Annual report and accounts

2021

HSB Engineering Insurance Limited

HSB

A Munich Re company

Contents

Company information

Company Number
2396114

Directors
G Barats (Non Executive Director)
J Herdman (Independent Non Executive Chairman)
D Firstenberg (Non Executive Director) – appointed 19 April 2021
S Morris
A O'Reilly
P Richter (Non Executive Director)
C Scarr (Independent Non Executive Director)
S Worrall

Company Secretary
K Close-Smith

Registered Office
New London House
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Auditor
Ernst & Young LLP
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Strategic report

The Directors present to the members of HSB Engineering Insurance Limited (the 'Company') the Strategic report for the year ended 31 December 2021. The results for the year for the Company are set out in the financial statements on pages 24 to 59.

Principal activities

The Company is an insurance company underwriting engineering and related property risks, which are primarily located in the United Kingdom (UK) and the Republic of Ireland (ROI), through its UK operation and Third Country Branch in ROI. The insurance solutions and services which the Company provides are underpinned by a high level of engineering, technology and claims management expertise.

The Company has a wholly owned subsidiary undertaking, The Boiler Inspection and Insurance Company of Canada, which underwrites engineering risks in North America, and a wholly owned non-insurance subsidiary company in the UK, HSB Engineering Insurance Services Limited, which provides inspection and consultancy services on plant and equipment in the UK and ROI. The Company is a wholly owned indirect subsidiary of Munchener Ruckversicherungs-Gesellschaft Aktiengellschaft (Munich Re).

Business review and outlook

The results of the Company for the year, as set out on pages 24 and 25, show profit of £15,860,000 (2020: £13,386,000). As at 31 December 2021, the total net assets of the Company were £106,639,000 (2020: £103,960,000). The Company reported an improved operating performance in 2021, with a gross combined operating ratio of 90% (2020: 94%) and a net combined operating ratio of 90% (2020: 97%).

The Company's total gross written premiums for the year were £84,179,000, which represented an increase of 24% on 2020. This reflected continued strong growth across all the Company's core business lines in the UK and ROI, aided by growth in the Company's online broker trading platform, new product innovations and growth in the latent structural defects insurance book.

Total interest income on investments for the year was £2,737,000 (2020: £2,764,000), which represented a 2.3% return on the value of investments held at 31 December 2021 (2020: 3.0%). The Company's adopts a conservative investment strategy, with investments maintained to support the capital position and liquidity. The Company's investment custodian is State Street and its investment manager is MR Group Investment US Inc, which outsources certain of its activities to Munich Ergo Asset Manager of New York.

The Company has adopted the standard formula for the calculation of its capital requirements as defined under policies the Prudential Regulation Authority (PRA) adopted from Solvency II. The solvency coverage as at 31 December 2021 was 220% (2020: 242%). The decrease in coverage since 2020 was driven by the ring fencing of funds required to support the implementation of the Company's Third Country Branch in ROI, which was approved by the Central Bank of Ireland with effect from 1 January 2021. This implementation was as a response to the UK's exit from the European Union and it enables the Company to continue to operate in the ROI going forward. The Company's capital coverage is substantially above the Company's Solvency Capital Requirement and it is forecast to remain strong over the business planning horizon.

In November 2021, the Company announced that, subject to regulatory approval, it has agreed to purchase a group of companies, referred to as the 'MD Group', which specialises in UK structural warranties and building surveying and which includes the well-known Premier Guarantee and LABC Warranty brands. MD Group includes MD Insurance Services Limited, a regulated Managing General Agent, which provides structural warranty insurance products, together with several inspection services operations, which provide warranty inspections, technical guidance, specialist claim investigation services and remedial contract works services. The acquisition complements the Company's existing business model and supports the Company's UK growth strategy and ambitions by expanding its specialist core insurance offerings and enhancing its distribution capabilities within the UK construction sector. The Company is targeting completion of the acquisition in 2022 subject to regulatory approval.

Strategic report *(continued)*

During 2021, the Company continued to operate its emergency incident response plan in response to the COVID-19 pandemic, prioritising in particular the safety and wellbeing of employees. Whilst offices remained open and were used on occasion by staff, the Company continued to operate with mainly remote working for all employees and all business critical activities continued to be delivered well throughout the year.

Key performance indicators ('KPIs')

The Board of Directors (the Board) monitors the financial performance of the Company by reference to the following KPIs:

	2021 £'000	2020 £'000	
Gross written premiums	**84,179**	67,904	Total premiums receivable for the whole period
Net written premiums	**78,787**	64,766	Gross written premium less outward reinsurance in respect of insurance contracts.
Gross loss ratio	**35%**	41%	Ratio of gross claims incurred to gross earned premiums.
Gross combined operating ratio	**90%**	94%	Ratio of gross claims incurred, commissions and expenses to gross premiums earned.
Net combined operating ratio	**90%**	97%	Ratio of net claims incurred, commissions and expenses to net earned premiums.
Solvency capital cover	**220%**	242%	Capital cover as calculated under the PRA regulatory standard formula adopted from Solvency II.

Future developments

The Company's vision is to become the customer's first choice for engineering and technology insurance solutions and services, by providing best in class products and customer experience underpinned by an effective distribution model and an efficient operating platform. The Company has in place a 2025 Ambition and strategy that provides a commitment to delivering against ambitious and profitable financial targets.

The Company's strategy is to continue to profitably grow its market share in transactional engineering and technology lines of business in the UK and ROI and to expand its portfolio of specialist 'white label' insurance products that are distributed through its strategic partners. This growth is also targeted through further development and innovation within the Company's core product lines, including insurance solutions that leverage technological advancements, as well as developing new channels and partners to distribute its products. There were no significant changes to the Company's strategy since the prior year.

The Company made good progress during 2021 towards its 2025 Ambition growth targets, delivering revenue growth across its core product lines in the UK and ROI. The planned addition of the MD Group of companies is intended to further support the Company's growth targets and enable its 2025 Ambition.

The Company continues to give consideration to the developing risks arising from COVID-19 within its internal risk assessments and is actively monitoring the situation and adapting as required. The Company has also considered any potential risks arising from the recent Russian invasion of Ukraine and, whilst there are no significant direct impacts on the Company, there is increased risk of short and medium term adverse impacts on the UK and ROI economy, which has been accounted for in the Company's forward looking financial and strategic plans, and the situation is being closely monitored.

Section 172 Statement

This section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

Strategic report *(continued)*

The Board of Directors (the Board) is ultimately responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company and for ensuring that the Directors' obligations to its shareholder and to its stakeholders are met. The Board seeks to understand the respective interests of its stakeholders so that these may be properly considered in the Board's decisions. It does this through various methods, including direct engagement by Board members with key stakeholders; receiving reports and updates from members of management who engage with stakeholders; and coverage in Board papers of relevant stakeholder interests with regard to proposed courses of action.

It is the Company's policy to maintain and develop the diversity of its Board without compromising on the calibre of new directors appointed. Appointments to the Board are based on merit while complementing the existing diversity of skills, knowledge and experience of the Board as a whole.

The likely consequences of any decision in the long term

The Company's 2025 Ambition provides a commitment to ambitious financial targets whilst continuing to add value to its customers, employees and communities. The Board actively oversees progress made towards meeting the targets set out as part of this strategy. The Board ensures employees are engaged with the strategy via regular communications, quarterly all employee meetings, team meetings and culture and brand workshops. Principal risks and uncertainties are identified and closely monitored on an ongoing basis as part of the Board's forward-looking approach. The Board particularly focused on the long term consequences, particularly in relation to the capital position of the Company when determining the strategy towards the acquisition of the MD Group.

The interests of the company's employees

One of the Company's key priorities is to promote the physical and mental wellbeing of its employees. This has been a particular focus over the last two years, to support employees through the COVID-19 pandemic. The benefit offering to all employees includes private medical insurance, an employee assistance programme, training and development programmes and wellbeing workshops.

The Company's strategy is underpinned by employee engagement and talent development. The Company values a working environment that is built on inclusivity and diversity and is dedicated to providing a workplace where employees are safe, respected and treated with dignity.

In the last year the Company has commenced a number of activities to ensure it continues to strengthen and build on its inclusive culture, thereby enabling the business and its employees to realise their full potential. During 2021 the Company, together with its Munich Re peers in the UK and ROI, established a dedicated Diversity and Inclusion Group, which has run a series of events and awareness sessions to promote our drive for inclusivity in the workforce.

The Diversity and Inclusion Group focuses on 3 key workstreams; Gender, Race and Ethnicity and Inclusion. The Company has representatives on all 3 workstreams who share the strategic objectives to educate and inform our workforce on the benefits and risks of Diversity and Inclusion activity. Some of the initiatives undertaken by the workstreams include providing access to educational materials, third party experts and HR strategy development.

The need to foster the company's business relationships with suppliers, customers and others

The Company's vision is to be the customer's first choice for engineering and technology insurance services. During 2021 the Company implemented a Customer Experience Committee, with the objective of driving activities to deliver excellent customer service. The Committee comprises members from customer facing and support functions and it has made good progress during the year in enhancing the Company's culture of customer excellence. The Company is a member of the Institute of Customer Service (ICS), demonstrating its commitment to continually improving customer service performance and professionalism. The Company frequently seeks customer feedback, and it undertakes an annual customer survey, organised through the ICS, and runs focus groups with employees to review the results and determine action plans for improvements.

Strategic report *(continued)*

All supplier related activity is managed in line with the Company's Procurement and Outsourcing policies, which ensure that supply risk is managed appropriately including customer outcomes, data security, corporate responsibility, financial, operational, contractual and brand considerations.

The Company is committed to the 10 principles of the UN Global Compact which cover the areas of human rights, labour standards (covering modern slavery), environmental protection and corruption prevention. The Board has oversight of the actions taken to prevent modern slavery and associated practices in any part of the supply chain and approves the Company's Modern Slavery Act statement each year.

The impact of the company's operations on the community and the environment

The Company recognises that it is part of the wider community and wishes to play its role in supporting charitable organisations. The Company launched the HSB Charity Committee in 2008 and since then has supported many charities. In 2021 the Company made donations to charity of over £39,000. Employees are also given up to two days leave each year to participate in charitable or volunteer work.

The Company's ultimate parent, Munich Re, has adopted a comprehensive climate protection programme for the entire Munich Re Group, the Climate Ambition, with the goal of acting as a role model on the topic of climate protection. Munich Re is committed to the Paris goal of achieving net-zero carbon emissions by 2050.

At a local level, the Company aims to achieve environmental best practice throughout its processes wherever possible. The Company has an Environmental, Social and Governance (ESG) Committee of the Board, which is focused on identifying relevant risks and overseeing the Company's strategy in respect of ESG-related matters in order to contribute to the Munich Re Group's Climate Ambition. Over recent years, the Company has made targeted efforts to digitise operations and implement more agile working practices.

The desirability of the company maintaining a reputation for high standards of business conduct

As part of the Munich Re Group, it is important that the Company continues to be known for its all-round professionalism and the quality of its service. The Company looks to build relationships with all stakeholders based on openness and continuing dialogue. The Company's culture is shaped, in conjunction with its indirect parent company, The Hartford Steam Boiler Inspection and Insurance Company (HSBIIC), and its ultimate parent, Munich Re, by jointly held and clearly defined values to help ensure it does the right thing.

The need to act fairly between members of the company

The Company's strategy is directed by the common values and ambitions shared with its parent and ultimate parent companies and it regularly reports on its progress towards its strategy to its parent companies.

Risk management

The Company adopts a transparent and consistent approach in the design of its risk management framework, applying the Risk Management Principles set out by the Company's immediate and ultimate parent companies. The Company considers risks proportionately, ensuring ownership and accountability throughout the organisation, having several levels of independent oversight in place. The risk framework also ensures staff are well trained and risk management practices and principles are embedded across the organisation.

