40%
David Campbell	80%	139%	69.5%	55.6%	£139,948	40%

Breakdown - corporate KPIs

Corporate KPIs (50%)	Weighting	Threshold performance	Target performance	Stretch performance	Actual performance	Vesting outcome (% of max)
Operating profit	30%	£34m	£43m	£56m	£103m	37.5%
OpEx ratio[4]		55%	54%	52%	61%	
Growth in non-insurance income		£87m	£97m	£107m	£81m	
Quality (TRM programme)		7	8	9	8	
Change programmes: Phoenix	20%	Implementation of refactored portals new claims platform.			Not achieved	28.8%
Change programmes: Culture		People managers to work in partnership with their Culture Action Champions to drive deliverable team culture actions			100%	
Homeowners		Implement CD to support good customer outcomes with homeowner claims service net promoter score (NPS) measure			59	
Environment		Reduction in NHBC's Scope 1 & 2 carbon footprint by 5%			30%	
Engagement score		Maintain and improve employee engagement score			8.7	
Voluntary attrition		Attrition rate to be less than 12%			6.9%	
DE&I		Positively influence female headcount recruitment /retention to increase by +1.5% or more			Not achieved	
Risk		Mandatory compliance and assurance actions			100%	

Operating profit is the measure of profit for bonus purposes and is NHBC's profit before tax less the surplus asset return performance.

For 2024/2025 executive directors will have a weighting of 80% for corporate KPIs and 20% for personal measures. This is to better align with market practice and to reflect the fact that at executive director level many of the personal performance objectives overlap with corporate objectives and accordingly a greater weighting on corporate measures is appropriate.

The commercially focussed metrics represented 60% of the overall corporate annual scorecard metrics in 2023/2024, of which 55% were financial measures.

4 Operating Cost as a proportion of Gross Revenue

Breakdown - Personal KPIs

Personal KPIs (50%)	Weighting	Vesting outcome (% of max)	Comments
Steve Wood	50%	50%	Following a strong first half of the year, the second half has seen Steve encounter some setbacks. Some areas have continued to perform very strongly; in particular the implementation of the Consumer Duty obligations, the continued progress with growing out our Risk team and embedding a risk aware culture, and the progress on Section 4 claims deserve high praise. Financial targets (after allowing for the impact of matters outside the team's control) are in good shape and progress with the culture agenda is being rebooted under the HR Director's leadership. However, we have encountered setbacks on our two major projects, resulting in a replan of the IT and data transformation programme which is now expected to deliver key stages a year behind plan, and the consequent suspension of the corporate restructure project.
Paul Hosking		50%	Paul has had a steady year with the Finance, Actuarial, Capital and Underwriting teams all making solid progress. He is a stable and respected member of Executive Committee giving good strategic leadership to the business.
David Campbell		75%	David continues to grow in his Chief Operating Officer role, strengthening his credibility externally and building strong senior relationships with key customers. He takes ownership on key commercial matters and has led by example with his own team who are instinctively more commercial in approach which is yielding real business benefit.

Adjustment of personal performance outcomes based on PDR Score

Of the total annual bonus 50% was determined by personal performance as measured by the Performance Development Review (PDR). A PDR rating of 3 would deliver an on-target level of the personal element (i.e., 25%), a PDR of 4 delivers 1.5 x on target, and exceptional performance (a PDR rating of 5) results in the maximum personal element being paid out (ie, the full 50%, being 2 x target)

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 2024 in line with the Policy. Deferrals met the requirements of Solvency II. All deferrals are operated in cash and payments will be made in July 2024.

£,000	Annual bonus deferral vesting from prior years
Steve Wood	£92,780
Paul Hosking	£43,437
David Campbell	£45,947

Targets for LTIP awards made in 2023/2024

The three-year targets for the LTIP awards made in the year ended 31 March 2024 are provided below and were set by reference to both internal and external reference points. The targets are considered by the Committee to be aligned with NHBC's strategy and to be stretching but achievable, with regards to strategic priorities and taking into account the economic environment. The first award is due to vest subject to performance in 2026/2027.

Vested awards are subject to a further holding period phased over two years, over which period the vested award earns a rate of return equivalent to the reported Return on Capital Employed (ROCE). 50% of the vested award is released at the end of the fourth year, with 50% released at the end of the fifth year (Each tranche is adjusted for the ROCE performance over each year of the holding period).

2023/2024 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%
	Phoenix (digital transformation programme) delivery	20%	80%	90%	100%
Non-financial	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%

Single total figure of remuneration for the year ended 31 March 2024 - non-executive directors

The table below sets out the total remuneration earned by each NED who served during the year

£,000	Year	Fees	Taxable benefits	Total remuneration
Paul Bishop	2023/2024	82.3	0.0	82.3
	2022/2023	79.0	0.0	79.0
Alison Burns	2023/2024	71.9	1.5	73.4
	2022/2023	69.0	0.6	69.6
Tesula Mohindra	2023/2024	72.0	0.0	72.0
	2022/2023	69.0	0.0	69.0
Dr Teresa Robson-Capps	2023/2024	71.9	0.3	72.2
	2022/2023	69.0	1.2	70.2
Stephen Stone	2023/2024	62.6	0.0	62.6
	2022/2023	60.0	0.0	60.0
Alan Rubenstein	2023/2024	178.9	4.5	183.4
	2022/2023	172.0	3.0	175.0
Philip Rycroft	2023/2024	68.0	2.2	70.2
	2022/2023	65.0	1.2	66.2
Elizabeth Austerberry	2023/2024	62.6	0.0	62.6
	2022/2023	40.0	0.0	40.0

The total fees paid to NEDs in 2023/2024 was £678,636 which is within the limits set out in the Company's Articles of Association.

Appropriateness of executive director pay

The Committee reviews the executive directors' total remuneration each year in the light of pay in the wider workforce and Company performance to assess whether the outcome is appropriate. The Committee also reviews wider workforce pay policies and trends to ensure that they are taken into account when setting executive director pay. In March 2024 the NHBC Gender Pay Gap report was published. This year we saw the gender pay gap narrow and initiatives to get more female representation in technical roles, such as building controllers, are underway, as it remains a fact that there are still more men than women in technical and senior roles. During the year, progress was made, and there was an increase in the number of female regional directors and a 50:50 split between men and women on the business leadership programme.

Diversity continues to be a key area of focus for NHBC and there is acknowledgment that there is further work to do. In addition to overseeing the gender and ethnicity pay gaps, the Committee plays a key role in ensuring that the broader DE&I strategy is applied in practice through relevant measures in the annual and long-term incentive plans. For the 2024/2025 annual bonus and LTIP awards, a number of changes have been made to the metrics to address the strategic objectives of the DE&I Policy.

One metric that is taken into account for considering the appropriateness of executive director pay is the CEO: Employee pay ratio and the trend in this metric since its inception.

Chief executive officer pay ratio

Year	Method	Ratio at 25th percentile	Ratio at median	Ratio at 75th percentile
2023/2024	Option A	13:1	11:1	9:1
2022/2023	Option A	14.1	11.1	9.1
2021/2022	Option A	14:1	11:1	9:1

Employee at	25th percentile	Median	75th percentile
Total pay and benefits	£44k	£53k	£65k
Salary	£41k	£47k	£58k

The table below sets out the relative importance of spend on pay in 2023/2024 compared to operating profit (key financial measure for NHBC):

£m	2023/2024	2022/23	% change
Spend on pay	90.5	85.3	5.2
Operating profit	102.8	58.6	44.2

Implementation of the Directors' Remuneration Policy for 2024/2025.

Executive director remuneration for 2024/2025

Set out below is a summary of how the Policy will be implemented for 2024/2025 for executive directors

	Steve Wood	Paul Hosking	David Campbell
Salary	£359,091	£247,687	£258,488
Salary change (%)	4%	4%	6.5%
Maximum bonus opportunity (% salary)	80%	80%	80%
Maximum LTIP opportunity (% salary)	100%	100%	100%

The chief operating officer received an additional 2.5% discretionary increase for 2024/2025 due to his PDR rating, which was determined by the chief executive officer and approved by the Committee.

