POOL RE

REINSURING TERRORISM RISK

Pool Reinsurance Company Limited

Annual Report 2017

Reinsuring property damage and business interruption against terrorism in Great Britain

Pool Re remains at the forefront of

Membership of Pool Re affords insurers reassurance that they can provide cover for losses resulting from acts of terrorism, regardless of the scale of the claims.

The scheme is underpinned by a HM Treasury commitment to support Pool Re if ever it has insufficient funds to pay a legitimate claim. In the event of an act of terrorism, Members must pay losses up to a threshold. When losses exceed that threshold, the insurer can claim upon Pool Re's reserves. It is only in the event that these reserves are exhausted that Pool Re would require Government support.

£314m

Gross premiums written for the year were up 4.4% to £313.8 million (2016: £300.5 million).

£2.0bn

Through the purchase in 2017 of £2.00bn of commercial reinsurance (2016: £1.95bn), the UK taxpayer has been further distanced from having any liability in the event of a claim.

global terrorism risk transfer entities.

£99m

Pool Re paid a distribution to Members in 2017 of £99.4million (2016: £33.5 million).

£33m

Pool Re paid outward reinsurance premium to HM Treasury in 2017 of £33.5million (2016: £32.6 million).

£6.5bn

2017 saw an increase of £0.24 billion in the value of the investment fund over the year to £6.49 billion (2016: £6.25 billion).

£2.2trn

Exposures across mainland UK covered by Pool Re in 2017 were in excess of £2 trillion.

Chairman's Statement

"I also appreciate the continuing support and engagement of our Members as we continue to evolve our proposition and thereby enhance the UK's economic resilience."

I am pleased to present the 2017 financial results for Pool Reinsurance Company Limited (Pool Re or the Company).

Pool Re has had another positive year, with the value of the investment fund (financial investments, accrued income and investment cash) at 31 December 2017 increasing by £236m to £6,494m. As the fund is a key component of the extent to which Pool Re can meet reinsurance claims without recourse to HM Government, its growth is an important indicator of our success in meeting a founding objective of the Company. The rise in the fund's value in 2017 results from premium income from member insurers, 4.4% higher than in 2016, and the fund's own positive investment performance.

Further distancing Her Majesty's Treasury (HMT) and the UK taxpayer from any liability in the event of a major claim are the higher retentions which sit with our Members, and the £2bn layer of commercial retrocession which we renewed in March 2017.

The growing resilience of the fund is balanced by payments to our two key stakeholders: HMT and member insurers. In March 2018, the first of the annual payments to HMT governed by the Retrocession Agreement put in place in 2015 will be made, totalling £203m. This compares to £33m paid in March 2017. Meanwhile in mid-2017, Pool Re paid dividends to member insurers of £99m in respect of its 2016 financial performance, as prescribed in the same Retrocession Agreement.

2018 marks two significant milestones for Pool Re. On 8 March we marked 25 years since the incorporation of Pool Re, and April sees the 25th anniversary of the Bishopsgate bomb which resulted in the first claim paid out by Pool Re.

Also in our minds at this time are the tragic events of 2017. The five acts of terrorism, of which three were certified, remind us of the need to continue to develop our cover to meet the evolving nature of the threat. In this respect, the provision of coverage for damage triggered by remote digital interference announced in 2017 is a step we are very proud of, ensuring that Pool Re continues to provide the world's most comprehensive national cover against terrorism.

On a formal note the Board has again revisited the Company's position in relation to Chapter 1 of the Competition Act 1998, and has concluded that, based on the facts known to it and the legal advice obtained, the Scheme continues to meet the exemption requirements set out in that Act.

I would like to thank our Board, the Executive Management and the Company's staff for their individual and collective contributions in 2017, which as in previous years extended to our successful corporate social responsibility programme. This is a fine illustration of the Company's culture and was recognised with the Best Collaboration award, presented to Pool Re in respect of the 2017 Lord Mayor of London's City Giving Day.

I also appreciate the continuing support and engagement of our Members as we continue to evolve our proposition and thereby enhance the UK's economic resilience.
I look forward to meeting Members' representatives at the Company's AGM, in respect of which full details and joining instructions are circulated with this report.

Geoff Riddell
Chairman
15 March 2018

Chief Executive's Statement

> "From 1 April 2018, acts of cyber terrorism will be covered by the scheme, with Pool Re offering cover for damage caused by terrorists via remote digital interference."

2017 saw a level of terrorist incidents in the UK unprecedented in recent years. Attacks resulted in the tragic loss of 36 lives and over 300 injuries.

Today's terrorism threat is global, evolving, persistent and ideological.

Throughout 2017 we have continued to work to ensure that Pool Re remains at the forefront of global terrorism risk transfer entities, reflecting both today's terrorism threat environment and the needs of the insurance market. To this end we have agreed, and been working to implement, significant changes to the scope of cover that we offer.

A key change is that, from 1 April 2018, acts of cyber terrorism will be covered by the scheme, with Pool Re offering cover for damage caused by terrorists via remote digital interference. We announced the change with our partners from the Cambridge Centre for Risk Studies (CCRS), Judge Business School, at an event held in November 2017 in London, addressed by the Security Minister, The Rt Hon Ben Wallace MP.

This is the culmination of more than two years of work, and allows Pool Re to offer even more comprehensive cover to mitigate the threats of modern day terrorism. It represents the latest extension of a scheme which has continued to adapt and reform since it was created in 1993, and which we are working towards improving further.

During 2018, we hope to build upon our work with CCRS to improve our understanding of the cyber threat, and plan to develop a modelling toolkit from the scenario work we have jointly undertaken with them.

We have also amended our rating structure to reflect more accurately how modern SME insurance products are priced and sold. Events which occurred in 2017, particularly the attack at Borough Market and London Bridge, have highlighted the scale of financial threat this segment of the business community faces. Accordingly, we have been working to ensure that premiums for SMEs can be made more accessible and affordable, which will facilitate greater take-up and contribute to a more resilient economy.

Another factor which materially affects the take up of terrorism cover by SMEs is our inability to cover interruption to business which does not result from damage to commercial property.

Pool Re is restricted by the 1993 Act of Parliament to provide cover caused by damage to property and is working with both Government and the industry to amend this and thereby close the gap.

Strategic themes

2017 has seen the continued evolution of Pool Re with modernisation initiatives progressed in respect of the six strategic themes of the long-term strategy of the company:

1 The Model

The components of the optimal model continue to be challenged and assessed. In 2017 the investment fund grew by £236m to £6,494m and £2,000m of commercial retrocession was renewed. A dividend of £99m was paid to member insurers and £33m to HMT as outward reinsurance premium. With effect from 1 January 2018, Member retentions increased to £250m per single event and £400m in annual aggregate.

2 The Proposition

On 30 September 2017, Pool Re issued an updated version of the Underwriting Manual for Members. This included significant changes which will take effect from 1 April 2018. The key consideration we adopted in shaping the changes was to ensure that our proposition reflects both today's threat environment and the insurance market within which terrorism cover is underwritten.

The principal changes are:

- Cyber-terrorism: Pool Re now offers cover for damage caused by terrorists using remote digital interference;
- SME: Pool Re has amended the pricing structure to reflect how modern SME products are priced and sold, whilst also recognising the terrorist threat to this segment. This will mean that premiums for many SMEs will be more affordable;
- Risk management: Building upon the success of the Crowded Places discount, we have worked with counter-terrorism experts to develop a vulnerability self-assessment tool (VSAT) for mid-corporate risks, which will trigger discounts for those attaining an accredited standard; and
- Risk retention: Pool Re has introduced a wider range of discounts for policyholders who retain risk either through deductibles or loss limits.

3 Expertise

The Terrorism Research & Analysis Centre (TRAC) was established in 2016 to improve risk awareness and understanding of the threat, through qualitative reporting and relevant data for modelling purposes, which can be used by Members and the insurance market as a whole to understand the risk better and gain more comfort with it.

In 2017 TRAC started work on designing and developing a data aggregation system which will improve the efficiency and effectiveness of the collection and collation of terrorism data. With the application of machine learning this will improve the quality of data necessary for modelling purposes.

In addition, in December 2017 Pool Re and Cranfield University announced the appointment of Professor Andrew Silke as the Professor of Terrorism Risk Management and Resilience at Cranfield University. This is a new position which will be co-funded by Pool Re and Cranfield University for an initial five-year period and will seek to increase national resilience through risk management initiatives.

4 Risk management

We are working with partners and member insurers to further evaluate how Pool Re can both create tools and techniques to mitigate terrorism risk and promote government and police initiatives in counter-terrorism best practice.

5 Stakeholder engagement

Pool Re occupies a systemically important position in the insurance industry. As we move towards our next strategic review, we will be working with key stakeholders to consider what changes may be necessary to the Pool Re structure and framework in order to deliver a modern and relevant proposition in the future. In 2017 we appointed a Head of Distribution to help promote the Company's offering with a view to increase penetration, understand the drivers for policyholders to seek terrorism cover, and assist Members in raising awareness of the threat landscape.

6 International collaboration

Driving closer collaboration between international terrorism reinsurance pools remains a key priority. Pool Re's initiative to foster closer ties and nurture greater collaboration between the world's terrorism (re)insurance entities resulted in the establishment of the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP).

IFTRIP helps to:

- Share best practice in order to achieve a common approach for the reinsurance of terrorism and bridge gaps in the terrorism insurance market;
- Foster debate, insight and research on a complex threat, enabling the insurance community to build resilience; and
- Limit economic losses through promoting proven risk management and mitigation techniques and practices.

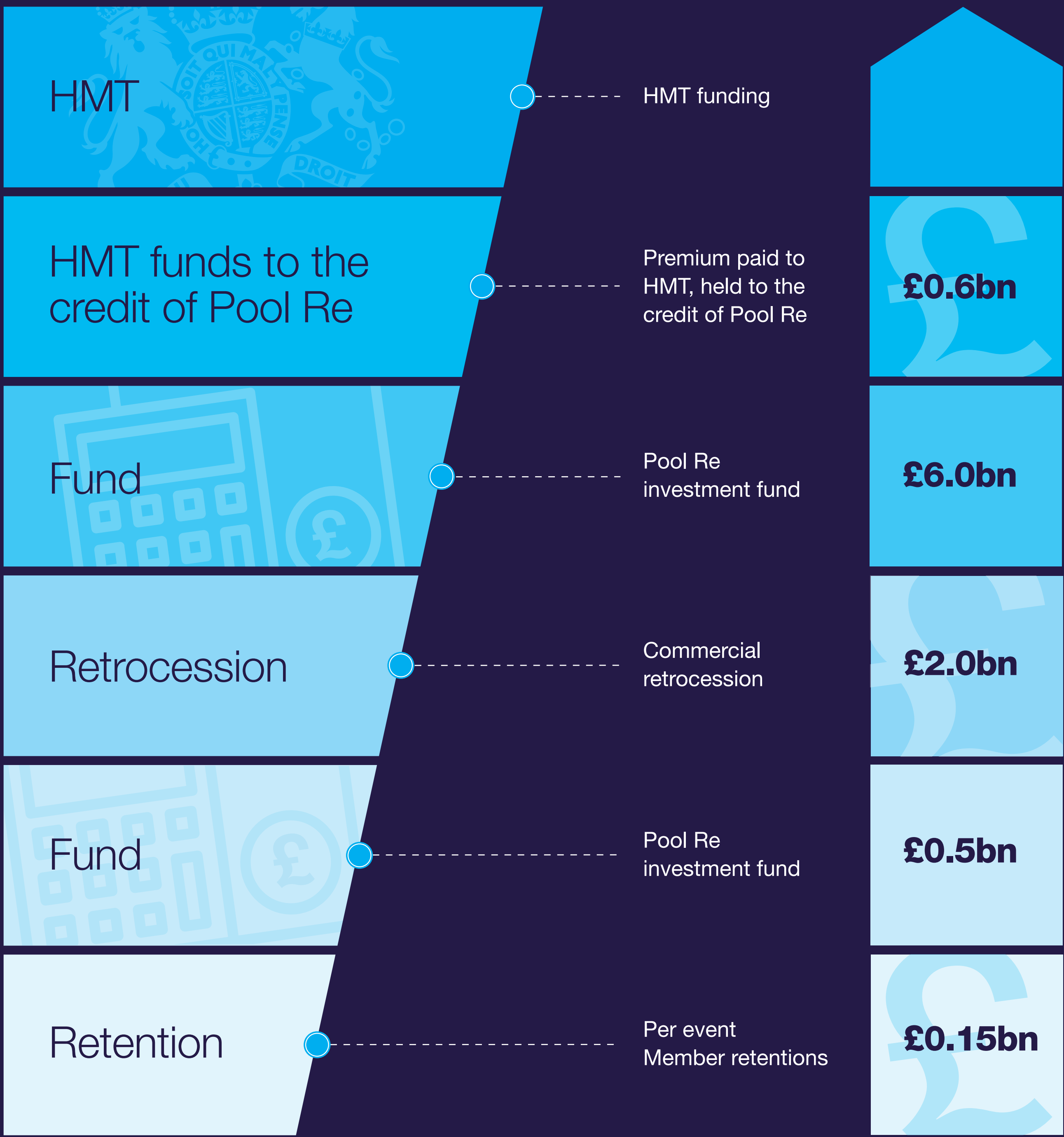
In closing, I would like to thank the Pool Re staff and our advisers with whom we collaborated, for their hard work and counsel during 2017.

