



POOL REINSURANCE COMPANY LIMITED

**ANNUAL REPORT  
2005**



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COMPANIES HOUSE 04/08/2006

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## Chairman's Statement

The Company's profit after tax for 2005 was £343.6 million, and the accumulated balance on the profit and loss account available to meet future claims increased to £2,007.8 million at 31 December 2005. Gross premium income increased from £290.0 million to £309.9 million this year. Once again reinsurance rates charged to Members have been kept under review throughout the year with the aim of ensuring equity between insurers, and an appropriate balance between the interests of the various stakeholders.

Members will be aware of the incidents which took place in July 2005 affecting the transport system in London. Bombs were planted at a series of targets on 7 July, and this was followed by an unsuccessful event on 21 July. These incidents serve to highlight the immediacy of the risk and the lack of predictability in terrorist attacks. The Government and other authorities continue to warn that there is a high risk of further terrorist attack in the UK and they continue to maintain a state of heightened readiness in response to this threat. The events of 7 July have been certified as an Act of Terrorism with several members being involved in dealing with attendant claims.

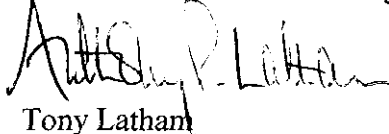
Last year I reported that the Financial Services Authority (FSA) had introduced a new capital regime with effect from 31 December 2004. In anticipation of this the Company submitted an application to FSA seeking waivers from certain rules under Section 148 of the Financial Services and Markets Act 2000 and was issued with a direction from FSA confirming that its capital resource requirement will be equal to zero. This takes account of the unique structure of the Pool Re scheme. The FSA Capital regime requires that the Company carries out an internal capital assessment ("ICA") and this was completed and submitted to FSA in August 2005.

In 2005, the Board reviewed Pool Re's investment strategy to ensure that it was appropriate for the Company's very particular nature and circumstances. The results of this review will be implemented during the early part of 2006. This was a time-consuming exercise for both management and certain of the directors.

During the year the number of Members remained steady at 273. We continued our programme of visits to Members' offices to review their accounting, technical and claims procedures. We see such procedures as fundamental to the provision of reinsurance cover and the results of the visits are reviewed by the Board. The incidents last year were a reminder to us all of the risk of terrorist attacks, and we continue to urge Members to consider particularly their readiness to deal with claims involving chemical, biological or nuclear events. We have continued to liaise with industry bodies throughout the year.

Your Board has kept its corporate governance arrangements under critical review during the year and a self assessment of the Board was carried out for the first time in 2005.

I would like to again thank the Directors, our committee members, and our staff as well as the Members for their continuing support.



Tony Latham

Chairman

23 March 2006

## THE BOARD

**Anthony P Latham ACII - Chairman**

Aged 55. A director since May 1996 and appointed Chairman in June 2003. Group Director, Global Relationships, Royal & SunAlliance Insurance Group plc.

**Roderick D Armitage Barrister FCIS**

Aged 62. Appointed a director in August 2003. Head of Company Affairs, Confederation of British Industry.

**Graham V Doswell FCII**

Aged 60. A director since January 2002. Group Chief Executive, Ecclesiastical Insurance Group plc.

**Brian J G Hilton CB**

Aged 65. A director since January 2001. Former Director General, Department of Trade and Industry.

**Geoffrey M Riddell ACA MA**

Aged 50. Appointed a director in February 2005. Member of the Group Executive Committee and Chief Executive Officer, Global Corporate, Zurich Financial Services.

**Roger Sellek BSc PhD MBA**

Aged 49. Appointed a director in January 2004. Lloyd's of London (formerly Commercial Director, Lloyd's of London).

**Patrick J R Snowball**

Aged 55. A director since February 2003. Group Executive Director, Aviva UK.

## **MANAGEMENT**

Chief Executive            Stephen A Atkins BSc FCII MSI MCMI

Chief Financial  
Officer                    Nicholas J Maguire FCCA

Company Secretary      John K Taylor LLB

## **CORPORATE INFORMATION**

Registered in            England, United Kingdom

Registration number      2798901

Registered Office        135-141 Cannon Street, London EC4N 5BP, United Kingdom

Telephone number        + 44 (0) 20 7337 7170

Facsimile number        + 44 (0) 20 7337 7171

E-mail                    enquiries@poolre.co.uk

## **REPORT OF THE DIRECTORS**

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2005.

### **STATUS OF COMPANY**

The Company is a private company limited by guarantee and not having a share capital.

The Company is authorised by the Financial Services Authority to carry on in the United Kingdom general insurance business classes 3 (land vehicles), 4 (railway rolling stock), 7 (goods in transit), 8 (fire and natural forces), 9 (damage to property) and 616 (miscellaneous financial loss), restricted to reinsurance business only. The Company is also authorised to give advice on and arrange deals in non-investment insurance contracts.

### **PRINCIPAL ACTIVITY**

During the year under review there was no change in the principal activity of the Company which continued to be reinsurance business conducted on a mutual basis. The Company has no subsidiary undertakings. A review of the business of the Company is provided in the Chairman's Statement on page 2.

### **RESULTS**

The Company made a profit before taxation of £376.7m after transferring £238.8m from the general business technical account and charging investment expenses, interest and bank facility charges, of £8.3m. Investment income from equities, interest on short-term deposits, Certificates of Deposit, Corporate Bonds and Government Securities amounted to £91.6m. Unrealised investment profits were £35.6m and realised investment gains were £19.0m. Retained profit for the year was £343.6m.

