Annual report and accounts

# 2023

## HSB Engineering Insurance Limited

HSB

A Munich Re company

# Contents

# Company information

**Company Number**
2396114

**Directors**
G Barats (Non Executive Director, resigned 13 December 2023)
T Dyson (appointed 21 March 2023)
D Firstenberg (Non Executive Director)
M Forman (Non Executive Director, appointed 29 January 2024)
J Herdman (Independent Non Executive Chairman)
S Morris (resigned 22 May 2023)
A O'Reilly
C Scarr (Independent Non Executive Director)
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 Limited (the 'Company') the Strategic report for the year ended 31 December 2023. The results for the year for the Company are set out in the financial statements on pages 31 to 67.

## Principal activities

The Company is an insurance company underwriting engineering and related property risks, which are 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 number of wholly owned subsidiary undertakings in the UK, comprising HSB Engineering Insurance Services Limited, which provides inspection and consultancy services on plant and equipment in the UK and ROI, and the MD Group of Companies, which specialises in UK structural warranties and building surveying and which includes the Premier Guarantee and LABC Warranty brands. The Company also has a wholly owned subsidiary undertaking in Canada, The Boiler Inspection and Insurance Company of Canada, which underwrites engineering risks in North America. 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 31 and 32, show a loss before tax of £18,516,000 (2022: profit of £13,485,000). As at 31 December 2023, the total net assets of the Company were £164,492,000 (2022: £246,313,000). Total gross written premiums for the year were £121,986,000 (2022: £127,447,000), which represented a decrease of 4.3% on 2022. Total net written premiums were £105,167,000 (2022: £124,907,000 ). The decreased premium income on the prior year reflects a reduction in new business written in the latent structural defects insurance book due to market conditions. Offsetting this, there has been continued good growth across all other product lines in the UK and ROI third country branch, primarily through growth in construction and cyber product lines via rate, retention and new distribution partners.

The Company reported a gross loss ratio of 41% (2022: 30%), the increase on prior year largely reflecting relatively benign loss experience in 2022 and the impact of reserve strengthening on the inherent defects book, with the Company's other product lines delivering loss ratios broadly in line with targets. The Company reported a gross combined operating ratio of 104% (2022: 104%) and net combined operating ratio of 97% (2022: 107%). The Company's profits for the year reduced on the prior year, mainly due to the recognition in the income statement of a reduction in the fair value of the MD Group of £30,902,000, which reflected its performance over the current period and a cautious view of future performance, given the current circumstances within the housebuilding market and whilst that business enacts a strategic plan to manage the market cycle and return the business to profitability in the near term. Additionally, profits were adversely impacted by reserve strengthening on the Company's longer tail inherent defects insurance (IDI) portfolio's and increased operating expenses, reflecting the current inflationary environment and growth in allocated group overhead.

In addition to the inflationary environment, and its subsequent impact on claims and other expenses, the Company is monitoring wider economic challenges present as a result of the invasion of Ukraine, the Israeli-Palestinian conflict and recent instability in financial markets.

Total interest income on investments for the year was £3,589,000 (2022: £2,861,000), which represented a 2.1% return on the value of investments held at 31 December 2023 (2022: 2.0%). The Company adopts a conservative investment strategy, with investments maintained to support the capital position and liquidity.

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 (unaudited) as at 31 December 2023 was 176% (2022: 172%). The increase in coverage since 2022 was driven by an increase in net available assets from an increase in investment valuations. The Company's capital coverage is above the Company's Solvency Capital Requirement and it is forecast to remain strong over the business planning horizon.

# Strategic report *(continued)*

## Key performance indicators ('KPIs')

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

| | **2023**<br>**£'000** | 2022<br>£'000 | |
|---|---|---|---|
| Gross written premiums | **121,986** | 127,447 | Total premiums receivable for the period. |
| Net written premiums | **105,167** | 124,907 | Gross written premium less outward reinsurance in respect of insurance contracts. |
| Gross loss ratio | **41%** | 30% | Ratio of gross claims incurred to gross earned premiums. |
| Gross combined operating ratio | **102%** | 104% | Ratio of gross claims incurred, commissions and expenses to gross premiums earned. |
| Net combined operating ratio | **97%** | 107% | Ratio of net claims incurred, commissions and expenses to net earned premiums. |
| Solvency Capital Ratio (SCR) (unaudited) | **176%** | 172% | SCR as calculated under the PRA regulatory standard formula adopted from Solvency II. |

### Future developments

The Company's vision is to be 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 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 product development and service 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.

The Company made good progress during 2023 towards its 2025 Ambition growth targets, delivering revenue growth across its core product lines in the UK and ROI. The key focus for 2024 is to manage the operating expense base with the aim of delivering a lower future operating expense ratio.

The Company continues to consider any potential risks arising from the Russian invasion of Ukraine and the Israeli-Palestinian conflict and, whilst there are no significant direct impacts on the Company, there continues to be 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.

# 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 Board particularly focused on the long term consequences in relation to its capital management.

***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. 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 (as measured through the use of feedback surveys) 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.

The Company has continued the work commenced in prior years to ensure it continues to strengthen and build on its inclusive culture, thereby enabling the business and its employees to realise their full potential. The Company, together with its Munich Re peers in the UK and ROI, continued to support the Group-wide dedicated Diversity, Equity and Inclusion Strategy, through a series of events, training and awareness sessions to promote our drive for inclusivity in the workforce.

# Strategic report *(continued)*

***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, and it has continued through 2023 to make good progress in enhancing the Company’s delivery 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 regularly 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.

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 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 2023 the Company made donations to charity of over £20,000 and expanded its remit to focus on encouraging employees to give time to support their local communities. This is achieved through employees being given up to two days leave each year to participate in charitable or volunteer work. In 2023, staff commenced participation in a national student mentoring programme, to provide personal mentoring to encourage and inspire future talent and we continue to explore other opportunities.

The Company’s ultimate parent, Munich Re, has adopted with its Ambition 2025 a climate strategy encompassing emissions associated with its assets, liabilities and own operations. It has specific milestone targets up until 2050, with 2025 marking a crucial first milestone. The Group-wide objective is to contribute to achieving the goals of the Paris Agreement. Munich Re has an Environmental, Social and Governance (ESG) Committee at Board level, which takes decisions on strategic, ESG-related matters for the Group. The ESG Committee is supported by the ESG Management Team, which is made up of the heads of the central divisions and departments and is responsible for the implementation and monitoring of the Group-wide ESG strategy. HSB EIL operates a complementary committee, the focus of which is intended to ensure HSB puts into place appropriate actions that support and compliment the wider Group initiatives. Additionally it will consider the ESG risks specific to its own operation . 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.

# Strategic report *(continued)*

**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.

The ROI Branch Management Committee is a sub-committee of the Board which oversees risks specific to the operation of the ROI Third Country Branch.

The Environmental, Social and Governance (ESG) Committee is a sub-committee of the Board, responsible for identifying relevant risks and overseeing the Company's activities 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.

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 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.

# Strategic report *(continued)*

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 fluctuations in the timing, frequency and severity of claims compared to expectations, from inadequate reserving, from accumulations to perils such as natural catastrophe or cyber risk events, or from Systemic risk such as Economic shocks or Insolvency of a Larger Developer. Since 2019, the company has significantly increased its exposure to long-duration Inherent Defects business, which increases the level of uncertainty. These risks are managed through underwriting and reinsurance strategies that limit net exposure accompanied by a conservative approach to reserving, both of which are based on the Risk Appetite agreed/set by the Board and executed and monitored by the senior management team. For information on exposure to underwriting risk refer to note 25c of the financial statements.

**Financial risk**

The Company's activities are exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. 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 2023 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.

# Strategic report *(continued)*

*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 power outages, cyber security events and global pandemics, risks arising from outsourced functions as well as the risk of regulatory investigations or legal claims arising in the normal course of business against the Company or its subsidiaries.

The Company has Professional Indemnity insurance in place to mitigate the risk of legal claims and it currently considers none of its ongoing legal claims to be material. Where the Company can look to another party to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

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 2023 the Company made good progress in enhancing its operational resilience, following the requirements of the Prudential Regulatory Authority and Financial Conduct Authority, as set out in the FCA Policy Statement 21/3 which came into force in 2022.

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.

# Strategic report *(continued)*

**Operational risk *(continued)***

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.

As part of its consideration of strategic risk, the Company assesses the risks arising from its subsidiary entities in the UK and Ireland and takes action as required. In 2023, this included carefully overseeing the inspection service delivery from HSB Engineering Insurance Services Limited, together with close monitoring of the performance of MD Group and overseeing the programme of work to manage the integration of the MD Group into HSB UK and Ireland.

**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. For its UK subsidiaries, risk management processes consistent with those applied by the Company are followed at the entities.

**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. This includes investment management activities, performed by MR Group Investment US Inc, Munich Ergo Asset Manager of New York and Abrdn plc, and various services provided by other Munich Re entities, including reinsurance 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.

# Strategic report *(continued)*

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. The Company has considered the impact on technical provisions and investement assets and do not believe they are materially impacted.

As part of the Munich Re Group, the Company’s strategy is developed from the Munich Group climate change strategy, as set out in its publicly available Munich Re Sustainability Report 2022. 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.

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.

Further details on these risks are set out in the Non-Financial and Sustainability Information Statement on pages 13 to 19.

