POOL Re

REINSURING TERRORISM RISK

Pool Reinsurance Company Limited Annual Report 2019

£635m

Over the past 27 years we have paid out £635m claims - equivalent to £1.25bn adjusted for inflation.

85%

Approximately 85% of the terrorism insurance market is estimated to be reinsured by Pool Re, the rest is kept in the private market.

£6.7bn

We have accrued a fund of £6.7bn to pay any potential claims.

£2.3bn

We purchase £2.3bn of commercial reinsurance from private sector reinsurers. This would supplement our own fund in the event of an attack.

£2.2tn

£2.2tn of commercial property in Great Britain is reinsured by us.

£990m

£990m has been paid to HMT Treasury in return for the guarantee they provide.

£0 cost

to the UK taxpayer.

150+ Members

Any insurer authorised to insure commercial property in Great Britain is eligible to apply for membership of Pool Re, regardless of their domicile. Most insurers operating in the UK commercial property market are members.

The insurance industry's mutual for reinsuring terrorism risk in Great Britain.

We were established in 1993 by the insurance industry, in partnership with the UK Government, as a public-private solution to the economic losses and uncertainty caused by the Provisional IRA's devastating bombing campaign in mainland Britain during the conflict.

Since then, Pool Re has succeeded in re-establishing a market able to offer comprehensive and affordable terrorism insurance, and paying claims without resorting to the taxpayer.

Our purpose is in our name. We are the custodians of a pool of assets built over 27 years; today, we continue to correct market failure, protect the UK economy, and safeguard society and livelihoods from the economic consequences of terrorism.

We use our unique position between the public and private sectors to invest in expertise, partnerships, and protective security initiatives with academia, risk specialists, and public agencies. Together, we enhance the UK's resilience to terrorism, and provide a platform for national security and prosperity.

02 Chairman's Statement
04 Chief Executive's Statement
08 Our Values
09 Scheme Resilience
10 Strategic Report
16 The Board
17 Executive Management and Corporate Information
18 Directors' Report
24 Independent Auditor's Report
28 Profit and Loss – Technical Account – General Business
28 Profit and Loss – Non-Technical Account
29 Balance Sheet
30 Statement of Changes in Equity
31 Statement of Cash Flows
32 Notes to the Financial Statements
54 Profile of Membership

Chairman's Statement

Dear Members, 2019 was a very strong year for Pool Reinsurance Company Limited (Pool Re or the Company), and I am pleased to present the year's financial results.

Financial Performance

In contrast to 2018, where a particularly tough year for global investment markets led to an investment loss of £43.3m, in 2019 Pool Re recorded an impressive investment return of £272.5m. Against a backdrop of ongoing geopolitical turbulence and trade wars, markets rallied due to accommodative monetary conditions, with Pool Re's prudent investment strategy producing positive returns across all asset classes.

Accordingly, while gross written premiums for the year were little changed at £317.1m (2018: £312.1m), the profit for the financial year transferred to reserves of £232.8m represents a significant improvement on the 2018 result of £47.7m. Pool Re has operated at no cost to the taxpayer since 1993, and in 2019 it continued to build its net contribution to government revenues, paying HM Treasury £270m (2018: £203m) in accordance with the Retrocession Agreement of 2015. The agreement also makes provision for Pool Re to distribute dividends to Members. In June 2019, £15.9m was paid in respect of the 2018 performance.

Overall, 2019 saw an increase of £0.24bn in the value of the investment fund (financial investments and accrued income) over the year to £6.70bn (2018: £6.46bn). The fund is the main determinant of the extent to which Pool Re can meet reinsurance claims without recourse to the UK taxpayer. Its growth is an important indicator of our success in meeting one of the Company's founding objectives, namely to increase the resilience of the UK economy to acts of terrorism.

Returning Risk to the Market

Another of Pool Re's central objectives is enabling the return of terrorism risk to the commercial market in a sustainable manner, 27 years after the withdrawal of cover that led to the Company's establishment in 1993. In 2019, Pool Re raised Members' aggregate annual retentions to £410m, and to £250m per event. Further, in an encouraging sign of the industry's growing appetite and capacity, since April 2019 terrorism insurance for the cancellation of events, film production, concerts and tours has been entirely returned to the commercial market, which no longer relies on Pool Re to reinsure that aspect of the terrorism peril.

Also significant was the incorporation of a pioneering £75m catastrophe bond into Pool Re's existing £2.3bn retrocession programme – already the largest terrorism risk placement globally. Developed and deployed on the strength of innovative modelling techniques, the new Insurance Linked Security (ILS) is the world's first and only catastrophe bond which purely covers terrorism risk, and is a significant first step to capital markets' participation in global terrorism risk. In a market dominated by natural catastrophe risk in peak peril zones, the provision of uncorrelated terrorism risk presents a diversification proposition to investors, an appetite we hope will grow and lead to more widely subscribed bonds in future years.

The special purpose vehicle created to issue the ILS, Baltic PCC Limited, also has the distinction of being one of the first protected cell companies to issue a catastrophe bond under the UK's new legislative framework for ILS; as such, the transaction contributes to the UK's commitment to create a domicile of choice for future ILS issuances and market innovations, and supports London's credentials as a specialist global hub for risk transfer.

Strategic Use of the Fund

As the ILS demonstrates, Pool Re's investment fund is no longer simply a mechanism designed to satisfy claims following an event, but an important facet of a broader strategic vision to build the UK's resilience to terrorism, and create an enabling environment which facilitates our Members' understanding of and participation in terrorism risk, albeit within strictly controlled appetites and limits. Consistent with the risk mitigation strategy approved by the Board, I am particularly proud of two distinctive strategic investments in 2019 which I hope will set a precedent for further leveraging of the fund in the years to come.

> Pool Re's investment fund is no longer simply a mechanism designed to satisfy claims following an event, but an important facet of a broader strategic vision to build the UK's resilience to terrorism.

The first is Pool Re's £10m commitment over five years to finance a unique information exchange platform run by the Metropolitan Police, to allow the insurance industry to benefit from the expertise of the UK's counter-terrorism agencies. The joint initiative, the 'Information Sharing Platform' (ISP), will leverage Pool Re's trusted position between the Government and industry to amplify and disseminate the expertise of the security services through insurers and into UK plc. The Platform will meet a long-standing need and desire from policyholders for more

Chairman's Statement

credible, quality and timely information to be used in their protective security and resilience planning; it will also directly benefit Members, delivering real-time messaging about terrorist incidents, and targeted insights and online training on risk mitigation and counter-terrorism.

The second has been implemented through a collaborative effort between Pool Re and the British Business Bank in conjunction with the Bank's National Security Strategic Investment Fund (NSSIF). In 2019, Pool Re's Board approved investment of up to 1% of the investment fund (circa £65m) with venture capital managers who have been approved by the NSSIF to invest in start-up companies helping to reduce the threat of terrorism, thereby increasing the nation's overall resilience. Not only may these innovative start-up technologies reduce the underlying risk posed to Members' policyholders, but in the long term, Pool Re's investment is expected to deliver a return on equity to grow the value of its overall fund.

Industry Recognition in 2019

2019 culminated in a sweep of six of our industry's most prestigious awards including 'Risk Carrier of the Year' and 'Underwriting Initiative of the Year' for the introduction of Pool Re's Non-Damage Business Interruption cover at the Insurance Insider Honours, and 'Transaction of the Year' for the ILS placement at the Insurance Day London Market Awards. This is a quite remarkable feat given the relatively small size of the Pool Re team, and I would like to take this opportunity to congratulate the whole staff for their accomplishments, as well as the Board of Directors for their oversight.

2019 culminated in a sweep of six of our industry's most prestigious awards including 'Risk Carrier of the Year' and 'Underwriting Initiative of the Year'.

I would also like to take the opportunity to commend our Chief Executive, who was recognised personally by the market at the Insurance Day awards as 'Industry Achiever of the Year' for his commitment to a modernising programme set in motion following his arrival at the end of 2014. In only a short period, this scope of works and culture of innovation has led to Pool Re becoming a respected international exemplar for the effective transfer and management of terrorism risk.

In Closing…

I should finish 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.

I always look forward to renewing old acquaintances and making new ones at our AGM, and I would encourage Members to take the opportunity to meet the Company's Board, Executive Management, and wider staff. Full details and joining instructions for this event are included with this report.

Geoff Riddell
Chairman
12 March 2020

Chief Executive's Statement

In 2019, several prominent strategic ambitions came to fruition following a number of years of development. Advances in the Company's proposition were no less sweeping than shifts in the political and (re)insurance environments which Pool Re has been required to navigate, which are only likely to become more complex in the year to come.

Building on the platform established in 2019, however, we are well-placed to continue to adapt to meet the needs of our Members. We look to use the complexities presented by 2020 as an opportunity to embed the principles and innovation that have made our company the international standard for the effective pooling, transfer and management of a complicated, difficult to insure risk.

Non-Damage Business Interruption and Threat Profile

In 2018, Pool Re became the first of its peers to introduce cover for cyber terrorism, a precedent which other pools around the world are in the process of emulating. However, in early 2019, we introduced the most significant development of our cover since the inclusion of Chemical, Biological, Radiological and Nuclear (CBRN) cover in 2002.

