REINSURING TERRORISM RISK

Pool Reinsurance Company Limited Annual Report 2021

£279m	Gross premiums written for the year fell 2.0% to £279.4m (2020: £285.0m) reflecting the continuing difficult trading environment experienced by many policyholders in 2021
£2.4bn	Commercial retrocession consisting of three layers totalled £2,400m (2020: £2,325m) – one of the largest terrorism reinsurance programmes in the world
£75m	Pool Re placed a three-year Insurance Linked Security, the world's first terrorism catastrophe bond in 2019, with a maturity date of 7 March 2022, providing an additional £75m of retrocession protection
£31m	In June 2021, a dividend of £31.1m was paid to Member Insurers in respect of the 2020 performance (June 2020: £77.6m paid in respect of 2019 performance)
£186m	Reinsurance premium paid to HM Treasury by Pool Re in 2021 totalled £186.0m (2020: £223.7m), bringing the cumulative total paid over the lifetime of the scheme to £1,371m
£270m	The investment fund returned 4.1% (£270.4m) for the year (2020: 0.95%, £61.7m)
£6.9bn	The investment fund rose from £6,640.6m at 31 December 2020 to a value at 31 December 2021 of £6,885.7m, reflecting the strong investment performance
£2.0tn	Exposures across mainland UK covered by Pool Re in 2021 were in excess of £2.0 trillion

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 able to pay claims without recourse to the taxpayer.

Our purpose is in our name. We are the custodians of a pool of assets built over almost three decades; 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.

Chair's Statement

I was very pleased to have been appointed as the new Chair of Pool Re on 29 November 2021 and it is with great pleasure that I am now presenting the 2021 Annual Report.

The financial highlights of the year are strong and I would like to thank our Board and the entire Pool Re team for their efforts which have contributed to such an excellent outcome. Although the impacts of Covid are still with us, gross written premium has stabilised following a fall in 2020, our investment fund generated a 4.1% return and profit after tax increased.

As you know, Pool Re has been classified by the Office of National Statistics as an Arm's Length Body of Her Majesty's Treasury (HMT). The reason for this is that in the event that a terrorist attack is of such a magnitude that the c£10 billion that is available to meet claims – comprising Members' retentions, Pool Re's investment fund and the commercial retrocession programme – is insufficient to pay losses, the last resort backstop is provided by HMT. As a consequence, a Framework Agreement has been concluded with HMT and the Retrocession Agreement updated. Although like so much else, Covid-19 caused delays in bringing this to a conclusion, both were successfully put to a vote of Members at a special general meeting on 18 March 2022. These changes are largely administrative, for Pool Re only and do not affect our Members.

I am conscious that as a new Arm's Length Body, some may be reading the Pool Re Annual Report and Accounts for the first time. It is therefore important to state that the investment fund available in the event of an attack has been entirely built up by our Members and no public money has been involved. Further, Pool Re pays the Government each year for providing the backstop and in 2021, this amounted to £186m.

I am joining a Company which has a clear purpose and at an exciting time as it develops its future. Pool Re is a unique organisation which was established in 1993 in response to a failure in the (re)insurance market after untenable losses and uncertainty caused by the Provisional IRA's devastating bombings in financial centres in London and Manchester during The Troubles. Since then, it has successfully addressed that market failure. But today, Pool Re does much more.

By way of example:

> it purchases the world's largest stand-alone terrorism retrocession programme;
> it uniquely covers damage caused by cyber, chemical, biological, nuclear and radiological terrorism; and
> it undertakes ground-breaking risk mitigation initiatives in partnership with UK Government and the Counter Terrorism police.

The five-year Review of the organisation by HMT has just been concluded and has confirmed that we remain a valued partner. Our Members usefully contributed to that review and the result is an agreed Scope of Works which includes:

> working with members to return more risk to the market;
> reducing the cost of cover;
> endeavouring to increase the take-up of terrorism insurance by small and medium sized businesses; and
> examining the options for transitioning to a Treaty relationship with Members.

There is more in the Pool Re strategy for the next few years, including the opportunity to develop the consulting arm, Pool Re Solutions, using the extensive knowledge of our team to improve the resilience of the UK and Members' understanding of terrorism risk. We will be examining how we can assist our Members and other businesses to comply with the new Protect Duty and will continue to work with Other Government Departments such as the Home Office and Homeland Security Group. These are just some of the challenges and opportunities ahead and Pool Re is a business well-equipped to meet the evolving terrorism threat. We look forward to continuing to play a vital role in the provision of terrorism reinsurance in the UK.

On a personal level, 2021 has also been a year of considerable change for Pool Re. I would first like to thank my predecessor, Geoff Riddell. Geoff was involved with Pool Re for many years and chaired the Board from early 2016 until March 2021, when he had to retire due to ill health. He consistently provided leadership and challenge to the business and he will be missed. We all wish him well for a full recovery.

Chair's Statement

We look forward to continuing to play a vital role in the provision of terrorism reinsurance in the UK.

I also owe a debt of gratitude to Andrew Skirton who, as Senior Independent Director, has helped steer Pool Re through 2021 and facilitated my smooth integration into the Company. Additionally, I would like to recognise the invaluable service of the other Directors who retired in 2021: Alan Brown, Bronek Masojada and Maurice Tulloch.

We are also losing our long serving and hugely respected CEO, Julian Enoizi. In November 2021, Julian announced his plans to leave Pool Re in the Spring of 2022 at the conclusion of the review. He joined Pool Re as Chief Executive in September 2013 and has served the Company with great enthusiasm and a passion for innovation. His tenure has been marked by a number of firsts: the first commercial retrocession programme for the company, now the world's largest stand-alone terrorism retrocession programme; the first insurance linked security covering terrorism risk; and the foundation of the International Forum of Terrorism Risk (Re)Insurance Pools, IFTRIP. In addition, the Company has developed a consulting arm, Pool Re Solutions, and has used its economies of scale to invest in R&D leading to ground-breaking risk mitigation initiatives in partnership with UK Government and the Counter Terrorism Police.

Other innovations during Julian's time include improvements in blast modelling, the introduction of more risk-reflective pricing, the extension of cover to include cyber and, via an Act of Parliament, non-damage business interruption. Julian has also increased engagement with the academic sector to further the understanding of both terrorism risk and its management. Both Julian and Pool Re have been the recipients of numerous awards in this last eight years and Julian leaves us as the current President of the Insurance Institute of London.

In closing, I am very pleased to announce the appointment of Tom Clementi as Pool Re's new Chief Executive. Tom joins us on 4 April, having previously held the position of CEO at MS Amlin Underwriting. Tom brings an exceptional understanding of the insurance industry and I am confident that he will lead Pool Re through the challenges and opportunities ahead with great energy and insight.

Angela Knight
Chair
18 March 2022

Chief Executive's Statement

After eight and a half years as CEO of Pool Re, this will be my final Statement for the Company's Annual Report. As we announced in November 2021, from the end of March of this year, I will be stepping down from my role, passing responsibilities directly to my successor. I do so with a deep optimism for the future of the Company, and gratitude for my time here. It has been a privilege to lead Pool Re through such a transformational period when the Company has consistently risen to significant political, economic and security challenges.

I would like to echo and add to the Chair's thanks to Geoff Riddell, Alan Brown, Bronek Masojada, and Maurice Tulloch, all of whom retired from the Board in 2021. All have been of long-standing and invaluable service to Pool Re, as well as friends and mentors to me personally, and I wish them well. I would also like to welcome the four Directors who joined in 2021. Claudio Gienal, Alan Rubenstein, and Adam Winslow have already made important contributions to the way in which Pool Re has navigated a critical period in its history. Meanwhile, I was delighted to have Angela Knight confirmed and appointed as Pool Re's Chair in November; her deep experience across politics, business, and member-based organisations gives her an invaluable perspective in leading the Pool Re Board, particularly at this time of important change and opportunity.

Review with HM Treasury

Originally due to conclude in spring 2021, our five-yearly Review with HM Treasury (HMT) was complicated by a number of factors, not least the ONS' 'public-sector' classification of Pool Re in February 2020 and the challenges that this gave rise to. Throughout 2021, Pool Re's Board and Management Team remained clear that the best outcome of the Review would be an arrangement which satisfied the requirements of Pool Re's public-sector classification, whilst ensuring that Pool Re's operational freedoms, ability to innovate, strategic direction, and ownership of industry assets were secured for the future.

We were therefore very pleased to eventually reach an agreement with our HMT partners which fulfilled these criteria, and to see them enshrined in the Framework Agreement and changes to the Retrocession Agreement confirmed by a unanimous vote in favour by Pool Re's Members at our General Meeting on 18 March 2022. Throughout 2021, the Review, protracted and at times challenging as it was, has given us welcome cause to collaborate and consult more closely than ever with Pool Re's full diversity of public and private stakeholders, and I am grateful to all those individuals and organisations who have played their part in securing this mutually beneficial result.

I am proud and glad that together we have navigated a highly unusual set of circumstances and policy challenges with almost no precedent, balancing a range of stakeholder needs to emerge with a revised operating framework which empowers Pool Re to continue to drive private market solutions and maximise commercial capacity in pursuit of greater national resilience to terrorism.

This operating framework makes provision for the Pool Re Board to remain responsible for setting the strategic direction of the company, its governance, and its control. It also confirms that the funds held by Pool Re remain in its ownership, albeit that they are available, as has always been the case, for the sole purpose of paying terrorism losses. Further, the current arrangements for the calculation of premium paid to HMT and the dividend arrangements remain unchanged.

Crucially for our Member insurers, the framework also confirms that Pool Re's unlimited guarantee from HMT will remain in place. Throughout the Review, HMT were keen to understand the implications of "capping" the unlimited guarantee that has been in place since the Scheme's inception. This was motivated at least in part by concerns over an open-ended liability in light of the ongoing financial fallout of the Covid-19 crisis. We were, and remain, very sympathetic to this concern, but have provided clear evidence throughout the Review to show that a cap would be extremely challenging from a capital and regulatory perspective, and highly detrimental to the quality and affordability of cover available to UK businesses.

HMT have been clear that the continued provision of the unlimited guarantee is premised on Pool Re continuing to proactively find ways to return risk to the market, a shared and exciting strategic vision that will be enabled by several areas of an ambitious 'Scope of Works', which has been agreed with HMT and which will run until our next review in 2026.

Areas of Focus in Pool Re and HM Treasury's Agreed 'Scope of Works'

Transition to 'Arm's Length Body' Status

The Pool Re Board and Staff will work together with HMT to fulfil the accounting, budgeting, and reporting requirements of an 'Arm's Length Body' of Government (ALB), as well as comply with new requirements and conditions arising from the new Framework Agreement.