**Geopolitical risks**

The Company is inherently exposed to the continued heightening of geo-political tensions, specifically the Russian invasion of Ukraine and the Israeli-Palestinian conflict, 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
**Chief Executive Officer**
29 March 2024

Registered Number: 2396114

# Non-Financial and Sustainability Information Statement

## Governance

The Risk Committee is responsible for the oversight and governance of assessing and managing climate-related risks and opportunities supported by the Environmental, Social and Governance (ESG) Committee. The ESG is a sub-committee of the Board 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 ESG Committee oversees material climate related topics such as our climate strategy. The Board is informed about existing projects, activities, progress and current developments on a regular basis. In addition, it is updated on strategic projects, proposals, new activities and initiatives, innovations and new or unexpected developments. The ESG delegates where necessary to the appropriate business owner.

The Company has a Risk Strategy and Risk Appetite which documents risk appetite and risk exposure limits and thresholds for risks which impact the business strategy. These are reviewed annually considering the change in business strategy and internal/external factors.

As the Risk Strategy already includes explicit risk appetite statements for financial risks, the impact of climate change is inherently managed and monitored in line with the approved appetite statements.

The Company operates a Long Term Incentive Plan for it's executives covering a 4 year business cycle to ensure longer term and sustainable business focus. In 2023 the plan was updated such that 20% of any bonus will be earned in relation to the achievement of ESG targets. This includes setting specific targets in relation to environmental, societal, governance and cultural dimensions. Any bonus earned will be in proportion to the achievement of these targets.

## Strategy

### Underwriting strategy

The Company takes account of ESG aspects in underwriting in accordance with the guidelines set by Munich Re. In addition to defining exclusion criteria in mandatory guidelines, the Company aim to support the mitigation of climate change by insuring new, climate-friendly technologies. The Company's insurance solutions aim to make those technologies more attractive and financially viable for investors. In addition, the insurance products on offer increase resilience to the economic consequences of natural catastrophes.

Guidelines, processes and tools have been developed and put in place to implement ESG aspects in the insurance business. These include ESG criteria applicable across the Munich Re Group, which we apply throughout our insurance activities.

Mandatory underwriting guidelines govern the handling of certain business categories. They include guidelines on:

- thermal coal activities in connection with new thermal coal mines/power plants/infrastructure;
- oil and gas activities in connection with new oil and gas fields, new oil infrastructure or oil-fired power plants;
- oil sands;
- Arctic oil and gas activities; and
- controversial weapons.

A special ESG tool helps the underwriters to factor ESG criteria into their risk assessment. In addition, for ESG risk assessment we also make use of the expertise contained in renowned external ESG databases. Our processes stipulate that individual transactions that are potentially critical from an ESG-related or other perspective be submitted to Reputational Risk Committees, which are in place for every field of business. These committees review if a planned transaction is appropriate, and it is their responsibility to make sure that no decisions are made that carry material reputational risks. We also hold regular information sessions and training courses as part of our

# Non-Financial and Sustainability Information Statement *(continued)*

## Strategy *(continued)*

responsible approach to handling ESG aspects. A video published Group-wide in April 2022, entitled “ESG basics”, is aimed at providing all staff of the Munich Re Group with an awareness of the need to take sustainability aspects into account in their daily work.

Munich Re continues to work towards taking further ESG aspects into account in its (re)insurance business. The Group has identified a set of generally applicable ESG aspects that need to be taken into account in insurance business underwriting, including the aspect of “natural resources and biodiversity”.

*Aiming for positive impact through insurance solutions*

Munich Re is positioned to develop innovative insurance solutions for ESG risks, which, in turn, enables us to create a potential positive impact for society and the environment, while simultaneously opening up new business opportunities. At a Group level, the Sustainable Development Goals (SDGs) are used as a framework to map and assess the impact of our insurance solutions.

**Investment strategy**

The Company follows the Responsible Investment Guidelines set by Munich Re. ESG aspects are integrated into the investment guidelines. When choosing asset managers, Munich Re take their experience in integrating ESG aspects into account. These measures are aimed at identifying ESG-related risks and opportunities and including them in investment decisions.

Munich Re was one of the first signatories of the Principles for Responsible Investment (PRI), which remain the foundation of the Group’s sustainable investment approach.

The Munich Re ESG Investment Committee specifically focuses on applying the ESG strategy to investments, which is the responsibility of Group Investment Management (GIM).

Munich Re’s investments are largely managed by MEAG, the global asset manager of Munich Re and ERGO. MEAG takes care that the Group’s investments are managed in conformity with uniform policies and principles. MEAG’s sustainability specialists focus on the continuous strengthening of ESG integration and stewardship activities across all major asset classes. Additionally, MEAG’s Board has adopted a sustainability strategy that underlines its commitment to further strengthening its ESG approach. MEAG’s specialised ESG team has a direct reporting line to the Management Board of MEAG and is supported by ESG multipliers across different asset classes.

As part of Ambition 2025, the Group adopted a climate strategy for investments that includes ambitious targets to decarbonise its asset portfolio by 2050. The Company’s strategy is aligned with the Group.

**Risks and Opportunities**

The Company has identified the following risks arising from ESG activities leading to:

- Increased underwriting risk from failure to consider climate change and/or technological advancements in underwriting.
- Reputational damage from association with poor ESG practices at EIL or a Third Party arrangement
- Failure to comply with changing regulations
- Reduction in value of investment portfolio
- Failure to win/ retain business if not seen as appropriately considering ESG
- Difficulty in recruiting and retaining talent

# Non-Financial and Sustainability Information Statement *(continued)*

## Strategy *(continued)*

- Failure to meet regulatory requirements

The impact of these risks could result in lower GWP (from reputational damage, reduction in available assets from loss of value in investment portfolio, higher loss ratios and lower available assets from any regulatory fines and/ or additional recruitment costs.

**Resilience of the business model and strategy of the company**

The Company carries out its Own Risk and Solvency Assessment (ORSA) on an annual basis. This process quantifies underwriting, reserving, credit and market risk by use of the company ORSA Capital Model. The ORSA inherently includes climate change impacts as part of the modelling conducted for financial risks.

In the Company's 2023 ORSA a scenario was modelled to identify the impact if the Company experiences large losses over a 3 year period including losses related to a large loss of $7.5m in 2024 (loss to per risk reinsurance cover), a severe weather/climate event in 2024 in the UK resulting in a loss of $5m (loss to catastrophe reinsurance cover) and a £14m cyber-attack in 2025 (cyber loss to 1 in 200 forecast event). While the Company's business plans consider an element of large loss experience in the loss ratio selection, additional large losses will have an adverse impact on solvency cover.

Whilst the stress scenario reduces the ORSA Capital Ratio, the Company is expected to remain solvent even under the stress scenario of 3 large losses in 2024/2025 including a severe weather/climate event.

Under the base scenario the Company would breach capital requirements (ORSA Capital Ratio of less than 100%) if any of the following situations occurred:

- reduction in available assets by £45.5m (34% loss in value);
- increase in capital requirement of £45.5m (increase of 51%); or
- scenarios affecting both available assets reduction in available assets and increase in capital requirement.

To identify possible scenarios which could lead to these circumstances the Company considered how severe the stress scenario would need to become to trigger a breach as early as possible in the modelled years. Considered this in the context of the large loss scenario above, the reverse stress testing identified that large losses in 2024 of $25m in the UK and €4.8m in the Third Party Branch in the Republic of Ireland, with no reinsurance recoveries attached, would be needed for the Company to breach capital requirements (ORSA Capital Ratio of less than 100%).

## Risk Management

Risk management procedures are integrated into multi-disciplinary Company-wide risk management processes, of which, climate change impacts are inherently assessed via these existing processes (e.g. accumulation monitoring and product development cycle).

Climate change has been identified as an emerging risk within the company's Emerging Risk Process. The Compliance & Risk Group ensure that any ongoing developments are cascaded to the risk owners and business units.

The principal climate-related risks and opportunities

i) Underwriting Risk

The Company predominately offers short-term annual contracts for "all risks" policies which are exposed to weather-related events. This allows the Company to readily adjust pricing to respond to changes in the external environment. Therefore, existing business model allows us to react to climate change.

## Non-Financial and Sustainability Information Statement *(continued)*

### Risk Management *(continued)*

Of the policies the company underwrites, exposure to Catastrophe risks is primarily from business written in the UK & Ireland (windstorm, floods).

Catastrophe exposure is managed through application of agreed limits for Catastrophe exposed risks through catastrophe budgets which are monitored on a quarterly basis. Catastrophe budgets and reinsurance arrangements are reviewed on an annual basis to ensure they reflect and respond to business changes.

The transition to a lower-carbon economy presents both upside and downside for Underwriting risk. On the upside, this opens the potential for product development to take advantage of new, insurable risks as the economy shift to low-carbon infrastructure and technologies. On the downside, the move towards a lower carbon economy could impact the profitability of our standard product offering and traditional target trades. In addition, insuring risks which emit high levels of CO2 may have an adverse impact on the reputation of the Company.

To mitigate upside and downside risk, the company has a product lifecycle process which continually reviews products for development, taking into consideration internal and external factors.

ii) Credit Risk

The physical impacts of climate change have the potential to materialize in financial loss due to a counterparty default from reinsurers, banks or investments.

