2021/22

Annual Report & Accounts

Raising Standards. Protecting Homeowners

David Wilson Homes & Barratt Homes, Fairfields, Milton Keynes

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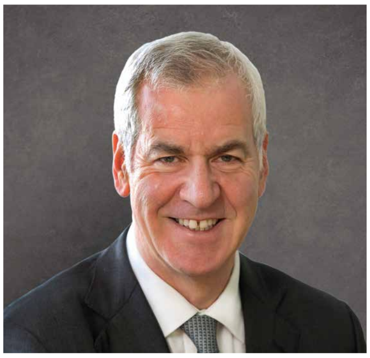
Chair's Statement



The second year of the pandemic saw us all facing the continued challenges of the shift to home and hybrid working and dealing with intermittent lockdown restrictions. I am pleased to report that our people adapted well to this fluid environment, continuing to support our registered customers, delivering for our policyholders and helping the business to successfully navigate the impacts of Covid-19.

After a welcome return to profit last year, the business has again delivered a sound financial performance, reporting a post-tax profit for the year of £60.3m (2021: £66.1m). We have continued the essential work to strengthen our capital position and maintain a solid financial platform from which we can take the business forward. A profitable NHBC is essential to help drive quality standards across the sector, protect homeowners and support our registered customers as they adjust to the regulatory changes flowing from the Building Safety Act 2022 and the Future Homes Standard.

We remain committed to our core purpose of raising standards in house building.

Alongside improving our financial performance, work has continued on the delivery of the initiatives identified in last year's business model review. A fundamental review of our IT platforms, applications and digital capabilities is underway to meet the changing dynamics of our markets and the expectations of our registered customers and policyholders. It is crucial that we have systems and applications that are fit for purpose and which support a modern, agile business. We have also undertaken a review of our products and services, withdrawing from commoditised products such as energy rating, to ensure we focus on services that play to our strengths and which deliver real value to our customers and to our business.

" Housing remains a key strategic priority for the Government "

The house-building sector has demonstrated remarkable resilience, rebounding from the effects of the pandemic, with the volume of NHBC's new-build registrations for the year ended 31 March 2022 back up to the levels we saw in 2019. The ending of Help to Buy and the stamp duty holiday has not led to any evident reduction in the aggregate demand, with builders continuing to report strong forward sales. However, the medium-term outlook is more challenging, with strains across the supply chain, rising regulatory obligations and significant cost inflation, not to mention substantial funds being set aside for building safety remediation. The squeeze on household incomes, brought on by the highest cost of living increases for 40 years, will only be heightened by energy and commodity price inflation resulting from the war in Ukraine. This may dent consumer confidence and dampen demand, at least for private sales, and we remain vigilant to the potential impact on registration volumes, house price inflation and claims costs.

Labour and skills shortages persist, with an ageing workforce and record employment levels creating a shortfall in trades and technical resources. The industry also needs to develop the skills required to deliver the homes of the future, increasingly using more Modern Methods of Construction and higher levels of off-site production. NHBC is making a direct contribution to addressing the skills gap, through our apprenticeship programmes and the roll-out in the coming year of two further training hubs to add to the one successfully launched in Tamworth in May 2021.

Housing remains a key strategic priority for the Government, with ambitions for increased volume delivery across private sale, affordable and social housing, as well as broadening forms of home ownership. The Levelling Up White Paper saw an increased remit for Homes England and plans for significant investment in the North of England and the Midlands. We expect this ongoing demand to bolster house prices, whilst UK housing remains an attractive asset class for inward investment and this is likely to boost supply, particularly in the Build to Rent and Retirement Living sectors.

The last year has seen substantial regulatory changes from the Government, focused on building safety, energy efficiency in new homes and consumer redress. We have continued to play a consultative role, engaging with officials and ministers, and with the Health and Safety Executive.

As part of the journey to the Future Homes Standard, the Government introduced a number of changes to the Building Regulations dealing with energy conservation, ventilation and overheating. Effective from June 2022, these changes will have wide-reaching effects, impacting design, materials and construction methods. We are supporting our registered customers with research through the NHBC Foundation and events to share information and encourage best practice; we will also maintain a keen operational focus onsite, to ensure that quality is not compromised as new technologies and processes are deployed.

We are committed to ensuring that important lessons are learned from the tragedy of the Grenfell Tower fire so that the house-building industry can deliver safer homes for the future. We have been working across industry and with the Government to understand the issues involved and to assist in a better approach for the future. Although NHBC was not involved in the building or refurbishment of the Grenfell Tower, we have assisted the Inquiry by providing evidence including documents and witness statements. Following the passage of the Building Safety Act 2022, we are working with the Health and Safety Executive on the establishment of the Building Safety Regulator and welcome its stronger oversight of practices and evidence of competence across the whole built environment.

NHBC Training Hub in Tamworth

Chair's Statement

Fundamental to achieving our overall purpose is providing a high-quality service to our policyholders, ensuring prompt and fair outcomes where there are issues with the construction quality of their homes. During the year, we created a Board Consumer Committee to oversee our approach and the performance delivered to policyowners. Reporting to this Committee, we have established a Consumer Strategy Group led by our Claims Director, Jenny Scott. This group will lead on the delivery of core objectives to enhance the service we provide to policyholders.

Looking to the year ahead, despite the global economic uncertainties we all face, we are determined to maintain our focus on profitability and financial resilience while delivering on our commitment to raising standards, protecting homeowners and serving the house-building industry. We anticipate continued growth in the number of registrations we receive, and in the new-build housing market in general over the next 12 months, though we expect the pace to slow as we enter 2023.

Turning to Board matters, in July 2021, we were joined by two new Independent Non-Executive Directors, Tesula Mohindra and Dr Teresa Robson-Capps. Tesula brings over 25 years' experience in the financial sector, including serving as a Managing Director at J.P. Morgan and UBS. She is a member of our Board Risk and Audit Committees, and Chair of our Consumer Committee. Teresa has a wealth of experience in executive and non-executive roles across financial services, retail, technology and mobile industries, including having held a senior executive role at HSBC UK. She is the Chair of our Audit Committee and a member of the Board Risk and Nominations Committees.

> "We anticipate continued growth in the number of registrations we receive, and in the new-build housing market in general over the next 12 months"

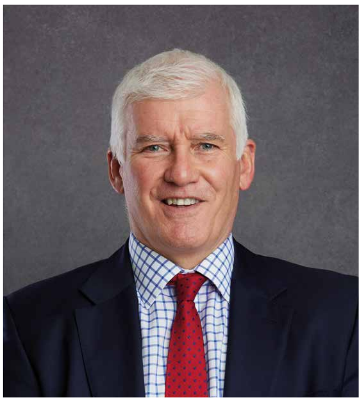
On 9 December 2021, we said goodbye to Jean Park, who had served as a Non-Executive Director since March 2013. During her time on the Board, Jean made an invaluable contribution as Chair of the Board Risk Committee and as a member of the Audit and Investment Committees. We will greatly miss her sound advice and humour. On behalf of all her colleagues, I would like to thank her for her hard work, dedication and insights, and wish her well for the future.

My final thanks go to all our passionate and committed colleagues at NHBC. Over what has been a challenging period in our personal and work lives, our people have risen to the occasion, and the Board is proud of what they have delivered. We look ahead with optimism. Our business is in a process of transformation, and I am confident we are on the right path to continue delivering for our registered customers, our policyholders and our wider stakeholders.

Alan Rubenstein
Chair

Retirement living, Shirley, Solihull

Chief Executive Officer's Statement



It has been another challenging year for our registered customers, our policyholders and our people where we have all had to adapt to the continually changing landscape. I am very proud of all that we have achieved together, delivering for customers and homeowners whilst improving NHBC's financial stability.

I am pleased to report that we have delivered a profit for the second year running and have continued to strengthen our capital position, further improving our solvency ratio, a key measure for NHBC as an insurance company.

Our registration figures confirm that new-build housing performed strongly throughout the year, rebounding well from the impact of the pandemic.

We have continued to make progress on our business transformation, becoming a more commercial organisation focused on areas where we can deliver real value for our registered customers and policyholders, maximising our expertise, insights and servicing capacity. We are focused on services where we have competitive advantage and which support NHBC's purpose of raising standards and protecting homeowners.

As we look forward, change is a big theme: internally to become a more agile, efficient and responsive organisation; and externally with our registered builder customers and other stakeholders on the journey to net zero and on fire safety, supporting the effective implementation of the Building Safety Act 2022.

Financial performance review

We have continued our work to ensure a robust financial platform from which to serve our registered customers and policyholders in the long term and from which we can deliver on our core purpose to raise standards in house building.

Increased income from higher-than-expected new home registration volumes, combined with strong operational expense control, effective claims management and further refinement of our approach to risk-based pricing, all contributed to a pre-tax profit of £53.7m for the 2021/2022 financial year (2021: £69.9m) This second consecutive year of profit further improves our solvency and capital position.

Management's prime responsibility is to ensure the long-term resilience and sustainability of the business and improving our capital position is central to that. As a company limited by guarantee we grow our capital base through retained earnings, so we remain focused on ensuring we are running a profitable business. Our solvency ratio (as measured by the standard formula) moved up to 183% on 31 March 2022, (2020/2021: 154%). This is good progress; however, we do need to continue to strengthen our capital reserves.

In common with other businesses, we are facing significant cost and wage inflation, with the conflict in Ukraine adding to economic uncertainties and the prospect of a sustained period of higher inflation. Linked to this is the substantial increase in the House Rebuilding Cost Index, to which we anchor our pricing to reflect future claims cost inflation. This index reflects the rising costs of claims repairs, increasing by 12% in the year to May 2022.

Our 2021/2022 gross claims payments of £104.6m (2021: £71.2m), was a significant increase from last year, reflecting the progress made in settling some large and complex cases.

In 2021/2022, new home registrations totalled 162,534, taking us back to pre-pandemic levels and a material up lift from 2020/2021 (126,141). This reflected the positive post-lockdown growth in output and the strong forward sales positions held by most house builders.

new home registrations totalled

162,534

taking us back to pre-pandemic levels

The proportion of our registrations coming from the affordable and rental sectors was 25% (2020/2021: 36%). This reflects higher levels of confidence in low-rise, out-of-city development, although momentum was starting to build again on higher-rise, inner city developments as the year closed. In addition, Housing Associations have had to focus capital budgets on the remediation of existing stock, and this has constrained housing development in the social and affordable sectors.

Delivering for policyholders

We must keep pace with the changing expectations of our policyholders and ensure we deliver more when viewed through a consumer lens. This will be reinforced by the Financial Conduct Authority's new Consumer Duty, expected to come into force in July 2022. We are focusing on improved transparency on our products and services, and a better end-to-end customer experience for all policyholders.

This is an important and substantial programme of work which will be led by our Consumer Strategy Group, with governance and oversight from the newly established Board Consumer Committee.

Building safety

The Building Safety Act 2022 gained Royal Assent in spring 2022, setting in law a comprehensive regulatory structure for the house-building industry. We have worked closely with the Government and the Health and Safety Executive to help the establishment of the new Building Safety Regulator, providing our expertise and experience in areas such as competence frameworks, which are vital to ensuring an effective regime.

In the coming year, several pieces of secondary legislation are expected to be laid in Parliament to enforce the Act's measures. One example is the requirement for all new-build developers to join a recognised New Homes Ombudsman (NHO) scheme. NHBC has been a long-term supporter of introducing an NHO, so I am pleased to be a member of the New Homes Quality Board, which is working to deliver the New Homes Ombudsman Service (NHOS). This will provide a new route of redress for homeowners and ensure that all builders take ownership of resolving consumer issues, leading to improvements in the finish quality of new-build homes. At NHBC, we will continue to provide our resolution service as the new arrangements with the NHOS bed in.

Climate change

As the challenge of our time, climate change is a priority area for us. We have four distinct working groups which focus on identifying and mitigating the financial risks from climate change; reducing NHBC's carbon footprint; supporting the new-build sector in achieving the Government's targets for carbon reductions; and identifying current and emerging changes in how homes will be built on the road to net zero, mitigating risks for the industry and for homeowners. There is strong operational governance around this to improve delivery and to ensure that climate change and sustainability are integral to everything we do at NHBC.

Externally, we are working with house builders and developers to support the industry's response to the Government's ambition to achieve net-zero carbon by 2050. The immediate focus is to deliver the interim 31% emission reductions required by the Part L (Conservation of fuel and power) changes coming in from June 2022, as well as planning for the withdrawal from fossil fuel heating by 2026, implementing the necessary changes without any compromise to the quality of construction. The updates in design, materials and construction processes are significant, with NHBC's Building for tomorrow seminar series providing a forum for leading stakeholders to share information with house builders: for example, in relation to ground and air-source heating, which are likely to become prevalent.

Chief Executive Officer's Statement

We are also working closely with the industry-established Future Homes Hub in its role to set up, coordinate and accelerate learnings on the Future Homes Standard, overseeing the implementation of house building's roadmap to net-zero. The operation of homes of the future in relation to heating, ventilation and hot water will be quite different from today's familiar practices, with changes being planned to NHBC Standards, and to our risk acceptance and onsite inspection regimes.

NHBC Foundation

The NHBC Foundation, our research arm, undertakes in-depth research and publishes reports to support small and medium-sized housebuilders in addressing the considerable challenges of delivering homes in the 21st century. The drive to zero carbon homes is central to the Foundation's research programmes, with several publications planned for release in 2022/2023.

We collaborate and support external groups where they are looking to lead on research which shares synergies with the aims of the Foundation. Over the last year publications have included Plugging in to the future: electric vehicle charging and new homes and Biodiversity in new housing developments: creating wildlife-friendly communities. The Foundation has worked with the Chartered Institution of Building Service Engineers, The Building Alliance, the Trees and Design Action Group, the Future Homes Hub and The Institution of Structural Engineers.

In February 2022, the Rt. Hon. Nick Raynsford stepped down from the role of Chair of the NHBC Foundation and is succeeded by the Rt. Hon. the Lord Barwell. We are very grateful to Nick for his contribution since the inception of the Foundation in 2006 and welcome Gavin to his role as Chair.

Quality of construction

Our independence, industry-leading standards, and depth of data and expertise allow us to support housebuilders and developers in building better quality homes.

We recognise the expectations on us on quality, and we continue to invest in technical risk management, in services that support innovation such as NHBC Accepts (aimed at manufacturers), and in construction quality services for housebuilders and developers. We have a long-term aim to help the industry move towards a right-first-time model and we will continue to explore ways in which this can be progressed.

> " We recognise the expectations on us on quality "

Our Key Stage Inspections (KSIs) and Construction Quality Reviews (CQRs) play a crucial role in improving build quality. Despite the ongoing challenges caused by the pandemic, we carried out over 934,000 KSIs in2021/2022, checking for compliance with NHBC Standards, preventing defects and enabling the delivery of a better-quality product for home buyers.

We continue to invest in higher volumes of CQRs, which provide registered customers with in-depth assessment of quality and fire safety standards throughout all build stages. Feedback from site managers and construction directors continually shows how valuable this service is in identifying where improvements can be made to prevent future defects.

During the year, Pride in the Job, our annual competition that recognises the pivotal role that site managers play in driving up quality standards, returned in its usual form with face-to-face events held across the country to recognise the 450 winning site managers (from in excess of 10,000 site managers in total). Pride in the Job sets standards for site managers to aspire to, reinforcing the drive to improve the quality of the finished home.

Technical risk management

We have continued to evolve our technical risk management practices, working with our registered customers on a programme to augment our quality control services with new ways of working that improve effectiveness and support informed quality assurance. During the year, we delivered key programme modules that have been well received by our customers, with further modules to be rolled out during 2022/23.

The programme's overall aim is to ensure a more consistent delivery of a better-quality product for homeowners whilst reducing the significant costs to the industry of remedial works. The objective is to drive an industry shift from after-the-event quality control (defects correction) to right-first-time quality assurance (defects prevention).

By more effectively leveraging our wealth of construction quality data and using technology-driven solutions, the programme will improve our risk management, help deliver better consumer outcomes and improve build quality, reducing claims incidence on our warranty.

Training the industry

Against a backdrop of continued volume growth targets, the house-building sector has an ageing workforce, with approximately 20% of tradespeople aged over 50. Only one in three leavers is replaced, and it is estimated that the sector needs 30,000 new recruits per 10,000 additional new homes to be built. This skills and capacity gap constrains output and puts quality at risk.

To support the industry, we have continued to expand our training capacity, delivering face-to-face and virtual courses, webinars, trade talks, NVQs and apprenticeships.

we carried out over

934,000

KSIs in 2021/2022

NHBC Roadshow, Milton Keynes

Chief Executive Officer's Statement

Our apprenticeship Training Hub in Tamworth, which opened in May 2021, has been a great success, with excellent feedback from our first cohorts of bricklaying apprentices and their employers. The Hub offers an immersive, realistic working environment and is very focused on house building. We are opening two more in 2022, one in Newcastle and the other in Cambridge, and we are exploring options to further increase the scale and pace of this approach.

The number of house-building professionals undertaking an NVQ qualification through NHBC is higher than ever, with 430 active candidates in addition to the 400 who completed their qualifications in the last year. We also delivered nearly 15,000 delegate training days through a mix of online and face-to-face learning.

Modern Methods of Construction (MMC)

There is continued interest in MMC, where we support customers in the use of innovative construction both off-site and on-site, providing it meets or exceeds our technical standards.

Our NHBC Accepts service, launched to manufacturers in July 2020, continues to offer an end-to-end assessment for innovative construction products and systems, checking that, subject to correct installation, NHBC Standards will be met. The service has seen strong demand, with over 50 products or systems now accepted and a similar number in different stages of assessment.

Business and digital transformation

To become the modern, responsive organisation we aspire to be, we must overhaul our core business systems. Following the appointment of our Chief Digital and Technology Officer in March 2021, we commenced a comprehensive review of our platforms, applications and processes. We now have a multi-year project that will deliver more flexible systems across all key business functions. This will allow us to improve our interactions with our registered customers and policyholders, streamlining and digitising processes everywhere we can.

In addition, we continue to invest in an infrastructure that improves our data quality and enables greater insight to support better customer understanding, more effective operational practices and improved efficiency.

Our people

As we emerge from the most extraordinary two years, the value of our people has never been more evident. Their determination to keep delivering for our registered customers and our policyholders in the face of business and personal challenges throughout the pandemic is a source of great pride.

In 2021, the safety and wellbeing of our people remained our key focus with Covid-secure practices in place for all our colleagues, whether they worked onsite, at home or in the office. This work was led by our Covid-19 working group, the efforts of which were recognised with a RoSPA 'COVID Workplace Champion' award.

In line with other businesses, we saw significant shifts in working practices with so many people working from home throughout the pandemic. We continue to support a hybrid working model in line with business needs and to ensure we maximise the different ways of working for the future.

Developing and retaining talented, high-performing individuals is key to meeting our strategic ambitions and delivering our purpose. We must have a compelling employee value proposition that positions us as an attractive, enterprising and socially responsible employer that also promotes positive physical and mental health for all colleagues.

To this end, in March 2022, we made a substantial investment in a new reward framework with enhanced bonus opportunities and harmonised employment contracts. We launched a new benefits platform in February 2022 alongside a new wellbeing app, where we will use the data available to ensure our people's wellbeing is taken seriously across NHBC. In addition, we run an employee engagement survey which achieves very high response rates (averaging 82% over the year). Our January employee Net Promoter Score (a measure of being prepared to recommend NHBC as an employer) was 43, with 56% of employees who responded identifying themselves as promoters. This places NHBC in the top quartile of organisations who use the equivalent staff survey.

We continue to invest in diversity and inclusion, with clear measures being included in all leaders' and managers' objectives for the coming year. We have three active 'Be Me: Employee Networks' - Women, LBGT+ and Race Equality. Set up and run by colleagues, they give a voice to those they represent, raise awareness and provide a safe space for constructive dialogue; they are already helping to guide the business as we work to become ever more inclusive and diversity confident. Throughout the year, we took forward a number of initiatives including reverse mentoring of the senior executive team, unconscious bias training for all staff and committing to the 10,000 Black Interns programme.

We had three changes to the senior leadership team in the year, and I welcome the appointments of Belle Singh as HR Director, Kim Bromley as General Counsel and Peter Vasey as Chief Risk Officer. I look forward to working with them and the rest of the senior executive team in the year ahead.

Environmental, social and governance (ESG)

We have taken a number of actions to reduce our Scope 1 and 2 emissions, focused on facilities and our car fleet, where the vast majority of our vehicles are either hybrid or fully electric. We are setting targets in the coming year to further improve our environmental performance, with a particular emphasis on Scope 3 emissions through our investment portfolio, where we will be looking to reduce impact whilst making adequate returns.

2021/22

has been a demanding but rewarding year, with significant challenges overcome and progress made in taking the business forward

Being a socially responsible business is a fundamental part of our strategy and an integral part of our ethos. Emergence from the pandemic has given us the opportunity to get back to supporting Crisis, our corporate charity partner, and local charities where colleagues can support community projects that are important to them and where we match any fundraising efforts.

More information on how we are integrating climate-related financial risk into governance and management processes can be found in our Wider impact and non-financial information statement' on page 42. Climate change is central to how NHBC operates across the industry, with ESG continuing to be a focus for the Board and the senior leadership team.

Summary and outlook

In the year ahead, we will continue to rebuild our capital base and improve profitability, ensuring our long-term financial stability. We will take a disciplined and selective approach to the insurance business we write, whilst at the same time growing revenue from non-insurance services.

From this platform, we will be executing our significant change agenda, to build a more purposeful, modern and agile business that delivers greater value for our registered customers, policyholders and wider stakeholders. The year will also see us take important strides forward in how we serve and communicate with our policyholders.

Our core purpose remains to raise standards in house building by championing high-quality homes and protecting homeowners with our inspection, construction quality and training services, underpinned by our warranty and insurance product.

2021/2022 has been a demanding but rewarding year, with significant challenges overcome and progress made in taking the business forward. I am grateful to all our people for their commitment and support.

I would like to thank Alan Rubenstein - our Chair - our Board members and my executive team colleagues for their leadership and counsel, and for the difference they make at NHBC.

I look forward to the year ahead with optimism and enthusiasm for the changes we have planned. These will bolster our long-term security whilst delivering real value and great service for our registered customers, policyholders and wider stakeholders.

Steve Wood
Chief Executive Officer

Chief Financial Officer's statement

As Alan and Steve have highlighted, it has been a challenging year across our business and personal lives. We knew 2021/2022 would be another uncertain year for the business as the country emerged from the pandemic. Our aim for the year was to continue to deliver our products and services to our registered customers and policyholders as best as we could, strengthen our balance sheet through sustainable, profitable business and ensure our revenues and costs reflected the services and risks we undertake. We ended the year with the conflict in Ukraine, which compounded an already heightened inflation environment and created further uncertainty in the market.

Despite these challenges, it is pleasing to report a second consecutive year of profits that continues to remediate our solvency capital after the losses previously reported in the financial years 2018 to 2020. The combination of rising new home registrations, the benefit of the actions on warranty and insurance pricing in 2020 and 2021, with a continued focus on disciplined claims management and careful operational expense management is delivering the results we require to create a more financially resilient and sustainable NHBC.

The benefit of two years of positive financial results is seen in our standard formula solvency ratio which has increased to 183% (2021: 154%), through a combination of rising own funds and a fall in the Solvency Capital Requirement (SCR) due to lower market risk.

Revenue streams increased sharply this year as the volume of registrations, completions and Building Control all increased following the slow-down last year caused by the pandemic. Gross written premiums continued to rise following the pricing reset in 2020 and further increases in June 2021 to reflect higher claims inflation, notwithstanding the benefit of better-than-expected house price inflation that was seen across the housebuilding industry. Our claims experience returned to expected levels, with no material deterioration in our larger case and fire safety claims reserves, and gross ultimate claims provisions remained stable. We strengthened reserves substantially to reflect the higher inflation environment; however, the impact of this on our net results was mitigated through our liability matching asset returns, which were in line with expectations. Investment performance was favourable overall, 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 £53.7m (2021: £69.9m), with profits in the technical account of £50.5m (2021: £45.1m). The non-technical account, which covers our non-insurance activities and surplus investment asset returns, reported another year of profits at £3.2m (2021: £24.8m). The non-technical result before surplus asset returns was £12.0m (2021: loss £4.0m).

The technical account profit was driven by several moving parts: improved margins on our underlying business; an increase in the level of reinsurance recoveries reflecting a further year of the quota share programme; and an offset in part by expectations of higher future claims inflation.

The non-technical account benefited from the higher registration and completion volumes, which delivered higher revenues on a largely fixed cost base. We did make further investment in resources to service the increased volumes during the year, with the full year impact of these costs to come through in 2022/2023. The investment return on non-matching assets was a loss of £8.8m (2021: gain £29.3m), reflecting the reduction in market value of these assets over the year due to rising yields and widening credit spreads.

£53.7m

overall pre-tax profit

David Wilson Homes & Barratt Homes, Fairfields, Milton Keynes

NHBC's balance sheet is dominated by invested assets and claims technical provisions. Invested assets and cash valuations decreased over the year to £1,486.2m (2021: £1,670.5m). The settlement of the Loss Portfolio Transfer (LPT) premium (please see note 37 to the financial statements for further information on the LPT) was the main driver of this reduction in addition to the reduction in the market value of our surplus assets. These reductions were offset in part by returns from our index linked bond portfolio.

Net technical provisions held to meet obligations to policyholders decreased to £890.0m (2021: £924.6m). Claims experience was slightly better than expected. The impact of the current and expected higher inflationary environment increased the gross technical provisions to £1,499.9m (2021: £1,470.9m). This increase on gross technical provisions was more than mitigated by higher levels of expected reinsurance recoveries through the LPT and whole account quota share treaty.