Chief Executive's Statement

We have navigated a highly unusual set of circumstances and policy challenges with almost no precedent.

Modernising Pool Re's System of Reinsurance, Transferring Risk Back to the Private Market, and Increasing SME Uptake of Terrorism Insurance

For some years, Pool Re has been working towards the 2020 Review as an opportunity to deliver ambitious structural reforms to the Scheme by adopting a Catastrophe Treaty model, and introducing a bifurcated risk retention structure split between conventional and non-conventional (CBRN, cyber) terrorism. We are confident that this transition will empower Member insurers to drive product innovation and commercial return in the under-penetrated SME market, whilst balancing the need to preserve those elements of the model which for 29 years have provided solvency, certainty and confidence to carriers and their policyholders.

Pool Re continues to work closely with Members on the design of the reformed structure, to ensure that when implemented, it will provide more cost-effective reinsurance cover with less operational friction than the present facultative reinsurance framework permits. Combined with a more flexible retention structure to cater to individual carriers' terrorism risk appetites, these reforms will further accelerate the transfer of liabilities from the public to the private sector, over time reducing the market's reliance on HMT's guarantee, and in the meantime ensuring that the guarantee would only be called upon in areas of clear and ongoing market failure.

Investment in Risk Mitigation Projects and Pool Re Solutions' Capability

Pool Re will continue to develop and strengthen its partnerships with the Home Office and Counter Terrorism Police through a variety of strategic risk mitigation initiatives, notably Protect UK, an information sharing platform for UK businesses, developed with the Homeland Security Group and the Metropolitan Police. These and other investments detailed throughout this Report enable the Government's national strategy for countering terrorism (CONTEST) to leverage private insurance to 'scale our ability to tackle terrorism', recognising that 'the insurance industry has the potential to shape behaviour and improve safety, security and resilience'.

We will also continue to invest a prescribed percentage of the fund with the National Security Strategic Investment Fund (NSSIF) in collaboration with the British Business Bank. The NSSIF invests with venture capital managers who identify, support and promote innovative start-up technologies which may over time reduce the underlying risk posed by terrorism to Members' policyholders.

Further, Pool Re will continue to invest in research and development capabilities including pricing and modelling expertise, exposure management, and risk understanding and mitigation, as well as in acting as a convening power for UK terrorism risk expertise across academia, government, and the private sector. These capabilities and activities, formally introduced to the market in 2019 as Pool Re Solutions (PReS), have underpinned the Scheme's transformation from a passive funding mechanism in 2014 to a globally respected terrorism risk financing and management solution today. Since the last Review, they have enabled the fastest transfer of risk from the public to the private sector since the Scheme began, unlocking growing Member retentions, retrocession and ILS placements, and standalone segments of the market which no longer rely on Pool Re for support.

Explore Amends to the Definition of Terrorism Used by Pool Re

Pool Re will continue to work with Members, think-tanks, and the Home Office to assess whether the definition of terrorism used by the Scheme's founding legislation, the Reinsurance (Acts of Terrorism) Act 1993, is out of date, and if so, find pathways to harmonise the definition with the current threat landscape so as to provide certainty around the scope of cover provided by the Scheme.

Brief Reflections on Eight and a Half Years at Pool Re

The revised framework emerging from the Review with HMT and the attendant 'Scope of Works' establish a clear and unifying purpose for an organisation whose primary attribute has always been the inspiration of confidence in the UK economy.

Chief Executive's Statement

Terrorism is no longer an uninsurable peril because insurers and politicians partnered to create a model which allowed them to share a risk.

Nearly three decades on from the bombing of the Baltic Exchange and resulting market failure, terrorism is a far more complex and potentially more catastrophic risk, but one against which Pool Re and a growing, competitive insurance market combine to anchor the UK's financial resilience and instill confidence across the economy. Confidence to businesses that they will always have access to affordable and comprehensive protection against terrorism; confidence to insurers that no matter how big the claim, the pool stands behind them; confidence in society that its communities can build back better when they come under attack; and confidence to Government that it has one of the world's greatest insurance marketplaces standing between it and catastrophic attacks in the future.

Terrorism is no longer an uninsurable peril because insurers and politicians partnered to create a model which allowed them to share a risk which neither could address alone, or afford to remain unresolved. The Covid-19 crisis has once again reminded us that certain risks are too great to be transferred to the insurance industry alone, but too great also to be simply left uninsured and unmitigated on governments' balance sheets.

As I step back from Pool Re, I remain convinced that finding ways to more successfully share the burden of extreme risk, as the UK and other countries have done for terrorism, is going to be one of the industry's defining issues for a generation to come. Over the past year, I have felt very fortunate to be able to use my Presidency of the Insurance Institute of London to promote thinking in this area. Also, to have been able to work with members of Pool Re's Advisory Council, ReNew, on a submission to the Government's 'National Resilience Strategy' consultation, as well as with a cross-industry working group convened by Pool Re to support the delivery of the Government's 'Business of Resilience' agenda.

I will continue to follow these initiatives with a passion in the months and years ahead from my position as an Executive in Residence at the University of Cambridge's Centre for Risk Studies.

In closing, I would like to state what a honour it has been for me personally to have had the opportunity to lead this organisation. I have met many people along the way to whom I owe my heartfelt thanks: the excellent Board of Directors who have imparted their wisdom; our Members, who have supported the direction we have taken; HMT officials, as well as officials from other Government departments with whom we have developed a strong working relationship; academics specialising in the field; foreign pool CEOs; our advisors; our Regulators; all have made my job an especially gratifying and fulfilling one.

However, a special mention must be reserved for my colleagues and friends at Pool Re, in whom I have complete confidence during this important period of transformation. I owe them all a deep debt of gratitude, and know that their dedication and ingenuity mean that the Company's best days still lie ahead.

Julian Enoizi
Chief Executive
18 March 2022

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 2021 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 £6.9bn. A further £2.4bn of protection is provided under a commercial retrocession programme, attaching above the first £0.4bn 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 2021.

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. The Counter-Terrorism and Border Security Bill 2019 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 limits the extent to which the Company is able 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 fell to £279.4m (2020: £285.0m), reflecting the continuing difficult trading environment experienced by many policyholders in 2021.

The balance on the 2021 general business technical account was £7.3m (2020: £58.7m). This decrease reflected the £41.0m higher outward reinsurance premium in respect of 2021. There are two elements to our outward reinsurance; premium to HM Government which totalled £211.7m in respect of 2021 (2020: £173.6m), and £45.3m (2020: £44.8m) of commercial reinsurance protection reported in 2021.

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 10 June 2021 in respect of its 2020 results. The amount of the dividend paid was £31.1m.

No new claims were recorded in 2021 and there are no claims outstanding at 31 December 2021.

Investment income including net realised and unrealised gains and losses totalled £270.4m in 2021. This compares to an investment profit of £61.7m reported in 2020.

The amount allowed for taxation in 2021 was a charge of £37.9m. This relates to United Kingdom Corporation Tax and foreign withholding 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 £216.1m for the year ended 31 December 2021 (2020: £93.2m). After accounting for the dividend paid to Members in 2021, the accumulated balance on the Profit and Loss Account was £6,215.0m at 31 December 2021, 3.1% higher than the 31 December 2020 balance of £6,030.0m.

The investment fund (financial investments, accrued income and investment debtors, creditors and cash) rose from £6,640.6m at 31 December 2020 to a value at 31 December 2021 of £6,885.7m, reflecting the strong investment performance.

Section 172 statement and our stakeholders

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. The Board endeavours to understand the views of the Company's stakeholders and to consider how their interests have been addressed in board discussions and decision-making. The following are examples of this approach in respect of key initiatives in Pool Re's 2021 Business Plan.

Treaty reinsurance

In 2021 Pool Re embarked on a project to transition from its current facultative reinsurance to treaty-based reinsurance terms with each of its Members. This requires considerable investment in risk modelling and the design, creation and implementation of a new reinsurance framework. Treaty reinsurance will provide greater flexibility for Members to determine how much risk they bear themselves and how much is ceded to Pool Re. Treaty reinsurance could also help meet a key HMT objective of returning risk to the commercial insurance market where possible.

Strategic Report

Scheme pricing
Pool Re has undertaken lengthy actuarial analysis to support the proposition that the price of reinsurance should be lowered, with a view to making insurance more affordable and increasing SME uptake. This has been agreed with HMT and a new pricing structure will be included in a relaunched Underwriting Manual in 2022, so that Members can start passing on the benefit of these reductions to policyholders as soon as possible.

Pool Re Solutions
Pool Re Solutions, the consulting arm of Pool Re, plays a pivotal role in proactively finding ways to return risk to the market. To this end, our Risk Awareness and Risk Management proposition has been developed through 2021 to provide services for our Members and benefits for the insurance industry as a whole, as well as wider business sectors in the UK and international markets.

Enhanced capabilities, such as bespoke, complex consulting projects, sector risk reports and advice on forthcoming terrorism legislation are being delivered to our Members and their customers. This creates an environment where Members understand terrorism risk better and will be able to make an informed decision regarding retaining more of the risk.

Thought leadership
We believe in the importance of growing and sharing understanding of the terrorism risk with our wider stakeholders. An example of this was the highly successful Bio-Terrorism livestream event in March 2021 hosted by Pool Re. Further CBRN scenario development continues with Judge Business School and through a new working group known as the Bioterrorism Expert Advisory Group (BEAG) chaired by Lord Des Browne.

Vulnerability Self-Assessment Tool (VSAT)
VSAT has been designed for medium and large businesses, providing risk professionals and policyholders with the means to identify and tackle their security vulnerabilities. Moreover, businesses which can demonstrate the right level of security risk management may be eligible for a 7.5% discount on their terrorism insurance premium.

Risk mitigation initiatives
We continue to develop and strengthen our partnerships with the Home Office and Counter Terrorism Police through the support of strategic risk mitigation initiatives, notably Protect UK, an information sharing platform for UK businesses, developed with the Homeland Security Group and the Metropolitan Police.

The decision to help finance Protect UK is part of the broader strategic vision to build the UK's resilience to terrorism and create an environment which facilitates businesses' understanding of terrorism risk.

Insurance Linked Security (ILS)
Pool Re's ILS issuance resulted from engagement with ILS investors, HM Treasury and the PRA. The transaction supports 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 groundwork was carried out through 2021 for a 144(a) catastrophe bond offering in March 2022.

National Security Strategic Investment Fund (NSSIF)
In a collaboration with the British Business Bank, Pool Re is actively investing alongside the bank's NSSIF fund. The NSSIF invests with venture capital managers who identify, support and promote innovative start-up technologies which may over time reduce the underlying risk posed to Members' policyholders.