For the year 2024/2025, the Committee decided to increase executive salaries in alignment with the same process that was applied to the broader workforce, reflecting NHBC's aim to transition towards a performance-related pay model for the wider employee population. As a step towards this goal, for the first time, partial manager discretion has been introduced in pay decisions. All employees, including the Executive Committee, received a minimum 4% pay rise, with additional increases granted to some based on various factors such as their position against external pay levels, market ranges, competence, performance in their roles, and future potential. These salary adjustments take effect from 1 April 2024. Furthermore, there are no alterations to the employer pension contributions, which are subject to annual review.

For executive directors any additional discretionary amounts are included in the table above. Following discussion post the pay review process, the Committee decided that in future, executive directors' base salary will only be subject to any inflationary increases applicable to all employees and will only be adjusted beyond this if there is a change in role or responsibilities, or to address a significant gap to market position. Executive performance will only be rewarded through the variable pay programmes.

Details of the annual bonus metrics for 2024/2025 are set out below. Targets and ranges are considered by the Board to be commercially sensitive will be disclosed retrospectively in the 2024/2025 Directors' Remuneration Report.

The overall weightings between the annual scorecard and personal performance have been amended for 2024/2025 to 80% and 20% respectively.

As described in the Remuneration Policy, 40% of 2024/2025 annual bonus outcomes will be deferred for a period of three years, vesting at a rate of 50% after the first year and a further 25% in each of the following two years.

The Committee has carefully considered the appropriateness of each metric and has undertaken a full review of the annual scorecard in collaboration with management and our advisors during the year. A number of metrics have been changed from prior year and the total number of metrics has been reduced from 13 to eight, to simplify the annual bonus and to better align to NHBC's strategic goals. The Committee are of the opinion that the metrics are achievable but stretching, taking into account internal and external context and economic volatility.

The delivery of Phoenix, which is critical to NHBC's strategy, now has an increased 20% weighting in the scorecard, reflecting its importance (in 2023/2024 this was 5%). In addition, the Committee has considered the most appropriate way to further embed progress in meeting NHBC's Consumer Duty obligations and has carried out a significant exercise with management to determine how a Consumer Duty metric should be incorporated in the annual bonus scorecard for 2024/2025. The metric relating to DE&I has also been broadened to better reflect NHBC's wider DE&I strategy.

The metrics for 2024/2025 are as follows:

2024/2025 annual bonus		Weighting	
Commercially focused	**Operating profit:** *2024/2025 UK GAAP operating profit target in GBP 2024 - 2027*	35%	55%
	Operating expenditure: *2024/2025 opex budget in GBP 2024-2027*	10%	
	Customer: *Maintain 'Green' overall rating for Builder Customer measure on reputation risk outcome dashboard and >90% of Top 30 builders rated 'green' on Behaviour Scorecard*	10%	
Modern and agile	**Phoenix delivery:** *Delivery of Phoenix programme vs plan, budget and benefit delivery*	20%	20%
Social responsibility	**Environment:** *Qualitative assessment of NHBC's progress vs ESG strategy, including progress towards 2040 net zero target (for NHBCs operations) by 31 March 2025*	5%	15%
	Consumer: *Aggregated QA scores for Consumer Understanding and Consumer Support across consumer facing departments and Consumer Committee Attestation that NHBC is performing satisfactorily against consumer metrics in Committee's oversight.*	10%	
Talented and capable people	**Employee engagement:** *Maintain or improve the company-wide employee engagement score*	10% combined weighting	10%
	DE&I: *Tangible progress on DE&I strategy*		

Details of the LTIP metrics for 2024/2025 are set out below:

The metrics for the LTIP have been streamlined and simplified for the 2024/2025 award. The Committee are of the opinion that the metrics are stretching but achievable given economic circumstances and are aligned with NHBCS's longer-term strategic objectives.

2024/2025 LTIP		Weighting	Threshold (20% vesting)	Target (50% vesting)	Stretch (100% vesting)
Financial	Cumulative Group Results	30%	£98m	£195m	£292m
	Non-Insurance results	20%	£5m	£10m	£20m
Non-financial	Phoenix transformation	30%	Introduce new IT systems and portals to enhance customer and homeowner experience.		
	ESG: Environment	10%	Reduce Scope 1 & 2 emissions by 30% by Mar 2027; and have in place a Board approved plan for reduction of Scope 3 emissions to net zero by 2050.		
	ESG: DE&I & Culture	10%	Make tangible progress towards our DE&I and Culture strategies including: increase female representation in technical roles across the business increase ethnic minority representation across the business Increase DE&I survey disclosure rate make improvements in line with culture plan.		

Gateways for both annual bonus and LTIP

In addition to the metrics above for both the annual bonus and the LTIP, it will be necessary for the Committee to determine whether the following gateway criteria have been achieved before any bonus payment can be calculated, or any vesting of an LTIP award can be determined:

Capital: Solvency Ratio must be above Board risk appetite of 165%, and not forecast to fall below Board risk appetite over the period of the current Group Business Plan (3 years, 2024-2027) before an award is made against any measure.

UK GAAP Group profit: A minimum of 80% of GBP target profit must be achieved before an award is made against any measure.

Risk: NHBC must be compliant with regulatory requirements and must endeavour to operate within the risk appetite set by the Board at any given time throughout the year. In the event of a material regulatory breach or other similar event taking place, bonus payments for both the business and/or an individual may be adjusted. Consideration may also be given to adjusting both business and/or individual bonus payments where significant issues are identified by internal or external audit. Conversely, consideration may be given by the Committee to uplifting the bonus award based on an assessment of NHBC's regulatory and risk performance being highly favourable vs. risk appetites, up to a limited percentage increase. This has the potential to incentivise positive risk behaviours and ownership across the business.

Non-executive director fees for 2024/2025

Set out below is a summary of how the Policy will be implemented for 2024/2025 for non-executive directors. Average fee increases for non-executive directors was 4%.

	Fee
Chair	£186k
Board membership	£58.4k
Senior Independent Director	£10.8k
Committee chair (SMF)	£13k
Committee chair (Non SMF)	£9.8k
Committee member	£3.3k

Remuneration Committee advisors

Throughout the majority of the 2023/2024 period, PwC served as our independent advisors. Initially appointed by the Remuneration Committee in September 2020 through a competitive selection process, PwC provided invaluable guidance. However, as part of a tri-annual review, a decision was made to undergo a competitive retender process for new advisors. As a result, Farient Advisors (previously Remuneration Associates) were appointed in January 2024. The Committee diligently oversees the advice provided to ensure its independence and objectivity. Fees for advice related to directors' remuneration for the year ended 31 March 2024 amounted to £136k, with a portion allocated to PwC (£69k) and the remainder to Farient Advisors (£67k).

In addition to the advisors' input, the Remuneration Committee received contributions from various stakeholders including the chief executive officer and executive directors, HR, Risk & Compliance, and Finance throughout the year.

Approval by the Board

The Directors' Remuneration Report was reviewed and approved by the Board on 25 June 2024.

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 2024. 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 People, communities and environment section of the report which includes the wider impact and non-financial information.

Results

The Group's results for the year are shown in the consolidated statement of comprehensive income on page 120.

Directors

The directors at the date of this report are shown, together with their biographical details, in the Governance section on page 77.

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 with all these parties, and material transactions with related parties are disclosed in note 34 on page 169 to the financial statements.

We have directors' and officers' liability insurance in place in respect of the Company, subsidiary companies, 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, Solvency Capital Requirement, and Group's principal risks (see Risks to NHBC's business' section on page 42). 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 2023/2024 and continues to strengthen its balance sheet, seeing registrations and completions increase to the highest levels since 2007/2008. The solvency ratio stood at 262% at 31 March 2024, a c.48% point increase on prior year.

The current inflation environment, although not as elevated as prior year, combined with high interest rates relative to recent years is continuing to place pressure on household finances and that is likely to continue 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 continues to focus 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 homeowners
- 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.