Taxation relates to the United Kingdom corporation tax on investment income receivable and realised and unrealised gains, less interest payable. There is no taxation on the underwriting result as the business is conducted on a mutual basis.

Subject to the terms of the Retrocession Agreement made between the Company and HM Government dated 30 July 1993, when a deficit exists within the technical provisions the Company can recover this from HM Government. In certain circumstances when the Agreement is terminated with the technical provisions in deficit, or where those amounts are set off against future underwriting profits, HM Government is not entitled to repayment of amounts it has paid to the Company. The Directors have resolved 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.

### **DIRECTORS**

The Directors listed on page 3 all held office throughout the year, with the exception of Mr G M Riddell who was appointed on 7 February 2005.

The Directors serve in a non-executive capacity and have no service contracts with the Company.

As permitted by the Companies Act 1985 (as amended), the Company has maintained insurance cover for the Directors and Officers of the Company against certain liabilities, which they may incur in carrying out their duties.

## **FINANCIAL INSTRUMENTS**

The Company has adopted Risk Policies which applied to its use of financial instruments during the year under review. The overall financial risk management objective is to invest the assets against the contingency that they could be exhausted suddenly by a claim or series of claims, but with recognition that they may not be called upon for long periods. The Company did not have any risks requiring hedging during the year.

The Company is exposed to financial risk through its financial assets which include equities, UK gilts, corporate bonds, and cash. Total investment risk is controlled by the benchmark investment portfolio adopted by the Board.

### **Price Risk**

The Company is exposed to price risk as a result of its holdings in equities, UK gilts, and corporate bonds. The Company has a defined investment risk policy which sets limits on the Company's exposure to various types of investment and requires that a proportion of the assets are held in cash.

### **Credit Risk**

The credit risk arising from the investment portfolio results from the potential for failure of a counterparty. In order to limit this risk Pool Re has put in place counterparty limits.

### **Liquidity Risk**

The Company's investment portfolio is structured with the objective that the Company has sufficient readily realisable assets in the event of a claim. For this reason 10 per cent of all assets are held in cash with the balance in readily realisable investments.

### **Cash flow risk**

*In view of the restrictions referred to above any cash flow risk is not considered to be material.*

## **DONATIONS**

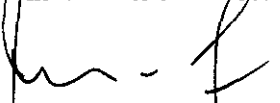
In the year under review the Company made no donations for political or charitable purposes.

## **DIVIDEND**

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.

## **AUDITORS**

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.



By Order of the Board

J K Taylor

Secretary

23 March 2006

## STATEMENT ON CORPORATE GOVERNANCE

The Company is not required to prepare a statement on Corporate Governance. However, the Board of Directors consider that, as a public interest company, it is appropriate to make a statement about the Company's corporate governance arrangements.

### **The Board and its Committees**

*The Board comprises only non-executive Directors, including a non-executive chairman. In accordance with the terms of the Articles of Association one director is appointed and may be removed from office by HM Treasury. With the exception of this director, the appointment of any new director is considered by the Board. In accordance with the provisions of the Articles of Association any Directors appointed by the Board must stand for reappointment at the first annual general meeting following their appointment, and one third of the Directors, excluding the director appointed by HM Treasury, must stand for re-election each year. All Directors are appointed for an indefinite period subject to the Articles of Association.*

The Board has decided to meet at least four times in each year, and is responsible for the overall strategy of the Company, its values and standards, its management performance and all major business decisions. *The financial performance of the Company is reviewed at each meeting. There is a formal schedule of matters reserved to the Board. The Board has delegated to management the power to make decisions on operational matters within a framework of internal control procedures.*

The names of the Chairman and all the Directors are set out on page 3. The majority of the Directors are also Directors of companies that cede business to the Company. None of the Directors receives any additional remuneration from the Company apart from the director's fee.

The Board Procedures Manual includes provision for annual performance evaluation including self-assessment by the Board and assessment of the Chief Executive and the Chairman. The procedure includes the Chairman holding a meeting with the other Directors without any of the management present. The other Directors hold a meeting without the Chairman being present.

Based upon the number of opportunities each director had to attend meetings during the year the overall level of attendance measured in percentage terms was 89 per cent.

All Directors have access to the services of the Company Secretary and independent professional advice is available to the Directors in respect of any issue arising in the course of their duties, at the expense of the Company. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board has established two Committees called the Admissions Committee and the Advisory Committee. The Chairman is a member of the former but otherwise neither Committee includes any Directors. The Admissions Committee considers the admission of new members to the Pool Re scheme and authorises the execution of the relevant documents. The remit 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 Committee's membership reflects its statement of aims, which has been approved by the Board. In accordance with the Articles of Association the proceedings of any Committee, to which the Board has delegated powers, will be reported to the Directors at the next Board meeting following each Committee meeting.

### **Directors' and Management Remuneration**

In accordance with the Company's Articles of Association, the Directors' remuneration, by way of directors' fees, is subject to approval by the Members at the Annual General Meeting. The remuneration of the Chief Executive is set by the Board. The Company has retained the services of an external provider, (who also provides consultancy services to the Company, but otherwise has no connection to the Company), to advise the Board on remuneration levels.