The terrorist threat facing the UK remains severe and as the events of 2017 have tragically demonstrated, terrorists' motives and methods continue to evolve.

Pool Re will continue to work closely with all our stakeholders to ensure that we provide the best possible product and service.

Julian Enoizi
Chief Executive
15 March 2018

Scheme Resilience



Since its establishment in 1993, Pool Re has paid out a total of £635m for 13 certified terrorism events, without recourse to HM Government or the taxpayer.

The resilience of the scheme at 31 December 2017 is shown above.

In the event of a certified act of terrorism, initial losses will be covered by Member retentions; where these exceed retention thresholds, the insurer can claim upon Pool Re's reserves.

Since its inception, Pool Re has built an investment fund valued at £6.5bn. A further £2.0bn of protection is provided under a commercial retrocession programme, attaching above the first £0.5bn of the investment fund.

Only in the event that Pool Re's resources are exhausted will the Company call upon funding from HM Government. This guaranteed funding assures Pool Re's financial solvency and its ability to meet claims obligations under its agreements with Members.

Membership Benefits

WIDE COVER

Terrorism damage caused by chemical, biological, radiological or nuclear means is included as standard. From April 2018 we also cover acts of terrorism where a cyber trigger is used.

DOVETAILS BACK TO BACK WITH GENERAL COVER

As terrorism cover is an exclusion from General Property and Business Interruption policies,our cover sits back-to-back and the language granting terrorism cover is the same as that used to exclude it in the property wording.

CAPACITY

Our funding agreement with HM Treasury ensures that we do not run out of capacity or are constrained in particular geographical areas. We can accept all eligible risks without financial restriction.

RISK MANAGEMENT

Pool Re Members can offer to their policyholders both a vulnerability self-assessment tool and the opportunity to participate in the Government's "Crowded Places" Programme in order to qualify for premium discounts.

FIRST CLASS SECURITY

Since its inception, Pool Re has built an investment fund of over £6bn, which when added to the £2bn external retrocession placement, means we can pay exceptionally large claims before calling on HM Treasury. This HM Treasury relationship ensures Pool Re's solvency, and thus our on-going ability to pay claims.

RISK-REFLECTIVE SME PROPOSITION

In April 2018 we have introduced a different rating approach for SME risks to better match the way those products are underwritten. The result is significantly more competitive cover for SME policyholders.

THREAT ANALYSIS AND ASSESSMENT

Our Terrorism Research and Analysis Centre (TRAC) team monitors and analyses the contemporary terrorist threat landscape. Regular reports are made accessible to Members to improve awareness of, ability to mitigate against, and more confidently price, terrorism perils.

ANY AUTHORISED INSURER IS WELCOME

Membership of Pool Re is open to any authorised insurer. Our membership includes insurance companies, Lloyd's syndicates and captives. It also includes specialist insurers based overseas.

AVAILABILITY

Pool Re cover is available through any of the Members of Pool Re, who together constitute the vast majority of property insurers in the UK market. Cover can therefore be accessed UK wide from the local market.

CLAIM CERTAINTY

Claims are handled by the underlying property insurer within the pre-defined protocols. There is an agreed process for the certification of an event as an act of terrorism, with a binding tribunal process to resolve disputes. This means that, if it is terrorism, Pool Re pays; if it is not, then the claim is covered as a property loss.

GUARANTEED ACCEPTANCE

If the general cover is acceptable to the insurer, terrorism cover automatically follows. Cover cannot, for example, be refused or limited for inner city locations and terms will not change suddenly mid-year or for acquisitions in new areas.

NO LOADINGS

We have no "target" risks.
Our reinsurance rates are based on geographical location. We do not rate up for businesses or occupations that some see as extra-hazardous.

The Board

Details of the current Directors of the Company are set out below.

Geoffrey M Riddell ✱✤♦
Chairman
A Director since August 2015 and Chairman from 1 February 2016. Former member of Zurich Insurance Group Executive Committee and Regional Chairman – Asia Pacific, Middle East and Africa based in Hong Kong.

Sir Brian G Bender ✤♦
A Director since May 2014, nominated by HM Treasury. Formerly a Permanent Secretary in the Civil Service. Chairman of the London Metal Exchange. Non-executive Director of the Financial Reporting Council and of Pool Reinsurance (Nuclear) Limited. Trustee of Lloyds Register Foundation. Governor of Dulwich College.

Peter J Box ✱✤
Chartered Accountant
A Director since February 2010. Former audit and business advisory partner at PricewaterhouseCoopers. Director, Chairman of the Audit Committee and member of the Remuneration Committee of Marsh Limited. Director and Chairman of the Audit Committee and member of the Risk Committee of the Family Assurance Friendly Society Limited. Chairman of Trustees of the Royal Flying Doctor Service of Australia, Friends in the UK. Director, Chairman of the Risk and Audit Committee and member of the Remuneration Committee of Cardif Pinnacle Insurance Holdings plc.

Alan J Brown FSIP ✱♦
A Director since July 2008. Former Director and Group Chief Investment Officer of Schroders PLC. Chairman of the Carbon Disclosure Project and Chairman of Westway Trust. Governor of the Wellcome Trust.

Denise N Jagger ♦
Solicitor
A Director since January 2014. A Partner of Eversheds LLP since 2004. Formerly Company Secretary and General Counsel of Asda Group plc and a Director of Asda Stores Limited. Non-executive director of Bellway plc. Chairman of St Giles Trust. Pro Chancellor of the University of York. Senior Independent Director at Y2019 Limited.

Stephen Lewis
A Director since October 2012. From 1 January 2015, Chief Executive Officer for the UK and International of the RSA Group. Previously, between 1989 and 2014, Mr Lewis held a number of senior financial and operational roles with Zurich Insurance Group, becoming Chief Executive Officer of UK General Insurance and Shared Services, a UK Branch of Zurich Insurance plc. Member of the ABI Board and FCA Practitioner Panel.

Bronislaw (Bronek) E Masojada ♦
A Director since May 2015. Chief Executive of Hiscox since 2000 and Group Managing Director since 1993. Prior to joining Hiscox Mr Masojada worked at McKinsey & Company, the management consulting firm. Between 2001 and 2007 he served as Deputy Chairman of Lloyd's. He has been a member of the ABI Board since 2012.

Andrew G Skirton ✱✤
A Director since December 2011. Non-executive Chairman of Gartmore Group Limited between 2007 and 2011, and Co-Global Chief Executive Officer of Barclays Global Investors between 2002 and 2006.

Maurice E Tulloch ♦
A Director since April 2015. Chief Executive Officer Aviva International. Previously Chief Executive Officer of Aviva's UK & Ireland General Insurance business from October 2013 to January 2016, Chairman of Global General Insurance since July 2014, and a member of the Group Executive Committee since July 2012. Prior to appointment as Chief Executive Officer, Mr Tulloch held the role of Chief Executive Officer of Aviva Canada from November 2009. A member of the Aviva plc board, previous member of the ABI Board, and prior Chair of the General Insurance Council.

✱ Member of the Investment Committee
✤ Member of the Risk and Audit Committee
♦ Member of the Remuneration Committee

Executive Management

Chief Executive
Julian A P Enoizi

Chief Finance and Operations Officer
Peter N Aves FCA

General Counsel and Company Secretary
Christian Wells, Solicitor

Chief Underwriting Officer
Stephen M Coates ACII

Chief Investment Officer
Ian M Coulman MCSI

Head of Risk Analysis
Edward A Butler CBE

Corporate Information

Registered in
England, United Kingdom

Registration number
2798901

Registered office
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United Kingdom

Principal office
Equitable House
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Telephone number
+44 (0)20 7337 7170

E-mail
enquiries@poolre.co.uk

Website
www.poolre.co.uk

Directors' Report

The Directors of Pool Reinsurance Company Limited (registered number 2798901) present their report and the audited financial statements of the Company for the year ended 31 December 2017.

Board of Directors

Role of the Board

The Board is responsible for providing entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the overall strategy of the Company and oversees its implementation, reviewing the performance of management, ensuring that there are appropriate systems of internal controls and risk management and ensuring that the necessary financial and human resources are in place for the Company to achieve its objectives and provide long-term value to Members. Talent management is an ongoing priority for the Board.

The Board's policy is to maintain a framework of corporate governance that would be considered good practice in companies of similar significance. Therefore, although the Company is neither required to comply with the UK Corporate Governance Code and certain other codes and guidelines generally applicable to listed companies, nor to make a statement on its compliance with such requirements, the Board believes it is appropriate to consider their provisions in determining the Company's own corporate governance arrangements, and also to describe such arrangements to the Members, which it does within this report.

The Board holds four regularly scheduled meetings each year, at which it considers reports from each of the key functions, in particular legal and regulatory, financial performance, investment management, market operations and threat analysis. In addition to these standing items, the Board considers other matters of significance to the Company annually, in accordance with an agreed schedule of matters to be considered in the forthcoming year. In addition to the regularly scheduled Board meetings, the Directors also meet at least once a year to review the Company's strategy, and ad hoc meetings are arranged as necessary.

There is a formal schedule of matters reserved to the Board, which is reviewed annually. Such matters include those which are considered to be of significant strategic importance, which affect the structure of the Pool Re Scheme, setting the culture, ethics, values and standards of the Company, or which affect the aforementioned corporate governance framework. The Board has otherwise delegated to its committees and to the executive management the power to make decisions on operational matters within a framework of internal controls. Each committee operates within written terms of reference and the respective roles and responsibilities of the Chairman and the Chief Executive are set out in writing, all of which may only be amended with the Board's approval. The appointment and removal of the Chief Executive and the General Counsel and Company Secretary are also matters reserved to the Board.

The Chairman, in conjunction with the Chief Executive and the General Counsel and Company Secretary, ensures that the Board receives the information it needs in order to discharge its responsibilities. All Directors have access to the services of the General Counsel and Company Secretary and independent professional advice is available to the Directors in respect of any issue arising in the course of their duties, at the expense of the Company. The Company maintains appropriate directors' and officers' liability insurance in respect of legal actions against its Directors.

Following their appointment, new Directors are given an in-depth induction by executive management and additional training is provided to Directors throughout their appointment to ensure that they possess the appropriate knowledge regarding the Company and its operations necessary for the effective performance of their role.

Composition

The Board consists solely of non-executive Directors, including a non-executive Chairman. Brief biographical details of the current Directors are set out on page 10. The Board has (subject to Regulatory approval) appointed Andrew Skirton as Senior Independent Director (SID).

The Directors who served during the year and up to the date of signing the financial statements were:

G M Riddell	S Lewis
Sir Brian Bender	B E Masojada
P J Box	A G Skirton
A J Brown	M E Tulloch
D N Jagger	

The appointment of all new Directors is a matter for consideration by the Board. The Articles of Association allow HM Government to nominate individuals to be considered by the Board for appointment as Directors, although only one Director at any time may hold office following nomination in this way. At present Sir Brian Bender is a Director following nomination by HM Government.

The composition of the Board is considered at appropriate intervals to ensure an appropriate balance of expertise and experience to support the strategic and operational direction of the Company. The importance of diversity is recognised and the Board members comprise members with a wide range of skills and experiences. Whilst the business pursues diversity, throughout the organisation, the Board is not committed to any specific targets. Instead the Board continue to pursue a policy of appointing talented people who have the knowledge and skillset at every level to deliver high performance whilst mitigating the risk exposure of the Company. The need for a new Director and the profile of the required individual are agreed by the Board as a whole. Equal consideration is given to all suitable candidates irrespective of gender, race or any other demographic factor.

The Board considers annually the ongoing independence of each Director, taking into account the period they have served, whether they are also directors of companies within groups that cede business to Pool Re or whether they have been appointed by significant counterparties. The Board has determined that, as at the date of this statement, all of its Directors continue to be independent in character and judgement.

In accordance with the Articles of Association of the Company, all Directors must retire and seek election at the first Annual General Meeting following their appointment, and all Directors who have served continuously for more than nine years must retire and seek re-election at each Annual General Meeting. With the exception of the nominee of HM Government, a number nearest to one third of the other Directors must retire by rotation at each Annual General Meeting. Therefore, at the forthcoming Annual General Meeting:

- Mr Masojada who will retire by rotation, will seek re-election;
- Mr Riddell, who will retire by rotation, will seek re-election; and
- Mr Tulloch, who will retire by rotation, will seek re-election.