The Board also considers how decisions regarding management of the Pool Re business impact stakeholders' interests. We continue to develop our approach to Environmental, Social and Governance (ESG) issues. This encompasses both Pool Re's office practices and the management of our investment fund. Our commitment to ESG matters is illustrated by our adoption of the UN Principles for Responsible Investment and by subscribing to the Carbon Disclosure Project.

The Board has discussed the PRA Supervisory Statement 3/19 (SS 3/19) which requires banks and insurers to enhance their monitoring of the financial risk from climate change. An internal exercise has been undertaken to embed climate risk in our risk management framework and strategic decision-making processes.

Pool Re continues to develop its suite of HR initiatives to retain, develop and encourage first class performance from our staff. Pool Re's core values, which are Bold, Excellent, Innovative, Personable and Collaborative, guide the Company's decision-making process. We conducted an anonymous employee survey in November 2021, providing the opportunity for employees to give their views on working at Pool Re. The results were generally very positive with 92% of staff responding that they were very or fairly satisfied with their jobs. The survey output is subsequently shared with the Executive and the Board and the key themes feed into our HR agenda for 2022.

Furthermore, regular presentations and updates about the business and the office culture 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 that the Board consider necessary for an understanding of the Company's business.

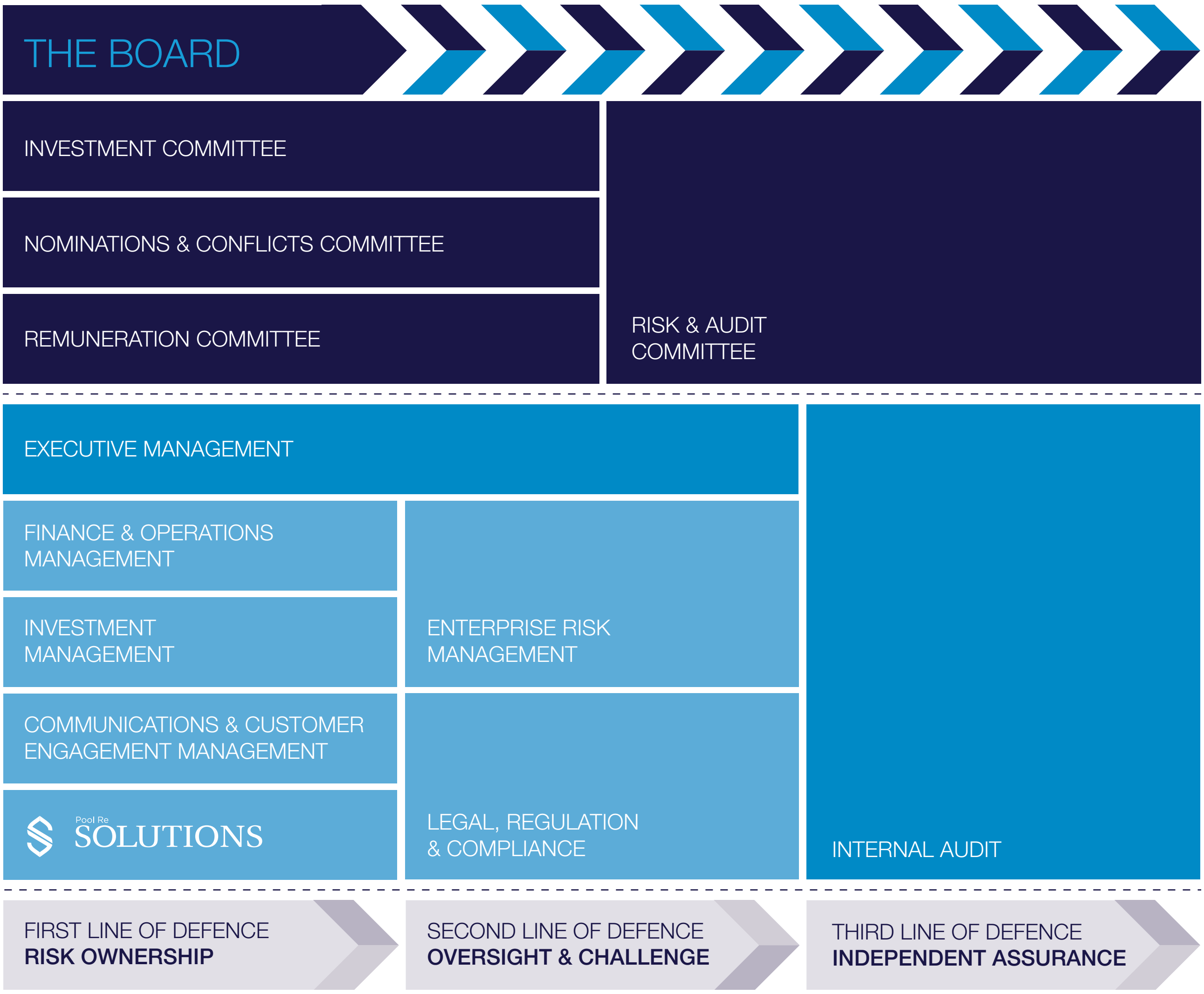
Governance

The Board is responsible for establishing effective risk governance and a system of internal controls 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 Company operates a "three lines of defence" risk management and governance framework.

- The Executive Management and staff of Pool Re form the first line of defence, responsible for ownership and management of risks that might impact upon the Company's objectives as set out in the Risk Framework which is agreed by the Board.
- 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.



Strategic Report

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 Pool Re Board sets the culture, governance strategy and approves the risk appetite. The risk 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 effectiveness of the Company's risk management framework and its system of internal controls are reviewed by an external provider of internal audit services. Reports on such reviews, including recommendations and management responses, are considered by the Risk and Audit Committee and Board.

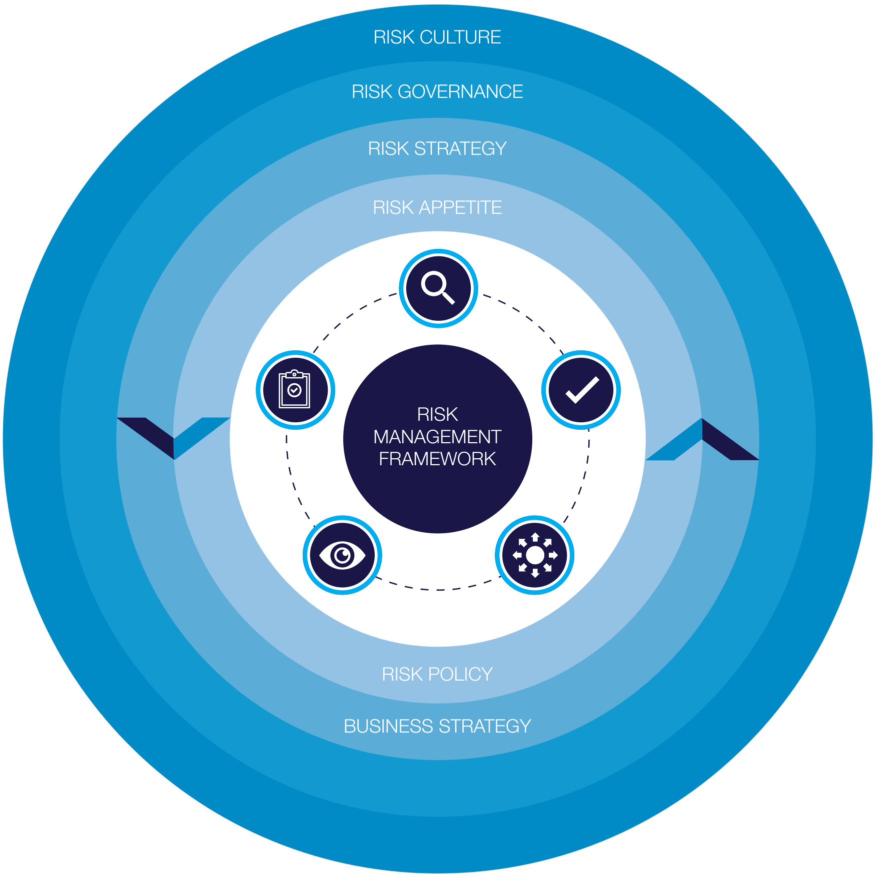
Identify Risk – The Company reviews both its environment and its internal operations on a bi-annual basis to identify areas where risks can occur.

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

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

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

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



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
1 Strategic Risk The Company is exposed to strategic risk through the external business environment, the changing terrorism threat, delivery of its business strategy, risks to its reputation and environmental, social and governance concerns.	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 strategy in conjunction with the commitment to develop plans and contingencies that reflect changes in the external environment whether political, regulatory, economic, social, technological, legal or environmental. ESG concerns in regards to climate change present 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, risks to the investment fund and throughout the business in areas of operational risk. 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.
2 Financial Risk The Company is exposed to financial loss or gain arising from Insurance, Market, Credit or Liquidity risks which could lead to financial loss or gain and/or reputational damage.	The Company's approach to the management of financial risk is considered below in the context of insurance, market, credit or liquidity risk management.
2.1 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 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.

Strategic Report

Principal Risks	Key Risk Mitigants and Controls
2.2 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 relatively 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.
2.3 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 the use of high-quality counterparties and setting appropriate investment limits with individual or group counterparties and reinsurance counterparties. This risk and its mitigations are described further in note 5(b) to the financial statements.
2.4 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.
3 Operational Risk The Company is exposed to operational risk in cases 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.

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.

The Russian invasion of Ukraine in February 2022 is a humanitarian catastrophe and a major geo-political concern. Pool Re has no Russian or Ukrainian reinsurance exposures; it is too soon to judge anything other than the short-term impact on global markets and Pool Re's investment fund, but this will be kept under review as the situation develops.

By Order of the Board
Rhod Cruwys
General Counsel and Company Secretary
18 March 2022

The Board, Executive Management and Corporate Information

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.

Angela A Knight CBE ★ O ✠ *Chair of the Board*
Angela Knight joined Pool Re in November 2021 as Chair of the Board. Angela's current non-executive directorships include Encore Capital Group Inc, Provident Financial Group plc, Taylor Wimpey plc (until April 2022) and Arbuthnot Latham Ltd. Prior to joining Pool Re, Angela was the Senior Independent Director at TP ICAP plc and Chair of the Office of Tax Simplification. She has extensive experience in both the public and private sectors, having been a Member of Parliament and Treasury Minister (Economic Secretary), and prior to that worked for many years in the engineering industry. Since Parliament, she has been the Chief Executive of the British Bankers Association and the CEO of Energy UK, as well as serving on several company Boards.

Geoffrey M Riddell ★ O ✠ *Chair*
A Director since August 2015 and Chair from 1 February 2016, Geoff Riddell retired from the Board on 19 March 2021.