### **Statement of going concern**

The Board is satisfied, after taking account of the Retrocession Agreement with HM Treasury, 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.

### **Internal control**

The Board has the responsibility for establishing systems of internal control to safeguard both the Members' and the Company's assets and to ensure compliance with laws and regulations.

The Company reviews and keeps updated a risk and control assessment framework and has established a process for the regular review of that framework on a monthly basis. Reviews covering (i) the effectiveness of the Company's system of internal controls and (ii) its risk management, corporate governance and compliance function were carried out by an external provider. A report including recommendations and management responses in respect of each review has been considered by the Board. Any comments on internal controls made by the external auditors, were also considered and dealt with by the Board and the Directors have reviewed the internal control system. It is planned that during 2006 two reviews of internal controls will again be undertaken using risk-based methodologies.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year, and of the profit or loss for the year. The Directors consider that in preparing the financial statements on pages 11 to 22, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

## **INDEPENDENT AUDITOR'S 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 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Report of the Directors, the Statement on Corporate Governance and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

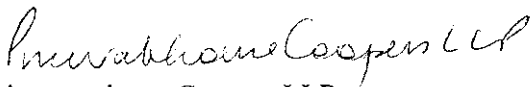
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

23 March 2006

## PROFIT AND LOSS ACCOUNT

**Technical account - general business  
for the year ended 31 December 2005**

	Note	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>
Gross premiums written		309,870	289,959
Outwards reinsurance premiums	14	(30,987)	(28,995)
Net premiums written		278,883	260,964
Change in the gross provision for unearned premiums		(10,988)	(15,015)
Change in the provision for unearned premiums, reinsurers' share		1,099	1,501
<b>Earned premiums, net of reinsurance</b>		268,994	247,450
Gross and net claims paid		(1,497)	(701)
Change in the provision for claims		(26,437)	1,788
<b>Claims incurred, net of reinsurance</b>		(27,934)	1,087
Rebates, net of reinsurance		(12)	(134)
Net operating expenses	4	(2,260)	(2,129)
Balance on the technical account for general business		238,788	246,274

The notes on pages 15 to 22 form an integral part of these financial statements.  
The auditors' report is on pages 9 and 10.

## PROFIT AND LOSS ACCOUNT

Non- technical account  
for the year ended 31 December 2005

	Note	<u>2005</u> £'000	<u>2004</u> £'000
Balance on the technical account for general business		238,788	246,274
Investment income	5	91,546	86,486
Unrealised profits on investments		35,645	24,462
Gains/(Losses) on realisation of investments		19,001	(11,382)
Investment expenses and charges	6	(8,284)	(6,710)
Profit on ordinary activities before tax		376,696	339,130
Tax on profit on ordinary activities	10	(33,089)	(19,453)
Profit on ordinary activities after tax		343,607	319,677

Other than what is stated in the Profit and Loss Account there were no other recognised gains or losses.


The above results all relate to continuing operations.

The notes on pages 15 to 22 form an integral part of these financial statements.  
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**BALANCE SHEET**  
as at 31 December 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
<b>Assets</b>					
<b>Investments</b>					
Other financial investments	11		2,165,138		1,806,283
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums			14,003		12,904
<b>Debtors</b>					
Debtors arising out of reinsurance operations		67,167		59,157	
Other debtors		13		13	
		-----		-----	
			67,180		59,170
<b>Other assets</b>					
Tangible assets	13	-		8	
Cash at bank and in hand		31,065		6,768	
		-----		-----	
			31,065		6,776
<b>Prepayments and accrued income</b>					
Accrued interest		16,151		16,565	
Deferred acquisition costs		90		89	
Other prepayments		157		137	
		-----		-----	
			16,398		16,791
<b>Total assets</b>			<u>2,293,784</u>		<u>1,901,924</u>
<b>Liabilities</b>					
<b>Capital and Reserves</b>					
Profit and Loss Account	19		2,007,781		1,664,174
			-----		-----
			2,007,781		1,664,174
<b>Technical provisions</b>					
Provision for unearned premiums		140,030		129,042	
Claims outstanding		30,695		4,255	
		-----		-----	
			170,725		133,297
<b>Provisions for other risks and charges</b>	14		64,884		57,064
<b>Creditors</b>					
Creditors arising out of reinsurance operations		29,431		32,176	
Other creditors including taxation	12	20,963		15,213	
		-----		-----	
			50,394		47,389
<b>Total liabilities</b>			<u>2,293,784</u>		<u>1,901,924</u>

Approved by the Board on 23 March 2006 and signed on its behalf by

Chairman 

Director 

The notes on pages 15 to 22 form an integral part of these financial statements.  
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**CASH FLOW STATEMENT**  
for the year ended 31 December 2005

	Note	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>
<b>Operating activities</b>			
Net cash inflow from operating activities	16	355,779	345,299
<b>Taxation</b>			
Tax (paid)/received		(27,272)	581
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets		-	(8)
<b>Net cash inflow</b>	17	<u>328,507</u>	<u>345,872</u>
Cash flows were invested as follows			
<b>Increase in cash holdings</b>		24,297	3,540
<b>Portfolio Investment</b>			
Net portfolio investments			
Equities		20,206	30,100
Fixed yield Government securities		174,173	81,954
Corporate bonds and other fixed interest deposits		113,686	228,727
Undertaking for collective investment in transferable securities		(3,855)	1,551
		<u>304,210</u>	<u>342,332</u>
<b>Net investment of cash flows</b>	17	<u>328,507</u>	<u>345,872</u>

The notes on pages 15 to 22 form an integral part of these financial statements.  
The auditors' report is on pages 9 and 10.

