REINSURING TERRORISM RISK

Annual Report 2018

Pool Reinsurance Company Limited Annual Report 2018

Reinsuring property damage and business interruption against terrorism in Great Britain

Advantages of Membership

WIDE COVER

Terrorism damage caused by chemical, biological, radiological or nuclear means is included as standard. We also cover acts of terrorism where damage is caused using a cyber trigger, and latterly the scheme has been widened to include non-damage business interruption.

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 £2.3bn 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 2018 we 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 research and analysis team monitors and analyses the contemporary threat landscape. Regular reports and thought leadership are provided to Members and other key stakeholders. This research feeds into our actuarial and modelling activities where we are building tools and techniques to help the market quantify terrorism risk.

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.

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Chairman's Statement

Dear Members, I am pleased to present the 2018 financial results for Pool Reinsurance Company Limited (Pool Re or the Company).

I should begin by confirming that 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 expectations set out in that Act.

2018 was one of the toughest years on record for global investment markets, with geopolitical turbulence in particular driving uncertainty and poor returns across the vast majority of asset classes.

I am pleased that I can report that despite these challenging conditions, the value of the investment fund (financial investments, accrued income and investment cash) has remained stable, dipping only slightly from £6,494.1m at December 2017 to £6,488.9m at 31 December 2018. This was in the context of premiums from member insurers falling only very marginally short of the 2017 figure, and our own prudent investment strategy emphasizing a well-diversified portfolio.

It is gratifying to be able to disclose the relative stability of the fund, since it is the cornerstone of the extent to which Pool Re can meet reinsurance claims without recourse to the UK taxpayer, a founding objective of the Company. Pool Re has operated at no cost to the public since its establishment in 1993; moreover, it continues to build its net contribution to government revenues, with a further £203m paid to HM Treasury (HMT) in March 2018. This figure was calculated according to the Retrocession Agreement of 2015, which also makes provision for Pool Re to distribute dividends to its Members. In June 2018, £51.6m was paid in respect of 2017 performance.

I am also encouraged by the growing success of another of Pool Re's founding objectives, namely its ongoing efforts to reintegrate terrorism risk into the commercial industry 26 years after the private market's withdrawal of cover. Annual aggregate retentions for Members sat at £400m in 2018, while the Company's commercial retrocession programme, the largest of its kind in the world, increased from £2,000m to £2,100m to incorporate the introduction in 2018 of cover for damage caused by terrorists using remote digital interference. Work last year also laid the foundation for the announcement in early 2019 that Pool Re has broken new ground in capital markets by introducing the world's first Insurance Linked Security (ILS) contract to cover terrorism risk, further insulating the UK taxpayer from any liability in the event of a major claim.

Whilst the risk of terrorism remains severe, it is notable that no acts of terrorism were certified by the government in 2018. It is of course no time for complacency, however, and Pool Re has continued in 2018 to innovate in line with its reputation as the world's leading terrorism reinsurance pool. Working closely with our Members and with HMT, we have continued throughout the year to pioneer the understanding, mitigation and transfer of terrorism risk.

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Testament to this work was the historic Parliamentary amendment in early 2019 to Pool Re's founding legislation, allowing us to cover Non Damage Business Interruption (NDBI) for the first time. This further refinement of our Scheme marks another crucial development in UK financial resilience to the evolving patterns and methodologies of terrorism. I would like to thank our Board, the Company's staff and our Members for their individual and collective contributions to yet another outstanding year.

I look forward to renewing old acquaintances and making new ones whilst meeting Members' representatives at the Company's AGM, in respect of which full details and joining instructions are included with this report.

Geoff Riddell
Chairman
14 March 2019

Chief Executive's Statement

In a year of significant uncertainty across the global (re)insurance, geopolitical, and investment market landscapes, Pool Re has delivered notable strategic developments and innovation across each of its core areas of operation. A 25th anniversary in and of itself confers no particular merit; but we have matched this milestone with a truly watershed year.

Two historic developments in the Company and indeed the industry's relationship with terrorism risk came to fruition early in 2019, which testified to the ground-breaking work undertaken throughout 2018 by Pool Re in collaboration with both its public and private sector partners.

The first was the legislative changes ratified in February allowing Pool Re to cover business interruption losses arising from a terror attack but not contingent on damage to property. Welcoming the announcement, Economic Secretary to the Treasury, John Glen, commented that "We will not allow terrorists to change our way of life". This statement strikes right to the heart of what this amendment means for UK businesses, who can now access affordable, comprehensive financial protection against the well-documented shift in recent years towards unsophisticated attacks which prioritise casualties. As demonstrated by the tragic events in Manchester and London Bridge in 2017, these attacks can as a secondary effect cause crippling business interruption losses to large and small enterprises in the vicinity.

Non Damage Business Interruption (NDBI) protection followed on from the successful introduction of landmark cover for damage caused by terrorists using a cyber trigger with effect from March 2018. UK businesses now have access to amongst the most comprehensive insurance solutions to counter the threat of terrorism anywhere in the world.

However, with the British Insurance Brokers Association (BIBA) estimating that fewer than 3% of SMEs presently take up any terrorism cover, the focus for Pool Re and the challenge to our Members for the next 12 months is to ensure that as many businesses as possible understand the potential threat, and are offered or take up the improved protection. This challenge is especially urgent in the context of the UK threat level persisting at SEVERE, and statistics from Pool Re's Terrorism Database showing that around two-thirds of terrorist attacks in Western Europe since 2014 would not have triggered insurance policies which only covered property damage.

UK businesses now have access to amongst the most comprehensive insurance solutions to counter the threat of terrorism anywhere in the world.

The second significant development announced in early 2019 was Pool Re making use of the UK's new regulatory framework for Insurance Linked Securities (ILS) to issue the world's first catastrophe bond to cover terrorism risk exclusively. Issued through a special-purpose vehicle, Baltic PCC Ltd, the bond provides £75 million of retrocession protection attaching above the first £0.5bn of the investment fund. In so doing, we are building on the success of the commercial retrocession programme begun in 2015, now the world's largest terrorism risk placement, and our other efforts to repatriate terrorism risk in the private market. In 2018 these efforts also included increasing Member retentions to £400 million (in aggregate), and, very encouragingly, ceasing to reinsure Members for contingency cover, repatriating that risk to the commercial market due to their own sufficient capacity.

Chief Executive's Statement

Strategic Themes
These announcements in early 2019, built on the evolution across each of Pool Re's six core strategic areas in 2018, consistent with its long-term modernisation strategy:

1 The Model
- Increased Member Retentions to £400m in annual aggregate and £250m per single event
- Increased commercial retrocession programme by £100m to £2,100m

2 The Proposition
- Undertook preparations to introduce NDBI coverage from early 2019. This will allow Pool Re Members to opt into providing Pool Re-backed NDBI coverage, or to write such cover independently. If they elect to join the Pool Re NDBI solution, Members will be able to offer NDBI cover to the extent such cover is provided on their underlying BI policy. Pool Re's reinsurance cover consists of Non-Damage Denial of Access cover, and Non-Damage Loss of Attraction cover
- Successfully implemented cyber cover for property damage
- Normalised contingency class
- Successfully amended pricing structure to reflect how modern SME products are priced and sold

3 Expertise
Pool Re's Terrorism Research and Analysis Centre (TRAC) is designed to empower our Members with an understanding of the threat landscape as it relates to the market and domestic affairs. In 2018, we increased the quantity and quality of the risk information we provide to Members and their policyholders by launching a quarterly Terrorism Frequency Report. Combined with the annual Threat and Mitigation Report, we aim to enable the industry to make more informed decisions and ultimately, assume and capitalise upon a risk that is no longer the unknown quantity it was even five years ago.

TRAC also continued work on designing and developing a data aggregation system which will improve the efficiency and effectiveness of the collection and collation of terrorism data, launching the Pool Re Terrorism Database towards the end of 2018.

Complementing the quantitative element of TRAC's data analysis, Pool Re has invested significantly in 2018 in our in-house actuarial capacity, in particular severity modelling. Our collaborative work with academic partners on Computational Fluid Dynamics was a crucial factor in the success of the ground-breaking ILS placement, and Pool Re will continue in 2019 to develop and share with its Members cutting edge capability that will significantly improve model dexterity and accuracy for multiple CBRN perils.