The Board is collectively responsible for setting the strategic direction of the Company and defining the overall tolerance for risk, including the review of major risk exposures and the establishment of risk limits in material areas. The Board also is ultimately responsible for risk governance, ensuring the Company operates within an established and effective risk framework of internal control systems, policies and procedures that are also compliant with applicable laws and regulations.

The Executive Committee of the Board supports the delivery of the Company's strategy through overseeing the development and delivery of the Company's business plans and financial plans; overseeing the development and implementation of policies and procedures; and identifying and assessing emerging risks and issues along with overseeing associated actions.

Strategic report *(continued)*

The ROI Branch Management Committee was formed in 2021 as a sub-committee of the Board to oversee risks specific to the operation of the ROI Third Country Branch.

The Environmental, Social and Governance (ESG) Committee was also formed in 2021 as a sub-committee of the Board. It is responsible for identifying relevant risks and overseeing the Company's strategy in respect of ESG-related matters in order to contribute to the Munich Re Group's Climate Ambition.

The Audit Committee is responsible for overseeing that the Company has in place an appropriately designed and effective internal control framework to manage financial reporting and audit risks.

The Risk Committee is responsible for overseeing the appropriateness and effectiveness of the Company's strategies, processes and internal controls pertaining to compliance and risk management.

The Company's day to day risk governance is managed by sub-committees of the Risk Committee, being the Compliance and Risk Group and the Underwriting and Claims Group. The Compliance and Risk Group is comprised of function heads from across the business and is responsible for supervising day to day risk management and compliance advice, monitoring and oversight activities as delegated by the Risk Committee, within the risk appetite and tolerances set by the Board. The Underwriting and Claims Group is a working group which is focused on the specific risks facing underwriting and claims.

The Remuneration and Nominations Committee is responsible for advising the Board on matters relating to Board's membership, Committee memberships and related appointments and for oversight of the Company's implementation of and compliance with the Munich Re remuneration policy.

The Pensions Governance Committee is responsible for overseeing the Company's defined contribution pension scheme and is a sub-committee of the Remuneration and Nominations Committee.

The Charity Committee is responsible for overseeing the Company's charitable donations and is a sub-committee of the Executive Committee.

The Customer Experience Committee was formed in 2021 with the objective of driving activities to deliver excellent customer service and it reports to the Executive Committee.

Independent Risk and Compliance functions are in place to develop, implement, monitor and improve organisational measures needed to ensure legally correct and responsible conduct by the Company and its employees. These functions also provides challenge to the business stakeholders on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place and any actions being progressed. These functions also provide advice and guidance on the impact of regulatory changes.

The Internal Audit function, which is outsourced to an affiliate company within the Munich Re Group in the UK, undertakes regular risk-based audits to independently assess the quality of business processes and controls, reporting the results of its findings to the management team of the Company and to the Audit Committee.

Principal risks and uncertainties

The major categories of risk exposure for the Company are summarised below.

Underwriting risk

The Company has identified that the principal risks from its general insurance business would most likely arise from inaccurate pricing; fluctuations in the timing, frequency and severity of claims compared to expectations; inadequate reinsurance protection; and inadequate reserving or from accumulations to perils such as natural catastrophe or cyber risk events. These risks are managed through underwriting and reinsurance strategies that emphasise appropriate profitability, which are set by management under supervision by the Board and are communicated throughout the business via policy statements and internal guidelines. For information on exposure to underwriting risk refer to note 25c of the financial statements.

Strategic report *(continued)*

Financial risk

The Company's activities are exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, a key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are market risk, credit risk and liquidity risk.

a) Market risk

Market risk is defined as the risk of economic losses resulting from price changes on the money and capital markets. The Company's main exposure to market risk arises principally from currency risk, interest rate risk and spread risk.

Currency risk

The Company operates internationally and is exposed to currency risk in respect of liabilities under policies of insurance and reinsurance denominated in currencies other than the British pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The most significant currencies to which the Company was exposed in 2021 were the Canadian Dollar through its investment in its Canadian subsidiary and, operationally, to the Euro and the United States Dollar. The Company sets risk tolerance limits for foreign currency exposure and seeks to manage currency risk from operations as part of the liability-driven investment approach by matching, wherever possible, the estimated foreign currency denominated liabilities with assets denominated in the same currency that also have a similar maturity profile to the liabilities they are seeking to match. The Company does not use derivatives to manage its currency (or other) risks. For information on exposure to currency risk refer to note 25d(iii) of the financial statements.

Interest rate risk

The Company has exposure to interest rate risk through the variability of the interest income receivable on its financial investment portfolio and the valuation of that fixed rate investment portfolio. The Company seeks to manage this risk as part of its liability-driven investment approach. In addition, to the extent that claims inflation is correlated to interest rates, liabilities are also potentially exposed to interest rate risk. The Company has no significant interest-bearing financial liabilities. For information on exposure to interest rate risk refer to note 25d(iii) of the financial statements.

Spread risk

Spread risk arises from the sensitivity in the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure. The Company is exposed to this risk through its investment portfolio, which includes corporate bonds. Spread risk is managed by the Company through setting limits on the proportion of the investment portfolio subject to spread risk and through setting minimum credit quality levels for invested assets.

b) Credit risk

Credit risk is defined as the risk of financial loss as a result of a change in the financial position of a counterparty. The Company is exposed to credit risk from risk-mitigating contracts such as reinsurance, cash and cash equivalents and deposits with banks and financial institutions. The Company is also exposed to credit risk on receivables from intermediaries and policyholders. The Company monitors its exposure to all counterparties and takes corrective action if required to ensure all sums are collected on a timely basis. Maximum counterparty limits and minimum credit ratings are in place for all issuers of investments held by the Company. For information on exposure to credit risk refer to note 25d(i) of the financial statements.

Reinsurance is used to manage insurance risk. This does not, however, discharge the liability of the Company as a primary insurer. If a reinsurer fails to pay a claim, the Company, as primary insurer, remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any reinsurance contract. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

c) Liquidity risk

Liquidity risk is defined as the risk that funds are not available to meet obligations at a reasonable time or at a reasonable cost. This risk is managed through cash management activities to ensure the Company maintains sufficient cash and through control of the marketable investment portfolio to ensure funds are available to meet obligations. For information on exposure to liquidity risk refer to note 25d(ii) of the financial statements.

Operational risk

Operational risk is defined as the potential losses resulting from inadequate processes, technical failure, human error or external events, including cyber security events and global pandemics. The Company adopts a range of measures to mitigate operational risk exposure and respond to incidents. Emphasis is placed on the selection and training of managers and staff and the provision of effective guidance, through such measures as documented policies and procedures, operating manuals and system controls. In addition, the Company undertakes regular compliance certification of processes and controls, maintains business continuity plans and undertakes regular operational event reporting and monitoring.

During 2021 the Company continued to closely monitor the risks associated with the COVID-19 pandemic, with the operational response managed by the Emergency Management Group, with oversight from the Risk Committee.

The Company uses an Operational Risks Control System reporting application to document and formally assess operational risks and controls. This system is used to focus attention on any identified weaknesses and action plans are put in place to mitigate if any weakness is identified. This is used as a basis for review and challenge by management, the Compliance and Risk Group, the Audit Committee, the Risk Committee and the Board.

The Company's operational risk management framework includes the management of taxation risk. The Company is committed to acting in a prudent and responsible manner and to be an open, transparent and dependable taxpayer. The Company's tax strategy is published on its website.

Reputational risk

Reputational risk is defined as the risk that adverse publicity regarding the Company's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the Company. Reputational risk is controlled within the framework of the Operational Risk Control System and by setting high ethical standards in the employee code of conduct. Reputational risks may result from the realisation of other risks, for example strategic risk or group risk, therefore reputational risks are controlled indirectly through the control of the respective risks and risk types.

Strategic risk

Strategic risk is defined as the risk of making wrong business decisions, implementing decisions poorly, or being unable to adapt to changes in the Company's operating environment. The Company counters strategic risks by closely interlinking strategic decision-making processes with risk management. This process gives consideration to the Company's Own Risk and Solvency Assessment to manage the capital requirements and to ensure the Company has the financial strength and capital adequacy to support the objectives of the business over the long term.

Strategic report *(continued)*

As part of its consideration of strategic risk, the Company assessed the risks arising from the proposed acquisition of the MD Group of companies and ensured action plans were established to mitigate the risks. The most significant risk was that the acquisition could strain the Company's strong capital position. This is mitigated by the funding for the acquisition being provided by a capital injection to the Company from the Company's ultimate parent, Munich Re. There is also a key risk that the acquisition of the MD Group could increase barriers to exit should the Company wish to discontinue writing the existing book for which it currently provides capacity to the MD Group. The existing book is a growth area for the Company and the risk of wishing to exit is mitigated by the good performance of the book supported by close monitoring. Additionally, the acquisition could lead to uncertainty for employees, leading to potential for reduced productivity or loss of key staff. This is being managed through a comprehensive communication and engagement strategy for all employees. Other risks include the potential for resource strain on the Company's staff as they work to integrate the acquired businesses into the HSB Group, and this is being managed through a dedicated project team and programme of work to manage the integration.

Group risk

Group risk is defined as the risk of any activity, circumstance, event or series of events involving one or more affiliates of the Company that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or liquidity of the Company. Given the limited level of influence which the Company has over its exposure to group risk from sources other than its own subsidiaries, it relies on its capital management policy to maintain adequate financial resources.

Outsourcing risk

The Company is reliant on outsourced arrangements for the provision of certain services, which are performed by third parties or other entities within the Munich Re Group, in particular investment management activities performed by MR Group Investment US Inc and Munich Ergo Asset Manager of New York and various services provided by other Munich Re entities, including reinsurance support services, IT support activities and Internal Audit services, some of which are 'material outsourcing' arrangements as defined under the Solvency II directive adopted into the PRA framework. Where services are outsourced, the Company applies the same risk management and monitoring framework as though the services were provided in-house. With all material outsourcing arrangements there is a regular flow of information between the Company and the outsourced service providers and active performance monitoring by the Company in order to mitigate and manage the associated risks.

Regulatory and legal risks

The legal and regulatory environment is subject to continuous change in many of the jurisdictions in which the Company operates, including developments in response to changes in the economic and political environment. The Company continues to monitor the developments and respond accordingly. The Company's Legal, Compliance and Risk functions and, where appropriate, external advisors, support management and the Board in identifying and implementing necessary steps to ensure the Company remains compliant with applicable regulatory and legal requirements. The Company is required to comply with the PRA regulatory capital reporting framework and to maintain its own funds at a level which meets the Solvency Capital Requirement. Compliance is reviewed on a quarterly basis by the Risk Committee.

Climate change risks

The Company faces a range of risks and opportunities arising from future climate change, including the impact on underwriting performance and pricing, impacts to future UK economic growth and impacts on investment market valuations from transitioning to a low carbon economy. Opportunities include the potential to develop services and insurance solutions to aide customers in managing their response to climate change. The Company has determined that the physical and transition risks from climate change do not currently pose a material risk to the Company. Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently the future outcomes are not yet known. The Company's ESG Committee is responsible for overseeing the Company's response to climate change and for driving activities to ensure climate change risks and opportunities are appropriately considered in the Company's business strategy.

Strategic report *(continued)*

Geopolitical risks

The Company is inherently exposed to the recent rising geo-political tensions, specifically the Russian invasion of Ukraine, which gives rise to an additional source of uncertainty for global financial markets and potential for increased inflation over a sustained period. The potential exposure is mitigated by the Company's low-risk investment portfolio, responsible investment strategy and product pricing strategies.

On behalf of the Board

S Worrall
Managing Director
23 March 2022

Registered Number: 2396114

Directors' report

The Directors present to the members of HSB Engineering Insurance Limited their Directors' report and the audited financial statements of the Company for the year ended 31 December 2021.

The Company is an insurance company underwriting engineering and related property risks, which are primarily located in the United Kingdom (UK) and the Republic of Ireland (ROI), through its UK operation and ROI branch.