> The first terrorism pool worldwide to explicitly extend its cover to include Non-Damage Business Interruption (NDBI) losses.

The Counter-Terrorism and Border Security Act 2019 made changes to Pool Re's founding legislation, to allow us to reinsure business interruption losses arising from a terror attack that are not contingent on damage to property. The amendment made Pool Re the first terrorism pool worldwide to explicitly extend its cover to include Non-Damage Business Interruption (NDBI) losses.

Before this change in the law, Pool Re could only reinsure losses incurred following physical damage to commercial property caused by an act of terrorism. The NDBI cover narrows the terrorism risk protection gap by making cover for a specific, emerging aspect of this peril affordable and widely available to businesses in Great Britain. This protection gap manifested itself in June 2017 in the aftermath of the attack on London Bridge and Borough Market, where over 150 small business owners together lost at least £1.5m over 11 days of disruption. The attack was the catalyst for the collaboration between industry and government to modify Pool Re's legislation and design a suitable insurance product.

The NDBI product was constructed at the behest of Members, who sought to draw on Pool Re's extensive understanding of terrorism risk and its expertise in modelling the peril to build and manage the product. However, in keeping with Pool Re's mandate to cover only those risks which the private market cannot bear, most claims are likely to fall within Members' retentions. This has so far proven the case; since March 2019, there have been three terrorist incidents in Great Britain which illustrate the increasing prevalence of low complexity attacks against unprotected targets, and none of these events damaged property or gave rise to any claims on Pool Re. One did, however, lead to the shocking loss of two lives at Fishmonger's Hall in November 2019.

Even with the reduction of the national threat level from SEVERE to SUBSTANTIAL in November 2019, the importance of improving take-up of comprehensive terrorism cover by businesses of all sizes is highlighted by statistics from Pool Re's Terrorism Database. These statistics show that around two-thirds of terrorist attacks in Western Europe since 2014 would not have triggered insurance policies which only covered property damage. As such, we are working with industry and trade bodies to raise awareness of the need to improve the take-up of this valuable cover amongst the UK's SME sector and bridge the penetration gap. Businesses' protection in the wake of an attack is only as good as their insurance policy.

Introducing Pool Re Solutions

In November 2019, we launched Pool Re Solutions, an in-house centre of excellence created to support Members by sharing the benefits of the partnerships and unique understanding of terrorism risk we have built over 27 years. Solutions is the natural coming of age of the 'ecosystem' approach Pool Re has adopted since 2015, the premise of which has been to create an enabling environment for Members to understand terrorism risk better and so retain more of it. The new division will streamline and amplify this approach through three inter-dependent specialisms: risk awareness, risk modelling and risk management.

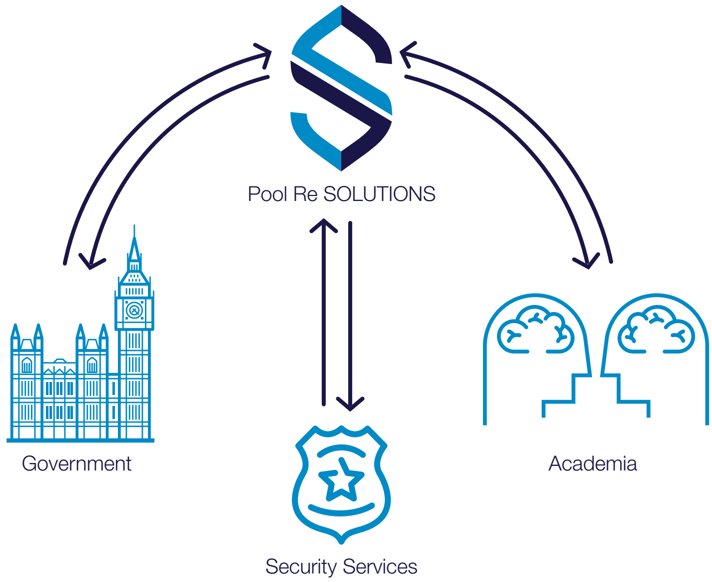
> Pool Re Solutions, an in-house centre of excellence created to support Members by sharing the benefits of the partnerships and unique understanding of terrorism risk we have built over 27 years.

Risk Awareness within Pool Re Solutions will provide analysis, intelligence and expertise on all aspects of the terrorism threat. It will leverage Pool Re's strong partnerships, in particular with specialist think tanks, in order to disseminate regular assessments of the modern threat to Members.

Chief Executive's Statement

Pool Re
SOLUTIONS
Building resilience against terrorism risk

We have created a range of capabilities, uniquely designed to provide the industry with the tools and information it needs to evaluate, price, sell and manage terrorism risk to its maximum extent. Pool Re SOLUTIONS comprises three core pillars designed to support resilience.



Purpose

Pool Re *Solutions* (PReS) is a solutions-based division of Pool Reinsurance Co Ltd (Pool Re) which exists to create and distribute tools, techniques and information aimed at mitigating the risk of terrorism in the UK and thereby creating resilience in the economy.

Vision

To be the global leader in the provision of terrorism risk solutions, providing business and (re)insurers with information, analysis, quantification and platforms that contribute to the mitigation of terrorism risk.

Risk Awareness

The Risk Awareness team provides our Members and other stakeholders with threat led intelligence and horizon scanning research on all aspects of the terrorism peril. Our research directly supports the efforts of our Risk Modelling and Risk Management teams. Our Risk Awareness experts are drawn from a range of backgrounds, including the police, Government, military and academia, offering unique perspectives and experiences on all aspects of terrorism risk.

Risk Management

Our team support Members and their Policyholders by helping them understand how the terrorist threat might affect business. We also work with Policyholders to provide a range of risk management capabilities and tools which help mitigate and minimise the impact of an attack. Our services are bespoke to every organisation and are designed to be scaleable and modular, to ensure that the most appropriate support is available, depending on your size and needs.

Risk Modelling

Our team devises and creates modelling solutions that can more accurately evaluate, quantify and price terrorism risk. We harness our Risk Awareness teams' intelligence and reports, and blend this with a collaboration of Government, academia, and global (re)insurer data. This has both accelerated and enhanced our modelling capabilities, which allows us to provide bespoke modelling solutions to solve different aspects of the terrorism risks your business might face in the future.

Chief Executive's Statement

Risk Modelling within Pool Re Solutions will continue to create and build terrorism modelling tools and techniques that can underpin better pricing and greater deployment of capacity or capital into terrorism (re)insurance. The models are being developed in partnership with academia, insurance modelling experts and government agencies and are a result of Pool Re's ability to bring together such diverse expertise.

The models being developed will allow Pool Re and its Members to price more accurately not only conventional terrorism, such as explosives and firearm attacks, but also CBRN attacks. Distributing these tools and risk-reflective pricing strategies will be central to Solutions' overarching goal of improving the commercial viability and private retention of terrorism risk.

> Solutions has been designed specifically to provide our Members with the tools and information they need to evaluate, price, manage and mitigate terrorism risk to a degree hitherto not possible in this country.

Risk Management within Pool Re Solutions will be developed to become a key facilitator of terrorism risk management information and techniques by building pathways which link government agencies, risk professionals, the insurance industry and its policyholders. In 2019, Solutions undertook bespoke risk work for the Heathrow Airport captive, which we hope is just the first large infrastructure project which will benefit from the risk management expertise this new division within Pool Re has to offer.

Solutions has been designed specifically to provide our Members with the tools and information they need to evaluate, price, manage and mitigate terrorism risk to a degree hitherto not possible in this country. As such, it is my hope that Solutions will represent a turning point in our industry's relationship with terrorism risk, and will also fulfil the vision of the Government's strategy for countering terrorism (CONTEST) where the insurance industry is able to scale the UK's ability to tackle terrorism and improve safety, security and resilience. This is a vision shared by a host of other voices at the very top of the security and intelligence community. Writing in one of our threat reports early in 2019, for example, Sir Mark Rowley was very clear that "the private sector has to play a bigger role than ever as part of a whole society effort to counter today's terrorism threat."

Our flagship risk management product is the Vulnerability Self-Assessment Tool (VSAT). It allows businesses to conduct a detailed security audit to UK Government and internationally recognised standards and trigger a premium discount, which from the beginning of 2020, has risen to 7.5%. More than 250 of Pool Re Members' clients have received discounted premium levels after having either adopted Pool Re's VSAT tool or the NACTSO equivalent PSIA, which it complements.

International Collaboration

Promoting closer collaboration between international terrorism reinsurance pools has remained a key priority for Pool Re since we established the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP) in 2015. As Secretariat to the Forum, we continue to be a driving force behind the annual conference, which in 2019 was held in Brussels. Around 200 delegates and 15 pools joined senior figures from international (re)insurers, risk modelling firms, natural disaster pools, academia, asset managers, charities, development institutions such as the OECD and IDF, and national security bodies including NATO, to discuss the most urgent challenges facing IFTRIP's Members and the markets and governments they serve.

Amongst these challenges were discussions held on emerging or prospective protection gaps; how actuarial advances can not only assess these gaps but attract and position alternative capital to help to bridge them; how to increase insurance penetration; how best to integrate risk management strategies between public agencies and the private sector; and how best to harness (re)insurance capabilities to, for example, help meet the UN's Sustainable Development Goals.