## **NOTES TO THE FINANCIAL STATEMENTS**

### ***1. Insurance Business***

The Company's financial position and its obligations to meet claims under the agreements it has entered into with members are assured, in that the Retrocession Agreement provides for the Company to be indemnified by HM Government in circumstances where it is unable to meet those claims, subject to the terms of that Agreement.

The premium due to HM Government for providing retrocession cover becomes payable 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 accumulated funds exceeded £1 billion at 31 December 2005. These funds are broadly equivalent to premiums received, plus investment income earned, less incurred claims, taxation and expenses, subject to certain differences in the timing of their recognition. In certain circumstances the retrocession premium may become immediately payable if the Company fails to comply with the conditions of the Retrocession Agreement.

### ***2. Accounting and Disclosure Requirements***

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005. The Company also complies with applicable accounting standards in the United Kingdom as considered appropriate for an insurance Company.

### ***3. Accounting Policies***

#### **(a) Annual basis**

##### **(i) Technical results**

The technical results are determined using the annual basis of accounting whereby the incurred cost of claims, commission and related 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.

##### **(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) Acquisition costs**

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned. The Company ceased to pay commission on business written from 1 January 2003.

##### **(v) 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.



## **Notes to the Financial Statements (continued)**

### **(vi) 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 notified but not paid claims the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

The nature of the underlying business is such that there is not a significant delay between the occurrence of the 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 case by case basis to reflect the individual circumstances of each claim.

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

### **(vii) Unexpired risks provision**

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

### **(viii) Outwards reinsurance premiums**

Provision is made for outwards reinsurance premiums payable including amounts that may become payable to HM Government under the terms of the Retrocession Agreement.

### **(ix) Rebates**

Provision is made for rebates payable under the terms of the agreements with Members.

## **(b) Expenses**

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

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

## **(c) Investments**

Investments are stated at market value, representing stock market values for listed securities.

## **(d) Investment income**

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. Unrealised gains and losses represent the difference between market price and purchase price or, if previously valued, the valuation at the last balance sheet date. Dividends are recorded on the date on which the shares are quoted ex-dividend.

## Notes to the Financial Statements (continued)

### (e) Taxation

Taxation is provided on investment income receivable and realised and unrealised gains, less interest payable, for the period.

### (f) Deferred Tax

Provision is made for deferred tax using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period. Deferred tax balances are not discounted.

### (g) Operating leases

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term.

### 4. Net operating expenses

	<u>2005</u>	<u>2004</u>
Net operating expenses comprised:-	£'000	£'000
Acquisition costs	1	(10)
Administration expenses	(2,261)	(2,119)
	-----	-----
Net operating expenses	(2,260)	(2,129)
	=====	=====

Commission incurred during the year in respect of inwards reinsurance was £1,000 (2004 - £21,000).

### 5. Investment Income

	<u>2005</u>	<u>2004</u>
Investment income comprised:-	£'000	£'000
Income from other financial investments	91,546	86,486
	-----	-----
	91,546	86,486
	=====	=====

### 6. Investment Expenses and Charges

Investment expenses and charges comprised:-	<u>2005</u>	<u>2004</u>
	£'000	£'000
Bank facility charges	(156)	(156)
Interest payable on outwards reinsurance		
Less than 1 year	(1,924)	(1,106)
Greater than 1 year	(4,301)	(3,662)
Investment management and other charges	(1,903)	(1,786)
	-----	-----
	(8,284)	(6,710)
	=====	=====

### 7. Employee Information

The average number of persons employed by the Company during the year was 9.6 (2004 - 9.3).

Staff costs for these persons were:-	<u>2005</u>	<u>2004</u>
	£'000	£'000
Wages and salaries	650	685
Social security costs	81	80
	-----	-----
	731	765
	=====	=====

## Notes to the Financial Statements (continued)

### 8. Directors' Emoluments

The aggregate emoluments payable to certain Directors of the Company as individuals, for their services as Directors, for the year was £28,000 (2004 - £28,000). In addition £82,583 (2004 - £69,793) was paid to third parties for making available the services of other persons to act as Directors of the Company.

### 9. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging auditors' remuneration in respect of the financial statements for the year of £81,956 (2004 - £69,325) including irrecoverable VAT. Other fees payable to PricewaterhouseCoopers LLP in respect of the year amounted to £82,015 (2004 - £54,168) for annual taxation work, £6,462 (2004 - Nil) for specific taxation advice and £24,353 (2004 - £64,001) for other non audit work totalling £112,830 (2004 - £118,169).