The Counterparty Risk Limit system limits the maximum loss per single counterparty (risk group) and ensures portfolio diversification for the Munich Re Group, including the Company. It covers all credit risk concentrations.

iii) Market risk

The Company is exposed to market risk on its financial investments, being the risk of economic losses resulting from price changes on the capital markets. There is the potential risk that extreme weather-related events due to climate change will increase market risk.

In the longer term, valuations could be impacted by extreme weather-related events and rating downgrades could occur including on UK corporate and UK Government bonds.

The Company's investment strategy is relatively cautious, focused on government and corporate bonds and set with regards to Munich Re's overall investment framework. It includes limits on the proportion of the investment portfolio subject to spread risk and sets minimum credit quality for invested assets. In addition, The Company has ESG criteria embedded within its Responsible Investment Guidelines.

iv) Reserving Risk

As climate change may result in more extreme weather-related events, there is the risk that the Company may hold inappropriate reserves to cover liabilities as the underlying assumptions based on historical data are no longer accurate.

v) Operational Risk

The Company has an Environmental Policy in place and is working on reducing its carbon footprint and improving social and environmental sustainability. The Company undertakes periodic Energy Savings Opportunity Scheme (ESOS) reporting and takes action to respond to identified areas of improvement e.g. natural lighting; modern and efficient offices; review of car fleet to reduce CO2 emissions via the introduction of electric cars; and digitisation of the customer journey with e-trade platforms and inspection reporting tools.

## Non-Financial and Sustainability Information Statement *(continued)*

### Metrics and Targets

The Company is currently in the process of defining targets to be used by to manage climate-related risks and to realise climate-related opportunities. The metrics and targets currently used by the Company align with its ultimate parent company and Group. The table below sets out the Munich Re Group ambition for 2025 and the Company target:

| Munich Re Group | | | The Company |
|---|---|---|---|
| **Munich Re approach to decarbonisation** | **Target 2025** | **Target Long Term** | **Current performance** |
| **Assets** | | | |
| No direct investment in listed companies with:<br><br>>15% revenue thermal coal<br><br>>10% revenue oil sands<br><br>Oil and gas companies:<br><br>No new direct investment in pure play oil and gas<br><br>Net-zero commitment from integrated oil and gas companies required as of 2025<br><br>No direct investment in new oil and gas fields, midstream oil infrastructure and oil-fired power plants | Thermal coal – 35% emissions<br><br>Oil and gas – 25% emissions<br><br>Total 25%-29% emissions | Thermal coal – Full exit by 2040<br><br>Total Net Zero by 2050 | Decarbonisation of the investment portfolio, supporting the Group-wide target to become net-zero by 2050, and enhancement of ESG integration in investment management |
| Liabilities | | | |
| Thermal cost<br><br>No insurance for new coal mining, power plants, related infrastructure | Thermal coal – 35% emissions | Thermal coal – Full exit by 2040 (incl treaty reinsurance) | Further integration of ESG criteria in underwriting processes, including a phased exit from thermal coal mining sector business; |
| Oil and gas – exploration and production<br><br>No insurance for new and existing oil sand sites and related infrastructure, artic exposure and infrastructure<br><br>No insurance for new oil and gas fields, midstream oil infrastructure and oil-fired power plants. | Oil and gas – 5% emissions | Total<br><br>Net zero by 2050 | Already comply with Group target |

## Non-Financial and Sustainability Information Statement *(continued)*

### Metrics and Targets *(continued)*

| | Munich Re Group | | The Company |
|---|---|---|---|
| **Munich Re approach to decarbonisation** | **Target 2025** | **Target Long Term** | **Current performance** |
| **Own operations** | | | |
| Munich headquarters net-zero emissions (via carbon removal certificates)<br><br>All Other Group entities - Neutral emissions (via carbon avoidance certificates) | Per employee – 12% emissions | Total – net zero by 2030 | Reducing operational emissions, through 50% of new company cars being electric or hybrid, together with reducing the Company's office footprint and reducing business travel. See Streamlined Energy and Carbon Reporting on page 19 |

Regarding the LTIP referred to within the Governance section on page 13, there are a number of targets and assessment criteria related to the environment are summarised below;

**LTI 2023-2026 Assessment bases**

| Target | Assessment criteria | Share |
|---|---|---|
| Define a climate ambition for 2030 in line with the 2050 net-zero target and deliver on climate commitments<br>➢ Deliver on climate ambition 2025 for investments, insurance and own operations<br>➢ Develop and communicate a climate ambition for 2030 until end FY 2025 for investments, insurance and own operations<br>Clear steps towards progress on 2030 targets are visible by end FY 2026 (e.g. emission reduction, implementation of relevant policies, initiation of engagement dialogues, etc). | Target value and linear scaling (0% - 200%)<br>Climate ambition 2025 not achieved, climate ambition 2030 not available at end of FY 2025, no steps taken towards achieving climate ambition 2030 at end of FY 2026<br>= 0% achievement of objective<br>Climate ambition 2025 achieved, climate ambition 2030 available at the end of FY 2025, clear steps towards achieving climate ambition 2030 taken by the end of FY 2026<br>= 100% achievement of objective<br>Climate ambition 2025 exceeded, climate ambition 2030 available before end of FY 2025, significant steps towards achieving climate ambition 2030 already implemented by the end of FY 2026<br>= 200% achievement of objective | 10% |

## Non-Financial and Sustainability Information Statement *(continued)*

**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 2023** | Year to 31 December 2022 |
|---|---|---|
| *Energy consumption (kWh)* | | |
| Electricity | **138,000** | 199,000 |
| Transport fuel | **3,637,303** | 3,663,000 |
| *Emissions (kg CO2e)* | | |
| Electricity | **104,000** | 38,000 |
| Transport fuel | **62,467** | 15,000 |
| *Energy intensity kWh/£'000* | **31.11** | 30.31 |

# 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 2023.

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 its ROI third country 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 (resigned 13 December 2023)
T Dyson (appointed 21 March 2023)
D Firstenberg
M Forman (appointed 29 January 2024)
J Herdman
S Morris (resigned 22 May 2023)
A O'Reilly
C Scarr
S Worrall

**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 loss for the year before taxation was £18,516,000 (2022: profit of £13,485,000). During the year, the Directors declared and paid no dividends (2022: NIL). The Directors do not recommend the proposal of any further dividend in respect of the year ended 31 December 2023 (2022: £nil).

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 (2022: 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 2023 of £164,492,000. The financial statements are prepared on a going concern basis and the Directors' assessment covers a period from the date of approval of the financial statements up to 29 March 2025.

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 arising from the inherent uncertainty in setting loss ratio assumptions for the longer policy term business, including the impact of inflation and the impact of supporting a number of loss-making subsidiaries on the capital ratio of the Company. In setting the stress scenarios, the Directors considered the potential impact of climate change and any potential risks arising from the Russian invasion of Ukraine and the Israeli-Palestinian conflict. In addition to the stress scenarios referred to above, the directors also consider reverse stress tests, to identify the likelihood of severe stress scenarios reducing 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 SCR and is projected to remain above this requirement, including under a range of possible downside scenarios.

**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 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.

The Company, together with its Munich Re peers in the UK and ROI, continued to support a dedicated Diversity, Equity 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

# Directors’ report *(continued)*

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
**Chief Executive Officer**
29 March 2024
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.

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 (the Company) for the year ended 31 December 2023 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 29 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 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 2023 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 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 29 March 2025 and evaluated the appropriateness of the going concern assessment period;
- Evaluated the reasonableness of management's forecasts within the going concern assessment;
- Evaluated the profitability and liquidity 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 independent stress testing and sensitivity analysis using historic performance and management's forecasts;
- 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.

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 29 March 2025.

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 claims reserves (specifically Incurred But Not Reported (IBNR)) |
| Materiality | • Overall materiality of £1,213k which represents 1% of gross written premium ('GWP'). |

**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, the potential impact of climate change 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 most significant future impacts from climate change on its operations will be from underwriting risk, credit risk and market risk. These are explained on pages 4-12 of the Strategic Report and pages 13-19 of the Non-Financial and Sustainability Information Statement. The Company has also explained its climate commitments on pages 17-18. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited 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, in line with our responsibilities on "Other information".