Board Committees

From 1 January 2017, there have been three standing Committees, namely the Investment Committee, the Remuneration, Nominations and Conflicts Committee and the Audit Committee (from 1 January 2018 the Risk and Audit Committee), all of which have written Terms of Reference. The Board has satisfied itself that each of its Committees has sufficient resources to undertake its duties.

The **Investment Committee** is chaired by Alan Brown and comprises four Directors. The Committee met four times during the year. A summary of the principal activities of the Committee during the year is provided below:

- ***Investment Policy*** – The Committee advised the Board on the development and implementation of the Investment Policy and Strategy and led the process of the ongoing monitoring of the Company's investments.
- Investment Guidelines – Investment Guidelines have been issued to the Company's Investment Managers and the Committee ensured that these guidelines were adhered to.
- ***Investment Strategy*** – The Committee reviewed and recommended to the Board an updated Investment Strategy adding "Alternative Risk Premia" as a strategy. The Board approved the change in strategy and the Committee went through a tender process to appoint three additional fund managers to manage the funds allocated to that strategy.
- ***Asset Allocation*** – The Committee kept the Company's Asset Allocations under review.
- ***Investment Custodians*** – The Committee conducted a review of the Company's Custodians with the help of external experts. The review carried out in 2017 concluded that "the legal, regulatory and contractual structures are robust and up to date."
- ***Investment Manager Presentations*** – At each meeting the Committee received a presentation from one of the investment managers, with each manager presenting at least once every two years.

The **Audit Committee** (Risk and Audit Committee from 1 January 2018) is chaired by Peter Box and comprises four Directors. The Committee met twice during 2017. A summary of the principal activities of the Committee during the year is provided below:

- ***Financial Statements*** – The Annual Report and Accounts and PRA Annual Return were thoroughly reviewed by the Committee prior to submission to the Board for approval. The Committee considered significant risks, including any estimates and judgements of management and the methodology and assumptions used in relation to the Company's financial statements. Specific consideration was given by the Committee to the key risk of misstatement of financial investment valuations. The Committee gained assurance as to the effectiveness of key controls relating to pricing, valuations and existence of financial instruments. The Committee also considered the pricing, valuations and existence of derivative financial instruments;

- ***Internal Controls*** – The Committee monitored the system of internal controls and the effectiveness of the Company's internal audit function throughout the year;
- ***Going Concern and Viability of the Company*** – The Committee monitored the Company's resources and has satisfied itself that the Company has an adequate level of resources for the foreseeable future;
- ***Relationship with the Independent Auditor*** – The Committee is responsible for overseeing the relationship with the Independent Auditor, assessing the effectiveness of the audit process and making recommendations on the appointment and removal of the Independent Auditor. It makes recommendations to the Board on the level of the audit fees and the terms of engagement for the Auditor. The Independent Auditor is invited to attend Committee meetings, where appropriate, and also meets with the Committee and the Committee Chairman without management being present;
- ***Appointment of the Independent Auditor*** – During 2017 the Committee led a tender process for the appointment of a new Independent Auditor to the Company. PricewaterhouseCoopers LLP (PwC) had been the Company's auditor since 1996. Given this length of tenure, in conjunction with new European audit regulation concerning the rotation of audit firms, the Board decided that PwC should not be asked to participate in the tender. After a robust process the Committee recommended to the Board that Deloitte LLP be appointed as Independent Auditor and this appointment was approved by the Members at the Company's AGM in 2017;
- ***Non-audit services*** – The Committee regularly reviews and monitors the Auditor's independence and objectivity. As part of this, it considers the nature and extent of any services supplied by the Auditor to ensure that independence is maintained.

Throughout 2017 the Committee was an Audit Committee and considered Risk matters informally. As planned, the Committee extended its remit from 1 January 2018 formally to include risk matters.

The **Remuneration, Nominations and Conflicts Committee** is chaired by Denise Jagger and comprises six directors. The Committee met twice during the year. A summary of the principal activities of the Committee during the past twelve months is provided below:

- ***Executive Remuneration*** – The Committee commissioned an external review and benchmarking of executive salary and incentive plans as a prelude to a comprehensive review of remuneration policy. As a result of this the long-term and short-term incentive plans were reviewed and substantive changes were made. The Company's remuneration philosophy was updated and a more rigorous performance assessment and measurement process was introduced.
- ***Board Composition and Tenure*** – The Committee reviewed and updated substantially the Company's policy on the composition of its Board of directors, their qualifications, recruitment and tenure to reflect emerging best practice.
- ***Conflicts of Interest*** – The Committee considered the actual and potential conflicts of interest of directors and authorised such conflicts, or declined to do so, as appropriate. The Committee ensured that members did not consider matters relating to themselves.

In addition to the above committees, the Board may from time to time establish ad hoc committees to address any specific purpose, with such delegation of powers and membership as the Board considers appropriate or necessary to meet its aims.

In accordance with the Articles of Association, the proceedings of any Committee to which the Board has delegated powers are minuted and reported to the Directors at the next following Board meeting.

Attendance at Meetings

It is recognised that Directors' executive responsibilities outside of the Company may result in them being unable to attend all of the regularly scheduled Board and/or Committee meetings. On such occasions, the Chief Executive will obtain their comments on matters to be considered at the meeting in question for passing on to the other Directors as appropriate.

The table below sets out each Director's attendance at the meetings of the Board and the Committees which they were eligible to attend during 2017.

	Board	Audit Committee	Investment Committee	Remuneration, Nominations & Conflicts Committee
G M Riddell	5 (5)	2 (2)	3 (4)	2 (2)
Sir Brian Bender	5 (5)	1 (2)		2 (2)
P J Box	5 (5)	2 (2)	4 (4)	
A J Brown	5 (5)		4 (4)	2 (2)
D N Jagger	5 (5)			2 (2)
S Lewis	5 (5)			
B E Masojada	3 (5)			2 (2)
A G Skirton	4 (5)	2 (2)	3 (4)	
M E Tulloch	4 (5)			2 (2)

Possible number of meetings during the year that could be attended are shown in brackets.

Performance Evaluation

Each year the Board undertakes an evaluation of its performance, including assessing the performance of the Chairman, the Chief Executive and the Committees. Currently, the evaluation process includes an assessment undertaken by external board performance consultants every three years, involving interviews with each of the Directors and members of executive management and culminating in a report to the Board as a whole, with intervening years being undertaken through self-assessment.

The most recent evaluation was undertaken by Independent Audit Limited at the beginning of 2017. Independent Audit made 10 recommendations all of which have been implemented. The overall finding from this review was that the Board continued to operate very effectively with the appropriate balance of expertise, experience, independence and knowledge to deliver long-term value for the Members.

Directors' Remuneration

The Company's Articles of Association provide that until otherwise determined by ordinary resolution, there shall be paid to the Directors such fees as the Directors determine not exceeding an annual aggregate of £500,000. Members last approved an increase in the annual aggregate limit applicable to Directors' fees by amendment to the Articles of Association at the 2015 Annual General Meeting.

Subject to the annual aggregate limit, Directors receive fees at levels approved by the Board. These are reviewed by the Board on an annual basis, incorporating the use of market data to do so. Directors serving on the various Committees of the Board, other than Mr Riddell, also receive further fees to reflect the additional time commitment involved.

No Director receives any additional remuneration from the Company other than his or her fees. Directors are not paid compensation for loss of office.

Dividend

In June 2017 the Company paid a dividend to Members of £99.5m (2016: £33.5m) in proportion to premium ceded during the preceding year. The Articles of Association of the Company provide for distributions to Members in the form of a dividend and in the circumstances of a winding up.

Corporate Social Responsibility and Sustainability

The Board recognises that the Company has a duty to ensure that day-to-day business practices are undertaken ethically, environmentally, sustainably and in a socially responsible manner. The business is operated through high ethical policies and practices. In the past year the Company has again chosen Age UK as its charity partner, and members of staff have supported the charity by volunteering as helpers at one of its day centres.

Bribery and Corruption

The Company has adopted a zero tolerance approach to bribery and corruption.

Tax Evasion

The Company has adopted a zero tolerance approach to tax evasion in compliance with the Criminal Finance Act 2017 and the corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion.

Whistleblowing

The Board has considered the recommendation made in the UK Corporate Governance Code with regard to a policy on whistleblowing and has reviewed the arrangements under which staff may, in confidence, raise concerns. The Board has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where appropriate for follow-up action to be taken.

Financial Risk Management

The Company's financial risk management objectives and policies with regard to the use of financial instruments are described in note 5 to the financial statements.

Directors' Indemnities

The Company has entered into indemnities for the benefit of its existing Directors and future Directors, and these indemnities remain in force as at the date of this report. Copies of the Directors' indemnities, which are qualifying indemnity provisions, are available for inspection at the Company's registered office.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Company's financial statements (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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102).

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 the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its members in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

At the date of this report, each individual Director states that he/she is not aware of any relevant audit information of which the Company's auditor is unaware, and each individual Director states that he/she has taken the steps he/she ought to have taken as set out in section 418(4) of the Companies Act 2006 as a Director to make himself/herself aware of any relevant audit information and establish whether the Company's auditor was aware of that information.

Statement of Going Concern

The Board is satisfied after taking account of the Retrocession Agreement with HM Government that the Company has adequate financial resources to continue to operate for the foreseeable future which is, but not limited to, at least 12 months and is financially sound. For this reason, it considers the going concern basis appropriate for the preparation of financial statements.

Status of the Company

The Company is a private company limited by guarantee, not having a share capital. Consequently, the Directors do not have any relevant interests that require disclosure.

The Company is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

The Company is not part of a group. It does not have any branches outside the United Kingdom. It does not have subsidiary undertakings.

Donations

In the year under review the Company made no donations for political purposes (2016: £nil). A charitable donation of £20,000 (2016: £19,450) was made to Age UK.

Independent Auditor

The Board's policy on the provision of non-audit services to the Company by the auditor is that they are permitted to perform such work in areas where it is appropriate for them to do so, and provided that this does not compromise their independence.

The auditor Deloitte LLP have indicated their willingness to continue in office as auditor to the Company and resolutions to reappoint Deloitte LLP as auditor to the Company and to authorise the Board of Directors to set their fees will be proposed at the Annual General Meeting.

By Order of the Board
Christian Wells
General Counsel and Company Secretary
15 March 2018

The Directors of Pool Reinsurance Company Limited (registered number 2798901) present their strategic report for the year ended 31 December 2017.

Review of the Business

Principal Activity

During the year under review and since the year end there was no change in the principal activity of the Company which continued to be reinsurance business conducted on a mutual basis. Given the purpose for which the Company was formed, the Directors do not anticipate that the nature of the Company's business will change in the future. The unpredictability of terrorist events means that the Company is not in a position to make statements regarding likely future developments.

The Company provides reinsurance in respect of losses arising from damage to or destruction of commercial property resulting from Acts of Terrorism (as defined in the Reinsurance (Acts of Terrorism) Act 1993) within England, Wales and Scotland. The Company has a Retrocession Agreement with HM Government under the terms of which HM Government will make funds available in circumstances where the Company's assets are insufficient to meet all claims.

Results and Performance

Gross premium income for the year increased from £300.5m to £313.8m.

The balance on the general business technical account was £54.5m, an increase of £48.3m from the 2016 result. The outward reinsurance premium payable to HM Government in respect of 2017 decreased from £249.7m to £207.9m. There are two elements to this: £156.3m being 50% of Pool Re's gross written premiums and a further premium amount of £51.6m. The remaining £36.3m of outward reinsurance premium is in respect of external reinsurance protection.

The terms of the current retrocession agreement between Pool Re and Her Majesty's Treasury which took effect from 1 January 2015, include provision for Pool Re to pay an annual distribution to Members. The Board declared such a dividend on 16 June 2017 in respect of its 2016 results. The amount of the dividend paid was £99.4m.

One new claim was recorded in 2017. At 31 December 2017 the outstanding balance of £5k related to loss adjuster fees.

Investment income including net realised and unrealised gains and losses amounted to £131.5m, £232.5m lower than the exceptional 2016 total of £364.0m.

The amount allowed for taxation was £8.7m, relating to the United Kingdom corporation tax on investment income receivable and realised and unrealised profits, less interest payable and investment expenses. There is no taxation on the underwriting result as the business is conducted on a mutual basis.

The Company made a profit after taxation of £154.9m for the year ended 31 December 2017, increasing the accumulated balance on the profit and loss account available to meet future claims to £5.80bn.

The investment fund (financial investments, accrued income and investment cash) grew by £0.24bn in 2016 to a total value at 31 December 2017 of £6.49bn.