Alan J Brown FSIP ★ ✠
A Director since July 2008 and Chair of the Investment Committee, Alan Brown retired from the Board on 10 June 2021.

Claudio Gienal ✠
Joined the Board of Pool Re in March 2021. Claudio Gienal is Chief Executive Officer of AXA UK and Ireland, a position he assumed in September 2018. Prior to that, he served as Chief Strategic Officer for the AXA Group. A Swiss national, Claudio has a master's degree in environmental engineering from the Swiss Federal Institute of Technology in Zurich. He began his career as a management consultant, working for Accenture and later McKinsey & Company. He entered the insurance industry in 2008 by joining Zurich, where he held a number of senior positions including Chief Strategy Officer for Zurich Group and CEO of the Zurich Life Insurance Company.

Denise N Jagger ✠
A Director since January 2014 and Chair of the Remuneration, Nominations and Conflicts Committee. Denise is a corporate lawyer by background having worked in private practice and industry. Formerly a partner at Eversheds Sutherland LLP and General Counsel and Company Secretary of Asda Group, she is currently Senior Independent Director of Bellway Plc, non-executive Director of CLS Holdings plc, Chair and Pro Chancellor of the University of York, Trustee of the National Trust and Chair of St Giles Trust.

Bronislaw (Bronek) E Masojada ✠
A Director since May 2015, Bronek Masojada retired from the Board on 31 December 2021.

Barbara J Merry ★ O *Chartered Accountant*
Barbara Merry has been a Director since February 2019 and has Chaired the Risk and Audit Committee since late 2019. Barbara was formerly employed at the Corporation of Lloyd's (1985-1999), as MD of Omega Underwriting (1999-2001) and as CEO of Hardy Underwriting Group plc (2002 to 2014). She is now a portfolio non-executive director with Domestic & General Insurance Limited, Berkshire Hathaway International Insurance Limited and BGC Brokers LP/BGC European Holdings LP.

Matthew Moore ★
Matthew Moore joined the Board of Pool Re in March 2022. Matthew is President and Managing Director of Liberty Specialty Markets, a global specialty and reinsurance business. He was previously LSM Group Chief Underwriting Officer and Active Underwriter of Syndicate 4472. He is a board member of the Lloyd's Members Association and the current Chair of the London Market Group. He was educated at Oxford University and began his insurance career as a Lloyd's graduate trainee.

Dame Susan Owen O ✠
Dame Sue Owen DCB was appointed to the Board on 1 July 2020, following nomination by HM Treasury. She is an economist with over 30 years' experience in Government, including 14 years at Treasury. She led the Department for Digital, Culture, Media & Sport from 2013-19, having also worked in the British Embassy Washington, No. 10, International Development and as Strategy Director General in Work & Pensions. Having retired from the civil service in 2019, Sue now chairs the Governors of the Royal Ballet and, in addition to her role at Pool Re, she is a non-executive Director at Pool Re Nuclear, Serco plc, Pantheon International plc, Methera Global Communications and Opera Holland Park, and a member of the DAF NV Supervisory Board.

Alan M Rubenstein ★ ✠
Alan Rubenstein joined the Board of Pool Re in March 2021 as an independent non-Executive Director. He is the Chair of the Investment Committee. Alan was formerly the Chief Executive of the Pension Protection Fund, having previously worked in investment banking, asset management, pensions and insurance in the course of a forty-year career in financial services. Now a portfolio non-executive director, he currently chairs the Board of the National House Building Council, and is a member of the Boards of Fidelity International's UK holding company and subsidiaries, and of the British Coal Staff Superannuation Scheme.

The Board, Executive Management and Corporate Information

Andrew G Skirton ★ O ✠ ❖
A Director since December 2011, Andrew Skirton is the Company's Senior Independent Director. He was acting Chair of the Company between March – December 2021. Andrew was non-executive Chair 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, Maurice Tulloch retired from the Board on 10 June 2021.

Adam C Winslow O
Adam Winslow joined the Board of Pool Re in November 2021. He has been Chief Executive of Aviva, UK and Ireland GI, since 2021. Prior to joining Aviva, Adam worked at AIG from 2015 and was Chief Executive Officer, Global Life Insurance and CEO, International Life and Retirement. Before that, he was Director of Strategic Partnerships at Aviva.

★ 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 (resigned March 2022) 1
Thomas C Clementi (appointed April 2022) 2

Chief Finance and Operations Officer
Peter N Aves FCA 3

Chief Resilience Officer
Edward A Butler CBE 4

Chief Underwriting Officer
Stephen M Coates ACII 5

Chief Investment Officer
Ian M Coulman MCSI 6

General Counsel & Company Secretary
Rhodri Cruwys 7

Chief Strategy & Communications Officer
Tracey Paul 8

Corporate Information

Registered in England, United Kingdom

Registration number 2798901

Registered office
7 Savoy Court
London WC2R 0EX

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

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 2021.

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 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. While during the period the Company was neither required to comply with the UK Corporate Governance Code or 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.

Historically, the Board has held four quarterly meetings each year, which is increasing to six from 2022. At these meetings, 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 hold an annual strategy session and meet ad hoc as necessary to discuss any material matters as they arise. During 2021 the Board met on 11 occasions, reflecting the needs of the business during the HMT Review.

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 Chair, 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 Chair, 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 currently consists solely of non-executive Directors, including a non-executive Chair. Brief biographical details of the current Directors are set out on pages 9 and 10. On appointment, Tom Clementi, our incoming CEO will be appointed to the Board as an executive Director. The Directors who served during the year and up to the date of signing the financial statements were:

A A Knight CBE (appointed 29 November 2021)
G M Riddell (resigned 19 March 2021)
A J Brown (resigned 10 June 2021)
C Gienal (appointed 29 March 2021)
D N Jagger
B E Masojada (resigned 31 December 2021)
B J Merry
M Moore (appointed 14 March 2022)
Dame Susan Owen
A Rubenstein (appointed 22 March 2021)
A G Skirton
M E Tulloch (resigned 10 June 2021)
A C Winslow (appointed 15 November 2021)

The power to appoint Directors rests solely with the Board. The Articles provide that the number of Directors in office at any one time shall be between three and twelve.

The size and composition of the Board is kept under review to ensure an appropriate balance of independence, expertise and experience to support the strategic and operational direction of the Company and to provide effective challenge. Regardless of the number of Directors, a majority shall be independent Non-Executive Directors. Director appointments are undertaken with the support and assistance of executive search and leadership advisory firms.

The Articles of Association allow HM 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. Dame Susan Owen is the Director appointed following nomination by HM Treasury.

The Company recognises that a Board of Directors having diverse experience, qualifications and knowledge is likely to promote more effective challenge, and that a wider range of perspectives will help it to identify a greater range of risks to the business and be better placed to appreciate and manage their impact. Board appointments and succession plans are based on merit and objective criteria and, within this context, should promote diversity. Diversity extends beyond gender and ethnicity, to include areas such as social background, age and sexual orientation, as well diversity of experience and cognitive and personal strengths, all of which are likely to bring some level of competitive advantage. 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 Board considers annually the ongoing independence of each Director, taking into account the period they have served, whether they are also Directors of companies within groups that cede business to Pool Re or whether they have been appointed by significant counterparties. The Board has determined that, as at the date of this statement, all of its Directors continue to be independent in character and judgement.

In accordance with the Articles of Association of the Company, all Directors must retire and seek election at the first Annual General Meeting following their appointment, and all Directors who have served continuously for more than nine years must retire and seek re-election at each Annual General Meeting. With the exception of the nominee of HM 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:

- Angela Knight will seek confirmation
- Adam Winslow will seek confirmation
- Andrew Skirton will retire
- Claudio Gienal will retire by rotation and will seek re-election
- Alan Rubenstein will retire by rotation and will seek re-election

At the Company's upcoming AGM in June, Member approval for a number of changes to the Articles of Association will be sought. One of these changes will be to implement the annual re-election of Directors, which will bring the Company's practice in line with the UK Corporate Governance Code.

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 Rubenstein 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:

- **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 or more 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 three times during the year. 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 on the existence and valuation of financial investments. 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. Following a tender process, the Committee appointed a new internal audit firm to replace the previous firm that had served for more than six years.
- **Internal audit reports** are reviewed by the Committee and the outsourced internal auditors report to the Committee at meetings of the Committee.
- **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 Chair without management being present.
- **Non-audit services** – The Committee regularly reviews and monitors the external Auditor's independence and objectivity. As part of this, it considers the nature and extent of any services supplied by the external Auditor to ensure that independence is maintained.

The **Remuneration, Nominations and Conflicts Committee** is chaired by Denise Jagger and comprises five Directors. The Committee held two scheduled meetings during the year in addition to several meetings to develop and complete the successful nomination and recruitment of Angela Knight as Chair and of Claudio Gienal, Alan Rubenstein and Adam Winslow as non-executive Directors. A summary of the Committee's principal activities is as follows:

- **Remuneration** – The Committee is responsible for considering and setting the overall remuneration policy for the company and in particular its application to the Chief Executive and, upon his recommendation, its application to the senior management team. In doing so it reviews and agrees performance objectives for the Chief Executive and the senior management team which are aligned with the company's objectives. It receives regular performance updates and ensures the fair and consistent application of the elements of the remuneration policy which comprise salary, bonus and a long term incentive. In fulfilling its duties it receives advice from appropriately qualified external advisers.
- **Nominations** – The Committee has been and continues to be engaged in the process for identifying suitable candidates to fulfil vacant Director roles and to consider and make recommendations to the Board on the Company's succession plans.
- **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.

As a result of a governance review implemented by Angela Knight following her appointment, this Committee is to be restructured into a standalone Remuneration Committee, which will continue with the same membership and Committee Chair, and a separate Nominations and Governance Committee, comprising all non-executive Directors and Chaired by Angela Knight. These changes are expected to be implemented by mid-year.

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. During the year, the Board met on eleven occasions, necessitated by a combination of matters arising out of the pandemic, the HM Treasury review and business as usual.

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 2021.