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 13-19 and the significant judgements and estimates disclosed in note 2(a) and whether these have been appropriately reflected following the requirements of UK GAAP. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

**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) **(2023: £64.6m, 2022: £65.7m)**<br><br>Refer to Accounting policies (page 38 – 39); and Note 21 of the Financial Statements (page 55)<br><br>The determination of gross claim reserves involves the use of judgement, estimation, and complex actuarial calculations and models in arriving at the best estimate.<br><br>The key judgements or sources of uncertainty involved in the determination of the reserves are:<br>• 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);<br>• Claims inflation;<br>• Premium income earnings;<br>• Impact of COVID-19 on the Company; and<br>• Potential exposure to cladding losses.<br><br>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.<br><br>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:<br><br>• We obtained a detailed understanding of the end-to-end reserving process employed by management, paying particular attention to the setting of IBNR and management reserving methodology including the setting of the margin, and assessed the design and implementation of key controls within the process;<br><br>• 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;<br><br>• We challenged management's estimated loss ratios used to earn premium income for MIDI and SIDI policies to align with the historical los ratios for these lines of business;<br><br>• We challenged management's earning of premium income, especially as regards the long-term policies for SIDI and MIDI classes of business, and those for construction projects with Delayed Start Up (DSU) cover;<br><br>• We assessed the Company's inflation assumptions based on our view of the general inflation levels in the market;<br><br>• We assessed the impact of recession, COVID-19 and claims inflation on the claim reserves as at 31 December 2023;<br><br>• We independently projected the best estimate claims reserve as at 31 December 2023 except for MIDI and SIDI class of business using standard actuarial techniques. We considered whether management's claim reserves at 31 December 2023 fell within a reasonable range of possible estimates, and investigated any significant differences with management;<br><br>For MIDI/SIDI classes of business, we have assessed the reasonableness of methodology and assumptions used by management to derive the 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.<br><br>We consider management's assumptions around claims reserves to be reasonable and that the claims reserves lie within what we consider to be a reasonable range of estimates, allowing for inflation and any losses arising from COVID-19.<br><br>We concluded that the data used for the purposes of the actuarial projections was complete, accurate and consistent with the underlying policy records.<br><br>We concluded that management's actuarial best estimate falls within a reasonable range of best estimates.<br><br>We consider management's unexpired risks provision method and assumptions to be reasonable. We concluded that the data used for the purpose of calculating the provision was complete and accurate and that the provision lies within what we consider to be a reasonable range of estimates.<br><br>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)*

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| | • We obtained an understanding of management's rationale for the quantum of the management margin (being additional margin applied by management above the actuarial best estimate) and considered whether the underlying claims experience supports the level of margin held for each class of business;<br><br>• We reviewed the claim reserves disclosures in the financial statements to assess whether they were consistent with underlying records and applicable accounting standards;<br><br>• We assessed management's assessment of the need for any unexpired risks provision. We obtained, tested and challenged the method, data and assumptions used by management to calculate the unexpired risks provision; and<br><br>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. | |

In the prior year, our auditor's report included 'Valuation of Investment in Group Undertakings' as a key audit matter as the Company i) had made a significant acquisition during the year and ii) accounted for the related investments at fair value for the first time, in line with the requirements of Schedule 3 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008. Whilst the determination of fair values of unquoted investments in group undertakings still involves complexity and requires levels of management judgment and estimation, management's policies are unchanged, there have been no acquisitions in the year. and therefore we have removed the key audit matter.

**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 £1,271k (2022: £1,050k), which is 1% (2022: 1%) of gross written premium (GWP) as at 31 December 2023. As the Company's profit before tax is considered to be unstable, changing significantly year on year, we believe that gross written premium ('GWP') provides us with an appropriate basis that will help to identify misstatements that may influence the users of the financial statements.

During the course of our audit, we reassessed initial materiality and decreased planning materiality to £1,213k considering the reduction in GWP from planning to year-end.

**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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HSB ENGINEERING INSURANCE LIMITED *(continued)*

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% (2022: 50%) of our updated planning materiality, namely £606k (2022: £525k). We have set performance materiality at this percentage due to the level of corrected and uncorrected misstatements in our previous audit in 2022.

**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 £60.6k (2023: £52.5k), which is set at 5% of the updated 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.

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 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 23, 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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HSB ENGINEERING INSURANCE LIMITED *(continued)*

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 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.

- The Company's principal activities is as a general insurance Company underwriting engineering and related property risk in the United Kingdom and Republic of Ireland.

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 four years, covering the years ending 31 December 2020 to 31 December 2023.

- 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

29 March 2024

# Income statement

***for the year ended 31 December 2023***

**Technical account – General business**

| | Note | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross written premiums | 4 | **121,986** | 127,447 |
| Outward reinsurance premiums | | **(16,819)** | (2,540) |
| Net written premiums | | **105,167** | 124,907 |
| Change in the provision for unearned premiums | | | |
| - gross amount | 20 | **(42,080)** | (56,717) |
| - reinsurers' share | 20 | **13,513** | 623 |
| **Earned premiums, net of reinsurance** | | **76,600** | 68,813 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid | | | |
| - gross amount | 5 | **33,762** | 18,186 |
| - reinsurers' share | 5 | **(8,337)** | (581) |
| | | **25,425** | 17,605 |
| Change in provision for claims | | | |
| - gross amount | 5 | **(1,062)** | 2,869 |
| - reinsurers' share | 5 | **682** | 535 |
| | | **(380)** | 3,404 |
| **Claims incurred, net of reinsurance** | | **25,045** | 21,009 |
| Changes in other technical provisions, net of reinsurance | 5 | **277** | 9,569 |
| Net operating expenses | 6 | **48,866** | 42,857 |
| **Total claims and expenses** | | **74,188** | 73,435 |
| **Balance on technical account for general business** | | **2,412** | (4,622) |

**Non-technical account**

| | Note | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | **2,412** | (4,622) |
| Investment income | 10 | **2,916** | 1,810 |
| Investment expenses and charges | 10 | **(114)** | (175) |
| Change in fair value of investments in group undertakings | 14 | **(29,602)** | 987 |
| Other income | 11 | **5,872** | 15,485 |
| **(Loss)/ Profit on ordinary activities before tax** | | **(18,516)** | 13,485 |
| Tax on (loss)/ profit on ordinary activities | 12 | **(1,599)** | 328 |
| **(Loss)/ Profit for the financial year attributable to members of the Company** | | **(20,115)** | 13,813 |

# Statement of Comprehensive Income

***for the year ended 31 December 2023***

| | Note | 2023 | 2022 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **(Loss)/ Profit for the year** | | **(20,115)** | 13,813 |
| **Other comprehensive income:** | | | |
| ***Items that may be reclassified subsequently to income statement:*** | | | |
| Available-for-sale securities - unrealised net changes in fair value | 10 | **5,849** | (14,073) |
| Available-for-sale securities - reclassified to income statement | 10 | **11** | 435 |
| Change in fair value of investments in group undertakings | 14 | **(78,086)** | 34,248 |
| Related tax | 12 | **(1,480)** | 3,410 |
| **Other comprehensive (loss)/ income for the year, net of income tax** | | **(73,706)** | 24,020 |
| **Total comprehensive (loss)/ income for the year** | | **(93,821)** | 37,833 |

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 2023***

| | Notes | **2023** | 2022 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **ASSETS** | | | |
| **Investments** | | | |
| Financial investments | 13 | **170,214** | 141,778 |
| Investments in group undertakings | 14 | **105,833** | 192,521 |
| | | **276,047** | 334,299 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 20 | **36,463** | 22,935 |
| Claims outstanding | 21 | **26,396** | 27,128 |
| | | **62,859** | 50,063 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations – intermediaries | | **11,438** | 9,746 |
| Debtors arising out of reinsurance operations | | **1,389** | 1,199 |
| Deferred tax asset | 24 | **2,933** | 4,906 |
| Other debtors | 15 | **31,639** | 27,708 |
| | | **47,399** | 43,559 |
| **Other assets** | | | |
| Tangible assets | 16 | **123** | 166 |
| Cash and short-term deposits | | **55,022** | 62,965 |
| | | **55,145** | 63,131 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 17 | **47,949** | 40,482 |
| Other prepayments and accrued income | | **1,756** | 1,534 |
| | | **49,705** | 42,016 |
| **Total assets** | | **491,155** | 533,068 |

# Statement of financial position

***as at 31 December 2023***

| | Notes | 2023 £'000 | 2022 £'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **53,560** | 53,560 |
| Capital contribution | | **52,062** | 40,062 |
| Retained earnings and other reserves | | **58,870** | 152,691 |
| **Total capital and reserves** | | **164,492** | 246,313 |
| | | | |
| **Technical provisions** | | | |
| Provisions for unearned premiums | 20 | **209,656** | 168,335 |
| Claims outstanding | 21 | **64,625** | 65,747 |
| Other technical provisions | 5 | **9,846** | 9,569 |
| | | **284,127** | 243,651 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | | **798** | 587 |
| Creditors arising out of reinsurance operations | | **14,265** | 8,256 |
| Other creditors including taxation and social security | 23 | **23,396** | 31,761 |
| | | **38,459** | 40,604 |
| **Accruals and deferred income** | | **4,077** | 2,500 |
| **Total liabilities** | | **326,663** | 286,755 |
| | | | |
| **Total equity and liabilities** | | **491,155** | 533,068 |

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

The financial statements were approved and authorised for issue by the Board on 29 March 2024 and were signed on its behalf by:

S Worrall
**Chief Executive Officer**

A O'Reilly
**Chief Financial and Operating Officer**

HSB Engineering Insurance Limited Registered Number: 2396114

# Statement of changes in equity

***as at 31 December 2023***

| | Share capital | Capital contribution | Available for sale reserve | Fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 1 January 2022 | **53,560** | **7,062** | **(358)** | **73,693** | **41,523** | **175,480** |
| Profit for the year | - | - | - | - | 13,813 | 13,813 |
| Other comprehensive income / (loss) | - | - | (10,228) | 34,248 | - | 24,020 |
| Total comprehensive income / (loss) | - | - | (10,228) | 34,248 | 13,813 | 37,833 |
| Capital contribution | - | 33,000 | - | - | - | 33,000 |
| Dividends paid (note 19) | - | - | - | - | - | - |
| At 31 December 2022 | **53,560** | **40,062** | **(10,586)** | **107,941** | **55,336** | **246,313** |
| (Loss) for the year | | | | | **(20,115)** | **(20,115)** |
| Other comprehensive income / (loss) | | | **4,380** | **(78,086)** | | **(73,706)** |
| Total comprehensive income / (loss) | | | **4,380** | **(78,086)** | **(20,115)** | **(93,821)** |
| Capital contribution | | **12,000** | | | | **12,000** |
| **At 31 December 2023** | **53,560** | **52,062** | **(6,206)** | **29,855** | **35,221** | **164,492** |

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 number of wholly owned subsidiary undertakings in the UK, comprising HSB Engineering Insurance Services Limited, which provides inspection and consultancy services on plant and equipment in the UK and ROI, and the MD Group of Companies, which specialises in UK structural warranties and building surveying and which includes the well-known Premier Guarantee and LABC Warranty brands. The Company also has a wholly owned subsidiary undertaking in Canada, The Boiler Inspection and Insurance Company of Canada, which underwrites engineering risks in North America.