### 10. Taxation on profit on ordinary activities

Taxation on profit on ordinary activities comprises:-	<u>2005</u> £'000	<u>2004</u> £'000
United Kingdom corporation tax at 30%		
Current tax on income for the period	(23,012)	(19,070)
Adjustments in respect of prior periods	892	1,012
	-----	-----
Current tax	(22,120)	(18,058)
Deferred tax – origination and reversal of timing differences	(10,969)	(1,395)
	-----	-----
Tax on profit on ordinary activities	<u><u>(33,089)</u></u>	<u><u>(19,453)</u></u>

### Factors affecting the tax charge for the period

The tax assessed for the year is different from the standard corporation tax in the UK (30%). The differences are explained below:

	<u>2005</u> £'000	<u>2004</u> £'000
Non technical account		
Profit on ordinary activities before tax	<u><u>376,696</u></u>	<u><u>339,130</u></u>
Profit on ordinary activities at standard rate of corporation tax in the UK of 30% (2004: 30%)	(113,009)	(101,739)
Technical income - not taxable	71,636	73,883
Dividend income - not taxable	3,060	2,342
Investment expenses – element not allowable	-	(1,026)
Realised gains on equities (covered by capital losses bought forward)	4,315	2,691
Unrealised gains on equities	10,986	4,779
	-----	-----
Current tax charge for the period	<u><u>(23,012)</u></u>	<u><u>(19,070)</u></u>

## Notes to the Financial Statements (continued)

### 11. Other financial investments

	<u>2005</u>	<u>2004</u>
Other financial investments comprise:-	£'000	£'000
Equities	352,394	281,186
Fixed yield Government securities	1,201,396	998,818
Corporate bonds and other fixed interest deposits	601,162	512,238
Undertaking for collective investment in transferable securities	10,186	14,041
	<u>2,165,138</u>	<u>1,806,283</u>

Equities, fixed yield Government securities and corporate bonds are listed. The purchase price of the equities was £294,050,000 (2004 - £259,462,000) and of the Government securities was £1,215,936,000 (2004 - £1,011,096,000). The purchase price of corporate bonds and other fixed interest deposits was £598,160,000 (2004 - £510,964,000).

### 12. Other creditors

	<u>2005</u>	<u>2004</u>
Other creditors comprise:-	£'000	£'000
Current tax	8,965	14,118
Deferred tax	10,969	-
Other creditors	1,029	1,095
	<u>20,963</u>	<u>15,213</u>

	<u>2005</u>	<u>2004</u>
The deferred tax liability comprises:	£'000	£'000
Unrealised gains on equities	10,969	-
	<u>10,969</u>	<u>-</u>

In accordance with FRS19 "Deferred Tax", provision has been made for deferred tax on assets and liabilities arising on timing differences. At 31 December 2005 there was a recognised deferred tax liability of £10,969,000 (2004 - Nil) in respect of unrealised gains on equities. At December 2004, a deferred tax asset in respect of realised losses on equities of £3,704,000 was not recognised.

## Notes to the Financial Statements (continued)

### 13. Tangible Assets

The net book value of tangible assets comprises:

	Computer Equipment	Fixtures, fittings and office Equipment	Total
	£'000	£'000	£'000
Cost			
As at 1 January 2005	81	66	147
	-----	-----	-----
As at 31 December 2005	81	66	147
	-----	-----	-----
Accumulated Depreciation			
As at 1 January 2005	80	59	139
Charge for the year	1	7	8
	-----	-----	-----
As at 31 December 2005	81	66	147
	-----	-----	-----
Net Book Value	-----	-----	-----
As at 31 December 2005	-	-	-
	=====	=====	=====
As at 31 December 2004	1	7	8
	=====	=====	=====

### 14. Provisions for other risks and charges

Provisions for other risks and charges comprise:-

	Outwards reinsurance premiums £'000
As at 1 January 2005	57,064
Utilised in the year	(27,468)
Interest movement on open years	4,301
Profit and loss account charge	30,987
	-----
As at 31 December 2005	64,884
	=====

The £27,468,000 provision for outwards reinsurance premiums utilised in the year represents amounts not yet payable to HM Government in respect of previous underwriting years. The £30,987,000 profit and loss account charge for outwards reinsurance premiums represents additional provisions in respect of premiums received in 2005.

## Notes to the Financial Statements (continued)

### 15. Bank Facility

On 30 July 1993 the Company entered into a five-year agreement with a consortium of banks for the provision of a revolving credit facility of up to £500,000,000. The purpose of this facility is to provide immediate funds to pay claims to reinsureds irrespective of the timing of any payments from HM Government under the terms of the Retrocession Agreement. On 24 April 1996 the terms of this facility were renegotiated and the facility extended until 24 April 2003. On 7 February 2003 the facility was further extended until 7 February 2008.

HM Government executed a guarantee and indemnity agreement on 30 July 1993 guaranteeing to the banks any sum due by the Company under the revolving credit agreement.

### 16. Reconciliation of operating profit to net cash inflow from operating activities

	<u>2005</u>	<u>2004</u>
	£'000	£'000
Profit on ordinary activities before tax	376,696	339,130
(Gains)/losses on realisation of investments	(19,001)	11,382
Unrealised profit on investments	(35,645)	(24,462)
Depreciation charge	8	31
Increase in debtors excluding tax	(8,010)	(6,936)
(Increase)/Decrease in prepayments and accrued income	393	(3,525)
Increase in reinsurers share of technical provisions	(1,099)	(1,501)
Increase in technical provisions	37,428	13,227
(Decrease)/increase in creditors excluding tax	(2,811)	15,661
Increase in provisions for risks and other charges excluding deferred tax	7,820	2,292
	-----	-----
Net cash inflow from operating activities	355,779	345,299
	=====	=====

