

The background of the entire page is a low-angle, upward-looking photograph of a modern skyscraper with a glass and steel facade. The building's lines create a strong sense of height and architectural complexity. The sky is a clear, solid blue. In the top left corner, the Pool Re logo is displayed, consisting of the word "POOL" in white serif font on a dark blue rectangular background, followed by the word "RE" in dark blue serif font on a white rectangular background.

POOL RE

INSURING AGAINST TERRORISM

Pool Reinsurance Company Limited
Annual Report 2013

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Chairman's Statement

I am pleased to report the 2013 financial results for Pool Reinsurance Company Limited (Pool Re).

The Company had another positive year, resulting in an increase of more than 8% in the value of the investment fund over the year. As the fund represents the extent to which Pool Re can meet reinsurance claims without recourse to the UK taxpayer, its growth is an important indicator of our success in meeting the Company's founding objective to avoid being a drain on the public purse. The rise in the fund's value was a result of premium income from members, slightly increased from 2012, and the fund's own investment performance, which succeeded in beating the Retail Price Index.

I would like to thank our Board, the Company's staff and Executive Management and the members of our Advisory Committee for their individual and collective contributions to delivering another positive result for the Company.

Rod Armitage resigned from the Board in January 2014 having been a Director since August 2003. Andrew Torrance resigned from the Board in July 2013, having been a Director since December 2010. Inga Beale, having been a Director since January 2011, will retire by rotation at the Company's Annual General Meeting on 23 June 2014, but will not seek re-election. On behalf of the Company, I would like to thank each of Rod, Andrew and Inga for their valuable service over the years. Also in January 2014 the Company appointed Denise Jagger as a Director. Denise is a corporate finance partner with Eversheds and a former Company Secretary and Legal Counsel of the retailer ASDA.

We are grateful to Her Majesty's Treasury for its continuing support for the retrocession agreement. During 2013, as in every year of the Company's operation, Pool Re was a net contributor to the public purse, through retrocessional premium and corporation tax payments. The Company is always conscious of its obligation to demonstrate value for money to the UK taxpayer, who ultimately stands behind our promise of cover for damage caused to commercial property by acts of terrorism. On a formal note, the Board has again revisited the Company's position in relation to Chapter I of the Competition Act 1998 and has concluded that, based on the facts known to it and the legal advice it has obtained, the Scheme continues to meet the exemption requirements set out in that Act.

I would also like to thank Steve Atkins, our former Chief Executive, who retired in September 2013. Steve was our CEO for 13 years. During that time, the firm has grown considerably and Steve ensured that the skills and governance within the firm kept pace with this growth.

I welcome Julian Enoizi, who succeeded him as Chief Executive. Julian will bring a fresh leadership eye to the challenge of ensuring that Pool Re continues to achieve its objectives.

Finally I look forward to meeting members' representatives at the Company's AGM, in respect of which full details and joining instructions are included with this report. I hope that members will take the opportunity of the AGM to meet the Company's Board and Executive Management.

Tony Latham

Chairman

21 March 2014

Chief Executive's Statement

For the year ended 31 December 2013, Pool Re's profit after tax decreased by 4.8% to £361.4 million (2012: £379.4 million). Two main factors accounted for the year-on-year reduction: an increase of £10.3 million to the tax charge and a single claim on a policy reinsured by the Company, amounting to £14.8 million.

Gross premium income from members increased by 1.7% to £296.2 million (2012: £291.4 million). There was a positive balance on the technical account of £249.1 million (2012: £262.7 million) after operating expenses and reinsurance charges.

The Company continued to build its fund through investment strategies that achieved a prudent balance between risk and return over the twelve month period. The fund achieved a net return of 2.9% in 2013, resulting in a pre-tax profit contribution of £140.4 million (2012: £134.1 million). The total value of the fund at 31st December 2013 was £5.26 billion (2012: £4.87 billion).

The Market Operations Team engaged with members regularly during the year to ensure high levels of compliance with scheme rules and high levels of preparedness to deal with claims. This is an important activity which underlines Pool Re's commitment to maintaining and building a strong crisis management capability.

The single claim during the year was the Company's first in eight years. I am pleased to report that its processing was handled smoothly and efficiently, in line with our objectives.

It also served as a reminder of the terrorist risk to commercial property, which was rated "substantial" throughout 2013 by the Joint Terrorism Analysis Centre and the Security Service. Pool Re protects its members against such risk through the investment fund, which now exceeds £5 billion. The Board regularly monitors the size of the fund and its appropriateness to market conditions. It continues to hold the view that growing the fund, in the absence of significant claims, makes sound strategic sense for the Company and its stakeholders.

In 2014 we plan to continue promoting transparency in this market by further developing our regular contact with members through the operation of the scheme. We will further engage with industry bodies such as the Association of British Insurers (ABI), the British Insurance Brokers' Association (BIBA) and the Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC). The Company also seeks regular contact with other terrorism reinsurance pools worldwide as part of its work to establish best practice in risk modelling and pricing.

A collegiate and transparent approach will help Pool Re to meet the unique underwriting challenges that characterise this market. I look forward to working with members and other stakeholders as we continue to face these challenges over the coming year.