The NHBC Defined Benefit Pension Scheme moved into a small accounting surplus of £0.1m at year end (2021: deficit £21.7m). This reflects the deficit repair contributions made since the triennial valuation in 2020, as well as a reduction in scheme liabilities due to higher discount rates.

Chief Financial Officer's statement

Financial performance

The table below shows a summary consolidated income statement for the year ended 31 March 2022 and comparatives.

	2022	2021
Registrations (units)	**162,534**	126,141
	£m	£m
Gross premiums written	**149.4**	104.8
Reinsurance premiums	**(50.8)**	(261.0)
Net premiums written	**98.6**	**(156.2)**
	£m	**£m**
Net earned premiums	**45.1**	23.5
Net claims incurred	**(118.3)**	(43.5)
Movement in unexpired risk reserve	**104.5**	48.1
Investment return – technical account	**31.8**	27.7
Net operating expenses	**(12.6)**	(10.7)
Technical account profit	**50.5**	**45.1**
Other income	**84.3**	65.0
Other charges	**(72.3)**	(69.5)
Investment return – non-technical account	**(8.8)**	**29.3**
Non-technical account profit	**3.2**	**24.8**
Profit before tax	**53.7**	69.9
Tax credit / (charge)	**6.6**	(3.8)
Profit after tax	**60.3**	**66.1**

Volumes

Our registration volumes are a key driver of our premium and inspection income, and a proxy of exposure on our technical account. Registrations continued to rebound following the decline in the aftermath of the national lockdown in 2020 and increased by 28.9% in 2022 (2021: 19.5% decrease) to 162,534 units. Completion[1] volumes increased by 20% to 141,118 units (2021: decrease 23.2%). This reflected overall post-lockdown growth in industry output despite the challenges faced by the industry with materials and labour shortages. Homes under cover at 31 March 2022 increased to 1,403,138 (2021: 1,372,979).

Technical account result

The technical account, which reflects the results of the Group's insurance activities, reported a profit of £50.5m for the year (2021: profit £45.1m). The year delivered strong underlying performance, with activity levels higher than those pre-pandemic, well-matched insurance reserves and better-than- expected claims experience.

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

Gross written and net earned premiums

Our warranty premiums are earned in accordance with the expected pattern of claims emergence over the period of warranty policy coverage. During the year, we recognised that there has been an increase in the time it has taken for claims to emerge. As a result, we have deferred more written premium and recognised less premium as earned than in the prior year.

Gross written premium was £149.4m (2021: £104.8m), reflecting a combination of higher registration volumes and higher average fees driven by the warranty price increase implemented in June 2021, as well as an increase in road and sewer bond overrun fees.

Net written premiums were £98.6m (2021: £156.2m)[2]. Reinsurance costs increased year on year, excluding the LPT premium, reflecting the higher gross premiums as well as a small increase in the ceding rate for the whole account quota share treaty.

Net earned premiums increased to £45.1m (2021: £23.5m), reflecting the underlying gross written premium increase, partially offset by the reinsurance premiums and a small increase in the earnings profile.

Claims incurred

Gross claims paid in the year were £104.6m (2021: £71.2m). The increase on the prior year reflects the progress we have made in settling some large and complex claims. We also saw a shift in claims reserves from the unexpired risk reserve to claims incurred as more validity decisions were made on fire safety and cladding claims. Attritional claims continued their positive downward trend of recent years, whilst claims handling costs rose slightly, reflecting the staff investments made. Net claims incurred increased to £118.3m (2021: £43.5m). The higher claims incurred this year reflects the cost of increasing claims reserves to provide for the higher than anticipated inflationary environment, partly offset by expected reinsurance recoveries.

Unexpired risk reserve

Changes in other technical provisions, net of reinsurance are generally represented by the unexpired risk reserve credit of £104.5m (2021: £48.1m) and primarily driven by the shift of reserves to claims incurred. We also anticipate improved margins within future earned premiums following the warranty price increases implemented over the last two years.

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 £31.8m (2021: £27.7m), reflecting net investment income of £16.2m (2021: £20.1m), realised gains of £7.0m (2021: £8.5m) and unrealised gains of £10.0m (2021: £0.6m). Investment fees were £1.3m, marginally below the prior year.

Operating expenses

Operating expenses allocated to the technical account were £12.6m, an increase from £10.7m in the prior year reflecting investment made in claims handling, greater operational activity caused by higher volumes than the prior year, and higher regulatory fees.

2 Reflecting the £228.7m premium paid to reinsurers for the LPT.

Chief Financial Officer's statement

Non-technical account result

The non-technical account profit was £3.2m (2021: £24.8m). This includes the net result from our non-insurance-related activities plus the investment return generated by surplus investment assets. Profit excluding the result from surplus investment assets was £12.0m (2021: loss £4.6m).

Other income, which includes inspection income, Building Control fees and income from NHBC's services business (such as training and construction quality services), increased by 29.7% to £84.3m (2021: £65.0m). This is primarily due to the higher registration and completion volumes and our drive to offer more value-added construction services.

Total operating expenditure increased by 7.2% to £103.4m (2021: decrease 8.5%). This reflects the increased activity levels following the pandemic, as well as our investment in both our technical inspection and claims handling, which was necessary to support rising volumes and our desire to improve service levels for registered customers and policyholders. Operating costs allocated to the non-technical account (disclosed as 'other charges'), rose by 4% to £72.3m (2021: £69.5m) in line with the resourcing investments made.

Investment returns allocated to the non-technical account represent the return on surplus investment assets. These assets (comprising corporate bonds plus equity and multi-asset funds) produced a net investment loss for the year of £8.8m (2021: profit £29.3m), driven by valuation falls from rising yields and widening credit spreads.

Financial position

Investments

The total value of the investment portfolio (including cash) decreased by 11% (2021: increase 3.4%), ending the year at £1,486.2m (2021: £1,670.5m). The reduction was driven by the payment of the LPT premium in May 2021, the rise in bond yields and wider credit spreads, particularly in the final quarter.

Of the total investment portfolio, 87% (2021: 90%) was invested in high-quality fixed income and cash assets. The fixed income portfolio continues to be invested in investment-grade assets, with 99% (2021: 99%) rated BBB or higher. At the end of the year, the average duration of the liability matching portfolio was 4.4 years (2021: 4.0 years). Index-linked government bonds remain a key investment class for NHBC, accounting for over 34% of the bond portfolio.

NHBC held modest investments in Russian sovereign and corporate debt at the balance sheet date. As a result of the ongoing war in Ukraine and sanctions against Russia, we impaired all these assets to nil value at the year end.

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 increased by 0.2% to £1,499.9m (2021: £1,470.9m), reflecting the impact of a rising inflationary environment and reserves held for net new business exposure. These increases were offset by the continuing positive trend of recent years from better-than-expected attritional claims experience for Section 2 and 3 claims, combined with a higher discounting benefit. Our ultimate reserves in respect of high-rise fire safety claims were maintained in line with prior-year levels.

Net technical provisions decreased by 5.2% to £890.0m (2021: £924.6m), primarily driven by the benefit of increased reinsurance recoveries following the switch in 2020/2021 to quota share from an excess of loss treaty.

As per the notes to the financial statements, the Group takes all reasonable steps to ensure it obtains and uses 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) deficit has been eliminated over the year to a small accounting surplus of £0.1m, which is now recognised as an asset in NHBC's statement of financial position. The change in valuation was the result of an £18.4m decrease in liabilities and a £3.3m increase in assets. The 7.1% decrease in liabilities is caused by higher future inflation assumptions that were more than offset by the increase in discount rates, and a marginal reduction in life expectancy assumptions. A £8.0m deficit repair contribution (2021: £8.0m) was made in accordance with the revised contribution schedule agreed between NHBC and the Scheme Trustee.

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

Capital position

As of 31 March 2022, UK GAAP-accumulated capital reserves were £502.5m (2021: £430.8m). The increase of £71.7m mostly reflected the post-tax profit in the year and favourable movements due to changes in the Scheme actual assumptions.

The Group's Solvency II regulatory capital ratio, which is assessed using the standard formula, was 182.8% as of 31 March 2022 (2021: 154.0%) 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 £79.0m to £666.7m (2021: £587.7m), and a lower SCR, with reductions in underwriting and market risks following lower net claims provisions and investment asset valuations respectively.

Outlook

A second consecutive year of profit after tax following the three prior years of losses is encouraging. The global economic outlook is highly uncertain, with the full impact of Covid-19 and of the Ukraine war yet to fully emerge. In UK housing, affordability is under strain, not least from the rising cost of living and rising mortgage rates, whilst supply chain challenges persist. Continued under-supply is likely to bolster house prices to some degree, perhaps dampened by falling consumer confidence, but it does continue to create a favourable environment for inward investment, particularly in the Build to Rent sector. Higher levels of inflation look set to last longer than previous forecasts, with the future impact difficult to predict. This may place pressure on claims repair costs (including materials and labour) and the inherent uncertainty in NHBC reserves. NHBC is well matched in terms of RPI inflation, but a widening gap between RPI and house repair cost inflation would present challenges, and this remains a key focus for management.

On a brighter note, the strengthening of our capital position over the past two years moves NHBC towards a firmer and more resilient long-term financial foundation. The outlook for new registrations and other services from our registered customers remains positive, and we will continue to look for ways to improve our product offers. We put our policyholders at the heart of all we do and will continue to ensure that we offer the best protection we can from the products and services we provide.

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

Paul Hosking
Chief Financial Officer

Anwyl Homes Case Study

Anwyl is a proud family builder with over 90 years of success behind them. They began in 1930 as a joinery and woodworking business, expanding into house building around 1940, mostly in the Rhyl area. In the 1980s the business began developing further afield and now builds high quality, award-winning homes predominantly in Cheshire, Wales and Lancashire.

What NHBC provides

We provide Buildmark warranty and insurance as well as Building Control services on around three quarters of Anwyl's plots. We also carry out Construction Quality Reviews and provide management reporting through the NHBC Portal.

Here's what Phil Dolan, Anwyl's Managing Director for Cheshire & North Wales, has to say about working with us.

Why NHBC?

“We always recommend NHBC as the market leader in warranty and Buildmark cover.”

“Having NHBC alongside us adds to the quality of the homes we build and sell and assists buyers in making a huge but informed decision to purchase one of our new houses.”

“The efficiencies we gain on site knowing our house types and proposals have been scrutinised by the NHBC Technical Team is a huge benefit. And it's reassuring to be able to pick up the phone or speak to an Inspector on site to reach a swift and satisfactory conclusion to any obstacles.”

Benefits of an ongoing partnership

“We have worked with NHBC now for more than 30 years and have a strong and trusted relationship.”

“We always find the service offered by NHBC to be exceptional. Their Inspectors are very knowledgeable and always wanting to work to better what we are doing. They share the same values we do.”

“Customer expectations also increasingly demand and require the NHBC brand name with the homes that we build.”

Case study

> "We have worked with NHBC now for more than 30 years and have a strong and trusted relationship. We always find the service offered by NHBC to be exceptional. Their Inspectors are very knowledgeable and always wanting to work to better what we are doing. They share the same values we do."

Phil Dolan, Managing Director, Cheshire & North Wales

Alexandra Gardens, Crewe, Anwyl Homes
Photo credit: Anwyl Homes

Strategic report

About us

NHBC is the UK's leading independent provider of warranty and insurance for new homes. Our purpose is to raise standards in house building. We do this by setting NHBC Standards, which define the technical requirements to which homes must be built. We inspect the quality of work through an onsite inspection regime, underpinned by a warranty and insurance product for homeowners. We also provide a range of construction quality and training services to our registered customers, all designed to support NHBC's purpose and to raise the quality of new-build homes.

Independence

We are a company limited by guarantee, with no shareholders. We are independent of government and the construction industry. We are an insurance company authorised by the Prudential 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 core purpose of raising standards in house building.

Builder registration and the NHBC Standards

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

The NHBC Standards define the technical requirements and performance standards for the design and construction of new homes, providing guidance on how they can be achieved.

The NHBC Standards are updated regularly based on improvements in construction practices, changes in Building Regulations and the latest learnings from across the house-building industry, including from our own claims and resolution service data and insights. This process drives improvements in construction quality for the benefit of policyholders.

Inspection services and technical risk management

We provide an inspection service to our registered customers. This takes the form of a Key Stage Inspection (KSI) regime undertaken by NHBC building inspectors, focused on five key build stages. In 2021/2022, we carried out more than 934,000 KSIs. These inspections allow us to provide feedback on construction quality to our registered customers for the new-build homes protected by our Buildmark warranty and insurance product. This is an integral part of the drive to improve construction quality for the benefit of policyholders, with KSIs supplemented by intermediate inspections and other quality-related services such as our in-depth Construction Quality Reviews.

We are evolving our technical risk management strategy, working with our registered customers to strike the right balance between quality control (defects correction) and quality assurance (defects prevention). This has the overall aim of raising the quality of new homes built and reducing the significant costs to the industry of remedial works. In addition, we are leveraging the use of technology and insights from NHBC's wealth of data to improve the effectiveness of our technical risk management and to capture operational efficiencies everywhere we can.

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

Buildmark – an industry-leading warranty and insurance product

We first introduced a two-year building warranty in the 1940s, followed by the first 10-year warranty and insurance product in 1965, which was the foundation for today's Buildmark policy. The current policy comprises deposit protection, a two-year builder warranty period underpinned by NHBC's dispute resolution service, and a further eight years' insurance cover against damage caused by defects to the structure and external envelope of the home. Buildmark is in line with market practices and designed to give homeowners peace of mind over the largest purchase they are ever likely to make. It is subject to terms and conditions, including exclusions and limitations in cover.

Resolution and claims service for policyholders

Our Claims teams are there to support policyholders should there be a problem with their property which falls under the protection provided by our Buildmark policy. The resolution service can help to resolve issues between the registered builder and the policyholder that have arisen during the

> "Our library of accepted systems continues to grow, with over 50 accepted since NHBC Accepts was launched"

first two years following legal completion and which do not comply with NHBC Standards. The resolution service is offered at our discretion and is free to access for the policyholder.

Research from the NHBC Foundation

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

Training service

We continue to develop our training business, helping the industry to tackle skills shortages and to build high-quality homes. We support the industry through training across trades, site management and customer service roles, with a core focus on construction quality. Our recently launched apprenticeship programmes have received industry-wide recognition and broad reach. We delivered almost 15,000 delegate training days through the year, surpassing pre-pandemic volumes. Strong demand persists for our NVQ programmes as customers strive for quality and a qualified workforce.

Modern Methods of Construction (MMC)

There is a lot of interest in the use of MMC, although the number of homes using non-conventional construction registered with us for warranty and insurance cover has plateaued in the last year. We continue to support customers in the use of innovative construction, providing it meets or exceeds our technical standards. In July 2020, we launched NHBC Accepts, our service for manufacturers, designed to give confidence to developers, investors, lenders and policyholders in MMC. Our library of accepted systems continues to grow, with over 50 new products and systems accepted since NHBC Accepts was launched.

Climate change

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

Celebrating best practice

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

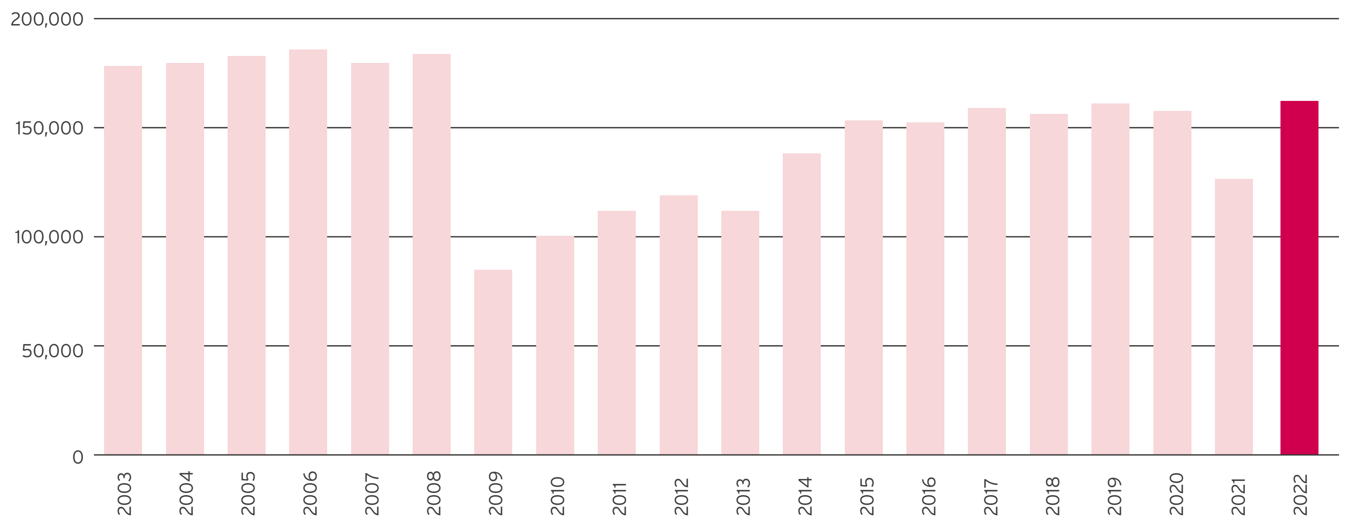
Market overview

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

UK housing market

In the first quarter of 2021/2022 the UK economy was starting to ease restrictions imposed by a third national lockdown. Acknowledging the importance of the sector to the UK economy, as in previous lockdowns construction sites were able to remain open throughout this period. As a result, the UK housing market was resilient, with housebuilders carefully navigating supply chain and labour challenges (exacerbated by the pandemic) and adjusting site working practices to keep pace with demand. Reduced rates of Stamp Duty introduced in 2020 continued until the end of Q2 2021/2022 boosting already high demand for new homes. The speculated 'cliff edge' from its withdrawal alongside changes to the Help to Buy scheme, did not materialise. Covid-19 changed consumer spending patterns, resulting in an estimated c.£190bn of additional savings, and led many to re-evaluate their priorities following prolonged periods of working from home. Alongside the continued structural issue of undersupply, this helped bolster demand and saw annual house price inflation of 10.9% in the year to February[3].

New homes registered with NHBC in the year ended 31 March 2022 rose to 162,534 (2021: 126,141), an increase of 28.9%. Significant year-on-year growth saw NHBC registration volumes return to pre-pandemic levels, as recovery of the housing market from the initial Covid-19 shock continued. A particularly strong year-end saw over 20,000 homes registered for warranty and insurance in March 2022, representing the highest single month volumes for 30 years. Despite this, prevailing economic uncertainty and a degree of cooling of the housing market is likely to temper the rate of volume growth in 2022/2023.



The tenure mix of homes registered in the year shifted increasingly towards private sale, which accounted for three-quarters of our registrations in 2021/2022. Overall volumes of affordable housing declined marginally year on year, with Housing Associations constrained in their development activity as they diverted capital resources towards building safety remediation of their existing stock. The alternative residential sectors remained buoyant, with record levels of inward investment into private Build to Rent during 2021, reflecting the attractiveness of UK housing as an asset class.

3 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/february2022

Housing market outlook

Although the short-term outlook remains positive, the medium-term is expected to be more challenging, as the housing market responds to rising material costs, supply chain constraints, and increasing regulatory obligations. The UK economy is under strain, with high inflation being combatted with a tightening monetary policy that increases the recessionary risk in the later part of 2022/2023, during a growing cost of living crisis for households. Despite the uncertainty, the underlying fundamentals of the housing market remain strong. The structural imbalance of supply vs. demand continues, with larger builders being more financially resilient than the 2008/2009 financial crisis, and a strong flow of investment continuing into UK housebuilding.

As the Government looks to combat rising inflation, several indicators point to a cooling of the housing market with the rate of growth expected to slow. The Bank of England raised interest rates in May 2022 to their highest level for 13 years, with further increases expected later in the year. Although mortgage availability is holding, some lenders are beginning to tighten their lending criteria, a trend that is likely to continue throughout the year.

Consumer confidence indices are projected to continue to decline in 2022/2023 as the cost-of-living crisis deepens. The Bank of England project inflation to hit 10.25% by the end of the 2022 calendar year, which will amplify wage demands across most sectors. Further rises in energy bills are expected in autumn 2022, squeezing household incomes even further. This may lead some consumers (particularly first-time buyers) to limit, or pause, major capital outlays.

Government and regulatory focus on safety, quality and climate change will continue, with housebuilders facing increasing scrutiny and pressures from the Building Safety Act 2022, changes to Parts L and O of the Building Regulations, preparing for the Future Homes Standard, and the introduction of the NHO. Although major builders have been able to plan accordingly, the strain on small and medium-sized builders is more severe, and any subsequent changes to taxes, levies or regulatory costs could restrict industry output.

What this means for us

We have taken decisive steps in recent years to strengthen our capital base and improve our profitability. We must continue this journey of safeguarding our long-term future through prudent financial oversight, and maximising opportunities presented by an evolving new homes market.

To do so effectively means we must learn from our mistakes, challenge ourselves to improve and invest in enhancing our capabilities to meet the future needs of our key stakeholders. We will continue to monitor market, customer and consumer trends, and respond with agility. This includes using our data, insights, and expertise to grow non-insurance services in construction quality and training to complement our core insurance business. This allows us to:

- leverage our construction quality expertise to support our purpose
- diversify our income through less capital-intensive revenue streams
- respond to opportunities across established and emerging house-building sectors.

At the same time, we will ensure the insurance business we write and the services we provide are profitable, sustainable and aligned with our purpose.

We will also focus on putting policyholders more to the fore, ensuring their experience with us aligns with their expectations and keeps pace with societal, technological and regulatory change.

Our strategy

We undertook a comprehensive business model review in 2020/2021 that clarified the purpose, strategy and long-term vision for NHBC. We concluded that the foundations of our future success should be to retain control over our pricing, products, and data assets by remaining an insurance company; to grow our services business to produce less capital-intensive revenue streams in areas that support our purpose; and to transform our operating model to ensure we are a modern, agile, technologically adept business that embraces innovation. We have programmes in place to deliver the necessary business changes to achieve this.

Our strategy is anchored to a long-term purpose of 'raising standards in house building', with two supporting pillars of:

- championing high quality homes; and
- protecting homeowners.

The purpose statement and strategic pillars are the enduring aspects of our business that act as our fundamental guiding principles, encouraging our people to engage with their responsibilities and feel connected with the Company and its ethos.

We must continue to focus sharply on our strategic imperatives, ensuring we have the attributes, skills, and behaviours necessary for our long-term success.

This means becoming more commercially focused. With profit as the route to our purpose, financial stability is fundamental to our future success. It allows us to reinvest our profits into activities that help drive quality, and to provide security for policyholders. Our strategy will see us strengthen our capital base, reduce our net exposure, and improve our risk selection and pricing sophistication.

To become more modern and agile, we are undertaking a programme of fundamental change to our core IT platforms, applications and digital capabilities that will help ensure we are not constrained by outdated processes, systems or ways of working.

We need to continue to put social responsibility at the heart of our business, embedding ESG dimensions in our decision-making. This means stretching ourselves to help safeguard the environment, enhance the wellbeing of our people, and have a positive impact on all the communities we interact with.

Having talented, capable people is a bedrock of our success. We are investing in ensuring we retain and nurture talent, with a compelling employee value proposition that stands out and supports our long-term strategic aims, including to be an inclusive and diversity-confident business.

Our values - excellent, connected, human, and progressive - remain unchanged, and provide a behavioural framework that is embedded in our culture and which underpins performance development reviews.

> "We need to continue to put social responsibility at the heart of our business"

Our strategy

During 2021/2022 we continued to deliver against our strategic priorities through a series of change initiatives, with the table below highlighting the initiatives we are focusing on:

Strategic initiative: Setting standards and delivering high-quality, sustainable homes		
Description	In the 2021/2022 financial year, NHBC:	With the aim of:
We believe our stronger focus on improving construction quality sets us apart from our competitors. To keep pace with change, whilst continuing to provide technical expertise, and site-based inspection services, developing new propositions that help embed a right-first-time approach to construction quality. We must embrace new and innovative construction methods and facilitate their adoption, without compromising on construction quality or consumer protection. We also have a key role in supporting the industry to deliver the homes of the future that meet 'green' targets.	Continued to pilot, scale, and embed the outcomes of our technical risk management (TRM) review, an end-to-end review of our TRM approach from design to completion. Delivered changes that enable greater use of historic inspection, claims and customer experience data to produce a risk profile of a project, and subsequent production of bespoke, site-specific TRM plans.	Developing our TRM capability to drive improvements in construction quality, leading to reduced claims volumes and a better service for customers. Enabling a more flexible approach to TRM, ensuring resources and focus are targeted at areas of higher risk.
	Established a new team structure and reporting lines for the delivery of fee-earning technical services (such as Land Quality Service, and NHBC Accepts).	Providing capacity to deliver against increased market demand, develop long-term strategic plans for fee-earning technical services, and other aligned opportunities to grow and diversify our revenue streams.
	Established a dedicated project team, supplemented by external expertise, to enable NHBC to develop a tailored quality assurance framework and tools for the housebuilding industry. Established an industry working group, with broad industry representation to help ensure we are meeting industry demand.	Driving an industry shift from after the event 'quality control' to right-first-time 'quality assurance', reducing the failure rate and cost of rework. Developing profitable new technology and consultancy-based revenue streams that underpin our purpose and support our customers in addressing several concurrent drivers for change, such as the Building Safety Act 2022 and the Future Homes Standard.
	Progressed the development and deployment of our climate change strategy. This includes: ■ electrification of our car fleet (95% of new orders are ultra-low emission vehicles ULEVs) ■ work to establish and agree baseline carbon reduction targets ■ providing significant support for the set-up of the cross-industry Future Homes Hub ■ undertaking a survey of builders to identify emerging technologies and challenges	Ensuring that we are maximising the opportunities created and minimising any downside risks created by climate change, whilst positioning us as a key industry partner and thought leader. Ensuring that we are setting challenging targets for reducing our own environmental impact, protecting the interests of policyholders, supporting the industry to achieve Government targets, and continuing to manage and mitigate risk effectively.