	Board	Risk and Audit Committee	Investment Committee	Remuneration, Nominations & Conflicts Committee
A A Knight [1]	1 (1)	0 (1)		0 (1)
G M Riddell [2]	0 (3)	0 (1)	0 (1)	
A J Brown [3]	6 (6)		2 (2)	1 (1)
C Gienal [4]	7 (8)			
D N Jagger	11 (11)			2 (2)
B E Masojada	11 (11)			2 (2)
B J Merry	10 (11)	3 (3)	4 (4)	
Dame Susan Owen	10 (11)	3 (3)		1 (2)
A M Rubenstein [5]	8 (8)		3 (3)	1 (1)
A G Skirton	11 (11)	3 (3)	4 (4)	2 (2)
M E Tulloch [6]	6 (6)			
A C Winslow [7]	2 (2)			

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

1 A A Knight (appointed 29 November 2021)
2 G M Riddell (resigned 19 March 2021 due to ill health)
3 A J Brown (resigned 10 June 2021)
4 C Gienal (appointed 29 March 2021)
5 A Rubenstein (appointed 22 March 2021)
6 M E Tulloch (resigned 10 June 2021)
7 A C Winslow (appointed on 15 November 2021)

Performance Evaluation

Each year the Board undertakes an evaluation of its performance. Every three years, the evaluation process includes an assessment undertaken by external board performance consultants, intervening years being undertaken through self-assessment. In 2021, the Board and Committees resolved to postpone that year's evaluation until completion of the review with HMT which it was anticipated would result in new governance arrangements for Pool Re as a result of Pool Re having been administratively classified by the Cabinet Office as an unclassified Arm's Length Body. In 2022, the evaluation process will be undertaken as usual by self-assessment.

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. Members last resolved to approve an increase in the annual aggregate limit applicable to Directors' fees at the 2020 Annual General Meeting, increasing the limit to £600,000.

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 Angela Knight, also receive further fees to reflect the additional time commitment involved.

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

Dividend

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.

In June 2021 the Company paid a dividend to Members of £31.1m (2020: £77.6m) in proportion to premium ceded during the preceding year.

Environmental, Social and Governance

The Board is keen to ensure that the Company and its operations adhere to high standards of governance, probity and sound, ethical practices. It takes account of its impact on the environment and the beneficial effect it can have on society through a range of environmental and socially responsible initiatives in which the entire workforce are engaged.

The Company has an internal working group, the Core Values Group, whose role is to consider new schemes and initiatives designed to support environmental sustainability and positive societal contribution within our community and further afield.

The impacts of the Covid-19 pandemic continue to highlight the importance of employee wellbeing. At Pool Re we offer a range of services to our staff to help them maintain their physical and mental health, including access to counselling and support networks and inclusive social activities designed to strengthen team bonds. Anonymous staff surveys are undertaken periodically to understand how well staff consider we are performing in this regard, the results of which and any identified actions are shared with the whole team.

Remote working during the pandemic accelerated our move towards a paperless office and we are determined to maintain the gains made in this area as we move towards a blended working pattern. The COP26 summit shone a light on the urgency with which global climate change challenge must be tackled. Pool Re is a signatory to the Carbon Disclosure Project, the global standard for environmental reporting and became a signatory of the UN-backed Principles for Responsible Investment (PRI) which works to promote a more sustainable global financial system. We continue to develop our climate change strategy and are seeking to develop climate-related metrics for our investments with the use of a renowned third-party data platform to inform us of the transition and physical risks the fund faces. This is a core element of our ongoing Investment Strategy Review, which should be completed this year. Furthermore, with the exception of controversial weapons which are prohibited investments, we seek to ensure the investment managers who invest on our behalf engage with the companies in which they invest to bring about the necessary change in company policy and business practices to enable the fund to be carbon neutral by 2050.

As referenced in our Directors' Report above, we recognise the benefits that diversity and inclusion within the team can bring. Through our recruitment practices we seek to ensure that these factors are embedded into our searches for new colleagues at all levels. A new way in which we are promoting this agenda is through our participation in the 10,000 Black Interns programme, which provides a paid internship across a wide range of sectors each year, providing critical training and development opportunities.

Donations

The Company has a policy that it does not make political 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 donations made during 2021 (with any 2020 donations in brackets) were as follows: AgeUK £8,000 (£16,000); £100 City Giving Day; £15,000 Survivors against Terrorism; and The Royal British, Lloyd's & City Branch £10,000 (£10,000).

Values and Culture

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 includes an articulation of Core Values, wellness initiatives, 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 and has appropriate policies and regular training in place to maintain this approach.

Tax Evasion

The Company adopts 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. Denise Jagger, one of our non-executive Directors, is our Whistleblowers' Champion. In this role, she is responsible for ensuring and overseeing the integrity, independence and effectiveness of our whistleblowing framework.

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 size of the investment fund and the Retrocession Agreement with HM Government, that the Company has adequate financial resources to continue to operate for the foreseeable future which is, but not limited to, at least 12 months. For this reason, it considers the going concern basis appropriate for the preparation of the 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 has two subsidiary undertakings, Pool Re Solutions Limited and Pool Re Services Limited both of which are currently dormant. In 2020, the Company was classified by the ONS to the Central Government Subsector 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. As a consequence the Cabinet Office has classified the Company for administrative purposes as an unclassified Arm's Length Body ("ALB") of HM Treasury. The ONS classification and the ALB classification do not affect the separate legal personality of Pool Re, or that its assets (including reserve funds) belong to Pool Re.

Independent Auditor

The Board's policy on the provision of non-audit services to the Company by the Auditor is to permit such work to be performed in areas where it is appropriate, and provided that this does not compromise 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
18 March 2022

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 2021 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 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:

- Valuation and existence of financial investments and derivatives

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

The materiality that we used in the current year was £108.8 million which represents 1.75% 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- A challenge of the budget for the 12 months to March 2023 and its underlying assumptions, which included the availability of cash resources and the ability to readily convert other assets into cash; and
- An assessment of the arithmetic accuracy of the model.

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

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

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.

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

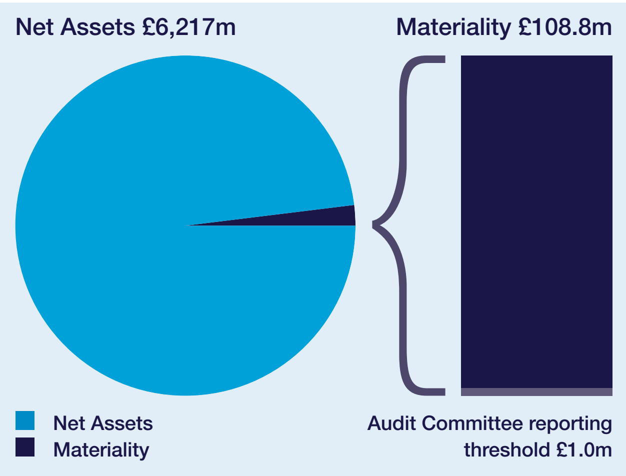
5.1 Valuation and existence of financial investments and derivatives	
Key audit matter description	As at 31 December 2021 the financial investments and derivatives balances stood at approximately £6.9 billion (2020: £6.7 billion), equating to 97% (2020: 97%) of total assets of the Company. Changes in 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 1.5% 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 fixed income securities, equities and commodities and excluding cash and cash equivalents. As at 31 December 2021 the Company had a net derivative asset position of £21 million. The valuation of these derivatives can be complex, and we identified a significant 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 2021 audit. Further details are included within the strategic report on pages 8 to 13, critical accounting estimates and judgements note in note 4 and note 12 to the financial statements.
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 derivatives. 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 BNYM's SOC1 report covering the full reporting period in order to attest the operating effectiveness of relevant 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 98.7% of financial investments excluding cash and cash equivalents through obtaining price data from reputable third-party sources. Additionally, we have reconciled the prices in the accounts to those obtained from BNYM. We have tested the valuation of derivative financial instruments and 0.13% of the remaining investments through involving our in-house financial instruments and complex pricing specialists, respectively, in pricing these investments independently. 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 2021 and reconciling these to the general ledger.
Key observations	We completed our procedures and we concluded that the valuation and existence of financial investments and derivatives is appropriate.

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	£108.8 million (2020: £105.2 million)
Basis for determining materiality	1.75% (2020: 1.75%) 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 2021 audit (2020: 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 years.

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 £1 million (2020: £1 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 Company 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.

8 Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

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.

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, the key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including the financial instrument and complex pricing specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation and existence of financial investments and derivatives. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this ontext included the UK Companies Act, tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's regulatory market and solvency requirements set by the FCA and the PRA, respectively.

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation and existence of financial investments and derivatives as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12 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.

13 Matters on which we are required to report by exception

13.1 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
- certain disclosures of directors' remuneration specified by law are not been made; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14 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
18 March 2022

Profit and Loss Account

for the 12 months to 31 December 2021

Technical account – general business

	Notes	2021 £000	2020 £000
Gross premiums written	6	**279,377**	284,976
Outward reinsurance premiums	6	**(257,015)**	(218,331)
Net premiums written		**22,362**	66,645
Change in the gross provision for unearned premiums	17	**4,083**	15,061
Change in the provision for unearned premiums, reinsurers' share	17	**(2,012)**	(7,321)
Earned premiums, net of reinsurance		**24,433**	74,385
Claims paid – gross amount		**–**	–
Change in provision for claims – gross amount		**–**	–
Claims incurred, net of reinsurance		**–**	–
Other income		**7**	101
Net operating expenses	7	**(17,179)**	(15,776)
Balance on the general business technical account		**7,261**	58,710

Non-technical account

	Notes	2021 £000	2020 £000
Balance on the general business technical account		**7,261**	58,710
Income from financial assets at fair value through profit and loss	10	**130,294**	127,696
Net (losses)/gains on the realisation of investments	10	**(1,755)**	96,026
Net unrealised gains/(losses) on investments	10	**141,836**	(161,994)
Investment income		**270,375**	61,728
Investment expenses and charges	10	**(23,708)**	(23,179)
Investment return		**246,667**	38,549
Profit on ordinary activities before tax		**253,928**	97,259
Tax charge on profit on ordinary activities	11	**(37,872)**	(4,058)
Profit for the financial year after tax		**216,056**	93,201
Profit for the financial year transferred to Profit and Loss Account reserves		**216,056**	93,201

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 55 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2021

	Notes	2021 £000	2021 £000	2020 £000	2020 £000
Assets					
Investments					
Other financial investments	12		**6,865,734**		6,711,872
Reinsurers' share of technical provisions					
Provision for unearned premiums	17		**76,833**		78,845
Debtors					
Debtors arising out of reinsurance operations	15	**76,795**		75,533	
Other debtors	16	**23,795**		1,153	
			100,590		76,686
Other assets					
Tangible assets	13	**389**		721	
Cash at bank and in hand	14	**32,168**		23,908	
			32,557		24,629
Prepayments and accrued income					
Accrued income		**24,767**		32,865	
Other prepayments		**979**		749	
			25,746		33,614
Total assets			**7,101,460**		6,925,646
Liabilities					
Capital and reserves					
Profit and Loss Account	22		**6,214,952**		6,029,964
Financial liabilities					
Other financial investments	12		**11,597**		124,460
Technical provisions					
Provision for unearned premiums	17	**139,018**		143,100	
Claims outstanding		**–**		–	
			139,018		143,100
Creditors: amounts falling due within one year					
Creditors arising out of reinsurance operations	18	**257,083**		188,053	
Other creditors including taxation and social security	19	**38,524**		5,282	
			295,607		193,335
Creditors: amounts falling due after more than one year					
Creditors arising out of reinsurance operations	18		**395,086**		425,382
Accruals and deferred income			**5,374**		5,394
Provisions	20		**39,826**		4,011
Total liabilities			**7,101,460**		6,925,646

The financial statements on pages 28 to 31 were approved by the Board of Directors on 18 March 2022 and signed on its behalf by:

Angela Knight
Chair

Barbara Merry
Director

Company number: 2798901

The notes on pages 32 to 55 form an integral part of these financial statements.