Julian Enoizi
Chief Executive
21 March 2014

The Board

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

Anthony P Latham ACII#*

Chairman

Aged 63. A Director since May 1996 and appointed Chairman in June 2003. Previously Group Director; Global Relationships, RSA Insurance Group PLC. Chairman of Pool Reinsurance (Nuclear) Limited. Deputy Chairman of Codan A/S and Codan Forsikring A/S. Non-executive Director of Ecclesiastical Insurance Group PLC and Ecclesiastical Insurance Office PLC.

Inga K Beale ACII

Aged 50. A Director since January 2011. Appointed Chief Executive Officer of Lloyd's of London from January 2014, having previously been Group Chief Executive Officer of Canopus Group since December 2011. Prior to that, Ms Beale held senior positions in Zurich Financial Services Group between 2008 and 2011, including Global Chief Underwriting Officer from 2009, and she was Group Chief Executive Officer of Converium Limited between 2006 and 2007.

Peter J Box Chartered Accountant#*

Aged 61. A Director since February 2010. Former audit and business advisory partner at PricewaterhouseCoopers. Director; Chairman of the Audit Committee and member of the Remuneration Committee of Marsh Limited. Director and Chairman of the Risk and Audit Committee of the Family Assurance Friendly Society Limited. Chairman of Trustees of the Royal Flying Doctor Service of Australia, Friends in the UK. Director; Chairman of the Audit Committee and member of the Remuneration Committee of Cardiff Pinnacle Insurance Holdings plc.

Alan J Brown FSIP#

Aged 60. A Director since July 2008. A Senior Advisor to Schroders PLC since May 2012, prior to which he was a Director and Group Chief Investment Officer. Chairman of the Carbon Disclosure Project and Director of the Investment Management Association (IMA). Director of the US Foundation for the Centre for Economic Research and Graduate Education – Economics Institute (CERGE-EI US Foundation). Governor of the Wellcome Trust.

Denise N Jagger Solicitor

Aged 53. A Director since January 2014. A Partner in Eversheds LLP since 2004, prior to which she was Company Secretary and General Counsel of Asda. A non-executive Director of Bellway PLC and the British Olympic Association, in 2012 Mrs Jagger was named City Woman of Achievement in recognition of her significant contribution to the promotion of equality in the workplace.

Stephen Lewis

Aged 45. A Director since October 2012. Chief Executive Officer of UK General Insurance and Shared Services of the UK Branch of Zurich Insurance plc since 2009. Mr Lewis has held a number of senior financial and operational roles with Zurich Insurance Group since 1989.

Andrew G Skirton#

Aged 50. A Director since December 2011. Non-executive Chairman of Gartmore Group Limited between 2007 and 2011, and Co-Global Chief Executive Officer of Barclays Global Investors between 2002 and 2006.

Member of the Investment Committee

* Member of the Remuneration Committee

Executive Management

Chief Executive	Julian A P Enoizi
Chief Financial Officer	Peter N Aves ACA
General Counsel and Company Secretary	Christian Wells, Solicitor
Chief Underwriting Officer	Stephen M Coates ACII
Chief Investment Officer	Ian M Coulman MCSI

Corporate Information

Registered in	England, United Kingdom
Registration number	2798901
Registered office	Hanover House 14 Hanover Square London W1S 1HP United Kingdom
Principal office	5 Lloyd's Avenue London EC3N 3AE United Kingdom
Telephone number	+ 44 (0) 20 7337 7170
Facsimile number	+ 44 (0) 20 7337 7171
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 2013.

Board of Directors

Role of the Board

The Board is responsible for the overall strategy of the Company, its values and standards, its management performance and all major business decisions.

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

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

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

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

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.

Board Composition

The Board consists solely of non-executive Directors, including a non-executive Chairman. Brief biographical details of the current Directors are set out on page 4.

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

A P Latham (Chairman)
 R D Armitage (resigned 6 January 2014)
 I K Beale
 P J Box
 A J Brown
 D N Jagger (appointed 7 January 2014)
 S Lewis
 A G Skirton
 D A Torrance (resigned 12 July 2013)

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

The composition of the Board is considered at appropriate intervals to ensure an appropriate balance of expertise and experience relevant to the Company's needs. The need for a new Director and the profile of the required individual are agreed by the Board as a whole. Equal consideration is given to all suitable candidates irrespective of gender, race or any other demographic factor.

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

In accordance with the Articles of Association of the Company, all Directors must retire and seek election at the first Annual General Meeting following their appointment. At each Annual General Meeting all Directors who have served continuously for more than nine years must retire and, if appropriate, seek re-election, as must the number nearest to one third of the other Directors. Therefore, at the forthcoming Annual General Meeting:

- Mrs Jagger will seek election;
- Mr Latham, who will retire having served continuously for more than nine years, will seek re-election;
- Mr Skirton, who will retire by rotation, will seek re-election; and
- Ms Beale, who will retire by rotation, will not seek re-election.

Board Committees

The Board has established five standing Committees to undertake certain of its responsibilities; being the Investment Committee, the Remuneration Committee, the Admissions Committee, the Advisory Committee and the Conflicts of Interest Committee, all of which operate within written terms of reference.

The role of the Investment Committee is to consider the Company's investment matters and, where appropriate, it undertakes actions in accordance with the powers delegated to it, or makes recommendations to the Board. The Investment Committee is made up of the Chief Executive and those Directors who are noted to be members in the biographical details on page 4. The Investment Committee meets at least four times per year and is chaired by the Chairman.

