POOL RE

POOL REINSURANCE COMPANY LIMITED

ANNUAL REPORT 2010

Registered Number 2798901

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CHAIRMAN'S STATEMENT

The Company's profit after tax for 2010 was £434 6 million, and the accumulated balance on the profit and loss account available to meet future claims increased to £3,948 9 million at 31 December 2010 Gross premium income decreased slightly from £315 4 million to £308 2 million this year

The total investment fund value at 31 December 2010 was £4 1 billion For the year as a whole a return of 5 2% was achieved This represented a real return of almost 0 5% above RPI inflation The investment strategy review, which I mentioned in my statement last year, and the transition to the resulting revised investment strategy were completed during the course of 2010 As a consequence of the altered investment strategy it was appropriate to review the Company's investment managers and this resulted in two new appointments and the retention of three of our existing managers The entire process was overseen by the Investment Committee

The Company's restructured investment policy continues to be founded on the premise that our assets will be managed against the contingency that they could be required to meet a claim or series of claims at any time, whilst recognising that they may not be called upon for long periods Global investment prospects depend on the outcome of the combination of accommodative monetary policies and stringent fiscal policies in the slow-growing developed economies and continued strong growth in the developing economies Present policy has, therefore, been designed to provide protection from the risks of higher inflation and higher bond yields In addition we have retained exposure to some growth assets

Against the background of a solid financial performance we continue to face the threat of terrorist attacks The current threat level published by the Home Office is "severe" as it was for most of 2010 Fortunately, there were no incidents giving rise to claims in 2010 and this remains the case at the date of this report The Company does, however, devote considerable time and attention to ensuring that its internal systems and the claims handling systems of the Members are adequate to deal with any claims that might arise under the Scheme, including those involving chemical, biological, radiological incidents or nuclear contamination In 2010 this work involved the development of a revised contingency plan for dealing with major events

Solvency II continues to be a focus of attention for the industry as a whole The Company is giving detailed consideration to the implications of the proposed regime for both the Company and the Scheme as a whole

As usual, a matter for the Board's consideration during the year was the Company's position in relation to Chapter 1 of the Competition Act 1998 As explained in my previous statements, it is necessary for the Company to assess on an ongoing basis whether the Scheme continues to meet the exemption requirements set out in that Act Following a review in June 2010 the Board concluded that, based upon the facts known to the Board and legal advice obtained, the exemption requirements continue to be met

The number of Members once again remained stable during the year, and there has not been any material change in this position since the year end At 31 December 2010 the membership totalled 255 (2009 252) The Company's programme of visits to Members' offices to examine their accounting, technical and claims procedures continued The results of these visits are reported to the Board which takes a keen interest in them In addition we continue to foster links with relevant industry bodies Reinsurance rates charged to Members were again unchanged during the year However, Members should be aware that rates may be changed at any time should circumstances require

There were a number of changes to the composition of the Board during the year Dane Douetil and Geoff Riddell resigned as Directors in March and August respectively We are grateful to them both for their significant contribution to Pool Re I am pleased to report that Andrew Torrance, Chief Executive of Allianz Insurance plc, joined the Board in December and that Inga Beale, Global Chief Underwriting Officer at Zurich Financial Services, has joined the Board since the year end We welcome them both

I should like to draw your attention to the separate report on corporate governance which is to be found on pages 8 to 9

The notice of our Annual General Meeting is contained in a separate circular and I hope that many of you will be able to attend the meeting In addition to participating in the formal business of the Company it is a great opportunity for Members to meet some of the Directors face to face, as well as the executive management team and staff

Finally, I would like to express my thanks to you, the Members, for your continuing support for the Scheme, to the Directors, the executive management team and staff, and to those who give their time to serve on our Advisory Committee