Strategic initiative: Policyholder protection through warranty and insurance

Description	In the 2021/2022 financial year, NHBC:	With the aim of:
We help ensure policyholders benefit from quality homes that are backed by our Buildmark warranty and insurance if things do go wrong. We must deliver fair, timely outcomes to policyholders if they need to contact us. Our warranty and insurance pricing should appropriately reflect the risk written and incentivise quality, customer care, and claims self-repair. Our service delivery must be in tune with the requirements of our target audiences, including traditional housebuilders, and alternative residential sectors such as Housing Associations, private Build to Rent, and Retirement Living.	Embarked on a substantial programme of change aimed at improving the policyholder experience with NHBC. This includes: ■ enhancing our complaints root cause analysis capability ■ implementing system changes that enable identification of vulnerable consumers ■ end-to-end consumer journey mapping in key business areas, identifying improvement opportunities ■ establishing a new governance structure for the consumer, including a Board Consumer Committee. Improving our pricing approach, taking forward the best features from the options explored. A delivery plan and roadmap has been created, and business resource allocated. Restructured the Business Development team to focus on the alternative residential sector (Build to Rent, Housing Associations and Local Authorities, Retirement Living and Strategic Land). Continued to roll out our partnership model, with a shift towards broader and more layered customer engagement.	Keeping pace with the changing expectations of consumers, by looking at new and innovative ways of providing our services and interacting with consumers to ensure their needs and expectations are met. Improving outcomes for policyholders by considering their needs in product design and increasing popular awareness of construction quality. As a minimum, we must also ensure compliance with regulatory requirements, including those being introduced under the Consumer Duty, and meet the broader social expectations for customer service. Enhancing NHBC's current pricing model, by: ■ improving profitability ■ simplifying the model and its delivery ■ enabling earlier identification of deteriorating performance ■ reducing our exposure to changes in builder self-repair ■ enhancing the focus on getting it right first time. ■ incentivising quality. Embedding a structured, targeted CRM model and approach that helps us to develop strong, mutually beneficial partnership relationships, and strengthen our brand position across key stakeholder groups.

Our strategy

Strategic initiative: Providing independent advice through data, insights, and expertise		
Description	In the 2021/2022 financial year, NHBC:	With the aim of:
Our people, data assets and analytical insights are core strengths, and it is important that we leverage these differentiators to drive value for our customers and other key stakeholders. They help the industry address weaknesses and skills gaps, generate less capital-intensive income streams and support our core purpose. We will develop further opportunities to support the industry through training across trades, site management, apprentices and providing competence in technical building standards and quality management. We will explore opportunities for data partnerships and customer data products.	Launched a purpose-built apprentice Training Hub in partnership with Redrow Homes and Tamworth Borough Council. Initially focussed on training bricklayers, the Hub immerses apprentices in a realistic working environment. Projects to establish two similar hubs in Cambridge and Newcastle have also been commissioned and are expected to be operational in 2022/2023. We have conducted detailed customer research to understand the appetite and scope for a subscription-based data services product. A feasibility study into technology platform solutions has been undertaken and a successful trial held.	Leveraging our unique insights and data to identify areas where we can support the industry drive for quality and help to address ongoing skills gaps in the industry. To be seen as a key source of data, insight, and analytics for the new-build construction industry across multiple stakeholders. Helping to pinpoint areas for quality improvement, identification of best practice, and ways this can be achieved.

Strategic initiative: Operating model enablers		
Description	In the 2021/2022 financial year, NHBC:	With the aim of:
IT and digital transformation It is imperative that NHBC's systems and technology estate are updated to ensure we can accommodate changing consumer and registered customer demands, and increased regulatory oversight. Our IT and technology strategy must be aligned to our long-term business strategy, and help accelerate us towards being a modern, agile business that delivers change at pace.	Established an appropriate structure and operating model for the IT and Data team. Set up of the Project Phoenix team to deliver necessary changes to core business platforms and processes. The programme is overseen by a project board, comprising Executive Committee members and other senior business stakeholders.	Delivering flexible and modular systems that provide a platform for continuous improvement / business development built on a baseline of process simplification and rationalisation. Improving registered customer, consumer and user journeys through use of new technology and digitalisation across all business processes.
People and culture Delivering wide-reaching business change requires a compelling employee proposition that attracts the talent needed to succeed. We must ensure that our reward structure is aligned with the intended future state, and that colleagues of all levels are displaying the characteristics necessary for our success. We must also become a more inclusive and diversity-confident business.	Delivered a transformed reward framework that includes a new broad banded salary structure, increased bonus opportunity and simplified job levels. We have also harmonised working hours and holiday entitlement. Delivered a range of diversity and inclusion initiatives and set targets in senior managers objectives for financial year 2022/23.	Establishing an employee reward proposition that helps NHBC attract, motivate, engage and retain the right talent. Ensuring we are aligned and competitive, whilst also being consistent, fair, and transparent in our reward offering. Recognising growth in responsibility, competency, promotion and performance. Being seen to be a modern, engaging employer that is inclusive in approach and diverse in application.

Risks to our business

Our approach to risk management

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

Risk governance

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

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

Further details of Board and committee structures are set out on page 61.

Risk management

We have a risk management framework designed to identify, assess and mitigate our key risks. We operate in a dynamic environment and aim to identify and assess key emerging risks that might threaten the business in advance of them crystallising. The risk management framework is sufficiently flexible to react to unexpected circumstances and ensure risks are managed on a holistic basis following a risk-based approach. We manage this through a series of risk management processes, including:

- risk and control assessments that are actively managed by risk owners in conjunction with the Risk Management team
- a process for managing risk incidents and ensuring lessons are learnt
- identified staff within each business function providing risk and compliance support for operational colleagues
- a policy framework to ensure the Board's minimum standards of control in key risk areas are effectively understood.

Risk operating model

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

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

Risk appetite

The Board sets risk appetites which are aligned to NHBC's key risks and strategic priorities. These are supported by quantitative and qualitative measures of risk that are used by management and the Board to assess our risk profile, with mitigating actions taken where a metric falls out of appetite. The Board has reviewed and signed off risk appetite statements in 2022 which are aligned with the NHBC revised risk universe.


NHBC

Risks to our business

Our risk profile

Key risks

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

Key risks	Key mitigants and controls
Strategic	
Failure to define and implement a strategy to deliver NHBC objectives which accommodates the changing environment in which we operate. Failure to ensure adequate financial performance and a sustainable capital position. Failure to have an appropriate reinsurance programme to support our capital management.	The strategy is challenged through the Own Risk and Solvency Assessment (ORSA) process, where an independent view of the strategy and business plan is provided by the Risk team to support decision-making. We monitor and manage our performance against the Board-approved plan and risk appetite. We have strong, long-term relationships with our reinsurance partners, openly sharing NHBC data and our approach to risk selection, pricing and claims management whilst also ensuring they are kept up to date with industry and market developments. With the assistance of NHBC's advisors on reinsurance matters, NHBC monitors its reinsurers' financial position, mostly with reference to credit ratings.
Financial	
Failure to identify and manage significant changes in the propensity for housebuilders to self-repair building defects. Failure to identify significant issues with a building system or widely used building component, resulting in significant consumer dissatisfaction and claims costs. Failure to adequately mitigate exposure to the insolvency of one or more large housebuilder clients, resulting in significant claims costs. Failure to price risks accordingly, taking into consideration our experience and potential future risk trends.	We have well-defined metrics in place and continually monitor housebuilders' performance. We take proactive action where this is required. We use claims and inspection information to monitor specific trends. There is a feedback loop between claims, inspection and underwriting to ensure the root causes of issues are identified and rectified. This risk is actively managed by NHBC using information gathered on site and taking into account housebuilders' financial performance. There are metrics in place to monitor this, and we continue to assess options to further mitigate this risk. Our pricing analysis continues to evolve, and further actions have been taken this year to improve our approach to risk-based pricing.
Market	
Failure to adequately mitigate investment risks arising from market volatility, resulting in an inability to fund policy obligations and meet regulatory capital requirements.	We adopt a buy and maintain approach within our investment portfolio, with a focus on high-quality fixed income and government or quasi-government holdings. Assets are closely matched with insurance liabilities to hedge volatility. The investment position for both the liability matching portfolio and our surplus assets is monitored regularly to ensure exposure remains within the agreed appetite.
Pension	
Failure to forecast and plan for additional pension fund contributions, resulting in a reduction in net assets and an inability to replenish capital reserves.	The fund's assets are matched to the liabilities in the pension scheme. We have an agreed plan with the Scheme Trustee to fund the pension scheme and address its funding deficit.

Key risks	Key mitigants and controls
Conduct and Compliance risk	
The risk of inappropriate staff behaviour, product management process and consumer journey, leading to loss of reputation or regulatory censure/fines. The risk of NHBC failing to identify and implement regulations appropriately. The risk of UK regulations and legislations adversely impacting our business model. The risk of NHBC inappropriately managing financial crime risks	We have an established consumer strategy, with all aspects of the consumer journey overseen by the Consumer Strategy Group and Conduct Risk Committee. In addition, a new Board-level Consumer Committee has been established to oversee consumer-related matters. We carry out regulatory horizon scanning and gap analyses to ensure new regulations are understood and effectively implemented. We carry out thorough assessments of any identified regulatory or legislative changes affecting our business model. Depending on the materiality, this may include business impact assessments, supported by third-party experts where appropriate. In addition, we respond to government and regulatory consultations, either directly or through industry bodies. NHBC has no appetite for financial crime risks and our approach is documented in the staff manual, and internal policies and procedures.
Technical risks	
The risk that ineffective technical risk management results in low-quality homes being built, leading to increased claims, reputational damage, and customer/policyholder dissatisfaction.	We follow a robust approach to technical risk management which includes site inspections, technical assessments, setting standards and delivering construction quality reviews. Our approach is changing to enable us to work more proactively in the early stages of the building development process and to be more risk-based in our approach to expertise deployment, inspection and management oversight. We also leverage technology and modern working practices where this supports an effective and more efficient approach.
Operational	
The risk that NHBC fails to recruit, retain and train talent, and reward behaviours that are aligned to corporate objectives The risk of loss arising from inadequate or failed internal processes, or from personnel, systems or external events. Failure in IT controls leading to a cyber-attack or data loss.	We have delivered a new reward framework which seeks to align our reward and benefits to market practices. A new approach to setting individuals' objectives is being implemented and is being aligned to our core objectives. Control effectiveness is assessed every six months across the organisation through the risk and control assessment process. Root cause analysis takes place following a risk incident or control breach to ensure lessons are learnt. We continue to deliver our cyber risk strategy, ensuring a proactive approach to cyber risk management. The cyber security forum is responsible for overseeing developments in this area. We also benchmark our cyber defences against the National Cyber Security Centre 10 Steps to Cyber Security.

Risks to our business

Key areas of focus

Inflation

According to statistics published by the Department for Business, Energy & Industrial Strategy, the material price index for 'all work' increased by 24.5% in March 2022 compared with the same month the previous year, with particle boards, fabricated structural steel and concrete reinforcement bars seeing year-on-year price increases in excess of 40%. This is expected to be exacerbated by a prolonged conflict in Ukraine which could affect the supply chains for some materials.

Material cost inflation is already putting pressure on the bottom line of NHBC's registered customers, and we remain vigilant to the effects of value engineering and the potential impact that it can have on build quality as builders and developers look to remain profitable in a challenging environment. The cost of construction materials also has an impact on the cost of remedial works, and we continue to monitor this closely, ensuring we have adequate funds to cover all future obligations to policyholders. Labour costs are also rising across trades and professions which is adding to inflationary pressures.

In addition, whilst our registered customers continue to report strong order books and high demand for new build homes, mortgage approvals were down by 18.3% year on year in February 2022. We will continue to assess the potential impact that the cost-of-living crisis and any future increases in interest rates might have on the demand for new homes and will take proactive action to manage our cost base whilst ensuring operational controls and service standards are sustained.

Climate change

We have a structured approach to implementing actions in response to climate change which is overseen by the Climate Change Steering Group, supported by four working groups that have defined responsibilities for different elements of the plan.

In 2021, we performed a preliminary assessment of the potential financial consequences of climate change, in order to develop our financial risks from climate change framework, in line with the PRA Supervisory Statement SS3/19. Financial risks from climate change may arise for NHBC through three primary channels:

- Physical risks from climate change could include a number of factors and relate to specific weather events and longer-term shifts in the climate.
- Transition risks can arise from the process of adjustment towards a low-carbon economy - range of factors influence this adjustment, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks, and legal interpretations.
- Liability risks arise from parties who have suffered loss or damage from physical or transition risk factors seeking to recover losses from those they hold responsible.

The principles around managing risks from climate change are included within the NHBC risk management framework. Adapting our business model and implementing actions to mitigate future risks from climate change is a core business initiative, and it will continue to be managed and overseen by the senior management team and the Board.

> " As well as supporting growth in MMC use, we seek to ensure the quality of new homes built using MMC meet, or exceed, the quality of new homes built using traditional methods "

Modern Methods of Construction

The use of Modern Methods of Construction (MMC) in the house building industry continues to rise as the industry tackles climate change, changes to Building Regulations, and skills shortages. Government support for MMC also remains strong, and we continue to support innovation in the house- building industry. This includes our NHBC Accepts service, which offers MMC manufacturers a route to verifying compliance with NHBC technical requirements.

As well as supporting growth in MMC use, we seek to ensure the quality of new homes built using MMC meet, or exceed, the quality of new homes built using traditional methods. We continue to use our technical and inspection resources to help the house-building industry achieve this and continue to adapt our technical risk management processes so that they remain effective in a changing environment.

Emerging risks

In addition to the risks which are being actively managed by NHBC, we carry out an ongoing emerging risk assessment to identify risks which could have a significant impact on the business. Examples of risks currently under review include:

- the operational implications of climate change for the building industry and the corresponding evolving nature of our exposure, including financial risks from potentially increased claims, as well as strategic and reputational risks from emerging consumer attitudes
- the changes in the Government's approach to housing standards and the Building Control framework in the UK, including the role of the NHO and the implementation of the Building Safety Act 2022
- the evolving financial services regulatory landscape and increased regulatory expectations
- the increasing use of Modern Methods of Construction, including new systems, construction methods and materials, and their impact on building repairability
- technological issues, including the ever-increasing threats to cyber security, as well as the need to support a productive workforce in a more remote working environment in the future.

Wider impact and non-financial information statement

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

Our business model (see page 24) supports our core aims of raising standards in house building and protecting policyholders. Our policies and processes are designed to be proportionate to the risks we have identified and sufficiently flexible to respond effectively should those risks materialise.

Employees

Ensuring our employees can develop and thrive and be their best every day is a core aim. We recognise that, if we look after our employees, enabling them to be the best they can be, they will look after our registered customers and policyholders better through the delivery of excellent service and technical expertise.

As we move beyond the pandemic, our workforce stands at just over 1,200. We maintain our head office location in Milton Keynes (approximately 500 staff) and have around a further 700 staff located across the UK, comprising building inspectors, engineers, surveyors and claims investigators. We support hybrid working to ensure we maximise the different ways of working for the future, with each business area agreeing locally what is required in terms of office and home split in line with business needs.

We are committed to encouraging diversity and inclusion (D&I) to support our registered customers, policyholders and staff, and have well developed 'Be Me Employee Networks'. We continue to drive our D&I metrics with focus on these being included in all leaders and managers' objectives in 2022/2023.

We have published our sixth Gender Pay Gap Report. This shows a widening in the mean gender pay gap to 15.2% (2020: 13.4%, 2019: 14.9%). Our results continue to be driven primarily by the tendency for males to occupy a larger proportion of higher-paid technical roles as well as senior positions within the business. The widening in the mean gender pay gap was driven by the rightsizing activity undertaken in November 2020, with the mix of those exiting the business having a bias to males with shorter service and therefore lower salaries. We recognise there is still more to do to close the gap.

> "Ensuring our employees can develop and thrive and be their best every day is a core aim"

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

We are proud to be a partner of the Living Wage Foundation, with minimum pay levels for employees across the UK exceeding the National Living Wage set by the Government. This year also saw the launch of a new reward structure and an investment in our people so that our remuneration arrangements and holiday allowances are competitive, fair and consistent.

We have an officially recognised trade union, the NHBC Staff Association (SA), which is registered with the Certification Officer for Trade Unions and Employers' Associations. It is affiliated with the Trades Union Congress (TUC) and the General Federation of Trade Unions (GFTU), an organisation for smaller unions. The SA works with both the TUC and GFTU, having access to high-quality advice and best practice from across the trade union spectrum.

Health and safety

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

To benchmark our health and safety performance we have taken part in the annual Royal Society for the Prevention of Accidents (RoSPA) Health & Safety Awards since 2016. This year, we were delighted to receive a prestigious gold medal, having secured gold award status for the fifth year running.

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 a large number of business miles being driven each year, we are working with our fleet management partner, to identify employees who are at greatest risk, enabling us to take a more focussed approach to driver training.

Recognising that the building industry is one of the most dangerous environments to work in, and with almost a third of our employees inspecting building sites daily, we place significant emphasis on ensuring that our building inspectors are properly equipped and trained to do this safely. This year we delivered activity-specific training to our inspection and technical services staff, aimed at ensuring they have the knowledge needed to remain safe in the site environment.

With accidents being a measure of health and safety performance, we are pleased to report a continued downward trend in the number of accidents involving our people: just 15 for the year. With all but two of these accidents occurring on site or whilst driving for work, this reinforces the importance of our driving for work and site safety programmes.

Wider impact and non-financial information statement

Corporate social responsibility

We believe in creating a positive impact in the communities in which our employees live and work and have a range of initiatives in place to support that. We continue to work with Crisis as our corporate charity partner. We also maintain our matched funding scheme for employees' charitable fundraising for non-corporate causes, as well as enabling employees to take two paid volunteering days each year to give their time to support our charity partners and local communities.

Respect for human rights

We respect the human rights of all those impacted, directly or indirectly, by our actions. This includes the supply chain for NHBC's operational expenditure and for remediation activities undertaken on policyholders' properties in relation to our Buildmark warranty and insurance product. We have a Procurement Code of Conduct to back this up, and our Modern Slavery Statement is published on our website.

Anti-corruption and anti-bribery matters

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

Environmental matters

We have four workstreams focused on environmental matters overseen by an executive steering group. These are:

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

During the year we undertook a position audit to understand our historic and current carbon intensity, with a particular focus on our Scope 1 and 2 emissions. This work will create the platform for us to develop our net-zero strategy over the coming year and implement actions that will reduce the organisation's overall footprint.

94%

of new car orders placed are for electric or hybrid vehicles

One of our major drivers of carbon emissions is our car fleet. At the start of the financial year, we launched our new ultralow emission vehicle (ULEV) company car fleet. 94% of new car orders placed are for electric or hybrid vehicles and, once the existing diesel fleet has been replaced, the carbon intensity of our fleet will have reduced by 84%.

In addition, we are supporting colleagues with the installation of electric car charging points at their homes and have installed charging points at our head office in Milton Keynes.

Other recent developments have been to install LED lighting across our Milton Keynes office, utilising virtual meetings where travel was not necessary and sourcing our electricity supply from renewable power sources.

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

Our RI framework supports the funding of impact investing to effect positive outcomes for climate change; we invest in a global renewable power infrastructure which is helping to finance the transition to a lower-carbon energy network.

In 2021/2022, we commenced our assessment of the carbon intensity of our investment portfolio to better understand the environmental impact of our portfolio. This work will continue into the next financial year to ensure we have a reliable data set upon which to address that work.

In 2022/2023 we will further develop policies regarding our environmental impact together with key performance indicators that will support effective implementation of our strategy.

Streamlined Energy and Carbon Report (SECR)

For the year ended 31 March 2022, the annual quantity of emissions in tonnes of CO2 equivalent and kWh resulting from activities for which we are responsible is shown in the table below. Consumption figures and annual emissions are slightly higher in relation to travel. This is due to our activities increasing relative to the prior year as the business emerged from constraints imposed by the Covid-19 pandemic.

	CO_2 tonnes		kWh	
	2022	2021	**2022**	2021
Consumption of gas	**164**	160	**895,963**	873,523
Consumption of fuel for the purposes of transport	**1,359**	1,269	**5,825,687**	5,349,900

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

Consumption of fuel for the purposes of transport principally relates to fuel through our corporate vehicle fleet. The CO_2 metric is based on business miles travelled, with conversion factors supplied by BEIS. A further conversion factor supplied by BEIS is applied to derive the equivalent kWh. The increase in CO_2 for fuel is the impact over higher activity levels on building sites in 2021 versus 2020.

For the year ended 31 March 2022, the annual quantity of emissions in tonnes of CO_2 equivalent and kWh resulting from our purchase of electricity for our own use is shown in the table below.

	CO_2 tonnes		kWh	
	2022	2021	**2022**	2021
Consumption of electricity	**225**	222	**1,070,165**	962,901

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

	CO_2 tonnes per FTE		kWh per FTE	
	2022	2021	**2022**	2021
Annual emissions	**1.6**	1.4	**6,957.0**	6,189.8

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

The Board makes decisions for the long term, to ensure the business remains sustainable. The Board acknowledges that strong relationships with our key stakeholders – policyholders, registered builder customers, the NHBC Council, regulators, the communities we operate within and our people – are vital to our ongoing success.

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

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

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

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

Stakeholder	Engagement / key decisions
Employees We have c.1,200 employees whose technical knowledge and expertise is recognised in the industry. We value them and look for ways to engage with them and provide opportunities for their professional and personal development.	The Board takes an active role in employee engagement. We run a staff engagement survey three times a year which achieves very high response rates, averaging 82% over the year. Our employee Net Promoter Score (eNPS) (a measure of being prepared to recommend NHBC as an employer) peaked at 43 in January over the same period, with 56% of employees who responded identifying themselves as promoters. The Executive Directors presented and took questions at an annual Company-wide conference this year which was held virtually (in place of roadshows) due to Covid-19 constraints. Executive Committee members led and supported colleagues through Covid-19 with frequent and sustained internal communications. The Chair also holds one-to-one meetings with key management personnel who do not sit on the Board. We work closely with the Staff Association (SA) and a quarterly presentation is made by one of the Executive Directors to the SA Committee. Professional development is encouraged throughout the Company to ensure competence is developed in line with employee and market expectations. Remote working saw our learning and development initiatives go virtual, with the introduction of MindGym virtual workouts to support all employees and managers, encouraging collaboration and the sharing of good working practices. There has been a continued commitment from the Executive Committee and senior managers to drive development and succession planning by holding quarterly talent review meetings and continued intake on our leadership programme. This is supplemented by Talent Breakfasts for Non-Executive Directors and members of staff on our succession plans to ensure further engagement with our talent pipeline.
NHBC Council The Chair and Chief Executive Officer form part of the Council Appointments Committee to engage and support the selection of Council members who are equipped with the requisite knowledge to both challenge and support the business.	The Board hosts the Annual General Meeting, which was last held in November 2021 where NHBC Council members can question the Board on NHBC activities and decisions. The range of stakeholders on the Council ensures that regular dialogue is held between Board members, senior managers and the Council. Further details on the Council can be found on page 56 of this report. In 2022/2023, we will host events in our Milton Keynes head office for Council members where they will be able to learn more about the day-to-day operations of the Company.

Stakeholder	Engagement / key decisions
Policyholders A key part of our core purpose is the protection of our policyholders, as well as supporting our registered customers in delivering high-quality new build homes for those who own them. Engagement and dialogue with our policyholders are key to us developing our warranty and insurance cover to meet their needs. There are six positions on the NHBC Council that are currently held by warranty and insurance policyholders.	We are conscious of the fact that we must deliver for policyholders who are the beneficiaries of our warranty and insurance products. We aim to achieve our objective of protecting them, first and foremost through our risk management and training work with housebuilders, influencing the quality of the homes they build. Our teams have supported policyholders through the whole reporting period, with Covid-secure working practices in place to ensure our claims services could continue with visits to policyholders' homes where they were comfortable with us doing so and to ensure claims settlements and remedial works could be completed as required. We recognise that this has been a particularly difficult time for those policyholders who have experienced problems with their home and we are grateful for their understanding and co-operation with our teams. During 2021/2022 we completed an exercise to map our consumer journey and service across all policyholder-facing departments. This is being used to improve our communications and service to policyholders at every stage of our interaction with them, recognising the Consumer Duty requirements being introduced by the FCA. To support these changes, we have introduced a new Board Consumer Committee, and a Consumer Strategy Group made up of senior leaders across the business. These forums are responsible for ensuring continued focus on our service to policyholders, monitoring newly-developed management information on policyholder outcomes, and for ensuring delivery of a programme of initiatives to increase engagement and communications with policyholders, deepen understanding of our role and products, and to improve our processes so we can deliver quicker outcomes for policyholders.
Registered customers Our registered builders and developers are key to achieving our aims to improve standards in house building. Open dialogue, depth of relationships and working in partnership are key to this.	Long-term constructive relationships across our registered customer segments are key to the development of quality new-build homes in the UK. During 2021/2022, we continued to work on developing our partnership model with our builder customers, engaging with them as early as possible in the design and development process. With Covid-19 restrictions easing as the year progressed, we were able to hold a greater number of face-to-face meetings with our customers and conduct more site visits. We continue to listen carefully to our customers to understand better how we can add value and continue to meet their needs. The industry is faced with many challenges and these can be met through the industry working together to overcome them. At NHBC, we have an active role to play in supporting cross-industry collaboration and our 'Building for tomorrow' events in the final quarter of the year were a great example of this. As in previous years the majority of our registrations were delivered by registered builder and developer customers who share our desire to build high quality homes. However, the market is broadening and we are pleased to work with and support new entrants such as the Build to Rent and Retirement Living sectors to ensure that all policyholders can benefit from our focus on the delivery of high-quality new homes.
Regulators We are authorised by the PRA and regulated by the PRA and FCA. Our Building Control activities are overseen by the Construction Industry Council Approved Inspector Register (CICAIR) and approved by the Construction Industry Council (CIC).	We have open and transparent relationships with our regulators. The Executive/Non-Executive Directors and senior managers have regular meetings with the regulators to discuss specific business, governance and regulatory matters. A standing update is provided to the Board through the Board Risk Committee on all regulatory matters. In addition to the PRA, FCA and CICAIR, we monitor other key stakeholder relationships, including HMRC, HSE, ICO and The Pensions Regulator.
Community We recognise the importance we play as an employer and contributor to our local communities. and we are committed to providing support through our people and resources.	Our corporate charity partner is Crisis. As well as fundraising, this relationship provides opportunities for our employees to use their skills to support the charity. We engage with local communities across the UK, particularly in Milton Keynes, where we support local charities through regular fundraising and the provision of our people to support their work. We offer every employee two days' paid leave to support local charities.