4 Risk Management
In June 2018, the Government launched a refresh of CONTEST, its strategy for countering terrorism. Encompassed within CONTEST is PROTECT, which focusses on reducing vulnerability; we were pleased to find Pool Re featured in the strategy as a Case Study of an "excellent example of a public-private partnership", in light of our work on developing the Loss Mitigation Credit in 2017.

Building on the success of the Loss Mitigation Credit, we launched the Pool Re Vulnerability Self-Assessment Tool (VSAT) in April 2018, which allows medium sized and large businesses to benchmark their existing terrorism risk management standards and align with accredited best practice, in exchange for premium discounts. The tool has been very well-received, with over 150 assessments undertaken by the end of the year.

However, the VSAT has made clear both the awareness gap amongst small businesses and the knowledge gap within much of the insurance market around terrorism risk management. Accordingly, in collaboration with its academic partners, Pool Re piloted a terrorism risk management training course, amongst the first of its kind, which was enthusiastically received by Members and which will be rolled out in 2019.

5 Stakeholder Engagement
Pool Re was delighted by the attendance of nearly 300 guests at its annual Market Event in November, during which details of the incoming NDBI proposition were presented, and TRAC's annual Terrorism Threat and Mitigation Report was released in digital format for the first time. We were pleased to be able to assemble a distinguished selection of speakers and panellists to discuss the latest developments in the security and political landscapes; these included ACSO Neil Basu QPM, Cabinet Minister Amber Rudd, and counter-terrorism professionals from the Royal United Services Institute (RUSI) and Cranfield University as well as Conrad Prince, our senior cyber terrorism advisor.

6 International Collaboration
Driving closer collaboration between international terrorism reinsurance pools remains a key priority for Pool Re since we established the International Forum of Terrorism Risk

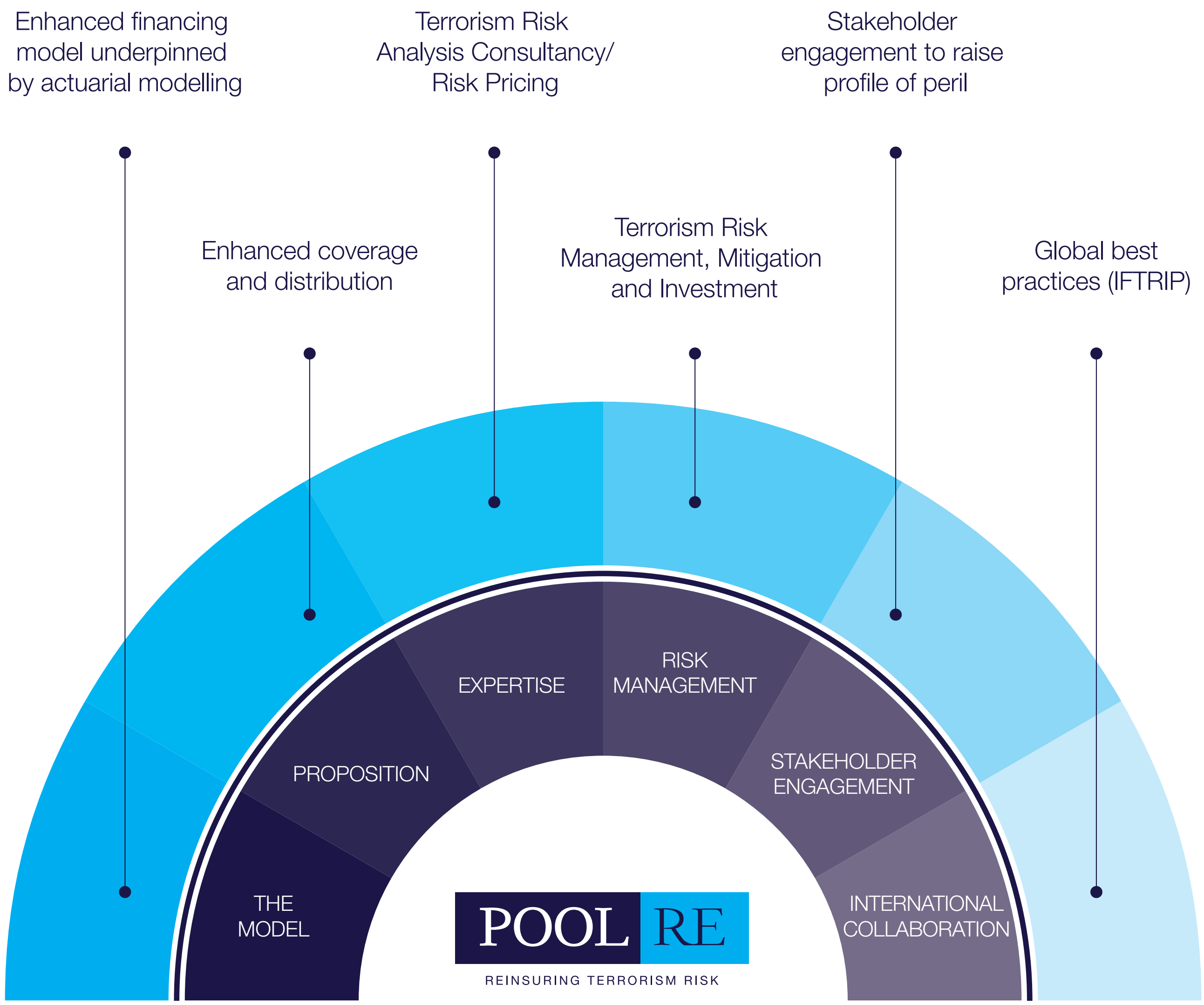
Chief Executive's Statement

(Re)Insurance Pools (IFTRIP) in 2017. The community is going from strength to strength, with last year's annual conference, hosted in Moscow, attracting over 200 delegates including over a dozen pools. This success has led to a further conference being planned for October 2019 in Brussels.

In Closing…
These and other developments in the last year across the core operational areas outlined above go some way to understanding why John Glen chose 2018 to express gratitude for the "open and constructive relationship" enjoyed by HM Treasury and Pool Re and to describe our Company as a "world-leading terrorism reinsurance pool".

As outlined by the refreshed CONTEST Report, Pool Re is now a stronger bridge than ever between the public and private spheres, a bond we intend to strengthen further in the years ahead. Above all, we remain committed to improving our understanding and transfer of terrorism risk, and I would like to take this opportunity to thank the Pool Re staff and our full family of Members and Stakeholders for their hard work and counsel during 2018.

Julian Enoizi
Chief Executive
14 March 2019



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 2018.

Board of Directors

Role of the Board

The Board is responsible for providing 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. It is also responsible for 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.

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, operational performance, investment management, commercial and customer engagement, marketing and communications 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 19.

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	B J Merry*
A J Brown	A G Skirton
D N Jagger	M E Tulloch

*Appointed on 11 February 2019

The appointment of all new Directors is a matter for consideration by the Board. The Articles of Association allow H M 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 H M 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 comprises 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 continues 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.

Ms Merry was appointed to the Board on 11 February 2019. Ms Merry's appointment is part of the Board's succession planning. She will, subject to regulatory approval, replace Mr Box as the Chair of the Risk and Audit Committee when Mr Box retires following the 2019 AGM.

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 H M Government, a number nearest to one third of the other Directors must retire by rotation at each Annual General Meeting. Mr Brown, having served continuously as a Director for more than nine years, will retire and seek re-election. Therefore, at the forthcoming Annual General Meeting:

- Ms Merry will seek confirmation;
- Mr Brown, who will retire, will seek re-election;
- Ms Jagger, who will retire by rotation, will seek re-election;
- Mr Skirton, who will retire by rotation, will seek re-election; and
- Mr Box will retire.

Board Committees

There are three standing Committees, namely the Investment Committee, the Remuneration, Nominations and Conflicts Committee and 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 monitored that these guidelines were adhered to.
- ***Investment Strategy*** – The Committee reviewed and recommended to the Board an updated Investment Strategy.
- ***Asset Allocation*** – The Committee kept the Company's Asset Allocations under review.
- ***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 **Risk and Audit Committee** is chaired by Peter Box and comprises four Directors. The Committee met twice during 2018. A summary of the principal activities of the Committee during the year is provided below:

- ***Effectiveness of Enterprise Risk Management*** – The Committee monitored the effectiveness of enterprise risk management in the Company, including that of the risk function and reviewed and approved the resources of the risk function to satisfy itself that the risk function had adequate resources and independence to discharge its responsibilities.
- ***Enterprise Risk Management Framework*** – The Committee reviewed and recommended to the Board for approval the Company's risk management framework, risk appetites, operating policies and other relevant documents relating to the Company's approach to enterprise risk management.
- ***Risk Register*** – The Committee reviewed at each meeting the Company's risk register, including monitoring developing and emerging risks and the operation of key controls.