Directors

The Directors who held office during the year and up to the date of approval of this Directors' Report were as follows:

G Barats	A O'Reilly
J Herdman	P Richter
S Morris	C Scarr
D Firstenberg	S Worrall

D Firstenberg was appointed on 19 April 2021.

Directors' qualifying third party and pension indemnity provisions

The Company, through its ultimate parent company, Munich Re, purchased and maintained liability insurance for its Directors and Officers as permitted by section 233 of the Companies Act 2006.

Results and dividends

The profit for the year before taxation was £15,860,000 (2020: £13,386,000). During the year, the Directors declared and paid a dividend of £8,359,000 (2020: £8,362,000). The Directors do not recommend the proposal of any further dividend in respect of the year ended 31 December 2021 (2020: £nil).

Streamlined Energy and Carbon Reporting

The following data is set out to demonstrate compliance with the Streamlined Energy and Carbon Reporting (SECR) requirements set out by HM UK Government in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The Company aims to achieve environmental best practice throughout all processes wherever possible. Throughout the year, the Company has continued to evaluate and implement sustainable initiatives, with the objective of reducing the Company's environmental footprint. The Company operates an agile working policy for all office based employees, partly mitigating the necessity for staff to utilise transport to commute to work. The Company has also continued the promotion of electric vehicles in its fleet of company vehicles.

	Year to 31 December 2021	Year to 31 December 2020
Energy consumption (kWh)		
Electricity	**210,000**	214,000
Transport fuel	**2,839,000**	3,546,000
Emissions (kg CO2e)		
Electricity	**48,000**	50,000
Transport fuel	**2,000**	10,900
Energy intensity kWh/£'000	**36.22**	55.37

Directors' report *(continued)*

Energy intensity is determined using total energy consumption from electricity and transport fuel per gross premiums written. Energy consumption is presented for the Company and its subsidiary, HSB Engineering Insurance Services Limited for their operations in the UK and ROI.

Greenhouse Gas (GHG) emission sources are reported on a carbon dioxide emissions equivalents basis (CO2e) as required under the Companies Act 2006 (Strategic report and Directors' reports) 2013 Regulations. Emission factors have been determined in line with GHG Protocol Corporate Accounting and Reporting Standard, using data from the UK Government's GHG Conversion Factors for Company Reporting.

Political contributions

There were no political contributions made by the Company during the year (2020: none).

Policy and practice on payment to creditors

It is the policy of the Company to settle the terms of payment with all suppliers when agreeing the terms of each transaction when orders for goods and services are placed and to pay in accordance with those terms, ensuring persons are aware of the terms and abide by them.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The Statement of financial position shows net assets for the Company as at 31 December 2021 of £106,639,000. The financial statements are prepared on a going concern basis and the directors' assessment covers a period of 12 months from the date of approval of the financial statements up to 24 March 2023.

In considering the appropriateness of the going concern basis, the directors considered multiple different stress scenarios based on those considered to be key risks for the Company from its internal risk reports and emerging risk management activities, including input from the Compliance and Risk Group and Risk Committee. Amongst the key risks assessed were the potential impact of future risks associated with climate change. The Company considered the impact of the ongoing Covid-19 pandemic on the Company's expected future operational and financial performance and its capital adequacy position as well as any potential risks arising from the recent Russian invasion of Ukraine. The Company also considered the impact of the planned acquisition of the MD Group, to ensure the Company's strong capital position would be maintained. Under the base stress scenarios referred to above, the directors also consider reverse stress tests, to identify the extent to which each scenario would reduce capital cover down to less than 100%.

Based upon their own analysis of the available information, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Company's regulatory capital position is substantially above the Solvency Capital Requirement and is projected to remain above this requirement, including under a range of possible downside scenarios, which were considered within the Directors' COVID-19 impact risk assessment.

Employees

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and appropriate training is arranged or support put in place. It is the policy of the Company that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

Directors' report *(continued)*

Employee engagement

Engagement of employees is achieved through various methods which include, but are not limited to, quarterly all employee meetings, employee forums, periodic employee surveys, performance reviews, Company news bulletins, intranet communications, and staff wellness and recognition programmes. Consultation with employees or their representatives has continued at all levels during the year, with the aim that views are taken into account when decisions are made that are likely to affect their interests.

The Company has a Pensions Governance Committee which reports to the Renumeration and Nominations Committee and is responsible for overseeing the delivery of the Company's defined contribution pension scheme.

Diversity & inclusion

The Company believes that having a diverse employee base is key to the success of the business and our customer experience. The Company is committed to creating an inclusive culture and environment of equality where all employees can have the opportunity to realise their full potential.

During 2021 the Company, together with its Munich Re peers in the UK and ROI, established a dedicated Diversity and Inclusion Group to promote inclusivity in the workforce.

Gender pay reporting

The Directors are committed to continuing to undertake action to address the gender pay gap as well as to promoting the overall diversity of the Company's employee base.

Gender pay reporting information is available on the Company's website. The Company believes that having a balanced and diverse employee base is key to the success of the business and our customer experience. The Company is committed to creating an inclusive culture and environment of equality where all employees can have the opportunity to realise their full potential. The reported gender pay figures provide a further means of measuring the results of the positive work which has already begun to attract and retain the best talent. The Directors are committed to continuing to undertake action to reduce the gender pay gap.

Board diversity policy

As referenced in more detail within the Section 172 Statement of the Strategic Report, it is the Company's policy to maintain and develop the diversity of its Board without compromising on the calibre of new directors appointed.

Disclosure of information to the auditor

The Directors who held office at the date of approval of the Strategic report and Directors' report confirm, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Company's auditor is Ernst & Young LLP. The auditor is deemed to have been reappointed in accordance with section 487 of the Companies Act 2006 and will therefore continue in office.

On behalf of the Board

S Worrall
Managing Director
23 March 2022
Registered Number: 2396114

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with applicable UK Accounting Standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

In considering the appropriateness of the going concern basis, the Directors have considered the principal risks and uncertainties as set out in the Strategic report, including the potential impact of the COVID-19 pandemic on the Company.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of HSB Engineering Insurance Limited

Opinion

We have audited the financial statements of HSB Engineering Insurance Limited for the year ended 31 December 2021 which comprise the Income statement, the Statement of other comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 30 including a summary of significant accounting policies (except for that section of note 25(b) which is marked as unaudited). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 ''Insurance Contracts'' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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 the following:

- Confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 24 March 2023;
- Evaluated the profitability, liquidity and solvency position of the Company, including key assumptions such as growth rate, by reviewing the Company's performance projections;
- Evaluated the reasonableness of management's stress scenarios included in the Board approved Own Risk and Solvency Assessment (ORSA) and forecasts to understand how severe the downside scenarios would have to be to result in the elimination of the Company's solvency headroom;
- Performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. In addition to the above procedures, we read minutes of meetings of the Board and the Company's committees to assess whether there were any other matters discussed that may have an impact on the Company's ability to continue as a going concern; and
- Assessed the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements.

Independent Auditor's Report to the members of HSB Engineering Insurance Limited *(continued)*

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 to 24 March 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	Inappropriate setting of gross claim reserves (specifically Incurred But Not Reported (IBNR))
Materiality	Overall materiality of £800k (2020: £640k), which represents 1% (2020: 1%) of gross written premium.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Company has determined that the physical and transition risks from climate change do not currently pose a material risk to the Company. This is explained on page 11 in the strategic report, which forms part of the "Other information" rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of physical and transition risks and the resulting conclusion that there was no material impact from climate change, and the adequacy of the Company's disclosures on page 29 of the financial statements which explain the rationale

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters

Independent Auditor's Report to the members of HSB Engineering Insurance Limited *(continued)*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate setting of the gross claim reserves (specifically IBNR) (£62.8m; 2020: £56.3m) Refer to the Accounting policies (page 31); and Note 21 of the Financial Statements (page 46) The determination of gross claims reserves (specifically IBNR) involves the use of judgement, estimation and complex actuarial calculations and models in arriving at the Best Estimate. The key judgements or sources of uncertainty involved in the determination of the reserves are: • Changes in the business or immaturity of new classes of business underwritten i.e. Mechanical Inherent Defects Insurance (MIDI), Cyber and Structural Inherent Defects Insurance (SIDI); • Claims inflation; • Premium income earnings; • Impact of COVID-19 on the Company; and • Potential exposure to cladding losses. There is a risk that inappropriate assumptions or projections are used in determining the claim reserves, which could lead to this balance not falling within a reasonable range of possible estimates, resulting in a misstatement in the financial statements. These balances, by nature, are also subject to the risk of management manipulation. Given the magnitude of the balance, a small manipulation of an assumption could have a significant impact on the financial statements.	To obtain sufficient audit evidence to conclude on the appropriateness of claims reserves, we performed the following procedures: • Obtained a detailed understanding of the end-to-end reserving process employed by management, paying particular attention to the setting of IBNR and management methodology including the setting of the margin, and assessed the design and implementation of key controls within the process; • Supported by our actuarial specialists, we evaluated the reasonableness of management's reserving methodology, challenging their assumptions and assessment of major sensitivities based on our market knowledge, including on the more judgemental classes of business such as MIDI and SIDI; • We challenged management's earning of premium income, especially as regards the long-term policies for MIDI and SIDI classes of business, and those for construction projects with Delayed Start Up (DSU) cover; • We assessed the impact of COVID-19 and claims inflation on the claim reserves as at 31 December 2021. • We independently projected the best estimate claims reserve as at 31 December 2021 using standard actuarial techniques. We considered whether management's claim reserves at 31 December 2021 fell within a reasonable range of possible estimates, and investigated any significant differences with management; • We obtained an understanding of management's rationale for the quantum of the management margin and considered whether the underlying claims experience supports the level of margin held for each class of business. • We assessed the completeness and accuracy of the data used in the reserving process, specifically the underlying data used by our actuarial specialists to evaluate whether this was consistent with the underlying policy records; and • Reviewed the claim reserves disclosures in the financial statements to assess whether they were consistent with underlying records and applicable accounting standards.	We concluded that sufficient allowance has been made for inflation within the Company's claim reserves. We concluded that management's earning of premium income on the long-term multi-year policies such as MIDI and SIDI, and constructions policies with DSU cover is appropriate. We consider management's assumptions to be reasonable and that the claims reserves lie within what we consider to be a reasonable range of estimates, allowing for any losses arising from COVID-19. We concluded that the data used for the purposes of the actuarial projections was complete, accurate and consistent with the underlying policy records. In addition, we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation and setting of claims reserves.

Independent Auditor's Report to the members of HSB Engineering Insurance Limited *(continued)*

In the prior year, our auditor's report included a key audit matter in relation to the change in financial reporting framework from International Financial Reporting Standards (IFRS) (as adopted by the EU) to UK GAAP. This is no longer applicable in the current year as the change was completed in 2020.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £800k (2020: £640k), which is 1% (2020: 1%) of forecasted gross written premium at 30 June 2021. As the Company's profit before tax is considered to be unstable, changing significantly year on year, we believe that gross written premium provides us with the appropriate basis that will enable us to identify misstatements that may influence the users of the financial statements.

During the course of our audit, we reassessed initial materiality and concluded that this remained appropriate as the increased annual gross written premium for the period would not result in a significant change to materiality.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £400k (2020: £320k). We have set performance materiality at this percentage due to the level of corrected and uncorrected misstatements in our initial audit in 2020.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £40k (2020: £32k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the members of HSB Engineering Insurance Limited *(continued)*

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 16, 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.

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.