We are committed to appropriate engagement with our key stakeholders, and this will continue during the financial year ending 31 March 2023.

The Strategic Report was approved by the Board on 4 July 2022.

Steve Wood
Chief Executive Officer

Training courses - apprenticeships

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

Meet some of our apprenticeship candidates

Tom, Construction Site Supervisor Apprentice for Redrow Homes

Tom began his apprenticeship with Redrow Homes in July 2021, after deciding on a complete career change during the pandemic.

"Having the opportunity to retrain, in my 30s, and follow a brand-new career path has been an incredible experience."

Jasmine, Construction Site Supervisor Apprentice for McCarthy & Stone

Jasmine began her apprenticeship with McCarthy & Stone in January 2022, having previously worked for six months as a construction site administrative assistant.

"I have enjoyed learning about the house-building processes. It's filled so many gaps I had in my knowledge and it's good to now be able to walk around the site being able to apply this new knowledge in reality."

Harry, Construction Site Supervisor Apprentice for Bellway Homes

Harry started his apprenticeship with Bellway Homes in September 2021 with six years' previous experience as a joiner.

"The foundation of knowledge that this apprenticeship has given me is going to massively benefit me. Everything has been made relatable to my role and also for any future roles."

Shaun, Construction Site Supervisor Apprentice for Bellway Homes

Shaun began his apprenticeship with Bellway Homes in January 2022, having been a professional footballer until last year with no prior experience in the house-building industry.

"Prior experience is not always required, which was perfect for me making a complete career change. Every module that I pass is all vital knowledge and a step closer to me becoming a site manager."

We have a purpose-built Training Hub in Tamworth for our bricklaying apprentices, with plans for more in other parts of the country. These Hubs recreate a live house-building environment and prepare our apprentices for life back on site.

"I would definitely recommend the course. It's high intensity learning, then down to site where you can practice what you've learnt at the Hub."

Seamus, Bricklaying Apprentice for Redrow Homes

NHBC Training Hub, Tamworth

Governance

Board

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

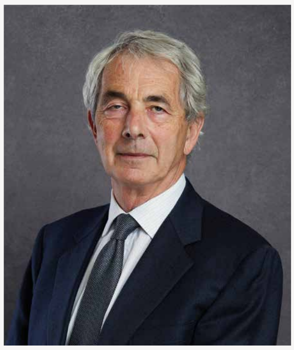
Below are biographies of current directors as well as those who served in the financial year.

Alan Rubenstein

Chair

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

Paul Bishop



Senior Independent Director

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

Alison Burns

Non-Executive Director

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

David Campbell

Commercial Director

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

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

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

Kate Davies

Non-Executive Director

Kate Davies joined the Board in October 2016. She became Chief Executive of Notting Hill Housing in 2004 and, following the merger with Genesis Housing Association in April 2018, became Chief Executive of Notting Hill Genesis, a 67,000-home association, with over 90% of its stock in London. She was previously Chief Executive of Servite Houses and Director of Housing in Brighton & Hove City Council. Kate has experience in local government and the private and voluntary sectors, and is a Non-Executive Director of TopHat , a modular housing construction company based in Derby. She is also a member of our Board Risk Committee. Kate will step down from the Board in October 2022 after six years' service.

Paul Hosking

Chief Financial Officer

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

Jean Park

Non-Executive Director

A Chartered Accountant, Jean Park joined the Board in December 2012. She was Chair of NHBC's Board Risk Committee and a member of the Audit, Investment, and Nominations Committees. Jean is a risk professional with many years' experience in risk management, compliance and audit. Previously, she held the role of Chief Risk Officer at Phoenix Group and, prior to that, Risk Management Director at Scottish Widows Group. She was also on the executive committees of both of those organisations. Currently, she is a Non-Executive Director of Murray Income Trust plc and Admiral Group plc. Jean retired from NHBC in December 2021

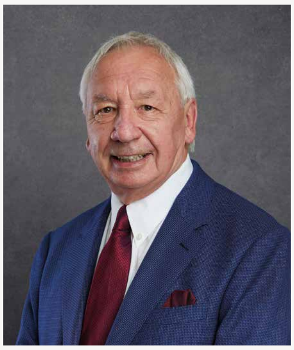
Philip Rycroft

Non-Executive Director

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

Board

Stephen Stone



Non-Executive Director

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

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

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

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

Dr Teresa Robson-Capps

Non-Executive Director

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

Tesula Mohindra

Non-Executive Director

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

Steve Wood

Chief Executive Officer

Steve Wood joined the Board as Chief Executive Officer in June 2017. He was previously the Chief Executive Officer of Paymentshield, UK Managing Director at Ecclesiastical Insurance Group and Managing Director at FirstAssist Group. Prior to that Steve held senior positions at RSA Insurance Group plc and Royal Insurance.
He has a BSc (Hons) in Mathematics and is a Fellow of the Chartered Insurance Institute. In addition to his NHBC responsibilities, Steve is a Director of the New Homes Quality Board.

NHBC House, Milton Keynes

Council

Below is a list of members of the Council as at 31 March 2022.

Mr P Andrew
Home Builders Federation

Mr J Armstrong
Northern Ireland Committee

Mr N Banks
Home Builders Federation

Mr R Barnes
Warranty holder

Mr S Baseley
Home Builders Federation

Ms J Bennett
UK Finance

Mr P Bishop
NHBC Board appointment

Sir Steve Bullock
Housing and Finance Institute

Mrs A Burns
NHBC Board appointment

Mr D Campbell
NHBC Board appointment

Mr P Caplehorn
Construction Products Association

Sir John Carter
Honorary Vice-President

Ms C Compton-James
The Housing Forum

Mrs K Davies
NHBC Board appointment

Mrs S Dean
Warranty holder

Mr B Derbyshire
Royal Institute of British Architects

Mr N Fluck
Law Society

The Rt. Hon. Lord Fowler
Honorary Vice-President

Mr M Hayward
The National Association of Estate Agents

Mr J Herriman
Chartered Trading Standards Institute

Mr J Hood
NHBC Northern Ireland Committee

Mr B Hook
Royal Institution of Chartered Surveyors

Mr P Hosking
NHBC Board appointment

Mrs I Hudson
Honorary Vice-President

Ms L Hughes
Association of British Insurers

Ms A Kaye
Institute of Consumer Affairs

Mr R Kidals
Warranty holder

Mr P Knox
House Builders Association

Mr J Low
Scottish Committee

Mr G McDonald
Home Builders Federation

Mr S McKenzie
Scottish Committee

Ms A Moir
Warranty holder

Ms T Mohindra
NHBC Board Appointment

Mr J Owen
Joseph Rowntree Trust

Mrs M Palmer	Warranty holder
Sir Michael Pickard	Honorary Vice-President
Dr T Robson-Capps	NHBC Board Appointment
Mr A Rintoul	Warranty holder
Mr A Rubenstein	NHBC Board appointment
Dr P Rycroft	NHBC Board appointment
Mr P Sellwood	Energy Saving Trust
Professor T Sharpe	NHBC Scottish Committee
Mr J Slater	Home Builders Federation
Mr D Sookhoo	Royal Institute of British Architects
Ms A Stanning	Warranty holder
Mr R Stevens	UK Finance
Mr S Stone	NHBC Board appointment
Mr E Taylor	RoSPA
Mr G Watts	Construction Industry Council
Mr S Wood	NHBC Board appointment

Training courses - NVQs

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

Meet some of our NVQ candidates

Rakesh Mal, Senior Site Manager, Cameron Homes

Level 7 NVQ Diploma in Construction Senior Management

Rakesh has had an inspiring journey from site labourer to his current position as senior site manager for Cameron Homes. He has studied for three NVQs with NHBC - Levels 4, 6 and 7 in Construction Site Supervision and Management.

“The NVQs have helped me progress and get promotions in my career. In a fairly short time I've progressed from being an assistant site manager to a senior site manager with a view to further promotion to production manager.

I didn't enjoy the academic part of school life. I never thought I'd have a qualification that is equivalent to a Masters' degree. NVQs open doors for people like me to join professional bodies and I'm now studying to become a Member of the Chartered Institute of Building.”

Brian O'Kane, Site Manager, Braidwater Group

Brian has worked in construction for 30 years but recently decided to formalise his knowledge and experience with an NVQ Level 6 Diploma in Construction Site Manager – Residential Development

“The NVQ has helped me immensely in my role as site manager. I would thoroughly recommend it as it has enhanced my knowledge in all aspects of the construction field, from communication to technical and health and safety issues.

The qualification has been a great asset in my career progression as I will be moving from site management to contracts management in the very near future.”

Case study

Tom Jupp, Site Manager, Bovis Homes

NVQ Level 6 Diploma in Construction Site Management – Residential Development

Having previously served in the Royal Marines, Tom Jupp started as a trainee assistant site manager with Bovis Homes, part of Vistry South West in September 2019.

> “I think the NVQ contributed to my success in the Pride in the Job competition because I was able to use what I learnt from the qualification to create a more efficient, quality-driven and organised site.”

Photo credit: Vistry Homes

Corporate governance report

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

NHBC Council

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

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

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

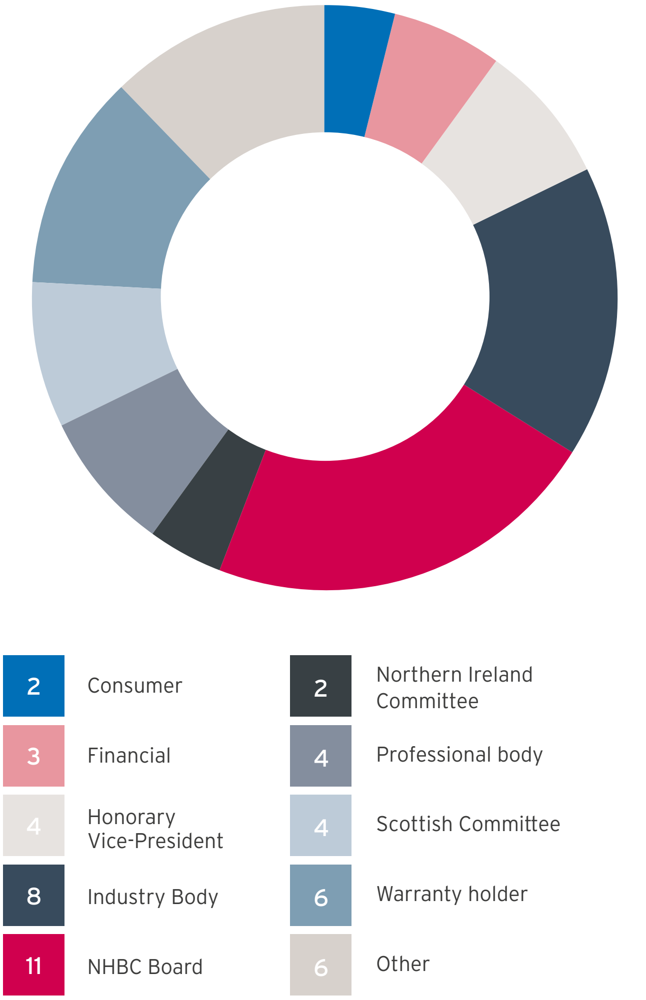
- alterations to our constitution
- the appointment of the auditors
- the appointment of Council members.

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

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

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

NHBC Council representation by category



Due to Covid-19 restrictions there was no opportunity during the year for NHBC to provide in-person engagement events with the NHBC Council. In the coming financial year all members of the NHBC Council will be invited to our headquarters for a detailed overview of the business and its direction of travel.

NHBC Board

The Board's principal role is to promote the long-term success of NHBC. It delivers this through agreeing and overseeing the implementation of NHBC's strategy, ensuring that the necessary resources are in place to enable the business to meet its objectives and that the financial performance, controls and risk management procedures are suitably robust. The Board is also responsible for ensuring that NHBC maintains effective governance taking into consideration both its constitution and the regulatory framework in which it operates. The Board is also responsible for developing and promoting the collective vision of NHBC's purpose and culture to ensure it aligns with its values, behaviours and strategy.

Board composition

Biographical information on each of the directors is contained on page 52.

Balance of Executive and Non-Executive Directors

Chair	1
Senior Independent Director (SID) (Non-Executive)	1
Independent Non-Executives	4
Other Non-Executives	2
Executives	3

Length of service of Non-Executive Directors

0-3 years	3
3-6 years	5
6-9 years	0

Gender split of Board of Directors

Male	7
Female	4

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

	FTSE 100	FTSE 250	NHBC
	(June 2022) %	(June 2022) %	(June 2022) %
Female directors	34.5	31.9	36.4
Female Executive Directors	13.2	11.9	0.0
Female Non-Executive Directors	40.8	37.6	50.0

4 Female FTSE Board Report 2021 - www.cranfield.ac.uk/som/research-centres/gender-leadership-and-inclusion-centre/female-ftse-board-report

Corporate governance report

All directors make a declaration of any actual or potential conflict of interest to the Board in line with their statutory duties. The Conflicts of Interest register is maintained by the Company Secretary and subject to annual review 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. Two Non-Executive Directors, Kate Davies and Stephen Stone, work in the new house-building industry, and their membership of the Board is to ensure an appropriate breadth and depth of skills, experience and industry views is represented.

The effectiveness of NHBC's Board and its Committees is key to NHBC's long-term success. An annual evaluation of Board and Board Committee effectiveness is carried out and, in line with best practice, an external evaluation of all aspects of the Boards and its Committees effectiveness was conducted in 2021 by Independent Audit Limited (IAL). IAL is an external Board evaluation facilitator which has no other connection with NHBC or any individual director and access and support for its evaluation was facilitated by the Company Secretary. IAL's evaluation included conducting interviews with each Board member, the Company Secretary and external advisors, observation of Board and Committee meetings, and a review of both Board and Board Committee papers.

IAL presented their final report, including its recommendations, to the Board in September 2021 for discussion and consideration. The report identified a number of strengths in the effectiveness of the Board and its Committees, including the leadership of the Chair, diversity of the Board's skillset and experience, the Board and its Committees delivery of their respective responsibilities and the strategic areas being focused on. Following a review of the recommendations the Board agreed an action plan of areas to enhance its effectiveness. The areas identified were: (i) increased time and focus by the Board on strategic matters; (ii) increasing the level of independent assurance to the Board from the second line; (iii) greater insights for the Board about the consumer's journey with NHBC; (iv) enhancing the Board's understanding of organisational culture; and (v) improving the quality and concise nature of papers for the Board. A delivery plan for each focus area was agreed for the following 12 months, with progress being reviewed in the 2022 Board evaluation.

Over the course of the past year, the Board has received briefings on climate change, investment markets risk management, policy updates, and financial crime. Individual directors have also attended a range of online house-building and insurance conferences, seminars and other events arranged through consultants and organisations with which we are associated.

NHBC House, Milton Keynes

As a result of recommendations made in the Board evaluation, the Board has set up a Consumer Committee. It will provide assurance to the Board that fair consumer outcomes have been defined and are being met. It oversees any areas where consumer outcomes may be affected significantly and will be responsible for ensuring that requirements set out in the FCA Consumer Duty rules are being met once they are published later in 2022. Over the course of the past year, the Board has received briefings on climate change, investment markets risk management, policy updates, and financial crime.

Board attendance

The table below provides information on the meetings held during the year under review. In addition to the regular meetings, the Board held a business planning meeting and a Board strategy day. The Chair also held regular meetings with the directors.

Board member	Meetings to attend	Meetings attended	Attendance %
Alan Rubenstein	7	7	100
Paul Bishop	7	7	100
Alison Burns	7	7	100
David Campbell	7	7	100
Kate Davies	7	6	85
Paul Hosking	7	7	100
Tesula Mohindra[1]	7	7	100
Jean Park[2]	4	4	100
Teresa Robson-Capps[3]	7	7	100
Philip Rycroft	7	7	100
Stephen Stone	7	7	100
Steve Wood	7	7	100

1 Tesula Mohindra joined the Board 1 July 2021.

2 Jean Park retired from the Board on 9 December 2021.

3 Teresa Robson-Capps joined the Board 1 July 2021.

Our Committees

The Board delegates certain matters to the Audit, Board Risk, Nominations, and Remuneration Committees which report to it. The roles of each of the Committees are detailed in the respective Committee reports on pages 68 to 75. The reports reflect the current memberships of each Committee and highlight some of the work that it has undertaken during the year under review.

In 2021/2022 a Board Consumer Committee was created to oversee NHBC's approach, and the performance delivered to policyholders. The first meeting was held on 28 April 2022.

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 2022. The Directors' report, which is required under the Companies Act 2006 comprises this Directors' report and corporate governance report, the directors' remuneration report and the disclosures in the 'Wider impact and non-financial information statement' section of this report.

Results

The Group's results for the year are shown in the consolidated statement of comprehensive income on page 110.

Directors

The directors at the date of this report are shown, together with their biographical details, in the Governance section on page 52.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a personal interest in any contract of significance with the Company or any of its subsidiary undertakings, although some of our directors are also directors of some of our builder customers, suppliers and industry partners. We trade in the normal course of business, on an arm's length basis, with all these parties and material transactions with related parties are disclosed in note 35 on page 165 to the financial statements.

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

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

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

Disclosure of information to the auditor

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

Going concern

The directors have assessed the going concern status. Their assessment considered NHBC's strategy, balance sheet, Solvency Capital Requirement, and principal risks (see Risks to our business' on page 36). 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 has emerged strongly from the Covid-19 pandemic, strengthening its balance sheet, and seeing registrations and completions increase above pre-pandemic levels. The solvency ratio stood at 183% at 31 March 2022, a c.29% point increase on the prior year.

That said, the longer-term effect of Covid-19 and the UK's exit from the European Union on the construction sector and wider economy is not known. The uncertainty created in both national and global economies because of the Ukraine/Russia conflict combined with rising inflationary pressures, heightened risk of a recession, the changing regulatory environment for the industry and labour and skills shortages means that management remain watchful as we enter the new financial year.

As a result of these challenges management are focussed on:

- regular monitoring of inflation impacts on the business, ensuring we are well matched for core inflation, and are pricing and reserving appropriately for higher house rebuild cost inflation
- engagement with Government and policymakers 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
- continuing to monitor the financial and capital position, undertaking regular re-forecasts of both short- and longer-term financial plans which support a proactive approach to mitigating issues and exploiting opportunity.

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

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the Group and parent Company financial statements in accordance with UK GAAP (UK Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Company for that period.

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

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

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

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

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

Directors' report

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

Information	Section in Annual Report and Accounts	Page
Business review	Strategic report	24
Research and development activities	Strategic report	24
Financial risk management	Strategic report	24
Corporate responsibility governance	Wider impact and non-financial information statement	42
Action on employee participation	Wider impact and non-financial information statement	42
Disclosure of information to the auditor	Directors' report	62
Directors in office during the year	Corporate governance report	58
Details of qualifying third-party indemnity provisions	Directors' report	62
Future developments of the business	Chief Executive Officer's report	10
Rules governing appointments of directors	Corporate governance report	58
s172 statement	s172 statement	46
Streamlined energy and carbon reporting	Wider impact and non-financial information statement	42

This report was approved by the Board on 4 July 2022 and signed on behalf of the Board by:

Kim Bromley
Company Secretary

Elephant Park, Elephant and Castle, London

Audit Committee report

Audit Committee member	Meetings to attend	Meetings attended	Attendance %
Teresa Robson-Capps (Chair)[1]	1	1	100
Paul Bishop[2]	4	4	100
Alison Burns	4	4	100
Tesula Mohindra[3]	1	1	100
Jean Park[4]	3	3	100

1 Teresa Robson-Capps joined the Audit Committee as a member on 23 September 2021 and became Chair on 10 December 2021
2 Paul Bishop stepped down as Chair on 10 December 2021 and is now a member of the Committee
3 Tesula Mohindra joined the Audit Committee as a member on 23 September 2021
4 Jean Park retired from NHBC 9 December 2021

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

- reviewing and recommending the Annual Report and Accounts and Solvency and Financial Condition Report to the Board for approval
- monitoring the integrity of the financial statements, significant financial reporting issues and returns to regulators
- approving NHBC's reserves (on the recommendation of NHBC's Chief Financial Officer and Chief Actuary)
- reviewing and monitoring the value of material assets and liabilities (including the calculation thereof for the purposes of determining the Solvency II balance sheet and own funds)
- reviewing NHBC's Strategic Asset Allocation and its Investment Management Policy.
- monitoring the adequacy and effectiveness of NHBC's systems of control and frameworks to support its strategy and objectives
- monitoring the scope, objectivity, performance and overall effectiveness of both external and internal auditors
- monitoring the adequacy of whistleblowing and fraud systems
- making recommendations to the Board to be put to the members at the Annual General Meeting in relation to the appointment, reappointment and removal of external auditors and overseeing the selection process for new auditors.

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

Activities during the financial year ended 31 March 2022

In the performance of its duties, the Audit Committee held four regular meetings and one extra meeting during the financial year. The key areas of activity included:

- approving the internal audit plans and reviewing internal audit reports
- reviewing and challenging management and external advisors, Willis Towers Watson (WTW), on the approach to reserving and the assumptions used to assess the level of reserves
- reviewing developments in the UK accounting framework as they apply to NHBC's financial statements under UK GAAP
- approving the internal audit plans, reviewing internal audit reports and monitoring the progress of the implementation of the recommendations
- undertaking an Audit Committee effectiveness review
- quarterly review of all accounting, tax and capital reporting requirements
- a quarterly update summarising key investment information relating to NHBC's investments and portfolio performance
- review of Deloitte's plans and reports as external auditor
- reporting on its activities to the Board.

Financial reporting

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

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

The Audit Committee's areas of concern related to the valuation of claims provisions and in particular:

- large and exceptional loss claims
- Section 4 cladding and fire-safety related claims, and
- the booked margin for uncertainty in future claims development.

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

External audit

As part of the review of the accounting statements, the Audit Committee discussed the audit plan with the external auditor and discussed the changing reporting environment and emerging audit trends. During the year the Committee and auditors developed a set of Audit Quality indicators to support the monitoring of audit performance, these will be presented for the first time in September 2022 following the current year's audit.

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

Internal audit

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

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

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

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

Board Risk Committee report

Board Risk Committee member	Meetings to attend	Meetings attended	Attendance %
Paul Bishop (Chair)[1]	6	6	100
Alison Burns[4]	4	4	100
Kate Davies	6	3	50
Jean Park [3]	4	4	100
Tesula Mohindra[2]	3	3	100
Teresa Robson-Capps[2]	3	3	100
Stephen Stone[4]	4	3	75

1 Paul Bishop became Chair on 10 December 2021
2 Tesula Mohindra and Teresa Robson-Capps joined the Committee as members 23 September 2021
3 Jean Park retired from NHBC on 9 December 2021
4 Alison Burns and Stephen Stone left the Committee on 9 December 2021

The principal role of the Board Risk Committee is to:

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

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

Activities during the financial year ended 31 March 2022

The Board Risk Committee held six scheduled meetings during 2021/2022. The following is a summary of the material items the Committee has focused on.

- The review, challenge and approval of the assessments undertaken as part of NHBC's ORSA process. This includes agreeing the approach for stress testing and scenario modelling activity carried out by the business as part of its annual planning exercise as well as agreeing a plan of action to combat the financial risks from climate change. Several assessments have also taken place throughout the year to consider the viability of NHBC's current business model, the associated risks – including those relating to cladding and fire-stopping claims – and their potential impact on its solvency ratio.
- Providing extensive challenge throughout the ongoing development of the capital management strategy, as well as to specific performance targets relating to capital efficiency (e.g., return on capital).
- The assessment of the business's ongoing reinsurance requirements, including consideration of whether further reinsurance for the existing liabilities is appropriate. The Committee monitored the implementation of the new whole account quota share reinsurance arrangement and agreed the placement of a loss portfolio transfer treaty.
- The continued monitoring of NHBC's risk profile against its agreed risk appetites.
- The Committee is regularly informed of progress on the development of the Economic Capital Model which is intended to be used in informing business decisions in a number of areas including capital planning, reinsurance strategy, risk appetite, investment strategy and product design.
- Monitoring the effective implementation of new legislation and active discussion of other important aspects of upcoming legislation and regulations, and their impact on the business, including on matters such as climate change and operational resilience.
- The undertaking of "deep-dive" reviews which focus on specific risk areas. These have covered topics such as climate risk, fraud risk and controls, political risk and Modern Methods of Construction.
- Approved Risk and Compliance plans.
- Approved the appointment of a new Chief Risk Officer

BFT, Regional Event, The National Self Build & Renovation Centre, Swindon

Remuneration Committee report

Remuneration Committee member	Meetings to attend	Meetings attended	Attendance %
Alison Burns (Chair)	5	5	100
Philip Rycroft	5	5	100
Stephen Stone	5	5	100

The principal role of the Remuneration Committee is to:

- establish and approve the overarching remuneration policy for the Company and Executive Directors, ensuring that the remuneration policy and remuneration practices are established, implemented and maintained in line with the business strategy and risk management strategy, risk profile, objectives, risk management practices and the long-term interests and performance of the Company as a whole, and incorporating measures aimed at avoiding conflicts of interest
- review and determine the specific remuneration arrangements for the Chair of the Board, the Executive Directors, members of Senior Management and individuals identified as Solvency II Staff.