The role of the Remuneration Committee is to consider, and make recommendations to the Board in respect of, remuneration policy, remuneration budgets, the remuneration of the Chief Executive, and to make decisions relating to the remuneration of other members of executive management, including the structure of performance-related pay. The Remuneration Committee meets at least twice a year and is chaired by P J Box, or in his absence, any other Director who is a member of this Committee other than the Chairman of the Board. The Remuneration Committee is made up of the Chairman of the Board and those Directors who are noted to be members in the biographical details on page 4. Prior to his resignation, D A Torrance also served on the Remuneration Committee as its Chairman.

The role of the Admissions Committee is to consider and approve the admission of prospective members to the Company and to authorise the execution of the relevant documents. The members of the Admissions Committee are the Chairman, the Chief Executive and the General Counsel and Company Secretary, but any of the Directors may serve on the Committee in their absence. The Admissions Committee meets as and when required to consider applications for Membership.

The role of the Advisory Committee is to consider and provide advice to the Board on matters concerning the operational aspects of the Scheme, both current and prospective. The Advisory Committee's membership includes the Chief Executive and representatives selected from Scheme Members.

The role of the Conflicts of Interest Committee is to consider and authorise situations where a Director's interests may conflict with the interests of the Company. The members of the Conflicts of Interest Committee are the Chairman and any one other Director (or where the matter to be considered relates to the Chairman, another Director will serve in his place), who act in consultation with the Chief Executive. The membership is flexible to ensure that members do not consider matters relating to themselves. The Conflicts of Interest Committee meets as and when necessary.

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

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

Attendance at meetings

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

The table below sets out each Director's attendance at the meetings of the Board and its principal Committees which they were eligible to attend during 2013.

	Number of meetings attended	Number of meetings held
A P Latham	10	10
R D Armitage	4	4
I K Beale	4	4
P J Box	8	10
A J Brown	7	8
S Lewis	4	4
A G Skirton	8	8
D A Torrance	4	4

Performance Evaluation

Each year the Board undertakes an evaluation of its performance, including assessing the performance of the Chairman, the Chief Executive and Investment Committee. Currently, the evaluation process includes an assessment undertaken by external board performance consultants every three years, involving interviews with each of the Directors and members of executive management and culminating in a report to the Board as a whole, with intervening years being undertaken through self-assessment. The most recent externally facilitated evaluation was undertaken at the beginning of 2014.

Directors' Remuneration

The Company's Articles of Association provide that until otherwise determined by ordinary resolution there shall be paid to the Directors such fees as the Directors determine not exceeding an annual aggregate of £250,000. Members last approved an increase in the annual aggregate limit applicable to Directors' fees to £350,000 at the 2011 Annual General Meeting.

Subject to the annual aggregate limit, Directors receive fees at levels approved by the Board. These are reviewed by the Board on an annual basis, incorporating the use of market data to do so. Directors serving on the Investment Committee and the Remuneration Committee, other than Mr Latham, 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.

Financial Risk Management

The Company's financial risk management objectives and policies with regard to the use of financial instruments are described in note 1 on pages 23-26.

Directors' Indemnities

The Company has entered into indemnities for the benefit of its existing Directors and future Directors, and these indemnities remained 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 Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of 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 have been followed, subject to any material departures disclosed and explained in the 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.

The directors are responsible for the maintenance and integrity of the Company website, www.poolre.co.uk. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Statement of Going Concern

The Board is satisfied, after taking account of the Retrocession Agreement with HM Government, that the Company has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason, it considers the going concern basis appropriate for the preparation of financial statements.

Status of the Company

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

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

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

The Articles of Association of the Company do not provide for any distribution to be made to the Members except in the circumstances of a winding up.

Donations

In the year under review the Company made no donations for political or charitable purposes (2012: £nil).

Independent Auditors

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

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

Approved by the Board on 21 March 2014 and signed for on its behalf by:

Christian Wells

General Counsel and Company Secretary
21 March 2014

Strategic Report

The Directors of Pool Reinsurance Company Limited (registered number 2798901) present their strategic report for the year ended 31 December 2013.

Review of the Business

Principal Activity

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

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

Results and Performance

Gross premium income for the year increased from £291.4 million to £296.2 million.

The Company made a profit after taxation of £361.4 million for the year ended 31 December 2013, increasing the accumulated balance on the profit and loss account available to meet future claims to £5,055 million. £249.1 million was transferred from the general business technical account and there were investment expenses and interest charges of £6.2 million. Investment income amounted to £140.4 million, including realised investment losses of £16 million and unrealised investment gains of £39.5 million.

The total investment fund value at 31 December 2013 was £5.26 billion. For the year as a whole a return of 2.9% was achieved. This was slightly ahead of the rate of RPI inflation, which was 2.7% for the year.

Interest rates continued to be very low, which affected investment returns adversely once again to a considerable degree.

The amount allowed for taxation was £21.9 million, relating to the United Kingdom corporation tax on investment income receivable and realised and unrealised profits, less interest payable and investment expenses. There is no taxation on the underwriting result as the business is conducted on a mutual basis.

2013 saw the occurrence of an event which led to a claim for payment being made to the Company, when a police facility was damaged. This was the first such claim in eight years. The handling and certification processes functioned as expected. Even though the amount involved was relatively small, the Board remains of the view that the assets available for the payment of claims should continue to grow.