Independent Auditor's Report to the members of HSB Engineering Insurance Limited *(continued)*

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also

    - reviewed correspondence between the Company and the PRA and FCA;

    - reviewed minutes of the Board and its committees; and

    - gained an understanding of the Company's approach to governance.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgment, including performance targets, external pressures and the impact these have on the control environment. The fraud risk, including management override, was considered to be higher in respect of the setting of gross claim reserves (specifically IBNR) and the recognition of premium income, and we performed audit procedures to address the risk as detailed in the key audit matter above and our communication to the Audit Committee. Our procedures included:

    - enquiries with management;

    - as detailed in the key audit matter above, we reviewed the setting of gross claim reserves (specifically IBNR) for evidence of management bias. Supported by our actuarial team, we assessed if there were any indicators of management bias in the setting of gross claim reserves (specifically IBNR);

    - for the recognition of premium income, challenged the reasonableness of the earnings patterns for insurance products such as MIDI and SIDI and considered whether earnings patterns are reasonable with respect to product terms, tested the unearned premium reserve (UPR) through independent recalculation; and

    - tested the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.

Independent Auditor's Report to the members of HSB Engineering Insurance Limited *(continued)*

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the PRA and FCA and reviewing of the complaints and breaches logs

The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team and concluded that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Company on 9 October 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is two year, covering the years ended 31 December 2020 and 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

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.

Ben Morphet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

24 March 2022

Income statement

for the year ended 31 December 2021

Technical account – General business

	Note	**2021**	2020
		£'000	£'000
Earned premiums, net of reinsurance			
Gross written premiums	4	**84,179**	67,904
Outward reinsurance premiums		**(5,392)**	(3,138)
Net written premiums		**78,787**	64,766
Change in the provision for unearned premiums			
- gross amount	20	**(15,937)**	(9,673)
- reinsurers' share	20	**2,246**	553
Earned premiums, net of reinsurance		**65,096**	55,646
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	5	**17,075**	21,001
- reinsurers' share	5	**(199)**	(1,804)
		16,876	19,197
Change in provision for claims			
- gross amount	5	**6,709**	2,627
- reinsurers' share	5	**(3,035)**	1,081
		3,674	3,708
Claims incurred, net of reinsurance		**20,550**	22,905
Net operating expenses	6	**37,892**	31,031
Total claims and expenses		**58,442**	53,936
Balance on technical account for general business		**6,654**	1,710

Non-technical account

	Note	**2021**	2020
		£'000	£'000
Balance on the general business technical account		**6,654**	1,710
Investment income	10	**538**	3,174
Investment expenses and charges	10	**(170)**	(168)
Other income	11	**8,838**	8,670
Profit on ordinary activities before tax		**15,860**	13,386
Tax on profit on ordinary activities	12	**(1,987)**	(1,301)
Profit for the financial year attributable to members of the Company		**13,873**	12,085

Statement of other comprehensive income

for the year ended 31 December 2021

	Note	**2021**	2020
		£'000	£'000
Profit for the year		**13,873**	12,085
Other comprehensive income:			
Items that may be reclassified subsequently to income statement:			
Available-for-sale securities - unrealised net changes in fair value	10	**(3,319)**	2,074
Available-for-sale securities - reclassified to income statement	10	**(199)**	(610)
Related tax	12	**683**	(316)
Other comprehensive (loss) / profit for the year, net of income tax		**(2,835)**	1,148
Total comprehensive income for the year		**11,038**	13,233

All comprehensive income transactions relate to continuing operations.

The attached notes form an integral part of these financial statements.

Statement of financial position

as at 31 December 2021

	Notes	**2021**	2020
		£'000	£'000
ASSETS			
Investments			
Financial investments	13	**121,537**	90,840
Investments in group undertakings	14	**53,806**	53,806
		175,343	144,646
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	**2,935**	689
Claims outstanding	21	**27,608**	24,590
		30,543	25,279
Debtors			
Debtors arising out of direct insurance operations – intermediaries		**8,645**	7,376
Debtors arising out of reinsurance operations		**1,367**	1,575
Deferred tax asset	24	**346**	-
Other debtors	15	**2,588**	2,682
		12,946	11,633
Other assets			
Tangible assets	16	**315**	268
Cash and short-term deposits		**17,671**	30,440
		17,986	30,708
Prepayments and accrued income			
Deferred acquisition costs	17	**11,993**	8,459
Other prepayments and accrued income		**1,735**	1,580
		13,728	10,039
Total assets		**250,546**	222,305

Statement of financial position

as at 31 December 2021

	Notes	**2021**	2020
		£'000	£'000
LIABILITIES			
Capital and reserves			
Called up share capital	18	**53,560**	53,560
Capital contribution		**7,062**	7,062
Retained earnings and other reserves		**46,017**	43,338
Total capital and reserves		**106,639**	103,960
Technical provisions			
Provisions for unearned premiums	20	**56,099**	41,064
Claims outstanding	21	**62,763**	56,250
		118,862	97,314
Provisions for other risks			
Provisions for deferred taxation	24	**-**	690
		-	690
Creditors			
Creditors arising out of direct insurance operations		**789**	1,040
Other creditors including taxation and social security	23	**22,972**	17,614
		23,761	18,654
Accruals and deferred income		**1,284**	1,687
Total liabilities		**143,907**	118,345
Total equity and liabilities		**250,546**	222,305

The attached notes form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 23 March 2022 and were signed on its behalf by:

S Worrall
Managing Director

A O'Reilly
Finance Director

HSB Engineering Insurance Limited Registered Number: 2396114

Statement of changes in equity

as at 31 December 2021

	Share capital £'000	Capital contribution £'000	Fair Value reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020	53,560	7,062	1,329	37,138	99,089
Profit for the year	-	-	-	12,085	12,085
Other comprehensive income	-	-	1,148	-	1,148
Total comprehensive income	-	-	1,148	12,085	13,233
Dividends paid	-	-	-	(8,362)	(8,362)
At 31 December 2020	53,560	7,062	2,477	40,861	103,960
Profit for the year	**-**	**-**	**-**	**13,873**	**13,873**
Other comprehensive income	**-**	**-**	**(2,835)**	**-**	**(2,835)**
Total comprehensive income	**-**	**-**	**(2,835)**	**13,873**	**11,038**
Dividends paid	**-**	**-**	**-**	**(8,359)**	**(8,359)**
At 31 December 2021	**53,560**	**7,062**	**(358)**	**46,375**	**106,639**

The attached notes form an integral part of these financial statements.

Notes to the financial statements

1 General Information

HSB Engineering Insurance Limited (the "Company") is a private company limited by shares and incorporated, registered and domiciled in England and Wales. The Company operates principally as an insurance company underwriting engineering lines risks primarily located in the United Kingdom and the ROI through its UK operation and ROI branch. The Company has a wholly owned subsidiary undertaking, The Boiler Inspection and Insurance Company of Canada (BI&I), which underwrites engineering risks in North America, and a wholly owned non-insurance subsidiary company in the UK, HSB Engineering Insurance Services Limited (HSBEISL), which provides inspections and consultancy services on plant and equipment. The Company has no interest in any other undertaking.

The Company is an indirect subsidiary of The Hartford Steam Boiler Inspection and Insurance Company (HSBIIC) which is in turn a subsidiary of Munchener Ruckversicherungs-Gesellschaft Aktiengellschaft (Munich Re), the Company's ultimate parent.

2 Significant accounting policies

a) Basis of preparation and statement of compliance

The financial statements of the Company have been prepared and approved by the Directors in compliance with 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''), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006 and the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

As permitted by FRS 103 the Company continues to apply the accounting policies that were applied prior to transitioning to FRS 103.

In preparing these financial statements the directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on page 11, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2021. This is because the financial investments are reported at fair value under UK GAAP and, as set out in note 13, therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change on these financial investments. Insurance liabilities are accrued based on past insurable events so will not be impacted by any future impact of climate change. However, we recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted. Future valuations of assets may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently and the frequency or magnitude of future insurable events linked to the effect of climate risks could change.

Optional exemption applied by the Company

As permitted by section 401 of the Companies Act 2006, the Company has not prepared group financial statements as the results of the Company and all of its subsidiaries are included in publicly available group financial statements of its ultimate parent Company, Munich Re. The registered office of Munich Re is Koniginstr. 107, Munich, Germany. The Company has taken advantage of the exemption from preparing a statement of cash flows, on the basis that it is a qualifying entity and the Company's cash flows are included in the consolidated statement of cash flows presented in the publicly available group financial statements of its ultimate parent Company, Munich Re. As a qualifying entity, as permitted by FRS 102, the Company has also taken advantage of the of the exemption from disclosing transactions with related parties.

The financial statements have been prepared on the historical cost basis, except for the measurement at fair value of certain financial instruments.

Information about assumptions used and other sources of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed in note 3.

Notes to the financial statements

2 Accounting policies *(continued)*

b) Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out above and in the Strategic report. The Company's Statement of financial position shows net assets of £106,639,000. The financial statements are prepared on a going concern basis and the directors' assessment covers a period of 12 months from the date of approval of the financial statements up to 24 March 2023.

In considering the appropriateness of the going concern basis, the directors considered multiple different stress scenarios based on those considered to be key risks for the Company from its internal risk reports and emerging risk management activities, including input from the Compliance and Risk Group and Risk Committee.

Amongst the key risks assessed were the potential impact of future risks associated with climate change. The Company considered the impact of the ongoing Covid-19 pandemic on the Company's expected future operational and financial performance and its capital adequacy position as well as any potential risks arising from the recent Russian invasion of Ukraine. The Company also considered the impact of the planned acquisition of the MD Group, to ensure the Company's strong capital position would be maintained. Under the base stress scenarios referred to above, the directors also considered reverse stress tests, to identify the extent to which each scenario would reduce liquidity down to less than 100%.

Based upon their own analysis of the available information, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

c) Foreign currency

These financial statements are presented in Great British Pounds (GBP), which is the Company's functional and presentational currency. Except as otherwise indicated, all financial information presented in GBP has been rounded to the nearest thousand (£000).

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated to the Company's functional currency at the exchange rate at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of assets and liabilities denominated in foreign currencies are recognised in the non-technical profit and loss account.

d) Insurance contracts

i) Classification of insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under FRS 103 are classified as investment or service contracts, as appropriate. The Company has reviewed all the contracts issued to its policyholders and concluded that they all meet the definition of insurance contracts.

ii) Recognition of premium income

Premiums written, including reinsurance premiums written, are accounted for in the period in which the contract is entered into, net of refunds and rebates. Premiums are earned as revenue over the period of the contract and are calculated on a time apportionment basis for all products except inherent defect products which are earned following their associated expected loss profile.

Notes to the financial statements

2 Accounting policies *(continued)*

Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums. Premiums written exclude insurance premium taxes. Duties levied on premiums and directly related expenses, e.g. commissions, are recognised as an expense. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related business.

iii) Unearned premiums

The provision for unearned premiums, including unearned reinsurance premiums, represents the portion of the premiums written relating to periods of insurance coverage subsequent to the end of the reporting period calculated on a time apportionment basis for all products except inherent defect products which are earned following their associated expected loss profile. The change in unearned premiums is taken to the income statement in order that revenue is recognised over the period of risk.

iv) Provision for unexpired risks

A liability adequacy provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account when calculating the provision.

At 31 December 2021 and 31 December 2020 the Company did not have an unexpired risks provision.

v) *Acquisition costs*

Acquisition costs comprise the direct and indirect costs of obtaining and processing new and existing insurance business. Costs which relate to subsequent financial periods are deferred to the extent that they are recoverable out of future revenue margins. These costs are recognised as deferred acquisition costs. Deferred acquisition costs are amortised on the same basis as the related premiums are earned. The amortisation is taken to the income statement.

vi) Claims incurred

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs, where applicable, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include all internal and external costs incurred in connection with the negotiation and settlement of claims.

vii) Claims provisions

The costs of claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

The provision for unpaid claims, adjustment expenses and unreported losses is determined using accepted actuarial practices. These include the chain-ladder development factor method, Bornhuetter-Ferguson method and frequency/severity development method. The provision provides for all costs of investigation and settlement of insurance losses that have occurred prior to the year end, as well as an estimate for claims incurred but not reported. Liabilities for unpaid claims are estimated using the input of assessment for individual cases reported and statistical analyses for the claims incurred but not reported.