> Promoting closer collaboration between international terrorism reinsurance pools has remained a key priority for Pool Re since we established the International Forum of Terrorism Risk (Re)Insurance Pools in 2015.

Another significant theme of the conference in Brussels was how to build resilience to cyber terrorism as an emerging risk, and how to adapt to the increasingly blurred lines between terrorism and war in the cyber arena. IFTRIP has subsequently established a joint working group with the Geneva Association to co-ordinate an international and cross-sectoral response to cyber terrorism and cyber warfare, and will be presenting its findings at the 2020 annual conference in Washington.

Chief Executive's Statement

In Closing…
I would like to finish by thanking our Members for their support throughout 2019, and by expressing my hope that we can work even more closely together in the year to come. In the context of the public sector classification of Pool Re by the ONS in February 2020, the next 12 months may present significant choices for Members and our partners in Government alike. Through consultation and with a little boldness, however, I feel confident that we will have an opportunity to refine and improve a 27-year old model to the benefit of all stakeholders, and thereby continue to build on a world-leading partnership between Government and industry.

I would also like to thank our Board, the Executive Management and the Company's staff for their individual and collective contributions in 2019.

Julian Enoizi
Chief Executive
12 March 2020

Our Values

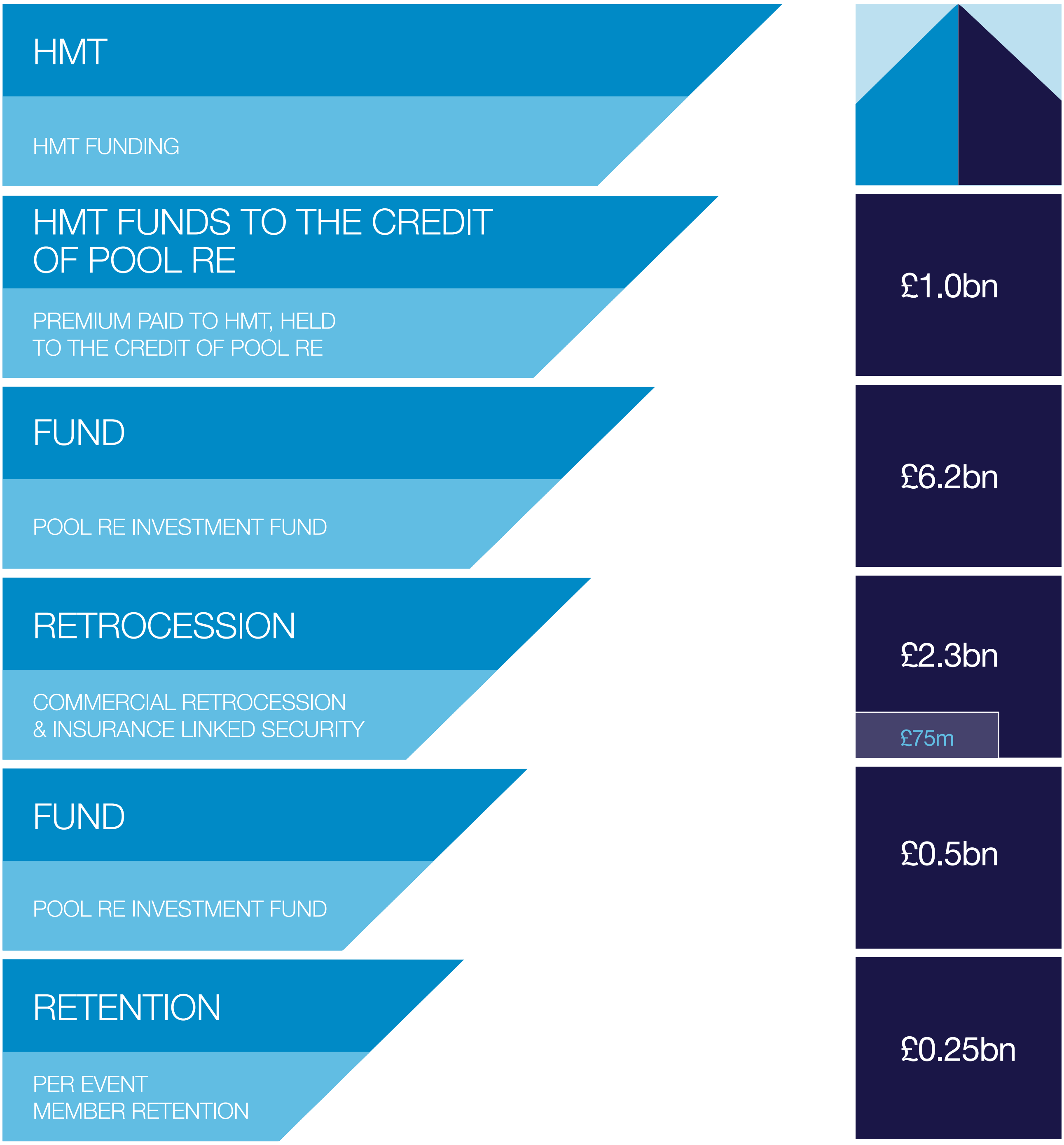
Our Core Values support our vision, shape our culture, and reflect our company values. They are the essence of our identity and are integral to the underlying competencies that enable our organisation to run smoothly. Establishing strong Core Values has enabled us:

> To clearly define our decision-making processes so we can achieve our business objectives and reach our strategic goals.

> To engage more deeply with stakeholders and partners as they come to understand who we are and what our organisation stands for.

> Build a company culture that reflects our Core Values which in turn has helped to attract and retain the best talent in the industry.

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 2019 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 £6.7bn. A further £2.3bn of protection is provided under a commercial retrocession programme, attaching above the first £0.5bn of the investment fund, with an additional £75m protection provided by the issuance of an Insurance Linked Security sitting within the first layer of the retrocession programme. 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.

Strategic Report

The Directors of Pool Reinsurance Company Limited (registered number 2798901) present their strategic report for the year ended 31 December 2019.

Review of the Business

Principal Activity

During the year under review and since the year end the principal activity of the Company continues to be reinsurance business conducted on a mutual basis.

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 2019 which allows 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.

The unpredictability of terrorist events means that the Company is not in a position to make statements regarding likely future developments. However, given the purpose for which the Company was formed, the Directors do not anticipate changes to the principal activity of the Company.

Results and Performance

Gross premium income for the year remained stable at £317.1m (2018: £312.1m).

The balance on the 2019 general business technical account was £23.7m (2018: £89.6m). This fall reflected the £68.6m increase in outward reinsurance premium in respect of 2019. There are two elements to our outward reinsurance; premium to HM Government which totalled £236.3m in 2019 (2018: £171.9m) and £41.9m (2018: £37.7m) of outward reinsurance premium reported in 2019 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 at its Annual General Meeting on 13 June 2019 in respect of its 2018 results. The amount of the dividend paid was £15.9m.

No new claims were recorded in 2019 and there are no claims outstanding at 31 December 2019.

Investment income including net realised and unrealised gains and losses resulted in total investment income of £272.5m in 2019. This compares to an investment loss of £43.4m reported in 2018.

The amount allowed for taxation in 2019 was a charge of £38.0m, 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 resulting profit after taxation of £232.8m for the year ended 31 December 2019. After accounting for the dividend paid to Members in 2019, the accumulated balance on the Profit and Loss Account of £6,014.4m at 31 December 2019 is 3.7% higher than the 31 December 2018 balance of £5,797.4m.

The investment fund (financial investments and accrued income and investment cash) reflected a similar movement, rising from £6,488.9m at December 2018 to a value at 31 December 2019 of £6,722.1m.

Section 172 Statement

The Directors are aware of their responsibilities to promote the success of the Company in accordance with Section 172(1) of the Companies Act 2006 and have acted in accordance with these responsibilities during the year.

Directors have had regard to wider stakeholder interests when performing their duty. The key stakeholders include staff, Members, HM Government, regulators, policyholders and the wider insurance industry. Pool Re's core values, which are Bold, Excellent, Innovative, Personable and Collaborative, guide the Company's decision-making process.

Examples of this approach in respect of the key 2019 initiatives outlined in the Chairman and Chief Executive's statements are as follows.

> The introduction of Non-Damage Business Interruption cover closed a terrorism insurance protection gap, with government support, and served to satisfy the needs of both our Members and policy holders. Together with Pool Re's decision to no longer provide contingency cover and the increase in Members' aggregate annual retentions, this shows our commitment to return Risk to the insurance market where possible.

Strategic Report

- The Insurance Linked Security (ILS) issuance resulted from engagement with ILS investors, HM Treasury and the PRA. The transaction supported the UK's commitment to become a domicile of choice for future ILS issuances and market innovations and supports London's credentials as a specialist global hub for risk transfer.

- The decision to help finance the Information Sharing Platform being developed by the Metropolitan Police is part of a broader strategic vision to build the UK's resilience to terrorism and create an environment which facilitates our Members' understanding of, and participation in, terrorism risk within controlled appetites and limits.

- The collaboration between Pool Re and the British Business Bank, investing alongside the bank's National Security Strategic Investment Fund (NSSIF). The NSSIF is an investment vehicle that invests with venture capital managers who invest in, support and promote innovative start-up technologies which can reduce the underlying risk posed to Members' policyholders.