Tony Latham, Chairman

24th March 2011

THE BOARD

Detaıls of the current Dırectors of the Company are set out below

Anthony P Latham ACII#
Chaırman
Aged 60 A Dırector sınce May 1996 and appoınted Chaırman ın June 2003 Prevıously Group Dırector, Global Relatıonshıps, RSA Insurance Group PLC Chaırman of Pool Reınsurance (Nuclear) Lımıted Deputy Chaırman of Codan A/S and Codan Forsakrıng A/S Non-executıve Dırector of Ecclesıastıcal Insurance Group PLC, Ecclesıastıcal Insurance Office PLC, Flagstone Reınsurance Holdıngs Lımıted, and Torus Insurance (UK) Lımıted Non-executıve Chaırman of the UK Audıt Commıttee of RSA Insurance Group PLC

Roderick D Armitage Barrıster FCIS
Aged 67 A Dırector sınce August 2003 Former Head of Company Affaırs at the Confederatıon of Brıtısh Industry and former non-executıve Dırector of Centre for Effectıve Dıspute Resolutıon Lımıted Prevıously Legal Dırector and Company Secretary at Stavely Industrıes PLC

Inga Beale ACII
Aged 47 A Dırector sınce January 2011. Global Chıef Underwrıtıng Officer and a member of the Group Management Board of Zurıch Fınancıal Servıces Group Former Group Chıef Executıve Officer of Converıum Lımıted

Peter J Box CA#
Aged 58 A Dırector sınce February 2010 Former audıt and busıness advısory partner at PrıcewaterhouseCoopers Dırector, Chaırman of the Audıt Commıttee and member of the Remuneratıon Commıttee of Marsh Lımıted Dırector and Chaırman of the Audıt Commıttee of the Famıly Assurance Frıendly Socıety Lımıted Trustee of the Royal Flyıng Doctors Servıce of Australıa, Frıends ın the UK

Alan J Brown FSIP#
Aged 57 A Dırector sınce July 2008 Group Chıef Investment Officer and Dırector of Schroders PLC Dırector of the Carbon Dısclosure Project and the Investment Management Assocıatıon (IMA) IMA alternate member of the Takeover Panel Chaırman and Treasurer of Centre for Economıc Research and Graduate Educatıon – Economıcs Instıtute (CERGE-EI US Foundatıon) A member of the MSCI Barra Edıtorıal Advısory Board

Graham V Doswell FCII#
Aged 65 A Dırector sınce January 2002 Former Group Chıef Executıve of Ecclesıastıcal Insurance Group PLC Chaırman of MMA Insurance PLC Dırector of Pool Reınsurance (Nuclear) Lımıted and Swınton Group Lımıted

Brian J G Hilton CB*
Aged 70 A Dırector sınce January 2001 Former Dırector General of the Department of Trade and Industry Chaırman of the Gıbraltar Fınancıal Servıces Commıssıon and Fırst Ondemand Lımıted Dırector of Pool Reınsurance (Nuclear) Lımıted and Scor Insurance (UK) Lımıted Governor of the Royal Agrıcultural College LIFFE Complaınts Ombudsman

Andrew Torrance
Aged 57 A Dırector sınce December 2010 Chıef Executıve of Allıanz Insurance plc sınce 2003 and former Chıef Executıve of London & Edınburgh Insurance Group plc

Member of the Investment Commıttee
* Mr Hılton was appoınted as a Dırector by HM Government, ın accordance wıth the Artıcles of Assocıatıon of the Company

EXECUTIVE MANAGEMENT

Chief Executive	Stephen A Atkins FCII MCSI MCMI
Chief Financial Officer	Peter N Aves ACA
General Counsel and Company Secretary	Helen L Chapman, Solicitor
Head of Market Operations	Andrew M Cockhill ACII

CORPORATE INFORMATION

Registered in	England, United Kingdom
Registration number	2798901
Registered office	Hanover House, 14 Hanover Square, London W1S 1HP, 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

REPORT OF THE DIRECTORS

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 2010

STATUS OF THE COMPANY

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

The Company is authorised by the Financial Services 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