Subject to the terms of the Retrocession Agreement made between the Company and HM Government dated 30 July 1993 as amended, the Company would draw funds from HM Government if claims were to exceed the Company's resources. The Agreement specifies circumstances in which amounts paid by HM Government will be subject to repayment by the Company. However, in certain circumstances, when the Agreement is terminated, HM Government is not entitled to repayment of amounts it has paid to the Company. The Directors have

determined that, so long as these existing contractual arrangements apply, the Company will take credit, when assessing the adequacy of the technical provisions, for anticipated recoveries in respect of any deficit in those technical provisions.

Key Performance Indicators

Taking account of the particular objectives of the Company, the level of participation in the Scheme is the principal factor by which the position of the Company's business can be measured. A profile of the Company's membership is set out on page 36. The other key performance indicators can be found in the information provided in this report and in the notes to the financial statements. There are no environmental or employee matters for which key performance indicators are necessary for an understanding of the business of the Company.

Principal Risks and Uncertainties

The Board is responsible for establishing systems of internal control to safeguard both the Members' and the Company's assets and to ensure compliance with laws and regulations. Consequently, the Board has in place a risk and control assessment framework for managing the Company's financial and non-financial risks, which it reviews at least annually.

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

The risks faced by the Company are considered under a number of categories, which reflect those referred to in the PRA's Prudential Sourcebook for Insurers, namely: Insurance Risk, Credit Risk, Market Risk (which includes Investment Risk), Liquidity Risk and Operational Risk, but also extend to Conduct Risk.

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:

- *Insurance Risk* – this risk arises from the unpredictability of the timing, frequency and severity of insured events. Significant controls are in place to ensure, to the extent possible, that liquid funds are available to meet claims or series of claims as and when necessary. In addition, there is no limit on the indemnity provided by HM Government under the terms of the Retrocession Agreement.
- *Investment Risk* – the Company is exposed to a range of financial risks through its financial assets including its investments. These risks, the overall financial and investment risk management objective and the use of financial instruments by the Company are described in note 1 to the financial statements on pages 23-24.
- *Operational Risk* – the risk of a problem with the operation of the Pool Re Scheme. Significant resource is dedicated to identifying, assessing and managing operational risks on an ongoing basis. The Company's position in relation to competition law is set out in the Chairman's statement.

Market Risk, Credit Risk and Liquidity Risk are dealt with in Note 1 to the financial statements on pages 23-26.

Approved by the Board on 21 March 2014 and signed for on its behalf by:

Christian Wells

General Counsel and Company Secretary
21 March 2014

Independent Auditors' Report to the Members of Pool Reinsurance Company Limited

We have audited the financial statements of Pool Reinsurance Company Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Marcus Hine (Senior Statutory Auditor)

For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 March 2014

Profit and Loss Account

Technical account – General business for the 12 months to 31 December 2013

	Notes	2013 £'000	2012 £'000
Gross premiums written		296,233	291,424
Outward reinsurance premiums	13	(29,623)	(29,142)
Net premiums written		266,610	262,282
Change in the gross provision for unearned premiums		2,887	5,551
Change in the provision for unearned premiums, reinsurers' share		(289)	(555)
Earned premiums, net of reinsurance		269,208	267,278
Change in provision for claims – gross amount		(14,810)	–
Claims incurred, net of reinsurance		(14,810)	–
Net operating expenses	2	(5,339)	(4,584)
Balance on the technical account for general business		249,059	262,694

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

Profit and Loss Account

Non-technical account for the 12 months to 31 December 2013

	Notes	2013 £'000	2012 £'000
Balance on the technical account for general business		249,059	262,694
Investment income			
Income from financial assets at fair value through profit and loss		116,837	130,524
Net (losses)/gains on realisation of investments		(15,954)	2,439
Investment income		100,883	132,963
Net unrealised gains on investments		39,519	1,170
Investment expenses and charges	3	(6,219)	(5,838)
Profit on ordinary activities before tax		383,242	390,989
Tax on profit on ordinary activities	8	(21,864)	(11,574)
Profit for the financial year	17	361,378	379,415

The above results all relate to continuing operations.

There were no recognised gains and losses other than as stated in the Profit and Loss Account, and accordingly no statement of recognised gains and losses is presented.

Note of historical profits and losses

Neither gains/losses of an insurance company arising on the holding or disposal of investments, nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents.

Balance Sheet

as at 31 December 2013

	Notes	2013 £'000	2013 £'000	2012 £'000	2012 £'000
ASSETS					
Investments					
Other financial investments	9		5,228,533		4,828,009
Reinsurers' share of technical provisions					
Provision for unearned premiums			14,354		14,643
Debtors					
Debtors arising out of reinsurance operations		59,681		62,714	
Other debtors	12	7,218		8,022	
			66,899		70,736
Other assets					
Tangible assets	10	376		420	
Cash at bank and in hand	11	5,218		5,154	
			5,594		5,574
Prepayments and accrued income					
Accrued income		38,748		48,473	
Other prepayments		325		257	
			39,073		48,730
Total assets			5,354,453		4,967,692
LIABILITIES					
Capital and reserves					
Profit and loss account	17		5,054,574		4,693,196
Financial liabilities					
Other financial investments	9		11,137		11,127
Technical provisions					
Provision for unearned premiums		143,538		146,425	
Claims outstanding		21,924		7,114	
			165,462		153,539
Provisions for other risks	13		87,889		76,335
Creditors					
Creditors arising out of reinsurance operations		33,543		32,137	
Other creditors		58		—	
Accruals and deferred income		1,790		1,358	
			35,391		33,495
Total liabilities			5,354,453		4,967,692