- ***Business Plan alignment*** – The Committee advised the Board as to whether the Company's strategy and annual business plan are aligned with the Risk Framework.
- ***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 and Internal Audit*** – The Committee monitored the system of internal controls and the effectiveness of the Company's internal audit function throughout the year assessing the resource and skills available. Internal audit reports are reviewed by the Committee and the outsourced internal auditors report to the Committee in person on an annual basis.
- ***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.
- ***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.

The **Remuneration, Nominations and Conflicts Committee** is chaired by Denise Jagger and comprises six Directors. The Committee held four meetings during the year. In addition, a sub-group of the Committee was appointed and met twice during the year to undertake interviews of candidates for the Non-Executive Director role, to which Ms Merry was appointed. A summary of the Committee's principal activities is as follows:

- ***Remuneration*** – The Committee received external advice on remuneration levels and best practice relating to the operation of bonus and long term incentive plans and incorporated relevant elements.
- ***Nominations*** – The Committee has applied its updated policy on Board composition and succession to the recruitment of a new director intended to become the Chairman of the Risk and Audit Committee, the detailed consideration of candidates being undertaken by a sub-committee.
- ***Conflicts*** – The Committee has considered four potential conflicts of three Directors and in three cases authorised them and in the other it declined to do so. The Committee ensured that its 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 2018.

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

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.

In 2018, the Board and Committees evaluation focused on progress made in the areas identified in the 2017 independent evaluation exercise. Overall, these reviews concluded that the Board and its Committees continued to operate 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 2018 the Company paid a dividend to Members of £51.6m (2017: £99.4m) 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.

We continue to look at ways to develop our approach to Corporate Social Responsibility and Sustainability. With this in mind, we have created an internal working group, the role of which is to consider new schemes and initiatives designed to support environmental sustainability and positive societal contribution within our community and further afield.

Donations

In the year under review the Company made no donations for political purposes. The Company established a Donations Committee to consider and determine its charitable donations, subject to an annual limit of £50,000. The substantial donations made during 2018 (with any 2017 donations in brackets) were as follows: Age UK £22,000 (2017: £20,000); St Ethelburga's Centre for Reconciliation and Peace £10,000; The St Giles Trust £7,500; and the Insurance Industry Charitable foundation £7,000.

Values and Culture

Following a staff led review of its core values, a programme of initiatives has been introduced to ensure that these are more fully embedded throughout the organisation.

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 adopted a whistleblowing policy, which is disseminated throughout the Company, and is satisfied 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 auditors are 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 auditors were aware of that information.

Statement of Going Concern

The Board is satisfied after taking account of the Retrocession Agreement with H M 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. 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 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.

Independent Auditors
The Board's policy on the provision of non-audit services to the Company by the auditors 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. During the year they performed no such work.

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

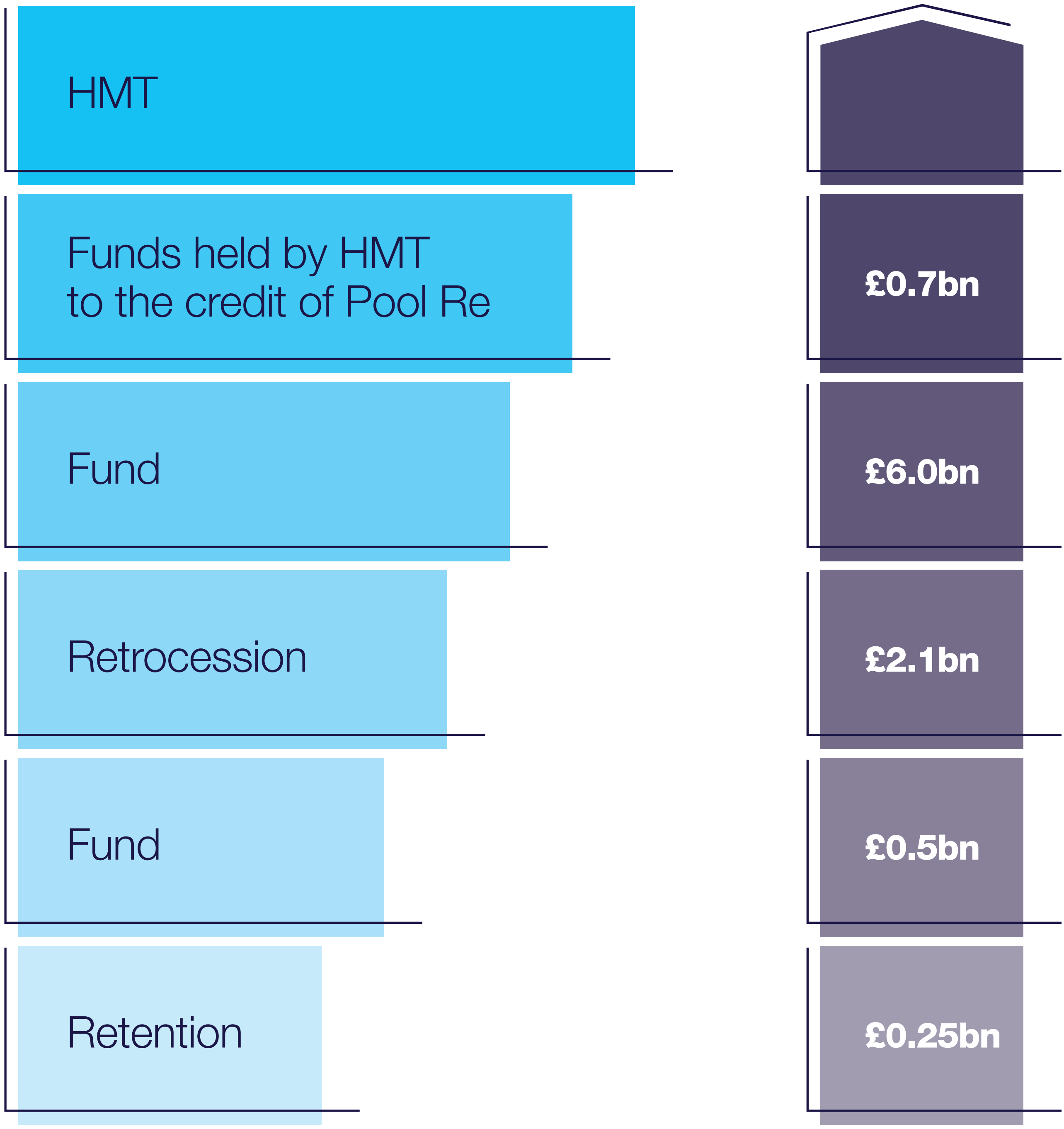
By Order of the Board
Rhodri Cruwys
General Counsel and Company Secretary
14 March 2019

Our Values

In late 2017 we set up a staff working group to articulate our Core Values. In 2018 we have undertaken a programme of initiatives to ensure that these values are meaningful, relevant and fully embedded throughout the organisation.

This has included internal workshops, artwork, an employee recognition and rewards programme, as well as inclusion of the values in our recruitment and appraisal processes.

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 2018 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 £2.1bn 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.

The Directors of Pool Reinsurance Company Limited (registered number 2798901) present their strategic report for the year ended 31 December 2018.

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. The unpredictability of terrorist events means that the Company is not in a position to make statements regarding likely future developments but 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 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. On 12 February 2019 Royal Assent was given to the Counter-Terrorism and Border Security Bill 2018 which will allow Pool Re also to cover business interruption losses resulting from Acts of Terrorism incurred in instances where there is no physical damage to property.

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 remained stable at £312.1m (2017: £313.8m).

The balance on the general business technical account was £89.6m, an increase of £35.1m from the 2017 result. The outward reinsurance premium payable to HM Government in respect of 2018 fell from £207.9m to £171.9m. There are two elements to this; £156.0m being 50% of Pool Re's gross written premiums and a further premium amount of £15.9m payable to HM Government calculated in accordance with the Retrocession Agreement. The remaining £37.7m of outward reinsurance premium reported in 2018 is in respect of commercial reinsurance protection.

The terms of the Retrocession Agreement between Pool Re and Her Majesty's Treasury include provision for Pool Re to pay an annual distribution to Members. The Board declared such a dividend on 14 June 2018 in respect of its 2017 results. The amount of the dividend paid was £51.6m.