PRINCIPAL ACTIVITY

During the year under review and since the year end there was no change in the principal activity of the Company which continued to be reinsurance business conducted on a mutual basis The Directors do not anticipate that the nature of the Company's business will change in the future

The Company provides reinsurance in respect of losses arising from damage to or destruction of commercial property resulting from Acts of Terrorism (as defined in the Reinsurance (Acts of Terrorism) Act 1993) within England, Wales and Scotland 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

BUSINESS REVIEW

Review of the Business

A review of the business of the Company, including an analysis of the development and performance of the Company, particulars of any other significant events that occurred during the year, and the position of the Company at the year end can be found in the Chairman's statement on page 2 Given the purpose for which the Company was formed, its business is unlikely to 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

Management of Risk

The Company has developed policies for identifying, assessing, measuring, monitoring and controlling risk These policies are established, approved and reviewed at least annually by the Board and updated as and when appropriate

The risks faced by the Company are considered under a number of categories, such categories correspond to certain categories of risk referred to in the FSA's Prudential Sourcebook for Insurers, namely Insurance Risk, Credit Risk, Market Risk (which includes Investment Risk), Liquidity Risk and Operational Risk.

Principal Risks and Control Measures

The Directors consider that the principal risks which face the Company are in the areas of Insurance Risk, Investment Risk and Operational Risk A description of the principal risks 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 page 20

- 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

The Company has adopted Risk Policies to address the management of its financial and non-financial risks There are procedures in place to identify, assess and manage the risks faced by the Company

Key Performance Indicators

The Company has considered the key performance indicators necessary for an understanding of its business A profile of the Company's membership is set out on page 30 The level of participation in the Scheme is a factor by which the position of the Company's business can be measured Taking account of the other information provided in this report and notes to the financial statements, and in view of the special nature of the Company, there are no additional key performance indicators that are considered necessary for an understanding of the Company's business There are no environmental or employee matters for which key performance indicators are necessary for an understanding of the business of the Company

RESULTS

The Company made a profit after taxation of £434 6 million for the year ended 31 December 2010 £276 2 million was transferred from the general business technical account and there were investment expenses, interest and bank facility charges of £5 0 million Investment income amounted to £173 2 million, including realised investment profits of £52 3 million Unrealised investment profits were £29 5 million The amount allowed for taxation was £39 4 million

Taxation relates 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

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

DIRECTORS

All the Directors serve in a non-executive capacity Copies of the Directors' service contracts are available for inspection at the Company's registered office

The Directors who served during the year were

A P Latham (Chairman)
R D Armitage
P J Box (appointed 25 February 2010)
A J Brown
G V Doswell
D J Douetil (resigned 31 March 2010)
B J G Hilton
G M Riddell (resigned 31 August 2010)
D A Torrance (appointed 2 December 2010)

In addition, Ms I K Beale was appointed a Director on 24 January 2011

Brief biographical details of the Directors in office at the date of this report can be found on page 3

In accordance with the Articles of Association of the Company, Mr Torrance and Ms Beale will seek election at the Annual General Meeting and Mr Latham and Mr Brown will retire by rotation and seek re-election at that meeting

The Company does not have any share capital and, accordingly, the Directors do not have any relevant interests that require disclosure

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

FINANCIAL INSTRUMENTS

The Company's financial risk management objectives and policies with regard to the use of financial instruments are described in note 1 on page 20

DONATIONS

In the year under review the Company made no donations for political or charitable purposes (2009 £nil)

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

AUDITORS

PricewaterhouseCoopers LLP have confirmed their willingness to continue in office as auditors to the Company and a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting

By Order of the Board

Peter J Box
Director
24th March 2011

STATEMENT ON CORPORATE GOVERNANCE

The Company is not required to prepare a statement on its compliance with corporate governance guidelines However, the Board of Directors considers that it is appropriate to make a statement about the Company's corporate governance arrangements