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 risk of climate change and identified this as a principal risk as set out on page 16, 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 2023. 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)***

*Adoption of new and revised standards*

The Company has adopted the following new amendments to FRS 102.

The Organisation for Economic Co-operation and Development (OECD) has published model rules for Pillar II - the Global Minimum Tax. The Global Anti-Base Erosion Model Rules apply to multinational enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements.

In the United Kingdom, in which the company operates, these are being implemented in local tax legislation.

In July 2023, the FRC issued Amendments to FRS 102 'International tax reform – Pillar Two model rules'. The temporary exception introduced into FRS 102 applies immediately and retrospectively upon issue of the amendments. The effective date for the disclosure requirements is accounting periods beginning on or after 1 January 2023.

The UK Finance (No.2) Act 2023, enacted in July 2023, contains the UK's provisions addressing the implementation of BEPS Pillar Two. These regulations apply to accounting periods beginning on or after 31 December 2023. The UK legislation confirms that the transitional safe harbour provisions apply to both UK Income inclusion rules (IIR) and Qualified Domestic Minimum Top-up Tax (QDMTT). The legislation includes an election to apply a transitional safe harbour based on the country-by-country reporting (CbCR) rules for accounting periods commencing on or before 31 December 2026 and ending on or before 30 June 2028.

The Company operates in the United Kingdom and is subject to the scope of these enacted tax laws. It has analysed the potential impact on itself and other impacted UK entities within the Munich Re group.

The Company has applied the disclosure exemption requirements permitted under FRS 102 1.12(dA) as the required equivalent tax disclosures are presented in the consolidated financial statements of Munich Re Group, in which the Company is included.

**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 £164,492,000. 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 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 arising from the inherent uncertainty in setting loss ratio assumptions for the longer policy term business, including the impact of inflation and the impact of supporting a number of loss-making subsidiaries on the capital ratio of the Company. Other risks assessed were the potential impact of future risks associated with climate change, the impact of economic volatility along with any potential risks arising from the Russian invasion of Ukraine. 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.

# Notes to the financial statements

**2 Accounting policies *(continued)***

**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. Non-monetary items are carried at the historic rate and the items measured at fair value are translated at the rate of the date when the fair value is re-measured. 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 when due or a right to receive the premiums exists, 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 most inherent defect products which are earned following their associated expected loss profile. The exception is mechnical inherent defects insurance (MIDI), which is earned straight line over five years.

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 return is taken into account when calculating the provision.

# Notes to the financial statements

## 2 Accounting policies *(continued)*

At 31 December 2023 the Company recognised an unexpired risks provision of £9,846,000 (2022: £9,569,000) in relation to its structural inherent defects business in the UK. This is presented in 'other technical provisions' on the statement of financial position, and the line item on the technical account ‘changes in other technical provisions, net of reinsurance’ presents the movement in the 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.

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.

# Notes to the financial statements

## 2 Accounting policies *(continued)*

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.

### 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 undertakings are stated at fair value, with changes in fair value recognised in other comprehensive income, in accordance with section 9 of FRS 102, and accumulated in equity in the fair value reserve, with the exception of revaluation decreases below original cost which are taken through profit and loss along with any revaluation increases that reverse such decreases that have previously been taken through profit and loss. The valuation techniques and assumptions applied in determining fair value have been disclosed in note 3 (c).

# Notes to the financial statements

**2 Accounting policies *(continued)***

**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 available for sale 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 available for sale 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 recognised in respect of all timing differences, which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. 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.

A provision, in excess of initial calculated claims provisions, has been made for inflation to allow for it as a key uncertainty.

The Company has established a provision for unexpired risks in relation to its structural inherent defects business in the UK, as described in note 2d iv), and this calculation required judgement as to the future cost of claims, expenses and investment return. Refer to note 5, which includes carrying amount of the unexpired risk provision, sensitivities of this calculation are set out in note 25c ii).

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.

# Notes to the financial statements

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

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.

### 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) Investments in group undertakings

The fair value of investment in group undertakings has been calculated using assumptions from internal data sources. These include business plans, discount rates, growth assumptions and market multiples, resulting values are presented in note 14.

All subsidiaries have been valued using either present value techniques with forecasts based on the financial projections of the Group, or based on a multiple of net income. The valuations based on financial projections are sensitive to changes in short term profits and discount rates used, so can fluctuate significantly from one year to the next. A discount rate of 9% (2022: 9%) has been used for HSB Engineering Services Limited. A net income multiplier of 9.1 (2022: 9.5) and 10.2 (2022: Cost) has been used for The Boiler Inspection and Insurance Company of Canada and MD Insurance Services respectively.

### d) 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. The company's loss for the year was driven by the impairment review of the MD Group from previously accounting at cost. Without this loss the Income Statement shows a profit, which has reduced the deferred tax asset during the period, and will continue in future years which supports the view outlined in the going concern assessment.

# Notes to the financial statements

## 4 Gross insurance premium revenue

| | Direct £'000 | Reinsurance acceptances £'000 | Total £'000 |
|---|---|---|---|
| **2023** | | | |
| Gross premiums written | **108,772** | **13,214** | **121,986** |
| Gross premiums earned | **67,455** | **12,450** | **79,905** |
| Gross claims incurred | **(29,847)** | **(2,853)** | **(32,700)** |
| Gross operating expenses | **(42,353)** | **(6,991)** | **(49,344)** |
| **2022** | | | |
| Gross premiums written | 115,920 | 11,527 | 127,447 |
| Gross premiums earned | 58,221 | 12,510 | 70,731 |
| Gross claims incurred | (18,559) | (2,495) | (21,054) |
| Gross operating expenses | (43,542) | (8,642) | (52,184) |

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 for the year is - £4,549,000 (2022: £2,113,000).

Included within the gross premium written is £22,093,000 written in the Republic of Ireland (2022: £20,702,000).

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Gross claims paid | **33,762** | 18,186 |
| Gross changes in provisions for claims | **(1,062)** | 2,869 |
| Reinsurance recoveries on claims paid | **(8,337)** | (581) |
| Reinsurers' share of change in provisions for claims | **682** | 535 |
| **Claims incurred, net of reinsurance** | **25,045** | 21,009 |

At 31 December 2023 the Company recognised an unexpired risks provision of £9,846,000 (2022: £9,569,000) in relation to its structural inherent defects business in the UK. The line item on the technical account 'changes in other technical provisions, net of reinsurance' presents the movement in the unexpired risks provision

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| At 1 January | **9,569** | - |
| Increase/ (decrease) during the year | **277** | 9,569 |
| **At 31 December** | **9,846** | 9,569 |

## 6 Net operating expenses

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Commissions paid - direct | **32,041** | 35,189 |
| Commissions paid - reinsurance acceptances | **4,447** | 4,261 |
| Ceding commission paid / (received) | **(4,665)** | (7,171) |
| Change in deferred acquisition costs - ceding commission | **4,465** | 7,412 |
| Change in deferred acquisition costs - gross | **(12,175)** | (17,927) |
| Administrative expenses | **24,753** | 21,093 |
| **Net operating expenses** | **48,866** | 42,857 |

# Notes to the financial statements

## 6 Net operating expenses *(continued)*

Net losses arising on the translation of monetary assets and liabilities at the reporting date of £320,000 (2022: £537,000 gains) are included in investment income in the non-technical account.

Included in administrative expenses are:

| | 2023 | 2022 |
|---|---|---|
| | **£'000** | £'000 |
| Staff costs | **13,399** | 11,934 |
| Depreciation of tangible fixed assets | **41** | 100 |
| Depreciation of land and buildings | **8** | 49 |
| Operating lease rentals | **76** | 589 |

## 7 Auditor's remuneration

| | 2023 | 2022 |
|---|---|---|
| | **£'000** | £'000 |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts (inclusive of VAT) | **253** | 258 |
| **Total auditor's remuneration** | **253** | 258 |

Amounts disclosed are net of service taxes, where applicable.