Political donations

In the financial year NHBC seconded an employee to the Labour Party to the value of £20,800.

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:

- select 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	25
Research and development activities	Strategic report	25
Financial risk management	Strategic report	25
Corporate responsibility governance	Non-financial and sustainability information	47
Action on employee participation	Non-financial and sustainability information	47
Charitable donations	People, communities and environment	46
Disclosure concerning employment of disabled persons	Non-financial and sustainability information	47
Disclosure of information to the auditor	Directors' report	110
Directors in office during the year	Corporate governance report	78
Details of qualifying third-party indemnity provisions	Directors' report	110
Future developments of the business	Chief Executive Officer's report	10
Rules governing appointments of directors	Corporate governance report	78
s172 statement	s172 statement	72
Streamlined energy and carbon reporting	People, communities and environment	46

This report was approved by the Board on 25 June 2024 and signed on behalf of the Board by:

Steve Wood
Chief Executive Officer

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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 2024 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- 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.
Materiality	The materiality that we used for the group financial statements was £8.6m (2023: £7.1m) which was determined on the basis of 1.25% of net assets (2023: 1.25% of net assets).
Scoping	The parent company was deemed a significant component and subject to a full scope audit, which represents 100% of gross premiums written (2023: 100%) and 98% of net assets (2023: 98%).
Significant changes in our approach	There are no significant changes in the key audit matters identified.

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 the directors' method to assess going concern including an assessment of directors' forward-looking business plan;
- We challenged future profit forecasts and 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 evaluated how economic factors such as builder conduct and inflation fluctuations would affect the group's future capital position;
- We evaluated the historical accuracy of forecasts prepared by management by comparing previous forecasts against actual results achieved; and
- We assessed the appropriateness of going concern disclosures in the financial statements.

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 2024 totalled £474.7 million (2023: £621.9 million) as detailed in Note 5.9 Insurance Contracts (summary of 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, and potential fraud risk, for our audit given their significance to the group's result and the level of judgement involved:

1 The key assumptions applied in determining the actuarial best estimate for 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; and

3 The assumptions applied in valuing the booked margin for UK GAAP reporting.

Key audit matter focus areas

1 The key 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. There are highly judgemental assumptions that have a significant impact on the amount of reserved given the long tail nature of the policies underwritten. These include claims inflation assumptions, due to the recent volatility in the UK's inflation environment, and builder insolvency assumptions. These assumptions 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.

The current economic uncertainty, particularly around builder behaviour, and appropriately reserving for the uncertainty is a source of estimation uncertainty for the group. Furthermore, historical claims experience for large and exceptional losses is more limited than for attritional losses, whereas the number of large sites on risk in recent years has increased, which increases the risk of claims of this nature arising in the future.

The directors therefore exercise significant judgement in determining the frequency and severity assumptions used in reserving for large and exceptional loss claims.

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, the directors have exercised a significant level of judgement due to the uncertainty regarding the ultimate claims costs and the builder self-repair assumptions.

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 results in the IBNR provision are highly sensitive to changes in key assumptions. As a result, we have identified the frequency and severity assumptions including the ultimate claims costs and the builder self-repair assumptions applied in valuing the IBNR provisions for Section 4 cladding claims as a key audit matter.

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

We performed the following procedures in response 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. 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 key 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 the groups' documentation and key reserving files to conclude on reasonableness of assumptions applied;
- Assess and challenge HRCI, claims inflation and builder insolvency assumptions used within the calculation, leveraging observable market data to benchmark the assumption and assess reasonableness; and
- Assess and challenge the frequency and severity assumptions used for large and exceptional losses by reviewing and challenging the analysis and expert judgements that support the selected assumptions and challenging the justification for those assumptions in light of historical estimates and alternative assumptions available.

We performed a 'stand back' test to test the assumptions applied in determining the actuarial best estimate for Section 2 attritional, Section 3 attritional, large and exceptional Loss claims for indication of management bias.

We assessed the competence, capabilities and objectivity of the group's external actuarial expert and utilised their peer review to identify any significant differences in view.

2 The assumptions applied in valuing the IBNR provision for Section 4 cladding claims

We worked with our actuarial specialists to:

- Assess and challenge the group's assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating future claims; and
- Consider any alternative assumptions which could reasonably be applied, including those considered by the group and the impact of those on the result.

We inspected and challenged the builder self-repair assumptions by identifying relevant publicly available information and meeting with legal counsel and key management personnel to identify corroborative and contradictory evidence as applicable.

We performed a 'stand back' test to test the assumptions applied in valuing the IBNR provision for Section 4 cladding claims level for indication of management bias.

3 The assumptions applied in valuing the booked margin for UK GAAP reporting

We worked with our actuarial specialists to challenge the group's qualitative and quantitative support 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.

We 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 concluded that the assumptions used in the valuation 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	£8.6 million (2023: £7.1 million)	£8.1 million (2023: £6.7 million)
Basis for determining materiality	Materiality was determined as 1.25% of net assets (2023: 1.25% of net assets).	Parent company materiality was determined based on 1.25% of parent company net assets (2023: 1.20% of parent company net assets), which is then capped at 95% of group materiality (2023: 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	70% (2023: 65%) of group materiality	70% (2023: 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. reduction in the uncorrected misstatements identified compared to the prior year; and c. the quality of the manual business process control environment.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.43 million (2023: £0.35 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 established by gaining an understanding of the group and its environment, including group-wide controls, and evaluating the risks of material misstatement at the group level. Group materiality was used to determine the audit scope and assess any uncorrected misstatements. Materiality of £8.1 million (2023: £6.7 million) was set for the significant component based on its proportion of the chosen benchmark, with a cap at the lower of 95% of group materiality and the materiality determined for the standalone audit.

As the parent company accounts for 100% of gross premiums written (2023: 100%) and 98% of net assets (2023: 98%) within the group, it was deemed a significant component and subject to a full scope audit by the group engagement team. The group's subsidiaries, NHBC Building Control Services Limited and NHBC Services Limited, were assessed to be non-significant components, which is a change from the prior year when the subsidiaries were assessed significant components and subject to a full scope audit by the group engagement team.

At the group level we also tested the consolidation process and carried out analytical procedures to re-confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit.

7.2. Our consideration of the control environment

IT Controls

During the planning phase of our audit, we identified three systems that were significant to the group's financial reporting processes. These systems handled data relating to gross written premium, claims, expenses, other income and the general ledger, and we intended to rely on the IT and business controls associated with these systems.

Working with our IT specialist to test the general IT controls associated with these systems, we found that the controls for the gross written premium and claims systems had failed due to general IT control failures. As a result, we had to modify our audit approach and perform a fully substantive audit over these cycles. We further modified our controls approach and did not test the reserving data controls. We were able to rely on the IT controls associated with the financial reporting system.

Business processes and financial reporting controls

During the planning phase of our audit, we identified the business processes that were significant to the group's financial reporting. These processes encompassed the group's material transactions and account balances, including gross written premiums, claims, expenses, and the reserving process for data reconciliation. Our intention was to rely on the relevant controls associated with these processes.

Due to general IT control failures, we modified our audit approach and did not test controls that were impacted by these failures. This included controls over gross written premiums, claims and reserving data controls. We tested and relied on the relevant controls over expenses.

7.3. Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including the Environmental Steering Committee and the group's Environmental Strategy. Management has performed a risk assessment for climate-related risks, further details are disclosed in the strategic report on pages 24 to 75. Based on the risk assessment, management has classified climate change as an emerging risk and has increased its focus and integration into the Group's Risk Management Framework. Management have also concluded that the impact of climate-related risks is not material to the financial statements in the short term.

We have performed a risk assessment of the financial impact of climate risks, with support from a climate change risk disclosure specialist, on the financial statements and concluded the risks of material misstatement due to climate risk factors are remote. In doing so we considered the estimates and judgements applied to the financial statements and how climate risks impact their valuation.