Directors

The Board comprises only non-executive Directors, including a non-executive Chairman, details of whom are set out on page 3 Five of the current Directors are also Directors of companies within groups that cede business to Pool Re At all times during the year, there was at least one Director with relevant financial experience In accordance with the terms of the Articles of Association one Director may be appointed and removed from office by HM Government. 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 retire at the first Annual General Meeting following their appointment, and a number nearest to one third of the other Directors, excluding the Director appointed by HM Government, must retire by rotation each year All Directors are appointed for an indefinite period subject to the Articles of Association and their letter of appointment

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 has decided to meet at least four times in each year Based upon the number of opportunities each Director had to attend Board meetings during the year, the overall level of attendance measured in percentage terms was 94% (2009 81%) The financial performance of the Company is reviewed at each meeting and the Board calendar details standing items and matters for periodic review There is a formal schedule of matters reserved to the Board The Board has delegated to the executive management and the Investment Committee the power to make decisions on operational matters within a framework of internal control procedures

Each year the Board undertakes an evaluation of its performance, including assessing the performance of the Chairman, Chief Executive and Investment Committee For 2011, the Board appointed external board performance consultants to conduct the evaluation This assessment involved interviews with each of the Directors individually, as well as the Chief Executive, the General Counsel and Company Secretary, and the Chief Financial Officer, culminating in a report to the Board as a whole The Board Procedures Manual details the division of responsibilities between the Chairman and the Chief Executive

The Chairman, in conjunction with 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 New Directors are given an induction briefing and training for Directors is provided as is deemed appropriate The appointment and removal of the General Counsel and Company Secretary is a matter reserved to the Board

Committees

The Board has established four Committees called the Admissions Committee, the Advisory Committee, the Conflicts of Interest Committee and the Investment Committee

The Admissions Committee considers the admission of prospective members to the Company and authorises the execution of the relevant documents The members of the 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 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

The Conflicts of Interest Committee considers and, where appropriate and subject to such terms as it thinks fit, authorises situations where a Director's interests may conflict with the interests of the Company The members of the Committee are the Chairman and any one other Director who act in consultation with the Chief Executive The membership is flexible to ensure that members do not consider matters relating to themselves and, hence, a second Director may replace the Chairman when appropriate

The Investment Committee considers the Company's investment matters and, where appropriate, undertakes actions in accordance with the powers delegated to it or makes recommendations to the Board The Directors who are members of the Committee are detailed on page 3 The Committee is chaired by the Chairman The Chief Executive is also a member of the Committee

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' 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 Directors' fees at the Annual General Meeting held in 2009 Directors serving on the Investment Committee receive additional fees to reflect the additional time commitment involved None of the Directors receives any additional remuneration from the Company other than their fees Directors are not paid compensation for loss of office The Board reviews executive remuneration on an annual basis The Company has retained the services of an external provider to advise the Board on remuneration levels

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

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

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 Reviews covering (i) the effectiveness of the Company's system of internal controls and (ii) its risk management are carried out by external providers on a regular basis A report including recommendations and management responses in respect of each review has been considered by the Board

By Order of the Board

Peter J Box
Director
24th March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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

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 2010 which comprise the Profit and Loss Account (Technical and Non-Technical), the Balance Sheet, the Cash Flow Statement 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 Directors' Responsibilities Statement set out on page 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

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 2010 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 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

Marcus Hine (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 March 2011

PROFIT AND LOSS ACCOUNT

Technical account - General business
for the 12 months to 31 December 2010

	Notes	2010 £'000	2009 £'000
Gross premiums written		308,195	315,367
Outwards reinsurance premiums	13	(30,820)	(31,537)
Net premiums written		277,375	283,830
Change in the gross provision for unearned premiums		2,747	48
Change in the provision for unearned premiums, reinsurers' share		(275)	(5)
Earned premiums, net of reinsurance		279,847	283,873
Claims incurred, net of reinsurance			
Claims paid - gross amount		(128)	(1,086)
Change in provision for claims - gross amount		128	3,386
Claims incurred, net of reinsurance		-	2,300
Net operating expenses	2	(3,637)	(3,359)
Balance on the technical account for general business		276,210	282,814

