Annual report and accounts

2022

HSB Engineering Insurance Services Limited

HSB

A Munich Re company

Contents

Company information

Company Number

3010292

Directors

G Bendelow
T Dyson
P Homan (resigned 31 May 2023)
A O'Reilly
S Worrall

Company Secretary

D How

Registered Office

Chancery Place
50 Brown Street
Manchester
M2 2JT

Auditor

Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

Strategic report

The Directors present to the members of HSB Engineering Insurance Services Limited (the Company) the Strategic report for the year ended 31 December 2022.

The results for the year are set out in the financial statements on pages 16 to 37.

A non-financial information statement is not presented in this report as the Company has taken advantage of the exemption available under section 4(7) of The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016.

Principal activities

The principal activities of the Company are the provision of accredited engineering inspection services in the United Kingdom and the Republic of Ireland (ROI). The Company also provides engineering advisory services to its parent company, HSB Engineering Insurance Limited.

The Company is a wholly owned indirect subsidiary of Munchener Ruckversicherungs-Gesellschaft Aktiengellschaft (Munich Re).

Business review

The Company reported revenue for the year of £33,092,000, which was an increase of £1,665,000 on the prior year. Revenue growth is now seeing signs of recovery from prior years suppression related to COVID-19 and expectations are that this trend will continue. The Company saw strong customer retention in the year, retaining 94% of existing business and started to see growth in the pipeline conversion of new business opportunities. In addition to the growth in revenue, 2022 has seen the completion of the investment in the Company's customer reporting and resource management technologies, which will deliver operational efficiencies in booking inspections and resulting reporting. The Company reported an overall loss before tax for the year of £2,433,000 (2021: £1,328,000 loss). This result included the impact of £737,000 of project investment in the Company's customer reporting and resource management technologies (2021: £235,000). This project is now completed and is expected to deliver operational efficiency savings going forwards.

During 2022, the Company has continued to operate in an environment where COVID-19 exists and the risk is managed appropriately. The Company continued to deliver inspections in accordance with the latest guidance from its industry trade body, SAFed, and the Health and Safety Executive, with increased risk assessments and precautions taken. The Company operated with hybrid working for all previously office-based employees, and all business critical activities continued to be delivered well throughout the year.

The principal key performance indicators which the Directors use to monitor the Company's performance are revenue, operating profit and profit before tax. These are set out on page 16.

Future developments

The Company's vision is to become the customer's first choice for engineering and technology inspection services, by providing best in class specialist technical services and customer experience. The Company has defined a long term strategy, its 2025 Ambition, that provides a commitment to ambitious financial targets and sets out its strategy to achieving the ambition.

The Company aims to continue to profitably grow market share in its core lines of business in the UK and the ROI. The Company plans to continue investing in its employees and new technologies to further enhance the efficiency and effectiveness of the services provided to its customers.

Strategic report (continued)

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.

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 and team meetings. Principal risks and uncertainties are identified and closely monitored on an ongoing basis as part of the Board's forward-looking approach.

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 three years, to support employees through the COVID-19 pandemic. The benefit offering to all employees includes private medical and dental insurance, an employee assistance programme, training and development programmes and workshops on topics such as personal and financial wellbeing and diversity, equity and inclusion.

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 2022 the Company, together with its Munich Re peers in the UK and ROI, continued its commitment to the Munich Re 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 Director of Engineering is the Chair of the Gender Group and the Company has representatives on all of the 3 workstreams, who share the strategic objectives to educate and inform our workforce on the benefits and risks of Diversity and Inclusion activities. Some of the initiatives undertaken by the workstreams include providing access to educational materials, third party experts and supporting 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 inspection services and this is overseen by the Customer Experience Committee, which has 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 customer experience. 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, Third Party Risk Management 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.

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, together with its immediate parent Company, HSB Engineering Insurance Limited, launched the HSB Charity Committee in 2008 and since then has supported many charities. In 2022 the Committee made donations to charity of over £34,000, funded by HSB Engineering Insurance Limited. Employees are also given up to two days leave each year to participate in charitable or volunteer work. The Company has been able to strengthen both Customer relationships and charitable works, by combining this initiative with support for the National Trust in England.

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.

There are examples of the Company voluntarily adopting regulatory standards of the parent, in order to ensure the highest level of business conduct. For example, operational resilience testing.

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 to the design and operation of its risk management framework in accordance with the Risk Management Principles set out by the Company's immediate and ultimate parent companies. The Company considers risks proportionately, ensuring there is clear ownership and accountability throughout the organisation, with several levels of independent oversight in place, ensuring staff are well trained and risk management practices and principles are embedded across the organisation.

Strategic report *(continued)*

Risk management (continued)

The Board of Directors is 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 certain risk limits. The Board is also responsible for risk governance. An independent risk function is in place through the Company's immediate parent company, HSB Engineering Insurance Limited. This function serves to provide an objective challenge to management over the effectiveness of the Company's risk management practices; risk monitoring processes; and the adequacy of the Company's internal controls framework.