- Pool Re Solutions brings together Pool Re's specialisms in risk awareness, risk modelling and risk management to provide our Members with the tools and information they need to evaluate, price, manage and mitigate terrorism risk. This will create an enabling environment for Members to understand terrorism risk better and so retain more of the risk.

- Pool Re's central role in the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP) addresses global issues through international collaboration. IFTRIP's current agenda covers topics such as, emerging protection gaps; how actuarial advances can assess these gaps and attract alternative capital to help to bridge them; how to increase insurance penetration; how best to integrate risk management strategies between public agencies and the private sector; and how best to harness (re)insurance capabilities to, for example, help meet the UN's Sustainable Development Goals.

Engaging with our external stakeholders has been a major theme in 2019. This is exemplified by our brochure, "Steering a course through challenging times; our route map for the future" issued as part of a consultation exercise for Members and other interested parties in October.

We followed this up with our Market Event in November when we officially launched Pool Re Solutions in front of an audience of around 200 insurance industry professionals and other stakeholders.

We continue to develop our approach to Corporate Social Responsibility and Sustainability. In 2019 we created an internal working group to consider initiatives to support environmental, social and governance concerns. This project encompasses both Pool Re's office practices and the management of our investment fund. Our commitment to this is illustrated by our adoption of the UN Principles for Responsible Investment and subscribing to the Carbon Disclosure Project in 2020.

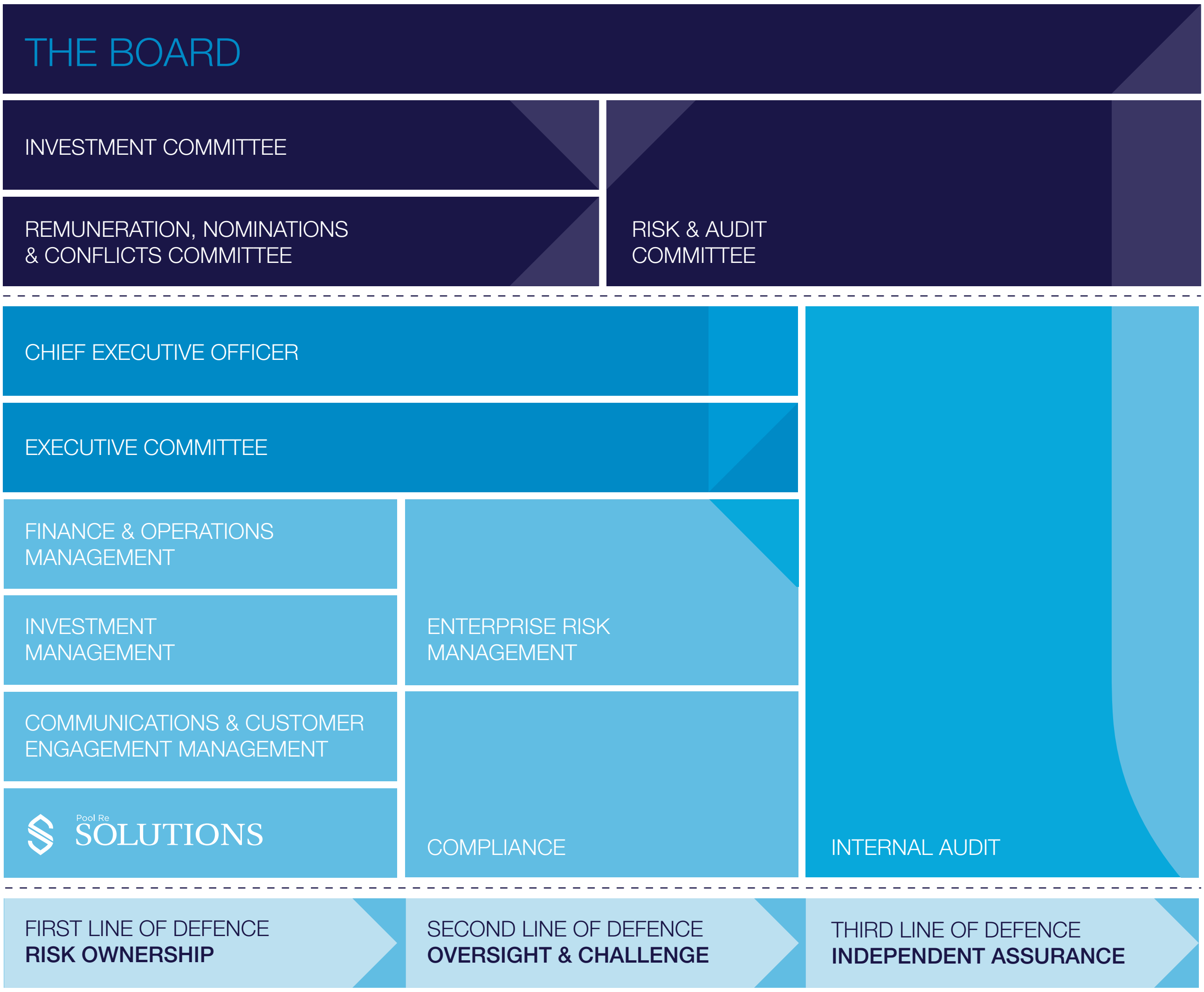
Pool Re continues to develop a suite of HR initiatives to retain, develop and encourage first class performance from our staff. Our commitment to our core values are central to this. In 2019 we introduced improvements to our staff appraisal process and engagement channels, alongside a suite of wellbeing and learning and development initiatives. Every other year we conduct an anonymous employee survey that provides the opportunity for employees to give their views on working at Pool Re. The results are subsequently shared with the Executive and a plan of action devised as required. Both the results and action plan are then shared with the Board. Furthermore, regular presentations and updates are given to staff where feedback is actively encouraged.

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.

Strategic Report

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 framework aims to mitigate 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 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.

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

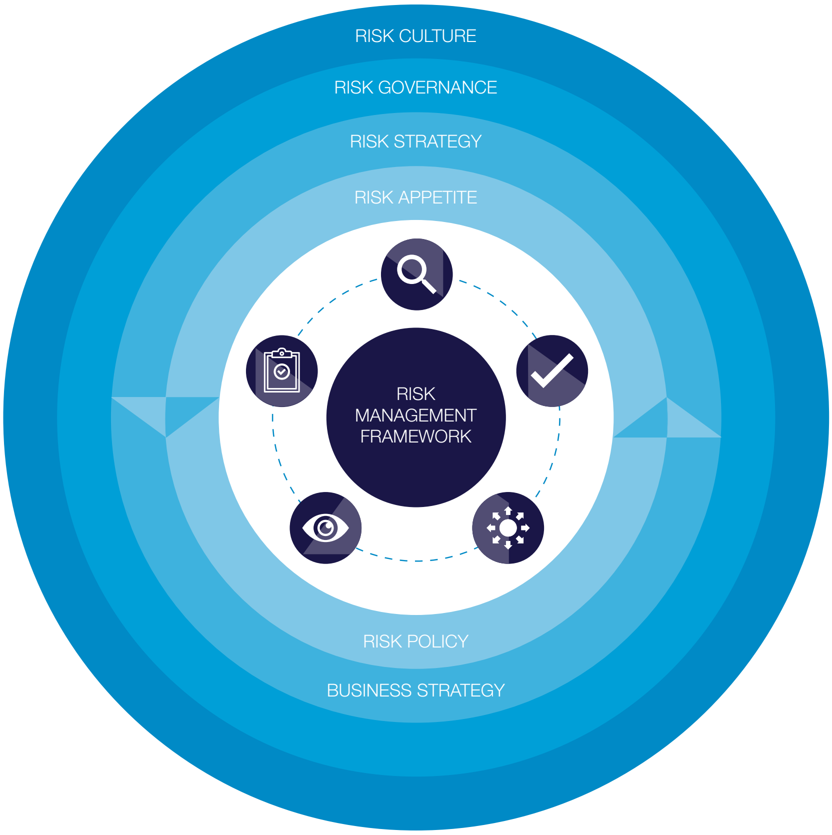
Identify Risk – The Company reviews both its environment and its internal operations on a bi-annual basis to identify areas where risks can occur.

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.



Strategic Report

Principal Risks and Uncertainties
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 Risks	Key Risk Mitigants and Controls
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. Climate change presents an uncertainty to Pool Re which has been considered in terms of impact on insurance risk as a possible macro-economic driver of increased terrorism and throughout the business in areas of market and operational risk.
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 commercial 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, under the Retrocession Agreement with HM Government, the Company would draw funds if claims were to exceed the Company's resources. The Retrocession Agreement specifies circumstances in which amounts paid by HM Government would be subject to repayment by the Company. 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.

Strategic Report

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 continues to consider the broad uncertainties that may attach to Brexit.

By Order of the Board
Rhod Cruwys
General Counsel and Company Secretary
12 March 2020

The Board

Details of the Directors of the Company who served during the year and up to the date of signing the Financial Statements are set out below.

Geoffrey M Riddell ★ O ✠
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 O ✠
A Director since May 2014, nominated by HM Treasury. Formerly a Permanent Secretary in the Civil Service. Non-executive Director of Pool Reinsurance (Nuclear) Limited and Trustee of Lloyd's Register Foundation. Formerly Non-executive Director of the Financial Reporting Council and of the London Metal Exchange, where he served as Chairman from 2010 to 2019.