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

The notes on pages 20 to 29 form an integral part of these financial statements
The auditors' report is on page 11

PROFIT AND LOSS ACCOUNT

Non-technical account
for the 12 months to 31 December 2010

	Notes	2010 £'000	2009 £'000
Balance on the technical account for general business		276,210	282,814
Investment income			
Income from financial assets at fair value through profit and loss		120,894	119,478
Net gains on realisation of investments		52,325	73,005
Investment income		173,219	192,483
Net unrealised gains on investments		29,548	95,366
Investment expenses and charges	3	(4,974)	(7,038)
Profit on ordinary activities before tax		474,003	563,625
Tax on profit on ordinary activities	8	(39,364)	(54,166)
Profit for the financial year		434,639	509,459

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

The notes on pages 20 to 29 form an integral part of these financial statements
The auditors' report is on page 11

BALANCE SHEET
as at 31 December 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
ASSETS					
Investments					
Other financial investments	9		4,118,623		3,706,044
Reinsurers' share of technical provisions					
Provision for unearned premiums			14,463		14,738
Debtors					
Debtors arising out of reinsurance operations		64,792		65,451	
Other debtors		21		17	
			64,813		65,468
Other assets					
Tangible assets	10	68		102	
Cash at bank and in hand	11	15,126		1,329	
			15,194		1,431
Prepayments and accrued income					
Accrued interest		42,900		39,192	
Other prepayments		234		189	
			43,134		39,381
Total assets			4,256,227		3,827,062
LIABILITIES					
Capital and reserves					
Profit and loss account	17		3,948,920		3,514,281
Financial liabilities					
Other financial investments	9		18,627		17,949
Technical provisions					
Provisions for unearned premiums		144,634		147,380	
Claims outstanding		7,114		7,242	
			151,748		154,622
Provisions for other risks and charges	13		94,573		79,320
Creditors					
Creditors arising out of reinsurance operations		37,091		38,656	
Other creditors including taxation	12	4,040		20,235	
Accruals and deferred income		1,228		1,999	
			42,359		60,890
Total liabilities			4,256,227		3,827,062

Approved by the Board on 24 March 2011 and signed on its behalf by

Director Anthony P Latham

Director Peter J Box

The notes on pages 20 to 29 form an integral part of these financial statements
The auditors' report is on page 11

CASH FLOW STATEMENT
for the 12 months to 31 December 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Net cash inflow from operating activities	14	380,710	392,919
Taxation			
Tax paid		(36,884)	(29,945)
Net cash inflow	15	343,826	362,974

Cash flows were invested as follows

	Notes	2010 £'000	2009 £'000
Portfolio investments			
Shares and other variable yield securities and units in unit trusts		(12,909)	70,571
Debt securities and other fixed interest securities		705,334	272,793
Deposits with credit institutions		(357,115)	23,964
Other		(5,281)	1,323
Net portfolio investments		330,029	368,651
Increase/(decrease) in cash holdings		13,797	(5,677)
Net investment of cash flows	15	343,826	362,974

The above results all relate to continuing operations

The notes on pages 20 to 29 form an integral part of these financial statements
The auditors' report is on page 11

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 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 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

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 2010 These funds are broadly equivalent to premiums received, investment gains, investment income earned, 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 - annual basis

(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

(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 no 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 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) Outwards 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 for investments realised during the year in respect of any unrealised gains or losses on those investments which 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 For unquoted investments the Company establishes fair value by using valuation techniques These include reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models