The Company adheres to the risk management framework established by its immediate parent company, which focuses on timely recognition and proactive management of risks. The framework also includes an internal self-assessment system to assess the effectiveness of the key controls in place to mitigate risks. This system is used to focus attention on any identified weaknesses and action plans are put in place when any weakness is identified. The risk framework and self-assessment system is used as a basis for review and challenge by management.

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

Principal risks and uncertainties

The Company's operations expose it to a variety of risks that include credit risk, liquidity risk and operational risk. Given the size of the Company and its position within the Munich Re Group (the Group), the Directors have not established a sub-committee of the Board to monitor financial risk management but implement and monitor those policies established by the Company's immediate UK parent, HSB Engineering Insurance Limited.

The principal risks of the Company are as follows:

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 on outstanding receivables from customers. Where appropriate, relevant credit checks are performed on potential customers before sales are made. More information about credit risk can be found in note 19 of the financial statements.

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. The Company ensures that funds are available to meet such calls through its operating cash and working capital management processes as well as the funding available from its immediate parent, HSB Engineering Insurance Limited.

Operational risk

Operational risk is defined as the potential losses resulting from inadequate processes, technical failure, human error or unforeseen adverse external events, including power outages, cyber security events and global pandemics. The Company adopts a range of measures to mitigate operational risk exposure. 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 systems controls.

The Company retained its accreditations for both the quality assurance system and occupational health and safety management system to ISO/IEC 17020:2012 and ISO 45001. These standards include frameworks for internal and external audit, safety systems, technical training and competency assessment.

Further evidence of effective management of Operational Risk and strong occupational health and safety culture, is receiving the 9th consecutive ROSPA Gold award in 2022.

Strategic report *(continued)*

Risk management (continued)

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 Munich Re Group that, if not remedied promptly, is likely to have a material adverse effect upon the Company.

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 Group, such as IT support services and Internal Audit services. Where services are outsourced, management apply the same risk management and monitoring framework as though the services were provided in-house. With all material outsourcing arrangements there is 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.

Climate change risk

The Company faces a range of risks and opportunities arising from future climate change, including the impacts to future UK economic growth. Opportunities include the potential to develop services 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.

Defined benefit pension scheme funding risk

The Company has an ongoing commitment to fund its defined benefit pension scheme, which is closed to new entrants and, from 30 June 2016, to accrual of future benefits. Pension funding risk is the risk that the value of the scheme assets will be insufficient to cover the obligations to scheme members. This risk was heightened in 2022 as a result of significant investment market volatility. To mitigate this risk, management, together with the trustees of the scheme, regularly review reports prepared by the scheme's independent actuary and investment managers to assess the risks and take appropriate actions.

On behalf of the Board

S Worrall
Director
7 June 2023
Registered Number: 3010292

Directors' report

The Directors present to the members of HSB Engineering Insurance Services Limited their Directors' report and the audited financial statements for the year ended 31 December 2022.

As permitted by Section 414C(11) of the Company's Act 2006, certain information is not included in the Directors' report because it has instead been shown in the Strategic Report. This information is:

- Principal activities
- Business review
- Principal risks and uncertainties.

Results and Dividends

The results for the year are set out in the Income Statement on page 16. A review of the Company's business activities and any likely future developments can be found in the Strategic report.

The loss for the year before taxation amounted to £2,433,000 (2021: £1,328,000 loss). The Directors do not propose the payment of a dividend in respect of the year ended 31 December 2022 (2021: £nil).

During the year the Company received a capital contribution of £1,000,000 from its immediate parent, HSB Engineering Insurance Limited (2021: £nil).

Directors

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

G Bendelow
T Dyson
A O'Reilly
S Worrall
P Homan (resigned 31 May 2023)

Liability insurance

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

Policy and practice on payment of creditors

It is the policy of the Company to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

Political contributions

No political contributions were made during the year (2021: £nil).

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 current assets for the Company as at 31 December 2022 of £512,000 (2021: £2,017,000) and net assets for the Company as at 31 December 2022 of £1,509,000 (2021: £2,527,000). 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.

In considering the appropriateness of the going concern basis, the Directors gave consideration to the fact that the Company reported a loss in the past three financial years. Having considered the recent operational performance and the future financial plans for the next year for the business, the Company has confirmed support from its parent company, HSB Engineering Insurance Limited, to ensure its continuity of operations in the event the Company does not return to the expected profitability over the planning horizon.

Directors’ report (continued)

The Directors have made an assessment of its parent Company’s intention and ability to provide support by considering various factors such as sufficient liquid assets to inject further capital when required as well as its strong financial position, with profitable operations and strong capital base.

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.

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.