### 17. Cash flows

	<u>2005</u>		<u>2004</u>
	£'000	£'000	£'000
			£'000
Cash flows were invested as follows:-			
Increase in cash holdings		24,297	3,540
Purchases of fixed yield Government securities	1,680,461		2,303,955
Sales of fixed yield Government securities	(1,506,288)		(2,222,001)
Purchases of Equities	210,149		175,254
Sales of Equities	(189,943)		(145,154)
Net increase in corporate bonds and other fixed interest deposits	113,686		228,727
Net (purchases)/sales of Undertaking for collective investment in transferable securities	(3,855)		1,551
	-----		-----
Net portfolio investment		304,210	342,332
		-----	-----
Net investment of cash flows		328,507	345,872
		=====	=====

## Notes to the Financial Statements (continued)

### 18. Movement in opening and closing portfolio investment

	<u>2005</u> £'000	<u>2004</u> £'000
Net portfolio investment for the period	304,210	342,332
Changes in market values	54,645	13,139
Portfolio investments at 1 January	1,806,283	1,450,812
	-----	-----
Portfolio investments at 31 December	<u>2,165,138</u>	<u>1,806,283</u>

### 19. Reconciliation of movements in profit and loss account

	<u>2005</u> £'000	<u>2004</u> £'000
Profit for the financial year	343,607	319,677
Opening profit and loss account	1,664,174	1,344,497
	-----	-----
Closing profit and loss account	<u>2,007,781</u>	<u>1,664,174</u>

### 20. Contingent liabilities

Pool Re is presently in correspondence with a contractual counterparty concerning interest payable under the terms of the relevant contract. Given the uncertainties of this dialogue it is not possible at this stage to quantify whether or not there will be any effect on Pool Re.

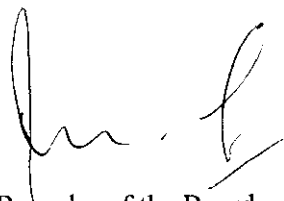
### 21. Floating charge over the Company's assets

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.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Pool Reinsurance Company Limited will be held at the Hospitality Suite, London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD at noon on 27 June 2006 for the following purposes:

1. To receive the report of the Directors and audited financial statements for the year ended 31 December 2005.
2. To re-elect as a director Roderick Armitage who retires by rotation.
3. To re-elect as a director Graham Doswell who retires by rotation.
4. To fix the remuneration of the directors.
5. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
6. To authorise the Directors to determine the remuneration of the Auditors.



By order of the Board

J K Taylor  
Secretary

23 March 2006

### Notes

A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of that member. A proxy need not be a member of the Company.

A form of proxy is enclosed which in order to be valid must be completed and deposited at 135-141 Cannon Street, London EC4N 5BP not less than forty eight hours before the time appointed for holding the meeting or any adjourned meeting. The completion of a form of proxy will not prevent a member who wishes to do so from attending and voting in person.



## MEMBERS' PROFILE

as at 31 December 2005

Analysis by type of member	Number of members	Percentage of number of members	Number of votes	Percentage of number of votes
Insurance companies incorporated in				
Belgium	2			
Bermuda	6			
France	6			
Germany	3			
Gibraltar	3			
Guernsey	52			
Hong Kong	1			
Isle of Man	23			
Italy	2			
Malaysia	1			
Malta	1			
Republic of Ireland	33			
Netherlands	2			
Sweden	3			
United Kingdom	91			
United States of America	5			
	234	85.7	3,082	96.2
Active Underwriters of Lloyd's Syndicates				
	39	14.3	123	3.8
	273	100.0	3,205	100.0
Analysis by size of vote				
0	85		0	0.0
1-25	171		724	22.6
26-50	5		186	5.8
51-100	4		286	8.9
101-150	3		346	10.8
151-200	1		200	6.2
201-250	1		226	7.1
301-350	1		333	10.4
401-450	1		424	13.2
451-500	1		480	15.0
	273		3,205	100.0

### Note

Under the provisions of Article 27 of the Articles of Association a member has one vote for each £100,000 of premium or part thereof for reinsurance business placed with the Company in the calendar year prior to the poll.

Of the 91 insurance companies incorporated in the United Kingdom 44 have an ultimate parent company incorporated outside the United Kingdom.

## LIST OF MEMBERS AS AT 31 DECEMBER 2005

### Members Name

ABP Insurance Limited  
Absolut Insurance Limited  
Acadia International Insurance Limited  
ACE Insurance SA-NV  
ACE European Group Limited  
Ace European Markets Insurance Company Limited  
AEA Insurance Limited  
AG Insurance Company Limited  
AGF Insurance Limited  
Assurances Generales de France IART  
AIG Europe (Ireland) Limited  
Aioi Insurance Company of Europe Limited  
Aioi Motor and General Insurance Company of Europe Limited  
Allianz Ireland plc  
Allianz Cornhill Insurance plc  
Allianz Corporate Ireland plc  
Allied World Assurance Company  
Alreford Limited  
Ansvar Insurance Company Limited  
Arbor Property and Casualty Ireland Limited  
Arcadian Guernsey Limited  
Arch Insurance Company (Europe) Limited  
Aspen Insurance UK Limited  
Assicurazioni Generali SpA  
AstraZeneca Insurance Company Limited  
Atlantic Mutual International Limited  
Augusta Assicurazioni Spa  
Automotive Financial Insurances Limited  
Avon Insurance plc  
AXA General Insurance Hong Kong Limited  
AXA Corporate Solutions Assurance  
AXA Global Risks (UK) Limited  
AXA Art Insurance Limited  
AXA General Insurance Limited  
AXA Insurance UK plc  
AXA Reinsurance (UK) plc  
BAA Insurance Services Limited  
Baker Street Risk and Insurance (Guernsey) Limited  
Baltimore Insurance Limited  
The Baptist Insurance Company plc  
Barclays Insurance Guernsey PCC Limited  
Barloworld Insurance Limited  
Belvoir Insurance Company Limited  
BM (Insurance) Limited  
Brit Insurance Limited  
British Reserve Insurance Company Limited  
BSkyB Insurance Company Limited  
Capricorn Insurance Ireland Limited  
Carillion Insurance Company Limited  
The Catholic National Mutual Limited  
Cedar Insurance Company Limited  
Centrica Insurance Limited  
CGU International Insurance plc  
CGU Insurance plc  
CGU Bonus Limited  
CGU Courtage  
CGU Underwriting Limited  
Chantrey Global Risks Limited  
CHG Insurance Limited  
China Insurance Company (UK) Limited  
Chubb Insurance Company of Europe S.A.  
Church of Scotland Insurance Company Limited  
Classic Brand (Europe) Limited