We have read the climate-related financial disclosures (including climate risks) within the strategic report of the Annual Report, taking into consideration UK Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, and considered whether the disclosures are 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: **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, the directors, 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 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; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board in May 2016 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 31 March 2016 to 31 March 2024.

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
FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
25 June 2024

Consolidated statement of comprehensive income

Technical account – general business

	Note	2024 £'000	2024 £'000	2023 £'000	2023 £'000
Earned premiums, net of reinsurance					
Gross premiums written	8	**144,145**		184,964	
Outward reinsurance premiums		**(54,228)**		(67,716)	
Net premiums written		**89,917**		117,248	
Change in the gross provision for unearned premiums		**(922)**		(96,735)	
Change in the provision for unearned premiums, reinsurers' share		**(5,949)**		35,913	
Change in the net provision for unearned premiums		**(6,871)**		(60,822)	
Earned premiums, net of reinsurance			**83,046**		56,426
Allocated investment return transferred from the non-technical account			**32,817**		(21,119)
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		**(85,611)**		(152,139)	
- Reinsurers' share		**18,469**		28,795	
Net claims paid		**(67,142)**		(123,344)	
Change in provision for claims					
- Gross amount		**55,689**		37,457	
- Reinsurers' share		**(47,775)**		(15,708)	
Change in the net provision for claims		**7,914**		21,749	
Claims incurred, net of reinsurance			**(59,228)**		(101,595)
Changes in unexpired risk reserve, net of reinsurance			**72,485**		147,483
Net operating expenses	11		**(13,529)**		(15,194)
Balance on the technical account for general business			**115,591**		66,001

Non-technical account

	Note	2024 £'000	2024 £'000	2023 £'000	2023 £'000
Balance on the general business technical account			**115,591**		66,001
Investment income	12		**52,168**		41,237
Unrealised gains on investments		**60,393**		21,966	
Unrealised losses on investments		**(21,536)**		(74,399)	
Net unrealised losses on investments	12		**38,857**		(52,433)
Investment expenses and charges	12		**(4,701)**		(2,822)
Allocated investment return transferred to the general business technical account			**(32,817)**		21,119
Other income	8		**81,174**		81,912
Other charges			**(93,875)**		(89,259)
Profit on ordinary activities before taxation			**156,397**		65,755
Tax on profit on ordinary activities	16		**(22,034)**		3,676
Profit for the financial year			**134,363**		69,431
Other comprehensive income					
Remeasurements of net defined benefit obligation	27	**(14,212)**		(8,468)	
Movement on deferred tax relating to pension deficit	20	**3,545**		2,125	
Revaluation of tangible assets		**6**		(14)	
Other comprehensive (expense) / income for the year, net of tax			**(10,661)**		(6,357)
Total comprehensive income for the year			**123,702**		63,074

Consolidated statement of financial position

	Note	2024 £'000	2023 £'000
Assets			
Investments			
Land and buildings	17	**9,107**	9,652
Other financial investments	29	**1,480,408**	1,421,331
		1,489,515	1,430,983
Reinsurers' share of Technical Provisions			
Provision for unearned premiums	23	**335,447**	341,396
Claims outstanding	23	**148,528**	196,303
Unexpired risk reserve	23	**84**	19,489
		484,059	557,188
Debtors			
Debtors arising out of direct insurance operations	19	**8,750**	10,625
Deferred tax	20	**18,460**	21,021
Other debtors	19	**8,382**	11,666
		35,592	43,312
Other assets			
Tangible assets	21	**1,645**	1,224
Cash at bank and in hand		**39,555**	34,121
		41,200	35,345
Prepayments and accrued income			
Accrued interest and rent		**13,125**	11,235
Deferred acquisition costs	22	**19,794**	17,923
Other prepayments and accrued income		**8,020**	9,034
		40,939	38,192
Defined benefit pension plan surplus	27	**1,838**	7,715
Total assets		**2,093,143**	2,112,735

	Note	2024 £'000	2023 £'000
Liabilities			
Reserves			
Revaluation reserve		**130**	124
Retained earnings		**689,153**	565,457
		689,283	565,581
Technical Provisions			
Provision for unearned premiums	23	**717,889**	716,967
Claims outstanding	23	**401,270**	456,959
Unexpired risk reserve	23	**73,005**	164,895
		1,192,164	1,338,821
Creditors			
Creditors arising out of direct insurance operations	26	**37,938**	35,124
Other creditors	26	**25,436**	20,964
		63,374	56,088
Accruals and deferred income		**148,322**	152,245
Total liabilities and reserves		**2,093,143**	2,112,735

The notes on pages 128 to 169 are an integral part of these financial statements.

The financial statements on pages 120 to 169 were authorised for issue by the Board of Directors on 25 June 2024 and were signed on its behalf.

Paul Hosking
Chief Financial Officer

Company registration 00320784

Company statement of financial position

	Note	2024 £'000	2023 £'000
Assets			
Investments			
Land and buildings	17	**9,107**	9,652
Investments in group undertakings and participating interests	18	**16,369**	11,625
Other financial investments		**1,480,408**	1,421,331
		1,505,884	1,442,608
Reinsurers' share of Technical Provisions			
Provision for unearned premiums	25	**335,447**	341,396
Claims outstanding	25	**148,528**	196,303
Unexpired risk reserve	25	**84**	19,489
		484,059	557,188
Debtors			
Debtors arising out of direct insurance operations	19	**8,750**	10,625
Deferred tax	20	**18,466**	21,044
Other debtors	19	**6,176**	9,746
		33,392	41,415
Other assets			
Tangible assets	21	**1,046**	814
Cash at bank and in hand		**39,331**	33,548
		40,377	34,362
Prepayments and accrued income			
Accrued interest and rent		**13,125**	11,235
Deferred acquisition costs	22	**19,794**	17,923
Other prepayments and accrued income		**7,635**	8,696
		40,554	37,854
Defined benefit pension plan surplus	27	**1,838**	7,715
Total assets		**2,106,104**	2,121,142

	Note	2024 £'000	2023 £'000
Liabilities			
Reserves			
Revaluation reserve		**16,398**	11,649
Retained earnings		**670,626**	553,089
		687,024	564,738
Technical Provisions			
Provision for unearned premiums	23	**718,832**	717,811
Claims outstanding	23	**401,270**	456,959
Unexpired risk reserve	23	**74,321**	164,895
		1,194,423	1,339,665
Creditors			
Creditors arising out of direct insurance operations	26	**37,938**	35,124
Other creditors	26	**50,538**	41,838
		88,476	76,962
Accruals and deferred income		**136,181**	139,777
Total liabilities and reserves		**2,106,104**	2,121,142

The Company's profit for the year was £128.2m (2023: profit of £66.7m) with other comprehensive income for the year being a loss of £5.9m (2023: loss of £3.7m).

The notes on pages 128 to 169 are an integral part of these financial statements.

The financial statements on pages 120 to 169 were authorised for issue by the Board of Directors on 25 June 2024 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 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**
Profit for the year	134,363	-	134,363
Other comprehensive (expense) / income for the year	(10,667)	6	(10,661)
Total comprehensive income for the year	123,696	6	123,702
Balance as at 31 March 2024	**689,153**	**130**	**689,283**

Company statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 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	68,983	2,600	71,583
Balance as at 31 March 2023	**553,089**	**11,649**	**564,738**
Profit for the year	128,204	-	128,204
Other comprehensive (expense) / income for the year	(10,667)	4,749	(5,918)
Total comprehensive income for the year	117,537	4,749	122,286
Balance as at 31 March 2024	**670,626**	**16,398**	**687,024**

Consolidated statement of cash flows

	Note	2024	2023
		£'000	£'000
Net cash from operating activities before interest received	30	**146,716**	(24,829)
Interest received		**36,090**	33,725
Taxation paid		**(12,000)**	(539)
Net cash generated from operating activities		**170,806**	8,357
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(991)**	(812)
Net increase in cash and cash equivalents		**169,815**	7,545
Gains and losses on cash and cash equivalents		**394**	(684)
Cash and cash equivalents at the beginning of the year		**86,013**	79,152
Cash and cash equivalents at end of year		**256,222**	86,013
Cash and cash equivalents consist of:			
Cash at bank and in hand		**39,555**	34,121
Deposits with credit institutions (included in other financial investments)		**22,413**	12,330
Treasury bills and liquidity funds (included in other financial investments)		**194,254**	39,562
Cash and cash equivalents		**256,222**	86,013

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).