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, 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 Board of Directors 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 2022 the Company, together with its Munich Re peers in the UK and ROI, continued its commitment to the Munich Re Diversity and Inclusion Group, which has run a series of events and awareness sessions to promote our drive for 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

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.

Directors' report (continued)

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, 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 he or she 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
Director
7 June 2023
Registered Number: 3010292

Statement of Directors’ responsibilities in respect of the annual financial statements

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”, 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 FRS 102;
- 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.

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 Services Limited

Opinion

We have audited the financial statements of HSB Engineering Insurance Services Limited for the year ended 31 December 2022 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 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 2022 and of its loss 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, 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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

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.

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.

Independent Auditor's report to the members of HSB Engineering Insurance Services Limited (continued)

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 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 12, 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.

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 entity 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.
- 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 minutes of the Board and its committees; and
    - gained an understanding of the company's approach to governance.

Independent Auditor's report to the members of HSB Engineering Insurance Services Limited (continued)

- 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 recognition of engineering inspection income. Our procedures included:
    - enquiries with management;
    - journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business;
    - for the recognition of engineering inspection income, challenging the assumptions used under different earnings models with a particular focus on long term inspection contracts, considering whether earnings patterns were reasonable with respect to inspection terms and recalculating the deferred revenue; and
    - incorporation of unpredictability into the nature, timing and/or extent of our testing, and challenging assumptions and judgments made by management in determining the estimates.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance with 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 and reviewing of the complaints and breaches logs.

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.

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
9 June 2023

Income statement

for the year ended 31 December 2022

	Note	**2022 £'000**	2021 £'000
Revenue	4	**33,092**	31,427
Cost of sales		**(4,532)**	(4,345)
Gross profit		**28,560**	27,082
Administrative expenses		**(30,199)**	(27,983)
Foreign exchange losses		**(57)**	(192)
Operational investment costs		**(737)**	(235)
Loss before tax		**(2,433)**	(1,328)
Income tax (charge) / credit	9	**405**	(80)
Loss for the year		**(2,028)**	(1,408)

All income statement transactions relate to continuing activities.

Statement of other comprehensive income

for the year ended 31 December 2022

	Note	**2022 £'000**	2021 £'000
Loss for the year		**(2,028)**	(1,408)
Items that will not be reclassified to income statement:			
Actuarial losses on defined benefit pension scheme	12	**(6,238)**	(449)
Amount of defined benefit pension scheme not recognised due to effect of asset ceiling	12	**6,251**	478
Deferred tax on actuarial losses	11	**(3)**	291
Other comprehensive income for the year, net of tax		**10**	320
Total comprehensive income for the year		**(2,018)**	(1,088)

The notes on pages 19 to 37 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2022

	Note	**2022 £'000**	2021 £'000
Non-current assets			
Property, plant and equipment	10	**95**	182
Deferred tax assets	11	**902**	328
Net pension scheme assets	12	**-**	-
Total non-current assets		**997**	510
Current assets			
Trade and other receivables	13	**18,492**	17,351
Prepayments and contract costs		**2,668**	2,193
Current tax assets		**-**	8
Cash and bank balances		**2,295**	1,778
Total current assets		**23,455**	21,330
Total assets		**24,452**	21,840
Equity and liabilities			
Equity			
Share capital	14	**912**	912
Other reserves		**4,292**	3,292
Retained earnings		**(3,695)**	(1,677)
Total equity		**1,509**	2,527
Liabilities			
Trade and other payables	15	**7,177**	5,628
Current tax liabilities		**158**	-
Deferred income		**15,608**	13,685
Total liabilities		**22,943**	19,313
Total equity and liabilities		**24,452**	21,840

The notes on pages 19 to 37 form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 7 June 2023 and were signed on its behalf by:

S Worrall A O'Reilly

Director **Director**

Statement of changes in equity

as at 31 December 2022

	Share capital £'000	**Share premium account £'000**	**Capital redemption reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
At 1 January 2021	912	3,289	3	(589)	3,615
Loss for the year	-	-	-	(1,408)	(1,408)
Other comprehensive income	-	-	-	320	320
Total comprehensive income	-	-	-	(1,088)	(1,088)
At 31 December 2021	912	3,289	3	(1,677)	2,527
Loss for the year	**-**	**-**	**-**	**(2,028)**	**(2,028)**
Other comprehensive income	**-**	**-**	**-**	**10**	**10**
Capital contribution	**-**	**1,000**	**-**	**-**	**1,000**
Total comprehensive income	**-**	**-**	**-**	**(2,018)**	**(2,018)**
At 31 December 2022	**912**	**4,289**	**3**	**(3,695)**	**1,509**

The notes on pages 19 to 37 form an integral part of these financial statements.

Notes to the financial statements

1 General Information

HSB Engineering Insurance Services Limited (the Company) is a private company, limited by shares and incorporated and domiciled in England. The principal activities of the Company are the performance of statutory, general and insurance inspections of plant and electrical installations and the provision of related advisory services.