## 8 Employee information

Staff costs for all employees comprise:

| | 2023 | 2022 |
|---|---|---|
| | **£'000** | £'000 |
| Wages and salaries | **10,965** | 9,635 |
| Social security costs | **1,345** | 1,317 |
| Pension costs | **1,089** | 982 |
| | **13,399** | 11,934 |

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

| | 2023 | 2022 |
|---|---|---|
| Technical | **32** | 30 |
| Administrative and management | **217** | 220 |
| | **249** | 250 |

## 9 Directors' remuneration

The aggregate amount of Directors' remuneration was £1,377,000 for the year to 31 December 2023 (2022: £1,283,000). Remuneration was as follows:

| | **2023** | | | | 2022 |
|---|---|---|---|---|---|
| | **Fees and salaries** | **Bonus** | **Other benefits** | **Total** | Total |
| | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| Highest paid director | **322** | **108** | **30** | **460** | 497 |
| All directors | **1,023** | **243** | **111** | **1,377** | 1,283 |

Other benefits include pension contributions. Retirement benefits accrued to three Directors under defined contribution pension schemes (2022: three) and no Director under a defined benefit scheme (2022: none). The remuneration of certain Directors is paid by the Company's intermediate parent undertaking, HSB Group Inc. In 2023, there was no charge back on Company (2022: £Nil) in respect of their services to the Company.

# Notes to the financial statements

### 9 Directors' remuneration *(continued)*

The Company recharged its subsidiary, HSB Engineering Insurance Services Limited (HSBEISL) £253,000 (2022: £164,000) in respect of services provided by the Directors of the Company to HSBEISL.

### 10 Investment return

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Interest income on investments | **3,589** | 2,861 |
| Interest income/(expense) on cash and short-term bank deposits | **170** | (29) |
| Amortisation of investment premiums and discounts | **(504)** | (1,124) |
| Investment expenses and charges | **(114)** | (175) |
| (Loss) / gain on disposal of investments | **(11)** | (435) |
| Foreign exchange (losses)/ gains | **(320)** | 537 |
| (Loss) / gain on disposal of fixed assets | **(8)** | - |
| **Total Investment income** | **2,802** | 1,635 |
| | | |
| **Net unrealised losses on financial assets** | **5,834** | (13,638) |

### 11 Other income

Other income consists of the dividend received from its subsidiary company, The Boiler Inspection & Insurance Company of Canada, of £5,872,000 (2022: £15,485,000).

### 12 Tax expense

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

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| *Current tax* | | |
| - Current year | **947** | - |
| Foreign tax on Irish branch profits | **(93)** | 334 |
| - Prior years | **(40)** | (286) |
| Witholding tax | **292** | 774 |
| | | |
| *Deferred tax* | | |
| - Prior year adjustment | **198** | (2) |
| - Timing differences | **295** | (857) |
| - Rate change adjustment | **-** | (291) |
| **Total tax expense** | **1,599** | (328) |

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

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| *Current tax* | | |
| - Current year | **-** | - |
| | | |
| *Deferred tax* | | |
| - Timing differences | **1,480** | (3,410) |
| **Total tax expense** | **1,480** | (3,410) |

# Notes to the financial statements

## 12 Tax expense *(continued)*

Tax on the result before tax differs from the United Kingdom effective rate of corporation tax for the year ended 31 December 2023 of 23.5% (2022: 19%). The differences are explained below:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| (Loss) / profit before tax (excluding dividend income) | **(24,388)** | (2,000) |
| Tax calculated at the UK effective rate of tax of 23.5% (2022: 19%) | **(5,731)** | (380) |
| *Factors affecting charge for the year:* | | |
| Expenses not deductible for tax purposes | **6,879** | (145) |
| Impact of changes in tax rates | **-** | (291) |
| Adjustments to tax charge in respect of prior periods | **159** | (286) |
| Withholding tax suffered on dividend received | **292** | 774 |
| **Total tax expense** | **1,599** | (328) |

## 13 Financial instruments

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Carrying value £'000** | **Fair value £'000** | Carrying value £'000 | Fair value £'000 |
| ***Financial assets*** | | | | |
| Investment in group undertakings | **105,833** | **105,833** | 192,521 | 192,521 |
| *Available-for-sale* | | | | |
| Fixed-income securities (Cost £'000: CY £180,439 PY £152,284 ) | **170,214** | **170,214** | 141,778 | 141,778 |
| | **276,047** | **276,047** | 334,299 | 334,299 |
| *At amortised cost* | | | | |
| *Loan and receivables* | | | | |
| Debtors arising out of direct insurance operations – intermediaries | **11,438** | **11,438** | 9,746 | 9,746 |
| Debtors arising out of reinsurance operations | **1,389** | **1,389** | 1,199 | 1,199 |
| Other debtors | **31,639** | **31,639** | 27,708 | 27,708 |
| Cash and cash equivalents | **55,022** | **55,022** | 62,965 | 62,965 |
| | **99,488** | **99,488** | 101,618 | 101,618 |
| ***Financial liabilities - amortised cost*** | | | | |
| Creditors arising out of direct insurance operations | **798** | **798** | 587 | 587 |
| Creditors arising out of reinsurance operations | **14,265** | **14,265** | 8,256 | 8,256 |
| Other creditors including taxation and social security | **23,396** | **23,396** | 31,761 | 31,761 |
| | **38,459** | **38,459** | 40,604 | 40,604 |

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.

# Notes to the financial statements

**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. 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.

| | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Available-for-sale securities: Level 2 | **170,214** | 141,778 |
| Investments in group undertakings: Level 3 | **105,833** | 192,521 |
| | **276,047** | 334,299 |

There were no level 1 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.

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

| | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Government | **116,389** | 93,100 |
| Corporate and others | **53,825** | 48,678 |
| | **170,214** | 141,778 |

# Notes to the financial statements

## 14 Investment in group undertakings

| £'000 | As at 1 January 2023 | Additions | Fair value movements recognised to P&L | Fair value movements recognised to OCI | As at 31 December 2023 |
|---|---|---|---|---|---|
| The Boiler Inspection and Insurance Company of Canada | **154,692** | **12,000** | **-** | **(78,086)** | **88,606** |
| HSB Engineering Insurance Services Limited | **4,189** | **3,000** | **1,300** | **-** | **8,489** |
| MD Insurance Services Limited | **33,276** | **6,000** | **(30,902)** | **-** | **8,374** |
| MD Affinity Schemes Limited | **310** | **-** | **-** | **-** | **310** |
| MDIS (International) Limited | **54** | **-** | **-** | **-** | **54** |
| | **192,521** | **21,000** | **(29,602)** | **(78,086)** | **105,833** |

| £'000 | As at 1 January 2022 | Additions/ Acquired MD group in April 2022 | Fair value movements recognised to P&L | Fair value movements recognised to OCI | As at 31 December 2022 |
|---|---|---|---|---|---|
| The Boiler Inspection and Insurance Company of Canada | 120,444 | - | - | 34,248 | 154,692 |
| HSB Engineering Insurance Services Limited | 2,202 | 1,000 | 987 | - | 4,189 |
| MD Insurance Services Limited | - | 33,276 | - | - | 33,276 |
| MD Affinity Schemes Limited | - | 310 | - | - | 310 |
| MDIS (International) Limited | - | 54 | - | - | 54 |
| | 122,646 | 34,640 | 987 | 34,248 | 192,521 |

The fair value of investment in group undertakings has been calculated using assumptions described in note 3(c). Additions in the current year are due to capital contributions to subsidiaries. Further details on investments in subsidiaries are disclosed in note 27.

## 15 Other debtors

| Other debtors consists of the following: | **2023 £'000** | 2022 £'000 |
|---|---|---|
| VAT | **2,085** | 1,868 |
| Branch office deposit | **915** | 927 |
| Receivable from related parties | **26,668** | 24,541 |
| Other | **1,971** | 372 |
| **Total other debtors** | **31,639** | 27,708 |

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 decrease of £11,000 (2022: decrease of £243,000) 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.

# Notes to the financial statements

### 15 Other debtors *(continued)*

| | **2023** **£'000** | 2022 £'000 |
|---|---|---|
| Allowance for doubtful accounts | **450** | 461 |

Included within debtors of the Company is £316,000 (2022: £376,000) 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.

### 16 Property, plant and equipment

| | **Leasehold property £'000** | **Fixtures, fittings and equipment £'000** | **Total £'000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2023 | **1,127** | **453** | **1,580** |
| Additions | **-** | **6** | **6** |
| Disposals | **-** | **-** | **-** |
| At 31 December 2023 | **1,127** | **459** | **1,586** |
| **Accumulated depreciation** | | | |
| At 1 January 2023 | **976** | **438** | **1,414** |
| Charge for the year | **41** | **8** | **49** |
| Disposals | **-** | **-** | **-** |
| At 31 December 2023 | **1,017** | **446** | **1,463** |
| **Carrying amount at 31 December 2023** | **110** | **13** | **123** |
| **Cost** | | | |
| At 1 January 2022 | **1,147** | **524** | **1,671** |
| Additions | **-** | **-** | **-** |
| Disposals | **(20)** | **(71)** | **(91)** |
| At 31 December 2022 | **1,127** | **453** | **1,580** |
| **Accumulated depreciation** | | | |
| At 1 January 2022 | **896** | **460** | **1,356** |
| Charge for the year | **100** | **49** | **149** |
| Disposals | **(20)** | **(71)** | **(91)** |
| At 31 December 2022 | **976** | **438** | **1,414** |
| **Carrying amount at 31 December 2022** | **151** | **15** | **166** |

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

# Notes to the financial statements

## 17 Deferred acquisition costs

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| At 1 January | **40,482** | 22,405 |
| Increase in the period | **31,798** | 39,451 |
| Release in the period | **(24,114)** | (21,765) |
| Exchange differences | **(217)** | 391 |
| **At 31 December** | **47,949** | 40,482 |

## 18 Share capital and reserves

| | Ordinary shares of US$1 each | |
|---|---|---|
| | **2023** | 2022 |
| | **US$'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 (2022: £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, the available for sale reserve, which records the unrealised fair value gains on available for sale investments, net of the related deferred taxation and the fair value reserve, which records the unrealised fair value gains on investments in subsidiaries, net of the related deferred taxation.