Statement of Changes in Equity

for the 12 months to 31 December 2021

	Notes	2021 £000	2020 £000
Profit and Loss Account reserves as at the beginning of the year		**6,029,964**	6,014,375
Profit for the year		**216,056**	93,201
Dividend paid	23	**(31,067)**	(77,612)
Profit and Loss Account reserves as at the end of the year		**6,214,952**	6,029,964

The notes on pages 32 to 55 form an integral part of these financial statements.

Statement of Cash Flows

for the 12 months to 31 December 2021

	Notes	2021 £000	2020 £000
Net cash from operating activities	21	**62,666**	(16,806)
Taxation paid		**(12,831)**	(29,513)
Interest paid		**(14,061)**	(16,789)
Net cash generated/(used) in operating activities		**35,774**	(63,108)
Net cash from investing activities			
Purchases of tangible assets		**(96)**	(140)
Interest received		**130,294**	127,696
Proceeds from sale of other financial investments		**10,373,581**	13,572,184
Purchase of other financial investments		**(10,492,666)**	(13,652,691)
Net cash generated in investing activities		**11,113**	47,049
Net cash from financing activities			
Dividend paid		**(31,067)**	(77,612)
Net increase/(decrease) in cash and cash equivalents		**15,820**	(93,671)
Cash and cash equivalents at beginning of the year		**85,892**	179,563
Cash and cash equivalents at end of the year		**101,712**	85,892
Cash and cash equivalents consist of:			
Cash at bank and in hand		**32,168**	23,908
Short term deposits presented within other financial investments		**69,544**	61,984
Cash and cash equivalents		**101,712**	85,892

The notes on pages 32 to 55 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 pound 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 salaries, holiday pay, accrued bonuses and pension contributions, are recognised in the period in which employees provide the services to which the payments relate.

(ii) Defined contribution pension plan

The Company operates a defined contribution pension plan for its employees. Under the pension plan the Company pays fixed contributions to an independently administered pension fund. 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.

(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 the transactions or events result in an obligation to pay more tax in the future or a right to pay less tax in the future, 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. 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.

Interest rate benchmark reform

In the current year the Company has adopted the Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform (Phase 2), in line with the mandatory effective date of 1 January 2021. In December 2019 the Financial Reporting Council (FRC) issued Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform (known as Phase 1). Phase 1 amendments modify specific hedge accounting requirements as a result of the interest rate benchmark reform – the Company does not apply the provisions in FRS 102 relating to hedge accounting.

Phase 2 amendments are relevant to the Company as it applies to some of the Company's derivative and non-derivative financial investments and creditor balances. Details of the derivative and non-derivative financial investments and creditor balances affected by interest rate benchmark reform together with the actions taken by the Company to manage the risks in relation to the reform are disclosed in Note 5.

The amendments are relevant for the following types of financial assets and liabilities of the Company that reference inter-bank offered rates (IBORs); investments in variable rate debt securities and term loans and the creditor balance with HMT.

The application of the amendments impacts the Company's accounting in the following ways:

Where the contractual terms of the Company's financial assets and liabilities are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Company changes the basis for determining the contractual cashflows prospectively by revising the effective interest rate.

The Company has elected to apply the practical expedient in FRS 102 paragraph 11.20C to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability.

3 Summary of significant accounting policies

(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 three layers totalling £2,475m attaching at £400m, which includes £75m provided by Baltic PCC sitting in a notional sub-layer of the second layer alongside the traditional retrocession. Cover is placed 100%. The price paid for the period 1 March 2021 to 28 February 2022 of £40.4m includes broker commission and equates to a signed rate on line of 1.68. 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 first incepted in 2019 to reflect the extension of Pool Re's cover to include non-damage business interruption. This is a 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 £20m attaching at £15m. The price paid for the period 1 March 2021 to 28 February 2022 of £325k includes broker commission and equates to a signed rate on line of 1.62.

On 25 February 2019, the Company placed a three-year insurance linked security (ILS) bond with a principal amount of £75m, 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) had an initial interest spread of 5.90%, with an updated interest spread of 6.09% as of 2 February 2021 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 the ILS and commerical retrocession participants sharing losses at a ratio of 37.5/62.5 respectively up to 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	2017 £000	2018 £000	2019 £000	2020 £000	**2021 £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	2017 £000	2018 £000	2019 £000	2020 £000	**2021 £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 2021.

(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 one liquidity risk measure 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.

	2021 £000	2020 £000
Notional exposure to equity markets	**864,029**	892,108
Sensitivity to 30% movement in value of equities	**259,209**	267,461
Total equity market exposure	**12.6%**	13.5%

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.

	2021 £000	2020 £000
Notional exposure to commodity markets	**209,345**	208,720
Sensitivity to 30% movement in value of commoditie	**62,803**	62,616
Total commodity market exposure	**3.1%**	3.2%

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.

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.

	2021 £000	2020 £000
Notional exposure of assets to interest rate risk	**5,703,158**	5,385,660
Notional exposure of liabilities to interest rate risk	**–**	10
Sensitivity to 0.5% movement in interest rates	**49,964**	46,353
	Years	Years
Average modified duration	**1.65**	1.72

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 £650,315k (2020: £611,431k). This exposure relates to outward retrocession premium payable to HM Government falling due within one year of £255,229k (2020: £186,049k) and outward retrocession premium payable to HM Government falling due after more than one year of £395,086k (2020: £424,877k).

Interest rate benchmark reform

The Company is exposed to the following interest rate benchmarks which are subject to interest rate benchmark reform: GBP LIBOR, EUR LIBOR, USD LIBOR and CAD LIBOR (collectively 'IBORs'). The exposures arise on non-derivative financial assets and liabilities e.g. investment in variable rate debt securities, term loans and creditor balances.

The Company has been working closely with relevant stakeholders, specifically HMT and outsourced Investment Managers to ensure the transition of instruments that utilise IBORs as the benchmark reference rate is undertaken in an orderly manner and one that reduces the risks associated with the transition.

The key risks that the Company identifies in relation to interest rate benchmark reform are as follows:

Interest rate basis risk

If financial instruments that utilise IBORs as a benchmark reference rate are not transitioned before the cessation of IBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered in to.

Operational risk

The Company appoints external Investment Managers to manage the Company's investment portfolio. The information asymmetry between the Company and its Investment Managers places a reliance on the managers' internal controls to identify impacted instruments and to ensure their successful transition to an alternative benchmark interest rate.

The Company does not consider liquidity or accounting risks as a result of interest rate benchmark reform to have a material impact.

Management of risks and progress towards implementation of alternative benchmark rates

The Company has been working with its Investment Managers to ensure that all instruments that have IBORs as the sole benchmark rate, with no fallback clauses, are disposed of prior to the cessation of IBORs. Additionally all new instruments acquired should include a fallback clause for the transition to an alternative benchmark rate. The Company has also agreed with its significant creditor, HMT, to transition to an alternative benchmark rate as of 1 January 2022.

At 31 December 2021 the Company has the following non-derivative financial assets and liabilities exposed to interest rate benchmark reform:

	Notional £000	Market Value £000	Transition progress
Financial assets			
Variable rate debt securities	1,091,570	843,568	IBOR only contracts to be disposed prior to cessation,
Term loans	20,493	16,175	future contracts should contain fallback clauses
Financial liabilities			
Creditor with HMT	650,315	650,315	Transitioned to SONIA on 1 January 2022

The Company does not hold any derivative financial assets or liabilities that reference IBORs as a benchmark interest rate. The Company has advised its Investment Managers that any future derivative contracts entered into must provide for a fallback clause in the International Swaps and Derivatives Association's (ISDA) agreement. This ensures all trades, on cessation of IBOR, follow the fallback clause in the agreement.

5 Management of insurance and financial risk

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.

	2021 £000	2020 £000
Unhedged investments	**513,348**	508,650
Sensitivity to 25% weakening in value of Sterling on unhedged investments	**171,877**	169,131
Sensitivity to 25% strengthening in value of Sterling on unhedged investments	**(102,213)**	(109,981)

The table below shows the increase/decrease in profit from a 25% weakening/strenghtening of Sterling against the Company's top five unhedged foreign currency exposures.

	2021 Fair value of asset £000	**2021 Increase in profit £000**	**2021 Decrease in profit £000**	2020 Fair value of asset £000	2020 Increase in profit £000	2020 Decrease in profit £000
EUR	**49,147**	**16,610**	**(9,693)**	53,856	18,102	(10,681)
CAD	**19,502**	**6,501**	**(3,900)**	18,627	6,209	(3,725)
HKD	**28,871**	**9,623**	**(5,775)**	29,639	9,878	(5,929)
JPY	**52,076**	**17,359**	**(10,415)**	63,525	21,175	(12,705)
USD	**231,577**	**77,668**	**(46,030)**	164,597	54,322	(33,246)
	381,173	**127,761**	**(75,813)**	330,245	109,686	(66,286)

(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 £5,811,976k (2020: £5,639,762k), representing the total value of bonds, loans, derivative financial instruments, deposits with credit institutions and cash at bank and in hand. Of this total, 68% (2020: 70%) was invested in UK Government Gilts and other AAA/AA rated securities. A full analysis is set out below:

	2021 £000	2020 £000
Shares and other variable yield securities and units in unit trusts	**43,680**	42,126
Debt securities	**5,613,086**	5,296,987
Loans	**16,244**	–
Deposits with credit institutions	**69,546**	181,456
Derivative financial instruments	**22,060**	82,183
Cash at bank and in hand	**32,240**	36,003
Other debtors	**15,120**	1,007
Total assets bearing credit risk	**5,811,976**	5,639,762

5 Management of insurance and financial risk

	2021 %	2020 %
AAA	**10**	16
AA	**58**	54
A	**22**	17
BBB	**4**	5
BB	**2**	2
B	**1**	1
Not rated	**3**	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 1.2% of the Net Asset Value (2020: 1.1%).

The table below details the margin requirements for derivative financial instruments at year end. The table also shows collateral and margin positions in respect of derivative contracts at year end.