The Company is a wholly owned subsidiary of HSB Engineering Insurance Limited, whose registered office is Chancery Place, 50 Brown Street, Manchester, M2 2JT. The Company's ultimate owner is Munchener Ruckversicherungs-Gesellschaft Aktiengellschaft (Munich Re).

2 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'').

As permitted by FRS 102 the Company continues to apply the accounting policies that were applied prior to transitioning to FRS 102.

Optional exemption applied by the Company

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.

Additionally, the Company has taken advantage of the exemption to disclose related party balances, and not detailed transactions.

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

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

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.

b) Going concern

The financial statements have been prepared on the going concern basis. 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 current assets of £512,000 and net assets of £1,509,000.

The Directors have reviewed the budget and cash flow forecasts of the Company for a period of not less than 12 months from the date of approving these financial statements. In considering the appropriateness of the going concern basis, the Directors gave consideration to the fact that the Company reported a loss for the past three financial years. Having considered the recent operational performance and the future financial plans for the next year for the business, the Company has confirmed support from its parent company, HSB Engineering Insurance Limited, to ensure its continuity of operations in the event the Company does not return to expected profitability over the planning horizon. The Directors have made an assessment of its parent Company's intention and ability to provide support by considering various factors such as sufficient liquid assets to inject further capital when required as well as its strong financial position, with profitable operations and strong capital base.

Notes to the financial statements

2 Accounting policies (continued)

b) **Going concern (continued)**

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. Accordingly the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The Directors' assessment covers a period of 12 months from the date of approval of the 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 Income Statement.

d) Revenue

The Company derives revenue from the provision of engineering inspection services and from the provision of engineering advisory services to its parent company. Revenue is measured based on the consideration specified in the contract with the customer. The invoice is generated at the inception of the contract and is usually payable within 30 days. No discounts are offered to customers. Revenue is recognised when the Company satisfies the performance obligation of an inspection under the terms of the contract with the customer. Methods to determine the stage of completion of a contract include monitoring of progress towards the contractual obligations with reference to completion versus target inspection dates or monitoring of any overdue rates. This is considered to be a reasonable depiction of the progress towards complete satisfaction of the performance obligation.

A provision for unearned fees is held as deferred income within the balance sheet based on progress towards completion of the performance obligation. All the consideration from the contract with the customer is included in the transaction price that is used to determine deferred income.

Certain contracts provide a customer with a right to cancel the contract within a specified period and receive a refund for unsatisfied performance obligations. This is measured at the amount the Company ultimately expects it will have to return to the customer, which is estimated based on historical data.

Disaggregation of revenue from contracts with customers is not required as the Company largely operates in a single geographical market which is the United Kingdom.

e) Cost of sales

Contract costs includes commissions payable, a cost incurred to obtain or fulfil the contract. Such costs are recognised as an asset on the balance sheet. These costs are amortised over the period of the contract to which it relates.

Notes to the financial statements

2 Accounting policies (continued)

f) 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 bases 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.

g) Employee benefits

The Company operates various post-employment benefit schemes. The Company has both defined contribution schemes and a defined benefit scheme. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Company, in a separate, trustee administered fund. The cost of defined benefit pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are assessed based upon market values.

The Company immediately recognises actuarial gains and losses on the benefit obligation and plan assets, which are recorded in other comprehensive income and then included in retained earnings. The Company determines the net interest expenses/(income) on the net defined benefit liability/(asset) for the year by applying the discounted rate used to measure the defined obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the end of the year, adjusted for the impact of the asset ceiling and for contributions and benefit payments. Consequently, the net interest on the net defined benefit liability/(asset) comprises interest cost on the defined benefit obligation and interest income on plan assets and interest cost on the effect of the asset ceiling.

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

Notes to the financial statements

2 Accounting policies (continued)

h) Financial instruments

The Company has chosen to apply the disclosure requirements of FRS 102 in respect of financial instruments.

The Company classifies 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:

- All financial assets are classified as loans and receivables
- Financial liabilities are classified as financial liabilities measured at amortised cost.

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.

Impairment of receivables

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.

i) 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.

Notes to the financial statements

2 Accounting policies (continued)

j) 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 year-end 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.

3 Critical judgements and accounting estimates in applying accounting policies

The Company makes judgements, estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area that requires accounting estimates and judgement are:

Defined benefit pension scheme

The Company operates a defined benefit pension scheme. The pension asset or liability recognised in the balance sheet net of associated deferred taxation is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of other comprehensive income for the period. The movement in the attributable deferred taxation is shown separately in the statement of other comprehensive income. The assumptions used in determining the charge to income statement for these benefits include the discount rate. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans.

At the end of each year an appropriate discount rate is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. Other key assumptions for the pension costs and credits are based in part on current market conditions. Refer to note 12.