Key Performance Indicators

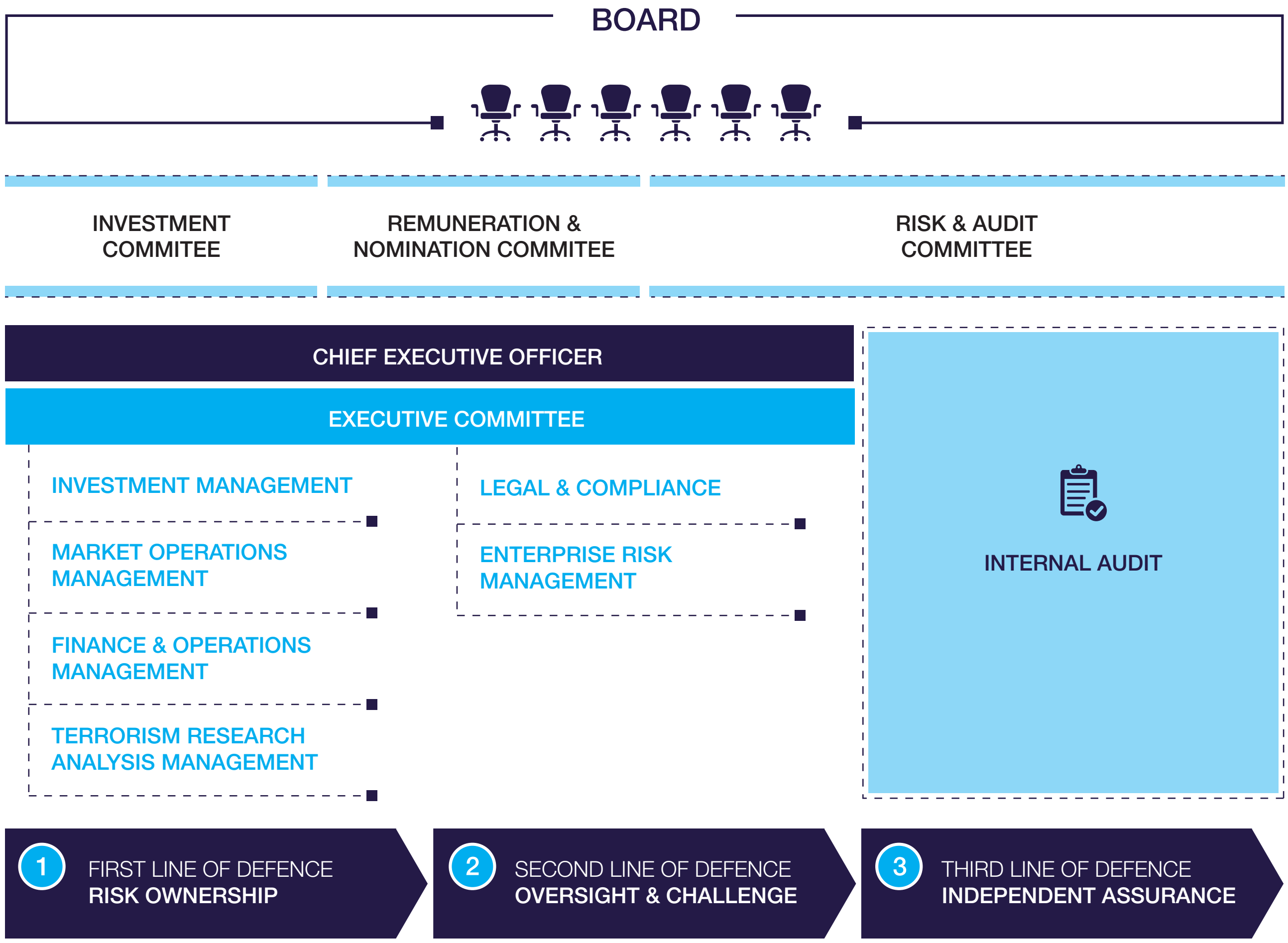
Taking account of the information provided in this report and notes to the financial statements, and in view of the special nature of the Company, there are no additional key performance indicators, nor environmental or employee matters that are considered necessary for an understanding of the Company's business.

Principal Risks and Uncertainties

The Board is responsible for establishing effective risk governance and a system of internal control to safeguard the Company's assets and to ensure compliance with laws and regulations. These responsibilities are delegated to the Risk and Audit Committee, which is tasked with providing risk oversight and challenge across the business.

Governance

The Company operates a "three lines of defence" risk management and governance framework. The Board and the Executive Management form the first line of defence, responsible for ownership and management of risks that might impact upon the Company's objectives. The Enterprise Risk Management, Legal and Compliance functions form the second line of defence, responsible for providing guidance, oversight, and challenge around the business processes and risk management activities. The Internal Audit function forms the third line of defence and provides an independent assurance across the business. The Board, with support from the Risk and Audit Committee, has oversight over the second and third lines of defence.



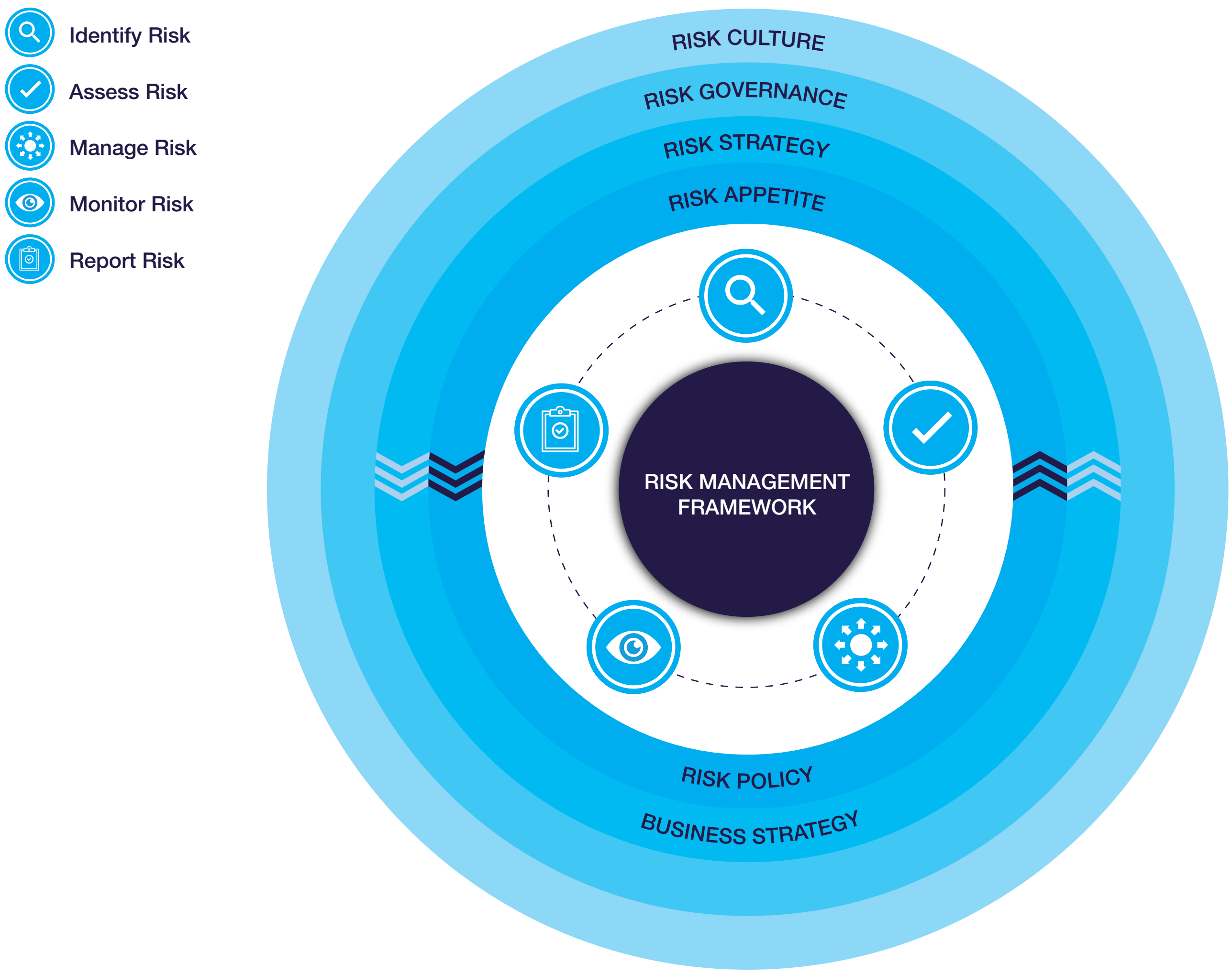
The Risk Framework

In 2016, Pool Re initiated an exercise to refine and refresh its Risk Management Framework. This work was completed and signed off by the Board in 2017.

The framework incorporates various aspects of risk management and is used to co-ordinate the Company's overall approach to managing risk. The primary objective of this framework is:

- to support the development of the Company, but at the same time avoid unwelcome surprises by reducing uncertainty and volatility through the identification and management of risks to the achievement of strategies and objectives
- to optimise the risk by taking a balanced approach to risk and reward
- to embed Enterprise Risk Management throughout the activities of the business
- to ensure that risk ownership is allocated to appropriate senior management
- to assist the business in identifying risks facing the Company and ensuring that an appropriate control framework is in place to mitigate the risks, including a process of continuous control assessment

The effectiveness of the Company's system of internal controls and its risk management framework are reviewed by an external provider of internal audit services, and reports on such reviews, including recommendations and management responses, are considered by the Risk and Audit Committee and Board.



The Directors consider that the principal risks which face the Company, together with details of the control measures adopted by the Company, are as follows:

Principal risk	Mitigating factors
Insurance Risk The Company is exposed to insurance risk arising from inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities. Insurance risk is judged to be the most significant risk for Pool Re and carries the largest gross exposure.	The Company's approach to the management of insurance risk reflects the commitments contained in the agreements which underpin the Pool Re scheme. The Company undertakes to accept all risks presented to it which meet the scheme criteria. Exposure to insurance risk is managed through placement of reinsurance protection for large losses with high credit-rated reinsurers, exposure management and strong claims management processes. This ensures, to the extent possible, that adequate resources are available to meet a claim or series of claims as and when necessary. In addition, the Retrocession Agreement with HM Government makes funds available where the Company's assets are insufficient to meet claims. This risk and its mitigations are described further in note 5(a) to the financial statements.
Market Risk The Company is exposed to market risk through its investments in financial assets. Market risk arises from fluctuations in asset prices due to movements in interest rates, currencies and other economic variables.	The Company's investment strategy is conservative, designed to preserve capital and limit volatility from market fluctuations whilst still delivering an acceptable return. Exposure to market risk is managed through regular monitoring of investment performance and returns, investing in high quality investment counterparties, and oversight of the Company's investment strategy and performance by the Investment Committee. The investment strategy rests on the two main objectives for the fund of stability and liquidity, with the asset allocation aligned to these. This risk and its mitigations are described further in note 5(b) to the financial statements.
Credit Risk The Company is exposed to credit risk arising from a counterparty failing to perform its financial obligations, including failure to perform them in a timely manner.	Exposure to credit risk predominately arises from financial investments and commercial reinsurance contracts. These exposures are managed through use of high quality counterparties and setting appropriate limits to investment with individual or group counterparties and reinsurance counterparties. This risk and its mitigations are described further in note 5(b) to the financial statements.

Principal risk	Mitigating factors
Liquidity Risk The Company is exposed to liquidity risk through its investments in financial assets against the contingency that they may be required in the short term to deal with a claim or series of claims, but with the recognition that they may not be called upon for long periods.	Exposure to liquidity risk is managed through holding assets in high quality liquid investments, meeting any cash outflow by using the Company's funds, and then drawing on support provided by HM Treasury, should that be required. The commercial reinsurance programme contributes to the management of liquidity risk, creating additional liquidity following a large incident. This risk and its mitigations are described further in note 5(b) to the financial statements.
Operational Risk The Company is exposed to operational risk where there are inadequate controls or failures in people, processes, systems and external factors, which jeopardise the operation of Pool Re.	Exposure to operational risk is managed through a robust risk management framework and by ensuring that there are effective processes, systems and controls throughout the Company. Arrangements with outsource providers are monitored and their appropriateness assessed periodically. The Company maintains a strong and open relationship with its regulators and embraces a good conduct culture. Legal advice is obtained periodically to review the Company's position in relation to Chapter 1 of the Competition Act 1998, to determine that the Scheme continues to meet the exemption requirements set out in that Act.

By Order of the Board
Christian Wells
General Counsel and Company Secretary
15 March 2018

Independent Auditor's Report to the Members of Pool Reinsurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pool Reinsurance Company Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flows;
- the summary of significant accounting policies; and
- the related notes 1 to 26.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that no non-audit services were provided to the company during the period.