The financial statements on pages 15 to 35 were approved by the Board of Directors on 21 March 2014 and signed on its behalf by:

Anthony P Latham **Peter J Box**
Director Director

Cash Flow Statement

for the 12 months to 31 December 2013

	Notes	2013 £'000	2012 £'000
Operating activities			
Net cash inflow from operating activities	14	385,380	387,155
Tax paid		(8,304)	(11,639)
Capital Expenditure			
Payments to acquire tangible fixed assets		(63)	(420)
Net cash inflow	15	377,013	375,096

Cash flows were invested as follows:

Portfolio investments			
Shares and other variable yield securities and units in unit trusts		(53,328)	(10,639)
Debt securities and other fixed income securities		446,988	340,783
Deposits with credit institutions		(34,156)	85,356
Other (including derivative instruments)		17,445	(37,823)
Net portfolio investments		376,949	377,677
Increase/(decrease) in cash holdings		64	(2,581)
Net investment of cash flows	15	377,013	375,096

The above results all relate to continuing operations.

Statement of Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006.

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies of the Company is set out below.

Changes in Accounting Policies

No changes have been made to the Company's accounting policies during the current financial year.

Insurance Business

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 Agreement specifies circumstances in which amounts paid by HM Government will be subject to repayment by the Company. However, in certain circumstances when the 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 £1 billion. 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.

Insurance Contracts

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 as defined in FRS 26 and has therefore treated the relevant contracts as insurance contracts for the purposes of these financial statements.

Basis of Accounting

(a) General insurance business accounting

(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.

(iv) Claims incurred

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

(v) Claims provisions and reinsurance recoveries

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

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

Provision is made for outwards reinsurance premiums payable to HM Government under the terms of the Retrocession Agreement.

(b) 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, other than investment expenses, are charged to the technical account.

(c) Investment income and other investment movements

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 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.

Dividends are recorded on the date on which the shares are quoted ex-dividend.

(d) Financial assets

Other Financial Investments are accounted for at fair value through the Profit and Loss Account. Fair value estimation is discussed further in note 9.

The fair values of quoted investments are based on bid prices other than short positions which are based on offer prices at the balance sheet date.

Purchases and sales of financial assets are accounted for as at trade date.

The carrying values of Debtors, Prepayments and Accrued Income are assumed to approximate to their fair values due to the short-term nature of the assets.

(e) Financial liabilities

The Company has creditors which it recognises as financial liabilities. These are recognised at fair value. The Company also has derivatives which it recognises as financial liabilities when valued at a loss at year end.

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.

(f) Derivative financial instruments

Derivatives are recognised at fair value at the date on which the contract is entered into and any subsequent changes in fair value are recognised immediately in the Profit and Loss Account. Fair values are obtained from various sources. Market prices, including recent market transactions, are used in valuing quoted instruments.

(g) 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. Furniture and fixtures are depreciated over five years and computer and telephone equipment over two years.

(h) Cash at bank and in hand

Cash at bank and in hand includes deposits held at call with banks.

(i) Taxation

Taxation is charged on investment income receivable and 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.

(j) Deferred tax

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

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

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

(k) Operating leases

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.

(l) Foreign currency translation

Items included in the financial statements of the Company are measured in UK pounds Sterling.

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

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.

Notes to the Financial Statements

I. Management of Financial Risk

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 investment risks and there are procedures in place to identify, assess and manage the risks faced by the Company.

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

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

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

Reports on investment performance are considered at the quarterly Investment Committee meetings and as a standing item in the Company's quarterly Board meetings. Contact is maintained throughout the year with each investment manager and the custodians. The Company meets regularly with the investment managers and the custodians and there is a process for considering and resolving any operational issues which arise.

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

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

(a) Market risk

(i) Equity price risk

The Company is exposed to equity price risk as a result of changes in the value of its holdings in equity investments which are included within its financial assets at fair value. At the year end the Company held £763m (2012: £715m) in shares and other variable-yield securities and units in unit trusts, including commodities unit trusts. This comprised 14.6% (2012: 14.8%) of the total financial investments.

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.

A 30% change in the value of equities and commodities at the year end would have resulted in a movement in Profit before tax of £229m (2012: £215m). Since this sensitivity was measured using

the actual values at the year end, no assumptions have been made for this calculation. In addition there have been no changes in the method of calculation from the previous year:

(ii) Interest rate risk

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

Modified duration has been used as the measure of the sensitivity to changes in interest rates of the Company's fixed interest portfolio. Modified duration is the weighted average of the duration of each holding in the portfolio taking account of the key characteristics of coupon, maturity and cash flows. Since September 2011 a long gilt futures contract has been used to reduce modified duration in the portfolio. At 31 December 2013 the average modified duration of the fixed interest portfolio, including index-linked government bonds, without taking account of the gilt futures was 2.00 years (2012: 1.84 years). The effect of the gilt futures was to reduce the fixed interest portfolio average modified duration to 1.44 years (2012: 1.33 years).