During the year the Company received a capital contribution of £12,000,000 from its parent company to invest in its subsidiary The Boiler Inspection and Insurance Company of Canada.

## 19 Dividends

No dividends were declared and paid in respect of the year ended 31 December 2023 (2022: NIL)

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

| | | **2023** | |
|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** |
| | **£'000** | **£'000** | **£'000** |
| **At 1 January 2023** | **168,335** | **(22,935)** | **145,400** |
| Premiums written in the year | **121,985** | **(16,818)** | **105,167** |
| Premiums earned in the year | **(79,905)** | **3,305** | **(76,600)** |
| Foreign exchange | **(759)** | **(15)** | **(774)** |
| **At 31 December 2023** | **209,656** | **(36,463)** | **173,193** |

# Notes to the financial statements

## 20 Provision for unearned premiums *(continued)*

| | Gross | 2022 Reinsurers' share | Net |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 January 2022 | 110,196 | (22,312) | 87,884 |
| Premiums written in the year | 127,447 | (2,540) | 124,907 |
| Premiums earned in the year | (70,730) | 1,917 | (68,813) |
| Foreign exchange | 1,422 | - | 1,422 |
| At 31 December 2022 | 168,335 | (22,935) | 145,400 |

## 21 Claims outstanding

| | **Gross** | **2023 Reinsurers' Share** | **Net** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **At 1 January 2023** | **65,747** | **(27,128)** | **38,619** |
| Claims incurred in current accident year | **31,703** | **(191)** | **31,512** |
| Claims incurred in prior accident years | **(728)** | **(7,364)** | **(8,092)** |
| Claims paid during the year | **(33,762)** | **8,337** | **(25,425)** |
| Foreign exchange | **1,665** | **(50)** | **1,615** |
| **As at December 2023** | **64,625** | **(26,396)** | **38,229** |

| | Gross | 2022 Reinsurers' Share | Net |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 January 2022 | 62,763 | (27,608) | 35,155 |
| Claims incurred in current accident year | 28,460 | (763) | 27,697 |
| Claims incurred in prior accident years | (7,175) | 607 | (6,568) |
| Claims paid during the year | (18,186) | 581 | (17,605) |
| Foreign exchange | (115) | 55 | (60) |
| As at December 2022 | 65,747 | (27,128) | 38,619 |

## 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.

# Notes to the financial statements

**22 Retirement benefit schemes *(continued)***

The related disclosures under FRS 102 have been disclosed in the financial statements of HSBEISL. During the year net defined benefit cost of £19,000 (2022: credit of £78,000) 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 £1,089,000 (2022: £982,000). The Company has no significant exposure to any other post-retirement benefit obligations. There is no outstanding contributions to the defined contribution scheme as at 31 December 2023 (2022: £nil).

**23 Other creditors including taxation and social security**

| | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Amounts owed to group undertakings | **10,963** | 11,978 |
| Commissions payable | **9,102** | 6,333 |
| Corporation tax liabilities | **655** | 1,376 |
| Other tax creditors | **2,571** | 11,941 |
| Other creditors | **105** | 133 |
| | **23,396** | 31,761 |

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** |
|---|---|---|---|---|
| **2023** | | | | |
| Property, plant and equipment | **100** | **(10)** | **-** | **90** |
| Provisions | **120** | **(8)** | **-** | **112** |
| Current year tax losses | **1,213** | **(565)** | **-** | **648** |
| Unpaid remuneration | **-** | **90** | **-** | **90** |
| Unrealised losses on investments | **3,473** | **-** | **(1,480)** | **1,993** |
| **Net deferred taxation (liability) / asset** | **4,906** | **(493)** | **(1,480)** | **2,933** |
| **2022** | | | | |
| Property, plant and equipment | 102 | (2) | - | 100 |
| Provisions | 181 | (61) | - | 120 |
| Current year tax losses | - | 1,213 | - | 1,213 |
| Unrealised losses on investments | 63 | - | 3,410 | 3,473 |
| **Net deferred taxation (liability) / asset** | 346 | 1,150 | 3,410 | 4,906 |

The deferred taxes at the balance sheet date have been measured using the rate of 25%.

**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.

**25 Risk management *(continued)***

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 2023. The Company sets internal capital standards above the PRA's minimum requirement. As at 31 December 2023 the Company's Available Own Funds was £139,313,000 (2022: £129,461,000) and the Company's SCR, as calculated under the standard formula, was 176% (2022: 172%). 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 (2022: 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).

*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.

# Notes to the financial statements

**25 Risk management *(continued)***

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:

| | **2023** | | |
|---|---|---|---|
| | **Gross written premiums £'000** | **Gross claims outstanding £'000** | **Net claims outstanding £'000** |
| Direct insurance | **108,772** | **62,998** | **36,764** |
| Reinsurance acceptances | **13,214** | **1,627** | **1,465** |
| | **121,986** | **64,625** | **38,229** |

| | 2022 | | |
|---|---|---|---|
| | Gross written premiums (Restated) £'000 | Gross claims outstanding £'000 | Net claims outstanding £'000 |
| Direct insurance | 115,920 | 63,458 | 36,502 |
| Reinsurance acceptances | 11,527 | 2,289 | 2,117 |
| | 127,447 | 65,747 | 38,619 |

The above table excludes the unexpired risks provision of £9,846,000 (2022: £9,569,000) in relation to its structural inherent defects business in the UK. This is presented in 'other technical provisions' on the statement of financial position

*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.

# Notes to the financial statements

**25 Risk management *(continued)***

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

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **5% increase £'000** | **5% decrease £'000** | 5% increase £'000 | 5% decrease £'000 |
| Impact on profit after tax and equity | | | | |
| Gross of reinsurance | **(3,056)** | **3,056** | (2,865) | 2,865 |
| Net of reinsurance | **(2,930)** | **2,930** | (2,787) | 2,787 |

A 5% increase or decrease in the key assumptions used in the calculation of the provision for unexpired risks would have the following effect on income statement and equity:

| | **Gross of reinsurance** | | **Net of reinsurance** | |
|---|---|---|---|---|
| | **5% increase £'000** | **5% decrease £'000** | **5% increase £'000** | **5% decrease £'000** |
| Impact on profit after tax and equity | | | | |
| Loss ratio | **(10,745)** | **2,144** | **(4,058)** | **6,056** |
| Expense ratio | **(12,860)** | **4,012** | **(5,739)** | **7,504** |

| | **Gross of reinsurance** | | **Net of reinsurance** | |
|---|---|---|---|---|
| | **2% increase £'000** | **2% decrease £'000** | **2% increase £'000** | **2% decrease £'000** |
| Impact on profit after tax and equity | | | | |
| Investment return (3.25% rate assumed in the calculation of the provision for unexpired risks) | **10,729** | **(26,140)** | **10,729** | **(15,933)** |

*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 2023 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$7.5m per event and US$7.5m per risk (2022: US$5m per event and US$7.5m 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross basis** | | | | | | | | | | | |
| End of accident year | 21,489 | 31,284 | 30,377 | 37,120 | 50,377 | 26,378 | 27,975 | 23,288 | 30,060 | 31,703 | |
| 1 year later | 19,052 | 26,129 | 24,649 | 33,835 | 44,959 | 23,389 | 25,804 | 19,837 | 22,245 | | |
| 2 years later | 18,717 | 24,182 | 22,263 | 31,776 | 44,214 | 22,022 | 26,692 | 19,395 | | | |
| 3 years later | 17,488 | 23,427 | 22,537 | 31,330 | 44,192 | 20,751 | 30,517 | | | | |
| 4 years later | 17,188 | 23,169 | 23,410 | 31,790 | 37,424 | 20,712 | | | | | |
| 5 years later | 17,088 | 22,731 | 26,620 | 30,302 | 39,500 | | | | | | |
| 6 years later | 16,302 | 22,715 | 32,915 | 29,327 | | | | | | | |
| 7 years later | 16,222 | 21,551 | 36,039 | | | | | | | | |
| 8 years later | 16,052 | 21,547 | | | | | | | | | |
| 9 years later | 16,058 | | | | | | | | | | |
| Current estimate of cumulative claims | 16,058 | 21,547 | 36,039 | 29,327 | 39,500 | 20,712 | 30,517 | 19,395 | 22,245 | 31,703 | 267,043 |
| **Cumulative payments** | 15,901 | 21,524 | 30,632 | 28,874 | 21,168 | 19,858 | 22,655 | 15,734 | 16,310 | 10,381 | 203,037 |
| | 157 | 23 | 5,407 | 453 | 18,332 | 854 | 7,861 | 3,661 | 5,935 | 21,322 | 64,006 |
| Gross liabilities – last 10 accident years | | | | | | | | | | 619 | 619 |
| Liabilities in respect of prior accident years | | | | | | | | | | | |
| **Gross liabilities in statement of financial position** | | | | | | | | | | | **64,625** |
| **Net basis** | | | | | | | | | | | |
| End of accident year | 20,425 | 29,255 | 27,138 | 28,558 | 29,543 | 26,378 | 27,973 | 23,288 | 29,297 | 31,512 | |
| 1 year later | 18,142 | 24,197 | 21,345 | 24,304 | 23,932 | 23,389 | 25,802 | 19,732 | 22,129 | | |
| 2 years later | 17,938 | 22,514 | 19,774 | 24,155 | 23,375 | 22,022 | 25,896 | 18,696 | | | |
| 3 years later | 16,718 | 21,772 | 19,971 | 23,888 | 23,298 | 20,751 | 26,486 | | | | |
| 4 years later | 16,437 | 21,404 | 19,857 | 24,060 | 22,581 | 20,713 | | | | | |
| 5 years later | 16,656 | 20,943 | 20,328 | 23,843 | 24,348 | | | | | | |
| 6 years later | 16,018 | 20,874 | 20,272 | 23,297 | | | | | | | |
| 7 years later | 15,935 | 19,967 | 19,048 | | | | | | | | |
| 8 years later | 15,768 | 19,963 | | | | | | | | | |
| 9 years later | 15,774 | | | | | | | | | | |
| Current estimate of cumulative claims | 15,774 | 19,963 | 19,048 | 23,297 | 24,348 | 20,713 | 26,486 | 18,696 | 22,129 | 31,512 | 221,966 |
| **Cumulative Payments** | 15,630 | 19,947 | 19,618 | 22,928 | 21,175 | 19,858 | 22,656 | 15,734 | 16,310 | 10,381 | 184,237 |
| Net liabilities – last 10 accident years | 144 | 16 | (570) | 369 | 3,173 | 855 | 3,830 | 2,962 | 5,819 | 21,131 | 37,729 |
| Liabilities in respect of prior accident years | | | | | | | | | | 500 | 500 |
| **Net liabilities in statement of financial position** | | | | | | | | | | | **38,229** |