The full terms of reference are available from the Company Secretary. The majority of members of the Remuneration Committee are Independent Non-Executive Directors and biographies are given on page 52. The Chair of the Board, Chief Executive Officer, Human Resources Director, and other members of the management team also attend meetings by invitation, where appropriate. PwC, as independent advisors to the Remuneration Committee, are also invited to attend in this capacity.

Activities during the financial year ended 31 March 2022

The Remuneration Committee met 5 times.

Further details of director's remuneration are set out on page 80.

NHBC Training Hub, Tamworth

Nominations Committee report

Nominations Committee member	Meetings to attend	Meetings attended	Attendance %
Alan Rubenstein (Chair)	3	3	100
Paul Bishop	3	3	100
Alison Burns	3	3	100
Jean Park[1]	2	1	50
Teresa Robson-Capps[2]	1	1	100

1 Jean Park retired from NHBC on 9 December 2021

2 Teresa Robson-Capps was appointed to the Committee with effect from 9 December 2021

The purpose of the Nominations Committee is to:

- review the size, structure and composition of the Board
- consider succession plans for the Board and Senior Executives
- identify and recommend candidates to the Board to fill vacancies as they arise
- keep under review the executive and non-executive leadership needs of NHBC to ensure the continued ability of NHBC to operate and compete effectively
- evaluate the balance of expertise and experience on the Board taking into consideration diversity
- review annually the time commitment required of Non-Executive Directors and whether they are devoting sufficient time to fulfil their duties
- consider the re-appointment of Non-Executive Directors at the conclusion of their specified term of office having regard to their performance and ability to contribute to the Board taking into account the expertise and experience required.

The Nominations Committee members are all Independent Non-Executive Directors. The Chief Executive Officer, the Human Resources Director and Company Secretary are regular attendees.

Activities during the financial year ended 31 March 2022

The Committee held two scheduled meetings and one extraordinary meeting to discuss the recruitment of a new Non-Executive Director.

A key focus for the Committee was the appointment of new Independent Non-Executive Directors (Teresa Robson-Capps and Tesula Mohindra) and a subsequent review of the composition of the Board's Committees to ensure that the Board continues to have the right combination and balance of expertise and experience.

Changes to the Chair role of several committees and the membership composition of all committees were made in November 2021 to reflect the outcome of this review (as detailed below) following recommendation to and approval of the Board. In addition, following recommendation from the Committee, the Board approved the renewal of a three-year terms for Paul Bishop and Stephen Stone on the expiry of their current terms in October 2022.

New Committee Chair appointments

Paul Bishop succeeded Jean Park as Chair of the Board Risk Committee

Teresa Robson-Capps succeeded Paul Bishop as Chair of the Audit Committee

Tesula Mohindra appointed as Chair of the Consumer Committee

New Committee membership

Audit Committee	Risk Committee	Nominations Committee	Remuneration Committee	Consumer Committee
Chair Teresa Robson-Capps	**Chair** Paul Bishop	**Chair** Alan Rubenstein	**Chair** Alison Burns	**Chair** Tesula Mohindra
Alison Burns	Tesula Mohindra	Alison Burns	Philip Rycroft	Stephen Stone
Tesula Mohindra	Teresa Robson-Capps	Teresa Robson-Capps	Stephen Stone	Anne Kaye (member of NHBC's Council)
Paul Bishop	Kate Davies	Paul Bishop		

During the year, the Committee received updates on the composition and changes to the Executive Committee and considered the talent, development and succession plans for Executive Committee, NHBC's diversity objectives and employee engagement. The Committee also carried out a moderation exercise on the Directors' skills self-assessment and its annual effectiveness review.

Story Homes

Founded in 1987 by current Chair, Fred Story, Story Homes is a housing developer with schemes in North West and North East England and South West Scotland. Their vision is to design and build high quality homes that people aspire to live in.

What we provide

NHBC has had a working relationship with Story Homes for many years. We provide Buildmark warranty and insurance cover as well as Building Control on several Story Homes sites. We also provide Construction Quality Reviews to support their quality drive and training services including NVQs for site managers.

Here's what their North West Production Director, David Rimmer, has to say about working with us.

Why NHBC?

"The NHBC has supported Story Homes for many years and they have been the flagship for warranty and building control within the industry for decades."

"If I see the NHBC flag flying on any builder's development, I know the site is in good hands!"

"They are a very reliable organisation to work with and always available to offer good advice at all levels of management. Sorting problems out before delays are caused and getting helpful advice is always a major plus."

Benefits of an ongoing partnership

"I have been in building and construction for over 40 years and can honestly say the service and help I have received from the NHBC is second to none."

"Hopefully we will grow our business year on year with the continued excellent relationship I feel we already have."

Case study

Story HOMES

"I have been in building and construction for over 40 years and can honestly say the service and help I have received from the NHBC is second to none. Hopefully we will grow our business year on year with the continued excellent relationship I feel we already have."

David Rimmer,
North West Production Director

Strawberry Grange, Cockermouth, Story Homes
Photo credit: Story Homes

Directors' remuneration report

BFT, London Strategy Event, Queen Elizabeth Centre

Directors' remuneration report

On behalf of the Board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2022.

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

Our remit

As a Committee, our role is to ensure that NHBC's remuneration policy and payments are aligned with the Company strategy and consistent with performance outcomes. The Committee has responsibility for reviewing the remuneration framework of all staff employed by NHBC and for determining the remuneration packages of the Executive Directors, senior managers, Solvency II staff and the Chair's fee. It assesses the appropriateness of remuneration packages in line with the Company's business needs and the Board's aim of delivering an appropriate, competitive level and mix of remuneration when compared with companies of a similar scale and complexity to NHBC. This is done whilst ensuring that the principles of sound and prudent risk management are fully considered and that excessive risk-taking is neither encouraged nor rewarded.

Remuneration policy and the link to long-term business performance

Our remuneration policy is designed to support the business strategy, to promote the long-term sustainable success of the business and is designed to align remuneration with our purpose and values. The Executive Directors and wider employee population all participate in the annual bonus scheme, which rewards the achievement of individual and business performance targets. For the purposes of determining the annual bonus, performance is assessed by reference to a mix of financial and non-financial performance conditions that are considered to be drivers of our business strategy and, ultimately, contributors to our purpose and values. Independent scrutiny of the bonus is provided by the Board Risk Committee and Audit Committee who validate the results. Additionally, NHBC's actuarial consultants validate the capital calculations. For our more senior employees and material risk takers, a proportion of any bonus is deferred and paid out in later years, providing a long-term retention mechanism. A significant change to the Directors' Remuneration Policy is the addition of a new long-term incentive plan ('LTIP') which will provide further alignment with the long-term business performance and allow NHBC to motivate, retain and attract high quality individuals. Further details can be found below.

Activities during the financial year ended 31 March 2022

We reviewed our Directors' Remuneration Policy, in line with the commitment made last year to undertake a triennial review, with the aim to ensure it remains aligned with the strategy of NHBC, complies with evolving regulatory requirements and adopts best practice where appropriate. We have made a number of significant changes to the structure of the Executive Directors' remuneration which includes the introduction of a new LTIP and changes to the annual bonus deferral arrangements.

More widely, with Remuneration Committee oversight, NHBC conducted a full review and change of its grading structure introducing, in June 2021, a simplified, broad-band salary structure which provided transparency to the wider workforce, aiding performance, and development by demonstrating what is expected at each level in the organisation.

In November 2021, a mid-year exceptional bonus of £1,000 was paid to all non-leadership employees, to recognise the collective effort during the pandemic, meeting service standards whilst coping with an extended period of high work volumes.

In April 2022, in collaboration with our Staff Association, NHBC implemented new market aligned pay bands and a benefits framework linked to the new level structure, delivering salary increases of between 4-10% to all colleagues to ensure NHBC continues to remain competitive in attracting, motivating and retaining talent and rewarding the workforce fairly.

NHBC is a Living Wage employer and is committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees. The Committee maintains oversight of the gender pay gap and CEO pay ratio to inform their decision making on matters under their remit.

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

2021/2022 performance and remuneration outcomes

The annual bonus for 2021/2022 was approved by the Remuneration Committee with an employee launch in September 2021 which allowed targets to be based on the Group Business Plan in June 2021. Following on from the simplified approach taken for 2020/2021, the annual bonus measures included a range of financial measures, non-financial measures and personal performance which ensured outcomes reflected the overall performance of the Group and the individual. Given the strong performance in 2021/2022, the financial element of the annual bonus vested in full. However, the Committee's assessment of the non-financial element was below maximum which resulted in a combined outcome of 76% of maximum.

Looking ahead to 2022/2023

During the course of 2021/2022, the Committee undertook a review of the Directors' Remuneration Policy and made a number of key changes to ensure the policy continues to meet the needs of the business and reflects evolving corporate governance practices and provides strong alignment between pay and performance.

As part of this review, the Committee has approved the implementation of a new LTIP for Executive Directors and Executive Committee members. This will strengthen the link between long-term pay and long-term performance and will be assessed against key strategic financial and non-financial criteria. As part of the introduction of the LTIP, the annual bonus opportunity for the Chief Executive Officer has been reduced from 100% to 80% of salary at maximum, which aligns with the other Executive Directors. The development of the LTIP, along with the annual bonus will ensure an appropriate balance of short- and long-term focus of the Executive Committee. Details of the LTIP can be found in the Directors' Remuneration Policy.

The Committee wish to ensure that ESG forms part of variable remuneration such that both the annual bonus and LTIP include ESG measures.

As part of the Policy review, other changes have been made to the Directors' Remuneration Policy to ensure alignment with the UK Corporate Governance Code and best practice. Additionally, changes have been made to the bonus deferral structure to bring it in line with market norms and ensure continued compliance with remuneration regulatory requirements.

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 members of staff.

This report was approved by the Board on 4 July 2022 and signed on behalf of the Board by:

Alison Burns
Chair, Remuneration Committee
04 July 2022

Directors' remuneration policy

The following sections set out the new Directors' Remuneration Policy (Policy) following on from the triennial review, which will operate for a period of three years from 1 April 2022. Below is a summary of the changes between the current Policy (implemented in 2019/2020) and the new Policy:

Policy area	Key updates for 2022/2023
Annual bonus	Reduction of maximum annual bonus opportunity for the Chief Executive Officer (from 100% to 80% of salary) which aligns with the maximum opportunity for other Executive Directors.
Annual bonus deferral	Replacement of the current bonus banking arrangement with a simplified deferral model where the deferred annual bonus vests in equal tranches over a three-year period.
Long term incentive plan	Introduction of a new LTIP to more strongly align the compensation of the Executive Directors to longer term financial, non-financial and strategic objectives of NHBC. Details of opportunity and performance measures are outlined below

This Policy has been drafted so that the remuneration package for Executive Directors is structured as follows:

- aligned to NHBC's short term and long-term strategy
- appropriately competitive to retract and retain key talent
- not promoting unacceptable behaviours or encouraging unacceptable risk-taking - in particular, the variable remuneration targets have a clear bias towards the delivery of corporate targets, recognising the criticality of good team behaviours and co-operation as part of an effective approach to risk management.

The table below presents NHBC's 2022/2023 full remuneration policy for Executive Directors.

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

Element	Strategic alignment and operation	Maximum opportunity	Performance measures
Pension	Provides a basis for savings to provide an income in retirement. NHBC provides a competitive employer defined contribution pension plan, the Group Personal Pension Plan (GPPP), operating salary sacrifice for pension contributions to provide Executive Directors with an income for retirement. Executive Directors have the opportunity to participate or to receive a contribution to a personal pension. Executive Directors may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits.	The maximum employer contribution rate is 10.5% of salary for Executive Directors except for the Chief Financial Officer who is on a legacy arrangement at 20% of salary. Further, the maximum rate for any new appointments is 10.5% of salary, aligned to the maximum offered to all other employees.	There are no performance measures for pension.
Benefits	To provide benefits as part of a competitive remuneration package, enabling the Company to attract and retain the right level of talent necessary to deliver its strategy. Benefits are provided on a market-related basis. NHBC reserves the right to deliver benefits to Executive Directors depending on their individual circumstances, which may include a company car or cash allowance, life insurance, accommodation and private medical insurance.	Levels are defined within the terms of each 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.
Annual Bonus	To incentivise and reward the Executive Directors to achieve pre-determined annual targets at the discretion of the Remuneration Committee. Performance measures and weightings are determined annually and will align with the key strategic priorities of NHBC which may vary from year to year in line with the group business plan. Threshold performance will result in an outcome of 0% of maximum whilst target performance will result in an outcome of 50% of maximum. Maximum performance will result in an outcome of 100%. Outcomes are subject to Remuneration Committee discretion which includes downwards risk adjustment for ex-ante and ex-post risk. Annual bonuses have a deferral element (Chief Executive Officer 50%, other Executive Directors 40%) in cash for a period of three years, vesting no faster than pro-rata. The rate of deferral may be adjusted to meet future developments in regulatory requirements. Malus and clawback provisions apply to the upfront and deferred elements of the annual bonus. Further details can be found below.	Annual bonus awards are subject to an annual limit of 80% of salary for the Executive Directors.	Performance measures will include a combination of both financial and non-financial measures with the financial measures accounting for at least 40% of the bonus. The Remuneration Committee retains the discretion to adjust formulaic outcomes if they do not represent the overall financial performance of NHBC. Full details of the specific performance measures, targets and ranges will be disclosed retrospectively.
Long-Term Incentive Plan	To incentivise and reward the Executive Directors to achieve predetermined long-term Company targets at the discretion of the Remuneration Committee. Awards are typically granted annually in cash. Awards are subject to performance measures which are measured over a three-year period from 1 April in the year of grant. Awards will vest to the extent performance measures have been met after three years. Vested awards will be subject to an additional holding period where the value of the award will track the Group's return on capital. The value of the award can go up or down over the period. 50% of the award will be released four years from the date of grant. The remaining 50% will be released five years from the date of grant. Threshold performance will result in an outcome of 0% whilst target performance will result in an outcome of 50% of maximum. Outcomes are subject to Remuneration Committee discretion which includes downwards risk adjustment for ex-ante and ex-post risk. Malus and clawback provisions apply over the vesting and holding period respectively. Further details can be found below.	LTIP awards are subject to an annual limit of 80% of salary Executive Directors.	Performance measures will include a combination of both financial and non-financial measures accounting for at least 40% of the LTIP each. The Remuneration Committee retains the discretion to adjust formulaic outcomes if they do not represent the overall financial performance of NHBC. Full details of the specific performance measures, targets and ranges will be disclosed in the implementation section of the annual report on remuneration for the year prior to the LTIP grant.

Directors' remuneration policy

Malus and Clawback

Annual bonus and LTIP awards are subject to malus and clawback. The Remuneration Committee has discretion to reduce unvested variable remuneration including any variable remuneration subject to a holding period (through the operation of malus) from the date on which the award is granted and discretion to require the repayment of vested and released variable remuneration (through the operation of clawback) for a period two years following vesting.

There are a range of circumstances in which malus and/or clawback may be applied which, for the Executive Directors, is included but not limited to:

- a review of the conduct, capability, or performance of the individual
- a review of the performance of NHBC
- any material misstatement of the NHBC's financial results for any period
- any error made in calculating the bonus award or payment
- any material failure of risk management by the individual or NHBC
- any other circumstance in which NHBC is required to operate clawback under any applicable regulatory requirement, guidance, or code
- any other circumstances that, in the Remuneration Committee's opinion, have a sufficiently significant impact on the reputation of NHBC to justify such action.

Legacy arrangements

Executive Directors may be eligible to receive payments from past remuneration arrangements that were agreed prior to the implementation of this Policy.

External appointments

Executive Directors may take up external appointments, subject to approval by the Board. All external appointments will be disclosed.

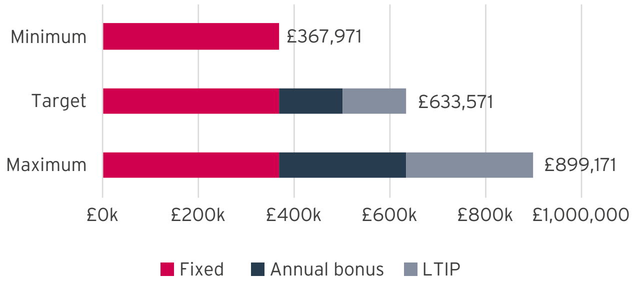
Remuneration regulation

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.

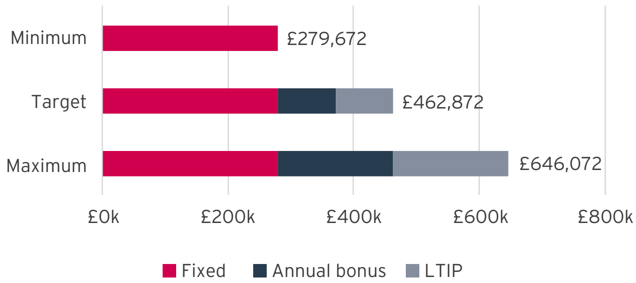
Scenario charts

The tables below set out the potential earnings of each Executive Director under three performance scenarios.

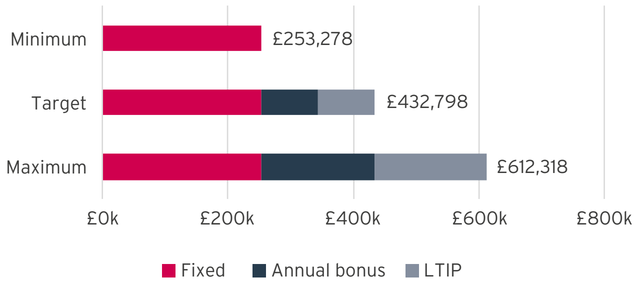
Chief Executive



Chief Financial Officer



Commercial Director



Minimum earnings include base salary as at 1 July 2022, benefits (FY2021/2022 actual benefits paid) and pension (or cash in lieu of pension payable) with no bonus or LTIP.

On-target earnings include base salary as of 1 July 2022, benefits (FY2021/2022 actual benefits paid) and pension (or cash in lieu of pension payable) and on-target bonus and LTIP.

Maximum earnings include base salary as of 1 July 2022, benefits (FY2021/2022 actual benefits paid) and pension (or cash in lieu of pension payable) and a maximum target bonus and LTIP.

Policy on new appointments

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

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

Buy-out awards may be made at the discretion of the Remuneration Committee and will mirror the terms of the previous awards as far as practically possible.

Service contracts for Executives Directors

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

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

Directors' remuneration policy

Payments for loss of office

There is no predetermined special provision for compensation for loss of office. The Remuneration Committee can exercise its discretion on the final amount actually paid, but any compensation would be based on what would be paid by way of basic salary, pension entitlement and other contractual benefits during the notice period (up to a maximum of 12 months'), depending on whether notice is worked, or a payment made in lieu of notice. There is no entitlement to compensation for loss of the opportunity to earn variable pay. Contracts do not contain change of control provisions.

The Company would typically make a contribution towards an Executive Directors' legal fees in connection with advice on the terms of their departure and fees for outplacement services as part of a negotiated settlement.

The treatment of leavers under the annual incentive plan and LTIP is determined by the rules of the plan. Good Leaver status under these plans would be granted in the event of, for example, the death of an Executive Director, their departure on ill health grounds, sale of the business, planned retirement, redundancy or any other circumstances as determined by the Remuneration Committee at its absolute discretion.

Annual bonus

There is no automatic entitlement to an annual bonus for the year in which loss of office occurs. Where an Executive Director leaves the Company as a Good Leaver, or any other reason determined by the Remuneration Committee, there may be a payment of a pro-rata bonus for the relevant year at the discretion of the Remuneration Committee.

Unvested deferred bonus awards for Good Leavers will continue to their normal vesting unless the Committee uses discretion to accelerate the vesting of awards in exceptional circumstances.

In circumstances where Good Leaver status has been granted, awards may, at the discretion of the Remuneration Committee, be made earlier than the normal payment date.

All annual bonus awards (including unvested deferred bonus awards) for Bad Leavers will lapse.

LTIP

Unvested LTIP awards for Good Leavers will continue to the normal vesting date and be pro-rated for time worked during the performance period and remain subject to performance. The Remuneration Committee retains the discretion to waive the pro-rating or accelerate the vesting of LTIPs should they believe it is appropriate to do so. Vested LTIP awards will remain subject to the normal holding period until the original release dates.

All unvested LTIP awards will remain subject to the original terms of awards including malus and clawback.

All unvested LTIP awards for Bad Leavers will lapse.

Remuneration Policy for Non-Executive Directors

Element, purpose and link to strategy	Operation	Maximum opportunity
Chair and Non-Executive Directors' fees To attract individuals with skills and experience to serve as Chair and as a Non-Executive Director.	Non-Executive Directors receive a basic annual fee in respect of their Board duties. Further fees are paid for chairing of Board committees and membership of the Remuneration Committee, Board Risk Committee or Audit Committee. The Chair receives a fixed annual fee. Fees are reviewed annually, taking into account market data and trends, and the scope of specific Board duties. The Chair and other Non-Executive Directors do not participate in any incentive or performance plans or pension arrangements.	The maximum fees payable to Non-Executive Directors are as follows: ■ Chair - £172,000 ■ Board membership - £54,000 ■ Senior Independent Director - £10,000 ■ Committee Chair (Audit, Investment, Risk, Remuneration) – £12,000 ■ Committee member (Audit, Investment, Risk, Remuneration) – £3,000

Non-Executive Directors' key terms of appointment

Provision	Policy
Period	NHBC appoints Non-Executive Directors for an initial three-year term, which is specified in the letter of appointment. They may then be reappointed by and at the Board's discretion for any further period not exceeding three years and then for a further period, again not exceeding three years (i.e. up to nine years in total). If this period is exceeded, any extension is agreed by the Board, and ratification of their decision is sought from the Council at the next AGM following the date of the appointment.
Termination	By the director or the Company at their discretion without compensation upon giving one month's written notice for other Non-Executive Directors and three months' notice for the Chair of the company.
Fees	As set out above.
Time commitment	Each Non-Executive Director must be able to devote sufficient time to the role in order to discharge their responsibilities effectively.

Consideration of conditions elsewhere within the Group

In developing this Policy, the Remuneration Committee has considered remuneration arrangements for employees across NHBC.

NHBC conducts regular salary benchmarking both internally and externally against the wider market, to ensure our employee pay rates remain appropriate. All employees are offered the opportunity to participate in a range of benefits, including life cover, healthcare, and a pension contribution. All employees are also offered the opportunity to participate in the annual bonus scheme as part of their total reward package and select employees to participate in the LTIP to be first granted in 2022.

With Remuneration Committee oversight NHBC conducted a full review and change of its grading structure introducing a simplified broad band salary structure provided transparency to the wider workforce, aiding performance, and development by demonstrating what is expected at each level in the organisation.

In April 2022, in collaboration with our Staff Association, NHBC implemented new market aligned pay bands and a benefits framework linked to the new level structure, delivering salary increases of between 4-10% to all colleagues to ensure NHBC continues to remain competitive in attracting, motivating, and retaining talent and rewarding the workforce fairly.

In November 2021, a mid-year exceptional bonus of £1,000 was paid to all non-leadership employees to recognise the collective effort during the pandemic, meeting service standards whilst coping with an extended period of high work volumes.

NHBC is a Living Wage employer and is committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees. The Committee maintains oversight of the gender pay gap and CEO pay ratio to inform their decision making on matters under their remit.

Annual Report on Remuneration

Single total figure of remuneration for the year ended 31 March 2022 - Executive Directors

£'000	Year	Salary	Taxable Benefits	Annual Bonus	Bonus deferral	Pension	Total Remuneration	Total Fixed	Total Variable
Steve Wood	2021/2022	308	27(i)	204	102	33	572	368	204
	202020/21	307	28	184	92	32	551	367	184
Paul Hosking	2021/2022	219	17	115	46	44	395	280	115
	2020/2021	216	17	103	41	43	379	276	103
David Campbell	2021/2022	223	17	135	54	13	388	253	135
	2020/2021	220	17	106	42	13	356	250	106

(i) Includes £9,348 for accommodation provided

Directors’ remuneration policy

Annual bonus for year ended 31 March 2022

The annual bonus for the year ended 31 March 2022 was based on a combination of commercially focused (36%), other strategic measures (24%) and personal performance (40%) 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, specifically:

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

The annual 2021/2022 bonus overall outcomes were 45.6% of base salary for the CEO, 52.48% of base salary for the CFO and 60.48% of base salary for the Commercial Director. Final assessment of these outcomes did not result in any discretionary adjustments by the Remuneration Committee.

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

Director	Maximum bonus (% of salary)	Actual bonus outcome		Percent deferred (% bonus)
		(% target)	(% of max)	
Steve Wood	100%	131.2%	65.6%	50%
Paul Hosking	80%	131.2%	65.6%	40%
David Campbell	80%	151.2%	75.6%	40%

Breakdown - Corporate KPIs

Corporate KPIs (60%)	Weighting	Threshold performance	Target performance	Stretch performance	Actual performance	Vesting outcome (% of max)
Operating Profit[5]	36%	£23.8	£29.7m	£38.6m	£62.8m	100%
Non insurance income			£71.5m		£84.1m	
Opex ratio			55%		44%	
Housebuilders	24%			Stakeholder survey results, diversified customer base, greater partnership focus	Achieved	40%
Homeowners				Homeowner satisfaction survey, complaints	Not Achieved	
Government				Qualitative assessment of govt relationship and sentiment	Achieved	
Environment				Green fleet, development of sustainability strategy	Achieved	
Responsible and progressive culture				Mandatory training completion, outstanding audit actions	Achieved	
Engaged, inclusive workforce				Employee engagement, D&I agenda	Achieved	
Tech savvy and digital by default				IT strategy	Key Milestones Achieved	
Data and risk management				Data, Technical Risk Management (TRM)	Partially Achieved	

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

Breakdown - Personal KPIs

<table>
<tr><th>Personal KPIs (40%)</th><th>Weighting</th><th>Vesting outcome (% of max)</th><th>Comments</th></tr>
<tr><td>Steve Wood</td><td rowspan="3">40%</td><td>50%</td><td>The Chief Executive Officer has delivered strong financial results including operating profit of £49 million. He has also delivered the 2021 warranty pricing increase across the builder customer base.