Notes to the financial statements

2 Accounting policies *(continued)*

The Company believes that its overall case reserving and actuarial practices have been consistently applied over many years, and that its provisions have resulted in reasonable approximations of the ultimate cost of claims incurred. The Company includes a risk margin based on a percentage of earned premium to allow for uncertainty within the calculated reserves.

In performing the valuation of the incurred but not reported liability, the Company makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies. The assumptions underlying the valuation of provisions for unpaid claims and adjustment expenses are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in the risk profile of the business.

viii) Reinsurance

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time.

The recoverability of reinsurance recoveries is impaired if there is an event that occurs after initial recognition of the reinsurance asset that will impact the amount to be received from the reinsurer. Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The carrying amount is reduced accordingly and the impairment loss is recognised in the income statement.

The reinsurers' share of claims incurred, in the income statement, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the income statement as 'Outward reinsurance premiums' and paid when due.

e) Property, plant and equipment

Property, plant and equipment comprise leasehold properties, fixtures, fittings and equipment (including computer hardware). All classes are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset only when it is probable that future economic benefits associated to the item will flow to the Company and the cost can be measured reliably.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in the income statement on the basis set out below, over the estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Fixtures and fittings	3 to 10 years straight-line
Computer hardware and software	3 to 5 years straight-line
Leasehold property and improvements	Written off over the life of the lease, to a maximum of 10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Notes to the financial statements

2 Accounting policies *(continued)*

f) Cash and short term deposits

Cash and cash equivalents include cash in hand, cash at bank, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

g) Investments in group undertakings

In the balance sheet of the Company, investments in group insurance undertakings are stated at cost less accumulated impairment losses, if any.

The impaired investments are valued at lower of their realisable value or value in use as appropriate.

h) Financial instruments

The Company has chosen to apply the recognition and measurement provisions of IAS 39 (UK-adopted international accounting standards) and the disclosure requirements of FRS 102 in respect of financial instruments. Regular purchases and sales of financial assets are recognised on the trade date. All other financial assets and financial liabilities are recognised on the date that the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

i) Recognition and measurement

IAS 39, *Financial Instruments: Recognition and Measurement* requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirements differ. The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. The Company classifies financial assets and liabilities into the following categories:

Available-for-sale debt securities

Subsequent to initial recognition, available-for-sale financial debt securities are measured at fair value. When the fair values of available for sale debt securities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques with inputs taken from observable markets.

Interest income is recognised in the income statement using the effective interest method. Foreign exchange gains or losses resulting from changes in the amortised cost of available-for-sale debt securities are also recognised in the income statement.

Other fair value changes, including other foreign exchange gains or losses, are recognised in other comprehensive income and accumulated in the fair value reserve. If an available-for-sale investment is sold or impaired, the cumulative gain or loss accumulated in the fair value reserve is reclassified to the income statement.

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method less impairment losses, if any. All other financial assets are classified as loans and receivables. Interest income is recognised in the income statement, by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

Notes to the financial statements

2 Accounting policies *(continued)*

ii) Impairment

At each reporting date the Company assesses whether financial assets are impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably. An impairment loss, measured as the difference between the security's fair value and amortised cost, is recognised when the issuer is known to be either in default or in financial difficulty. Determining when an issuer is in financial difficulty requires the use of judgement, and consideration of a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract.

A decline in fair value below amortised cost due to changes in risk-free interest rates does not necessarily represent objective evidence of a loss event.

For securities identified as impaired, impairment losses are recognised by reclassifying the losses accumulated in the fair value reserve to the income statement. The cumulative loss that is reclassified from other comprehensive income to the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

Impairment losses on loans and receivables are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate allowance for doubtful debts. The Company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor; or
- probability that the debtor will enter bankruptcy or financial reorganisation; or
- default or delinquency in payments.

Receivables for which an impairment allowance was recognised are written off against the allowance when there is no expectation of recovering additional cash. Impairment losses are recognised in the income statement within operating and administrative expenses. Subsequent recoveries of amounts previously written off are credited against operating and administrative expenses.

iii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset in a transaction in which either substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Control is not retained if the transferee has the practical ability to sell the asset and is able to exercise that ability unilaterally.

Notes to the financial statements

2 Accounting policies *(continued)*

i) Financial liabilities

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset, and the net amount reported in the Company's statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

j) Investment return

Interest is recognised in the income statement using the effective interest method.

Dividends received from the Company's subsidiary undertakings are booked on the date the dividend is received and recognised in other income.

Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price.

Movements in unrealised gains or losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment income is recorded in the non-technical account.

k) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

l) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognised in the income statement on a straight line basis over the shorter of the lease term and the period ending in a date from which it is expected the prevailing market rental will be payable. All leases currently engaged by the Company are considered operating leases and no liability is recognised in the statement of financial position.

m) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Company expects a

2 Accounting policies *(continued)*

provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is more probable than not. If the effect is material, the provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment for the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation but either an outflow of resources is not probable or the amount cannot be reliably estimated.

n) Employee benefits

The Company operates defined contribution plans which receive fixed contributions from the Company. The Company's legal or constructive obligation for these plans is limited to the contributions. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

If employee benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

o) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statement of other comprehensive income.

Current tax is the expected tax payable on the taxable result for the period and any adjustment to the tax payable in respect of previous periods.

Deferred tax is provided in full on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes and these differences will be eliminated at a later date with a corresponding effect on taxable income. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and laws which have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the timing differences can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements

2 Accounting policies *(continued)*

p) Distributions to equity holders

Interim dividends payable are recognised when paid and final dividends booked as a liability when they are approved by the members of the Company passing a written resolution. All dividends paid are ultimately recognised directly in equity.

3 Accounting judgements and estimates in applying accounting policies

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the application of policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these judgements and estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

a) Insurance contract technical provisions

The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim is generally available. However, engineering and property damage business is 'short tail', in that there generally is not a significant delay between the occurrence of the claim and the claim being reported to the Company. Claims are therefore typically reported relatively quickly after the claim event and so the balance displays low levels of volatility.

Allowance is made, however, for changes in uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase when compared with the cost of previously settled claims including:

- Changes in the legal environment;
- The effects of inflation;
- Changes in the business mix;
- The impact of large losses;
- Movements in industry benchmarks; and
- Changes in the processes which might accelerate or slowdown the development and / or recording of paid or incurred claims compared with the statistics of previous periods.

The two most critical assumptions as regards to claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are a fair reflection of the likely level of ultimate claims to be incurred.

The Directors consider that the provision for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements in the period in which the adjustments are made. The methods used and the estimates made are regularly reviewed to reflect recent and emerging trends in experience and changes in the risk profile of the business. The carrying amounts for claims provisions are shown in note 21.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium and deferred acquisition costs. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment. See accounting policies in note 2(d)(iii) and 2(d)(v). The carrying amounts for provisions for unearned premiums are shown in note 20 and the carrying amounts for deferred acquisition costs are shown in note 17.

Notes to the financial statements

3 Accounting judgements and estimates in applying accounting policies *(continued)*

b) Financial assets

As described in note 2 h) ii), at each reporting date the Company assesses whether financial assets are impaired. This requires the use of judgement, and consideration of a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract.

c) Deferred tax asset

At the reporting date, a deferred taxation asset has been recognised, as described in note 24. This has been recognised based on management judgement of future taxable profits, consistent with the view outlined in the going concern assessment.

4 Gross insurance premium revenue

	Direct	**Reinsurance acceptances**	**Total**
	£'000	**£'000**	**£'000**
2021			
Gross premiums written	**72,682**	**11,497**	**84,179**
Gross premiums earned	**56,280**	**11,962**	**68,242**
Gross claims incurred	**(22,738)**	**(1,046)**	**(23,784)**
Gross operating expenses	**(32,509)**	**(5,770)**	**(38,279)**
2020			
Gross premiums written	55,896	12,008	67,904
Gross premiums earned	46,104	12,127	58,231
Gross claims incurred	(22,702)	(926)	(23,628)
Gross operating expenses	(24,064)	(7,074)	(31,138)

The reinsurance balance for the year is £(475,000) (2020: £1,756,000). The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation.

Included within the gross premium written is £16,486,000 written in the Republic of Ireland (2020: £11,379,000).

The majority of business written is in the Fire and Other Property Damage class and less than 1% is Third Party liability.

5 Claims and change in insurance liabilities and reinsurance recoveries

	2021	2020
	£'000	£'000
Gross claims paid	**17,075**	21,001
Gross changes in provisions for claims	**6,709**	2,627
Reinsurance recoveries on claims paid	**(199)**	(1,804)
Reinsurers' share of change in provisions for claims	**(3,035)**	1,081
Claims incurred, net of reinsurance	**20,550**	22,905

Notes to the financial statements

6 Net operating expenses

	2021 £'000	2020 £'000
Commissions paid - direct	**20,934**	15,027
Commissions paid - reinsurance acceptances	**4,274**	4,007
Ceding commission received	**(1,228)**	(318)
Change in deferred acquisition costs - ceding commission	**841**	211
Change in deferred acquisition costs – gross	**(4,621)**	(2,982)
Loss on disposal arising from the sale of Australia branch	**-**	291
Administrative expenses	**17,692**	14,795
Net operating expenses	**37,892**	31,031

Net losses arising on the translation of monetary assets and liabilities at the reporting date of £929,000 (2020: gains of £837,000) are included in investment income in the non-technical account.

The prior year accounts disclosed full details of the disposal of the Australia branch, the impacts of which still are still seen in comparative figures.

Included in administrative expenses are:

	2021 £'000	2020 £'000
Staff costs	**10,646**	9,596
Depreciation of tangible fixed assets	**49**	70
Depreciation of land and buildings	**81**	81
Operating lease rentals	**514**	540

7 Auditor's remuneration

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts (inclusive of VAT)	**175**	163
Fees payable to the Company's auditor and its associates for other assurance services	**-**	8
Total auditor's remuneration	**175**	171

Amounts disclosed are net of service taxes, where applicable. Other assurance services relates to work performed for Australian regulatory requirements.

8 Employee information

Staff costs for all employees comprise:

	2021 £'000	2020 £'000
Wages and salaries	**8,653**	7,772
Social security costs	**976**	995
Pension costs	**1,017**	829
	10,646	9,596

The average number of employees during the year was as follows:

Technical	**31**	34
Administrative and management	**205**	201
	236	235

Notes to the financial statements

9 Directors' emoluments

The aggregate amount of Directors' emoluments was £985,000 for the year to 31 December 2021 (2020: £1,145,000). Emoluments were as follows:

	2021				2020
	Fees and salaries £'000	**Bonus £'000**	**Other benefits £'000**	**Total £'000**	Total £'000
Highest paid director	**208**	**113**	**31**	**352**	443
All directors	**678**	**218**	**89**	**985**	1,145

Other benefits include pension contributions. Retirement benefits accrued to three Directors under defined contribution pension schemes (2020: three) and no Director under a defined benefit scheme (2020: none). The remuneration of certain Directors is paid by the Company's intermediate parent undertaking, HSB Group Inc. The Company was recharged £Nil (2020: £Nil) in respect of their services to the Company. The Company recharged its subsidiary, HSBEISL, £173,000 (2020: £222,000) in respect of services provided by the Directors of the Company to HSBEISL.

10 Investment return

	2021 £'000	2020 £'000
Interest income on investments	**2,737**	2,764
Interest (expense) / income on cash and short-term bank deposits	**(28)**	13
Amortisation of investment premiums and discounts	**(1,441)**	(1,050)
Investment expenses and charges	**(170)**	(168)
Gain on disposal of investments	**199**	610
Foreign exchange	**(929)**	837
Total Investment income	**368**	3,006
Net unrealised (losses) / gains on financial assets	**(3,518)**	1,464

11 Other income

Other income consists of the dividend received from its subsidiary company, The Boiler Inspection & Insurance Company of Canada, of £8,838,256 (2020: £8,670,000).