# 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 2023 of £7,388,000 (2022: £6,257,000).

**d) Financial risk**

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. 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:

| | **2023** | 2022 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and short-term deposits | **55,022** | 62,965 |
| Fixed-income and inflation-indexed securities | **170,214** | 141,778 |
| Reinsurers' share of insurance contract liabilities | **26,396** | 27,128 |
| Debtors arising out of direct insurance operations – intermediaries | **11,438** | 9,746 |
| Debtors arising out of reinsurance operations | **1,389** | 1,199 |
| Other debtors | **31,639** | 27,708 |
| Aggregate exposure to credit risk | **296,098** | 270,524 |

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

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Insurance and reinsurance debtors** | **Other debtors** | Insurance and reinsurance debtors | Other debtors |
| | **£'000** | **£'000** | £'000 | £'000 |
| Neither past due nor impaired | **10,950** | **31,639** | 8,625 | 27,708 |
| Past due but not impaired | **2,327** | **-** | 2,781 | - |
| Individually impaired | **-** | **-** | - | - |
| | **13,277** | **31,639** | 11,406 | 27,708 |

# 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 | 2023 £'000 |
|---|---|
| 0 – 30 days | 964 |
| 31 – 60 days | 265 |
| 61 – 90 days | 141 |
| 91 – 120 days | 271 |
| 121 – 180 days | 209 |
| 181 – 360 days | 161 |
| 360+ days | 316 |
| | **2,327** |

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 2023 its share of claims outstanding was £428,000 (2022: £2,514,000).

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.

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **AAA** | **AA** | **A** | **BBB** | **BB** | **Not rated** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Cash and cash equivalents | **-** | **7,853** | **47,169** | **-** | **-** | **-** | **55,022** |
| Fixed-income securities | **247** | **89,214** | **19,829** | **60,924** | **-** | **-** | **170,214** |
| Reinsurers' share of insurance contract liabilities | **-** | **10,586** | **15,810** | **-** | **-** | **-** | **26,396** |
| Debtors arising out of direct insurance operations - intermediaries | **-** | **-** | **-** | **-** | **-** | **11,438** | **11,438** |
| Debtors arising out of reinsurance operations | **-** | **-** | **-** | **-** | **-** | **1,389** | **1,389** |
| Other debtors | **-** | **-** | **-** | **-** | **-** | **31,639** | **31,639** |
| **Total exposure** | **247** | **107,653** | **82,808** | **60,924** | **-** | **44,466** | **296,098** |

# Notes to the financial statements

**25 Risk management *(continued)***

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB | Not rated | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cash and cash equivalents | - | 21,145 | 41,820 | - | - | - | 62,965 |
| Fixed-income securities | - | 73,232 | 26,845 | 41,503 | 198 | - | 141,778 |
| Reinsurers' share of insurance contract liabilities | 2,806 | 11,401 | 12,921 | - | - | - | 27,128 |
| Debtors arising out of direct insurance operations - intermediaries | - | - | - | - | - | 9,746 | 9,746 |
| Debtors arising out of reinsurance operations | - | - | - | - | - | 1,199 | 1,199 |
| Other debtors | - | - | - | - | - | 27,708 | 27,708 |
| **Total exposure** | 2,806 | 105,778 | 81,586 | 41,503 | 198 | 38,653 | 270,524 |

*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.

| | **2023** | 2022 |
|---|---|---|
| | **£'000** | £'000 |
| Claims outstanding | **64,625** | 65,747 |
| Creditors arising out of insurance operations | **798** | 587 |
| Creditors arising out of reinsurance operations | **14,265** | 8,256 |
| Other creditors including taxation and social security | **23,396** | 31,761 |
| Other technical provisions | **9,846** | 9,569 |
| | **112,930** | 115,920 |

Contractual maturity profile of liabilities:

| **2023** | **Up to 1 year** | **1-2 years** | **2-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Claims outstanding | **27,527** | **26,842** | **9,806** | **450** | **64,625** |
| Creditors arising out of insurance operations | **798** | - | - | - | **798** |
| Creditors arising out of reinsurance operations | **14,265** | - | - | - | **14,265** |
| Other creditors including taxation and social security | **23,396** | - | - | - | **23,396** |
| Other technical provisions | **98** | **197** | **689** | **8,862** | **9,846** |
| | **66,084** | **27,039** | **10,495** | **9,312** | **112,930** |

| 2022 | Up to 1 year | 1-2 years | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Claims outstanding | 28,006 | 27,307 | 9,976 | 458 | 65,747 |
| Creditors arising out of insurance operations | 587 | - | - | - | 587 |
| Creditors arising out of reinsurance operations | 8,256 | - | - | - | 8,256 |
| Other creditors including taxation and social security | 31,761 | - | - | - | 31,761 |
| Other technical provisions | 96 | 191 | 670 | 8,612 | 9,569 |
| | 68,706 | 27,498 | 10,646 | 9,070 | 115,920 |

# 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.

| | **2023** | 2022 |
|---|---|---|
| | **£'000** | £'000 |
| Great British Pound | **57,258** | 76,738 |
| Canadian Dollar | **88,609** | 154,696 |
| Euro | **11,320** | 12,090 |
| US Dollar | **6,906** | 2,383 |
| Australian Dollar | **164** | 174 |
| Other | **235** | 232 |
| Total | **164,492** | 246,313 |

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** | **2023** | **2022** | **2023** | **2022** |
| | | **£'000** | **£'000** | **£'000** | **£'000** |
| Currency risk | -5% | **(5,362)** | **(8,479)** | **(5,362)** | **(8,479)** |
| | +5% | **5,362** | **8,479** | **5,362** | **8,479** |

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** | **2023**<br>**£'000** | 2022<br>£'000 |
| Interest rate risk | -100 basis points | **6,878** | 5,898 |
| | +100 basis points | **(6,414)** | (5,465) |

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 no capital commitments (2022: £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:

| | **2023**<br>**£'000** | 2022<br>£'000 |
|---|---|---|
| Within 1 year | 750 | 768 |
| Between 1 and 5 years | 1,702 | 2,483 |
| After 5 years | - | - |
| | 2,452 | 3,251 |

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 2023 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 (BI&I) | Insurance company | Canada | 390 Bay St, Suite 2000, Toronto, Canada | Ordinary | 100% |
| HSB Engineering Insurance Services Limited | Inspection and consultancy services | United Kingdom | Chancery Place, 50 Brown St, Manchester | Ordinary | 100% |
| MD Insurance Services Limited (MDIS) | Managing General Agent | United Kingdom | 2 Shore Lines Building, Shore Road, Birkenhead | Ordinary | 100% |
| MD Affinity Schemes Limited | Non-trading | United Kingdom | | Ordinary | 100% |
| MDIS (International) Limited | Non-trading | United Kingdom | | 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:

| | **2023** **£'000** | 2022 £'000 |
|---|---|---|
| Amounts due from / (to) HSBIIC and affiliates | | |
| - in relation to net insurance contract liabilities | **-** | 2,514 |
| - in relation to other transactions | **(1,190)** | (1,709) |
| Amounts due from / (to) Munich Reinsurance and affiliates | **(10,073)** | 10 |
| Amounts due from / (to) HSBEISL, BI&I and MDIS | **16,875** | 14,263 |

**28 Related parties (continued)**

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 2023, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2022: £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.

**Key management personnel compensation**

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

| | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Salaries and short-term employee benefits | **1,502** | 1,197 |
| Other long-term benefits | **-** | 148 |
| Directors fees | **131** | 133 |
| **Total key management personnel compensation** | **1,632** | 1,478 |

**29 Subsequent events**

There were no other 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.

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