He has ensured NHBC's non-insurance strategy is focused on areas of competitive advantage with clear plans to develop services, generate profitable growth and enhance NHBC's market position.

Progress has been made on the implementation of NHBC's business model review, consistent with the vision and strategy approved by the Board.

He has established the development of comprehensive IT, data and digital strategies.

The Chief Executive Officer has also strengthened NHBC's technical risk management, underwriting and claims disciplines.

A range of D&I initiatives have been led by the Chief Executive Officer.

The Chief Executive Officer, as part of the leadership team of NHBC has shown strong personal leadership, sound decision making and visible commitment to business transformation as we 'Build a better version of NHBC'.</td></tr>
<tr><td>Paul Hosking</td><td>50%</td><td>The Chief Financial Officer has overseen the stabilisation of technical provisions and a return to profit as we rebuild NHBC's capital base.

He has also ensured our reinsurance programmes are delivered to the terms and covers sought.

In addition to the above, the Chief Financial Officer took ownership of capital management and economic model development.

The CFO, as part of the leadership team of NHBC has shown strong personal leadership, sound decision making and visible commitment to business transformation as we 'Build a better version of NHBC'.</td></tr>
<tr><td>David Campbell</td><td>75%</td><td>The Commercial Director has successfully delivered great commercial and quality objective results.

He has been instrumental in strengthening NHBC's relationships with registered house-builders and increased alignment on quality objectives and services being delivered on a commercial footing.

He has successfully led the warranty pricing uplift for 2021.

NHBC's Services area has been reinvigorated by the Commercial Director with strong progress on Training and CQRs, as well as uplifting margins towards target levels.

Additionally, he has this year taken on the role of D&I sponsor within NHBC and driven key activities.

The Commercial Director, as part of the leadership team of NHBC has shown strong personal leadership, sound decision making and visible commitment to business transformation as we 'Build a better version of NHBC'.</td></tr>
</table>

Directors' remuneration policy

Deferred bonus bank

The table below provides additional information on the deferred bonus for each of the Executive Directors who served the Company during the financial year ended 31 March 2022. The balance in the bonus bank is carried forward and, subject to continued service, will be paid out in July 2022.

£'000	Current Balance (as at 31 March 2022)	July 2022 Release	Bonus Deferred 2022	Bonus Payable 2022	Total Bonus Payable 2022	Banked Bonus 2022/2023
Steve Wood	120	48	102	102	150	174
Paul Hosking	57	22	46	69	91	80
David Campbell	42	16	54	81	97	79

The accrued bonus bank for each of the Executive Directors who served the company before the 31 March 2022 will be paid out equally over the next three performance periods (July 2023, 2024 and 2025), removing the bonus banking arrangement completely after this period. In its place we will be introducing a simplified deferral model from 1 April 2022 where the bonus award will operate a three-year deferral with a third vesting in equal tranches at the end of each year. There are no changes to the level of bonus deferral (50% for the CEO and 40% for other Executive Directors), and all deferrals will be operated in cash.

Single total figure of remuneration for the year ended 31 March 2022 – Non-Executive Directors

£'000	Year	Fees	Taxable Benefits	Total Remuneration
Paul Bishop	**2021/2022**	**60**	**0**	**60**
	2020/2021	59	0	**59**
Alison Burns	**2021/2022**	**57**	**0**	**57**
	2020/2021	54	0	**54**
Kate Davies	**2021/2022**	**44**	**0**	**44**
	2020/2021	44	0	**44**
Tesula Mohindra	**2021/2022**	**38**	**0**	**38**
	2020/2021	0	0	**0**
Jean Park	**2021/2022**	**39**	**0**	**39**
	2020/2021	56	3	**59**
Dr Teresa Robson-Capps	**2021/2022**	**41**	**0**	**41**
	2020/2021	0	0	**0**
Stephen Stone	**2021/2022**	**48**	**0**	**48**
	2020/2021	44	0	**44**
Alan Rubenstein	**2021/2022**	**143**	**0**	**143**
	2020/2021	140	0.7	**141**
Philip Rycroft	**2021/2022**	**53**	**0**	**53**
	2020/2021	46	0.4	**46**

Payments to past directors

A payment of £15,591 was made in July 2021 to former Executive Operations Director Neil Jefferson as part of the ongoing release of residual deferred bonus bank. A final release is due to be paid subject to Remuneration Committee approval in July 2022 of £15,591.

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. One metric that is taken into account for these purposes is the Chief Executive Officer: Employee pay ratio and the trend in this metric since its inception. The Committee also reviews wider workforce pay policies and trends to ensure that they are considered when setting Executive Director pay.

Chief Executive Officer pay ratio

Year	Method	Ratio at 25th percentile	Ratio at median	Ratio at 75th percentile
2021/2022	Option A	14.1	11.1	9.1
2020/2021	Option A	15:1	12:1	9:1
2019/2020	Option A	11:1	8:1	7:1

Employee at	25th percentile	Median	75th percentile
Total pay and benefits	£40k	£50k	£65k
Salary	£37k	£47k	£59k

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in 2021/2022 compared to Operating Profit (key financial measure for NHBC):

£m	2021/2022	2020/2021	% change
Spend on pay	68.9	68.4	0.7
Operating profit[6]	62.5	40.6	53.9

Implementation of the Directors' Remuneration Policy for 2022/2023

Set out below is a summary of how the Policy will be implemented for 2022/2023 for Executive Directors

	Steve Wood	Paul Hosking	David Campbell
Salary	£332,000	£229,000	£233,000
Salary change (%)	6%	4%	4%
Maximum bonus opportunity (% salary)	80%	80%	80%
Maximum LTIP opportunity (% salary)	80%	80%	80%

The Remuneration Committee has agreed that for 2022/23 salaries will be increased by 6% for the Chief Executive Officer and 4% for the other Executive Directors. The 6% increase for the CEO is aligned with the wider workforce (average increase of 5.8%) which reflects market positioning. Salary increases are effective from 1 April 2022. There are no changes to our employer pension contributions which are reviewed annually. The maximum bonus opportunity for the Chief Executive Officer has been reduced from 100% to 80% of salary at maximum which aligns the other Executive Directors with an addition of an LTIP award being granted in respect of 2022/2023.

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

Directors' remuneration policy

Details of the annual bonus metrics for 2022/2023 are set out below. Targets and ranges will be disclosed retrospectively.

Annual bonus metrics		Weighting	
Commercially focused	Operating profit	21%	36%
	Opex Ratio	6%	
	Growth in non-insurance income	6%	
	Quality (CQI take up)	3%	
Other strategic measures	Modern & Agile (Change programmes)	6%	24%
	Socially responsible (NPS, Environmental)	6%	
	People (Engagement score, Attrition, D&I)	6%	
	Risk (Compliance, Audit actions)	6%	
Personal	Personal objectives	40%	40%

NHBC is in the process of finalising the details of the LTIP metrics. The full metrics will be disclosed in the Annual Report and Accounts for the year ending 31 March 2023.

Set out below is a summary of how the Policy will be implemented for 2022/2023 for Non-Executive Directors.

	Fee	% change
Chair	£172k	20.4%
Board membership	£54k	29.3%
Senior Independent Director	£10k	210%
Committee Chair	£12k	0%
Committee member	£3k	0%

Fees for Non-Executive Directors have historically increased each year in line with the wider workforce increases, however this year a benchmarking exercise was undertaken resulting in proposed increase in fees for 2022/23 which have been validated against external benchmarks of comparable peers. Further, the move from a PRA Category 3 to Category 2 insurer has resulted in additional responsibilities and time commitment for the Non-Executive Directors which has influenced the level of increase to ensure that fees are appropriately positioned. Additional fees for committee chair/membership have not been increased.

The Remuneration Committee

The Remuneration Committee is composed of at least three Non-executive Directors with the majority of members being Independent. Members of the Committee, when decisions relating to the remuneration for the year ended 31 March 2022 were made, were:

Alison Burns (Chair)
Philip Rycroft
Stephen Stone (i)

(i) joined the Committee on 1 January 2021

The remit of the Committee is summarised on page 80.

Remuneration Committee advisors

During the course of 2021/2022, PwC were our independent advisors. PwC were appointed as independent advisors in September 2020 by the Remuneration Committee as part of a competitive selection process.

The Committee monitors the advice provided to them to ensure its independence and objectivity. Fees to PwC for advice given in respect of directors' remuneration for the year ended 31 March 2022 were £121,781.

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

Approval by the Board

The Directors' Remuneration Report was reviewed and approved by the Board 4 July 2022.

Alison Burns
Chair of the Remuneration Committee

Customer satisfaction

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

Mrs C reported water entering her property through the roof over her dining room. At the time, she was undergoing prolonged hospital treatment and, understandably, needed her claim to be handled smoothly with minimal additional stress. Her claim was resolved from first report to completion of the works within two and a half months.

" NHBC were excellent from the original phone call. The assessor and the ladies that followed up to check and report on progress kept on top of the problem to get things sorted. They rang me periodically to check what work had been done and liaised with the builder to move things forward. I am extremely grateful for the help I received as they all made the situation less stressful for me. "

Mrs C, Houghton-le-Spring

Mr M had an issue with water entering through two dormer windows on his property. From using the information Mr M supplied when reporting his claim, we were able to validate his claim and offer a cash settlement within two weeks of his initial contact.

" Really professional, quick and understanding assessor who was very supportive to us. "

Mr M, Belfast

Mrs N contacted us in March 2022 about water entering through her roof into the bedroom of the property, unfortunately, a common problem across the site she lives on. Within a month, we had reviewed, inspected and validated her claim before then working with the builder to organise the required repairs. We inspected the repairs on site and all was complete within three months to a satisfactory outcome.

" From the first point of contact, we were very happy. Always being updated. Trying to resolve the issue. Inspector coming with the builder, plus coming back during the works. Informing us of the update. Excellent service by all. Especially the person on the phone calls. Always willing to help to resolve the problem. "

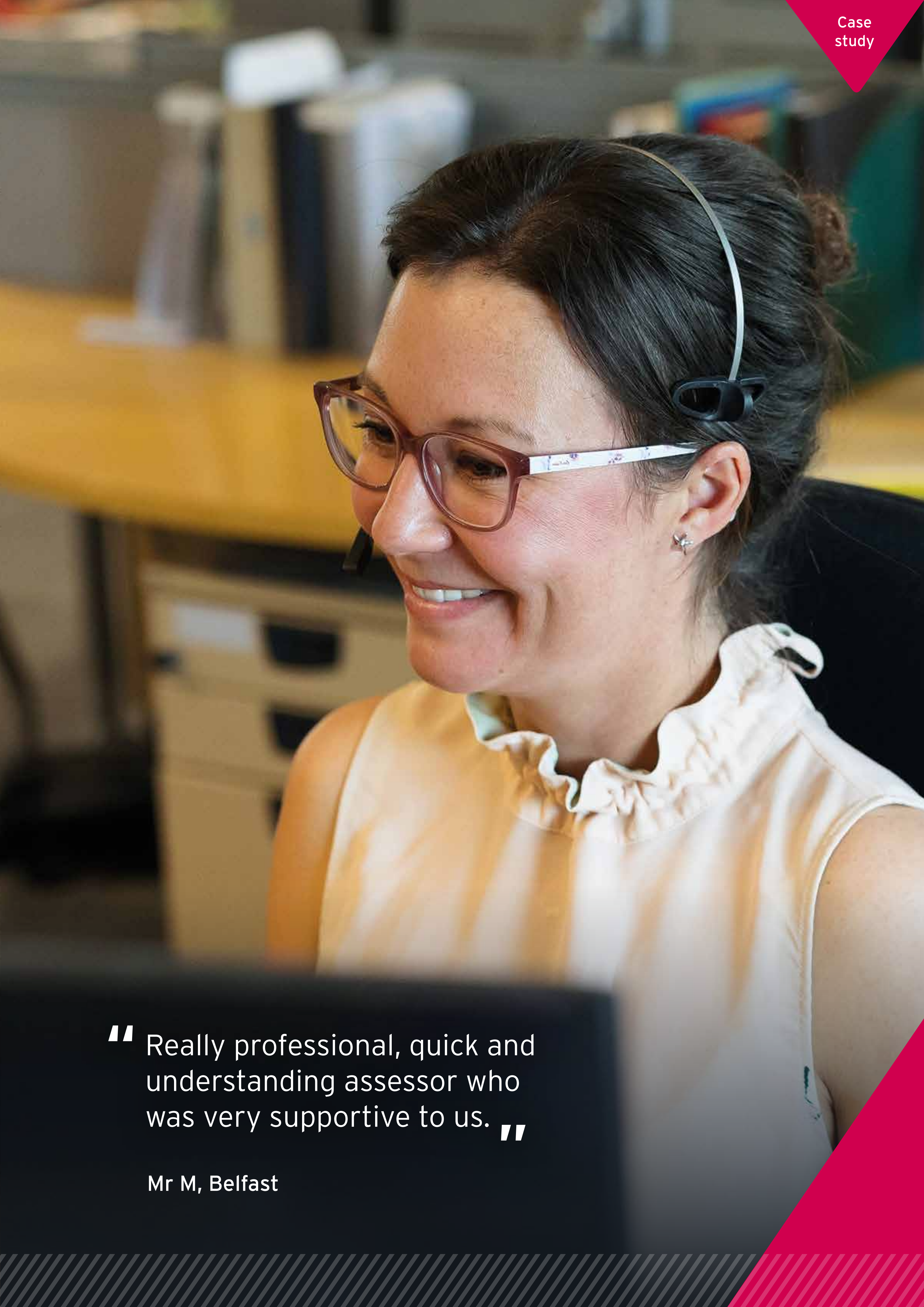
Mrs N, Biggleswade

Mr A contacted us in January 2022 about a leak from an external balcony into one of the bedrooms at his property. His claim was resolved with a cash settlement in March 2022 following an NHBC inspection and assessment.

" The response to our enquiry was prompt and efficient. The NHBC Claims Inspector was polite, informative and professional on his visit and his assessment of the schedule of works required to resolve the issues was accurate. Excellent work and did much to remove the stress and distress we were experiencing. "

Mr A, Teignmouth

Case study



"Really professional, quick and understanding assessor who was very supportive to us."

Mr M, Belfast

Financial statements


NHBC
NHBC

Financial statements

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

Report on the audit of the financial statements

1 Opinion

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

- give a true and fair view of the state of the groups and of the parent company's affairs as at 31 March 2022 and of the group and of the parent company'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 statement of cash flows; and
- the related notes 1 to 38, excluding the capital management disclosures in note 7, calculated in accordance with the Solvency II regime which is marked unaudited.

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

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.
The non-audit services provided to the group and the parent company for the year are disclosed in note 15 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group and 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 matters that we identified in the current year were: ■ The valuation of gross insurance claims reserves Within this report, key audit matters are identified as follows: Newly identified — Similar level of risk Increased level of risk — Decreased level of risk
Materiality	The materiality that we used in the current year was £5.0m (2021: £4.1m) which was determined on the basis of 1% of net assets (2021: 1% of net assets excluding the one-off impact of the reinsurance arrangement entered into by the group in the prior year).
Scoping	The parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited and NHBC Services Limited, were subject to a full scope audit.
Significant changes in our approach	There have been no significant changes in our audit approach.

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 company's ability to continue to adopt the going concern basis of accounting included:

- We evaluated management's method to assess going concern including an assessment of managements forward looking business plan;
- We challenged future profit forecasts and assessed the reasonableness of assumptions used including the sensitivity analysis of these assumptions;
- We assessed against economic conditions including builder behaviour, rising inflation and the ongoing conflict in Ukraine;
- 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.

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 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.

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

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 2022 total £879.7 million (2021: £932.1 million) as detailed in Note 5.9 Insurance Contracts (significant accounting polices) and Note 24 Insurance Liabilities (financial disclosure). The judgements which are made by management in determining both the actuarial best estimate and the margin for uncertainty are the most significant in terms of their impact on the Group's financial position. Specifically, we have identified the following three key areas of focus for our audit given their significance to the group's result and the level of judgement involved: 1. The key assumptions applied in determining the actuarial best estimate for Attritional, Large and Exceptional Loss claims; 2. The methodology and assumptions applied in valuing the incurred but not reported (IBNR) provision and the outstanding claims for large losses including cladding claims; and 3. The methodology and assumptions applied in setting the booked margin. **Key audit matter focus areas** 1. The methodology and assumptions applied in determining the actuarial best estimate for Attritional, Large, Exceptional Loss, and Section 4 claims Attritional Loss claims relating to Sections 2 and 3 of NHBC's Buildmark product, as defined in note 24.1 to the financial statements, are projected based on historical claims experience using standard actuarial techniques. The group estimates future House Rebuilding Cost Index ('HRCI') changes when projecting the future cost of these Attritional losses. Given the ongoing uncertainty in the UK's inflation environment, the selection of this claims inflation assumption which is highly judgmental and has a significant impact on the amount reserved given the long tail nature of the policies underwritten. This assumption represents a key source of estimation uncertainty for the Group which increases the susceptibility of the balance to material misstatement due to error and fraud these have been included within Note 4 of the disclosure notes to the financial statements. We have also given consideration to the current economic uncertainty particularly around builder behaviour and taken this into account in our assessment of the methodology and assumptions applied. We note higher uncertainty on the claims provisions at this year-end, in view of the current inflationary pressures and the continuing uncertainty regarding the economic impact of Covid and Brexit on NHBC claims. Management therefore exercises significant judgement in determining the frequency and severity assumptions used in reserving for Large and Exceptional Loss claims, which increases the risk of material misstatement of the balance either through error or fraud. 2. The methodology and assumptions applied in valuing the IBNR provision for cladding claims (Section 4). Following the Grenfell Tower fire in 2017 and the resulting focus on cladding materials, 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 that have not been reported as of the reporting date, management has exercised a significant level of judgement and as a result we have identified the data, methodology and assumptions applied in determining the actuarial best estimate for cladding claims as a key audit matter. We highlight that there is an enhanced risk herein, as a result in a change of model methodology arising from the maturing of the section 4 segment and improved level of accuracy in determining the true level of the claims provision. In addition, we note that the Section 4 claims reserves are highly sensitive to changes in the builder recovery assumption, for which there is limited data till date and as such, we highlight this as a point of uncertainty. 3. The methodology and assumptions applied in setting the booked margin. 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 insurance liabilities. 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 margin to recognise is an area of significant management 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	1. The methodology and assumptions applied in determining the actuarial best estimate for Attritional, Large, Exceptional Loss claims, and Section 4 We have gained a detailed understanding of the end-to-end claims and reserving process and obtained an understanding of these relevant controls. We have also tested relevant controls over actuarial data reconciliations and claims controls. Additionally, we tied claims and policy data to source systems to assess the completeness and accuracy of the underlying data used in the group's actuarial calculation. Having done this, we worked with our actuarial specialists to: - Inspect NHBC's documentation and key reserving files to conclude on reasonableness of methodology applied; - For methodology changes in the year, challenge management on the trigger for change in methodology, including how the new methodology addresses that trigger and its impact on reserves; - Assess and challenge the HRCI assumption 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 management's analysis and expert judgements that support the selected assumptions, and challenging the justification for those assumptions in light of alternative assumptions available. 2. The methodology and assumptions applied in valuing the IBNR provision for cladding claims. We gained a detailed understanding of the process that management went through to determine the best estimate liability and obtained an understanding of relevant controls within this process. We have tested these relevant controls. Having done this, we worked with our actuarial specialists to: - Assess and challenge management's assumptions used in determining the valuation of the IBNR provision, specifically focusing on the frequency and severity assumptions applied in estimating the number of tower blocks returning to NHBC as a claim; - Considering any alternative assumptions which could reasonably be applied, including those considered by management and the impact of those on the result; - Assess whether the methodology used is appropriate and whether it has been applied accurately in the manual calculation process; and - Recalculate Section 4 reserves to assess accuracy of the calculation. Further to this on a sample basis, we tested the completeness and accuracy of the data underpinning the calculation by inspecting evidence; and assessed and challenged the key assumptions determined by management through benchmarking against third party evidence where available. Where third party benchmarking evidence is not available, which is the case for one of key assumptions regarding builder self-repair only, we assessed the reasonableness of this assumption by reviewing the builder scorecards, as well as assessing the solvency position of the builders, and where possible highlighted any press releases from these developers on their responses to the cladding problem. 3. The methodology and assumptions applied in setting the booked margin. We gained a detailed understanding of the process that management went through to determine the best estimate liability and obtained an understanding of relevant controls within this process. We have tested these relevant controls. We have worked with our actuarial specialists to challenge management's qualitative and quantitative justifications for the margin held over the actuarial best estimate, including the scenarios selected, each scenario's respective weighting, and the key assumptions applied within each scenario. 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	The assumptions and methodologies highlighted above are in our acceptable range. Based on this, we have determined the valuation of gross insurance claims reserves is reasonable.

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

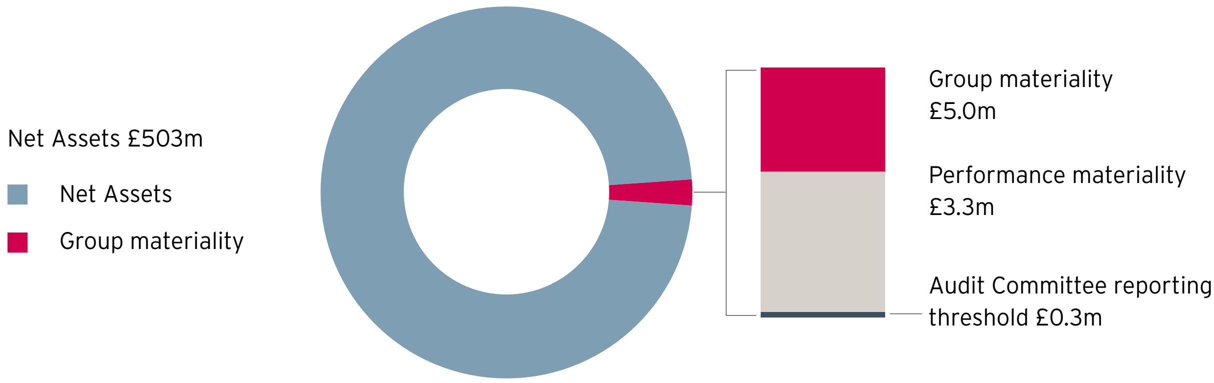
6 Our application of materiality

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	£5.0m (2021: £4.1m)	£4.7m (2021: £3.9m)
Basis for determining materiality	Materiality was determined as approximately 1% of net assets (2021: 1% of net assets excluding the one-off impact of the new reinsurance arrangement entered into by the group during the year ended 31 March 2021).	Materiality was determined as approximately 95% of group materiality (2021: 95% of group materiality).
Rationale for the benchmark applied	We determined that the critical benchmark for the group was net assets. NHBC is a non-profit distributing organisation and the primary users of the financial statements are the council members, who look to the accumulated reserves and the stability of the company that is limited by guarantee to gain comfort over the group's ability to settle insurance claims as they fall due.	



6.2 Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	65% (2021: 70%) of group materiality	65% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) We have audited the group for a number of years and so have knowledge of both the group and the environment it operates in; b) Our ability to rely on controls over a number of significant business processes; and c) An increased number of corrected and uncorrected misstatements in recent years. This year, we have reduced our performance materiality to 65% of the overall materiality as compared to 70% used last year. This is primarily because of the large amount of uncorrected misstatements we reported to the Audit Committee last year.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £251k (2021: £203k) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. For the parent company, we will report all differences in excess of £238k (2021: £195k). 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 Scoping

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

Group materiality is used for setting audit scope and the assessment of uncorrected misstatements. Materiality is set for each significant component in line with the components proportion of the chosen benchmark. This is capped at the lower of 90% of Group materiality and the component materiality determined for a standalone audit. Most of the group's operations are carried out by the parent company, which accounts for 100% of gross premiums written and 98% of net assets within the group. This resulted in the parent company and its two non-dormant subsidiaries, NHBC Building Control Services Limited applying a materiality of £249k (2021: £191k), and NHBC Services Limited applying a materiality of £129k (2021: £116k), being subject to a full scope audit by the group engagement team. Consistent with prior year, these three entities represent the principal trading and service operations of the group and account for 100% of the group's net assets, 100% of the group's gross earned premium and 100% of the group's profit.

7.2 Our consideration of the control environment

The audit approach planned to rely on the relevant manual and automated controls over the following business processes: gross premiums written, the claims cycle, insurance reserves, financial reporting processes, and expenses. Having completed our testing over the operating effectiveness of business controls associated with these cycles, through a combination of current period testing and reliance on prior period testing, we concluded that we were able to rely upon the business controls associated with these cycles. With the assistance of our IT specialists we tested the general IT controls over relevant systems, namely the underwriting system, the claims system and the general ledger system. Relevant controls were tested by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence. Any deficiencies identified around the control environment have been presented to the Audit Committee and management.