No new claims were recorded in 2018 and there are no claims outstanding at 31 December 2018.

Investment income including net realised and unrealised gains and losses resulted in an investment loss of £43.4m in 2018. This compares to investment income of £131.5m reported in 2017.

The amount allowed for taxation in 2018 was a credit of £25.9m, relating to United Kingdom Corporation Tax on investment income receivable and realised and unrealised profits, less interest payable and investment expenses. There is no taxation charged on the underwriting result as the business is conducted on a mutual basis.

The Company made a profit after taxation of £47.7m for the year ended 31 December 2018. After accounting for the dividend paid to Members in 2018, the accumulated balance on the Profit and Loss Account of £5,797.4m at 31 December 2018 was little changed from the 31 December 2017 balance of £5,801.4m.

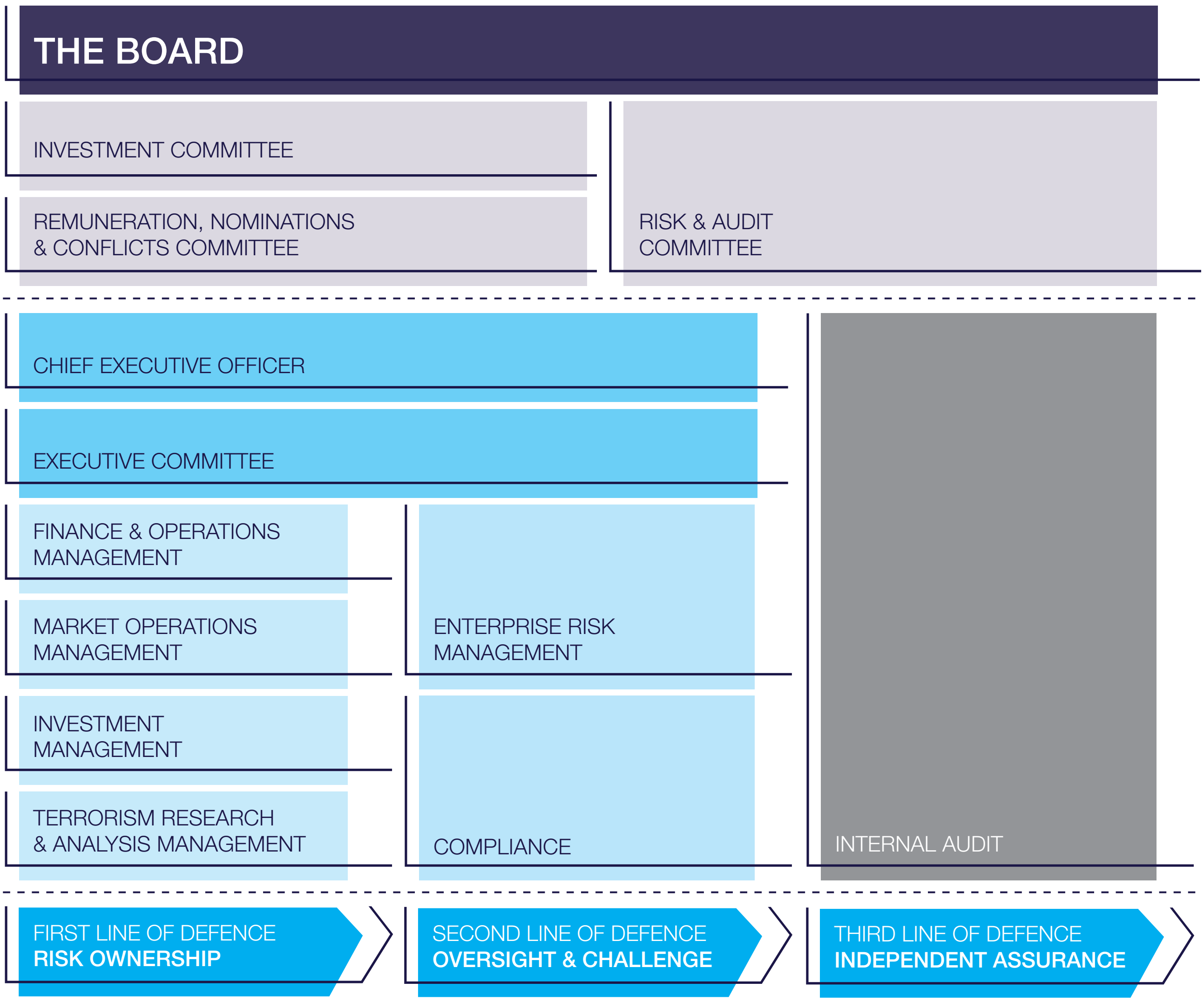
The investment fund (financial investments, accrued income and investment cash) reflected a similar movement, falling slightly from £6,494.1m at December 2017 to a value at 31 December 2018 of £6,488.9m.

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 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
The risk 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 the framework is to support the development of the Company's strategies and objectives, whilst at the same time avoiding unwelcome surprises by reducing uncertainty and volatility through the identification and management of risks.

The framework aims to optimise risk by taking a balanced approach to risk and reward. It also embeds Enterprise Risk Management throughout the activities of the Company, ensuring that risk ownership is allocated to appropriate senior management. This approach ensures 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. Reports on such reviews, including recommendations and management responses, are considered by the Risk and Audit Committee and Board.

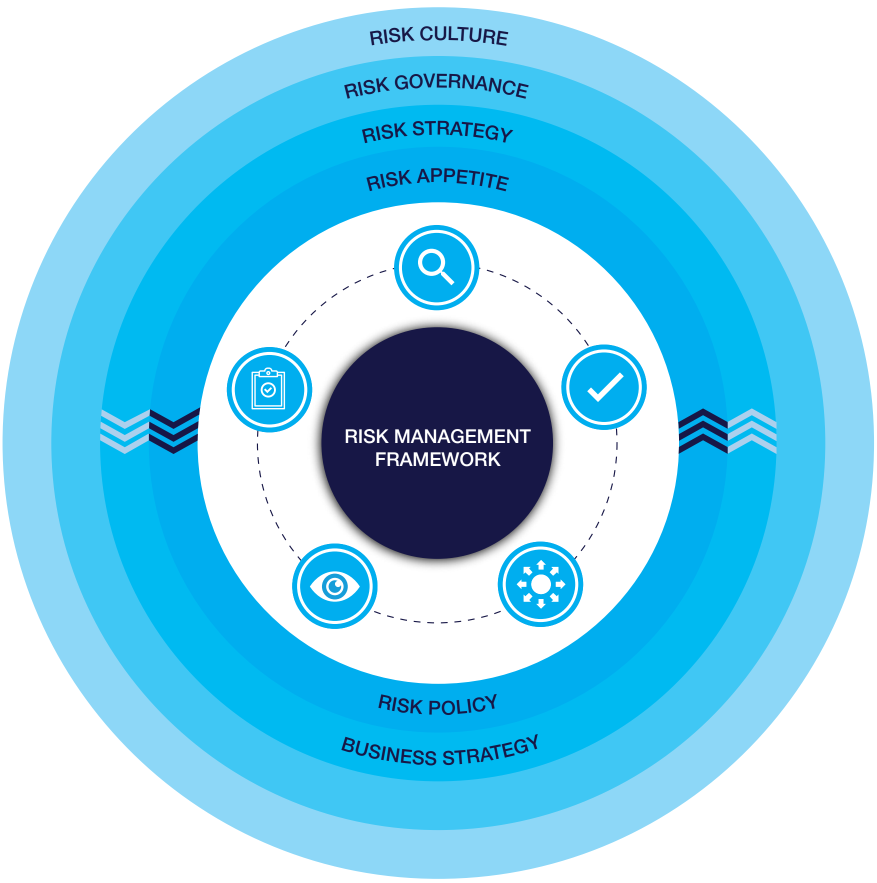
Identify Risk – The Company reviews both its environment and its internal operations on a bi-annual basis to identify areas where risks can occur.

Assess Risk – The Company then assesses each risk by likelihood and significance before deciding how to manage the risk.

Manage Risk – The Company manages risks by either reducing likelihood or impact through the use of controls and other appropriate mitigation strategies.

Monitor Risk – The Company monitors risks in terms of changes to the control environment affecting either likelihood or impact.

Report Risk – The Company reports at Management and Executive meetings, as well as to the Risk and Audit Committee.