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 In valuing unquoted instruments, valuation techniques, including discounted cash flow models and options pricing models, are used as appropriate Pricing model valuations are derived mainly using observable data, for example, underlying interest rates, foreign exchange rates or market volatility

(g) Tangible assets

Tangible assets are stated at historical purchase cost less accumulated depreciation 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

(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

Rents payable under operating leases are charged to the Profit and Loss Account as incurred over the 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

1. *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

During 2010 the Company completed an investment strategy review and moved to a revised asset allocation The agreed investment strategy rests on the two main objectives for the fund of stability and liquidity, with the new 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 benchmark

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 custodian and reports are received on a monthly basis from each of them The Company meets regularly with the investment managers and the custodian 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 risk 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 £617m (2009 £532m) in shares and other variable-yield securities and units in unit trusts, including commodities unit trusts This comprised 15 0% (2009. 14.4%) 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 both UK and overseas equities which are managed on a passive basis against well established market indices For 2010 the benchmark weighting for UK equity holdings was set at 25% of the equity element of the fund and the remainder was spread across a number of overseas markets

A 30% change in the value of equities and commodities at the year end would have resulted in a movement in the Profit and Loss Account of £185m (2009 £160m) 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 Sensitivity to interest rate changes is determined by the average duration of the fixed interest assets Applying this measure to the Company's fixed interest securities, including index-linked government bonds, the effect of an instantaneous change of 200 basis points in interest yields would have resulted in a movement in the profit for the year of £153m (2009 £149m)

The Company uses a variety of derivatives to mitigate 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 as described above

Modified duration has been used as the measure of the sensitivity to changes in interest rates of the Company's fixed interest portfolio 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 At 31 December 2010 the average modified duration of the fixed interest portfolio, including index-linked government bonds, was 2 25 years (2009 2 70 years) This includes the effect of any possible changes in these characteristics at the option of the issuer, with the "least favourable" as the assumed actual case For example, for a bond priced at greater than 100 with a redemption price of 100, the assumption will be that where there is an issuer's option to redeem early, it will be exercised

(iii) Currency risk

The Company is exposed to currency risk in respect of investments denominated in a currency other than Sterling At the end of the year the value of assets denominated in currencies other than Sterling within the portfolios was £273m (2009 £273m) The policy is to hedge a proportion of the passively managed element of the non-Sterling denominated investments back into Sterling through the use of forward contracts

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 for the year of approximately £68m (2009 £68m) 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

(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 £3,303m (2009 £3,066m), representing the total value of bonds, bank deposits and commercial paper Of this total, 86% (2009 84%) was invested in UK Government Gilts and other AAA/AA rated securities A full analysis is included below

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 (2009 less than 5%)

The assets bearing credit risk are summarised below, together with an analysis by credit rating

	December 2010 £m	December 2009 £m
Debt securities	3,274	2,662
Cash and cash equivalents	20	375
Undertaking for collective investments	13	21
Other (including derivatives)	(4)	8
Total assets bearing credit risk	3,303	3,066
	%	%
AAA (including UK gilts)	80	75
AA	6	9
A	8	3
BBB	3	-
Below BBB or not rated	1	1
A-1+	-	2
A-1	1	9
A-2	1	1
Total assets bearing credit risk	100	100

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 were past due or impaired at the year end

With regard to the credit risk associated with the debtors arising from reinsurance operations, all of the balances outstanding at the year end were fully paid by the end of February 2011

(c) Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due

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 2010, 62% 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 short positions on certain derivatives, which were valued at a loss at the year end 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	Between 2 and 5 years	Total
	£m	£m	£m
As at 31 December 2010			
Other creditors	4	0	4
Derivatives	15	0	15
	19	0	19
At 31 December 2009			
Other creditors	20	0	20
Derivatives	14	1	15
	34	1	35

(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 £3,637k (2009 £3,359k)