7.3 Our consideration of climate-related risks

We have gained an understanding of management's processes to address climate-related risks, including management's implementation of their Climate Change steering group. We have performed a risk assessment of the financial impact of climate risks 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 challenged management's disclosure relating to climate risks in the strategic report. We have considered whether information included in the climate related disclosures in the Annual Report were 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 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 company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, 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 the 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 those imposed by 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

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 these 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 7 years, covering the years ending 31 March 2016 to 31 March 2022.

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

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

15 Use of our report

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

Claire Clough, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
04 July 2022

Local Authority, Hackney, London

Consolidated statement of comprehensive income

Technical account – general business

	Note	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Earned premiums, net of reinsurance					
Gross premiums written	8	**149,448**		104,821	
Outward reinsurance premiums	37	**(50,867)**		(261,063)	
Net premiums written		**98,581**		(156,242)	
Change in the gross provision for unearned premiums		**(81,365)**		(41,002)	
Change in the provision for unearned premiums, reinsurers' share	37	**27,859**		220,707	
Change in the net provision for unearned premiums		**(53,506)**		179,705	
Earned premium, net of reinsurance			**45,075**		23,463
Allocated investment return transferred from the non-technical account			**31,836**		27,716
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		**(104,592)**		(71,207)	
- Reinsurers' share		**2,751**		-	
Net claims paid		**(101,841)**		(71,207)	
Change in provision for claims					
- Gross amount		**(102,091)**		9,334	
- Reinsurers' share	37	**85,669**		18,394	
Change in the net provision for claims		**(16,422)**		27,728	
Claims incurred, net of reinsurance			**(118,263)**		(43,479)
Changes in unexpired risk reserve, net of reinsurance	37		**104,469**		48,122
Net operating expenses	11		**(12,575)**		(10,737)
Balance on the technical account for general business			**50,542**		45,085

Non-technical account

		2022		2021	
	Note	£'000	£'000	£'000	£'000
Balance on the general business technical account			50,542		45,085
Investment income	12		45,401		30,622
Unrealised gains on investments		29,779		48,922	
Unrealised losses on investments		(49,482)		(19,609)	
Net unrealised losses on investments	12		(19,703)		29,313
Investment expenses and charges			(2,654)		(2,788)
Allocated investment return transferred to the general business technical account			(31,836)		(27,716)
Other income	8		84,315		64,972
Other charges			(72,347)		(69,543)
Profit on ordinary activities before taxation			53,718		69,945
Tax on profit on ordinary activities	16		6,551		(3,841)
Profit for the financial year			60,269		66,104
Other comprehensive income					
Remeasurements of net defined benefit obligation	28	14,086		(13,369)	
Movement on deferred tax relating to pension deficit	20	(2,676)		4,450	
Revaluation of tangible assets		(4)		(33)	
Other comprehensive income / (expense) for the year, net of tax			11,406		(8,952)
Total comprehensive income for the year			71,675		57,152

Consolidated statement of financial position

	Note	2022 £'000	2021 £'000
Assets			
Investments			
Land and buildings	17	**9,366**	9,745
Other financial investments	29	**1,454,270**	1,642,918
		1,463,636	1,652,663
Reinsurers' share of technical provisions			
Provision for unearned premiums	23	**305,483**	277,624
Claims outstanding	23	**212,011**	126,342
Unexpired risk reserve	23	**92,360**	142,383
		609,854	546,349
Debtors			
Debtors arising out of direct insurance operations	19	**10,571**	9,090
Deferred tax	20	**15,281**	11,597
Other debtors	19	**10,842**	6,959
		36,694	27,646
Other assets			
Tangible assets	21	**1,043**	1,326
Cash at bank and in hand		**31,901**	27,617
		32,944	28,943
Prepayments and accrued income			
Accrued interest and rent		**9,578**	13,762
Deferred acquisition costs	22	**15,714**	14,326
Other prepayments and accrued income		**8,187**	9,787
		33,479	37,875
Defined benefit pension plan surplus	28	**74**	-
Total assets		**2,176,681**	2,293,476

	Note	2022	2021
		£'000	£'000
Liabilities			
Reserves			
Revaluation reserve		**138**	142
Retained earnings		**502,369**	430,690
		502,507	430,832
Technical provisions			
Provision for unearned premiums	23	**620,232**	538,867
Claims outstanding	23	**494,416**	392,325
Unexpired risk reserve	23	**385,249**	539,741
		1,499,897	1,470,933
Creditors			
Creditors arising out of direct insurance operations	27	**36,396**	36,517
Other creditors	27	**33,398**	18,048
		69,794	54,565
Accruals and deferred income	37	**104,483**	315,496
Defined benefit pension plan deficit	28	**-**	21,650
Total liabilities and reserves		**2,176,681**	2,293,476

The notes on pages 118 to 167 are an integral part of these financial statements.

The financial statements on pages 98 to 168 were authorised for issue by the Board of Directors on 4 July 2022 and were signed on its behalf.

P Hosking
(Chief Financial Officer)
Company registration 00320784

Company statement of financial position

	Note	2022 £'000	2021 £'000
Assets			
Investments			
Land and buildings	17	**9,366**	9,745
Investments in group undertakings and participating interests	18	**8,987**	6,383
Other financial investments	29	**1,454,270**	1,642,918
		1,472,623	1,659,046
Reinsurers' share of technical provisions			
Provision for unearned premiums	23	**305,483**	277,624
Claims outstanding	23	**212,011**	126,342
Unexpired risk reserve	23	**92,360**	142,383
		609,854	546,349
Debtors			
Debtors arising out of direct insurance operations	19	**10,571**	9,090
Deferred tax	20	**15,321**	11,587
Other debtors	19	**8,784**	5,077
		34,676	25,754
Other assets			
Tangible assets	21	**838**	1,326
Cash at bank and in hand		**31,451**	27,371
		32,289	28,697
Prepayments and accrued income			
Accrued interest and rent		**9,578**	13,762
Deferred acquisition costs	22	**15,714**	14,326
Other prepayments and accrued income		**8,040**	9,496
		33,332	37,584
Defined benefit pension plan surplus	28	**74**	-
Total assets		**2,182,848**	2,297,430

	Note	2022 £'000	2021 £'000
Liabilities			
Reserves			
Revaluation reserve		**9,025**	6,425
Retained earnings		**492,730**	423,747
		501,755	430,172
Technical provisions			
Provision for unearned premiums	23	**620,984**	539,525
Claims outstanding	23	**494,416**	392,325
Unexpired risk reserve	23	**385,249**	539,741
		1,500,649	1,471,591
Creditors			
Creditors arising out of direct insurance operations	27	**36,396**	36,517
Other creditors	27	**48,514**	28,395
		84,910	64,912
Accruals and deferred income	37	**95,534**	309,105
Defined benefit pension plan deficit	28	**-**	21,650
Total liabilities and reserves		**2,182,848**	2,297,430

The notes on pages 118 to 167 are an integral part of these financial statements.

The financial statements on pages 98 to 168 were authorised for issue by the Board of Directors on 4 July 2022 and were signed on its behalf.

P Hosking
(Chief Financial Officer)

Consolidated statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2020	373,298	382	373,680
Profit for the year	66,104	-	66,104
Other comprehensive expense for the year	(8,919)	(33)	(8,952)
Transfer to retained earnings	207	(207)	-
Total comprehensive income for the year	57,392	(240)	57,152
Balance as at 31 March 2021	**430,690**	**142**	**430,832**
Profit for the year	60,269	-	60,269
Other comprehensive income / (expense) for the year	11,410	(4)	11,406
Total comprehensive income for the year	71,679	(4)	71,675
Balance as at 31 March 2022	**502,369**	**138**	**502,507**

Company statement of changes in equity

	Retained earnings	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2020	366,087	6,687	372,774
Profit for the year	66,372	-	66,372
Other comprehensive expense for the year	(8,919)	(55)	(8,974)
Transfer to retained earnings	207	(207)	-
Total comprehensive income for the year	57,660	(262)	57,398
Balance as at 31 March 2021	**423,747**	**6,425**	**430,172**
Profit for the year	57,573	-	57,573
Other comprehensive income for the year	11,410	2,600	14,010
Total comprehensive income for the year	68,983	2,600	71,583
Balance as at 31 March 2022	**492,730**	**9,025**	**501,755**

Consolidated statement of cash flows

	Note	2022 £'000	2021 £'000
Net cash from operating activities before interest received	31	**(18,258)**	(110,721)
Interest received		**28,722**	31,672
Taxation paid		**(2,766)**	(2,350)
Net cash generated from operating activities		**7,698**	(81,399)
Cash flow from investing activities			
Payments to acquire tangible fixed assets	21	**(441)**	(194)
Payments to acquire land and buildings	17	**-**	(1,056)
Receipts from disposal of land and building		**479**	370
		38	(880)
Net increase / (decrease) in cash and cash equivalents		**7,736**	(82,279)
Gains and losses on cash and cash equivalents		**987**	(740)
Cash and cash equivalents at the beginning of the year		**70,429**	153,448
Cash and cash equivalents at end of year		**79,152**	70,429
Cash and cash equivalents consist of:			
Cash at bank and in hand		**31,901**	27,617
Deposits with credit institutions (included in other financial investments)		**4,292**	6,835
Treasury bills and liquidity funds (included in other financial investments)		**42,959**	35,977
Cash and cash equivalents		**79,152**	70,429

Notes to the Financial Statements

1 Company information

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

2 Basis of preparation

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

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

The consolidated financial statements for the year ended 31 March 2022 comprise those of the Company and its subsidiary companies (together referred to as the Group).

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

NHBC, the parent company, has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. NHBC's profit for the year was £57.6m (2021: profit of £66.4m) with other comprehensive income for the year being a profit of £14.0m (2021: loss of £9.0m).

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

3 Going concern

After reviewing the Group's forecasts and projections, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. For further information see paragraph on going concern in the Director's report on page 64.

4 Critical accounting judgements and estimation uncertainty

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

Major area of judgement on policy application is summarised below:

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

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

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

5 Summary of significant accounting policies

5.1 Basis of consolidation

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

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

5.2 Investment return

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

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

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

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

5.3 Other income

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

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

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

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

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

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.

Notes to the Financial Statements

5.4 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

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

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

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

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

5.5 Investment in land and buildings

Land and buildings predominantly occupied by the Group for its own purposes are valued at open market valuation. Valuations are made by professionally qualified external valuers annually. Fair value is primarily derived using comparable recent market transactions on arm's length terms[7].

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

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

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

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

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

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

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 29. Changes in the fair value are recognised in the non-technical account in the consolidated statement of comprehensive income.

5.8 Tangible assets

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

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

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

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

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

5.9 Insurance contracts

5.9.1 Classification

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

5.9.2 Premiums written

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

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

Notes to the Financial Statements

5.9.3 Unearned premiums

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

5.9.4 Deferred acquisition costs and commissions receivable

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

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

5.9.5 Claims incurred

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

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

5.9.6 Unexpired risk reserve

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

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

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

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

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

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

5.9.7 Reinsurance

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

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

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

5.10 Employee benefits

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

5.10.1 Short-term benefits

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

5.10.2 Defined contribution pension scheme

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

5.10.3 Defined benefit pension scheme

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

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

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

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

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

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

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

Notes to the Financial Statements

5.11 Impairment of non-financial assets

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

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

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

5.12 Lease assets

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

The Group does not have finance leased assets.

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

5.13 Provisions and contingencies

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

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

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

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

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

5.14 Foreign currency

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

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

5.15 Related party transactions

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

5.16 Financial instruments

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

5.16.1 Financial assets

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

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

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

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

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

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

5.16.2 Financial liabilities

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

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

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

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

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

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

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

Notes to the Financial Statements

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 36.

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

- insurance
- market
- credit
- liquidity
- pension

6.1 Insurance / underwriting risk

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

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

6.1.1 Pricing risk

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

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

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

6.1.2 Claims risk

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

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

6.1.3 Reserving risk

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

The Group's Reserving Committee monitors the decisions and judgements made by the actuarial team and makes 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 128.

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.

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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.

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

Sensitivities to changes in equity prices are presented on page 128.

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	
	2022	2021	**2022**	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact on fixed interest securities of increase in interest rates of 25bps	**(12,976)**	(14,777)	**-**	-	**(12,976)**	(14,777)
Impact on equities and funds of a 15% fall in value	**(23,540)**	(20,969)	**-**	-	**(23,540)**	(20,969)
Decrease of property markets of 15%	**(1,361)**	(1,354)	**(44)**	(45)	**(1,405)**	(1,399)

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

Insurance contract sensitivity analysis is included in note 26.

6.3 Credit risk

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

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

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

Areas particularly exposed to credit risk are:

- Investments
- Group's customers
- Reinsurance assets

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

6.3.1 Investments

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

6.3 2 Group's customers

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

6.3.3 Reinsurance assets

The Group is exposed to credit and concentrations of risk with individual reinsurers. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. Group policy dictates that reinsurers have a financial strength rating of at least A- [8]. The policy requires consideration of the degree of diversification the reinsurers provide as a group and concentration of risk with individual counterparties.

6.3.4 Credit enhancements

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

However, the Group holds certain security in relation to specific sections of its insurance product. As at 31 March 2022 the Group held £29m (2021: £26m) of builder customer deposits. The Group has additional credit enhancements with respect to Major Projects which include, but are not limited to, land charges.

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

6.3.5 Credit risk exposure and ageing of financial and insurance assets

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

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

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 March 2021. The total is of financial assets that are neither past due nor impaired.

	AAA	AA	A	BBB	BB	CCC	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	94,204	725,066	218,914	410,544	6,332	3,053	-	1,458,113
Equity and other variable yield securities	-	-	-	-	-	-	139,791	139,791
Derivatives	-	-	-	-	-	-	2,202	2,202
Reinsurers' share of insurance contract liabilities	-	457,383	74,298	-	-	-	14,668	546,349
Insurance and non-insurance trade debtors	-	-	-	-	-	-	16,021	16,021
Other debtors	-	-	-	-	-	-	28	28
Deferred tax asset	-	-	-	-	-	-	11,597	11,597
Cash and cash equivalents	-	-	-	-	-	-	70,429	70,429
	94,204	**1,182,449**	**293,212**	**410,544**	**6,332**	**3,053**	**254,736**	**2,244,530**

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 as at 31 March 2022.

	Neither past due nor impaired	0 to 90 days	91 to 180 days	181 days to 360 days	361 days and over	Provision for impairment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed income securities	1,221,052	-	-	-	-	-	1,221,052
Equity and other variable yield securities	156,931	-	-	-	-	-	156,931
Derivatives	29,035	-	-	-	-	-	29,035
Reinsurers' share of insurance contract liabilities	609,854	-	-	-	-	-	609,854
Insurance and non-insurance trade debtors	13,565	1,868	1,167	1,155	1,024	(780)	17,999
Other debtors	3,414	-	-	-	-	-	3,414
Deferred tax	15,281	-	-	-	-	-	15,281
Cash and cash equivalents	79,153	-	-	-	-	-	79,153
	2,128,285	**1,868**	**1,167**	**1,155**	**1,024**	**(780)**	**2,132,719**

Table below represents the ageing of the financial and insurance assets held by the Group as at 31 March 2021.

	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	1,458,113	-	-	-	-	-	1,458,113
Equity and other variable yield securities	139,791	-	-	-	-	-	139,791
Derivatives	2,202	-	-	-	-	-	2,202
Reinsurers' share of insurance contract liabilities	546,349	-	-	-	-	-	546,349
Insurance and non-insurance trade debtors	11,021	2,224	1,829	1,052	669	(774)	16,021
Other debtors	28	-	-	-	-	-	28
Deferred tax	11,597	-	-	-	-	-	11,597
Cash and cash equivalents	70,429	-	-	-	-	-	70,429
	2,239,530	**2,224**	**1,829**	**1,052**	**669**	**(774)**	**2,244,530**

Notes to the Financial Statements

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:

	2022	2021
	£'000	£'000
At 1 April	**774**	641
Impairment loss recognised	**(58)**	(36)
Bad debt provision recognised in year	**64**	169
At 31 March	**780**	774

6.4 Liquidity risk

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

6.4.1 Maturity analysis of financial liabilities

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

As at 31 March 2022:

	Less than one year	One to two years	Two to five years	Five to ten years	Greater than ten years	Total	Carrying value in the statement of financial position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	(112,505)	(130,827)	(188,647)	(50,224)	(12,213)	(494,416)	(494,416)
Trade creditors	(8,581)	-	-	-	-	(8,581)	(8,581)
Other creditors	(61,213)	-	-	-	-	(61,213)	(61,213)
	(182,299)	**(130,827)**	**(188,647)**	**(50,224)**	**(12,213)**	**(564,210)**	**(564,210)**

As at 31 March 2021:

	Less than one year	One to two years	Two to five years	Five to ten years	Greater than ten years	Total	Carrying value in the statement of financial position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	(112,361)	(87,752)	(133,481)	(48,178)	(10,553)	(392,325)	(392,325)
Trade creditors	(11,246)	-	-	-	-	(11,246)	(11,246)
Other creditors	(43,319)	-	-	-	-	(43,319)	(43,319)
	(166,926)	**(87,752)**	**(133,481)**	**(48,178)**	**(10,553)**	**(446,890)**	**(446,890)**

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:

- 62.5% in investments that share characteristics with the long-term liabilities of the Scheme, comprising of corporate bonds (22.5%), LDI (40.0%)
- 37.5% in return seeking assets compromising equities (10.0%), diversified growth funds (10.00%), multi asset credit (7.5%) and senior private debt (10.0%)

Note 28.1.4 discloses the value of the Scheme's investments

6.5.1.1 Investments - currency risk

The Scheme is subject to direct currency risk because investments totalling £8.4m (2021: £5.8m) are held in non-sterling currencies.

The Scheme is subject to indirect currency risk because the underlying holdings of the pooled investment vehicles held may be denominated in a non-sterling currency and are not fully currency hedged by the investment manager. The value of holdings subject to this risk total £95.5m (2021: £98.3m). This value includes pooled investment vehicles that have only a partial exposure to currency risk.

To limit currency risk, the Trustee have adopted a currency hedging policy whereby 75% of overseas developed equity exposure by investing in currency hedged share classes. Of the remaining unhedged currency exposure, currency 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 62.50% to LDI and 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 85% (2021: 70%) of the change in actuarial liability value due to interest rate movements.

Changes in interest rates will affect the value of the insurance contracts held by the Scheme in the same way but are expected to match 85% of the variation in actuarial liability value.

The Scheme has exposure to interest rate risk via DGFs, MAC and Senior Private Debt. 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-bond assets, which includes Equities, DGFs, Multi-Asset Credit and Private Debt.

The Scheme has set a target allocation of 37.50% to non-bond assets. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various 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 invests 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 £236.1m (prior year: £233.3m).

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 £205.7m (prior year: £193.5m). 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 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. 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.

	2022	2021
Decrease discount rate by 0.25% (2021: 0.25%)	**£10m**	£11m
Increase inflation rate by 0.25% (2021: 0.25%)	**£7m**	£9m
Increase life expectancy by 1 year (2021: 1 year)	**£11m**	£13m

7 Capital management

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

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

The Group's objectives in managing its capital are:

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

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

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

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

Since 1 January 2016, the Company has been subject to the requirements of the Solvency II Directive and must hold sufficient capital to meet its Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations. The Company has a solvency ratio risk appetite at the balance sheet date of 160%. At 31 March 2022, under Solvency II, the solvency ratio was 183% (2021: 154%).

The Company is compliant with PRA and Solvency II requirements.

Notes to the Financial Statements

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.

		2022		2021
	£'000	£'000	£'000	£'000
Insurance activities		149,448		104,821
Other activities				
Inspection services	69,235		53,314	
Registration fee income	4,815		5,212	
Other services supporting the industry	10,265		6,446	
Other activities		84,315		64,972
Government grants				
Coronavirus Job Retention Scheme	-		3,657	
Voluntary repayment	-		(3,657)	
		-		-
		233,763		169,793

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

In prior financial year NHBC accessed the Government's Coronavirus Job Retention Scheme. NHBC made a decision to repay to the Government, in full, the grants that have been previously claimed. The repayment was made by the end of the financial year ended 31 March 2021.

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.

	2022		2021	
	Credit & suretyship	Miscellaneous	Credit & suretyship	Miscellaneous
	£'000	£'000	£'000	£'000
Gross premiums written	20,366	129,082	15,684	89,137
Gross premiums earned	16,289	51,794	14,824	48,995
Gross claims incurred	2,045	204,638	3,199	58,674
Gross operating expenses	1,733	10,984	1,609	9,149
Reinsurance balance	(837)	16,226	(968)	51,618

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

	2022	2021
	£'000	£'000
Net claims provisions brought forward at 1 April	265,983	293,711
Net payments during the year in respect of these provisions	(101,783)	(71,207)
Net claims provisions carried forward in respect of claims provided at 1 April	(282,970)	(262,188)
Movement in prior year's provision	(118,770)	(39,684)

11 Net operating expenses

	2022	2021
	£'000	£'000
Acquisition costs	2,837	3,395
Increase in deferred acquisition costs provision	(1,387)	(1,947)
Administrative expenses	11,267	9,310
Reinsurance commission	(142)	(21)
	12,575	10,737

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

	2022	2021
	£'000	£'000
Investment income		
Interest income on financial assets at amortised cost	10	6
Income from financial assets at fair value through consolidated statement of comprehensive income	27,407	31,127
Gains / (losses) on derivative contracts	12,165	(7,519)
Loss on sale of premises	(41)	-
Net gains from realisation of financial assets at fair value through consolidated statement of comprehensive income	5,860	7,008
	45,401	30,622
Investment management expenses on financial assets at fair value through consolidated statement of comprehensive income	(2,654)	(2,788)
Net unrealised (losses) / gains on financial assets at fair value through consolidated statement of comprehensive income	(19,703)	29,313
	23,044	57,147

Notes to the Financial Statements

Net interest expense on the defined benefit pension scheme £362,000 (2021: £276,000) is recognised in other charges within the consolidated statement of comprehensive income.

Interest payable £Nil (2021: £Nil) in respect of taxation is recognised in other charges within the consolidated statement of comprehensive income.

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

13 Employee information

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

	2022	2021
Insurance activities	**216**	200
Other direct activities	**725**	788
Administration	**179**	173
	1,120	1,161

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

Staff costs for the above persons were:

	2022	2021
	£'000	£'000
Wages and salaries	**55,047**	53,879
Social security costs	**6,988**	6,431
Pension costs	**8,013**	8,080
	70,048	68,390

14 Director emoluments

	2022	2021
	£'000	£'000
Aggregate emoluments	**1,856**	1,746
Company pension contributions to defined contribution schemes	**22**	22
	1,878	1,768

Retirement benefits are accruing to one director (2021: one) under the Group's defined contribution pension scheme and no directors (2021: 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.

Overview
Strategic Report
Governance
Directors' Remuneration Report
UK Gaap Financial Statements

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

	2022	2021
	£'000	£'000
Aggregate emoluments and benefits under long-term incentive schemes	572	550

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

The Directors' remuneration report on page 80 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

	2022	2021
	£'000	£'000
Audit services, pursuant to legislation:		
- Fees payable to the Company's auditors for the audit of the Company and Group financial statements	282	265
- The audit of the Company's subsidiaries, pursuant to legislation	11	10
- The audit of the occupational pension scheme, pursuant to legislation	15	10
Audit related assurance services:		
- Fees in respect of the audit of the Solvency and Financial Condition Report ("SFCR")	56	52
	364	337

15.2 Impairment of trade receivables

	2022	2021
	£'000	£'000
Impairment of trade receivables	64	169

15.3 Operating lease charges

	2022	2021
	£'000	£'000
Land and buildings	370	377
Motor vehicles	2,752	2,984
	3,122	3,361

Notes to the Financial Statements

15.4 Research and development

	2022	2021
	£'000	£'000
Research and development expenditure expensed	**645**	897

16 Income tax

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

		2022		2021
	£'000	**£'000**	£'000	£'000
Current tax				
UK Corporation Tax on profits for the year	**-**		4,388	
Adjustment in respect to prior periods	**(191)**		(82)	
Total current tax		**(191)**		4,306
Deferred tax				
Origination and reversal of timing differences	**2,227**		7,610	
Adjustment in respect of prior periods including impact of change in tax rate	**(2,894)**		-	
(Recognition) / De-recognition of deferred tax asset	**(5,693)**		(8,075)	
Total deferred tax		**(6,360)**		(465)
		(6,551)		3,841

16.2 Tax income included in other comprehensive income

	2022	2021
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**2,676**	(2,540)
Impact of change in tax rate	**-**	-
Recognition of deferred tax asset	**-**	(1,910)
	2,676	(4,450)

16.3 Reconciliation of tax charge

Tax assessed for the period is lower (2021: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

	2022	2021
	£'000	£'000
Profit / (loss) on ordinary activities before tax	**53,718**	69,945
Profit / (loss) multiplied by the standard rate of tax in the UK of 19% (2021: 19%)	**10,206**	13,290
Effects of:		
- Income not chargeable for tax purposes	**(8,086)**	(1,497)
- Expenses not deductible for tax purposes and permanent differences	**65**	69
- Adjustments in respect of prior years	**(192)**	(82)
- Adjustment to deferred tax charge in respect of previous periods	**(2,851)**	136
- Movement in un-recognised deferred tax asset	**(5,693)**	(8,075)
	(6,551)	3,841

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

16.4 Tax rate changes

A UK corporation tax rate of 25% from 1 April 2023 was substantively enacted on 24 May 2021, as a result deferred tax has been calculated at 25% as at 31 March 2022 (2021: 19%).

Notes to the Financial Statements

17 Land and buildings

The land and buildings have been revalued as at 31 March 2022.