	2021 £000	2020 £000
Initial margin requirements	**1,520**	2,301
Securities on deposit	**16,217**	–
FX Collateral posted	**14,822**	75,745
FX Collateral held	**12,220**	119,459

Securities on deposit at 31 December 2021 of £16,217k (2020: £Nil) are discolsed within Other financial investments – financial assets, specifically within Debt securities and other fixed income securities and consist solely of US Treasury Notes. The Company retains all the risks and rewards of the pledged securites, therefore the assets do not qualify for derecognition and remain disclosed on the Company's Balance Sheet.

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 2022.

(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 2021, 48% (2020: 52%) of the Company's investment assets were held in bonds with maturities of less than 18 months.

Cash and cash equivalents reported within the Statement of Cash Flows include cash collateral positions in respect of foreign exchange derivative contracts at year end. Cash collateral received is included in Cash at bank and in hand and is regarded as encumbered. The value of cash collateral held at 31 December 2021 was £12,220k (2020: £119,459k).

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 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.

5 Management of insurance and financial risk

Financial liabilities and outstanding claims as at 31 December 2021

	Within 1 year £000	Between 1 year and 2 years £000	Between 2 years and 5 years £000	Over 5 years £000	**Total £000**
Derivatives	11,597	–	–	–	**11,597**
	11,597	–	–	–	**11,597**
Claims outstanding	–	–	–	–	**–**
Provisions	–	39,826	–	–	**39,826**
Creditors arising from reinsurance operations	257,083	181,396	213,690	–	**652,169**
Other creditors including taxation and social security	38,524	–	–	–	**38,524**
	307,204	221,222	213,690	–	**742,116**

Financial liabilities and outstanding claims as at 31 December 2020

	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	119,456	–	–	–	119,456
Derivatives	5,004	–	–	–	5,004
	124,460	–	–	–	124,460
Claims outstanding	–	–	–	–	–
Provisions	–	4,011	–	–	4,011
Creditors arising from reinsurance operations	188,053	249,101	176,280	–	613,435
Other creditors including taxation and social security	5,282	–	–	–	5,282
	317,795	253,113	176,280	–	47,188

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 2022, therefore cash flows in respect of these derivative liabilities are included within one 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). Following applications by the Company, in November 2020 the PRA extended certain waivers previously granted to the Company under section 138A of the Financial Services and Markets Act 2000, such that those waivers continue until 1 January 2026. The principal effects of those waivers are that the Company is not regulated as if subject to Solvency II and the Company's Capital Resources Requirement is zero. The Company also benefits from a waiver of certain reporting requirements, which are in force until 31 March 2022. An application to renew this waiver has been sent to the PRA.

Notwithstanding these waivers, 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.

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.

5 Management of insurance and financial risk

(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 2021	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Shares and other variable-yield securities and units in unit trusts	776,359	340,386	40,891	**1,157,636**
Debt securities and other fixed income securities	3,025,545	2,563,513	1,002	**5,590,060**
Loans	–	16,176	–	**16,176**
Deposits with credit institutions	–	69,544	–	**69,544**
Other (including derivative instruments)	106	32,212	–	**32,318**
	3,802,010	3,021,831	41,893	**6,865,734**

Financial liabilities as at 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Other (including derivative instruments)	927	10,670	–	**11,597**
	927	10,670	–	**11,597**

Financial assets as at 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable-yield securities and units in unit trusts	831,394	335,099	13,617	1,180,110
Debt securities and other fixed income securities	3,015,646	2,249,510	911	5,266,067
Deposits with credit institutions	75,745	105,696	–	181,441
Other (including derivative instruments)	50	84,204	–	84,254
	3,922,835	2,774,509	14,528	6,711,872

Financial liabilities as at 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Deposits with credit institutions	119,456	–	–	119,456
Other (including derivative instruments)	50	4,954	–	5,004
	119,506	4,954	–	124,460

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, loans, mutual funds 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.

Investments in limited partnership structures are valued utilising a variety of techniques dependent on the nature of the underlying portfolio companies within the partnership. Valuation techniques employed include relative valuation methodologies such as discounted public company and private merger and acquisition comparables, discounted cash flow models including enterprise value to trailing twelve-month revenue and transactional valuations based on pre and post-money valuations. Cost, plus or minus the net income advised as attributable to the Company at the reporting date is taken as a reliable measurement of fair value where investments have not been revalued since initial recognition.

The Company's investment policy allows for an allocation of 1% of the total investment fund value to these limited partnership structures, as at 31 December 2021 the capital commitment allowance was £69m (2020: £66m). Total capital committed to limited partnerships is £46,779k (2020: £47,267k), with capital called to date at 31 December 2021 of £27,024k (2020: £13,360k). The fair value of limited partnerships reported in Level 3 is £40,856k (2020: £13,562k).

The Company has a robust review process in place to ensure appropriate inputs and prices are used by the investment managers. This includes analysing significant valuation movements and undertaking periodic service reviews to discuss any changes in pricing methodology. Management has assessed the use of fair value measurement on financial instruments classified as Level 3 and determined that the valuations have no material impact on the presentation of the financial statements.

	Level 3 £000
As at 31 December 2020	14,528
Acquisitions	16,488
Disposals	(4,237)
Transfers into Level 3	–
Net losses recognised at fair value through profit or loss	15,114
As at 31 December 2021	**41,893**

6 Gross premiums written and outward reinsurance premiums

Gross premiums written by the Company in 2021 totalled £279,377k (2020: £284,976k). 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% (2020: 50%) of the value of gross premiums written incepting during the year is payable as outward reinsurance premiums to HM Government. In 2021 this amounted to £139,688k (2020: £142,505k).

In addition, Further Premium is payable to HM Government in accordance with the Retrocession Agreement. This is calculated as 25% (2020: 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 2021 this amounted to £72,018k (2020: £31,067k).

Commercial retrocession has also been purchased, as described further in note 5(a) insurance risk. In 2021 this amount was £45,309k (2020: £44,760k).

7 Net operating expenses

(a) Net operating expenses

	2021 £000	2020 £000
Administrative expenses (including auditor's remuneration)	**17,179**	15,776

(b) Auditor's remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**107**	91
Fees payable to the Company's auditors for other services:		
Other assurance services	**25**	24
	132	115

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

8 Operating lease rentals

	2021 £000	2020 £000
Operating lease rentals payable for the year:		
Land and buildings	**637**	410
Plant and machinery	**2**	4
	639	414

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

	2021 £000	2020 £000
Payments due:		
Not later than one year	**459**	410
Later than one year and not later than five years	**1,752**	338
Later than five years	**–**	–
	2,211	748

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. The Company elected not to invoke the break clause, in effect extending the non-cancellable term of the lease to the termination date of 27 October 2026.

9 Employees and directors

The monthly average number of persons employed on a full-time equivalent basis by the Company during the year was 29 (2020: 31).

Employees	2021 £000	2020 £000
Staff costs for these persons were:		
Wages and salaries	**5,218**	5,257
Social security costs	**738**	759
Other pension costs	**359**	310
	6,315	6,326

Directors	2021 £000	2020 £000
The directors' emoluments were as follows:		
Aggregate emoluments	**453**	440
	453	440

Highest paid director	2021 £000	2020 £000
The highest paid director's emoluments were as follows:		
Aggregate emoluments	**96**	95

9 Employees and directors

Key management compensation

Key management includes all directors and 8 members of the executive management team (2020: 7). The compensation paid or payable to key management for their services is shown below:

	2021 £000	2020 £000
Salaries and other short-term benefits	**3,178**	2,701
Long-term incentive plans	**938**	801
	4,116	3,503

The long-term incentive plan awarded for services performed in 2021 is payable in 2023, 2024 and 2025 in three equal instalments. Where an individual leaves employment or a material risk event occurs, payment may be reduced or forfeited.

10 Investment return

	2021 £000	2020 £000
Income from financial assets at fair value through profit and loss	**130,294**	127,696
Net (losses)/gains on the realisation of investments	**(1,755)**	96,026
Net unrealised gains/(losses) on investments	**141,836**	(161,994)
Investment income	**270,375**	61,728
Investment expenses and charges		
Investment management and other charges	**(10,481)**	(8,723)
Interest payable on outwards reinsurance to HM Government		
Less than one year	**(3,521)**	(3,955)
Greater than one year	**(5,878)**	(7,415)
Interest payable on outwards reinsurance – further premiums to HM Government		
Less than one year	**(1,686)**	(406)
Greater than one year	**(2,142)**	(2,680)
	(23,708)	(23,179)
Total investment return	**246,667**	38,549

11 Tax on profit on ordinary activities

	2021 £000	2020 £000
Tax on profit on ordinary activities comprised:		
United Kingdom Corporation Tax		
Current tax on income for the year at 19.00% (2020: 19.00%)	**243**	(19,086)
Withholding tax deducted from investment income	**(1,782)**	(2,132)
Adjustments in respect of prior years	**(517)**	(631)
Total current tax	**(2,056)**	(21,849)
Deferred tax liability – origination and reversal of timing differences at 19.00% (2020: 19.00%) – Note 20	**(35,816)**	17,791
Tax on profit on ordinary activities	**(37,872)**	(4,058)

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% (2020: 19.00%). The differences are explained below:

	2021 £000	2020 £000
Non-technical account		
Profit on ordinary activities before tax	**253,928**	97,259
Corporation Tax at the standard UK rate of 19.00% (2020: 19.00%) on profit on ordinary activities	**(48,246)**	(18,479)
Adjustments for non-taxable items. Tax at 19.00% (2020: 19.00%) on:		
Technical income	**1,933**	11,732
Dividend income	**5,048**	5,232
Other investment expenses, capital allowances and bank charges	**–**	(99)
Investment gains on equities	**2,132**	1,509
Investment gains on index-linked government bonds	**9,667**	1,444
Foreign taxes	**(1,769)**	(2,122)
Adjustments in respect of prior year	**(517)**	(652)
Deferred tax charge	**(6,120)**	(2,623)
Tax on profit on ordinary activities	**(37,872)**	(4,058)

12 Other financial investments

	2021 £000	2020 £000
Other financial investments comprised:		
Financial assets		
Shares and other variable-yield securities and units in unit trusts	**1,157,636**	1,180,110
Debt securities and other fixed income securities	**5,590,060**	5,266,067
Loans	**16,176**	–
Deposits with credit institutions	**69,544**	181,441
Derivatives	**32,318**	84,254
	6,865,734	6,711,872
Financial liabilities		
Deposits with credit institutions	**–**	(119,456)
Derivatives	**(11,597)**	(5,004)
	(11,597)	(124,460)

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 2021 the purchase cost of shares and other variable-yield securities was £976,985k (2020: £1,159,002k), the purchase cost of debt securities and other fixed income securities was £5,603,397k (2020: £5,293,584k), the purchase cost of loans was £16,279k (2020: £Nil), the purchase cost of deposits with credit institutions was £69,655k (2020: £62,766k) and the purchase cost of derivatives was -£281k (2020: £56k).