Under the requirements of FRS102, the amount of surplus of defined benefit assets over defined benefit obligations, if any, which is recoverable as an asset is calculated as the present value of the difference between:

(i) the estimated future service cost in each year over the expected future lifetime of the plan; less

(ii) the minimum funding contributions required in respect of the future accrual of benefits in that year over the expected future lifetime of the plan.

Notes to the financial statements

3 Critical judgements and accounting estimates in applying accounting policies (continued)

Provision for impairment of trade receivables

The Company uses a provision matrix to calculate a collective impairment for trade receivables. The provision rates are based on days past due for groupings of various customers that have similar loss patterns. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the construction sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are reviewed and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and impairment is a significant estimate. The collective impairment is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the collective impairment on the Company's trade receivables is disclosed in notes 13 and 19.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and it is measured at the amount the Company ultimately expects it will have to return to the customer. The Company uses historical refund data to estimate the expected value of future refunds. Any significant changes in experience as compared to historical refund pattern will impact the expected refunds estimated by the Company. The Company updates its assessment of expected refunds quarterly and the refund liabilities are adjusted accordingly. Estimates of expected refunds are sensitive to changes in circumstances and the Company's past experience regarding refund entitlements may not be representative of customers' actual refund entitlements in the future.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned fees held as deferred income within the balance sheet. See accounting policy note 2 (d). The carrying amount of deferred income is shown on the face of the Statement of Financial Position as £15,608,000 (2021: £13,685,000).

4 Revenue

Analysis of revenue earned by category:

	2022	2021
	£000	£000
Inspection fees	**31,928**	30,280
Consultancy fees	**1,164**	1,147
	33,092	31,427

Over 93% of revenue has been earned in the United Kingdom (2021: over 91%). The remaining revenue has been earned from business sold in the Republic of Ireland.

Revenue recognised during the year that relates to performance obligations that were partially satisfied in prior periods was £12,509,000 (2021: £12,203,000). The aggregate amount of contract consideration that relates to performance obligations that are unsatisfied at the end of the year is disclosed as deferred income. The majority of this amount is expected to be recognised as revenue within a year.

Notes to the financial statements

5 Staff costs

Staff costs for all employees comprise:

	2022	2021
	£'000	£'000
Wages and salaries	**17,111**	15,879
Social security costs	**2,207**	1,926
Pension costs – defined contribution plans	**1,781**	1,968
Pension costs – defined benefit plan	**14**	29
	21,113	19,802

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

	2022	2021
	Number	Number
Technical	**254**	252
Administrative and management	**3**	2
	257	254

The Company is also supported by administrative and management employees who are employed by the Company's parent HSB Engineering Insurance Limited.

6 Directors' emoluments

The aggregate amount of Directors' emoluments was £640,000 for the year to 31 December 2022 (2021: £519,000). Emoluments of the Directors were as follows:

	2022				2021
	Fees and Salaries	**Bonus**	**Other benefits**	**Total**	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000
Highest paid Director	**169**	**37**	**27**	**233**	172
All Directors	**449**	**121**	**70**	**640**	519

Other benefits include pension contributions. Retirement benefits accrued to two Directors under defined benefit pension schemes (2021: two).

The remuneration of certain Directors is paid by the Company's immediate parent company, HSB Engineering Insurance Limited, and the Company was recharged £264,000 (2021: £228,000) in respect of their services to the Company. The remuneration of these Directors is disclosed within the financial statements of HSB Engineering Insurance Limited.

Notes to the financial statements

7 Auditor's remuneration

	2022	2021
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts (includes VAT)	**26**	23

8 Profit before tax

	2022 £'000	2021 £'000
Profit before tax has been arrived at after charging		
Depreciation of property, plant and equipment	**87**	174
Loss on disposal of property, plant and equipment	**-**	-
Staff costs	**21,113**	19,802
Bad debt expense	**170**	(45)
Operating lease charges		
- Land and buildings	**(73)**	553
- Motor vehicles	**640**	1,049

9 Tax expense

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

	2022	2021
	£'000	£'000
Current tax		
- Current year	**26**	(143)
- Prior years	**146**	50
Deferred tax		
- Timing differences	**(427)**	173
- Rate change	**(150)**	-
Total tax charge / (credit)	**(405)**	80

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

	2022	2021
	£'000	£'000
Deferred tax		
- Timing differences	**3**	(291)

Notes to the financial statements

9 Tax expense (continued)

Tax on the Company's result before tax differs from the United Kingdom effective rate of corporation tax for the period ended 31 December 2022 of 19% (2021: 19%). The differences are explained below:

	2022	2021
	£'000	£'000
Loss before tax	**(2,433)**	(1,328)
Tax calculated at the UK effective rate of tax of 19% (2021: 19%)	**(462)**	(252)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**35**	107
Adjustments to tax charge in respect of prior periods	**146**	50
Rate change adjustment	**(150)**	221
Foreign tax booked	**26**	(46)
Total tax charge / (credit)	**(405)**	80