A departure from historic cost convention is made with regards to land and buildings predominantly occupied by the Group for its own purposes which are valued at open market valuation.

The consolidated financial statements for the year ended 31 March 2024 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.

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 27.1 - Defined benefit pension scheme

5 Summary of significant accounting policies

5.1 Basis of consolidation

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

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

5.2 Investment return

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

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

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

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

5.3 Other income

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

Upon registering a plot with NHBC, the 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[5].

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

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

- freehold buildings - over a period of 50 years
- long leasehold property - over the shorter of 50 years or remaining lease period
- short leasehold - over the period of the lease
- short leasehold improvements - over the period of the lease.

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

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

5.6 Investment in subsidiaries

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

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

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

5.7 Other financial investments

Other financial investments are stated at market value. The 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 28. 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 homeowner if a specified uncertain future event (other than a change in a financial variable) adversely affects the homeowner. 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 homeowners for periods of ten years or more. 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 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'.

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 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

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.

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.

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 as allowed by section 33 of FRS 102.

5.16 Financial instruments

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

5.16.1 Financial assets

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

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

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

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

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

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

5.16.2 Financial liabilities

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

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

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

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

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

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

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

5.17 Statement of cash flows

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

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

5.17.1 Offsetting

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

6 Risk management

The current principal risks of the Group and how they are managed through the Risk Management Framework are outlined on page 43.

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 136.

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 136.

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	
	2024	2023	**2024**	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(10,874)**	(12,073)	**-**	-	**(10,874)**	(12,073)
Impact on equities and funds of a 15% fall in value	**(27,109)**	(24,417)	**-**	-	**(27,109)**	(24,417)
Decrease of property markets of 15%	**(1,326)**	(1,407)	**(41)**	(41)	**(1,367)**	(1,448)

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 25.5.

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. The Group policy dictates that reinsurers have a financial strength rating of at least A- (Based on Standard & Poor's rating system or comparable rating) with derogation permitted in conjunction with appropriate collateralisation. 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 directly 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.

NHBC's certain back-book quota share reinsurance arrangement is with a counterparty without a formal credit rating. The arrangement is collateralised via a third-party trust arrangement where NHBC is listed as a beneficiary in event of a credit default of the reinsurance counterparty.

However, the Group holds certain security in relation to specific sections of its insurance product. At 31 March 2024, the Group held £31m (2023: £31m) 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 2024. 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	104,691	304,240	266,398	385,615	7,884	281	3,570	1,072,679
Equity and other variable yield securities	–	–	–	–	–	–	180,726	180,726
Derivatives	–	–	–	–	–	–	10,336	10,336
Reinsurers' share of insurance contract liabilities	–	138,426	77,724	–	–	–	267,909	484,059
Reinsurance debtors	–	–	–	–	–	–	409	409
Insurance and non-insurance trade debtors	–	–	–	–	–	–	13,971	13,971
Other debtors	–	–	–	–	–	–	2,752	2,752
Deferred tax asset	–	–	–	–	–	–	18,460	18,460
Cash and cash equivalents	–	–	–	–	–	–	256,222	256,222
	104,691	**442,666**	**344,122**	**385,615**	**7,884**	**281**	**754,355**	**2,039,614**

The following table provides information about 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	–	207,499	66,808				282,881	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	**684,605**	**297,369**	**355,918**	**12,060**	**266**	**602,958**	**2,055,952**

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 2024.

	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	1,072,679	–	–	–	–	–	1,072,679
Equity and other variable yield securities	180,726	–	–	–	–	–	180,726
Derivatives	10,336	–	–	–	–	–	10,336
Reinsurers' share of insurance contract liabilities	484,059	–	–	–	–	–	484,059
Reinsurance debtors	409	–	–	–	–	–	409
Insurance and non-insurance trade debtors	8,502	3,044	912	1,730	808	(1,025)	13,971
Other debtors	2,752	–	–	–	–	–	2,752
Deferred tax	18,460	–	–	–	–	–	18,460
Cash and cash equivalents	256,222	–	–	–	–	–	256,222
	2,034,145	**3,044**	**912**	**1,730**	**808**	**(1,025)**	**2,039,614**

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**

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:

	2024	2023
	£'000	£'000
At 1 April	**972**	780
Impairment loss recognised	**(122)**	(79)
Bad debt provision recognised in year	**271**	64
At 31 March	**1,025**	972

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 2024:

	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	(48,288)	(110,002)	(201,949)	(34,244)	(6,787)	(401,270)	(401,270)
Trade creditors	(8,628)	-	-	-	-	(8,628)	(8,628)
Other creditors	(54,746)	-	-	-	-	(54,746)	(54,746)
Derivatives	(2,402)	(2,506)	(4,046)	(1,245)	(1,675)	(11,874)	(11,874)
	(114,064)	**(112,508)**	**(205,995)**	**(35,489)**	**(8,462)**	**(476,518)**	**(476,518)**

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)**

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 27.1.4 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 £10.9m (2023: £9.2m) are held in investments denominated in non-sterling currencies.

The Scheme is subject to indirect currency risk because the pooled investment vehicles held that are sterling-denominated hold underlying investments that 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 £82.7m (2023: £78.7m). 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% (2023: 90%) 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 £169.5m (prior year: £174.9m).

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 £169.5m (prior year: £174.8m). 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, we note the following positions at year end:

- The credit risk from Sovereign Government bonds held directly or indirectly is considered to be minimal. - These assets are primarily held for risk management purposes
- The credit risk from corporate (investment grade) bonds held directly or indirectly is mitigated by investing in a diversified mix of (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 held within the respective pooled investment vehicles. 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.

	2024	2023
Decrease discount rate by 0.25% (2023: 0.25%)	**£5m**	£6m
Increase inflation rate by 0.25% (2023: 0.25%)	**£3m**	£5m
Increase life expectancy by 1 year (2023: 1 year)	**£8m**	£6m

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, homeowners 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 (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 2024, under Solvency II, the solvency ratio was 262% (2023: 214%).

Audited SCR is available as part of NHBC's Solvency and Financial Condition Report which can be viewed via NHBC's website: **nhbc.co.uk/about-page/annual-reports**

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.

		2024		2023
	£'000	£'000	£'000	£'000
Insurance activities		**144,145**		184,964
Other activities				
Inspection services	**61,951**		62,414	
Registration fee income	**4,228**		4,587	
Other services supporting the industry	**14,995**		14,911	
Other activities		**81,174**		81,912
		225,319		266,876

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.

		2024		2023
	Credit & suretyship	**Miscellaneous financial loss**	Credit & suretyship	Miscellaneous financial loss
	£'000	**£'000**	£'000	£'000
Gross premiums written	**25,001**	**119,144**	23,442	161,522
Gross premiums earned	**25,483**	**117,740**	21,327	66,902
Gross claims incurred	**249**	**29,673**	(487)	115,169
Gross operating expenses	**3,001**	**14,301**	1,982	13,654
Reinsurance balance	**(6,230)**	**(98,885)**	(1,010)	(90,135)

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

	2024	2023
	£'000	£'000
Net claims provisions brought forward at 1 April	**260,656**	282,405
Net payments during the year in respect of these provisions	**(67,142)**	(123,358)
Net claims provisions carried forward in respect of claims provided at 1 April	**(251,997)**	(255,107)
Movement in prior year's provision	**(58,483)**	(96,060)

11 Net operating expenses

	2024	2023
	£'000	£'000
Acquisition costs	**4,965**	4,006
Increase in deferred acquisition costs provision	**(1,871)**	(2,209)
Administrative expenses	**14,208**	13,839
Reinsurance commission	**(3,773)**	(442)
	13,529	15,194

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

	2024		2023	
	£'000	£'000	£'000	£'000
Investment income				
Interest income on financial assets at amortised cost	**2,009**		606	
Income from financial assets at fair value through consolidated statement of comprehensive income	**36,589**		29,910	
Gains on derivative contracts	**10,167**		20,289	
Net gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	**3,403**		(9,568)	
		52,168		41,237
Net unrealised losses on financial assets at fair value through consolidated statement of comprehensive income		**38,857**		(52,433)
Investment expenses and charges				
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	**(3,568)**		(2,822)	
Interest payable	**(1,133)**		-	
		(4,701)		(2,822)
		86,324		(14,018)

Interest payable of £1,133,000 (2023: £nil) represents interest on builder deposits posted as collateral.