## **LIST OF MEMBERS AS AT 31 DECEMBER 2005**

CNA Insurance Company (Europe) Limited  
Co-operative Insurance Society Limited  
Communicator Insurance Company Limited  
Compagnie D'Assurances Maritimes Aeriennes & Terrestres S.A.  
Congregational & General Insurance plc  
Consolidated Mutual Insurance Limited  
Consolidated Provident Insurance PCC Limited  
Cornish Mutual Assurance Company Limited  
Crosskeys Limited  
Crucible Insurance Company Limited  
CX Reinsurance Company Limited  
DMG Insurance Limited  
Dornoch International Insurance Limited  
Douglas Insurance Limited  
Dowa Insurance Company (Europe) Limited  
Dunard Insurance (Isle of Man) Limited  
E & D F Man Holdings Insurances Limited  
Man Group Insurances Limited  
Eagle Star Insurance Company Limited  
Eakring (Insurances) Limited  
Eastern Corporate Insurance Limited  
Ecclesiastical Insurance Office plc  
Ecumenical Insurance Company Limited  
Elecrent Insurance Limited  
Electra Insurance Limited  
Electrical Contractors Insurance Company Limited  
Endurance Worldwide Insurance Limited  
Ergon Insurance Limited  
European Insurance Risk Excess Limited  
Exel Insurance Limited  
F M Insurance Company Limited  
Fortis Insurance Limited  
Fuji International Insurance co ltd  
Fulmar Insurance Company Limited  
Gamond Insurance Company Limited  
GCF Insurance Limited  
GD Insurance Company Limited  
GE Specialty Insurance (UK) Limited  
GE Frankona Reinsurance Limited  
Generali France  
Gerling-Konzern Allgemeine Versicherungs-AG  
Golden Arches Insurance Limited  
Great Lakes Reinsurance (UK) plc  
GROUPAMA / DRP - DCER  
Groupama Insurance Company Limited  
Guardian PMPA Insurance Limited  
Gulf Insurance Company U.K. Limited  
Hampden Insurance NV  
Hibernian Insurance Company Limited  
Hiscox Insurance Company Limited  
Houston Casualty Company  
HSB Engineering Insurance Company Limited  
HSBC Insurance (Bermuda) Limited  
HSBC Insurance PCC Limited  
HSBC Insurance (Ireland) Limited  
Insurance Corporation of the Channel Islands Limited  
Ichem Insurance Company Limited  
If P&C Insurance Limited (publ)  
IC Insurance Limited  
Infrasure Limited  
Inreska Limited  
International Insurance Company of Hannover Limited  
International Risk Insurance Company Limited  
Inverlmond Insurance Limited  
Isis Insurance Company Limited

## **LIST OF MEMBERS AS AT 31 DECEMBER 2005**

JCB Insurance Company Limited  
JLP Insurance Limited  
JS Insurance Limited  
K S Insurance Limited  
K2 Insurance Company Limited  
Kingfisher Insurance Limited  
Kyoei Fire & Marine Insurance Company (UK) Limited  
Landmark Insurance Company Limited  
Landsdowne Insurance Company Limited  
LCR Insurance Limited  
Le Meridien Insurance Company Limited  
Legal & General Insurance Limited  
Legal & General Assurance Society Limited  
Liberty Mutual Insurance Company (UK) Limited  
Lloyds TSB Bank Insurance Company Limited  
Lochside Insurance Limited  
London & Edinburgh Insurance Company Limited  
London Power Insurance Limited  
London Transport Insurance (Guernsey) Limited  
Lothbury Insurance Company Limited  
M. S. Insurance Limited  
M.S. General Insurance LP  
Mallory Insurance PCC Limited  
Markel International Insurance Company Limited  
Martinsurance Teoranta  
Maxfort Insurance Limited  
Methodist Insurance plc  
Minster Insurance Company Limited  
Mitsui Sumitomo Insurance Company (Europe) Limited  
MMA Insurance plc  
Montpelier Reinsurance Limited  
Moorgate Insurance Company Limited  
Mountainbran Limited  
MUI Continental Insurance Berhad  
Multi Risk Insurance Company Limited  
The National Insurance & Guarantee Corporation Limited  
National Grid Insurance Company (Isle of Man) Limited  
National Express Guernsey Limited  
Network Rail Insurance Limited  
New Hampshire Insurance Company  
The New India Assurance Company Limited  
The National Farmers Union Mutual Insurance Society Limited  
Nipponkoa Insurance Company (Europe) Limited  
Northern Star Insurance Company Limited  
Northern Foods Insurance Limited  
Norwich Union Insurance Limited  
Palatine Insurance Company Limited  
Park Assurance Company  
PartnerRe Ireland Insurance Limited  
Petrus Insurance Company Limited  
The Pharmacy Mutual Insurance Company Limited  
Portland Insurance Company Limited  
Porton Underwriting Limited  
Primary Insurance Company Limited  
QBE Insurance Company (UK) Limited  
QBE Insurance (Europe) Limited  
Red Disk Insurance Company Limited  
Rhenas Insurance Limited  
Royal & SunAlliance Insurance plc  
The Salvation Army General Insurance Corporation Limited  
Sarnia Insurance Company Limited  
SCOR UK Company Limited  
Scottish Boiler & General Insurance Company Limited  
ScottishPower Insurance Limited  
Securitas Insurance Limited