10 Property, plant and equipment

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

	Leasehold property	**Fixtures, fittings and equipment**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 January 2022	**94**	**910**	**1,004**
Additions	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
At 31 December 2022	**94**	**910**	**1,004**
Accumulated depreciation			
At 1 January 2022	**70**	**752**	**822**
Charge for the year	**8**	**79**	**87**
Disposals	**-**	**-**	**-**
At 31 December 2022	**78**	**831**	**909**
Carrying amount at 31 December 2022	**16**	**79**	**95**

Notes to the financial statements

10 Property, plant and equipment (continued)

	Leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2021	94	962	1,056
Additions	-	5	5
Disposals	-	(57)	(57)
At 31 December 2021	94	910	1,004
Accumulated depreciation			
At 1 January 2021	62	643	705
Charge for the year	8	166	174
Disposals	-	(57)	(57)
At 31 December 2021	70	752	822
Carrying amount at 31 December 2021	24	158	182

11 Deferred tax

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

	Balance at 1 January £'000	Recognised in income statement £'000	Recognised in Other Comprehensive Income £'000	Balance at 31 December £'000
2022				
Property, plant and equipment	**138**	**(5)**		**133**
Provisions	**190**	**(47)**	**-**	**143**
Current year tax losses	**-**	**626**	**-**	**626**
Employee benefits	**-**	**3**	**(3)**	**-**
Deferred tax asset	**328**	**577**	**(3)**	**902**
2021				
Property, plant and equipment	104	34		138
Provisions	106	84	-	190
Employee benefits	-	(291)	291	-
Deferred tax asset	210	(173)	291	328

The Company has concluded that there will be estimated future taxable profits available to the extent that it is more likely than not that the deferred tax asset will be recoverable.

In the 2021 Spring Budget, the UK Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. In further government changes, this was reversed and then re-instated, therefore the deferred taxes at the balance sheet date have been measured using the rate of 25%.

Notes to the financial statements

12 Retirement benefit schemes

The Company operates a funded defined benefit scheme in the UK administered by a single pension fund. The board of the pension fund comprises of two employee and two employer representatives and an independent chair. The board of the pension fund is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund.

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.

Contributions to the scheme have been determined by a qualified independent actuary using the projected unit method.

The most recent actuarial valuation was carried out as at 31 December 2022 for the purposes of these disclosures.

A full triennial actuarial valuation was carried out as at 31 December 2021.

Up to 30 June 2016, contributions were paid to the scheme by the members at the rate of 7.00% of Pensionable Salaries and 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 expected contributions to the plan for the next annual reporting period is nil.

The Company has determined that, in accordance with the terms and conditions of the defined benefit plan, and in accordance with statutory requirements, including minimum funding requirements, the present value of refunds or reductions in future contributions is lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, a decrease in the defined benefit asset was necessary at 31 December 2022, referred to below as ‘amounts not recognised due to effect of asset ceiling’.

The amounts recognised in the statement of financial position under FRS 102 in relation to the plan are as follows:

	2022	2021
	£’000	£’000
Present value of the obligations	**(40,465)**	(73,703)
Fair value of plan assets	**47,276**	86,534
Surplus before consideration of asset ceiling	**6,811**	12,831
Amounts not recognised due to effect of asset ceiling	**(6,811)**	(12,831)
Net pension asset recognised on the statement of financial position	**-**	-

Notes to the financial statements

12 Retirement benefit schemes (continued)

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit asset and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset/(liability)	
	2022	2021	**2022**	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance at 1 January	**(73,703)**	(74,638)	**86,534**	87,763	**-**	-
Included in income statement						
Loss on curtailments/changes	**-**	-	**-**	-	**-**	-
Administration expenses paid	**-**	-	**(13)**	(29)	**(13)**	(29)
Interest (cost) / income	**(1,310)**	(1,011)	**1,541**	1,195	**231**	184
Interest on asset ceiling	**-**	-	**-**	-	**(231)**	(184)
	(1,310)	(1,011)	**1,528**	1,166	**(13)**	(29)
Actuarial loss included in Other comprehensive income:						
Change to assumptions	**30,858**	142	**-**	-	**30,858**	142
Experience adjustment	**748**	-	**-**	-	**748**	-
Return on plan assets excluding interest income	**-**	-	**(37,844)**	(591)	**(37,844)**	(591)
Amount not recognised due to effect of asset ceiling	**-**	-	**-**	-	**6,251**	478
	31,606	142	**(37,844)**	(591)	**13**	29
Other						
Benefits paid	**2,942**	1,804	**(2,942)**	(1,804)	**-**	-
Balance at 31 December	**(40,465)**	(73,703)	**47,276**	86,534	**-**	-

Plan assets comprise the following for which there is no quoted price in an active market:

	2022	2021
	£'000	£'000
Investment funds	**46,889**	82,551
Cash	**387**	3,983
Total value of assets	**47,276**	86,534

The scheme's current asset allocation at 31 December 2022 was approximately 36% in passive bonds/liability driven investments, 60% Fixed income investments and 4% cash. The Scheme currently holds these investments through pooled funds rather than in specific stocks or bonds.