Peter J Box
Chartered Accountant
A Director between February 2010 and June 2019, Mr Box retired following the 2019 AGM.

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. Former Chairman of the Carbon Disclosure Project and Former Governor of the Wellcome Trust.

Denise N Jagger ✠
Solicitor
A Director since January 2014 and Chair of the Remuneration, Nominations and Conflicts Committee. A corporate finance lawyer. Until her retirement in 2019, Ms Jagger was, from 2004, a Client Development Partner at Eversheds Sutherland LLP, where she remains a consultant. Formerly Company Secretary and General Counsel of Asda Group plc. Currently, Senior Independent Director of Bellway plc, Chairman of St Giles Trust, Chair of the Council and Pro Chancellor of the University of York, and Senior Independent Director at Yorkshire 2019 Limited.

Stephen Lewis
A Director from October 2012, Mr Lewis resigned on 15 March 2019.

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. He served as a Deputy Chairman of Lloyd's from 2001 to 2007, has been a member of the Board of the Association of British Insurers since 2012, became Chairman of Policy Placement Ltd in 2018 and was elected Alderman of the Billingsgate Ward (City of London) in 2019.

Barbara J Merry ★ O
Chartered Accountant
Ms Merry has been a director since February 2019. Chair of the Risk and Audit Committee. 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, and Argus Group and also chair of Ed Broking LLP, of Globe Underwriting Limited and of start-up Lloyd's broker Parker, Norfolk and Partners.

Andrew G Skirton ★ O ❖
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
O Member of the Risk and Audit Committee
✠ Member of the Remuneration, Nominations and Conflicts Committee
❖ Senior Independent Director

Executive Management

Chief Executive
Julian A P Enoizi 1

Chief Finance and Operations Officer
Peter N Aves FCA 2

Chief Resilience Officer
Edward A Butler CBE 3

Chief Underwriting Officer
Stephen M Coates ACII 4

Chief Investment Officer
Ian M Coulman MCSI 5

General Counsel and Company Secretary
Rhodri Cruwys 6

Chief Strategy and Communications Officer
Tracey A Paul 7

Corporate Information

Registered in England, United Kingdom

Registration number 2798901

Registered office
7 Savoy Court,
London WC2R 0EX
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

Directors’ Report

The Directors of Pool Reinsurance Company Limited (registered number 2798901) present their report and the audited financial statements of the Company for the year ended 31 December 2019.

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, financial performance, operational performance, commercial and customer engagement, investment management, legal and regulatory, 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 ad hoc as necessary to discuss any material matters as they arise.

A formal schedule of matters reserved to the Board is maintained and 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 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, Senior Independent Director 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, at the expense of the Company, to the Directors in respect of any issue arising in the course of their duties. 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 16.

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

G M Riddell
Sir Brian Bender
P J Box (retired 13 June 2019)
A J Brown
D N Jagger
S Lewis (resigned 15 March 2019)
B E Masojada
B J Merry (appointed on 11 February 2019)
A G Skirton
M E Tulloch

The appointment of all new Directors is a matter for consideration by the Board. 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 Articles of Association allow H M Treasury 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 the Director appointed following nomination by H M Treasury. As the Company's Articles of Association specify that the maximum tenure for this role is 6 years, on 20 May 2020, Sir Brian will retire as a Director.

Whilst there is no legal requirement for the Board to include member representation, by recent convention the Board has included three directors drawn from its Members. A process to identify a third member representative Director is ongoing.

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 at every level who have the knowledge and skillset to deliver high performance, whilst mitigating the risk exposure of the Company. The need for a new Director and the profile of the required individual are agreed by the Board as a whole. Equal consideration is given to all suitable candidates irrespective of gender, race or any other demographic factor.

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

In accordance with the Articles of Association of the Company, all Directors must retire and seek election at the first Annual General Meeting following their appointment, and all Directors who have served continuously for more than nine years must retire and seek re-election at each Annual General Meeting. With the exception of the nominee of H M Treasury, a number nearest to one third of the other Directors must retire by rotation at each Annual General Meeting. Therefore, at the forthcoming Annual General Meeting, Mr Brown, having served continuously as a Director for more than nine years, will retire and seek re-election and Messrs. Riddell and Masojada, will retire by rotation and will seek re-election.

Board Committees

There are three standing Committees, namely the Investment Committee, the Risk and Audit Committee, and the Remuneration, Nominations and Conflicts 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 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 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 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 Barbara Merry and comprises four Directors. The Committee met twice during 2019. 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 reviewed carefully 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. The Committee led the process for identifying and engaging a new external internal audit partner, the previous firm having served for more than 6 years.
- ***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 three meetings during the year. 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 been and continues to be engaged in the process for identifying suitable candidates to fulfil vacant Director roles.
- ***Conflicts*** – During the year, the Committee continued to consider and rule upon potential conflict situations as they arose, ensuring in so doing, 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 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 2019.

	Board	Audit Committee	Investment Committee	Remuneration, Nominations & Conflicts Committee
G M Riddell	7 (7)	2 (2)	4 (4)	3 (3)
Sir Brian Bender	4 (7)	2 (2)		3 (3)
P J Box★	3 (4)	1 (1)	4 (4)	
A J Brown	7 (7)		4 (4)	3 (3)
D N Jagger	6 (7)			3 (3)
S Lewis✠	2 (2)			
B E Masojada	7 (7)			3 (3)
B J Merry	4 (6)	2 (2)	3 (4)	
A G Skirton	7 (7)	2 (2)	4 (4)	
M E Tulloch	4 (7)			3 (3)

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

★ Mr Box retired on 13 June 2019
✠ Mr Lewis resigned on 15 March 2019

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 2019, the Board and Committees evaluation focused on progress in addressing the matters identified during the 2017 independent evaluation exercise. Overall, the 2019 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. An independent evaluation will be conducted during 2020.

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.

At the beginning of 2019, the executive team commissioned an independent benchmark report into its Directors' remuneration. That report recommended increases to the Director fees, principally to recognise the enhanced roles of the Chairman, the Senior Independent Director and the Chairs of the Company's Committees. As a result of these increases, a resolution to increase the annual aggregate limit on Director fees from £500,000 to £600,000 will be proposed at the Annual General Meeting.

Dividend

In June 2019 the Company paid a dividend to Members of £15.9m (2018: £51.6m) 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 has established a Donations Committee to consider and determine its charitable donations, subject to an annual limit of £50,000. The substantial donations made during 2019 (with any 2018 donations in brackets) were as follows: Age UK £22,500 (2018: £20,000) and the Insurance Industry Charitable Foundation £7,000 (2018: £7,000).

Values and Culture
The Board is cognisant that poor culture in financial services firms can result in unwanted behaviours, such as discrimination, victimisation, bullying and harassment and can lead directly to poor outcomes for market participants and underlying customers.

The Board recognises the important role that a healthy culture plays in the operation of the Company and has supported the business in the development of a values framework. This framework includes a wellness programme, training on behaviours in the workplace and a focus on ensuring that the Company's purpose and mission are understood throughout the team.

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 the auditor performed no such work.

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

By Order of the Board
Rhod Cruwys
General Counsel and Company Secretary
12 March 2020

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

Report on the audit of the financial statements

1. 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 2019 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).

2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

3. 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 £120.3 million which represents 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 have been no significant changes in our audit approach in the current year.

4. 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.

5. 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.

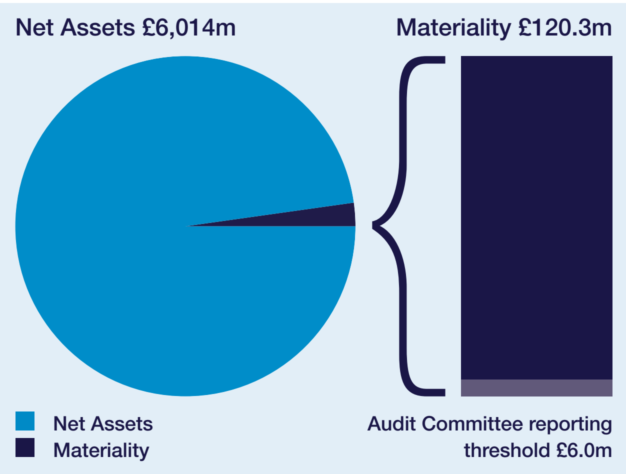
5.1. Valuation and existence of financial investments and derivatives	
Key audit matter description	As at 31 December 2019 the financial investments and derivatives balances stood at approximately £6.6 billion (2018: £6.5 billion), equating to 97% (2018: 97.0%) of total Company assets. Changes in the 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. The Company's investment portfolio is largely comprised of assets that are actively traded and have observable market prices, reducing the risk of misstatement. However due to the size of the portfolio, a 1.7% price variance would result in a material misstatement. In addition there is a risk that management may override the prices obtained from Bank of New York Mellon ("BNYM") inappropriately. We have therefore identified a significant risk over the valuation of investments, specifically focusing on asset classes detailed in the graph to the right and excluding cash and cash equivalents and payables and receivables. As at 31 December 2019 the Company had a net derivative asset position of £93 million. The valuation of these derivatives can be complex and there is a risk that the derivatives are valued incorrectly in the financial statements, whether due to error or fraud. Due to the size of the Company's portfolio of assets there is an inherent risk that, either through error or fraud, the investments or derivatives recorded in the ledger at the reporting date do not belong to the entity. We therefore have identified a significant risk over the existence of financial investments and derivatives for the 2019 audit.
How the scope of our audit responded to the key audit matter	We have tested the 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 inspected Bank of New York Mellon's SOC1 report covering the full reporting period in order to attest the operating effectiveness of key controls at the outsourcer that support management's controls in validating the valuation and existence of investments and derivatives. We have performed the valuation testing of 99.6% of financial investments through obtaining price data from reputable third party sources. Additionally, we have reconciled the prices in the accounts to those obtained from BNYM and noted no instances of management override. We have tested the valuation of derivative financial instruments through engaging our in-house financial instrument specialist team to price independently the remaining 0.4% of financial investments. 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 2019 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 portfolio.