## LIST OF MEMBERS AS AT 31 DECEMBER 2005

Seaboard Insurance Company Limited  
 Selfridges Insurance (Guernsey) Limited  
 Sirius International Insurance Corporation  
 Sompo Japan Insurance Company of Europe Limited  
 Speedbird Insurance Company Limited  
 SR International Business Insurance Company Limited  
 SSE Insurance Limited  
 St James's Insurance Limited  
 St. Paul Travelers Insurance Company Limited  
 Standard Chartered Insurance Company Limited  
 Standard Trane Insurance Ireland Limited  
 Sterling Insurance Company Limited  
 Tate & Lyle Reinsurance Limited  
 TCS Insurance Company of Ireland Limited  
 TELIA Insurance Company  
 Tesco Insurance Limited  
 Three Rivers Insurance Company Limited  
 Through Transport Mutual Association (Eurasia) Limited  
 Tobacco Insurance Company Limited  
 Tokio Marine Global Limited  
 Tokio Marine Europe Insurance Limited  
 Trafalgar Insurance plc  
 UK Insurance Limited  
 The Underwriter Insurance Company Limited  
 UPS International Insurance Limited  
 Verzekeringsmaatschappij Palma NV  
 Vodafone Insurance Company Limited  
 Voyager Insurance Company Limited  
 Wagram Insurance Company Limited  
 Wharf Reinsurance Inc  
 White Rock Insurance (Gibraltar) PCC Limited  
 Woodcroft Insurance Company Limited  
 Woodstock Insurance Company Limited  
 Woolworths Insurance (Guernsey) Limited  
 WTCD Insurance Corporation Limited  
 Wurttembergische Versicherung A.G.  
 XL Insurance Company Limited  
 Zurich Specialties London Limited  
 Zurich Insurance Company  
 Zurich International (UK) Limited  
 Zurich Insurance Ireland Limited

Lloyd's Syndicate number	33	R S Childs
Lloyd's Syndicate number	218	R M White
Lloyd's Syndicate number	318	M S F Pritchard
Lloyd's Syndicate number	382	A J Walker
Lloyd's Syndicate number	435	MJ Rayner & PNE Ceurvorst
Lloyd's Syndicate number	510	R D Chase
Lloyd's Syndicate number	570	K W Wilkins
Lloyd's Syndicate number	609	C T Dandridge
Lloyd's Syndicate number	623	A F Beazley
Lloyd's Syndicate number	727	M J Meacock
Lloyd's Syndicate number	780	L Tunnicliffe
Lloyd's Syndicate number	807	S D Mathers
Lloyd's Syndicate number	958	J Robinson
Lloyd's Syndicate number	1007	J L J Butcher
Lloyd's Syndicate number	1084	H H Hayward
Lloyd's Syndicate number	1096	B P Bartell
Lloyd's Syndicate number	1200	L J Rock
Lloyd's Syndicate number	1206	G M Halpin
Lloyd's Syndicate number	1221	C T Dingley
Lloyd's Syndicate number	1225	P L Thorpe-Apps
Lloyd's Syndicate number	1234	A D Hicks
Lloyd's Syndicate number	1241	G H Carrington
Lloyd's Syndicate number	1243	T E Stokes
Lloyd's Syndicate number	1245	L J Rock
Lloyd's Syndicate number	1301	P J Gage
Lloyd's Syndicate number	2000	M J Harrington

# **LIST OF MEMBERS AS AT 31 DECEMBER 2005**

Lloyd's Syndicate number	2001	A W Holt
Lloyd's Syndicate number	2010	J C Hamblin
Lloyd's Syndicate number	2020	Wellington
Lloyd's Syndicate number	2121	J A Hyland
Lloyd's Syndicate number	2147	A D Hicks
Lloyd's Syndicate number	2488	R V Pryce
Lloyd's Syndicate number	2623	A F Beazley
Lloyd's Syndicate number	2987	S Clapham
Lloyd's Syndicate number	3000	G Albanese
Lloyd's Syndicate number	3210	D Warren
Lloyd's Syndicate number	4040	A D Burniston
Lloyd's Syndicate number	4444	J A Giordano
Lloyd's Syndicate number	5000	M Hudson