Net interest income on the defined benefit pension scheme £335,000 (2023: income of £109,000) is recognised in other charges within the consolidated statement of comprehensive income.

The Company paid interest to its subsidiary companies on intercompany balances.

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:

	2024	2023
Insurance activities	**237**	235
Other direct activities	**842**	801
Administration	**210**	195
	1,289	1,231

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

Employee costs for the above persons were:

	2024	2023
	£'000	£'000
Wages and salaries	**69,830**	66,935
Social security costs	**8,790**	8,779
Pension costs	**11,928**	9,617
	90,548	85,331

14 Director emoluments

	2024	2023
	£'000	£'000
Aggregate emoluments	**2,037**	2,073
Company pension contributions to defined contribution schemes	**15**	14
	2,052	2,087

Retirement benefits are accruing to one director (2023: one) under the Group's defined contribution pension scheme and no directors (2023: 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:

	2024	2023
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	**567**	602

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

The Directors' Remuneration Report on page 93 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

	2024	2023
	£'000	£'000
Audit services, pursuant to legislation:		
Fees payable to the Company's auditors for the audit of the Company and Group financial statements	**403**	304
The audit of the Company's subsidiaries, pursuant to legislation	**30**	29
The audit of the occupational pension scheme, pursuant to legislation	**18**	8
Audit related assurance services:		
Fees in respect of the audit of the Solvency and Financial Condition Report (SFCR)	**42**	83
	493	424

15.2 Impairment of trade receivables

	2024	2023
	£'000	£'000
Impairment of trade receivables	**175**	271

15.3 Operating lease charges

	2024	2023
	£'000	£'000
Land and buildings	**428**	238
Motor vehicles	**5,094**	3,051
	5,522	3,289

16 Income tax

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

	2024		2023	
	£'000	£'000	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	**15,928**		-	
Adjustment in respect to prior periods	**-**		(61)	
Total current tax		**15,928**		(61)
Deferred tax				
Origination and reversal of timing differences	**19,473**		1,935	
Adjustment in respect of prior periods including impact of change in tax rate	**20**		923	
Recognition of deferred tax asset	**(13,387)**		(6,473)	
Total deferred tax		**6,106**		(3,615)
		22,034		(3,676)

16.2 Tax income included in other comprehensive income

	2024	2023
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**(3,545)**	(1,615)
Impact of change in tax rate	**-**	(510)
Recognition of deferred tax asset	**-**	-
	(3,545)	(2,125)

16.3 Reconciliation of tax charge

Tax assessed for the period is lower (2023: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2024 of 25% (2023: 19%). The differences are explained below:

	2024	2023
	£'000	£'000
Profit on ordinary activities before tax	**156,397**	65,755
Profit multiplied by the standard rate of tax in the UK of 25% (2023: 19%)	**39,099**	12,493
Effects of:		
Income not chargeable for tax purposes	**(259)**	(106)
Adjustments in respect of index-linked gilts	**(3,535)**	(10,472)
Expenses not deductible for tax purposes and permanent differences	**98**	20
Adjustments in respect of prior years	**-**	(61)
Adjustment to deferred tax charge in respect of previous periods	**20**	923
Movement in un-recognised deferred tax asset	**(13,387)**	(6,473)
Profits taxed at 19%	**(2)**	-
	22,034	(3,676)

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 2024 (2023: 25%).

17 Land and buildings

The land and buildings have been revalued at 31 March 2024.

	The Group and the Company
	£'000
Cost or valuation	
At 1 April	**10,246**
Additions	**-**
Revaluation	**(450)**
Disposals	**-**
At 31 March	**9,796**
Depreciation	
At 1 April	**594**
Charge	**173**
Revaluation	**(78)**
Disposals	**-**
At 31 March	**689**
Net book value at 31 March 2024	**9,107**
Net book value at 31 March 2023	**9,652**

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	
	2024	2023
	£'000	£'000
Freehold	8,700	9,150
Long leasehold	270	270
Short leasehold improvements	137	232
	9,107	9,652

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 2024. 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	
	2024	2023
	£'000	£'000
Cost	13,749	13,749
Accumulated depreciation based on cost	(2,417)	(2,244)
	11,332	11,505

The Group's impairment loss taken to the consolidated statement of comprehensive income amounted to £377,000 (2023: gain of £466,000).

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 is part of 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

	2024	2023
	£'000	£'000
At 1 April	11,625	8,987
Revaluation	4,744	2,638
At 31 March	16,369	11,625
Analysed as:		
NHBC Building Control Services Limited	12,087	8,079
NHBC Services Limited	4,012	3,276
PRC Homes Limited	270	270
NHBC Pension Trustee Limited	-	-
Zero Carbon Hub Limited	-	-
	16,369	11,625

The Company's subsidiary undertakings were wholly and directly owned and registered in England and Wales.
At 31 March 2024 they were as follows:

- NHBC Building Control Services Limited - issued and fully paid 50,000 £1 ordinary shares. NHBC Building Control Services Limited is a Registered Building Control Approver 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	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**8,341**	10,625	**8,341**	10,625
Debtors arising out of reinsurance operations	**409**	–	**409**	–
	8,750	10,625	**8,750**	10,625
Other debtors				
Trade debtors	**5,630**	7,275	**3,424**	5,355
Corporation tax	**–**	1,600	**–**	1,600
Other debtors	**2,752**	2,791	**2,752**	2,791
	8,382	11,666	**6,176**	9,746

Trade debtors includes £Nil (2023: £Nil) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £1,025,000 (2023: £972,000).

20 Deferred tax asset

	Group	Company
	£'000	**£'000**
At 1 April	**21,021**	**21,044**
Charge to the consolidated statement of comprehensive income	**(6,106)**	**(6,123)**
Charge to other comprehensive income	**3,545**	**3,545**
	18,460	**18,466**

	Group		Company	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Trade losses	**17,971**	21,550	**17,971**	21,550
Deferred tax related to defined benefit pension plan asset	**(460)**	(1,921)	**(460)**	(1,921)
Excess of depreciation over capital allowances	**657**	883	**663**	906
Other timing differences	**292**	509	**292**	509
	18,460	21,021	**18,466**	21,044

The Group and Company had taxable losses carried forward of £124,417,000 (2023: £192,280,000). 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 2024 deferred tax assets of £18,460,000 (2023: £21,021,000) have been recognised for the Group and £18,466,000 (2023: £21,044,000) for the Company, with additional deferred tax assets of £13,133,000 (2023: £26,520,000) for the Group and £13,133,000 (2023: £26,520,000) 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 £4,568,000 (2023: £7,759,000) 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% (2023: £498,000).