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
Strategic Risk The Company is exposed to strategic risk through its business model and external environmental changes.	The Company's approach to the management of strategic risk is considered in the context of the agreed initiatives of the long-term strategy of the Company. Exposure is managed by continual review of the business model in conjunction with the commitment to develop plans and contingencies that reflect changes in the external environment whether political, economic, social, technological, legal or environmental.
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.

Principal risk	Mitigating factors
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.
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 risk management and control framework reviewing the effectiveness of 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.

The Company keeps under review the impact of various possible outcomes on each of the risk categories above, both in respect of its reinsurance operations and investment strategy. In addition, consistent with the Financial Reporting Council guidance published in October 2018, the Company has considered the broad uncertainties that may attach to Brexit.

By Order of the Board
Rhodri Cruwys
General Counsel and Company Secretary
14 March 2019

The Board

Details of the Directors of the Company who served during the year and up to the date of signing of the Financial Statements 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 and Chair of the Risk and Audit Committee. Former audit and business advisory partner at PricewaterhouseCoopers. 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. Between 2009 and 2018, Mr Box was a Director of Marsh Limited where he also served as Chairman of the Audit Committee and member of the Remuneration Committee.

Alan J Brown FSIP ✱♦
A Director since July 2008 and Chair of the Investment Committee. 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. Non-executive Director and Chairman of the management committee of Artemis Investment Management LLP.

Denise N Jagger ♦
Solicitor
A Director since January 2014 and Chair of the Remuneration, Nominations and Conflicts Committee. A corporate finance lawyer and Client Development Partner at Eversheds Sutherland LLP since 2004. Formerly Company Secretary and General Counsel of Asda Group plc. Senior Independent Director and Chair 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. Between January 2015 and February 2019, Mr Lewis was 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.

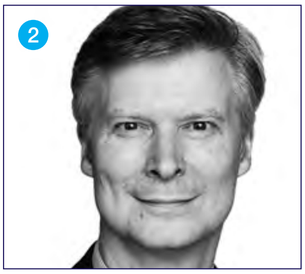
Barbara J Merry ✱✤
Chartered Accountant
Ms Merry was appointed to the Board on 11 February 2019. Formerly a general manager in the Corporation of Lloyd's, then managing director of Omega Underwriting and CEO of Hardy Underwriting Group from 2002 to 2014. Now a Non-Executive Director with Domestic & General, Ed Broking LLP and Argus Group and also chair of start-up Lloyd's broker Parker, Norfolk and Partners.

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 plc. Previously Chief Executive Officer of Aviva International, 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. 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 Nominations and Conflicts Committee

Executive Management



Chief Executive
Julian A P Enoizi 1

Chief Finance and Operations Officer
Peter N Aves FCA 2

General Counsel and Company Secretary
Christian Wells, Solicitor
(retired as Company Secretary on 2 July 2018 and as General Counsel on 18 January 2019)

Rhodri Cruwys 3
(Company Secretary from 2 July 2018 and General Counsel from 18 January 2019)

Chief Underwriting Officer
Stephen M Coates ACII 4

Chief Investment Officer
Ian M Coulman MCSI 5

Chief Resilience Officer
Edward A Butler CBE 6

Chief Strategy and Communications Officer
Tracey A Paul 7

Corporate Information

Registered in England, United Kingdom

Registration number 2798901

Registered office
Hanover House
14 Hanover Square
London W1S 1HP
United Kingdom

Principal office
Equitable House
47 King William Street
London EC4R 9AF
United Kingdom

Telephone number +44 (0)20 7337 7170

E-mail enquiries@poolre.co.uk

Website www.poolre.co.uk

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 of Pool Reinsurance Company Limited ('the company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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 which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flows; 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 derivatives.
Materiality	The materiality that we used in the current year was £116 million which represents approximately 2% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There has been no significant changes in our audit approach.

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.

During the course of our audit we identified one key audit matter. This matter was 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 this matter.

Valuation and existence of financial investments and derivatives

Refer to page 29 (significant accounting policies) and page 46 (financial disclosures)

Key audit matter description	As at 31 December 2018 the financial investment and derivative balances stood at approximately £6.5 billion, equating to 97% 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. 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 derivatives 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 derivatives as a key audit matter.
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of relevant 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 the investment manager and custodian's investment holding and pricing data, where any differences outside of a risk based threshold are investigated by the company. We have performed valuation testing on 99.6% of financial investments through obtaining price data from reputable third party sources. We have tested the valuation of derivative financial instruments through engaging our in-house financial instrument specialist team to price independently a sample of instruments. We have also considered the impact of Brexit on the valuation of the company's financial investments and derivatives. 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 2018 and reconciling these to the general ledger.
Key observations	We completed our procedures over the valuation and existence of financial investments and derivatives 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	£116 million (2017: £115 million).
Basis for determining materiality	Below 2% (2017: Below 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 Audit Committee that we would report to the Committee all audit differences in excess of £5.80 million (2017: £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 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.

The accounting function for the Company has been outsourced to 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.

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.

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.

Colin Rawlings FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
14 March 2019

Profit and Loss Account
for the 12 months to 31 December 2018

Technical account – General business

	Notes	2018 £000	2017 £000
Gross premiums written	6	**312,110**	313,806
Outward reinsurance premiums	6	**(209,623)**	(244,253)
Net premiums written		**102,487**	69,553
Change in the gross provision for unearned premiums	17	**(317)**	(4,729)
Change in the provision for unearned premiums, reinsurers' share	17	**387**	2,550
Earned premiums, net of reinsurance		**102,557**	67,374
Claims paid – gross amount		**–**	(806)
Change in provision for claims – gross amount		**5**	(5)
Claims incurred, net of reinsurance		**5**	(811)
Net operating expenses	7	**(12,996)**	(12,104)
Balance on the general business technical account		**89,566**	54,459

Non-technical account

	Notes	2018 £000	2017 £000
Balance on the general business technical account		**89,566**	54,459
Income from financial assets at fair value through profit and loss	10	**137,539**	127,178
Net (losses)/gains on the realisation of investments	10	**(199,314)**	267,083
Net unrealised gains/(losses) on investments	10	**18,408**	(262,745)
Investment income		**(43,367)**	131,516
Investment expenses and charges	10	**(24,456)**	(22,376)
Investment return		**(67,823)**	109,140
Profit on ordinary activities before tax		**21,743**	163,599
Tax credit/(charge) on profit on ordinary activities	11	**25,919**	(8,651)
Profit for the financial year after tax		**47,662**	154,948
Profit for the financial year transferred to Profit and Loss Account reserves		**47,662**	154,948

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 29 to 50 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Assets					
Investments					
Other financial investments	12		**6,549,048**		6,490,157
Reinsurers' share of technical provisions					
Provision for unearned premiums	17		**83,008**		82,621
Debtors					
Debtors arising out of reinsurance operations	15	**77,636**		77,349	
Other debtors	16	**9,824**		4,477	
			87,460		81,826
Other assets					
Tangible assets	13	**1,220**		1,561	
Cash at bank and in hand	14	**29,981**		29,792	
			31,201		31,353
Prepayments and accrued income					
Accrued interest		**32,467**		30,476	
Other prepayments		**901**		579	
			33,368		31,055
Total assets			**6,784,085**		6,717,012
Liabilities					
Capital and reserves					
Profit and Loss Account	22		**5,797,426**		5,801,413
Financial liabilities					
Other financial investments	12		**122,009**		47,441
Technical provisions					
Provision for unearned premiums	17	**153,820**		153,503	
Claims outstanding		**–**		5	
			153,820		153,508
Creditors: amounts falling due within one year					
Creditors arising out of reinsurance operations	18	**270,211**		203,079	
Other creditors including taxation and social security	19	**38,140**		2,842	
			308,351		205,921
Creditors: amounts falling due after more than one year					
Creditors arising out of reinsurance operations	18		**392,940**		473,660
Accruals and deferred income			**3,367**		3,169
Provisions	20		**6,172**		31,900
Total liabilities			**6,784,085**		6,717,012

The financial statements on pages 25 to 28 were approved by the Board of Directors on 14 March 2019 and signed on its behalf by:

Geoffrey M Riddell
Chairman

Peter J Box
Director

Company number: 2798901

The notes on pages 29 to 50 form an integral part of these financial statements.