(iii) 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 hedge all of its non-Sterling denominated debt securities and fixed income assets back into Sterling through the use of forward contracts.

The Company's exposure to non-Sterling denominated equity securities and commodities is unhedged. Specific measures are monitored to determine as and when a hedge should be initiated, which will be completed through the use of forward contracts. At the end of the year the value of unhedged assets denominated in currencies other than Sterling within the portfolios was £721m (2012: £675m).

A 25% change in the value of Sterling at the year end against the mix of currencies within the Company's investment fund, after taking account of hedged positions, would have resulted in a movement in the Profit before tax of approximately £180m (2012: £169m). Since this sensitivity was measured using the actual values at the year end, no assumptions have been required for this calculation. In addition there have been no changes in the method of calculation from the previous year.

(b) Credit risk

Credit risk arises from the failure of a counterparty to perform its financial obligations or 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 total exposure of the investment fund to credit risk at the year end was £4,368m (2012: £4,079m), representing the total value of bonds, bank deposits and commercial paper. Of this total, 73% (2012: 78%) was invested in UK Government Gilts and other AAA/AA rated securities. A full analysis is set out below:

	2013 £m	2012 £m
Debt securities	4,296	3,926
Cash and cash equivalents	59	142
Undertaking for collective investments	13	11
Total assets bearing credit risk	4,368	4,079
	%	%
AAA	17	62
AA*	56	16
A	21	17
BBB	4	3
A-I +	2	1
A-I	—	1
Total assets bearing credit risk	100	100

*UK Government Gilts are included in the AA rated assets at 31 December 2013. Prior to 22 February 2013 these bonds were classified as AAA rated assets.

A-I + and A-I are equivalent short term ratings for money market instruments.

At the balance sheet date, excluding UK Government Gilts and US Government Securities, the maximum credit risk exposure to a single counterparty amounted to less than 5% of the Net Asset Value (2012: less than 5%).

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 2014.

(c) 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 65% 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 2013, 63% (2012: 64%) of the Company's investment assets were held in bonds with maturities of less than 18 months.

The Company has financial liabilities shown on the face of the Balance Sheet in respect of creditors and foreign exchange derivatives. 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.

	Within 1 year	
	2013	2012
	£m	£m
As at 31 December		
Deposits with credit institutions	5	—
Derivatives	6	11
	11	11

(d) Cash Flow risk

In view of the nature of the Company's assets and its contractual arrangements with HM Government, cash flow risk is not considered to be significant.

2. Net Operating Expenses

The Company's net operating expenses consisted of administrative expenses of £5,339k (2012: £4,584k).

3. Investment Expenses and Charges

	2013	2012
	£'000	£'000
Investment expenses and charges comprised:		
Investment management and other charges	(3,862)	(3,172)
Interest payable on outwards reinsurance		
Less than one year	(769)	(909)
Greater than one year	(1,588)	(1,757)
	(6,219)	(5,838)

4. Operating Lease Rentals

	2013 £'000	2012 £'000
Operating lease rentals payable for the year:		
Land and buildings	145	212
Plant and machinery	4	4
	149	216

Annual commitments in respect of non-cancellable operating leases (excluding VAT) are as follows:

	2013		2012	
Operating leases which expire:	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	–	4	–	3
Between one and five years	143	–	143	–
	143	4	143	3

Operating lease rentals for land and buildings are in respect of buildings only.

5. Employee Information

The average number of persons employed on a full time equivalent basis by the Company during the year was 14 (2012: 12).

	2013 £'000	2012 £'000
Staff costs for these persons were:		
Wages and salaries	2,173	1,650
Social security costs	270	205
	2,443	1,855

6. Directors' Emoluments

The aggregate emoluments payable to certain Directors of the Company as individuals for the year were £238,000 (2012: £278,154). In addition £40,238 (2012: £31,831) was paid to third parties for making available the services of the other Directors. The total emoluments paid to the Company's highest paid Director for the year were £76,500 (2012: £73,500).

7. Auditors' Remuneration

	2013 £'000	2012 £'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	66	64
Fees payable to the Company's auditors for other services:		
Tax compliance services	114	64
Other assurance services	22	21
Other non-audit services	41	—
	243	149

The figures above are stated excluding VAT.

8. Tax on Profit on Ordinary Activities

	2013 £'000	2012 £'000
Tax on profit on ordinary activities comprised:		
United Kingdom Corporation Tax		
Current tax on income for the year at 23.25% (2012: 24.5%)	(4,101)	(11,026)
Adjustments in respect of prior periods	(4,647)	—
Total current tax	(8,748)	(11,026)
Deferred tax - origination and reversal of timing differences at 21% (2012: 23%)	(13,116)	(548)
Tax on profit on ordinary activities	(21,864)	(11,574)

Factors affecting the tax charge for the year

The tax assessed for the year is different from the standard rate of UK Corporation Tax: 23.25% (2012: 24.5%) The differences are explained below:

	2013 £'000	2012 £'000
Non-technical account		
Profit on ordinary activities before tax	383,242	390,989
Corporation Tax at the standard UK rate of 23.25% (2012: 24.5%) on Profit on Ordinary Activities	(89,104)	(95,792)
Adjustments for non-taxable items. Tax at 23.25% (2012: 24.5%) on:		
Technical income	57,906	64,360
Dividend income	3,742	2,822
Other investment expenses, capital allowances and bank charges	288	129
Investment gains on equities	16,852	10,476
Investment gains on index-linked government bonds	6,215	6,979
Adjustments in respect of prior periods	(4,647)	–
Total current tax charge for the year	(8,748)	(11,026)

Factors affecting current and future tax charges

The calculation of deferred tax balances at the year end also takes into account the reduction in the UK main corporation tax rate to 23% effective from 1 April 2013, and two further reductions to 21% and 20% substantively enacted on 2 July 2013 that will be effective from 1 April 2014 and 1 April 2015 respectively.