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

Summary of our audit approach	
Key audit matters	The key audit matter that we identified in the current year was the valuation and existence of financial investments and derivative financial instruments.
Materiality	The materiality that we used in the current year was £115 million which was determined on the basis of 2% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of financial investments and derivative financial instruments

Refer to page 30 (significant accounting policies) and page 46 (financial disclosures)

Key audit matter description	As at 31 December 2017 the financial investment and derivative balances stood at approximately £6.4 billion, equating to 96% of total company assets. Changes in the fair value of these financial instruments during the reporting period have a material impact on the company's net assets and vary year on year depending on market movements and investment performance. Due to the size of the balance, a 1.8% price variance would result in a material misstatement and consequently we have identified the valuation of financial investments and derivative financial instruments as a key audit matter. Our key audit matter excludes the valuation of cash deposits, including certificates of deposit, commercial paper and money market funds, because these asset classes have low estimation uncertainty. In addition, we have identified an inherent risk that the year-end reconciliation of asset data is not performed appropriately, either through error or fraud, and that the ledger is therefore materially misstated. Therefore we have identified the existence of financial investments and derivative financial instruments as a key audit matter.
How the scope of our audit responded to the key audit matter	We have assessed the design and implementation of key controls that mitigate the risk of material misstatement relating to the valuation and existence of financial investments and derivative financial instruments. These included monthly reconciliations between investment manager and custodian asset and pricing data, where any differences outside of a risk based threshold are investigated by the company. We have performed valuation testing on 100% of financial investments through obtaining independent prices from reputable third party sources. We have tested the valuation of derivative financial instruments through engaging our in-house financial instrument specialist team to independently price a sample of instruments. We have tested the existence of financial investments and derivative financial instruments by obtaining independent custodian statements for 100% of the instruments held as at 31 December 2017 and reconciling these to the general ledger.
Key observations	We completed our procedures over the valuation and existence of financial investments and derivative financial instruments and did not identify any instances of material misstatement, through fraud or error, across the portfolios.

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:	
Materiality	£115 million.
Basis for determining materiality	Approximates 2% of year end company net assets.
Rationale for the benchmark applied	Pool Reinsurance Company Limited is a mutual reinsurance company, which exists for the benefit of its members. As such, we have judged net assets to be the most appropriate benchmark, as this represents the company's ability to meet claims as they fall due, which is deemed to be of most concern to the members.

We agreed with the Risk and Audit Committee that we would report to the Committee all audit differences in excess of £5.75 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Certain accounting activities for the company are carried out by an outsourced service provider. As part of our audit we evaluated the design and implementation of relevant controls in place at the outsourced service provider.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Colin Rawlings FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
15 March 2018

Profit and Loss Account

for the year ended 31 December 2017

Technical account – General business

	Notes	2017 £000	2016 £000
Gross premiums written	6	**313,806**	300,503
Outward reinsurance premiums	6	**(244,253)**	(284,865)
Net premiums written		**69,553**	15,638
Change in the gross provision for unearned premiums	17	**(4,729)**	(995)
Change in the provision for unearned premiums, reinsurers' share	17	**2,550**	798
Earned premiums, net of reinsurance		**67,374**	15,441
Claims paid – gross amount		**(806)**	(2,270)
Change in provision for claims – gross amount		**(5)**	3,555
Claims incurred, net of reinsurance		**(811)**	1,285
Net operating expenses	7	**(12,104)**	(10,536)
Balance on the general business technical account		**54,459**	6,190

Non-technical account

	Notes	2017 £000	2016 £000
Balance on the general business technical account		**54,459**	6,190
Investment income			
Income from financial assets at fair value through profit and loss	10	**127,178**	126,683
Net gains/(losses) on the realisation of investments	10	**267,083**	(231,831)
Investment income		**394,261**	(105,148)
Net unrealised (losses)/gains on investments	10	**(262,745)**	469,206
Investment expenses and charges	10	**(22,376)**	(18,275)
Profit on ordinary activities before tax		**163,599**	351,973
Tax on profit on ordinary activities	11	**(8,651)**	(53,636)
Profit for the financial year after tax		**154,948**	298,337
Profit for the financial year transferred to Profit and Loss Account reserves		**154,948**	298,337

The above results all relate to continuing operations and to risks located in the United Kingdom.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the statement of profit or loss. Therefore no statement of other comprehensive income has been presented.

Company number: 2798901

The notes on pages 30 to 51 form an integral part of these financial statements.

Balance Sheet
at 31 December 2017

	Notes	2017 £000	2017 £000	2016 £000	2016 £000
Assets					
Investments					
Other financial investments	12		**6,490,157**		6,259,642
Reinsurers' share of technical provisions					
Provision for unearned premiums	17		**82,621**		80,071
Debtors					
Debtors arising out of reinsurance operations	15	**77,349**		76,648	
Other debtors	16	**4,477**		4,242	
			81,826		80,890
Other assets					
Tangible assets	13	**1,561**		265	
Cash at bank and in hand	14	**29,792**		47,831	
			31,353		48,096
Prepayments and accrued income					
Accrued interest		**30,476**		33,206	
Other prepayments		**579**		602	
			31,055		33,808
Total assets			**6,717,012**		6,502,507
Liabilities					
Capital and reserves					
Profit and Loss Account	22		**5,801,413**		5,745,912
Financial liabilities					
Other financial investments	12		**47,441**		74,147
Technical provisions					
Provision for unearned premiums	17	**153,503**		148,774	
Claims outstanding		**5**		–	
			153,508		148,774
Creditors: amounts falling due within one year					
Creditors arising out of reinsurance operations	18	**203,079**		33,485	
Other creditors including taxation and social security	19	**2,842**		14,543	
			205,921		48,028
Creditors: amounts falling due after more than one year					
Creditors arising out of reinsurance operations	18		**473,660**		453,142
Accruals and deferred income			**3,169**		2,399
Provisions	20		**31,900**		30,105
Total liabilities			**6,717,012**		6,502,507

The financial statements on pages 26 to 29 were approved by the Board of Directors on 15 March 2018 and signed on its behalf by:

Geoffrey M Riddell
Chairman

Peter J Box
Director

Company number: 2798901

The notes on pages 30 to 51 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2017

	Notes	**2017 £000**	2016 £000
Profit and Loss Account reserves at the beginning of the year		**5,745,912**	5,481,086
Profit for the year		**154,948**	298,337
Dividend paid	23	**(99,447)**	(33,511)
Profit and Loss Account reserves at the end of the year		**5,801,413**	5,745,912

The notes on pages 30 to 51 form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Net cash from operating activities	21	**221,498**	224,006
Taxation paid		**(13,041)**	(18,941)
Interest paid		**(2,450)**	(2,379)
Net cash generated from operating activities		**206,007**	202,686
Cash flow from investing activities			
Purchases of tangible assets		**(1,620)**	(145)
Interest received		**129,908**	129,785
Proceeds from sale of other financial investments		**9,146,015**	12,342,124
Purchase of other financial investments		**(9,541,282)**	(12,450,694)
Net cash (used in)/generated from investing activities		**(266,979)**	21,070
Net cash used in financing activities			
Dividend paid		**(99,447)**	(33,511)
Net (decrease)/increase in cash and cash equivalents		**(160,419)**	190,245
Cash and cash equivalents at beginning of the year		**645,545**	455,300
Cash and cash equivalents at end of the year		**485,126**	645,545
Cash and cash equivalents consist of:			
Cash at bank and in hand		**29,792**	47,831
Short term deposits presented within other financial investments		**455,334**	597,714
Cash and cash equivalents		**485,126**	645,545

The notes on pages 30 to 51 form an integral part of these financial statements.

1 General information

The Company is a mutual company limited by guarantee, incorporated in England and Wales, with its principal place of business at Equitable House, 47 King William Street, London, EC4R 9AF. Its principal activity continues to be reinsurance in respect of losses arising from damage to, or destruction of commercial property resulting from Acts of Terrorism within England, Wales and Scotland.

2 Statement of compliance

The Company's financial statements have been prepared 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. The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

FRS 102 gives an accounting policy choice for financial instruments, namely:

(a) apply the provisions of FRS 102 in full;

(b) apply the recognition and measurement provisions of IAS 39 (as adopted by the European Union) and the disclosure requirements of FRS 102; or

(c) apply the recognition and measurement provisions of IFRS 9 and/or IAS 39 (as amended following the publication of IFRS 9) and the disclosure requirements of FRS 102.

The Company has elected to apply the recognition and measurement provisions of IAS 39 (as adopted by the European Union) and the disclosure requirements of FRS 102 in respect of financial instruments.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Any areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(b) Going concern

Having assessed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

(c) Functional and presentational currency

The Company's financial statements are presented in pound sterling and rounded to thousands.

The Company's functional currency is the pound sterling.

(d) Foreign currency

Foreign currency transactions are translated into UK pounds sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account for the period.

3 Summary of significant accounting policies

Translation differences on non-monetary items, such as equities held at fair value through the Profit and Loss Account, are reported as part of the fair value gain or loss.

(e) Insurance contracts

The Company's financial position and its obligations to meet claims under its agreements with Members are assured in that the Company has entered into a Retrocession Agreement with HM Government under which the Company would draw funds from HM Government if claims were to exceed the Company's resources. The Retrocession Agreement specifies circumstances in which amounts paid by HM Government will be subject to repayment by the Company. However, in certain circumstances when the Retrocession Agreement is terminated, HM Government is not entitled to repayment of amounts it has paid to the Company.

Premium is payable to HM Government for providing retrocession cover only when the funds standing to the credit of the Insurance Fund and the Investment Fund, as defined by the Retrocession Agreement, exceed £1bn. These funds are broadly equivalent to premiums received, investment income earned and investment gains, less investment losses, incurred claims, taxation and expenses, subject to certain differences in the timing of their recognition. The retrocession premium may become immediately payable, in certain circumstances, if the Company fails to comply with the conditions of the Retrocession Agreement.

The Company has reviewed the nature of the inwards and outwards reinsurance business it transacts. It is satisfied that all such business falls within the definition of Insurance Risk and has therefore treated the relevant contracts as insurance contracts for the purposes of these financial statements. All premiums disclosed in the Profit and Loss Account relate to standard insurance contracts.

(i) Technical results

The technical results are determined using the annual basis of accounting whereby the incurred costs of claims and expenses are charged against the earned proportion of premiums, net of reinsurance.

(ii) Premiums written

Premiums written relate to business that incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company. Where written premiums are subject to subsequent adjustment, reductions are made as soon as they are foreseen, however, potential increases are not recognised until the amount can be determined with reasonable certainty. Additional or return premiums are treated as adjustments to gross written premiums.

(iii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

The unearned premiums calculation has been carried out using the most appropriate basis available, which is considered to be the eighths basis. This basis assumes premium received for a particular quarter represents policies which incept, on average, at the mid-point of the quarter. Thus 1/8 of the premium for the first quarter, 3/8 of the premium for the second quarter, 5/8 of the premium for the third quarter and 7/8 of the premium for the fourth quarter is unearned at 31 December.

The Company calculates unearned premiums in respect of its gross written premiums and also in respect of the commercial retrocession it has purchased.

(iv) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

(v) Claims provisions and reinsurance recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

3 Summary of significant accounting policies

In estimating the cost of claims notified but not paid, the Company has regard to the cost of claims incurred by Members, both within and in excess of each Member's retention. The overall emerged claims cost is closely managed by the Company.

The nature of the underlying business is such that there is unlikely to be a significant delay between the occurrence of a claim and the claim being reported. However, there can be significant delays in assessing the Company's ultimate liability for such claims. Claims notified to the Company at the balance sheet date are estimated on a basis that reflects the current position for Members' liabilities to their policyholders, less Members' retentions.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that may be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

(vi) Outward reinsurance premiums

A creditor is recognised for outwards reinsurance premiums payable to HM Government under the terms of the Retrocession Agreement and to other commercial reinsurers.

(f) Employee benefits

The Company provides a range of benefits to employees, including a defined contribution pension plan, annual bonus arrangements and long-term incentive plans for members of senior management.

(i) Short-term benefits

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

(ii) Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays a fixed contribution into a separate entity. Once the contributions have been paid, the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in an independently administered fund.

(iii) Annual bonus arrangements

The Company operates annual bonus plans for employees. An expense is recognised in the Profit and Loss Account when the Company has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

(iv) Long-term incentive plans

The Company operates cash-settled long-term incentive plans for members of senior management. The plans are based on an individual's personal targets in developing the business and deferred over a period of in excess of three years. Payment may be reduced or forfeited in instances where an individual leaves employment or a material risk event occurs. An expense is recognised in the Profit and Loss Account for the estimated maximum amount payable in respect of the incentive plans.

(g) Expenses

Capital expenditure on computer equipment and office equipment is depreciated by equal instalments over the estimated useful lives of the assets. Expenditure on computer software is written off as incurred.

All expenses are recognised on an accruals basis and, other than investment expenses, are charged to the technical account.

(h) Taxation

Taxation is charged on investment income receivable plus realised and unrealised gains, less interest payable and investment expenses, for the period. Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at the reporting date and adjustments to tax payable in prior periods.

Deferred tax is recognised in respect of all material timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date, including revaluation gains and losses on investments recognised in the Profit and Loss Account.