3 *Investment Expenses and Charges*

	2010 £'000	2009 £'000
Investment expenses and charges comprised		
Investment management and other charges	(2,276)	(3,397)
Bank facility charges and interest payable	-	(28)
Interest payable on outwards reinsurance		
Less than one year	(834)	(1,302)
Greater than one year	(1,864)	(2,341)
Adjustment to prior year's interest payable	-	30
	(4,974)	(7,038)

4 *Operating Lease Rentals*

	2010 £'000	2009 £'000
Operating lease rentals payable for the year		
Land and buildings	94	92
Plant and machinery	4	5
	98	97

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

	2010		2009	
	Land and buildings	Other	Land and buildings	Other
Operating leases which expire	£'000	£'000	£'000	£'000
Within one year	-	-	-	3
Between one and five years	80	3	80	-
	80	3	80	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 11 (2009 - 12)

	2010	2009
	£'000	**£'000**
Staff costs for these persons were		
Wages and salaries	1,402	1,329
Social security costs	185	169
	1,587	1,498

6 *Directors' Emoluments*

The aggregate emoluments payable to certain Directors of the Company as individuals for the year was £174,668 (2009· £136,375) In addition £20,479 (2009 £59,272) was paid to third parties for making available the services of the other Directors

7 *Auditors' Remuneration*

Profit on Ordinary Activities Before Tax is stated after charging fees for auditors' remuneration in respect of the audit of the financial statements for the year of £63,750 (2009 £71,250) excluding VAT and fees in respect of non audit services pursuant to local legislation of £21,250 (2009 £23,750) excluding VAT Other fees payable to PricewaterhouseCoopers LLP in respect of the year amounted to £52,000 (2009 £67,000) excluding VAT for taxation work

8 *Tax on Profit on Ordinary Activities*

	2010	2009
Tax on profit on ordinary activities comprised	**£'000**	**£'000**
United Kingdom Corporation Tax		
Current tax on income for the period at 28% (2009 - 28%)	(29,402)	(46,195)
Adjustments in respect of prior periods	8,697	2,843
Total current tax	(20,705)	(43,352)
Deferred tax - origination and reversal of timing differences at 27% (2009 - 28%)	(18,659)	(10,814)
Tax on profit on ordinary activities	(39,364)	(54,166)

Factors affecting the tax charge for the period

The tax assessed for the year is different from the standard rate of UK Corporation Tax 28% The differences are explained below

	2010	2009
Non-technical account	**£'000**	**£'000**
Profit on ordinary activities before tax	474,003	563,625
Corporation Tax at the standard UK rate of 28% (2009 28%) on Profit on Ordinary Activities	(132,721)	(157,815)
Adjustments for non-taxable items Tax at 28% (2009 28%) on		
Technical income	77,339	79,188
Dividend income	3,057	1,120
Other investment expenses	125	98
Unrealised gains on equities	22,798	31,214
Adjustments in respect of prior periods	8,697	2,843
Total current tax charge for the period	(20,705)	(43,352)

9 *Other Financial Investments*

Other financial investments comprised	2010 £'000	2009 £'000
Financial Assets		
Shares and other variable-yield securities and units in unit trusts	616,800	532,472
Debt securities and other fixed income securities	3,476,491	2,781,467
Deposits with credit institutions	19,512	377,597
Other (including derivative instruments)	5,820	14,508
	4,118,623	3,706,044
Financial Liabilities		
Other (including derivative instruments)	(18,627)	(17,949)

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 2010 the purchase cost of shares and other variable-yield securities was £494,661k (2009 £462,909k), the purchase cost of debt securities and other fixed income securities was £3,312,787k (2009 £2,730,668k) and premiums received in respect of options written amounted to £6k (2009 purchase cost of derivatives £63k)

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

		Fair value 2010 £'000	2010 £'000	Fair value 2009 £'000	2009 £'000
Interest rate swaps	Assets	-		260	
	Liabilities	-	-	-	260
Credit default swaps	Assets	-		407	
	Liabilities	-	-	(524)	(117)
Options			(26)		(679)
Foreign exchange contracts	Assets	5,590		8,635	
	Liabilities	(15,147)	(9,557)	(13,067)	(4,432)
			(9,583)		(4,968)