9. Other Financial Investments

	2013 £'000	2012 £'000
Other financial investments comprised:		
Financial Assets		
Shares and other variable-yield securities and units in unit trusts	762,732	715,026
Debt securities and other fixed income securities	4,295,789	3,912,752
Deposits with credit institutions	99,632	181,068
Other (including derivative instruments)	70,380	19,163
	5,228,533	4,828,009
Financial Liabilities		
Deposits with credit institutions	(5,144)	–
Other (including derivative instruments)	(5,993)	(11,127)
	(11,137)	(11,127)

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

Issuers of shares and other variable-yield securities, debt securities and other fixed income securities, apart from government-issued securities, are listed on recognised exchanges. As at 31 December 2013 the purchase cost of shares and other variable-yield securities was £635,679k (2012: £656,960k) and the purchase cost of debt securities and other fixed income securities was £4,331,874k (2012: £3,862,361k).

The table below shows fair values of derivative contracts outstanding at the year end:

		2013 £'000	2012 £'000
Foreign exchange contracts	Assets	64,311	18,596
	Liabilities	(5,993)	(10,466)
		58,318	8,130
Futures contracts	Assets	6,069	474
	Liabilities	—	(661)
		6,069	(187)
	Total	64,387	7,943

The movement through the Profit and Loss Account for derivatives was as follows: foreign exchange contracts produced a profit of £3,647k; futures contracts produced a profit of £22,613k.

The table below shows the contract/notional amounts of derivative contracts held at the year end. Where the notional was originally determined in Sterling, or has a Sterling leg, this is the value shown. Where the notional was quoted in foreign currency, this has been translated to Sterling using the year end exchange rate.

	2013 £'000	2012 £'000
Foreign exchange contracts	3,375,001	2,105,604
Equity futures contracts	29,460	26,169
Gilt futures contracts	(277,269)	(261,201)

In respect of the gilt futures contracts, the requirement for initial margin at the year end was £8,691k. The margin is provided in the form of government-issued securities held within the Company's investment fund and the Company retained beneficial ownership. In addition, the Company held two futures positions giving exposure to overseas equity markets; the requirement for initial margin amounted to £2,640k at the year end.

Fair Value Estimation

For financial instruments held at fair value, the Company discloses fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table shows the Company's financial assets and financial liabilities measured at fair value:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 December 2013				
Shares and other variable-yield securities and units in unit trusts	763	–	–	763
Debt securities and other fixed income securities	2,225	2,071	–	4,296
Deposits with credit institutions	–	59	–	59
Other (including derivative instruments)	6	–	–	6
	2,994	2,130	–	5,124
As at 31 December 2012				
Shares and other variable-yield securities and units in unit trusts	703	–	–	703
Debt securities and other fixed income securities	1,892	2,034	–	3,926
Deposit with credit institutions	7	135	–	142
	2,602	2,169	–	4,771

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in the Basis of Accounting on page 21. These instruments are included in Level 1, and at the year end comprised mainly government bonds (including index-linked government bonds).

Where it is determined that there is no active market, fair value is established using a valuation technique. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. At the year end Level 2 securities comprised mainly corporate bonds and bonds from non UK government agencies. Prices for these securities are taken mainly from vendor sources and have been evaluated using a consensus pricing method.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The following table shows the changes in Level 3 instruments:

	2013 £m	2012 £m
Level 3 instruments at 1 January	—	42
Transfer from Level 3	—	(7)
Disposals during the year	—	(35)
Level 3 instruments at 31 December	—	—

10. Tangible Assets

	Computer and telephone equipment £'000	Furniture and fixtures £'000	Total £'000
Book Cost			
At 1 January 2013	36	605	641
Additions	32	31	63
Disposals	(29)	(132)	(161)
At 31 December 2013	39	504	543
Accumulated Depreciation			
At 1 January 2013	36	185	221
Charge for the year	16	91	107
Disposals	(29)	(132)	(161)
At 31 December 2013	23	144	167
Net Book Value			
At 31 December 2013	16	360	376
At 31 December 2012	—	420	420

The charge for depreciation for the year ended 31 December 2012 was £34k.

11. Cash at Bank and in Hand

	2013 £'000	2012 £'000
Cash at bank and in hand	5,218	5,154

The average interest rate earned by the Company on Cash at Bank and in Hand was 0.03% (2012: 0.13%).