Notes to the financial statements

12 Tax expense

The tax amounts charged in the income statement are as follows:

	2021	2020
	£'000	£'000
Current tax		
- Current year	**1,898**	1,270
- Prior years	**-**	1
- Foreign tax – current tax on income for the period	**442**	435
Deferred tax		
- Timing differences	**(276)**	(463)
- Rate change adjustment	**(77)**	58
Total tax expense	**1,987**	1,301

The tax amounts charged in other comprehensive income are as follows:

	2021	2020
	£'000	£'000
Current tax		
- Current year	**-**	16
Deferred tax		
- Timing differences	**(683)**	300
Total tax expense	**(683)**	316

Tax on the result before tax differs from the United Kingdom effective rate of corporation tax for the year ended 31 December 2021 of 19% (2020: 19%). The differences are explained below:

	2021	2020
	£'000	£'000
Profit before tax (excluding dividend income)	**7,022**	4,716
Tax calculated at the UK effective rate of tax of 19% (2020: 19%)	**1,334**	896
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**288**	38
Rate change adjustment	**(77)**	-
Adjustments to tax charge in respect of prior periods	**-**	(149)
UK GAAP conversion adjustment	**-**	81
Withholding tax suffered on dividend received	**442**	435
Total tax expense	**1,987**	1,301

Notes to the financial statements

13 Financial instruments

	2021		2020	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Financial assets				
Available-for-sale				
Fixed-income securities	**121,537**	**121,537**	90,840	90,840
	121,537	**121,537**	90,840	90,840
At amortised cost				
Loan and receivables				
Debtors arising out of direct insurance operations - intermediaries	**8,645**	**8,645**	7,376	7,376
Debtors arising out of reinsurance operations	**1,367**	**1,367**	1,575	1,575
Other debtors	**2,588**	**2,588**	2,682	2,682
Cash and cash equivalents	**17,671**	**17,671**	30,440	30,440
	30,271	**30,271**	42,073	42,073
Financial liabilities - amortised cost				
Creditors arising out of insurance operations	**789**	**789**	1,040	1,040
Other creditors including taxation and social security	**22,972**	**22,972**	17,614	17,614
	23,761	**23,761**	18,654	18,654

For short-term bank deposits, loans and receivables items and financial liabilities items, the carrying amounts approximate to fair value owing to the short-term maturity of these financial instruments. There are no restrictions on cash currently in effect.

a) Fair value hierarchy

The Company measures fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Inputs used in making a fair value measurement are classified as follows:

Level 1: fair values measured using quoted bid prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed debt securities in active markets.

Level 2: fair values measured using observable market information as inputs for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes listed debt in a market that is not active and debt securities traded over the counter.

Level 3: fair values measured using internal models without observable market information as inputs.

There were no changes in the valuation techniques during the year compared to those described in the prior year financial statements. For available-for-sale financial assets, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

	2021 £'000	2020 £'000
Available-for-sale securities:		
Level 2	**121,537**	90,840
	121,537	90,840

There were no level 1 or level 3 securities.

The fixed-income securities portfolio consists of a range of mainly fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds and other interest-bearing securities.

Notes to the financial statements

13 Financial Instruments *(continued)*

The fair values of bonds, debentures and asset-backed securities are summarised as follows:

	2021	2020
	£'000	£'000
Government	**63,696**	33,413
Corporate and others	**57,841**	57,427
	121,537	90,840

14 Investment in group undertakings

	2021	2020
	£'000	£'000
The Boiler Inspection and Insurance Company of Canada	**46,752**	46,752
HSB Engineering Insurance Services Limited	**7,054**	7,054
Total investment in group undertakings	**53,806**	53,806

Further details are disclosed in note 27.

15 Other debtors

Other debtors consists of the following:	**2021**	2020
	£'000	£'000
VAT	**1,626**	1,291
Branch office deposit	**793**	846
Receivable from related parties	**28**	234
Other	**141**	311
Total other debtors	**2,588**	2,682

All debtors are current. The Branch office deposit is a deposit held with the Irish High Court as part of the capital requirement for the Republic of Ireland branch.

The Company has recognised a collective impairment increase of £35,000 (2020: increase of £91,000) in other operating and administrative expenses in the income statement for the collective impairment of its trade and other receivables during the year. There has been no significant change in the recoverability of insurance receivables, for which no collateral is held. The Directors consider that the amounts are recoverable at their carrying values, which are stated net of an allowance for doubtful debts for those debtors that are collectively determined to be impaired.

	2021	2020
	£'000	£'000
Allowance for doubtful accounts	**704**	669

Included within debtors of the Company is £429,000 (2020: £392,000) overdue greater than a year but not impaired. There is an allowance for doubtful accounts against balances overdue at the reporting date from 25% to 75% depending on the age. All other balances are less than one year old. None of the insurance and other debtors have been determined to be individually impaired based on the impairment factors used by the Company.

Concentrations of credit risk with respect to debtors are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of provisions already recognised for doubtful debts. Refer to note 25 for credit risk, its management and measures of credit quality of financial assets that are neither past due nor impaired.

Notes to the financial statements

16 Property, plant and equipment

	Leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2021	**1,012**	**534**	**1,546**
Additions	**177**	**-**	**177**
Disposals	**(42)**	**(10)**	**(52)**
At 31 December 2021	**1,147**	**524**	**1,671**
Accumulated depreciation			
At 1 January 2021	**857**	**421**	**1,278**
Charge for the year	**81**	**49**	**130**
Disposals	**(42)**	**(10)**	**(52)**
At 31 December 2021	**896**	**460**	**1,356**
Carrying amount at 31 December 2021	**251**	**64**	**315**
Cost			
At 1 January 2020	1,496	1,011	2,507
Disposals	(445)	(477)	(922)
Impairments	(39)	-	(39)
At 31 December 2020	1,012	534	1,546
Accumulated depreciation			
At 1 January 2020	1,221	828	2,049
Charge for the year	81	70	151
Disposals	(445)	(477)	(922)
At 31 December 2020	857	421	1,278
Carrying amount at 31 December 2020	155	113	268

Depreciation expense has been charged in other operating and administrative expenses.

17 Deferred acquisition costs

	2021 £'000	2020 £'000
At 1 January	**8,459**	5,599
Increase in the period	**25,208**	19,029
Release in the period	**(21,428)**	(16,258)
Exchange differences	**(246)**	89
At 31 December	**11,993**	8,459

Notes to the financial statements

18 Share capital and reserves

	Ordinary shares of US$1 each	
	2021	2020
	US$'000	US$'000
Issued, authorised, allotted and fully paid	**100,000**	100,000
	Number	Number
Issued, authorised, allotted and fully paid	**100,000,000**	100,000,000

The historic British pounds value of the Company's share capital is £53,560,000 (2020: £53,560,000). Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

Other balances within equity comprise the capital contribution reserve, being an injection of funds from the Company's parent entity in a previous year, and the fair value reserve, which records the unrealised fair value gains on available for sale investments, net of the related deferred taxation.

19 Dividends

Dividends of £8,359,000 were declared and paid in respect of the year ended 31 December 2021 (2020: £8,362,000)

The Company's subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of local regulatory requirements. However, based on the information currently available, the Company does not believe that such restrictions materially impact the ability to meet obligations or pay dividends.

20 Provision for unearned premiums

		2021	
	Gross	**Reinsurers' share**	**Net**
	£'000	**£'000**	**£'000**
At 1 January 2021	**41,064**	**(689)**	**40,375**
Premiums written in the year	**84,179**	**(5,392)**	**78,787**
Premiums earned in the year	**(68,242)**	**3,146**	**(65,096)**
Foreign exchange	**(902)**	**-**	**(902)**
At 31 December 2021	**56,099**	**(2,935)**	**53,164**

		2020	
	Gross	Reinsurers' share	Net
	£'000	£'000	£'000
At 1 January 2020	31,018	(136)	30,882
Premiums written in the year	67,904	(3,138)	64,766
Premiums earned in the year	(58,231)	2,585	(55,646)
Foreign exchange	373	-	373
At 31 December 2020	41,064	(689)	40,375

Notes to the financial statements

21 Claims outstanding

	Gross	2021 Reinsurers' Share	Net
	£'000	£'000	£'000
At 1 January 2021	**56,250**	**(24,590)**	**31,660**
Claims incurred in current accident year	**23,289**	**-**	**23,289**
Claims incurred in prior accident years	**104**	**(3,201)**	**(3,097)**
Claims paid during the year	**(17,075)**	**199**	**(16,876)**
Foreign exchange	**195**	**(16)**	**179**
As at December 2021	**62,763**	**(27,608)**	**35,155**

	Gross	2020 Reinsurers' Share	Net
	£'000	£'000	£'000
At 1 January 2020	53,975	(25,702)	28,273
Claims incurred in current accident year	27,974	(2)	27,972
Claims incurred in prior accident years	(4,346)	(721)	(5,067)
Transfer of liabilities due to sale of Australia branch	(640)	110	(530)
Claims paid during the year	(21,001)	1,804	(19,197)
Foreign exchange	288	(79)	209
At 31 December 2020	56,250	(24,590)	31,660

22 Retirement benefit schemes

Defined benefit pension scheme

The Company's subsidiary, HSB Engineering Insurance Services Limited (HSBEISL), operates a funded defined benefit scheme in the UK administered by a single pension fund. Some of the Company's employees were eligible to participate in that benefit scheme.

The scheme was closed to new members with effect from 31 December 2003 and future accrual of benefits ceased for all members on 30 June 2016. However, participating employees who were active members at 30 June 2016 retain a final salary link, so their pension benefits increase in line with increases in their pensionable salary while they remain in employment with the Company.

Up to 30 June 2016, contributions were paid to the scheme by the members at the rate of 7.00% of pensionable salaries and by the Company at the rate of 12.25% of pensionable salaries plus insurance premiums and administrative expenses. Contributions ceased on closure of the scheme to accrual of benefits.

The related disclosures under FRS 102 have been disclosed in the financial statements of HSBEISL. During the year net defined benefit cost of £29,000 (2020: £36,000) was charged to the Company by its subsidiary, HSBEISL.

Defined contribution pension scheme

The Company operates a defined contribution pension scheme for employees and the contributions paid or accruing to that scheme during the year were £1,017,000 (2020: £829,000). The Company has no significant exposure to any other post-retirement benefit obligations. The contributions outstanding to the defined contribution scheme as at 31 December 2021 were £nil (2020: £282,000).

Notes to the financial statements

23 Other creditors including taxation and social security

	2021 £'000	2020 £'000
Amounts owed to group undertakings	**11,325**	8,706
Commissions payable	**7,689**	6,522
Corporation tax liabilities	**1,569**	487
Other tax creditors	**2,311**	1,736
Other creditors	**78**	163
	22,972	17,614

All other liabilities listed in the table above are current.

24 Deferred tax

An analysis and reconciliation of the movement of the key components of the net provisions for deferred taxation during the current and prior reporting period is as follows:

£'000	**Net balance at 1 January**	**Recognised in income statement**	**Recognised in OCI**	**Net Balance at 31 December**
2021				
Equalisation reserve	**(280)**	**280**	**-**	**-**
Property, plant and equipment	**74**	**28**	**-**	**102**
Provisions	**136**	**45**	**-**	**181**
Unrealised losses on investments	**(620)**	**-**	**683**	**63**
Net provisions for deferred taxation	**(690)**	**353**	**683**	**346**
2020				
Equalisation reserve	(503)	223	-	(280)
Property, plant and equipment	(81)	155	-	74
Provisions	108	28	-	136
Unrealised gains on investments	(320)	-	(300)	(620)
Net provisions for deferred taxation	(796)	406	(300)	(690)

In the 2021 Spring Budget, the UK Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. The deferred taxes at the balance sheet date have been measured using the rate of 25%.