3 Summary of significant accounting policies

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

(i) Tangible assets
Tangible assets are stated at historical purchase cost less accumulated depreciation and any impairment loss. Depreciation is calculated to write off the costs of tangible assets, less their residual values, over their expected useful lives using the straight line basis. Fixtures and fittings are depreciated over the lease term of the office premises, up to the contractual break clause of October 2022. Furniture is depreciated over five years and computer and telephone equipment over two years. At each balance sheet date, tangible assets are reviewed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared to the carrying amount of the asset and, where necessary, the carrying amount is adjusted accordingly.

Additions are included at their original purchase price plus any costs directly attributable to bringing the asset to its working condition for its intended use. Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Profit and Loss Account.

(j) Leased assets
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rents payable under operating leases are charged to the Profit and Loss Account as incurred over the non-cancellable lease term.

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

(l) Creditors arising out of reinsurance operations
Creditors arising out of reinsurance operations include retrocession payable to HM Government and premium refunds to Members.

A creditor is recognised for outward reinsurance payable to HM Government in accordance with the terms of the Retrocession Agreement between the Company and HM Government. The outward reinsurance is payable no later than 31 March in the fourth year after the year to which the gross premium written relates. At the balance sheet date the outward reinsurance presents a contractual obligation as a result of previous premiums received.

(m) Financial assets and liabilities
The Company has elected to apply the recognition and measurement provision of IAS 39 (as adopted for use in the EU) and the disclosure requirements of sections 11 and 12 of FRS 102 in respect of financial instruments.

Under IAS 39, financial assets and liabilities are classified in one of the following categories:

(a) Financial assets at fair value through profit or loss
(b) Available-for-sale financial assets
(c) Loans and receivables
(d) Held-to-maturity investments

The Company accounts for all financial assets and liabilities at fair value through profit or loss.

The Company recognises a financial asset or liability at the time it becomes a party to the instruments' contractual provisions. When a financial asset or liability is recognised initially, the Company measures it at its fair value (excluding transactions costs). Fair value is the amount for which an asset is exchanged, or a liability settled.

3 Summary of significant accounting policies

After initial recognition, the Company measures financial assets and liabilities, including derivatives, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. All unrealised gains and losses on financial assets that are measured at fair value are taken to the Profit and Loss Account.

Derecognition of a financial asset occurs only when the Company has transferred the asset's risk and rewards (either substantially or partially) or control of the contractual rights have been transferred from the seller to the buyer. On derecognition, realised gains and losses, being the difference between the amount received and the asset's carrying amount, are recognised in the Profit and Loss Account.

Derecognition of financial liabilities focus solely on the legal release of the contractual obligations. On derecognition, realised gains and losses, being the difference between the consideration paid and the liability's carrying amount, are recognised in the Profit and Loss Account.

The carrying values of debtors, prepayments and accrued income are reported at the transaction price.

The carrying values of creditors, accruals and deferred income are assumed to approximate to their fair values due to the short-term nature of the liabilities.

(n) Other debtors

Receivables are recognised and carried at the lower of their originally invoiced value and recoverable amount. Where the time value of money is material the receivables are carried at amortised cost. Provisions are made where there is objective evidence that the amount will not be recovered in full.

(o) Investment return

Investment income, which is all included in the non-technical account, is determined on an accruals basis. Realised gains or losses represent the difference between net sales proceeds and the purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and the purchase price or, if previously valued, the fair value at the previous balance sheet date.

Adjustments are made in respect of investments realised during the year where unrealised gains or losses were previously recognised in the Profit and Loss Account.

Dividend income is recognised when the right to receive payment is established.

(p) Distributions

Distributions to the Company's Members are calculated in accordance with the terms of the Retrocession Agreement between the Company and HM Government and are recognised in the financial statements for the period in which the distributions are declared and paid.

(q) Related party transactions

Where the Company has entered into related party transactions, the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements are disclosed in the notes to the financial statements.

(r) Reclassification of Provisions for other risks

The Company has reclassified items previously reported under Provisions for other risks on the Balance Sheet in order to provide further clarity on the Company's liabilities. Items previously classified under Provisions for other risks included outward reinsurance premiums to HM Government falling due after more than one year and deferred tax.

Outward reinsurance premiums due to HM Government of £473,660k (2016: £453,142k) have been reclassified under Creditors: amounts falling due after more than one year. Deferred tax of £31,900k (2016: £30,105k) has been reclassified under Provisions.

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgement is required to categorise financial assets and liabilities under the fair value hierarchy classifications defined in FRS 102. The Company exercises judgement in determining whether a market is active and if valuations in these markets reliably reflect the price of an arm's length transaction. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques utilising observable and unobservable inputs. The risks related to these judgements are set out in note 5 below.

There are currently no other significant judgements or estimates to disclose in connection with applying the accounting policies.

5 Management of insurance and financial risk

(a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable.

The Company's approach to the management of insurance risk is influenced by the commitments contained in the agreements which form the foundations of the Company's scheme. The Company undertakes to accept all risks presented to it which meet the criteria of the scheme and has a Retrocession Agreement with HM Government which makes funds available where it faces claims beyond the extent of its ability to pay from its own resources. Under the PRA capital regime the Company has a capital resource requirement set equal to zero. These arrangements are designed to ensure that the Company can accept all exposures presented to it without limit.

In turn, these arrangements ensure that the Company can provide primary insurers with the reinsurance protection they need to enable them to provide terrorism cover to all clients upon request to the full extent of their policy programme. Hence it is not an objective to limit the assumption of insurance risk but to ensure that:

- risks accepted fall within the criteria set by the scheme and fall within the scope of the Retrocession Agreement
- pricing is adequately fair between the Members of the scheme and
- adequate administration arrangements are in place in the event of a major claim.

The Company's appetite for insurance risk is therefore unlimited, provided that losses will ultimately be met by its funds and its retrocessional cover. Its policy is to assume all relevant risks presented to it whilst ensuring that it accepts only risks falling within the criteria set by the scheme.

The Company has however reduced its sensitivity to insurance risk through the renewal of the three year rolling contract to purchase commercial retrocession protection. This contract is annually cancellable at the Company's option, or at the reinsurers' option if they are in deficit. The cover is in two layers totalling £2,000m with an attachment point of £500m. Cover is subject to an average of 1.5% co-insurance. The price paid for the period 1 March 2017 to 28 February 2018 of £36.3m includes broker commission and equates to a signed rate on line of 1.81. The reinsurance cover is fully back to back with the cover the Company provides to Members. The minimum credit rating accepted is A- and the contract incorporates a downgrade clause allowing the Company to remove a reinsurer if its rating is downgraded.

5 Management of insurance and financial risk

The table below shows claims outstanding at the end of the reporting year. Significant controls are in place to ensure, to the extent possible, that liquid funds are available to meet claims or a series of claims as and when necessary.

Claims development table

Reporting year	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000
Estimate of ultimate claims costs:					
At end of reporting year	14,810	–	–	–	792
One year later	15,060	–	–	–	
Two years later	14,899	–	–		
Three years later	13,614	–			
Four years later	13,614				

Reporting year	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
Current position:						
Current estimate of cumulative claims	13,614	–	–	–	792	14,406
Cumulative payments to date	(13,614)	–	–	–	(787)	(14,401)
Liability recognised in the balance sheet	–	–	–	–	5	5

There is one claim outstanding at 31 December 2017 for £5k relating to expected loss adjuster fees.

(b) Financial risk management objectives

The overall financial risk management objective is to invest the Company's assets against the contingency that they may be required in the short term to deal with a claim or series of claims, but with recognition that they may not be called upon for long periods.

The Company has adopted risk policies to address the management of its financial risks and there are procedures in place to identify, assess and manage the risks faced by the Company.

The Board has set an investment strategy and has employed a number of independent investment managers under specific mandates to administer the Company's investments. In addition, the Company has an Investment Committee which considers all aspects of the Company's investment activity and, where appropriate, makes recommendations to the Board.

The agreed investment strategy rests on the two main objectives for the fund of stability and liquidity, with the asset allocation aligned to these. Two stability risk measures and two liquidity risk measures have been adopted and risk budgets have been agreed in respect of each measure.

The investment portfolio is diversified and the investment policy sets limits on the Company's exposure to various types of investment. There is a formal process to review regularly and, where appropriate, rebalance the asset allocation towards the target allocation.

Reports on investment performance are considered at the quarterly Investment Committee meetings and as a standing item in the Company's quarterly Board meetings. Contact is maintained throughout the year with each investment manager and the custodians. The Company meets regularly with the investment managers and the custodians and there is a process for considering and resolving any operational issues which arise. The Company also reviews the investment manager and custodian System and Organisation Controls (SOC) reports on an annual basis.

Derivative contracts are used by the Company only for the purposes of efficient portfolio management. Hence, derivatives are used to reduce risk, to reduce cost or to generate additional capital or income at no, or an acceptably low, level of risk.

The Company is exposed to a range of financial risks through its financial assets, financial liabilities and policyholder liabilities, the most important of which are market (equity price, commodity price, interest rate and currency), credit and liquidity risk.

5 Management of insurance and financial risk

(i) Market risk

Equity price risk

The Company is exposed to equity price risk as a result of changes in the value of its holdings in equity investments which are included within financial assets at fair value.

In order to mitigate its exposure to the risk of changes in the prices of individual equities, the Company has a broadly diversified portfolio of global equities which are managed on a passive basis against well established market indices.

The table below shows the profit/loss impact should equity market indices increase/decrease by 30%, with all other market variables held constant, and all the Company's investments moving according to the historical correlation with the index.

	2017 £000	2016 £000
Market value held in equity investments	**653,758**	640,323
Sensitivity to 30% movement in value of equities	**196,127**	191,557
Total equity market exposure	**10.2%**	10.4%

Commodity price risk

The Company is exposed to commodity price risk as a result of changes in the value of its holdings in commodity investments which are included within financial assets at fair value.

The table below shows the profit/loss impact should commodity market indices increase/decrease by 30%, with all other market variables held constant, and all the Company's investments moving according to the historical correlation with the index.

	2017 £000	2016 £000
Market value of commodity investments	**164,231**	166,262
Sensitivity to 30% movement in value of commodities	**49,269**	49,879
Total commodity market exposure	**2.6%**	2.7%

Interest rate risk

The Company is exposed to interest rate risk which arises primarily from investments in fixed interest securities.

Modified duration has been used as the measure of sensitivity of the company's fixed interest portfolio to changes in interest rates. Modified duration is the weighted average of the duration of each holding in the portfolio, taking into account the key characteristics of the coupon, maturity and cash flows.

The Company uses certain derivatives to mitigate this interest rate risk. Investments in derivatives are governed by specific provisions within the investment mandates and can only be made for the purposes of efficient portfolio management. A short gilt futures derivative position was held to reduce the fixed interest portfolio average modified duration.

The table below shows the value of the Company's holdings of financial assets and liabilities reported within other financial investments exposed to interest rate risk at the year end and shows the profit/loss impact should interest rates decrease/increase by 50 basis points assuming all other assumptions remain unchanged.

	2017 £000	2016 £000
Assets exposed to interest rate risk	**5,624,598**	5,449,996
Liabilities exposed to interest rate risk	**4,660**	6,872
Sensitivity to 0.5% movement in interest rates	**46,954**	50,554
	Years	Years
Average modified duration	**1.67**	1.86
Average modified duration (excluding gilt futures contracts)	**2.41**	2.36

5 Management of insurance and financial risk

The Company is also exposed to interest rate risk on financial liabilities relating to reinsurance operations. The value of financial liabilities relating to reinsurance operations exposed to interest rate risk at year end was £676,665k (2016: £456,517k). This exposure relates to outward retrocession premium payable to HM Government falling due within one year of £203,005k (2016: £33,480k) and outward retrocession premium payable to HM Government falling due after more than one year of £473,660k (2016: £423,037k).

Currency risk

The Company is exposed to currency risk in respect of investments denominated in a currency other than Sterling.

The Company's policy is to manage its exposure to non-Sterling denominated debt securities and fixed income assets through the use of forward contracts.

The table below shows the value of assets denominated in currencies other than Sterling not covered by foreign exchange contracts at the year end. The table also shows the profit/loss if Sterling had weakened/strengthened by 25% against the mix of currencies within the uncovered portion of the Company's investment fund, with all other variables held constant

	2017 £000	2016 £000
Unhedged investments	**680,261**	689,366
Sensitivity to 25% movement in value of Sterling on unhedged investments	**170,065**	172,342

The table below shows the impact on profit from changes in foreign currency exchange rates of 25% against Sterling on the Company's top five currency exposures.

	2017 Fair value of asset £000	**2017 Increase/decrease in profit £000**	2016 Fair value of asset £000	2016 Increase/decrease in profit £000
CAD	**20,788**	**5,197**	20,299	5,075
EUR	**59,690**	**14,922**	84,907	21,227
HKD	**31,709**	**7,927**	30,838	7,710
JPY	**73,016**	**18,254**	75,631	18,908
USD	**349,432**	**87,358**	352,218	88,054
	534,635	**133,658**	563,893	140,974

(ii) Credit risk

Credit risk arises from the failure of a counterparty to perform its financial obligations, including failure to perform those obligations in a timely manner. The Company's investment policies are designed to restrict the level of credit risk in the fund by setting limits on individual investments or groups of investments. Such limits are set by reference to the credit ratings determined by established credit rating agencies and individual issuer limits.