21 Tangible assets

The Group	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	7,763	5,992	13,755
Additions	558	433	991
Disposals	–	–	–
At 31 March	**8,321**	**6,425**	**14,746**
Depreciation			
At 1 April	7,129	5,402	12,531
Charge	392	178	570
Disposals	–	–	–
At 31 March	**7,521**	**5,580**	**13,101**
Net book value at 31 March 2024	**800**	**845**	**1,645**
Net book value at 31 March 2023	634	590	1,224

The Company	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	7,763	5,514	13,277
Additions	558	157	715
Disposals	–	–	–
At 31 March	**8,321**	**5,671**	**13,992**
Depreciation			
At 1 April	7,129	5,334	12,463
Charge	392	91	483
Disposals	–	–	–
At 31 March	**7,521**	**5,425**	**12,946**
Net book value at 31 March 2024	**800**	**246**	**1,046**
Net book value at 31 March 2023	634	180	814

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:

	2024	2023
	£'000	£'000
At 1 April	**17,923**	15,714
Acquisition costs deferred during the year	**4,965**	4,006
Amortisation	**(3,094)**	(1,797)
At 31 March	**19,794**	17,923

23 Insurance contract liabilities and associated reinsurance

The following notes explain how the Group, and the Company, calculates its liabilities to homeowners for insurance products it has sold. Note 24 covers insurance contract liabilities. Note 25 details the reinsurance recoverable on insurance contract liabilities whilst note 25.5 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 2024.

	2024			2023		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	**(717,889)**	**335,447**	**(382,442)**	(716,967)	341,396	(375,571)
Claims outstanding	**(401,270)**	**148,528**	**(252,742)**	(456,959)	196,303	(260,656)
Unexpired risk reserve	**(73,005)**	**84**	**(72,921)**	(164,895)	19,489	(145,406)
	(1,192,164)	**484,059**	**(708,105)**	(1,338,821)	557,188	(781,633)

The following is a summary of the Company insurance contract provisions and related reinsurance assets as at 31 March 2024.

	2024			2023		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	**(718,832)**	**335,447**	**(383,385)**	(717,811)	341,396	(376,415)
Claims outstanding	**(401,270)**	**148,528**	**(252,742)**	(456,959)	196,303	(260,656)
Unexpired risk reserve	**(74,321)**	**84**	**(74,237)**	(164,895)	19,489	(145,406)
	(1,194,423)	**484,059**	**(710,364)**	(1,339,665)	557,188	(782,477)

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, ie, 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, ie, 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 of 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 – eg 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 significant claims costs. 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 – ie, 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[6] builders are used to determine builder behaviour assumptions.

24.4.3 Social inflation

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

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

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

24.4.4 Economic conditions – cost inflation

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

- general materials and labour cost inflation
- 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.

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

24.5 Movements in the gross provision for unearned premiums

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

	Group		Company	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 April	**716,967**	620,232	**717,811**	620,984
Increase in provision	**922**	96,735	**1,021**	96,827
At 31 March	**717,889**	716,967	**718,832**	717,811

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £39.0m decrease (2023: £4.2m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income.

24.6 Movements in the gross provision for claims

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

	Group		Company	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 April	**456,959**	494,416	**456,959**	494,416
(Decrease) increase in provision	**(55,689)**	(37,457)	**(55,689)**	(37,457)
At 31 March	**401,270**	456,959	**401,270**	456,959

Movements in the gross unexpired risk reserve

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

	Group		Company	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 April	**164,895**	385,249	**164,895**	385,249
Decrease in provision	**(91,890)**	(220,354)	**(90,574)**	(220,354)
At 31 March	**73,005**	164,895	**74,321**	164,895

Loss development tables[7]

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

	Development year																	
Financial reporting year £'000	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16+	**Claims incurred in the financial year ended 31 March 2024**
Prior	419	7,156	23,389	41,570	59,569	70,444	77,467	96,835	101,694	114,246	137,839	114,747	94,748	73,849	67,393	38,625	(92)	**(92)**
2009	28	284	1,155	2,341	4,545	3,346	5,065	5,107	4,388	4,721	5,816	2,299	4,852	11,759	13,085	5,978		**5,978**
2010	3	358	1,751	2,086	2,272	4,237	3,341	3,768	4,494	6,127	3,461	5,032	9,273	7,330	1,980			**1,980**
2011	6	305	1,201	3,001	4,041	3,837	3,640	3,414	3,301	18,499	2,499	5,168	6,804	(9,934)				**(9,934)**
2012	1	124	827	1,625	2,435	3,098	2,666	3,849	16,536	10,190	13,259	9,451	1,318					**1,318**
2013	1	131	1,011	1,591	2,275	1,999	2,034	3,751	2,096	2,902	20,520	171						**171**
2014	–	129	930	1,935	2,957	2,837	1,719	3,551	3,818	25,065	2,470							**2,470**
2015	–	169	579	2,051	1,961	2,278	2,762	2,416	21,427	11,336								**11,336**
2016	–	31	449	720	1,096	1,001	2,346	4,659	6,298									**6,298**
2017	2	112	311	598	603	830	3,649	4,825										**4,825**
2018	–	21	279	1,825	835	2,683	1,859											**1,859**
2019	–	136	26	411	2,219	5,364												**5,364**
2020	–	–	87	1,285	4,035													**4,035**
2021	–	3	57	3,958														**3,958**
2022	60	4	526															**526**
2023	–	318																**318**
2024	842																	**842**
																		41,252
Claims handling and other charge																		**(11,330)**
																		29,922

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

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	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 April	**341,396**	305,483	**341,396**	305,483
Increase in provision	**(5,949)**	35,913	**(5,949)**	35,913
At 31 March	**335,447**	341,396	**335,447**	341,396

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £16.6m decrease (2023: £1.8m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income, partially 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	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 April	**196,303**	212,011	**196,303**	212,011
(Decrease) increase in provision	**(47,775)**	(15,708)	**(47,775)**	(15,708)
At 31 March	**148,528**	196,303	**148,528**	196,303

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	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 April	**19,489**	92,360	**19,489**	92,360
Decrease in provision	**(19,405)**	(72,871)	**(19,405)**	(72,871)
At 31 March	**84**	19,489	**84**	19,489

25.5 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.

			2024		2023
Assumption	Sensitivity tested	Gross liability	Net liability	Gross liability	Net liability
	%	£m	£m	£m	£m
Increase in claim frequency	+2.0	**10.5**	**10.5**	11.0	10.3
Long-term HRCI inflation	+1.0	**55.4**	**50.8**	62.9	54.9
Discount rate	-0.25	**10.3**	**9.5**	11.9	10.7

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 £9.1m increase in net insurance liabilities (2023: £7.3m increase).

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

26 Creditors

	Group		Company	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**7,084**	4,494	**7,084**	4,494
Builder deposits	**30,854**	30,630	**30,854**	30,630
	37,938	35,124	**37,938**	35,124
Other creditors				
Trade creditors	**1,544**	1,245	**1,544**	1,245
Amount due to subsidiary undertakings	**-**	-	**26,485**	22,156
Corporation tax	**2,327**	-	**2,321**	-
Other taxation and social security	**5,860**	6,619	**4,754**	5,575
Derivative financial instruments	**11,874**	9,534	**11,874**	9,534
Other creditors	**3,831**	3,566	**3,560**	3,328
	25,436	20,964	**50,538**	41,838

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.

27 Post-employment benefits

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

	Note	2024 £'000	2023 £'000
Defined benefit pension scheme	27.1		
Total market value of Scheme assets		**174,337**	177,423
Present value of Scheme liabilities		**(172,499)**	(169,708)
Surplus in the Scheme		**1,838**	7,715

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

	Note	2024 £'000	2023 £'000
Defined benefit pension scheme	27.1		
Interest income		**(8,368)**	(6,559)
Interest expense		**8,033**	6,450
		(335)	(109)
Defined contribution pension scheme	27.2	**11,928**	9,617
		11,593	9,508

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	2024 £'000	2023 £'000
Defined benefit pension scheme	27.1		
Experience loss on assets		**(10,392)**	(75,511)
Actuarial gains on liabilities		**4,437**	76,251
Experience loss on liabilities		**(8,257)**	(9,208)
		(14,212)	(8,468)

27.1 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 2023. In order to value the defined benefit obligation at 31 March 2024, the results of the valuation were updated in an approximate manner by a qualified actuary. Contributions to the Scheme are assessed in accordance with the advice of qualified actuaries. The Group made contributions into the Scheme of £8,000,000 during the year ended 31 March 2024.