Notes to the financial statements

25 Risk management

a) Governance framework

The Company adopts a transparent and consistent approach in the design of its risk management framework, applying the Risk Management Principles set out by the Company's immediate and ultimate parent companies. The Company considers risks proportionately, ensuring ownership and accountability throughout the organisation, having several levels of independent oversight in place. The risk framework also ensures staff are well trained and risk management practices and principles are embedded across the organisation.

The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. The Board is collectively responsible for setting the strategic direction of the Company and defining the overall tolerance for risk, including the review of major risk exposures and the establishment of risk limits in material areas. The Board is ultimately also responsible for risk governance, ensuring the Company operates within an established and effective risk framework of internal control systems, policies and procedures that are also compliant with applicable laws and regulations.

Independent Risk and Compliance functions are in place to develop, implement, monitor and improve organisational measures needed to ensure legally correct and responsible conduct by the Company and its employees. Also, to provide challenge to the business stakeholders on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place and any actions being progressed. These functions also provide advice and guidance on the impact of regulatory changes.

b) Capital management objectives, policies and approach

The Company's primary objectives when managing capital are to:

- comply with the regulators' capital requirements of the markets in which the Company operates; and
- safeguard the Company's ability to continue to meet stakeholders' expectations in accordance with its corporate mission, vision and values.

The Company is subject to insurance solvency regulations in all the territories in which it issues insurance contracts, and capital is managed and evaluated on the basis of regulatory capital. The Company is required to comply with rules issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and to submit returns to the PRA detailing the levels of regulatory capital held. The Company continued to report under the PRA adopted Solvency II rules during 2021. The Company sets internal capital standards above the PRA's minimum requirement. As at 31 December 2021 the Company's Available Own Funds was £127,706,000 (2020: £118,950,000) and the Company's Solvency Capital cover, as calculated under the standard formula, was 220% (2020: 242%). Further details are given in the Company's publicly available Solvency and Financial Condition Report. The amounts indicated in this note are unaudited.

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity in order for them to meet their individual minimum capital requirements. Share capital and related information is disclosed in note 18. The Company has met all externally imposed capital requirements throughout the year (2020: met).

c) Insurance risk

As an insurance business, the Company is exposed to a number of risks, as summarised in the Risk Management section of the Strategic Report. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. Factors such as the business and product mix, the external environment including market competition and reinsurance capacity all may vary from year to year, along with the actual frequency, severity and ultimate cost of claims and benefits. This subjects the Company to underwriting and pricing risk (the risk of failing to ensure disciplined risk selection and failing to achieve the required premium), claims reserving risk (the risk of actual claims payments exceeding the amount held as a liability) and reinsurance risk (the risk of failing to access and manage reinsurance capacity at a reasonable price).

Notes to the financial statements

25 Risk management *(continued)*

i) Underwriting and reinsurance risk

The Company manages underwriting and reinsurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk and geography.

Pricing for the Company's products is generally based upon historical claims frequencies and claims severity averages and adjusted for inflation. While claims remain the Company's principal cost, the Company also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of capital.

Underwriting limits and a range of delegated authorities are in place to enforce appropriate risk selection criteria. The Company generally has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim.

All of the Company's underwriters have specific licences that set clear parameters for the business they can underwrite, based on the experience of the individual underwriter. Additionally, the Company has a centrally managed forum looking at underwriting trends, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Company has a portfolio management process which provides a consistent assessment of each portfolio performance against targets. Under the portfolio management system, targets are tracked to monitor emerging trends, opportunities and risks and, on an annual basis, a review forum of business and underwriting leaders undertake a detailed review of each portfolio utilising this data.

The Company has developed methods of recording exposures and concentrations of risk. This means there is greater control of exposures in high risk areas and enables a prompt response to claims from policyholders should there be a catastrophic event such as an earthquake.

Reinsurance arrangements in place include excess of loss, catastrophe and proportional coverage. The effect of such reinsurance arrangements is that the Company should not suffer total net insurance losses beyond the Company's risk appetite in any one year.

The table below sets out the concentration of insurance contract liabilities by class of business:

	2021		
	Gross written premiums £'000	**Gross claims outstanding £'000**	**Net claims outstanding £'000**
Direct insurance	**72,682**	**60,576**	**33,115**
Reinsurance acceptances	**11,497**	**2,187**	**2,040**
	84,179	**62,763**	**35,155**

	2020		
	Gross written premiums £'000	Gross claims outstanding £'000	Net claims outstanding £'000
Direct insurance	55,896	53,148	28,711
Reinsurance acceptances	12,008	3,101	2,949
	67,904	56,249	31,660

Notes to the financial statements

25 Risk management *(continued)*

ii) Sensitivities

The liabilities established could be lower or higher than the ultimate cost of settling the claims arising as a result of differences arising from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). The level of uncertainty varies depending on the nature of the risks being underwritten.

A 5% increase or decrease in the gross incurred and net incurred claims ratio would have the following effect on income statement and equity:

	2021		2020	
	5% increase	**5% decrease**	5% increase	5% decrease
	£'000	**£'000**	£'000	£'000
Impact on profit after tax and equity				
Gross of reinsurance	**(2,764)**	**2,764**	(2,358)	2,358
Net of reinsurance	**(2,636)**	**2,636**	(2,254)	2,254

iii) Claims reserving risk

The Company establishes loss reserves to account for the anticipated ultimate costs of all losses and related loss adjustment expenses (LAE) on losses that have already occurred. The Company establishes reserves for reported losses and LAE, as well as for IBNR losses and unallocated loss adjustment expenses (ULAE). Loss reserve estimates are based on known facts and on interpretation of circumstances including experience with similar cases and historical claims payment trends. The Company also considers the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

In the normal course of business, the Company seeks to reduce the loss that may arise from events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The Company manages underwriting risk by transferring exposures through the use of both excess of loss and treaty reinsurance programmes. During 2021 the Company followed the policy of underwriting and reinsuring contracts of insurance that limited the net exposure of the Company to a maximum amount of US$5m per event and US$7.5m per risk (2020: US$5m per event and US$6.25m per risk).

The provision for unpaid claims and adjustment expenses is an estimate subject to variability and the variation could be material in the near term. Variation can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in severity or frequency from historical trends, the timing of claims payments, and the recoverability of reinsurance. The estimate is principally based on Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information.

Notes to the financial statements

25 Risk management *(continued)*

Claims development tables

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported (IBNR) for each successive accident year at each reporting date together with cumulative payments to date.

£'000	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross basis											
End of accident year	27,033	24,042	21,491	31,284	30,377	37,123	50,377	26,377	27,976	23,289	
1 year later	21,814	22,604	19,052	26,130	24,649	33,838	44,959	23,387	25,804	-	
2 years later	20,638	18,263	18,716	24,182	22,263	31,780	44,215	22,020	-	-	
3 years later	20,155	18,370	17,488	23,427	22,537	31,334	44,194	-	-	-	
4 years later	20,089	17,904	17,188	23,169	23,410	31,793	-	-	-	-	
5 years later	20,108	17,665	17,088	22,731	26,620	-	-	-	-	-	
6 years later	19,520	17,975	16,302	22,715	-	-	-	-	-	-	
7 years later	19,218	17,742	16,222	-	-	-	-	-	-	-	
8 years later	19,270	17,988	-	-	-	-	-	-	-	-	
9 years later	19,361	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	19,361	17,988	16,222	22,715	26,620	31,793	44,194	22,020	25,804	23,289	**250,006**
Cumulative payments	19,300	17,781	15,902	22,572	20,893	27,795	20,326	18,337	16,972	8,041	**187,919**
Gross liabilities – last 10 accident years	61	207	320	143	5,727	3,998	23,868	3,683	8,832	15,248	**62,087**
Liabilities in respect of prior accident years											**676**
Gross liabilities in statement of financial position											**62,763**
Net basis											
End of accident year	21,195	18,655	20,427	29,255	27,138	28,561	29,543	26,377	27,974	23,289	
1 year later	16,299	16,642	18,142	24,198	21,345	24,307	23,932	23,387	25,802	-	
2 years later	15,734	14,256	17,937	22,514	19,774	24,159	23,376	22,020	-	-	
3 years later	15,170	14,536	16,718	21,772	19,971	23,891	23,299	-	-	-	
4 years later	15,188	14,088	16,436	21,404	19,858	24,063	-	-	-	-	
5 years later	15,071	13,875	16,642	20,942	20,343	-	-	-	-	-	
6 years later	14,527	14,186	16,018	20,854	-	-	-	-	-	-	
7 years later	14,334	13,972	15,940	-	-	-	-	-	-	-	
8 years later	14,326	14,074	-	-	-	-	-	-	-	-	
9 years later	14,402	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	14,402	14,074	15,940	20,854	20,343	24,063	23,299	22,020	25,802	23,289	**204,086**
Cumulative Payments	14,368	13,902	15,631	20,726	18,492	22,695	20,333	18,338	16,972	8,041	**169,498**
Net liabilities – last 10 accident years	33	171	309	128	1,851	1,368	2,966	3,683	8,830	15,248	**34,587**
Liabilities in respect of prior accident years											**567**
Net liabilities in statement of financial position											**35,155**

Notes to the financial statements

25 Risk management *(continued)*

Provisions for the Company's net claims at the beginning of the year compared to payments and provisions at the end in respect of prior underwriting years liabilities amounted to a change in estimate in 2021 of £2,918,000 (2020: £5,862,000).

d) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are market risk (interest rate risk and currency risk) and credit risk.

There has been no change from the prior period in the nature of the financial risks to which the Company is exposed. The Company's management and measurement of financial risks is informed by stress testing techniques.

The Company has exposure to credit risk, which is the risk of non-payment of their obligations by counterparties. Areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities (excluding the provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- deposits held with banks;
- amounts due from insurance intermediaries and policyholders; and
- counterparty default on debt securities.

The following table summarises the Company's exposures to credit risk:

	2021	2020
	£'000	£'000
Cash and short-term deposits	**17,671**	30,440
Fixed-income securities	**121,537**	90,840
Reinsurers' share of insurance contract liabilities	**27,608**	24,590
Debtors arising out of direct insurance operations – intermediaries	**8,645**	7,376
Debtors arising out of reinsurance operations	**1,367**	1,575
Other debtors	**2,588**	2,682
Aggregate exposure to credit risk	**179,416**	157,503

The following table provides information on the carrying value of insurance, reinsurance and other debtors shown gross of allowance for doubtful debt:

	2021		2020	
	Insurance and reinsurance debtors	**Other debtors**	Insurance and reinsurance debtors	Other debtors
	£'000	**£'000**	£'000	£'000
Neither past due nor impaired	**7,354**	**2,588**	6,203	2,682
Past due but not impaired	**3,362**	**-**	3,417	-
Individually impaired	**-**	**-**	-	-
	10,716	**2,588**	9,620	2,682

Notes to the financial statements

25 Risk management *(continued)*

Analysis of debtors past due at the end of the reporting period but not impaired:

Overdue	2021 £'000
0 – 30 days	1,206
31 – 60 days	293
61 – 90 days	441
91 – 120 days	187
121 – 180 days	276
181 – 360 days	530
360+ days	429
	3,362

The Company has insurance receivables that are past the due date but not impaired. The Company believes that individual impairment of these assets is not appropriate as the amounts due will be collected through normal credit control procedures.

The Company incurs credit risk when transferring insurance risk to an external reinsurer. Good credit standing is an essential factor in the selection of reinsurers, as it limits the default and cash-flow risks. The Company purchases reinsurance from external parties as well as from reinsurers within the Munich Re Group. All reinsurers that participate in risk transfers from the Company have been approved as acceptable counterparties by the HSB Senior Management and Munich Re Group Security Committee. The Company's largest reinsurance counterparty is The Hartford Steam Boiler Inspection and Insurance Company, a related party with an A.M. Best credit rating of A++, and as at 31 December 2021 its share of claims outstanding was £4,732,000 (2020: £3,495,000).