The Company assesses the condition and creditworthiness of financial depositories by reviewing credit grades provided by rating agencies and other publicly available information. The Company also places limits on the level of counterparty exposure to financial depositories.

The total exposure of the investment fund to credit risk at the year end was £5,707,765k (2016: £5,482,092k), representing the total value of bonds, commercial paper, loans, derivative financial instruments, deposits with credit institutions, cash at bank and in hand and other investment debtors. Of this total, 54% (2016: 60%) was invested in UK Government Gilts and other AAA/AA rated securities.

5 Management of insurance and financial risk

A full analysis is set out below:

	2017 £000	2016 £000
Derivative financial instruments	**36,925**	(58,046)
Debt securities	**5,183,880**	4,866,643
Loans	**–**	25,126
Deposits with credit institutions	**456,484**	599,822
Cash at bank and in hand	**29,792**	47,831
Other debtors	**684**	716
Total assets bearing credit risk	**5,707,765**	5,482,092

	2017 %	2016 %
AAA	**13**	17
AA	**40**	43
A	**30**	27
BBB	**10**	8
BB	**1**	2
B	**2**	2
Not rated	**4**	1
Total assets bearing credit risk	**100**	100

At the balance sheet date, excluding UK Government Gilts and US Government Securities, the maximum credit risk exposure to a single counterparty amounted to less than 1% of the Net Asset Value (2016: less than 1%).

The table below details the margin requirements for derivative financial instruments at year end, provided in the form of variation margin and Securities on Deposit. Securities on Deposit are posted in the form of government-issued securities held within the Company's investment fund, in which the Company retains beneficial ownership. The table also shows cash collateral positions in respect of foreign exchange derivatives at year end.

	2017 £000	2016 £000
Initial margin requirements	**6,195**	8,783
Securities on deposit	**8,636**	6,511
Foreign exchange collateral posted	**29,318**	10,751
Foreign exchange collateral held	**40,321**	243

The Company receives reports from its investment managers detailing any breaches of mandates including those resulting from defaults and past due items. No financial assets of material value were past due or impaired at the year end.

With regard to the credit risk associated with the debtors arising from reinsurance operations, all material balances outstanding at the year end were fully paid by the end of February 2018.

(iii) Liquidity risk

As stated above, the Company's overall financial risk management objective is to invest the assets against the contingency that they may be required in the short term to deal with a claim or series of claims, but with recognition that they may not be called upon for long periods. In respect of short-term liquidity, the benchmark investment portfolio provides for 33% of the Company's total investment assets to be self-liquidating within 18 months, comprising bonds with maturities of less than 18 months. At 31 December 2017, 33% (2016: 44%) of the Company's investment assets were held in bonds with maturities of less than 18 months.

5 Management of insurance and financial risk

The Company has financial liabilities shown on the face of the Balance Sheet in respect of creditors, foreign exchange derivatives, bond futures, interest rate swaps, total return swaps, currency swaps and credit default swaps. The table below is a maturity analysis of the Company's financial liabilities. Cash flows in respect of derivative liabilities are shown on an undiscounted basis.

Financial liabilities and outstanding claims at 31 December 2017

	Within 1 year £000	Between 1 year and 2 years £000	Between 2 years and 5 years £000	Over 5 years £000	**Total £000**
Deposits with credit institutions	40,321	–	–	–	**40,321**
Derivatives	7,120	–	–	–	**7,120**
	47,441	–	–	–	**47,441**
Claims outstanding	5	–	–	–	**5**
Provisions	–	31,900	–	–	**31,900**
Creditors arising from reinsurance operations	203,079	262,658	211,002	–	**676,739**
Other creditors including taxation and social security	2,842	–	–	–	**2,842**
	253,367	294,558	211,002	–	**758,927**

Financial liabilities and outstanding claims at 31 December 2016

	Within 1 year £000	Between 1 year and 2 years £000	Between 2 years and 5 years £000	Over 5 years £000	Total £000
Deposits with credit institutions	243	–	–	–	243
Derivatives	73,904	–	–	–	73,904
	74,147	–	–	–	74,147
Claims outstanding	–	–	–	–	–
Provisions	–	30,105	–	–	30,105
Creditors arising from reinsurance operations	33,485	167,785	255,252	–	456,522
Other creditors including taxation and social security	14,543	–	–	–	14,543
	122,175	197,890	255,252	–	575,317

The carrying values of the above liabilities are assumed to approximate their fair values due to the nature of the liabilities.

It is the intention of the Company to close out all derivative financial instruments with negative fair value positions in 2018, therefore cash flows in respect of these derivative liabilities are included within 1 year in the maturity analysis above.

(iv) Capital management

The Company falls within the exclusion in Article 11 of EU Directive 2009/138/EC (Solvency II Directive). On the application of the Company in December 2015 the PRA made directions under section 138A of the Financial Services and Markets Act 2000 which last until 31 December 2020. The principal effects of the directions are that: the Company is not regulated as if subject to Solvency II; and the Company's Capital Resources requirement is zero.

However the Company maintains an efficient capital structure consistent with its risk profile and the market requirements of its business.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rates.

5 Management of insurance and financial risk

As detailed in note 5(a) the Company considers not only traditional sources of capital funding but also reinsurance as an alternative source of capital.

(v) Fair value estimation

The Company classifies financial instruments held at fair value in the Balance Sheet into the following levels according to the definitions below. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The following tables show the Company's financial assets and financial liabilities measured at fair value:

Financial assets at 31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable-yield securities and units in unit trusts	630,985	164,231	–	795,216
Debt securities and other fixed income securities	1,994,353	3,160,881	–	5,155,234
Loans	–	–	–	–
Deposits with credit institutions	29,318	466,337	–	495,655
Other (including derivative instruments)	3,059	40,993	–	44,052
	2,657,715	**3,832,442**	**–**	**6,490,157**

Financial liabilities at 31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deposits with credit institutions	(40,321)	–	–	(40,321)
Other (including derivative instruments)	(3,836)	(3,284)	–	(7,120)
	(44,157)	**(3,284)**	**–**	**(47,441)**

Financial assets at 31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable-yield securities and units in unit trusts	618,178	166,262	–	784,440
Debt securities and other fixed income securities	1,760,555	3,075,734	–	4,836,289
Loans	–	25,073	–	25,073
Deposits with credit institutions	10,751	587,206	–	597,957
Other (including derivative instruments)	2,127	13,756	–	15,883
	2,391,611	3,868,031	–	6,259,642

Financial liabilities at 31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deposits with credit institutions	(243)	–	–	(243)
Other (including derivative instruments)	(6,804)	(67,100)	–	(73,904)
	(7,047)	(67,100)	–	(74,147)

The fair value of assets included in Level 1 are determined by the unadjusted quoted bid price in an active market at the balance sheet date. At the year-end these assets comprised mainly developed market government bonds (including index-linked government bonds), listed equities and exchange traded derivatives.

5 Management of insurance and financial risk

If quoted prices in active markets are not available as defined in Level 1, the fair value of the asset can be determined using a valuation technique with inputs that are observable (i.e. using market data), either directly or indirectly. Assets valued using such valuation techniques are categorised in Level 2. The Company has classified corporate bonds, emerging market government and semi-government bonds, asset backed securities, term loans and over the counter (OTC) derivatives within Level 2. The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured.

If the fair value of assets is estimated using a valuation technique where it is determined that any one or more significant inputs are not based on observable market data, those assets are classified as Level 3. The Company does not classify any of its assets as Level 3.

6 Gross premiums written and outward reinsurance premiums

Gross premiums written received by the Company in 2017 totalled £313,806k (2016: £300,503k). This all relates to the Company's principal activity which is reinsurance business conducted on a mutual basis from risks located in the United Kingdom.

Under the Company's Retrocession Agreement with HM Government, 50% (2016: 50%) of the value of gross premiums written incepting during the year is payable as outward reinsurance premiums to HM Government. In 2017 this amounted to £156,292k (2016: £150,255k).

In addition, an amount of Further Premium is payable to HM Government in accordance with the Retrocession Agreement. This is calculated as 25% (2016: 25%) of the Surplus reported by the Company. Surplus, for these purposes, is defined and calculated as earned premium, plus investment income, minus 50% share of premium paid to HM Government and commercial reinsurance cost, minus claims incurred, minus operating expense, minus investment expense, minus tax. In 2017 this amounted to £51,649k (2016: £99,447k).

Commercial retrocession has also been purchased, as described further in note 5(a) insurance risk. In 2017 this amount was £36,312k (2016: £35,163k).

7 Net operating expenses

(a) Net operating expenses

	2017 £000	2016 £000
Administrative expenses (including auditor's remuneration)	**12,104**	10,536

(b) Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**78**	72
Fees payable to the Company's auditor for other services:		
Taxation compliance services	**–**	127
Other assurance services	**21**	25
	99	224

The auditor's remuneration figures above are stated excluding VAT.

8 Operating lease rentals

	2017 £000	2016 £000
Operating lease rentals payable for the year:		
Land and buildings	**478**	188
Plant and machinery	**4**	4
	482	192

The Company had the following future minimum lease payments (excluding VAT) under non-cancellable operating leases for each of the following periods:

	2017 £000	2016 £000
Payments due:		
Not later than one year	**410**	520
Later than one year and not later than five years	**1,569**	1,761
Later than five years	**–**	366
	1,979	2,647

The Company entered into a 10 year operating lease for the current office premises with effect from 28 October 2016, with a break clause after the 6th year.

9 Employees and directors

The monthly average number of persons employed on a full time equivalent basis by the Company during the year was 26 (2016: 21).

Employees	2017 £000	2016 £000
Staff costs for these persons were:		
Wages and salaries	**4,864**	4,591
Social security costs	**650**	604
Other pension costs	**226**	81
	5,740	5,276

Directors	2017 £000	2016 £000
The directors' emoluments were as follows:		
Aggregate emoluments	**381**	370
Sums paid to third parties for director services	**83**	87
	464	457

Highest paid director	2017 £000	2016 £000
The highest paid director's emoluments were as follows:		
Aggregate emoluments	**90**	75

9 Employees and directors

Key management compensation
Key management includes the directors and members of senior management. The compensation paid or payable to key management for their services is shown below:

	2017 £000	2016 £000
Salaries and other short-term benefits	**2,655**	2,315
Long-term incentive plans	**836**	1,409
	3,491	3,724

The long-term incentive plan is awarded for the services performed in 2017 which will be paid out in 2019, 2020 and 2021 in three equal instalments. Where an individual leaves employment or a material risk event occurs, payment may be reduced or forfeited.

10 Investment return

	2017 £000	2016 £000
Investment income		
Income from financial assets at fair value through profit and loss	**127,178**	126,683
Net gains/(losses) on the realisation of investments	**267,083**	(231,831)
Net unrealised (losses)/gains on investments	**(262,745)**	469,206
Investment expenses and charges		
Investment management and other charges	**(6,784)**	(6,280)
Interest payable on outwards reinsurance		
Less than one year	**(3,628)**	(3,772)
Greater than one year	**(7,519)**	(4,846)
Interest payable on outwards reinsurance – further premiums		
Less than one year	**(828)**	–
Greater than one year	**(3,607)**	(3,377)
Other interest payable	**(10)**	–
	(22,376)	(18,275)
Total investment return	**109,140**	345,783

11 Tax on profit on ordinary activities

	2017 £000	2016 £000
Tax on profit on ordinary activities comprised:		
United Kingdom Corporation Tax		
Current tax on income for the year at 19.25% (2016: 20.00%)	**(3,794)**	(23,572)
Withholding tax deducted from investment income	**(2,264)**	–
Adjustments in respect of prior years	**(798)**	41
Total current tax	**(6,856)**	(23,531)
Deferred tax – origination and reversal of timing differences at 19.00% (2016: 20.00%)	**(1,795)**	(30,105)
Tax on profit on ordinary activities	**(8,651)**	(53,636)

Factors affecting the tax charge for the year

The tax assessed for the year is different from the standard rate of UK Corporation Tax: 19.25% (2016: 20.00%). The differences are explained below:

	2017 £000	2016 £000
Non-technical account		
Profit on ordinary activities before tax	**163,599**	351,973
Corporation Tax at the standard UK rate of 19.25% (2016: 20.00%) on profit on ordinary activities	**(31,493)**	(70,395)
Adjustments for non-taxable items. Tax at 19.25% (2016: 20.00%) on:		
Technical income	**10,483**	1,238
Dividend income	**1,443**	3,300
Other investment expenses, capital allowances and bank charges	**432**	455
Investment gains on equities	**3,185**	36,184
Investment gains on index-linked government bonds	**9,892**	5,646
Adjustments in respect of prior year	**(798)**	41
Deferred tax	**(1,795)**	(30,105)
Tax on profit on ordinary activities	**(8,651)**	(53,636)

12 Other financial investments

	2017 £000	2016 £000
Other financial investments comprised:		
Financial assets		
Shares and other variable-yield securities and units in unit trusts	**795,216**	784,440
Debt securities and other fixed income securities	**5,155,234**	4,836,289
Loans	**–**	25,073
Deposits with credit institutions	**495,655**	597,957
Derivatives	**44,052**	15,883
	6,490,157	6,259,642
Financial liabilities		
Deposits with credit institutions	**(40,321)**	(243)
Derivatives	**(7,120)**	(73,904)
	(47,441)	(74,147)

All financial investments are accounted for at fair value with the movement in fair value passed through the Profit and Loss Account.