Notes to the financial statements

12 Retirement benefit schemes (continued)

Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	2022	2021
Discount rate	**5.00%**	1.80%
Rate of salary increase	**4.05%**	4.25%
Rate of price inflation	**3.30%**	3.50%
Rate of pension increases	**2.70%**	2.90%

Assumptions regarding future mortality have been based on published statistics and mortality tables Males: SPA13M_CMI_2021_2%_[Sk_7.5]; Females: SPA13F_M_CMI_2021_1.75%_[Sk_7.5]; weighting of male 105% /female 95%.

The longevity assumptions underlying the values of the defined benefit obligations at the reporting date were as follows:

	2022	2021
Longevity at age 65 for current pensioners – Male	**22.3**	22.3
Longevity at age 65 for current members aged 40 – Male	**24.9**	25.1
Longevity at age 65 for current pensioners – Female	**24.7**	25.2
Longevity at age 65 for current members aged 40 – Female	**26.5**	27.6

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have increased the defined benefit obligation by the amounts shown below:

	2022	2021
	£'000	£'000
Discount rate decrease of 50 basis points	**3,145**	7,752
Future salary growth increase of 10 basis points	**90**	291
Inflation rate increase of 10 basis points	**510**	1,281
Future mortality decrease of 10%	**816**	2,457

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Expected cash flows

The expected total benefit payments for the following years are £3,027,000 (Year 1), £3,115,000 (Year 2), £3,206,000 (Year 3), £3,300,000 (Year 4), £3,396,000 (Year 5) and £18,527,000 (Years 6-10).

Notes to the financial statements

12 Retirement benefit schemes (continued)

The Company also operates a defined contribution pension scheme for employees. The contributions paid or accruing to the defined contribution scheme during the year were £1,799,000 (2021: £1,968,000). 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 2022 were £18,000 (2021: £nil).

13 Trade and other receivables

	2022	2021
	£'000	£'000
Trade receivables arising from contracts with customers	**8,292**	7,364
Allowance for doubtful debts	**(445)**	(275)
Other receivables	**290**	474
Amounts owed by group undertakings	**10,355**	9,788
	18,492	17,351

The allowance for doubtful debts is based on an impairment analysis performed at each reporting date using a provision matrix to measure collective impairment. None of the trade and other receivables have been determined to be individually impaired based on the impairment factors used by the Company.

Movements in the allowance for doubtful debts are as follows:

	2022	2021
	£'000	£'000
At 1 January	**(275)**	(320)
Allowance recognised during the year	**(170)**	45
At 31 December	**(445)**	(275)

14 Share capital

	Ordinary shares of £1 each	
	2022	2021
	£'000	£'000
Issued, authorised, allotted and fully paid	**912**	912
	Number	Number
Issued, authorised, allotted and fully paid	**912,092**	912,092

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 share premium account, being the premium on the issue of shares in a previous year and a capital redemption reserve.

Notes to the financial statements

15 Trade and other payables

	2022	2021
	£'000	£'000
Trade creditors	**460**	31
Accruals	**2,774**	2,320
Other taxation and social security payable	**3,608**	3,197
Refund liabilities	**335**	80
	7,177	5,628

16 Commitments

Capital commitments

At the year end, the Company had no capital commitments (31 December 2021: None).

Operating lease commitments

The Company leases premises and equipment 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 are as follows:

	2022		2021	
	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000
Within 1 year	**-**	**539**	-	663
Between 1 and 5 years	**-**	**455**	-	630
Over 5 years	**-**	**-**	-	-
	-	**994**	-	1,293

17 Ultimate parent undertaking and controlling party

The Company is a wholly-owned subsidiary of HSB Engineering Insurance Limited, which is registered in the United Kingdom. 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 www.munichre.com.

18 Related party transactions

For the purpose of related party transactions and balances, related parties comprise group undertakings, key management personnel and the employee defined benefit plan. Key management personnel of the Company include all Directors and senior management of the Company.

The Company enters into transactions with group undertakings and key management personnel in the normal course of business.

Notes to the financial statements

18 Related party transactions (continued)

Amounts due from related parties:

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

	2022	2021
	£'000	£'000
Payable to the Company by HSB Engineering Insurance Limited	**10,355**	10,425

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 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2021: £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.

Transactions of the Company with its defined benefit pension plan are disclosed in note 12.