	The Group and the Company
	£'000
Cost or valuation	
At 1 April	**10,231**
Additions	**-**
Revaluation	**160**
Disposals	**(525)**
At 31 March	**9,866**
Depreciation	
At 1 April	**486**
Charge	**172**
Revaluation	**(153)**
Disposals	**(5)**
At 31 March	**500**
Net book value at 31 March 2022	**9,366**
Net book value at 31 March 2021	9,745

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	
	2022	2021
	£'000	£'000
Freehold	**8,750**	9,025
Long leasehold	**290**	300
Short leasehold improvements	**326**	420
	9,366	9,745

All land and buildings are regularly revalued in accordance with the Group's stated accounting policy as set out in note 5.5. The last valuations were performed as at 31 March 2022. 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	
	2022	2021
	£'000	£'000
Cost	**13,749**	14,942
Accumulated depreciation based on cost	**(2,078)**	(2,083)
	11,671	12,859

The Group's impairment gain taken to the consolidated statement of comprehensive income amounted to £317,000 (2021: losses of £517,000).

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

18 Investment in Group undertakings and participating interests

18.1 Investment in participating interests - Group

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

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

18.2 Investment in Group undertakings - Company

	2022	2021
	£'000	£'000
At 1 April	**6,383**	6,405
Revaluation	**2,604**	(22)
At 31 March	**8,987**	6,383
Analysed as:		
NHBC Building Control Services Limited	**6,502**	4,897
NHBC Services Limited	**2,215**	1,216
PRC Homes Limited	**270**	270
NHBC Pension Trustee Limited	**-**	-
Zero Carbon Hub Limited	**-**	-
Gowan Close Management Company Limited	**-**	-
	8,987	6,383

Notes to the Financial Statements

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2022 they were as follows:

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

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

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

19 Debtors

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Insurance activities				
Debtors arising out of direct insurance operations	**10,571**	9,090	**10,571**	9,090
Debtors arising out of reinsurance operations	**-**	-	**-**	-
	10,571	9,090	**10,571**	9,090
Other debtors				
Trade debtors	**7,428**	6,931	**5,370**	5,049
Corporation tax	**1,000**	-	**1,000**	-
Other debtors	**2,414**	28	**2,414**	28
	10,842	6,959	**8,784**	5,077

Trade debtors includes £Nil (2021: £Nil) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £780,000 (2021: £774,000).

20 Deferred tax asset

	Group	Company
	£'000	£'000
At 1 April	**11,597**	**11,587**
Charge to the consolidated statement of comprehensive income	**6,360**	**6,410**
Charge to other comprehensive income	**(2,676)**	**(2,676)**
	15,281	**15,321**

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Trade Losses	**13,861**	7,474	**13,861**	7,474
Deferred tax related to defined benefit pension plan liability	**(14)**	4,113	**(14)**	4,113
Excess of depreciation over capital allowances	**1,076**	10	**1,116**	-
Other timing differences	**358**	-	**358**	-
	15,281	11,597	**15,321**	11,587

The annual review of the recoverability of the deferred tax asset has indicated that it is not probable that the Group will generate the taxable profits required to support the full recognition of the asset. As at 31 March 2022 deferred tax assets of £15,281,000 (2021: £11,597,000) have been recognised for the Group and £15,321,000 (2021: £11,587,000) for the Company, with additional deferred tax assets of £30,957,000 (2021: £29,995,000) for the Group and £30,957,000 (2021: £29,995,000) for the Company not being recognised.

Due to the indexation of the properties that the Group holds, it is unlikely that any gains will arise in the foreseeable future. Therefore, no deferred tax has been provided with respect to existing capital tax losses that arose on the disposal of buildings. The undiscounted value of these losses is £496,000 based on a prevailing tax rate of 25% (2021: £214,000 at 19%).

21 Tangible assets

The Group	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	7,109	5,454	12,563
Additions	171	271	442
Disposals	-	-	-
At 31 March	**7,280**	**5,725**	**13,005**
Depreciation			
At 1 April	6,014	5,223	11,237
Charge	608	117	725
Disposals	-	-	-
At 31 March	**6,622**	**5,340**	**11,962**
Net book value at 31 March 2022	**658**	**385**	**1,043**
Net book value at 31 March 2021	1,095	231	1,326

The Company	Computer equipment	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April	7,109	5,454	12,563
Additions	171	44	215
Disposals	-	-	-
At 31 March	**7,280**	**5,498**	**12,778**
Depreciation			
At 1 April	6,014	5,223	11,237
Charge	608	95	703
Disposals	-	-	-
At 31 March	**6,622**	**5,318**	**11,940**
Net book value at 31 March 2022	**658**	**180**	**838**
Net book value at 31 March 2021	1,095	231	1,326

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:

	2022	2021
	£'000	£'000
At 1 April	**14,326**	12,379
Acquisition costs deferred during the year	**2,837**	3,395
Amortisation	**(1,449)**	(1,448)
At 31 March	**15,714**	14,326

23 Insurance contract liabilities and associated reinsurance

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

The following is a summary of the Group insurance contract provisions and related reinsurance assets as at 31 March 2022.

	2022			2021		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	**(620,232)**	**305,483**	**(314,749)**	(538,867)	277,624	(261,243)
Claims outstanding	**(494,416)**	**212,011**	**(282,405)**	(392,325)	126,342	(265,983)
Unexpired risk reserve	**(385,249)**	**92,360**	**(292,889)**	(539,741)	142,383	(397,358)
	(1,499,897)	**609,854**	**(890,043)**	(1,470,933)	546,349	(924,584)

The following is a summary of the Company insurance contract provisions and related reinsurance assets as at 31 March 2022.

	2022			2021		
	Gross provisions	Reinsurance assets	Net	Gross provisions	Reinsurance assets	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Provision for unearned premiums	**(620,984)**	**305,483**	**(315,501)**	(539,525)	277,624	(261,901)
Claims outstanding	**(494,416)**	**212,011**	**(282,405)**	(392,325)	126,342	(265,983)
Unexpired risk reserve	**(385,249)**	**92,360**	**(292,889)**	(539,741)	142,383	(397,358)
	(1,500,649)	**609,854**	**(890,795)**	(1,471,591)	546,349	(925,242)

Notes to the Financial Statements

24 Insurance liabilities

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

24.1 Insurance product

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

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

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

Sections 3, 4 & 5: The policy periods for these Sections of Buildmark and Buildmark Choice begin after the end of Section 2 for a period of eight years, i.e., years three to ten following legal completion. Like Section 1, these Sections are exclusively concerned with obligations undertaken by NHBC to the homeowner to provide an indemnity in the event of certain events.

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

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

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

24.2 General methodology

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

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

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

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

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

24.3 Risk concentration

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

24.4 Assumptions

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

- Exceptional losses
- Builder approach to self-repair
- Social inflation
- Economic conditions - cost inflation (HRCI)
- Economic conditions - housing market
- Other material estimates
- Discount rate

24.4.1 Exceptional losses

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

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

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

NHBC is also exposed to large losses from individual developments.

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

24.4.2 Builder behaviour

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

Among other considerations, comparisons of claim frequencies between current and previously registered[9] builders are used to determine builder behaviour assumptions.

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.

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

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; and
- More specific issues such as more stringent Building Regulations and health and safety requirements.

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

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

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 firestopping related claims on high-rise blocks NHBC follows an approach reliant on further assumptions and actuarial approaches.

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

These estimates are then adjusted for expected recoveries.

24.4.7 Discount rate

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

24.5 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
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
At 1 April	**538,867**	497,865	**539,525**	498,480
Increase in provision	**81,365**	41,002	**81,459**	41,045
At 31 March	**620,232**	538,867	**620,984**	539,525

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £14.3m increase (2021: £13.5m 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	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
At 1 April	**392,325**	401,659	**392,325**	401,659
Increase / (decrease) in provision	**102,091**	(9,334)	**102,091**	(9,334)
At 31 March	**494,416**	392,325	**494,416**	392,325

24.7 Movements in the gross unexpired risk reserve

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

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
At 1 April	**539,741**	515,251	**539,741**	515,540
(Decrease) / increase in provision	**(154,492)**	24,490	**(154,492)**	24,201
At 31 March	**385,249**	539,741	**385,249**	539,741

Notes to the Financial Statements

24.8 Loss development tables[10]

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

Financial reporting year

£'000	0	1	2	3	4	5	6	7	8
Prior	771	10,231	27,167	41,646	57,838	63,615	76,026	77,390	88,611
2007	13	488	2,459	6,181	5,703	8,395	10,353	6,057	12,225
2008	42	965	4,219	4,152	7,584	5,255	9,664	13,398	12,557
2009	45	1,056	2,048	2,072	5,730	4,294	5,761	5,615	4,316
2010	97	673	2,452	2,580	3,880	3,467	4,014	3,974	6,062
2011	37	580	3,512	3,321	4,432	4,849	2,679	3,628	4,234
2012	15	566	2,305	1,809	3,176	2,279	2,495	4,264	25,746
2013	323	674	1,336	2,325	2,541	2,199	4,866	3,916	5,730
2014	89	777	1,355	2,987	2,687	4,329	2,284	3,255	11,475
2015	13	364	2,395	1,263	2,703	2,329	2,764	2,342	
2016	-	294	1,395	1,014	1,209	2,648	2,877		
2017	21	333	908	243	897	1,182			
2018	1	37	1,784	648	1,240				
2019	-	267	72	813					
2020	-	-	219						
2021	-	14							
2022	60								
Claims handling and other charge									

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

							Development year	
9	10	11	12	13	14	15	16+	Claims incurred in the financial year ended 31 March 2022
98,499	103,238	85,167	53,715	45,198	20,329	4,505	37,714	**624**
12,508	13,128	9,062	12,745	3,211	3,399	3,552		**3,552**
15,805	13,060	17,970	11,544	7,541	45,579			**45,579**
5,343	9,144	15,755	1,984	12,369				**12,369**
5,602	7,040	2,082	17,888					**17,888**
25,094	13,189	2,537						**2,537**
12,658	5,056							**5,056**
11,440								**11,440**
								11,475
								2,342
								2,877
								1,182
								1,240
								813
								219
								14
								60
								119,267
								(1,004)
								118,263

Notes to the Financial Statements

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	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
At 1 April	**277,624**	56,917	**277,624**	56,917
Increase in provision	**27,859**	220,707	**27,859**	220,707
At 31 March	**305,483**	277,624	**305,483**	277,624

The estimates of earnings profiles for all NHBC products are updated annually. The change in the estimate has resulted in a £7.3m increase (2021: £1.5m increase) in the gross provision for unearned premiums. The change was recognised in the Statement of Comprehensive Income, offset by movements in the unexpired risk reserve.

25.3 Movements in reinsurers' share of provision for claims

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

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
At 1 April	**126,342**	107,948	**126,342**	107,948
Increase in provision	**85,669**	18,394	**85,669**	18,394
At 31 March	**212,011**	126,342	**212,011**	126,342

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	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
At 1 April	**142,383**	69,771	**142,383**	69,771
(Decrease) / increase in provision	**(50,023)**	72,612	**(50,023)**	72,612
At 31 March	**92,360**	142,383	**92,360**	142,383

9 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.

26 Insurance contract sensitivity analysis

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

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

			2022		2021
Assumption	Sensitivity tested	Gross liability	Net liability	Gross liability	Net liability
	%	**£m**	**£m**	£m	£m
Increase in claim frequency	**+2.0**	**12.6**	**8.0**	13.9	8.5
Long-term HRCI inflation	**+1.0**	**63.9**	**40.8**	67.5	34.4
Discount rate	**-0.25**	**11.6**	**7.1**	12.2	7.4

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

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

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

Sensitivities relating to cladding and firestopping related claims are as follows:

- 10% increase in average claims cost / claims frequency will result in £6.5m increase in net insurance liabilities (2021: £4.3m increase)

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

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27 Creditors

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Creditors arising out of direct insurance operations				
Trade creditors	**7,321**	10,101	**7,321**	10,101
Builder deposits	**29,075**	26,416	**29,075**	26,416
	36,396	36,517	**36,396**	36,517
Other creditors				
Trade creditors	**1,260**	1,145	**1,260**	1,145
Amount due to subsidiary undertakings	**-**	-	**16,694**	11,575
Corporation tax	**-**	1,957	**-**	1,957
Other taxation and social security	**8,996**	6,874	**7,574**	5,848
Derivative financial instruments	**8,140**	2,230	**8,140**	2,230
Amounts due to financial institutions	**10,271**	-	**10,271**	-
Other creditors	**4,731**	5,842	**4,575**	5,640
	33,398	18,048	**48,514**	28,395

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 builder customers.

28 Post-employment benefits

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

		2022	2021
	Note	**£'000**	£'000
Defined benefit pension scheme	28.1		
Total market value of Scheme assets		**238,690**	236,383
Present value of Scheme liabilities		**(238,616)**	(258,033)
Surplus / (deficit) in the Scheme		**74**	(21,650)

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

	Note	2022 £'000	2021 £'000
Defined benefit pension scheme	28.1		
Interest income		**(4,842)**	(5,084)
Interest expense		**5,204**	5,360
		362	276
Defined contribution pension scheme	28.2	**8,013**	8,080
		8,375	8,356

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	2022 £'000	2021 £'000
Defined benefit pension scheme	28.1		
Experience (loss) / gains on assets		**(2,179)**	10,774
Actuarial gains / (losses) on liabilities		**16,844**	(38,440)
Experience (losses) / gains on liabilities		**(579)**	14,297
		14,086	(13,369)

28.1 Defined benefit pension scheme

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

The funding requirements of the Scheme are based on a separate actuarial valuation for funding purposes for which the assumptions differ from the assumptions disclosed below. The last valuation was performed on 31 March 2020. In order to value the defined benefit obligation at 31 March 2022, 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 2022.

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

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28.1.1 Principal financial assumptions

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

	2022	2021
	%	%
Consumer price inflation	**3.10**	2.50
Retail price inflation	**3.60**	3.30
Rate of increases (normally indexed)	**3.85**	3.60
Rate of increase (normally fixed)	**3.25**	3.25
Discount rate	**2.70**	2.05

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

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

28.1.2 Reconciliation of Scheme assets and liabilities

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 April 2021	236,383	(258,033)	(21,650)
Interest income / (expense)	4,842	(5,204)	(362)
Benefits paid	(8,356)	8,356	-
Actuarial loss on change of assumptions	-	16,844	16,844
Experience gain on liabilities	-	(1,557)	(1,557)
Change in value of money purchase transfer funds	(978)	978	-
Company contributions	8,000	-	8,000
Return on plan assets excluding interest income	(1,201)	-	(1,201)
At 31 March 2022	**238,690**	**(238,616)**	**74**

28.1.3 Total cost recognised as an expense

	2022	2021
	£'000	£'000
Interest expense	**5,204**	5,360

28.1.4 Fair value of Scheme assets

	2022	2021
	£'000	£'000
Equity instruments	30,364	39,732
Liability driven investments	97,128	83,099
Private market investments	8,447	5,831
Corporate debt instruments	16,879	17,644
Diversified growth funds	34,029	34,269
Diversified Credit Fund	45,054	46,902
Other and cash and cash equivalents	6,789	8,906
	238,690	236,383

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

28.1.5 Return on plan assets

	2022	2021
	£'000	£'000
Interest income	4,842	5,084
Return on plan assets excluding interest income	(1,201)	10,835
	3,641	15,919

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

28.1.6 Deficit funding contributions

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

	£'000
31 March 2023	8,000
31 March 2024	8,000
31 March 2025	8,000
31 March 2026	8,000
31 March 2027	4,000
	36,000

Nothing in the agreement precludes the Group from making payments of higher contributions or from making payments earlier than scheduled in the table above.

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28.2 Defined contribution pension scheme

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

	2022	2021
	£'000	£'000
Current period contributions	**8,013**	8,080

At 31 March 2022 contributions of £Nil (2021: £Nil) were outstanding.

29 Fair value methodology

29.1 Basis for determining the fair value hierarchy

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

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

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

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

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

- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads, and
- 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, and
- Cost approach, or current replacement cost approach, which reflects the amount that would be required currently to replace the service capacity of an asset.

There were no transfers between levels from prior year.

29.2 Fair value hierarchy analysis

The table below presents the analysis of the Group's assets and liabilities that have been measured at fair value by the fair value hierarchy as at 31 March 2022. 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	**-**	**-**	**9,366**	**9,366**
Other financial investments		**1,321,804**	**128,171**	**4,295**	**1,454,270**
		1,321,804	**128,171**	**13,661**	**1,463,636**
Liabilities at fair value					
Derivative financial instruments		**-**	**(8,140)**	**-**	**(8,140)**

The table below presents the analysis of the Group's assets and liabilities that have been measured at fair value by the fair value hierarchy as at 31 March 2021. The table excludes the defined benefit pension scheme deficit and insurance and reinsurance contracts.

		Level 1	Level 2	Level 3	Total
	Note	£'000	£'000	£'000	**£'000**
Assets at fair value					
Land and buildings	17	-	-	9,745	9,745
Other financial investments		1,632,816	10,102	-	1,642,918
		1,632,816	10,102	9,745	1,652,663
Liabilities at fair value					
Derivative financial instruments		-	(2,230)	-	(2,230)

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

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

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 as at 31 March 2021. 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	-	-	9,745	9,745
Investments in group undertakings and participating interests		-	-	6,383	6,383
Other financial investments		1,632,816	10,102	-	1,642,918
		1,632,816	10,102	16,128	1,659,046
Liabilities at fair value					
Derivative financial instruments		-	(2,230)	-	(2,230)

Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 121 and 147. Details of the Group and the Company's defined benefit pension scheme are disclosed on page 123 and 157.

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30 Financial instruments

The table below presents the Group and the Company's financial instruments, excluding insurance and reinsurance contracts. Details of the Group and the Company's insurance and reinsurance contracts are disclosed on page 121 and 147.

		Group		Company	
		2022	2021	**2022**	2021
	Note	**£'000**	£'000	**£'000**	£'000
Financial assets at fair value [11]					
Index-linked gilts		**439,936**	596,531	**439,936**	596,531
Fixed interest gilts		**19,001**	-	**19,001**	-
Super-national bonds		**88,284**	98,843	**88,284**	98,843
Overseas government bonds		**7,184**	-	**7,184**	
Corporate bonds		**666,648**	762,739	**666,648**	762,739
UK treasury bills and short-term deposits		**42,959**	35,977	**42,959**	35,977
Illiquid credit funds		**103,432**	87,767	**103,432**	87,767
Strategic asset allocation		**53,499**	52,024	**53,499**	52,024
Derivative financial instruments		**29,035**	2,202	**29,035**	2,202
		1,449,978	1,636,083	**1,449,978**	1,636,083
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	19	**17,999**	16,021	**15,941**	14,139
Other debtors	19	**3,414**	28	**3,414**	28
Deposits with credit institutions		**4,292**	6,835	**4,292**	6,835
Cash at bank		**31,901**	27,617	**31,451**	27,371
		57,606	50,501	**55,098**	48,373
Financial liabilities measured at fair value					
Derivative financial instruments	27	**8,140**	2,230	**8,140**	2,230
Financial liabilities measured at amortised cost					
Trade creditors	27	**8,581**	11,246	**8,581**	11,246
Other creditors	27	**53,073**	41,089	**51,495**	39,861
Amounts owed to group undertakings	27	**-**	-	**16,694**	11,575
		61,654	52,335	**76,770**	62,682

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

Notes to the Financial Statements

30.1 Derivative financial instruments

During the financial year the Group entered into forward currency contracts, interest rate swaps, and equity futures in order to mitigate certain equity and overseas bond risks. The Group also entered into inflation swaps to mitigate certain insurance liability risks. As at 31 March 2022 the Group and Company held the following unexpired derivatives:

			2022			2021
	Notional value	Asset	Liability	Notional value	Asset	Liability
	£'000	£'000	£'000	£'000	£'000	£'000
Currency forwards	182,439	193	(2,887)	78,561	167	(406)
Interest rate swaps / futures	470,086	20,368	(3,425)	96,281	1,238	(1,060)
Inflation swaps	117,603	8,474	(1,828)	118,687	725	(442)
Equity futures	-	-	-	38,045	72	(322)
		29,035	(8,140)		2,202	(2,230)

31 Note to the statement of cash flows

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

	2022	2021
	£'000	£'000
Profit for the financial year	60,269	66,104
Tax on profit on ordinary activities	(6,551)	3,841
Profit on ordinary activities before tax	53,718	69,945
Depreciation and decrease in value of assets	897	1,041
(Increase) / decrease in revaluation reserve	(317)	517
Decrease in technical provisions	(34,541)	(255,555)
Realised (gains) / losses on investments and fixed assets	(13,094)	631
Decrease / (increase) in unrealised gains on investments	10,695	(29,893)
Increase in insurance debtors	(1,481)	(793)
(Increase) / decrease in other debtors	(2,883)	568
Decrease / (increase) in prepayments and accrued income	212	(3,427)
(Decrease) / increase in insurance creditors	(121)	6,501
Increase in other creditors	1,126	4,721
(Decrease) / increase in accruals and deferred income	(211,013)	242,459
Differences on recognition of defined benefit pension scheme	(7,638)	(7,724)
Interest received	(28,124)	(31,187)
Payments to acquire investments	(794,849)	(504,761)
Receipts from disposal of investments	1,009,155	396,236
Net cash flow from operating activities before interest received	(18,258)	(110,721)

32 Provisions for other liabilities

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

33 Contingent liabilities

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

34 Capital and other commitments

At 31 March 2022, the Group has committed to a deficit repair plan in respect to its defined benefit pension scheme. The particulars of the arrangement are outlined in note 28.1.6 - Deficit funding contributions. The Group and the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2022	2021
	£'000	£'000
Within one year	**2,268**	1,748
Between one and five years	**2,805**	564
Over five years	**-**	-
	5,073	2,312

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

In the financial year, NHBC has committed, as part of a subscription agreement, to invest into a private investment fund. Outstanding commitment as at 31 March 2022 was £18.2m (2021: £17.4m). It is projected that NHBC will fully meet its commitment in the financial year ending 31 March 2023.

35 Related party transactions

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

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

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

	2022	2021
	£'000	£'000
Contributions to CCHB	**224**	235
Amount due from NHBC	**-**	-

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

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

Notes to the Financial Statements

36 Reserves

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

37 Loss Portfolio Transfer

In the prior financial year, NHBC entered into a quota share reinsurance agreement, the Loss Portfolio Transfer (LPT). Under this agreement the reinsurer agreed to provide 75% quota share reinsurance with respect to certain Buildmark policies with registration dates between 1 April 2015 and 31 March 2019 (inclusive).

The table below is a summary extract of NHBC's Consolidated Statement of Comprehensive Income. It shows the Consolidated Statement of Comprehensive Income before placement of the LPT, the effect of the placement of the LPT on the Consolidated Statement of Comprehensive Income, and the Consolidated Statement of Comprehensive Income after placement of the LPT.

	2021	2021	2021
	Pre-LPT	LPT	Post-LPT
	£'000	£'000	£'000
Earned premium, net of reinsurance	**58,370**	**(34,907)**	**23,463**
Allocated investment return transferred from the non-technical account	**27,716**	**-**	**27,716**
Claims incurred, net of reinsurance	**(77,139)**	**33,660**	**(43,479)**
Changes in other technical provisions, net of reinsurance	**21,871**	**26,251**	**48,122**
Net operating expenses	**(10,732)**	**(5)**	**(10,737)**
Balance on the technical account for general business	**20,086**	**24,999**	**45,085**

The table below is a summary NHBC's Consolidated Statement of Financial Position. It shows the Consolidated Statement of Financial Position before placement of the LPT, effect of the placement of the LPT on Consolidated Statement of Financial Position, and the Consolidated Statement of Financial Position after placement of the LPT.

	2021	2021	2021
	Pre-LPT	LPT	Post-LPT
	£'000	£'000	£'000
Total assets			
Investments	1,652,663	-	1,652,663
Reinsurers' share of technical provisions	291,472	254,877	546,349
Debtors	27,646	-	27,646
Other assets	28,943	-	28,943
Prepayments and accrued income	36,732	1,143	37,875
Total assets	2,037,456	256,020	2,293,476
Total liabilities			
Reserves	405,833	24,999	430,832
Technical provisions	1,469,785	1,148	1,470,933
Creditors	54,565	-	54,565
Accruals and deferred income	85,623	229,873	315,496
Defined benefit pension plan deficit	21,650	-	21,650
Total liabilities	2,037,456	256,020	2,293,476

The LPT reinsurance premium of £228,730,087 was not settled as at 31 March 2021. The reinsurance premium liability was included in the Accruals and deferred income balance. The liability was settled in May 2021.

38 Liability of members

At 31 March 2022 there were 50 (2021: 50) members of the Council. Under the Articles of Association, the liability of each of the members is limited by guarantee to a maximum of £1.

Meanings of key words and phrases

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

attritional losses	Claims less than £1m in value
Bornhuetter-Ferguson technique	A method for calculating an estimate of an insurance company's losses. The Bornhuetter-Ferguson technique, also called the Bornhuetter-Ferguson method, estimates incurred but not yet reported losses for a policy year
builder, customer, builder customer, registered customers, registered builders	The person, firm or company who is responsible for building a home
Buildmark	The protection NHBC and the builder provide for a home
claim outstanding	The amounts provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the reporting date, including incurred but not reported claims and claims handling expenses, less amounts already paid in respect of those claims
claims handling	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the overhead costs) which are separate to the cost of settling the claim itself with the policyholder
consumer, homeowner, policyholder	The person (or people) who entered into the contract for a home, or any person (or people) who take over the freehold, commonhold or leasehold title of the property, or, where this applies, any mortgage provider who has taken possession of a home
deferred acquisition costs	Costs arising from the conclusion of insurance contracts that are incurred during a reporting period, but which relate to a subsequent reporting period
exceptional losses	Claims over £20m in value
FCA	Financial Conduct Authority. The regulatory authority with responsibility for the conduct of the UK financial services industry
gross written premium	Total revenue generated through sale of insurance products before considering reinsurance and is stated irrespective of whether payment has been received
large losses	Claims between £1m and £20m in value
net earned premium	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period
net incurred claims	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both 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

Notes

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