6. Our application of materiality

6.1. 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	£120.3 million (2018: £116 million).
Basis for determining materiality	2% (2018: 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 considered 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.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- there have not been any significant changes in business structure and operations; and
- our experience from previous audits, which has indicated a low number of corrected and uncorrected misstatements identified in prior.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £6 million (2018: £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.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

The Company uses the software Business Central to keep its general ledger records. We did not rely on any of the IT Controls associated with this system. We have opted to do so because of the small size and simple nature of the business. We have, however, tested internal controls around the financial investments balance.

8. 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.

9. 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.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

11. 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.

12. Matters on which we are required to report by exception

12.1. 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.

12.2. 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.

13. 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
12 March 2020

Profit and Loss Account
for the 12 months to 31 December 2019

Technical account – General business

	Notes	2019 £000	2018 £000
Gross premiums written	6	**317,082**	312,110
Outward reinsurance premiums	6	**(278,179)**	(209,623)
Net premiums written		**38,902**	102,487
Change in the gross provision for unearned premiums	17	**(4,341)**	(317)
Change in the provision for unearned premiums, reinsurers' share	17	**3,159**	387
Earned premiums, net of reinsurance		**37,720**	102,557
Claims paid – gross amount		**–**	–
Change in provision for claims – gross amount		**–**	5
Claims incurred, net of reinsurance		**–**	5
Other income		**101**	–
Net operating expenses	7	**(14,131)**	(12,996)
Balance on the general business technical account		**23,690**	89,566

Non-technical account

	Notes	2019 £000	2018 £000
Balance on the general business technical account		**23,690**	89,566
Income from financial assets at fair value through profit and loss	10	**141,402**	137,539
Net gains/(losses) on the realisation of investments	10	**55,021**	(199,314)
Net unrealised gains on investments	10	**76,124**	18,408
Investment income		**272,547**	(43,367)
Investment expenses and charges	10	**(25,400)**	(24,456)
Investment return		**247,147**	(67,823)
Profit on ordinary activities before tax		**270,837**	21,743
Tax (charge)/credit on profit on ordinary activities	11	**(38,002)**	25,919
Profit for the financial year after tax		**232,835**	47,662
Profit for the financial year transferred to Profit and Loss Account reserves		**232,835**	47,662

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 32 to 53 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2019

	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Assets					
Investments					
Other financial investments	12		**6,796,447**		6,549,048
Reinsurers' share of technical provisions					
Provision for unearned premiums	17		**86,166**		83,008
Debtors					
Debtors arising out of reinsurance operations	15	**78,060**		77,636	
Other debtors	16	**2,472**		9,824	
			80,532		87,460
Other assets					
Tangible assets	13	**939**		1,220	
Cash at bank and in hand	14	**18,658**		29,981	
			19,597		31,201
Prepayments and accrued income					
Accrued income		**32,217**		32,467	
Other prepayments		**945**		901	
			33,161		33,368
Total assets			**7,015,905**		6,784,085
Liabilities					
Capital and reserves					
Profit and Loss Account	22		**6,014,375**		5,797,426
Financial liabilities					
Other financial investments	12		**124,709**		122,009
Technical provisions					
Provision for unearned premiums	17	**158,162**		153,820	
Claims outstanding		**–**		–	
			158,162		153,820
Creditors: amounts falling due within one year					
Creditors arising out of reinsurance operations	18	**225,386**		270,211	
Other creditors including taxation and social	19	**42,353**		38,140	
			267,739		308,351
Creditors: amounts falling due after more than one year					
Creditors arising out of reinsurance operations	18		**423,403**		392,940
Accruals and deferred income			**5,715**		3,367
Provisions	20		**21,802**		6,172
Total liabilities			**7,015,905**		6,784,085

The financial statements on pages 28 to 31 were approved by the Board of Directors on 12 March 2020 and signed on its behalf by:

Geoffrey M Riddell
Chairman

Barbara Merry
Director

Company number: 2798901

The notes on pages 32 to 53 form an integral part of these financial statements.

Statement of Changes in Equity
for the 12 months to 31 December 2019

	Notes	2019 £000	2018 £000
Profit and Loss Account reserves as at the beginning of the year		**5,797,426**	5,801,413
Profit for the year		**232,835**	47,662
Dividend paid	23	**(15,886)**	(51,649)
Profit and Loss Account reserves as at the end of the year		**6,014,375**	5,797,426

The notes on pages 32 to 53 form an integral part of these financial statements.

Statement of Cash Flows
for the 12 months to 31 December 2019

	Notes	2019 £000	2018 £000
Net cash from operating activities	21	**6,461**	93,825
Taxation (paid)/received		**(10,934)**	2,153
Interest paid		**(16,791)**	(14,418)
Net cash (used)/generated from operating activities		**(21,264)**	81,560
Cash flow used in investing activities			
Purchases of tangible assets		**(75)**	(43)
Interest received		**141,402**	135,548
Proceeds from sale of other financial investments		**11,541,980**	10,689,377
Purchase of other financial investments		**(11,712,662)**	(11,093,851)
Net cash used in investing activities		**(29,355)**	(268,969)
Net cash used in financing activities			
Dividend paid		**(15,886)**	(51,649)
Net decrease in cash and cash equivalents		**(66,505)**	(239,058)
Cash and cash equivalents at beginning of the year		**246,068**	485,126
Cash and cash equivalents at end of the year		**179,563**	246,068
Cash and cash equivalents consist of:			
Cash at bank and in hand		**18,658**	29,981
Short term deposits presented within other financial investments		**160,905**	216,087
Cash and cash equivalents		**179,563**	246,068

The notes on pages 32 to 53 form an integral part of these financial statements.

1 General information

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

2 Statement of compliance

The Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

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

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

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

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

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

3 Summary of significant accounting policies

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

(a) Basis of preparation

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

(b) Going concern

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

(c) Functional and presentational currency

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

The Company's functional currency is the pound sterling.

(d) Foreign currency

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

3 Summary of significant accounting policies

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

(e) Insurance contracts

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

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

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

(i) Technical results

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

(ii) Premiums written

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

(iii) Unearned premiums

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

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

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

(iv) Claims incurred

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

3 Summary of significant accounting policies

(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.

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.

3 Summary of significant accounting policies

(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.

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.

3 Summary of significant accounting policies

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

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

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

The Company recognises a financial asset or liability at the time it becomes a party to the instrument's 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.

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. The Company has entered two contracts, the first is a three year rolling contract covering terrorism losses which are triggered by damage, annually cancellable at the Company's option, or at the reinsurers' option if they are in deficit. Covered loss in the reinsurance agreement means all losses arising under any of the Heads of Cover as a result of damage to or destruction of property, the proximate cause of which is an act of terrorism. The cover is in two layers totalling £2,300m with an attachment point of £500m, with the £75m Insurance Linked Security (ILS) bond sitting in the first layer alongside the traditional retrocession. Cover is placed 100%. The price paid for the period 1 March 2019 to 29 February 2020 of £36.8m includes broker commission and equates to a signed rate on line of 1.65. 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. The second contract was incepted in 2019 to reflect the extension of Pool Re's cover to include non-damage business interruption. This is a completely separate placement to the main retrocession and only covers terrorism losses caused by non-damage business interruption. The placement is a single layer of cover for £40m attaching at £15m. The price paid for the period 5 July 2019 to 30 September 2020 of £698k includes broker commission and equates to a signed rate on line of 1.74.

On 25 February 2019, the Company placed a three year ILS 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.

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	2015 £000	2016 £000	2017 £000	2018 £000	**2019 £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	2015 £000	2016 £000	2017 £000	2018 £000	**2019 £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 2019.

(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. 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.

	2019 £000	2018 £000
Notional exposure to equity markets	**1,128,117**	649,491
Sensitivity to 30% movement in value of equities	**338,140**	194,850
Total equity market exposure	**16.9**%	10.1%

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.

	2019 £000	2018 £000
Notional exposure to commodity markets	**190,515**	189,452
Sensitivity to 30% movement in value of commodities	**57,155**	56,836
Total commodity market exposure	**2.9%**	2.9%

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.