Statement of Changes in Equity
for the 12 months to 31 December 2018

	Notes	2018 £000	2017 £000
Profit and Loss Account reserves as at the beginning of the year		**5,801,413**	5,745,912
Profit for the year		**47,662**	154,948
Dividend paid	23	**(51,649)**	(99,447)
Profit and Loss Account reserves as at the end of the year		**5,797,426**	5,801,413

The notes on pages 29 to 50 form an integral part of these financial statements.

Statement of Cash Flows

for the 12 months to 31 December 2018

	Notes	2018 £000	2017 £000
Net cash from operating activities	21	**93,825**	221,498
Taxation received		**2,153**	(13,041)
Interest paid		**(14,418)**	(2,450)
Net cash generated from operating activities		**81,560**	206,007
Cash flow used in investing activities			
Purchases of tangible assets		**(43)**	(1,620)
Interest received		**135,548**	129,908
Proceeds from sale of other financial investments		**10,689,377**	9,146,015
Purchase of other financial investments		**(11,093,851)**	(9,541,282)
Net cash used in investing activities		**(268,969)**	(266,979)
Net cash used in financing activities			
Dividend paid		**(51,649)**	(99,447)
Net decrease in cash and cash equivalents		**(239,058)**	(160,419)
Cash and cash equivalents at beginning of the year		**485,126**	645,545
Cash and cash equivalents at end of the year		**246,068**	485,126
Cash and cash equivalents consist of:			
Cash at bank and in hand		**29,981**	29,792
Short term deposits presented within other financial investments		**216,087**	455,334
Cash and cash equivalents		**246,068**	485,126

The notes on pages 29 to 50 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

(e) Insurance contracts

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.

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 (FVTPL)
(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.

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 fair between the Members of the scheme; and
- 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.

The Company reduces its sensitivity to insurance risk through the purchase of commercial retrocession protection. This contract is a three year rolling contract, annually cancellable at the Company's option, or at the reinsurers' option if they are in deficit. The cover is in three layers totalling £2,100m with an attachment point of £500m. Cover is placed 100%. The price paid for the period 1 March 2018 to 28 February 2019 of £37.7m includes broker commission and equates to a signed rate on line of 1.79. The reinsurance cover is fully back to back with the cover the Company provides to Members. The minimum credit rating for reinsurers 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.

Claim development table

Reporting year	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000
Estimate of ultimate claims costs:					
At end of reporting year	–	–	–	792	–
One year later	–	–	–	787	
Two years later	–	–	–		
Three years later	–	–			
Four years later	–				

Reporting year	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Current position:						
Current estimate of cumulative claims	–	–	–	787	–	787
Cumulative payments to date	–	–	–	(787)	–	(787)
Liability recognised in the balance sheet	–	–	–	–	–	–

There are no claims outstanding at 31 December 2018.

(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 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 where applicable.

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 a risk level consistent with the risk profile of the Company.

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 direct equity and equity derivative instruments 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.

	2018 £000	2017 £000
Notional exposure to equity markets	**49,491**	653,758
Sensitivity to 30% movement in value of equities	**194,850**	196,127
Total equity market exposure	**10.1%**	10.2%

Commodity price risk

The Company is exposed to commodity price risk as a result of changes in the value of its holdings in commodity funds and commodity derivative instruments 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.

	2018 £000	2017 £000
Notional exposure to commodity markets	**189,452**	164,231
Sensitivity to 30% movement in value of commodities	**56,836**	49,269
Total commodity market exposure	**2.9%**	2.6%

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 of a 50 basis point, parallel decrease/increase in interest rates assuming all other assumptions remain unchanged.

	2018 £000	2017 £000
Notional exposure of assets to interest rate risk	**5,572,070**	5,624,598
Notional exposure of liabilities to interest rate risk	**3,985**	4,660
Sensitivity to 0.5% movement in interest rates	**48,946**	46,954
	Years	Years
Average modified duration	**1.76**	1.67
Average modified duration (excluding gilt futures contracts)	**2.42**	2.41

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 £663,139k (2017: £676,665k). This exposure relates to outward retrocession premium payable to HM Government falling due within one year of £270,119k (2017: £203,005k) and outward retrocession premium payable to HM Government falling due after more than one year of £392,940k (2017: £473,660k).

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 currencies 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.

	2018 £000	2017 £000
Unhedged investments	**634,211**	680,261
Sensitivity to 25% movement in value of Sterling on unhedged investments	**158,553**	170,065

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.

Currency	**2018 Fair value of asset £000**	**2018 Increase/decrease in profits £000**	2017 Fair value of asset £000	2017 Increase/decrease in profits £000
CAD	**–**	**–**	20,788	5,197
EUR	**54,601**	**13,650**	59,690	14,922
HKD	**33,069**	**8,267**	31,709	7,927
JPY	**70,426**	**17,606**	73,016	18,254
KRW	**21,653**	**5,413**	–	–
USD	**282,817**	**70,704**	349,432	87,358
	462,566	**115,640**	534,635	133,658

(ii) Credit risk

Credit risk arises from the failure of a counterparty to perform its financial obligations, including a 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 £5,744,590k (2017: £5,757,040k), representing the total value of bonds, commercial paper, loans, derivative financial instruments, deposits with credit institutions and cash at bank and in hand. Of this total, 53% (2017: 53%) 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:

	2018 £000	2017 £000
Shares and other variable yield securities and units in unit trusts	**39,858**	–
Debt securities	**5,376,012**	5,183,880
Deposits with credit institutions	**288,328**	496,836
Derivative financial instruments	**2,287**	44,651
Cash at bank and in hand	**30,135**	30,989
Other debtors	**7,970**	684
Total assets bearing credit risk	**5,744,590**	5,757,040

Prior year figures represent current year classifications for consistency.

	2018 %	2017 %
AAA	**12**	13
AA	**41**	40
A	**29**	30
BBB	**10**	10
BB	**1**	1
B	**2**	2
Not rated	**5**	4
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 1.3% of the Net Asset Value (2017: 0.8%).

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.

	2018 £000	2017 £000
Initial margin requirements	**7,421**	6,195
Securities on deposit	**8,057**	8,636
FX Collateral posted	**86,203**	29,318
FX Collateral held	**71,785**	40,321

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 2019.

(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 2018, 40% (2017: 33%) 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, equity derivatives, bond futures, interest rate derivatives, total return 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 as at 31 December 2018

	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	71,785	–	–	–	**71,785**
Derivatives	50,224	–	–	–	**50,224**
	122,009	–	–	–	**122,009**
Claims outstanding	–	–	–	–	**–**
Provisions	–	6,172	–	–	**6,172**
Creditors arising from reinsurance operations	270,211	217,940	175,000	–	**663,151**
Other creditors including taxation and social security	38,140	–	–	–	**38,140**
	430,360	224,112	175,000	–	**829,472**

Financial liabilities and outstanding claims as 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

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 2019, 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 requirements of its business.

The Company's objectives in managing its capital are:

- to consider the profile of its assets in the context of its liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its regulators, its Members and its ultimate policyholders;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets; 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 as at 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable-yield securities and units in unit trusts	600,833	309,026	442	910,301
Debt securities and other fixed income securities	1,916,788	3,427,252	1,074	5,345,114
Deposits with credit institutions	88,279	199,593	–	287,872
Other (including derivative instruments)	206	5,555	–	5,761
	2,606,106	**3,941,426**	**1,516**	**6,549,048**

Financial liabilities as at 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deposits with credit institutions	(71,785)	–	–	(71,785)
Other (including derivative instruments)	(3,932)	(46,292)	–	(50,224)
	(75,717)	**(46,292)**	**–**	**(122,009)**

Financial assets as 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
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 as 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)

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 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.

Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information and reflect appropriate adjustment for the risks of the instrument. These valuation techniques maximise the use of observable market data where available and rely as little as possible on entity specific estimates. The Company's Level 3 financial instruments consist of unlisted equity shares and debt securities issued by a single counterparty.

The instruments are valued by the investment manager utilising trading multiples of comparable public companies based on industry, size, developmental stage and strategy. Trading multiples for each comparable company have been calculated as the enterprise multiple (enterprise value divided by earnings before interest, taxes, depreciation and amortisation). The enterprise multiple is adjusted for risk factors such as liquidity, credit and market risk, as well as instrument specific factors. The valuation is approved by an independent committee of the investment manager and reviewed on a regular basis.

The Company has a robust review process in place to ensure appropriate inputs and prices are used by the investment manager. This includes analysing significant valuation movements and undertaking periodic service reviews to discuss any changes in pricing methodology.