The Company's cash balances are regularly reviewed to identify the quality of the counterparty bank and to monitor and limit concentrations of risk. The level and age of debtor balances are regularly assessed via monthly credit management reports. These reports are scrutinised to assess exposure in respect of aged or outstanding balances.

The Company has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well-diversified spread of such debtors. The Company's fixed interest instruments consist of corporate bonds with high credit ratings and exposures are regularly monitored.

The following table presents the credit quality of financial assets that are neither past due nor impaired. This is assessed by reference to the credit rating as provided by Standard & Poor's or equivalent.

	2021						
	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Cash and cash equivalents	-	12,614	5,057	-	-	-	17,671
Short-term bank deposits	-	-	-	-	-	-	-
Fixed-income securities	-	43,402	30,158	47,245	732	-	121,537
Reinsurers' share of insurance contract liabilities	4,715	7,572	15,208	-	-	113	27,608
Debtors arising out of direct insurance operations - intermediaries	-	-	-	-	-	8,645	8,645
Debtors arising out of reinsurance operations	-	-	-	-	-	1,367	1,367
Other debtors	-	-	-	-	-	2,588	2,588
Total exposure	4,715	63,588	50,423	47,245	732	12,713	179,416

Notes to the financial statements

25 Risk management *(continued)*

	2020						
	AAA	AA	A	BBB	BB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	-	18,177	4,509	-	-	-	22,686
Short-term bank deposits	-	-	7,754	-	-	-	7,754
Fixed-income securities	-	34,285	13,538	42,805	212	-	90,840
Reinsurers' share of insurance contract liabilities	11,963	9,150	3,477	-	-	-	24,590
Debtors arising out of direct insurance operations - intermediaries	-	-	-	-	-	5,106	5,106
Debtors arising out of reinsurance operations	-	-	-	-	-	1,097	1,097
Other debtors	-	-	-	-	-	2,682	2,682
Total exposure	3,477	61,612	37,764	42,805	212	8,885	154,755

ii) Liquidity risk

Liquidity risk is defined as the risk of not being unable to meet the Company's financial obligations as they fall due as a result of insufficient access to liquid funds. The Company could be exposed to liquidity risk if there are insufficient financial resources readily available to pay claims and other business expenses when they fall due. Exposure to liquidity risk is determined based on the carrying values of liabilities reflected in the Company's financial statements.

	2021	2020
	£'000	£'000
Claims outstanding	**62,763**	56,250
Creditors arising out of insurance operations	**1,700**	1,040
Other creditors including taxation and social security	**22,061**	17,614
	86,524	74,904

Contractual maturity profile of liabilities:

2021	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Claims outstanding	**24,980**	**25,419**	**9,979**	**2,385**	**62,763**
Creditors arising out of insurance operations	**789**	**-**	**-**	**-**	**789**
Other creditors including taxation and social security	**22,972**	**-**	**-**	**-**	**22,972**
	42,976	**27,678**	**13,613**	**2,257**	**86,524**

2020	Up to 1 year	1-2 years	2-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000
Claims outstanding	17,392	24,697	12,147	2,014	56,250
Creditors arising out of insurance operations	1,040	-	-	-	1,040
Other creditors including taxation and social security	17,614	-	-	-	17,614
	36,046	24,697	12,147	2,014	74,904

Notes to the financial statements

25 Risk management *(continued)*

The Company maintains a portfolio of highly marketable and diverse financial assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Company assessed the concentration of risk with respect to its liabilities and concluded it to be low.

iii) Market Risk

Currency risk

The Company operates internationally and as a result, foreign exchange risk arises from recognised assets and liabilities denominated in a currency other than the functional currency. The Company's major exposure to foreign currency risk within its investment portfolio arises from purchased investments that are denominated in currencies other than GBP. The Company also holds cash balances in foreign currency. The largest currency exposures with reference to net assets / liabilities are shown below, representing effective diversification of resources.

	2021	2020
	£'000	£'000
Great British Pound	**94,073**	96,487
Australian Dollar	**167**	10,400
Euro	**11,204**	(4,619)
US Dollar	**683**	1,831
Other	**512**	(139)
Total	**106,639**	103,960

The Company is also exposed to currency risk on both Canadian Dollar and US Dollar due to the investment in its Canadian subsidiary. This is held on the balance sheet at historic deemed cost of £46,752,000, however, this is not representative of the current underlying net asset value. The sensitivity of profit or loss and equity to movements in currency risk is shown in the following table:

		Increase / (decrease) in profit or loss		**Increase / (decrease) in Total comprehensive income**	
Variable	**Change in variable**	**2021**	2020	**2021**	2020
		£'000	£'000	**£'000**	£'000
Currency risk	-5%	**(628)**	(374)	**(628)**	(374)
	+5%	**628**	374	**628**	374

The following assumptions have been made in preparing the above sensitivity analysis:

- currency gains and losses arise from a change in the value of GBP against all other currencies moving in parallel; and
- all other variables, in particular interest rates, remain constant ignoring any impact of forecasts.

There have been no changes from the prior year to the method and assumptions used in preparing the above mentioned sensitivity analysis.

Notes to the financial statements

25 Risk management *(continued)*

Interest rate risk

The Company's exposure to interest rate risk arises primarily from movements on financial investments that are measured at fair value and have fixed interest rates, which represent a significant proportion of assets. The Company's investment strategy is set in order to control the impact of interest rate risk on anticipated cash flows and asset values.

		Increase / (decrease) in other comprehensive income	
Variable	**Change in variable**	**2021**	2020
		£'000	£'000
Interest rate risk	-100 basis points	**5,337**	1,261
	+100 basis points	**(4,715)**	(6,106)

The value of fixed income investments will vary inversely with changes in interest rates.

The table above assumes all territories experience the same interest rate movement while holding all other variables constant. There have been no changes from the prior year to the method and assumptions used in preparing the above mentioned sensitivity analysis.

Financial investments with variable interest rates, including cash and cash equivalents, are subject to cash flow interest rate risk. This risk is not significant to the Company.

26 Commitments

Capital commitments

At the year end, the Company had £nil capital commitments (2020: £nil).

Operating lease commitments

The Company leases premises and vehicles under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases on an undiscounted basis are as follows:

	2021	2020
	£'000	£'000
Within 1 year	**1,181**	1,190
Between 1 and 5 years	**3,307**	3,797
After 5 years	**519**	1,134
	5,007	6,121

Operating lease rentals are charged to the income statement during the year.

Notes to the financial statements

27 Parent and subsidiary undertakings

Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of EIG Co., which is incorporated and operates in The United States of America. EIG Co.'s registered office is One State Street, Hartford, United States. The Company's ultimate parent and controlling company is Munchener Ruckversicherungs-Gesellschaft Aktiengellschaft (Munich Re), which is incorporated and operates in Germany. Munich Re's registered office is Koniginstr. 107, Munich, Germany. Copies of the consolidated group accounts can be obtained from New London House, 6 London Street, London EC3R 7LP.

The parent company of the smallest and largest group for which group financial statements are drawn up of which the Company is a member is Munich Re. All the Company's subsidiaries listed below are included within Munich Re's consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

The Company's interest in group undertakings at 31 December 2021 is as follows:

Subsidiary undertakings	Principal activity	Place of incorporation and operation	Address	Class of shares held	Holding of shares by Parent
The Boiler Inspection and Insurance Company of Canada	Insurance company	Canada	390 Bay St, Suite 2000, Toronto, Canada	Ordinary	100%
HSB Engineering Insurance Services Limited	Inspection and consultancy services	United Kingdom	New London House, 6 London St, London	Ordinary	100%

28 Related parties

Amounts due from / (to) related parties:

At the end of the year, the amounts that are included in statements of financial position are as follows:

	2021 £'000	2020 £'000
Amounts due from / (to) HSBIIC and affiliates		
- in relation to net insurance contract liabilities	**4,498**	3,221
- in relation to other transactions	**(900)**	234
Amounts due from / (to) Munich Reinsurance and affiliates	**28**	258
Amounts due from / (to) HSBEISL and BI&I	**(10,425)**	(8,706)

These balances are settled on the same basis as those with unrelated parties and have arisen from the reinsurance transactions and provision of services referred to above.

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2021, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2020: £Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Company's transactions and balances with its defined contribution pension scheme are disclosed in Note 22.

Notes to the financial statements

28 Related parties (continued)

Key management personnel compensation

Key management personnel of the Company include all directors and senior officers. Key management personnel compensation comprised the following:

	2021	2020
	£'000	£'000
Salaries and short-term employee benefits	**878**	948
Post-employment benefits	**76**	58
Other long-term benefits	**87**	30
Directors fees	**125**	127
Total key management personnel compensation	**1,166**	1,163

29 Subsequent events

There were no significant events occurring after the balance sheet date that would have a material impact on the Company's results of operations, financial position and cash flows.

As announced to the market on 2 November 2021, the Company has agreed to purchase the MD Group of companies including the UK managing general agent, MD Insurance Services Ltd, which owns the well-known Premier Guarantee and LABC Warranty brands. The process of obtaining regulatory approval was ongoing as at the balance sheet date.

The Company will continue to monitor developments regarding the conflict between Russia and Ukraine, and at 31 December 2021, had no significant direct exposure to both countries.

Notes to the financial statements

30 Reconciliation to US GAAP

This note has been prepared solely to enable the Directors to provide information to the parent company that allows it to fulfil the requirement of paragraph 8.c. iv of Statement of Statutory Accounting Principles No. 97, Investment in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88, promulgated by the US National Association of Insurance Commissioners. For US regulatory purposes the parent company is required to value its investment in the Company. This valuation may be based on the carrying amount of shareholders' equity where this is measured using US Generally Accepted Accounting Principles ("US GAAP"). However, paragraph 8.c. iv also permits this valuation to be based on shareholders' equity disclosed within audited financial statements prepared on a foreign (i.e. non US) GAAP basis (in the case of the Company, UK GAAP where these statutory financial statements include an audited footnote that reconciles Net Income (Profit for the year) and Shareholders' Equity from the foreign GAAP basis of accounting to the US GAAP basis. Whilst there are a number of differences between the two bases of accounting, there are only a limited number that are applicable to the Company.

The table below reconciles the UK GAAP profit for the year ended 31 December 2021 to US GAAP:

	31 December 2021 £'000
UK GAAP profit for the year	**13,873**
Unrealised foreign exchange losses on investments (a)	1,178
Tax on unrealised foreign exchange losses on investments	(295)
Include FASB ASC 715 (b)	29
Leases adjustment (c)	(60)
US GAAP net income for the year	**14,725**

The table below reconciles the UK GAAP Total equity as at 31 December 2021 to US GAAP Shareholders' equity:

	31 December 2021 £'000
UK GAAP total equity	**106,639**
Include ASC 715	625
Lease adjustment (c)	(375)
US GAAP equity	**106,889**

Notes

(a) Under UK GAAP, unrealised foreign exchange gains and losses are included within the statement of profit or loss. Under US GAAP, the unrealised foreign exchange gains and losses on available for sale instruments (along with associated tax) are included within other comprehensive income through equity.

(b) The Company participates in a defined benefit pension scheme administered by its subsidiary, HSBEISL. The adjustment relates to the Company's share of the difference in net defined benefit cost determined under UK GAAP and US GAAP, which is recharged to the Company by HSBEISL. Under UK GAAP the scheme is accounted for in accordance with FRS 102 and International Financial Reporting Interpretations Committee (IFRIC) 14, whereas it is accounted for under FASB ASC 715 under US GAAP. Under IFRIC 14, pension costs are recognised based on the interest on plan assets, however, under US GAAP the treatment for pension costs is based on the expected return on plan assets.

(c) Under UK GAAP, operating leases are not capitalised, whereas under US GAAP the lease asset and related liability are capitalised on the balance sheet, and subsequently depreciated and amortised respectively.

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