	2019 £000	2018 £000
Notional exposure of assets to interest rate risk	**5,271,523**	5,572,070
Notional exposure of liabilities to interest rate risk	**10**	3,985
Sensitivity to 0.5% movement in interest rates	**47,447**	48,946
	Years	Years
Average modified duration	**1.80**	1.76
Average modified duration (excluding gilt futures contracts)	**1.80**	2.42

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 £647,107k (2018: £663,139k). This exposure relates to outward retrocession premium payable to HM Government falling due within one year of £223,704k (2018: £270,199k) and outward retrocession premium payable to HM Government falling due after more than one year of £423,403k (2018: £392,940k).

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.

	2019 £000	2018 £000
Unhedged investments	**541,829**	634,211
Sensitivity to 25% movement in value of Sterling on unhedged investments	**135,457**	158,553

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	**2019 Fair value of asset £000**	**2019 Increase/decrease in profits £000**	2018 Fair value of asset £000	2018 Increase/decrease in profits £000
EUR	**60,082**	**15,021**	54,601	13,650
HKD	**37,523**	**9,381**	33,069	8,267
JPY	**81,277**	**20,319**	70,426	17,606
KRW	**23,897**	**5,974**	21,653	5,413
USD	**197,642**	**49,410**	282,817	70,704
	400,421	**100,105**	462,566	115,640

(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 £5,518,508k (2018: £5,744,590k), 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, 51% (2018: 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:

	2019 £000	2018 £000
Shares and other variable yield securities and units in unit trusts	**24,895**	39,858
Debt securities	**5,093,401**	5,376,012
Deposits with credit institutions	**283,409**	288,328
Derivative financial instruments	**93,496**	2,287
Cash at bank and in hand	**21,014**	30,135
Other debtors	**2,294**	7,970
Total assets bearing credit risk	**5,518,508**	5,744,590

	2019 %	2018 %
AAA	**16**	12
AA	**36**	41
A	**28**	29
BBB	**10**	10
BB	**2**	1
B	**1**	2
Not rated	**7**	5
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 1.4% of the Net Asset Value (2018: 1.3%).

The table below details the margin requirements for derivative financial instruments at year end. The table also shows cash collateral positions in respect of foreign exchange derivatives at year end.

	2019 £000	2018 £000
Initial margin requirements	**1,886**	7,421
Securities on deposit	**–**	8,057
FX Collateral posted	**77,569**	86,203
FX Collateral held	**114,583**	71,785

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 2020.

(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 2019, 44% (2018: 40%) 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 2019

	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	122,312	–	–	–	**122,312**
Derivatives	2,397	–	–	–	**2,397**
	124,709	–	–	–	**124,709**
Claims outstanding	–	–	–	–	**–**
Provisions	–	21,802	–	–	**21,802**
Creditors arising from reinsurance operations	225,386	182,224	241,179	–	**648,789**
Other creditors including taxation and social security	42,353	–	–	–	**42,353**
	392,448	204,026	241,179	–	**837,653**

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

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 2020, 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 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable-yield securities and units in unit trusts	1,087,777	265,201	1,217	1,354,195
Debt securities and other fixed income securities	1,700,898	3,362,134	827	5,063,859
Deposits with credit institutions	85,298	197,919	–	283,218
Other (including derivative instruments)	241	94,935	–	95,176
	2,874,214	**3,920,189**	**2,044**	**6,796,447**

Financial liabilities as at 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deposits with credit institutions	(122,312)	–	–	(122,312)
Other (including derivative instruments)	(53)	(2,344)	–	(2,397)
	(122,365)	**(2,344)**	**–**	**(124,709)**

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)

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 and debt securities issued by a single counterparty and investments in Limited Partnership structures.

The unlisted equity and debt securities issued by a single counterparty 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 a 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.

Investments in Limited Partnership structures are valued at historical cost, plus or minus the aggregate net income advised as attributable to the Company at the reporting date.

	Level 3 £000
As at 31 December 2018	1,516
Acquisitions	1,045
Disposals	(296)
Transfers into Level 3	–
Net gains/(losses) recognised at fair value through profit or loss	(221)
As at 31 December 2019	**2,044**

6 Gross premiums written and outward reinsurance premiums

Gross premiums written by the Company in 2019 totalled £317,082k (2018: £312,110k). 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% (2018: 50%) of the value of gross premiums written incepting during the year is payable as outward reinsurance premiums to HM Government. In 2019 this amounted to £158,637k (2018: £156,015k).

In addition, Further Premium is payable to HM Government in accordance with the Retrocession Agreement. This is calculated as 25% (2018: 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 2019 this amounted to £77,612k (2018: £15,886k).

Commercial retrocession has also been purchased, as described further in note 5(a) insurance risk. In 2019 this amount was £41,930k (2018: £37,722k).

7 Net operating expenses

(a) Net operating expenses

	2019 £000	2018 £000
Administrative expenses (including auditor's remuneration)	**14,131**	12,996

(b) Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**92**	78
Fees payable to the Company's auditors for other services:		
Other assurance services	**23**	22
	115	100

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

8 Operating lease rentals

	2019 £000	2018 £000
Operating lease rentals payable for the year:		
Land and buildings	**410**	411
Plant and machinery	**5**	6
	415	417

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

	2019 £000	2018 £000
Payments due:		
Not later than one year	**410**	410
Later than one year and not later than five years	**748**	1,159
Later than five years	**–**	–
	1,158	1,569

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 31 (2018: 28).

Employees	2019 £000	2018 £000
Staff costs for these persons were:		
Wages and salaries	**5,069**	4,828
Social security costs	**711**	671
Other pension costs	**291**	275
	6,072	5,774

Directors	2019 £000	2018 £000
The directors' emoluments were as follows:		
Aggregate emoluments	**398**	381
Sums paid to third parties for director services	**49**	77
	447	458

Highest paid director	2019 £000	2018 £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:

	2019 £000	2018 £000
Salaries and other short-term benefits	**2,892**	2,648
Long-term incentive plans	**689**	702
	3,582	3,350

The long-term incentive plan awarded for services performed in 2019 is payable in 2021, 2022 and 2023 in three equal instalments. Where an individual leaves employment or a material risk event occurs, payment may be reduced or forfeited.

10 Investment return

	2019 £000	2018 £000
Income from financial assets at fair value through profit and loss	**141,402**	137,539
Net gains/(losses) on the realisation of investments	**55,021**	(199,314)
Net unrealised gains on investments	**76,124**	18,408
Investment income	**272,547**	(43,367)
Investment expenses and charges		
Investment management and other charges	**(7,482)**	(6,879)
Interest payable on outwards reinsurance to HM Government		
Less than one year	**(4,618)**	(4,195)
Greater than one year	**(9,088)**	(8,682)
Interest payable on outwards reinsurance – further premiums to HM Government		
Less than one year	**(1,543)**	(431)
Greater than one year	**(2,669)**	(4,269)
	(25,400)	(24,456)
Total investment return	**247,147**	(67,823)

11 Tax on profit on ordinary activities

	2019 £000	2018 £000
Tax on profit on ordinary activities comprised:		
United Kingdom Corporation Tax		
Current tax on income for the year at 19.00% (2018: 19.00%)	**(20,026)**	–
Withholding tax deducted from investment income	**(2,345)**	(2,274)
Adjustments in respect of prior years	**–**	2,465
Total current tax	**(22,371)**	191
Deferred tax asset – origination of timing differences at 19.00% (2018: 19.00%) – Note 20	**(6,873)**	6,873
Deferred tax liability – origination and reversal of timing differences at 19.00% (2018: 19.00%) – Note 20	**(8,758)**	18,855
Tax on profit on ordinary activities	**(38,002)**	25,919

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% (2018: 19.00%). The differences are explained below:

	2019 £000	2018 £000
Non-technical account		
Profit on ordinary activities before tax	**270,837**	21,743
Corporation Tax at the standard UK rate of 19.00% (2018: 19.00%) on profit on ordinary activities	**(51,459)**	(4,131)
Adjustments for non-taxable items. Tax at 19.00% (2018: 19.00%) on:		
Technical income	**4,521**	17,017
Dividend income	**4,712**	1,830
Other investment expenses, capital allowances and bank charges	**405**	425
Investment gains/(losses) on equities	**14,537**	(17,073)
Investment gains on index-linked government bonds	**4,365**	6,531
Foreign taxes	**(2,345)**	–
Adjustments in respect of prior year	**–**	2,465
Carried forward tax losses	**2,892**	–
Deferred tax charge	**(15,630)**	18,855
Tax on profit on ordinary activities	**(38,002)**	25,919

12 Other financial investments

	2019 £000	2018 £000
Other financial investments comprised:		
Financial assets		
Shares and other variable-yield securities and units in unit trusts	**1,354,195**	910,301
Debt securities and other fixed income securities	**5,063,859**	5,345,114
Deposits with credit institutions	**283,218**	287,872
Derivatives	**95,176**	5,761
	6,796,447	6,549,048
Financial liabilities		
Deposits with credit institutions	**(122,312)**	(71,785)
Derivatives	**(2,397)**	(50,224)
	(124,709)	(122,009)

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 2019 the purchase cost of shares and other variable-yield securities was £1,225,827k (2018: £854,668k), the purchase cost of debt securities and other fixed income securities was £5,046,014k (2018: £5,181,799k), the purchase cost of deposits with credit institutions was £163,020k (2018: £216,142k) and the purchase cost of derivatives was £285k (2018: £1,917k).