	Level 3 £000
As at 31 December 2017	–
Acquisitions	–
Disposals	–
Transfers into Level 3	1,516
Net gains/(losses) recognised at FVTPL	–
As at 31 December 2018	**1,516**

6 Gross premiums written and outward reinsurance premiums

Gross premiums written by the Company in 2018 totalled £312,110k (2017: £313,806k). This all relates to the Company's principal activity which is reinsurance business conducted on a mutual basis from risks located in England, Wales and Scotland.

Under the Company's Retrocession Agreement with HM Government, 50% (2017: 50%) of the value of gross premiums written incepting during the year is payable as outward reinsurance premiums to HM Government. In 2018 this amounted to £156,015k (2017: £156,292k).

In addition, Further Premium is payable to HM Government in accordance with the Retrocession Agreement. This is calculated as 25% (2017: 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 2018 this amounted to £15,886k (2017: £51,649k).

Commercial retrocession has also been purchased, as described further in note 5(a) insurance risk. In 2018 this amount was £37,722k (2017: £36,312k).

7 Net operating expenses

(a) Net operating expenses

	2018 £000	2017 £000
Administrative expenses (including auditor's remuneration)	**12,996**	12,104

(b) Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**78**	78
Fees payable to the Company's auditors for other services:		
Other assurance services	**22**	21
	100	99

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

8 Operating lease rentals

	2018 £000	2017 £000
Operating lease rentals payable for the year:		
Land and buildings	**411**	478
Plant and machinery	**6**	4
	417	482

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

	2018 £000	2017 £000
Payments due:		
Not later than one year	**410**	410
Later than one year and not later than five years	**1,159**	1,569
Later than five years	**–**	–
	1,569	1,979

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 28 (2017: 26).

Employees	2018 £000	2017 £000
Staff costs for these persons were:		
Wages and salaries	**4,828**	4,864
Social security costs	**671**	650
Other pension costs	**275**	226
	5,774	5,740

Directors	2018 £000	2017 £000
The directors' emoluments were as follows:		
Aggregate emoluments	**381**	381
Sums paid to third parties for director services	**77**	83
	458	464

Highest paid director	2018 £000	2017 £000
The highest paid director's emoluments were as follows:		
Aggregate emoluments	**90**	90

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:

	2018 £000	2017 £000
Salaries and other short-term benefits	**2,648**	2,655
Long-term incentive plans	**702**	836
	3,350	3,491

The long-term incentive plan awarded for services performed in 2018 is payable in 2020, 2021 and 2022 in three equal instalments. Where an individual leaves employment or a material risk event occurs, payment may be reduced or forfeited.

10 Investment return

	2018 £000	2017 £000
Investment income		
Income from financial assets at fair value through profit and loss	**137,539**	127,178
Net (losses)/gains on the realisation of investments	**(199,314)**	267,083
Net unrealised gains/(losses) on investments	**18,408**	(262,745)
Investment expenses and charges		
Investment management and other charges	**(6,879)**	(6,784)
Interest payable on outwards reinsurance to HM Government		
Less than one year	**(4,195)**	(3,628)
Greater than one year	**(8,682)**	(7,519)
Interest payable on outwards reinsurance – further premiums to HM Government		
Less than one year	**(431)**	(828)
Greater than one year	**(4,269)**	(3,607)
Other interest payable	**–**	(10)
	(24,456)	(22,376)
Total investment return	**(67,823)**	109,140

11 Tax on profit on ordinary activities

	2018 £000	2017 £000
Tax on profit on ordinary activities comprised:		
United Kingdom Corporation Tax		
Current tax on income for the year at 19.00% (2017: 19.25%)	**–**	(3,794)
Withholding tax deducted from investment income	**(2,274)**	(2,264)
Adjustments in respect of prior years	**2,465**	(798)
Total current tax	**191**	(6,856)
Deferred tax asset – origination of timing differences at 19.00% (2017: 19.00%) – Note 20	**6,873**	–
Deferred tax liability – origination and reversal of timing differences at 19.00% (2017: 19.00%) – Note 20	**18,855**	(1,795)
Tax on profit on ordinary activities	**25,919**	(8,651)

11 Tax on profit on ordinary activities

Factors affecting the tax charge for the year

The tax assessed for the year is different from the standard rate of UK Corporation Tax: 19.00% (2017: 19.25%). The differences are explained below:

	2018 £000	2017 £000
Non-technical account		
Profit on ordinary activities before tax	**21,743**	163,599
Corporation Tax at the standard UK rate of 19.00% (2017: 19.25%) on profit on ordinary activities	**(4,131)**	(31,493)
Adjustments for non-taxable items. Tax at 19.00% (2017: 19.25%) on:		
Technical income	**17,017**	10,483
Dividend income	**1,830**	1,443
Other investment expenses, capital allowances and bank charges	**425**	432
Investment gains on equities	**(17,073)**	3,185
Investment gains on index-linked government bonds	**6,531**	9,892
Adjustments in respect of prior year	**2,465**	(798)
Deferred tax liability	**18,855**	(1,795)
Tax on profit on ordinary activities	**25,919**	(8,651)

12 Other financial investments

	2018 £000	2017 £000
Other financial investments comprised:		
Financial assets		
Shares and other variable-yield securities and units in unit trusts	**910,301**	795,216
Debt securities and other fixed income securities	**5,345,114**	5,155,234
Deposits with credit institutions	**287,872**	495,655
Derivatives	**5,761**	44,052
	6,549,048	6,490,157
Financial liabilities		
Deposits with credit institutions	**(71,785)**	(40,321)
Derivatives	**(50,224)**	(7,120)
	(122,009)	(47,441)

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

As at 31 December 2018 the purchase cost of shares and other variable-yield securities was £854,668k (2017: £627,332k), the purchase cost of debt securities and other fixed income securities was £5,181,799k (2017: £5,170,782k), the purchase cost of deposits with credit institutions was £216,142k (2017: £462,872k) and the purchase cost of derivatives was £1,917k (2017: £1,149k).

12 Other financial investments

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

	2018 £000 Fair value	**2018 £000 Notional**	2017 £000 Fair value	2017 £000 Notional
Assets				
Foreign exchange contracts	**4,107**	**495,520**	40,053	3,159,195
Futures contracts	**206**	**8,353**	2,737	644,032
Option contracts	**177**	**13,191**	322	110,837
Swap contracts	**1,271**	**58,217**	940	72,637
	5,761	**575,281**	44,052	3,986,701

	2018 £000 Fair value	**2018 £000 Notional**	2017 £000 Fair value	2017 £000 Notional
Liabilities				
Foreign exchange contracts	**45,686**	**3,204,807**	2,248	434,738
Futures contracts	**3,932**	**521,456**	3,836	493,013
Option contracts	**129**	**10,151**	–	2,391
Swap contracts	**477**	**12,312**	1,036	98,853
	50,224	**3,748,726**	7,120	1,028,995

The movement through the Profit and Loss Account for derivatives was as follows: foreign exchange contracts produced a loss of £241,497k (2017: gain of £233,547k); futures contracts produced a loss of £5,944k (2017: loss of £3,524k); option contracts produced a gain of £1,055k (2017: loss of £737k) and swap contracts produced a loss of £95k (2017: gain of £47k).

13 Tangible assets

	Computer and telephone equipment £000	Fixtures and fittings £000	Furniture £000	Total £000
Book cost				
At 1 January 2018	328	1,293	336	1,957
Additions	12	30	1	43
At 31 December 2018	**340**	**1,323**	**337**	**2,000**
Accumulated depreciation				
At 1 January 2018	218	138	40	396
Charge for the year	82	242	60	384
At 31 December 2018	**300**	**380**	**100**	**780**
Net book value				
At 31 December 2018	**40**	**943**	**237**	**1,220**
At 31 December 2017	110	1,155	296	1,561

The charge for depreciation for the year ended 31 December 2018 was £384k (2017: £325k).

14 Cash at bank and in hand

	2018 £000	2017 £000
Cash at bank	**628**	8,906
Cash in investments	**29,353**	20,886
Cash at bank and in hand	**29,981**	29,792

The average interest rate earned by the Company on cash at bank and in hand was 0.00% (2017: 0.00%).