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

27.1.1 Principal financial assumptions

A comprehensive actuarial valuation of the Scheme, using the projected unit credit method, was carried out at 31 March 2023 by Willis Towers Watson, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2024 %	2023 %
Consumer price inflation	**2.40**	2.40
Retail price inflation	**3.20**	3.30
Rate of increases (normally indexed)	**3.55**	3.65
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**4.85**	4.85

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 (2022) tables with a 1% long-term trend and 10% weighting to 2020 and 2021 data and 35% weighting to 2022 data. The resulting average remaining life expectancy for a male and female aged 65 as at 31 March 2024 are 22.3 (2023: 22.9) years and 24.4 (2023: 25.0) years, respectively.

27.1.2 Reconciliation of Scheme assets and liabilities

	Assets £'000	Liabilities £'000	Total £'000
At 1 April 2023	177,423	(169,708)	7,715
Interest income (expense)	8,368	(8,033)	335
Benefits paid	(9,062)	9,062	-
Actuarial gain on change of assumptions	-	4,437	4,437
Experience loss on liabilities	-	(8,316)	(8,316)
Change in value of money purchase transfer funds	(59)	59	-
Company contributions	8,000	-	8,000
Return on plan assets excluding interest income	(10,333)	-	(10,333)
At 31 March 2024	**174,337**	**(172,499)**	**1,838**

27.1.3 Total cost recognised as an expense

	2024 £'000	2023 £'000
Interest expense	**8,033**	6,450

27.1.4 Fair value of Scheme assets

	2024	2023
	£'000	£'000
Liability driven investments	**63,563**	75,029
Private market investments	**10,889**	9,164
Corporate debt instruments	**13,370**	13,101
Diversified Credit Fund	**72,066**	73,562
Other and cash and cash equivalents	**14,449**	6,567
	174,337	177,423

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.

27.1.5 Return on plan assets

	2024	2023
	£'000	£'000
Interest income	**8,368**	6,559
Return on plan assets excluding interest income	**(10,333)**	(75,445)
	(1,965)	(68,886)

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

27.1.6 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 2025	**-**
31 March 2026	**8,000**
31 March 2027	**8,000**
31 March 2028	**4,000**
	20,000

Expected contributions for the 31 March 2025 year totalling £8,000,000 were advanced and paid in the 31 March 2024 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.

27.2 Defined contribution pension scheme

The Group operated a stakeholder defined contribution pension scheme during the year. The amount recognised as an expense for the defined contribution scheme was:

	2024	2023
	£'000	£'000
Current period contributions	**11,928**	9,617

At 31 March 2024 contributions of £Nil (2023: £Nil) were outstanding.

28 Fair value methodology

28.1 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 (ie, developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (ie, 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.

28.2 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 2024. The table excludes the defined benefit pension scheme surplus 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	**-**	**-**	**9,107**	**9,107**
Other financial investments		**1,346,658**	**114,984**	**18,766**	**1,480,408**
		1,346,658	**114,984**	**27,873**	**1,489,515**
Liabilities at fair value					
Derivative financial instruments		**-**	**(11,874)**	**-**	**(11,874)**

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 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	–	–	9,652	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 Company's assets and liabilities that have been measured at fair value by the fair value hierarchy at 31 March 2024. 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	**–**	**–**	**9,107**	**9,107**
Investments in group undertakings and participating interests		**–**	**–**	**16,369**	**16,369**
Other financial investments		**1,346,658**	**114,984**	**18,766**	**1,480,408**
		1,346,658	**114,984**	**44,242**	**1,505,884**
Liabilities at fair value					
Derivative financial instruments		**–**	**(11,874)**	**–**	**(11,874)**

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.

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'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)

Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 155. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 130.

29 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 155.

		Group		Company	
		2024	2023	**2024**	2023
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value [8]					
Index-linked gilts		**211,462**	361,652	**211,462**	361,652
Fixed interest gilts		**–**	19,990	**–**	19,990
Super-national bonds		**89,775**	97,282	**89,775**	97,282
Overseas government bonds		**12,165**	8,318	**12,165**	8,318
Corporate bonds		**759,277**	694,272	**759,277**	694,272
UK treasury bills and short-term deposits		**194,254**	39,562	**194,254**	39,562
Illiquid credit and private equity funds		**123,413**	111,316	**123,413**	111,316
Strategic asset allocation		**57,313**	51,465	**57,313**	51,465
Derivative financial instruments		**10,336**	25,144	**10,336**	25,144
		1,457,995	1,409,001	**1,457,995**	1,409,001
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**13,971**	17,900	**11,765**	15,980
Other debtors	19	**3,161**	4,391	**3,161**	4,391
Deposits with credit institutions		**22,413**	12,330	**22,413**	12,330
Cash at bank		**39,555**	34,121	**39,331**	33,548
		79,100	68,742	**76,670**	66,249
Financial liabilities measured at fair value					
Derivative financial instruments	26	**11,874**	9,534	**11,874**	9,534
Financial liabilities measured at amortised cost					
Trade creditors	26	**8,628**	5,739	**8,628**	5,739
Other creditors	26	**42,872**	40,815	**41,489**	39,533
Amounts owed to group undertakings	26	**–**	–	**26,485**	22,156
		51,500	46,554	**76,602**	67,428

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

29.1 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 2024 the Group and Company held the following unexpired derivatives:

	2024			2023		
	Notional value	**Asset**	**Liability**	Notional value	Asset	Liability
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Currency forwards	**227,344**	**137**	**(783)**	200,421	2,405	(158)
Interest rate swaps/futures	**263,116**	**4,338**	**(4,566)**	117,603	14,006	(1,672)
Inflation swaps	**575,380**	**5,861**	**(6,525)**	639,107	8,733	(7,704)
		10,336	**(11,874)**		25,144	(9,534)

30 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.

	2024	2023
	£'000	£'000
Profit for the financial year	**134,363**	69,431
Tax on profit on ordinary activities	**22,034**	(3,676)
Profit on ordinary activities before tax	**156,397**	65,755
Depreciation and decrease in value of assets	**743**	797
Increase in revaluation reserve	**377**	(466)
Decrease in Technical Provisions	**(73,528)**	(108,410)
Realised gains on investments and fixed assets	**(17,746)**	(16,021)
(Increase) decrease in unrealised gains on investments	**(27,279)**	50,834
Decrease (increase) in insurance debtors	**1,875**	(54)
Decrease (increase) in other debtors	**1,684**	(224)
Increase in prepayments and accrued income	**(857)**	(3,056)
Increase (decrease) in insurance creditors	**2,814**	(1,272)
Decrease in other creditors	**(195)**	(3,557)
(Decrease) increase in accruals and deferred income	**(3,923)**	47,762
Differences on recognition of defined benefit pension scheme	**(8,335)**	(16,109)
Interest received	**(37,047)**	(35,259)
Payments to acquire investments	**(4,652,581)**	(4,751,782)
Receipts from disposal of investments	**4,804,317**	4,746,233
Net cash flow from operating activities before interest received	**146,716**	(24,829)

31 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.

32 Contingent liabilities

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

33 Capital and other commitments

At 31 March 2024, 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 27.1.6 - 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	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Within one year	**4,597**	3,156	**4,575**	3,140
Between one and five years	**5,370**	3,534	**5,305**	3,438
Over five years	**–**	–	**–**	–
	9,967	6,690	**9,880**	6,578

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 private investment funds. Outstanding commitment at 31 March 2024 was £73.9m (2023: £17.3m). The commitment is payable on demand.

34 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 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.

	2024	2023
	£'000	£'000
Contributions to CCHB	**292**	160
Amount due from NHBC	**–**	58

See note 14 and Directors' Remuneration Report for disclosure of the directors' remuneration.

35 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.

36 Liability of members

At 31 March 2024, there were 53 (2023: 53) members of the Council. Under the Articles of Association, the liability of each of the members is limited by guarantee to a maximum of £1.

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 homeowner
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 homeowners 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

NHBC

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