12 Other financial investments

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

	2019 £000 Fair value	**2019 £000 Notional**	2018 £000 Fair value	2018 £000 Notional
Assets				
Foreign exchange contracts	**94,764**	**4,084,373**	4,107	495,520
Futures contracts	**241**	**27,977**	206	8,353
Option contracts	**54**	**1,442**	177	13,191
Swap contracts	**117**	**7,652**	1,271	58,217
	95,176	**4,121,445**	5,761	575,281

	2019 £000 Fair value	**2019 £000 Notional**	2018 £000 Fair value	2018 £000 Notional
Liabilities				
Foreign exchange contracts	**1,762**	**167,662**	45,686	3,204,807
Futures contracts	**53**	**9,194**	3,932	521,456
Option contracts	**7**	**1,434**	129	10,151
Swap contracts	**575**	**28,598**	477	12,312
	2,397	**206,888**	50,224	3,748,726

The movement through the Profit and Loss Account for derivatives was as follows: foreign exchange contracts produced a gain of £109,498k (2018: loss of £241,497k); futures contracts produced a loss of £21,613k (2018: loss of £5,944k); option contracts produced a loss of £1,406k (2018: gain of £1,055k) and swap contracts produced a loss of £103k (2018: loss of £95k).

13 Tangible assets

	Computer and telephone equipment £000	Fixtures and fittings £000	Furniture £000	Total £000
Book cost				
At 1 January 2019	340	1,323	337	2,000
Additions	68	43	–	111
Disposals	–	–	(37)	(37)
At 31 December 2019	**408**	**1,366**	**300**	**2,074**
Accumulated depreciation				
At 1 January 2019	300	380	100	780
Charge for the year	48	252	55	355
Disposals	–	–	–	–
At 31 December 2019	**348**	**632**	**155**	**1,135**
Net book value				
At 31 December 2019	**60**	**734**	**145**	**939**
At 31 December 2018	40	943	237	1,220

The charge for depreciation for the year ended 31 December 2019 was £355k (2018: £384k)

14 Cash at bank and in hand

	2019 £000	2018 £000
Cash at bank	**490**	628
Cash in investments	**18,168**	29,353
Cash at bank and in hand	**18,658**	29,981

The average interest rate earned by the Company on cash at bank and in hand was 0.00% (2018: 0.00%).

15 Debtors arising out of reinsurance operations

The Company has debtors arising out of reinsurance operations of £78,060k (2018: £77,636k) 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

	2019 £000	2018 £000
Other debtors comprised:		
Current taxation	**–**	1,566
Investment debtors	**2,294**	7,970
Other debtors	**179**	288
	2,472	9,824

17 Provision for unearned premiums

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

	Gross 2019 £000	Gross 2018 £000	**Reinsurers' share 2019 £000**	Reinsurers' share 2018 £000
At 1 January	**153,820**	153,503	**83,008**	82,621
Increase in provision	**4,341**	317	**3,159**	387
At 31 December	**158,162**	153,820	**86,166**	83,008

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:

	2019 £000	2018 £000
Retrocession payable to HM Government on 31 March 2020 (2018: 31 March 2019)	**223,704**	270,199
Reinsurance creditor	**994**	–
Payables	**688**	–
Member refunds	**–**	12
	225,386	270,211

Retrocession outstanding at the year end falling due within one year is in respect of 2017 (2018: in respect of 2016) 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:

	2019 £000	2018 £000
Retrocession payable to HM Government on 31 March 2021 (2018: 31 March 2020)	**182,224**	217,940
Retrocession payable to HM Government on 31 March 2022 (2018: 31 March 2021)	**241,179**	175,000
	423,403	392,940

Retrocession outstanding at the year end falling due after more one year is in respect of 2018 and 2019 (2018: in respect of 2017 and 2018) in line with payment terms outlined in the agreement with HM Government.

19 Other creditors including tax and social security

	2019 £000	2018 £000
Other creditors comprised:		
Investment creditors	**32,285**	35,201
Current taxation	**9,862**	–
Other creditors	**206**	2,939
	42,353	38,140

20 Provisions

	2019 £000	2018 £000
Provisions for deferred tax:		
At 1 January	**6,172**	31,900
Profit and Loss Account charge/(credit)	**15,630**	(25,728)
At 31 December	**21,802**	6,172

A deferred tax liability of £21,802k has been recognised in respect of timing difference at 31 December 2019 (2018: £13,045k).

A deferred tax asset of nil has been recognised in respect of unrelieved tax losses at 31 December 2019 (2018: £6,873k). The Company has no carried forward tax losses at 31 December 2019 (2018: £36,176k). There is no statutory expiry date for the carried forward tax losses.

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

	2019 £000	2018 £000
Profit for the financial year transferred to Profit and Loss Account reserves	**232,835**	47,662
Adjustments:		
Tax on profit on ordinary activities	**38,002**	(25,919)
Net unrealised gains on investments	**(76,124)**	(18,408)
Net realised (gains)/losses on investments	**(55,021)**	199,314
Income from financial assets at fair value through profit and loss	**(141,402)**	(137,539)
Depreciation	**355**	384
Interest expense	**17,918**	17,577
Increase in reinsurers' share of technical provisions	**(3,158)**	(387)
Decrease/(increase) in debtors excluding tax receivable	**5,350**	(7,596)
Increase in prepayments and accrued income	**(548)**	(322)
Increase in technical provisions	**4,342**	312
(Decrease)/increase in creditors, accruals and deferred income excluding interest and tax payable	**(16,088)**	18,747
Net cash inflow from operating activities	**6,461**	93,825

22 Movements in the Profit and Loss Account

	2019 £000	2018 £000
Profit and Loss Account at 1 January	**5,797,426**	5,801,413
Profit for the financial year	**232,835**	47,662
Dividend paid	**(15,886)**	(51,649)
Profit and Loss Account at 31 December	**6,014,375**	5,797,426

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 2019 in respect of its 2018 results. The amount of the dividend paid was £15,886k (2018: £51,649k).

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 2019 the Company purchased risk management and cyber security advice in the ordinary course of business through S-RM Intelligence & Risk Consulting Limited totalling £91k (2018: £48k). At 31 December 2019 there was an outstanding balance of £10k (2018: £5k). Edward Butler, Chief Resilience Officer at the Company, is an Advisor and shareholder of S-RM Intelligence & Risk Consulting Limited.

In 2019 the Company paid director fees in the ordinary course of business to RSA Insurance Group plc totalling £18k (2018: £36k). At 31 December 2019 there was no outstanding balance (2018: £9k). Stephen Lewis, a Director of the Company until 15 March 2019, was Chief Executive, UK & International at RSA Insurance Group plc. RSA Insurance Group plc is a member of the Pool Reinsurance scheme.

In 2019 the Company paid director fees in the ordinary course of business to Hiscox Insurance Company Limited totalling £42k (2018: £42k). At 31 December 2019 there was an outstanding balance of £10k (2018: £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

The Office for National Statistics (ONS) has undertaken a classifications assessment of Pool Re, completed in the context of international statistical rules laid out in the European System of Accounts 2010 and the accompanying Manual on Government Deficit and Debt 2019. On 28 February 2020 ONS announced its conclusion that Pool Re should be classified to the central government subsector.

Profile of Membership
as at 31 December 2019

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Jurisdiction				
Belgium	2	1.3%	2	0.1%
Bermuda	1	0.7%	3	0.1%
France	4	2.6%	2	0.1%
Germany	3	2.0%	7	0.2%
Gibraltar	2	1.3%	0	0.0%
Guernsey	21	13.8%	105	3.3%
Iceland	1	0.7%	0	0.0%
Ireland	12	7.9%	33	1.0%
Isle of Man	10	6.6%	50	1.6%
Italy	1	0.7%	2	0.1%
Liechtenstein	2	1.3%	2	0.1%
Luxembourg	2	1.3%	3	0.1%
Spain	2	1.3%	2	0.1%
United Kingdom	58	38.2%	2,873	90.1%
United States of America	3	2.0%	9	0.3%
	124	81.6%	3,093	97.1%
Active Underwriters of Lloyd's Syndicates	28	18.4%	94	2.9%
	152	100.0%	3,187	100.0%
Analysis by Number of Votes				
0	39	25.7%	0	0.0%
1–25	92	60.5%	315	9.9%
26–50	8	5.3%	282	8.8%
51–100	6	3.9%	408	12.8%
101–150	1	0.7%	120	3.8%
151–200	1	0.7%	154	4.8%
201–250	1	0.7%	245	7.7%
251–300	2	1.3%	520	16.3%
301–350	0	0.0%	0	0.0%
351–400	0	0.0%	0	0.0%
401–450	1	0.7%	428	13.4%
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	0.7%	715	22.5%
	152	100.0%	3,187	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.

2019 awards

Insider Honours London

- > Risk Carrier of the Year
- > Underwriting Initiative of the Year
- > Re(insurance) Transaction of the Year

Insurance Day London Market Awards

- > Industry Achiever of the Year
- > Transaction of the Year
- > Insurance Initiative of the Year

Insurance Investment Exchange Awards

- > Best Non-life Insurer

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