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

	2021 £000 Fair value	2021 £000 Notional	2020 £000 Fair value	2020 £000 Notional
Assets				
Foreign exchange contracts	**32,077**	**2,238,838**	83,958	2,669,862
Futures contracts	**106**	**5,190**	50	2,134
Option contracts	**23**	**1,193**	96	14,062
Swap contracts	**112**	**4,634**	150	24,748
	32,318	**2,249,855**	84,254	2,710,806

	2021 £000 Fair value	2021 £000 Notional	2020 £000 Fair value	2020 £000 Notional
Liabilities				
Foreign exchange contracts	**10,249**	**774,367**	4,908	573,032
Futures contracts	**927**	**95,272**	51	5,944
Option contracts	**6**	**1,269**	21	14,878
Swap contracts	**415**	**7,459**	24	3,725
	11,597	**878,367**	5,004	597,579

The movement through the Profit and Loss Account for derivatives was as follows: foreign exchange contracts produced a gain of £4,231k (2020: gain of £1,684k); futures contracts produced a gain of £976k (2020: loss of £97k); option contracts produced a gain of £8k (2020: gain of £1,025k) and swap contracts produced a loss of £3k (2020: gain of £36k).

13 Tangible assets

	Computer and telephone equipment £000	Fixtures and fittings £000	Furniture £000	Total £000
Book cost				
At 1 January 2021	281	1,366	354	2,001
Additions	18	81	5	104
Disposals	(100)	(1)	(3)	(102)
At 31 December 2021	**199**	**1,446**	**356**	**2,001**
Accumulated depreciation				
At 1 January 2021	182	881	217	1,280
Charge for the year	69	287	71	427
Disposals	(93)	–	(2)	(95)
At 31 December 2021	**158**	**1,168**	**286**	**1,612**
Net book value				
At 31 December 2021	**41**	**278**	**70**	**389**
At 31 December 2020	99	485	137	721

The charge for depreciation for the year ended 31 December 2021 was £427k (2020: £359k).

14 Cash at bank and in hand

	2021 £000	2020 £000
Cash at bank	**1,893**	1,300
Cash in investments	**30,275**	22,608
Cash at bank and in hand	**32,168**	23,908

The average interest rate earned by the Company on cash at bank and in hand was 0.00% (2020: 0.00%).

15 Debtors arising out of reinsurance operations

The Company has debtors arising out of reinsurance operations of £76,795k (2020: £75,533k) 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

	2021 £000	2020 £000
Other debtors comprised:		
Investment debtors	**15,110**	1,008
Current taxation	**8,513**	–
Other debtors	**172**	145
	23,795	1,153

17 Provision for unearned premiums

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

	Gross 2021 £000	Gross 2020 £000	Reinsurers' share 2021 £000	Reinsurers' share 2020 £000
At 1 January	**143,100**	158,162	**78,845**	86,166
Change in provision	**(4,083)**	(15,061)	**(2,012)**	(7,321)
At 31 December	**139,018**	143,100	**76,833**	78,845

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:

	2021 £000	2020 £000
Retrocession payable to HM Government on 31 March 2022 (2020: 31 March 2021)	**255,229**	186,049
Reinsurance creditor	**1,051**	1,036
Payables	**802**	968
	257,083	188,053

Retrocession outstanding at the year end falling due within one year is in respect of 2019 (2020: in respect of 2018) 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:

	2021 £000	2020 £000
Retrocession payable to HM Government on 31 March 2023 (2020: 31 March 2022)	**181,396**	249,101
Retrocession payable to HM Government on 31 March 2024 (2020: 31 March 2023)	**213,690**	176,280
	395,086	425,382

Retrocession outstanding at the year end falling due after more than one year is in respect of 2020 and 2021 (2020: in respect of 2019 and 2020) in line with payment terms in the agreement with HM Government.

19 Other creditors including tax and social security

	2021 £000	2020 £000
Other creditors comprised:		
Investment creditors	**38,335**	2,844
Current taxation	**–**	2,262
Other creditors	**189**	176
	38,524	5,282

20 Provisions

	2021 £000	2020 £000
Provisions for deferred tax:		
At 1 January	**4,011**	21,802
Profit and Loss Account charge/(credit)	**35,816**	(17,791)
At 31 December	**39,826**	4,011

A deferred tax liability of £39,826k has been recognised in respect of timing difference at 31 December 2021 (2020: £4,011k).

21 Reconciliation of operating profit to net cash from operating activities

	2021 £000	2020 £000
Profit for the financial year transferred to Profit and Loss Account reserves	**216,056**	93,201
Adjustments:		
Tax on profit on ordinary activities	**37,872**	4,058
Net unrealised (gains)/losses on investments	**(141,836)**	161,994
Net realised losses/(gains) on investments	**1,755**	(96,026)
Income from financial assets at fair value through profit and loss	**(130,294)**	(127,696)
Depreciation	**427**	359
Interest expense	**13,246**	14,458
Decrease in reinsurers' share of technical provisions	**2,012**	7,321
(Increase)/decrease in debtors excluding tax receivable	**(23,904)**	3,846
Decrease in prepayments and accrued income	**7,868**	275
Decrease in technical provisions	**(4,083)**	(15,061)
Increase/(decrease) in creditors, accruals and deferred income excluding interest and tax payable	**83,547**	(63,535)
Net cash from operating activities	**62,666**	(16,806)

22 Movements in the Profit and Loss Account

	2021 £000	2020 £000
Profit and Loss Account at 1 January	**6,029,964**	6,014,375
Profit for the financial year	**216,056**	93,201
Dividend paid	**(31,067)**	(77,612)
Profit and Loss Account at 31 December	**6,214,952**	6,029,964

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 10 June 2021 in respect of its 2020 results. The amount of the dividend paid was £31,067k (2020: £77,612k).

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

There were no related party transactions to report in the year.

Key management compensation is disclosed in total in note 9.

26 Subsequent events

On 18 March 2022 at a General Meeting of the Company, on the recommendation of the Board, Members voted in favour of Proposals for Pool Re following the Review undertaken by HM Treasury. These proposals comprised of a governance framework agreement which will underpin the relationship between Pool Re and HMT, associated amendments to the Retrocession Agreement and a number of areas for possible development (referred to as the Scope of Works) which have been agreed between Pool Re and HMT.

Profile of Membership

as at 31 December 2021

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Jurisdiction				
Belgium	2	1.3%	8	0.3%
Bermuda	1	0.7%	3	0.1%
France	4	2.7%	0	0.0%
Germany	3	2.0%	7	0.2%
Gibraltar	2	1.3%	2	0.1%
Guernsey	19	12.8%	74	2.6%
Iceland	1	0.7%	0	0.0%
Ireland	13	8.7%	68	2.4%
Isle of Man	9	6.0%	39	1.4%
Italy	1	0.7%	2	0.1%
Liechtenstein	2	1.3%	1	0.0%
Luxembourg	3	2.0%	3	0.1%
Malta	1	0.7%	4	0.1%
Spain	1	0.7%	2	0.1%
United Kingdom	59	39.6%	2,612	91.3%
United States of America	3	2.0%	8	0.3%
	124	83.2%	2,833	99.0%
Active Underwriters of Lloyd's Syndicates	25	16.8%	29	1.0%
	149	**100.0%**	**2,862**	**100.0%**
Analysis by Number of Votes				
0	37	24.8%	0	0.0%
1-25	93	62.4%	427	14.9%
26-50	8	5.4%	285	10.0%
51-100	5	3.4%	329	11.5%
101-150	0	0.0%	0	0.0%
151-200	1	0.7%	168	5.9%
201-250	2	1.3%	435	15.2%
251-300	1	0.7%	285	10.0%
301-350	0	0.0%	0	0.0%
351-400	1	0.7%	355	12.4%
401-450	0	0.0%	0	0.0%
451-500	0	0.0%	0	0.0%
501-550	0	0.0%	0	0.0%
551-600	1	0.7%	578	20.2%
601-650	0	0.0%	0	0.0%
651-700	0	0.0%	0	0.0%
	149	**100.0%**	**2,862**	**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.

Scheme Strengths

Breadth of cover

Terrorism cover offered by Pool Re Members is effectively ‘All-Risks’ with the only exclusions being war and cyber, although cyber-terrorism resulting in damage is added back. This extended scope of cover, which uniquely includes CBRN to the full extent of the underlying sums insured/limits, is particularly relevant given the ever-changing nature of terrorism and the potential for unprecedented events.

Guaranteed acceptance

Membership of Pool Re is open to any authorised insurer. Where a Member Insurer provides property insurance in Great Britain, they must offer terrorism cover upon request. Cover and terms are not restricted by geographic area or risk profile.

Capacity

Pool Re is backed by an unlimited guarantee from HM Treasury. This means that an Insurer who is a Member of the scheme can provide cover to all or any of their eligible policyholders who wish to buy terrorism. Importantly this cover would continue to be available even after a catastrophic terrorism event.

Back-to-back with property

Pool Re terrorism cover can only be offered by Members in conjunction with a commercial property policy. This means that the terrorism cover is back-to-back with the property cover and the definitions, exclusions and triggers are aligned. Importantly this means that seamless coverage can be provided and exclusions on the property policy in respect of terrorism, integrate with the cover provided by the terrorism extension. All claims, whether property or terrorism, are handled by the underlying property insurer.

Certification

There is an agreed process for an event to be certified by HM Government as an act of terrorism, underpinned by a binding tribunal process in the event of a dispute. Given the back-to-back nature of the cover, if an event is certified then it is terrorism but if it is not, then the exclusion on the property cover is not activated.

Competitive premiums

Although it is for individual Members to decide on the premiums for each policyholder, the cost of reinsurance from Pool Re outside Central London will reduce by circa 20% from October 2022. Additionally further discounts are available to incentivise certain forms of retained risk.

Risk management discount

In 2022 Pool Re has re-designed its VSAT™ (Vulnerability Self-Assessment Tool) risk management platform to improve navigability and streamline the question sets. In addition the premium discount for eligible risks (TSI exceeding £50m) that meet the VSAT™ benchmark has been increased to 10% from October 2022.

Cover that meets the contemporary threat

In the 29 years since the scheme was created, the cover offered by Pool Re has been widened enormously. At its inception the scheme only offered fire and explosion, which was extended in 2003 to ‘All-Risks’ including CBRN and then widened further in 2018 to encompass damage caused by remote digital interference. Finally in 2019 legislation was passed in order to allow Pool Re to offer reinsurance for non-damage business interruption.

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