Key management personnel compensation:

Key management personnel include the Board of Directors and key senior management. The summary of the compensation of key management personnel for the year is as follows:

	2022	2021
	£'000	£'000
Salaries and short-term employee benefits	**710**	563
Post-employment benefits	**-**	54
Other long-term benefits	**27**	27
Total key management personnel compensation	**737**	644

19 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the creditors of the Company. The most important component of financial risk is 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 operations are integrated with those of its parent company, HSB Engineering Insurance Limited. The accounts of HSB Engineering Insurance Limited contain details on the management and measurement of financial risks, as informed by stress testing techniques. There have been no changes from the prior year to the objectives, policies and processes for managing these risks.

Notes to the financial statements

19 Financial risk (continued)

Categories of financial instruments

	2022	2021
	£'000	£'000
Financial assets – at amortised cost		
Cash and bank deposits	**2,295**	1,778
Trade and other receivables - net	**18,492**	17,351
Financial liabilities – at amortised cost, non-interest bearing		
Trade and other payables	**7,177**	5,628

For 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.

Credit risk

The Company has exposure to credit risk, which is the risk of non-payment of its obligations by counterparties under a financial instrument or customer contract, leading to a financial loss.

Areas where the Company is exposed to credit risk are:

- deposits held with banks;
- amounts due from trade and other receivables.

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

	2022	2021
	£'000	£'000
Cash and bank deposits	**2,295**	1,778
Trade and other receivables net of allowance for doubtful debts	**18,492**	17,351
Aggregate exposure to credit risk	**20,787**	**19,129**

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 receivable balances are regularly assessed via monthly credit management reports. These reports are reviewed to assess exposure in respect of aged or outstanding balances.

Notes to the financial statements

19 Financial risk (continued)

The following table provides information on the carrying value of trade and other receivables before allowance for doubtful debts:

	2022		2021	
	Trade receivables	**Other receivables**	Trade receivables	Other receivables
	£'000	**£'000**	£'000	£'000
Neither past due nor impaired	**4,753**	**10,645**	4,433	10,262
Up to 30 days past due but not impaired	**1,815**	**-**	1,613	-
Over 30 days past due but not impaired	**1,724**	**-**	1,318	-
	8,292	**10,645**	7,364	10,262

The Company has trade receivables that are past due date but not impaired. The Company believes that impairment of these assets is not appropriate as the amounts due will be collected through normal credit control procedures. The Company uses a provision matrix to measure the provision for collective impairment of trade receivables from individual customers, which comprise a large number of small balances. The Company does not hold any collateral as security. Against the overdue balances collective impairment amounts are determined using loss rates that range from 25% to 75% depending on the number of days the balance has been overdue. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Details of the trade and other receivables and related collective impairment are provided in note 13.

20 Capital management

For the purpose of the Company's capital management, capital includes share capital and reserves as disclosed in the statement of changes in equity. Given the simple nature of capital items and the absence of any preference shares and borrowings, no active management of the Company's capital is required.

21 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.

The Company will continue to monitor developments regarding the conflict between Russia and Ukraine, and at 31 December 2022, had no significant direct exposure to both countries.

22 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.

Notes to the financial statements

22 Reconciliation to US GAAP (continued)

The table below reconciles the UK GAAP loss for the year ended 31 December 2022 to US GAAP:

	2022
	£'000
UK GAAP loss for the year	**(2,028)**
Include FASB ASC 715 (a)	(48)
Leases adjustment (b)	(550)
Tax on FASB ASC 715 adjustment	31
Tax on leases adjustment	104
US GAAP loss for the year	**(2,491)**

The table below reconciles the UK GAAP Total equity as at 31 December 2022 to US GAAP Shareholders' equity:

	2022
	£'000
UK GAAP total equity	**1,509**
Include FASB ASC 715 net pension asset (a)	6,811
Tax on FASB ASC 715 net pension asset	(1,707)
Leases adjustment (b)	(274)
US GAAP equity	**6,338**

(a) The Company operates a defined benefit pension scheme. Under UK GAAP the scheme is accounted for in accordance with FRS 102 whereas it is accounted for under FASB ASC 715 under US GAAP. Under UK GAAP, the amount of asset for its defined benefit pension scheme a Company can recognise on its balance sheet is based on whether the Company has an unconditional right to a refund or through a reduction in the Company's future contributions to the scheme. Under US GAAP FASB ASC 715, the Company recognises a net asset to report the funded status of each defined benefit pension scheme on its balance sheet with an offsetting adjustment in other comprehensive income (OCI) in Equity.

Furthermore under UK GAAP, 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.

(b) 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.

HSBEI-2375-0523

HSB Engineering Insurance Services Limited, registered in England and Wales: 03010292, Chancery Place, 50 Brown Street, Manchester M2 2JT.
Registered as a branch in Ireland: 906105.

www.hsbeil.com

HSB

A Munich Re company