15 Debtors arising out of reinsurance operations

The Company has debtors arising out of reinsurance operations of £77,636k (2017: £77,349k) 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

	2018 £000	2017 £000
Other debtors comprised:		
Current taxation	**1,566**	3,528
Investment debtors	**7,970**	684
Other debtors	**288**	265
	9,824	4,477

17 Provision for unearned premiums

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

	Gross 2018 £000	Gross 2017 £000	Reinsurers' share 2018 £000	Reinsurers' share 2017 £000
At 1 January	**153,503**	148,774	**82,621**	80,071
Increase in provision	**317**	4,729	**387**	2,550
At 31 December	**153,820**	153,503	**83,008**	82,621

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:

	2018 £000	2017 £000
Retrocession payable to HM Government on 31 March 2019 (2017: 31 March 2018)	**270,199**	203,005
Member refunds	**12**	74
	270,211	203,079

Retrocession outstanding at the year end falling due within one year is in respect of 2016 (2017: in respect of 2015) 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:

	2018 £000	2017 £000
Retrocession payable to HM Government on 31 March 2020 (2017: 31 March 2019)	**217,940**	262,658
Retrocession payable to HM Government on 31 March 2021 (2017: 31 March 2020)	**175,000**	211,002
	392,940	473,660

Retrocession outstanding at the year end falling due after more one year is in respect of 2017 and 2018 (2017: in respect of 2016 and 2017) in line with payment terms outlined in the agreement with HM Government.

19 Other creditors including tax and social security

	2018 £000	2017 £000
Other creditors comprised:		
Investment creditors	**35,201**	119
Other creditors	**2,939**	2,723
	38,140	2,842

20 Provisions

	2018 £000	2017 £000
Provisions for deferred tax:		
At 1 January	**31,900**	30,105
Utilised in the year	**–**	–
Profit and Loss Account (credit)/charge	**(25,728)**	1,795
At 31 December	**6,172**	31,900

A deferred tax liability of £13,045k has been recognised in respect of timing difference at 31 December 2018 (2017: £31,900k).

A deferred tax asset of £6,873k has been recognised in respect of unrelieved tax losses at 31 December 2018 (2017: Nil). The Company has £36,176k of carried forward tax losses at 31 December 2018 (2017: Nil). There is no statutory expiry date for the carried forward tax losses.

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

	2018 £000	2017 £000
Profit for the financial year transferred to Profit and Loss Account reserves	**47,662**	154,948
Adjustments:		
Tax on profit on ordinary activities	**(25,919)**	8,651
Net unrealised (gains)/losses on investments	**(18,408)**	262,745
Net realised losses/(gains) on investments	**199,314**	(267,083)
Income from financial assets at fair value through profit and loss	**(137,539)**	(127,178)
Depreciation	**384**	325
Interest expense	**17,577**	15,592
Increase in reinsurers' share of technical provisions	**(387)**	(2,550)
(Increase)/decrease in debtors excluding tax receivable	**(7,596)**	2,592
(Increase)/decrease in other prepayments	**(322)**	23
Increase in technical provisions	**312**	4,734
Increase in creditors, accruals and deferred income excluding interest and tax payable	**18,747**	168,699
Net cash inflow from operating activities	**93,825**	221,498

22 Movements in the Profit and Loss Account

	2018 £000	2017 £000
Profit and Loss Account at 1 January	**5,801,413**	5,745,912
Profit for the financial year	**47,662**	154,948
Dividend paid	**(51,649)**	(99,447)
Profit and Loss Account at 31 December	**5,797,426**	5,801,413

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 14 June 2018 in respect of its 2017 results. The amount of the dividend paid was £51,649k (2017: £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 2018 the Company purchased commercial retrocession in the ordinary course of business through Guy Carpenter & Company Limited totalling £37,722k (2017: £36,312k). There was no outstanding balance at 31 December 2018 (2017: Nil). Peter Box, a Director of the Company, was a Director of Marsh Limited unitl 31 December 2018. Both Guy Carpenter & Company Limited and Marsh Limited are members of the Marsh & McLennan Companies, Inc. group.

In 2018 the Company purchased investment advice in the ordinary course of business from Mercer Limited totalling £70k (2017: £73k). At 31 December 2018 there was an outstanding balance of £9k (2017: Nil). Peter Box, a Director of the Company, was a Director of Marsh Limited until 31 December 2018. Both Mercer Limited and Marsh Limited are members of the Marsh & McLennan Companies, Inc. group.

In 2018 the Company purchased risk management and cyber security advice in the ordinary course of business through S-RM Intelligence & Risk Consulting Limited totalling £48k (2017: £64k). At 31 December 2018 there was an outstanding balance of £5k (2017: £36k). Edward Butler, Chief Resilience Officer at the Company, is an Advisor and shareholder of S-RM Intelligence & Risk Consulting Limited.

In 2018 the Company offered a restricted, charitable sponsorship to The Airey Neave Trust totalling £5k (2017: £5k). At 31 December 2018 there was no outstanding balance (2017: £5k). Edward Butler, Chief Resilience Officer at the Company, is a Trustee at The Airey Neave Trust.

In 2018 the Company purchased legal services in the ordinary course of business from Hogan Lovells International LLP totalling £152k (2017: £61k). At 31 December 2018 there was an outstanding balance of £13k. Christian Wells, General Counsel and Company Secretary of the Company, is a Consultant at Hogan Lovells International LLP.

In 2018 the Company paid director fees in the ordinary course of business to RSA Insurance Group plc totalling £36k (2017: £42k). At 31 December 2018 there was an outstanding balance of £9k (2017: £10k). During the period, Stephen Lewis, a Director of the Company, was Chief Executive, UK & International at RSA Insurance Group plc. RSA Insurance Group plc is a member of the Pool Reinsurance scheme.

In 2018 the Company paid director fees in the ordinary course of business to Hiscox Insurance Company Limited totalling £42k (2017: £42k). At 31 December 2018 there was an outstanding balance of £10k (2017: £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.

Key management compensation is disclosed in total in note 9.

26 Subsequent events

(a) Non-Damage Business Interruption Cover

On 12 February 2019, Her Majesty's Government amended the Reinsurance (Acts of Terrorism) Act 1993 through Royal Assent of the Counter Terrorism and Border Security Act. The amendment to the Act enables the Company to cover losses from Acts of Terrorism within England, Scotland and Wales that are not contingent on physical damage to property (non-damage business interruption). Pool Re Members can make an election to cede non-damage business interruption (NDBI) to the Company. Cover is anticipated to be made available to policyholders in mid-2019. The cover will allow for the recovery of business interruption losses incurred due to the prevention or impairment of access to the premises of a policyholder.

(b) Insurance Linked Security Issue

On 25 February 2019, the Company placed a three year catastrophe bond with a principal amount of £75m, the bond was issued through a special purpose vehicle (SPV), Baltic PCC Limited. The bond (Baltic PCC Series 2019 Class A Principal At-Risk Variable Rate Notes 07/03/2022) has an initial interest spread of 5.90% and a maturity date of 7 March 2022, with the loss period commencing on 1 March 2019. The issue has an initial attachment level of £500m, with an exhaustion level of £700m. The cover is fully back to back with the cover the Company provides to Members.

Membership Profile
as at 31 December 2018

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Jurisdiction				
Bermuda	1	0.6%	3	0.1%
France	2	1.3%	2	0.1%
Germany	3	1.9%	13	0.4%
Guernsey	10	6.5%	28	0.9%
Isle of Man	3	1.9%	43	1.4%
Italy	1	0.6%	1	0.0%
Liechtenstein	1	0.6%	1	0.0%
Luxembourg	1	0.6%	107	3.4%
Ireland	6	3.9%	20	0.6%
Spain	2	1.3%	3	0.1%
United Kingdom	91	59.1%	2815	89.3%
United States of America	2	1.3%	9	0.3%
	123	79.9%	3,045	96.6%
Active Underwriters of Lloyd's Syndicates	31	20.1%	108	3.4%
	154	100.0%	3,153	100.0%

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Number of Votes				
0	43	27.9%	0	0.0%
1–25	93	60.5%	392	12.5%
26–50	5	3.3%	190	6.0%
51–100	5	3.3%	321	10.2%
101–150	2	1.3%	232	7.4%
151–200	1	0.6%	162	5.1%
201–250	2	1.3%	465	14.7%
251–300	0	0.0%	0	0.0%
301–350	1	0.6%	303	9.6%
351–400	0	0.0%	0	0.0%
401–450	1	0.6%	425	13.5%
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	0	0.0%	0	0.0%
651–700	1	0.6%	663	21.0%
	154	100.0%	3,153	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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