At 31 December 2017 the purchase cost of shares and other variable-yield securities was £627,332k (2016: £634,002k), the purchase cost of debt securities and other fixed income securities was £5,170,782k (2016: £4,484,595k), the purchase cost of loans was £nil (2016: £22,368k), the purchase cost of deposits with credit institutions was £462,872k (2016: £576,671k) and the purchase cost of derivatives was £1,149k (2016: £3,217k).

The tables below show fair values of derivative contracts outstanding at the year end:

	2017 £000 Fair value	2017 £000 Notional	2016 £000 Fair value	2016 £000 Notional
Assets				
Foreign exchange contracts	**40,053**	**3,159,195**	10,750	1,308,730
Futures contracts	**2,737**	**644,032**	1,912	516,551
Option contracts	**322**	**110,837**	241	17,451
Swap contracts	**940**	**72,637**	2,980	70,351
	44,052	**3,986,701**	15,883	1,913,083

	2017 £000 Fair value	2017 £000 Notional	2016 £000 Fair value	2016 £000 Notional
Liabilities				
Foreign exchange contracts	**(2,248)**	**434,738**	(66,623)	3,810,626
Futures contracts	**(3,836)**	**493,013**	(6,778)	338,854
Option contracts	**–**	**2,391**	(37)	19,251
Swap contracts	**(1,036)**	**98,853**	(466)	13,944
	(7,120)	**1,028,995**	(73,904)	4,182,675

The movement through the Profit and Loss Account for derivatives was as follows: foreign exchange contracts produced a gain of £233,547k (2016: loss of £497,704k); futures contracts produced a loss of £3,524k (2016: loss of £22,223k); option contracts produced a loss of £737k (2016: profit of £828k) and swap contracts produced a profit of £47k (2016: profit of £74k).

13 Tangible assets

	Computer and telephone equipment £000	Fixtures and fittings £000	Furniture £000	Total £000
Book cost				
At 1 January 2017	183	696	25	904
Additions	154	1,155	311	1,620
Disposals	(9)	(558)	–	(567)
At 31 December 2017	**328**	**1,293**	**336**	**1,957**
Accumulated depreciation				
At 1 January 2017	180	454	5	639
Charge for the year	47	242	35	325
Disposals	(9)	(558)	–	(567)
At 31 December 2017	**218**	**138**	**40**	**396**
Net book value				
At 31 December 2017	**110**	**1,155**	**296**	**1,561**
At 31 December 2016	3	242	20	265

The charge for depreciation for the year ended 31 December 2016 was £132k.

14 Cash at bank and in hand

	2017 £000	2016 £000
Cash at bank	**8,906**	8,167
Cash in investments	**20,886**	39,664
Cash at bank and in hand	**29,792**	47,831

The average interest rate earned by the Company on cash at bank and in hand was 0.00% (2016: 0.09%).

15 Debtors arising out of reinsurance operations

The Company has debtors arising out of reinsurance operations of £77,349k (2016: £76,648k) at the year end. The debtors balance comprises gross written premiums from Members corresponding to the fourth quarter of the year. The balance has since been received in full.

16 Other debtors

	2017 £000	2016 £000
Other debtors comprised:		
Current taxation	**3,528**	–
Investment debtors	**684**	4,045
Other debtors	**265**	197
	4,477	4,242

17 Provision for unearned premiums

The reconciliation of the opening and closing unearned premiums provision is as follows:

	Gross 2017 £000	Gross 2016 £000	**Reinsurers' share 2017 £000**	Reinsurers' share 2016 £000
At 1 January	**148,774**	147,779	**80,071**	79,273
Increase in provision	**4,729**	995	**2,550**	798
At 31 December	**153,503**	148,774	**82,621**	80,071

18 Creditors arising out of reinsurance operations

The Company has creditors arising out of reinsurance operations falling due within one year which are made up as follows:

	2017 £000	2016 £000
Retrocession payable to HM Government on 31 March 2018 (2016: 31 March 2017)	**203,005**	33,480
Member refunds	**74**	5
	203,079	33,485

Retrocession outstanding at the year end falling due within one year is in respect of 2015 (2016: in respect of 2014) and prior underwriting periods in line with payment terms outlined in the agreement with HM Government.

The Company has creditors arising out of reinsurance operations falling due after more than one year which are made up as follows:

	2017 £000	2016 £000
Retrocession payable to HM Government on 31 March 2019 (2016: 31 March 2018)	**262,658**	167,785
Retrocession payable to HM Government on 31 March 2020 (2016: 31 March 2019)	**211,002**	255,252
	473,660	423,037

Retrocession outstanding at the year end falling due after more than one year is in respect of 2016 and 2017 (2016: in respect of 2015 and 2016) in line with payment terms outlined in the agreement with HM Government.

19 Other creditors including tax and social security

	2017 £000	2016 £000
Other creditors comprised:		
Investment creditors	**119**	9,508
Current taxation	**–**	2,658
Other creditors	**2,723**	2,377
	2,842	14,543

20 Provisions

	2017 £000	2016 £000
Provisions for deferred tax:		
At 1 January	**30,105**	–
Utilised in the year	**–**	–
Profit and Loss Account charge	**1,795**	30,105
At 31 December	**31,900**	30,105

There are no unused tax losses or unused tax credits.

21 Reconciliation of operating profit to net cash inflow from operating activities

	2017 £000	2016 £000
Profit for the financial year transferred to Profit and Loss Account reserves	**154,948**	298,337
Adjustments:		
Tax on profit on ordinary activities	**8,651**	53,636
Net unrealised losses/(gains) on investments	**262,745**	(469,206)
Net realised (gains)/losses on investments	**(267,083)**	231,831
Income from financial assets at fair value through profit and loss	**(127,178)**	(126,683)
Depreciation	**325**	132
Interest expense	**15,592**	11,995
Increase in reinsurers' share of technical provisions	**(2,550)**	(798)
Decrease in debtors excluding tax receivable	**2,592**	908
Decrease/(increase) in other prepayments	**23**	(227)
Increase/(decrease) in technical provisions	**4,734**	(2,560)
Increase in creditors, accruals and deferred income excluding interest and tax payable	**168,699**	226,641
Net cash inflow from operating activities	**221,498**	224,006

22 Movements in the Profit and Loss Account

	2017 £000	2016 £000
Profit and Loss Account at 1 January	**5,745,912**	5,481,086
Profit for the financial year	**154,948**	298,337
Dividend paid	**(99,447)**	(33,511)
Profit and Loss Account at 31 December	**5,801,413**	5,745,912

23 Distribution to Members

At an Extraordinary General Meeting held on 21 November 2014, amendments to the Retrocession Agreement between Pool Re and HM Government were approved by Members. The new terms, which took effect from 1 January 2015, include the provision for the Company to pay a dividend to Members in the event that it has earned a profit in the year, equal to 25% of the profit after tax, before Further Premium payable to HM Government.

The Board declared such a dividend on 16 June 2017 in respect of its 2016 results. The amount of the dividend paid was £99,447k.

24 Floating charge over the Company's assets

On 7 September 1993 and on 2 February 2017 the Company executed debenture deeds granting HM Government floating charges over the Company's assets. The deeds and associated charges relate respectively to the Retrocession Agreements applicable up to and including 31 December 2014 and from 1 January 2015. The terms of the charges restrict the Company from creating further charges without the consent of HM Government. The floating charges crystallise and take effect as a fixed charge in the event, inter alia, of default by the Company in meeting certain of its obligations to HM Government under the relevant Retrocession Agreement and upon termination of that Agreement.

25 Related party transactions

In 2017 the Company purchased commercial retrocession in the ordinary course of business through Guy Carpenter & Company Limited totalling £36,312k (2016: £35,163k). There was no outstanding balance at 31 December 2017. Peter Box, a Director of the Company, is a Director of Marsh Limited. Both Guy Carpenter & Company Limited and Marsh Limited are members of the Marsh & McLennan Companies, Inc. group.

In 2017 the Company purchased investment advice in the ordinary course of business from Mercer Limited totalling £73k (2016: £88k). At 31 December 2017 there was an outstanding balance of £6k. Peter Box, a Director of the Company, is a Director of Marsh Limited. Both Mercer Limited and Marsh Limited are members of the Marsh & McLennan Companies, Inc. group.

In 2017 the Company purchased risk management and cyber security advice in the ordinary course of business through S-RM Intelligence & Risk Consulting Limited totalling £64k (2016: £nil). At 31 December 2017 there was an outstanding balance of £36k. Edward Butler, Head of Risk Analysis at the Company, is an Advisor and shareholder of S-RM Intelligence & Risk Consulting Limited.

In 2017 the Company offered a restricted, charitable sponsorship to The Airey Neave Trust totalling £5k (2016: £nil). At 31 December 2017 there was an outstanding balance of £5k. Edward Butler, Head of Risk Analysis at the Company, is a Trustee at The Airey Neave Trust.

In 2017 the Company purchased legal services in the ordinary course of business from Hogan Lovells International LLP totalling £61k (2016: £93k). There was no outstanding balance at 31 December 2017. Christian Wells, General Counsel and Company Secretary of the Company, is a Consultant at Hogan Lovells International LLP.

In 2017 the Company paid director fees in the ordinary course of business to RSA Insurance Group plc totalling £42k (2016: £35k). At 31 December 2017 there was an outstanding balance of £10k. Stephen Lewis, a Director of the Company, is Chief Executive, UK & International at RSA Insurance Group plc. RSA Insurance Group plc is a member of the Pool Reinsurance scheme.

25 Related party transactions

In 2017 the Company paid director fees in the ordinary course of business to Hiscox Insurance Company Limited totalling £42k (2016: £35k). At 31 December 2017 there was an outstanding balance of £10k. Bronislaw Masojada, a Director of the Company, is a Director at Hiscox Insurance Company Limited. Hiscox Insurance Company Limited is a member of the Pool Reinsurance scheme.

All Members of the Company are offered identical terms for all transactions with the Company.

Key management compensation is disclosed in total in note 9.

26 Subsequent events

At the date of the approval of the financial statements there are no known subsequent events.

Members' Profile
at 31 December 2017

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Jurisdiction				
Bermuda	1	0.6%	3	0.1%
France	4	2.5%	2	0.1%
Germany	2	1.3%	4	0.1%
Gibraltar	2	1.3%	0	0.0%
Guernsey	22	14.0%	29	0.9%
Iceland	1	0.6%	0	0.0%
Isle of Man	10	6.4%	41	1.3%
Italy	1	0.6%	1	0.0%
Liechtenstein	1	0.6%	1	0.0%
Ireland	8	5.1%	7	0.2%
Spain	1	0.6%	3	0.1%
United Kingdom	67	42.7%	2,907	93.0%
United States of America	4	2.5%	9	0.3%
	124	79.0%	3,007	96.2%
Active Underwriters of Lloyd's Syndicates	33	21.0%	120	3.8%
	157	100.0%	3,127	100.0%
Analysis by Number of Votes				
0	41	26.1%	0	0.0%
1–25	98	62.5%	366	11.7%
26–50	5	3.2%	196	6.3%
51–100	5	3.2%	320	10.2%
101–150	3	1.9%	398	12.7%
151–200	0	0.0%	0	0.0%
201–250	2	1.3%	437	14.0%
251–300	0	0.0%	0	0.0%
301–350	0	0.0%	0	0.0%
351–400	1	0.6%	353	11.3%
401–450	1	0.6%	434	13.9%
451–500	0	0.0%	0	0.0%
501–550	0	0.0%	0	0.0%
551–600	0	0.0%	0	0.0%
601–650	1	0.6%	623	19.9%
	157	100.0%	3,127	100.0%

Note

Under Article 33 of the Articles of Association, any Member who becomes a Member shall have one vote until the end of the calendar year in which they became a Member. Thereafter, under the provisions of Article 31, a Member has one vote for each £100,000 of premium or part thereof for reinsurance placed with the Company in the calendar year prior to the poll. Under Article 32, if data for the prior calendar year is not available when the votes are to be cast, data from the previous prior calendar year may be used.

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