12. Other Debtors

	2013 £'000	2012 £'000
Other debtors comprised:		
Current taxation	7,157	7,601
Other debtors	61	421
	7,218	8,022

13. Provisions for Other Risks

	Deferred tax £'000	Outwards reinsurance premiums £'000	Total £'000
Provisions for other risks comprised:			
At 1 January 2013	10,826	65,509	76,335
Utilised in the year	–	(33,542)	(33,542)
Interest movement	–	2,357	2,357
Profit and Loss Account charge	13,116	29,623	42,739
At 31 December 2013	23,942	63,947	87,889

In accordance with FRS 19 a provision has been made for a deferred tax liability arising from timing differences. As at 31 December 2013 there was a recognised deferred tax liability of £23,942k (2012: £10,826k) in respect of unrealised gains on equities.

14. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	383,242	390,989
Depreciation	107	34
Losses/(gains) on realisation of investments	15,954	(2,439)
Unrealised gains on investments	(39,519)	(1,170)
Decrease in debtors excluding tax	3,393	6,499
Decrease in prepayments and accrued income	9,657	782
Decrease in reinsurers' share of technical provisions	289	555
Increase/(decrease) in technical provisions	11,923	(5,551)
Increase/(decrease) in creditors excluding tax	1,896	(2,245)
Decrease in provisions for risks excluding deferred tax	(1,562)	(299)
Net cash inflow from operating activities	385,380	387,155

15. Cash Flows

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Cash flows were invested as follows:				
Increase/(decrease) in cash holdings		64		(2,581)
Purchases of shares and other variable-yield securities and units in unit trusts	316,285		959,959	
Sales of shares and other variable-yield securities and units in unit trusts	(369,613)		(970,598)	
Purchases of debt securities and other fixed income securities	5,351,617		3,349,497	
Sales of debt securities and other fixed income securities	(4,904,629)		(3,008,714)	
Net (decrease)/increase in deposits with credit institutions	(34,156)		85,356	
Net increase/(decrease) in other investments (including derivative instruments)	17,445		(37,823)	
Net portfolio investments for the year		376,949		377,677
Net investment of cash flows		377,013		375,096

16. Movements in Net Portfolio Investments

	2013 £'000	2012 £'000
Net portfolio investments at 1 January	4,816,882	4,435,596
Net portfolio investments for the year	376,949	377,677
Changes in market values and exchange rate effects	23,565	3,609
Net portfolio investments at 31 December	5,217,396	4,816,882

17. Movements in the Profit and Loss Account

	2013 £'000	2012 £'000
Profit and Loss Account at 1 January	4,693,196	4,313,781
Profit for the financial year	361,378	379,415
Profit and Loss Account at 31 December	5,054,574	4,693,196

18. Floating Charge over the Company's Assets

On 7 September 1993 the Company executed a debenture deed granting HM Government a floating charge over the Company's assets. The terms of that charge restrict the Company from creating further charges without the consent of HM Government. The floating charge crystallises and takes effect as a fixed charge in the event, inter alia, of default by the Company in meeting certain of its obligations to HM Government, and upon termination of the Retrocession Agreement.

19. Capital Resources

The Company falls within the exclusion in Article 1 (2)(d) of EU Directive 2005/68/EC (Reinsurance Directive). The Financial Services Authority made, on application of the Company, a direction in January 2007 under section 148 of the Financial Services and Markets Act 2000 which was renewed on identical terms in July 2011. The effect of the direction is that, inter alia, the Company's capital resources requirement is zero and it is not required to hold equalisation provisions. The Financial Services Authority has been succeeded by the Prudential Regulation Authority, but the direction is carried forward under the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013, and treated as being issued under section 138A of the Financial Services and Markets Act 2000.

Members' Profile

as at 31 December 2013

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Jurisdiction				
Austria	1	0.5%	1	0.0%
Belgium	2	0.8%	68	2.2%
Bermuda	8	3.5%	8	0.3%
France	7	3.1%	8	0.3%
Germany	5	2.2%	73	2.3%
Gibraltar	3	1.4%	0	0.0%
Guernsey	31	14.1%	194	6.2%
Iceland	1	0.5%	0	0.0%
Isle of Man	12	5.5%	33	1.1%
Italy	1	0.5%	7	0.2%
Liechtenstein	1	0.5%	1	0.0%
Luxembourg	3	1.4%	14	0.4%
Malaysia	1	0.5%	0	0.0%
Malta	3	1.4%	0	0.0%
Republic of Ireland	19	8.6%	438	14.0%
Spain	1	0.5%	2	0.1%
Sweden	1	0.5%	5	0.2%
Switzerland	1	0.5%	1	0.0%
United Kingdom	72	32.7%	2,155	68.9%
United States of America	6	2.7%	11	0.4%
	179	81.4%	3,019	96.6%
Active Underwriters of Lloyd's Syndicates	38	18.6%	108	3.4%
	217	100.0%	3,127	100.0%

Analysis by Number of Votes

0	81	38.1%	0	0.0%
1-25	116	52.6%	387	12.4%
26-50	5	2.3%	184	5.9%
51-100	8	3.6%	579	18.5%
101-150	2	0.9%	218	7.0%
151-200	1	0.5%	196	6.3%
201-250	1	0.5%	240	7.7%
251-300	0	0.0%	0	0.0%
301-350	1	0.5%	316	10.1%
351-400	0	0.0%	0	0.0%
401-450	1	0.5%	420	13.4%
451-500	0	0.0%	0	0.0%
501-550	0	0.0%	0	0.0%
551-600	1	0.5%	587	18.7%
601-650	0	0.0%	0	0.0%
	217	100.0%	3,127	100.0%

Note

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



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