The table below shows the contract/notional amounts of derivative contracts held at the year end

	Contract/notional amount 2010			Contract/notional amount 2009		
	Asset	Liability	Net	Asset	Liability	Net
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps	-	-	-	40,200	(40,200)	-
Credit default swaps	-	-	-	15,756	(15,756)	-
Options	-	-	-	-	(70,775)	(70,775)
Foreign exchange contracts	1,476,372	(1,476,372)	-	1,012,212	(1,012,212)	-

At the end of the year the total amount of margin lodged in respect of derivatives was £390k (2009 £5,015k) In respect of financial futures, margin payments are made by the Company Margins are lodged in the form of cash or near cash and are held in client accounts with futures brokers, with the Company being entitled to those cash balances, and to the interest due on them, pending any call by the brokers

Fair Value Estimation

For financial instruments held at fair value in the Balance Sheet, 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	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
As at 31 December 2010				
Shares and other variable-yield securities and units in unit trusts	440	175	2	617
Debt securities and other fixed income securities	1,768	1,679	29	3,476
Derivatives	(10)	-	-	(10)
	2,198	1,854	31	4,083
As at 31 December 2009				
Shares and other variable-yield securities and units in unit trusts	531	-	1	532
Debt securities and other fixed income securities	1,502	1,266	13	2,781
Derivatives	(5)	-	-	(5)
	2,028	1,266	14	3,308

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 17 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 Less than 1% of the Company's financial instruments were included in Level 3 at the year end

The following table shows the changes in Level 3 instruments in the year

	2010 £m	2009 £m
Level 3 instruments at 1 January	14	37
Transfers out of Level 3	-	(16)
Transfer into Level 3	-	2
Purchases during the year	30	4
Disposals during the year	(13)	(13)
Level 3 instruments at 31 December	31	14

10 ***Tangible Assets***

	Computer & telephone equipment £000	Furniture & fixtures £000	Total £000
Book Cost			
At 1 January 2010	36	185	221
Additions	-	-	-
Disposals	-	-	-
At 31 December 2010	**36**	**185**	**221**
Depreciation			
At 1 January 2010	36	83	119
Charge for the period	-	34	34
Disposals	-	-	-
At 31 December 2010	**36**	**117**	**153**
Net Book Value			
At 31 December 2010	-	**68**	**68**
At 31 December 2009	-	102	102

11 *Cash at Bank and in Hand*

	2010 £'000	2009 £'000
Cash at Bank and in Hand	15,126	1,329

The average interest rate earned by the Company on Cash at Bank and in Hand was 0 13% (2009 0 41%)

12 *Other Creditors including Taxation*

	2010 £'000	2009 £'000
Other creditors comprised		
Current taxation	4,040	20,220
Other creditors	-	15
	4,040	20,235

Creditors were all current and payable within 12 months

13 *Provisions for Other Risks and Charges*

Provisions for other risks and charges comprised	Deferred tax £'000	Outwards reinsurance premiums £'000	Total £'000
At 1 January 2010	10,814	68,506	79,320
Utilised in the year	-	(36,924)	(36,924)
Interest movement	-	2,698	2,698
Profit and Loss Account charge	18,659	30,820	49,479
At 31 December 2010	29,473	65,100	94,573

In accordance with FRS 19 a provision has been made for a deferred tax liability arising from timing differences As at 31 December 2010 there was a recognised deferred tax liability of £29,473k in respect of unrealised gains on equities

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

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	474,003	563,625
Depreciation	34	47
Gains on realisation of investments	(52,325)	(73,005)
Unrealised gains on investments	(29,548)	(95,366)
Decrease/(increase) in debtors excluding tax	655	(1,971)
(Increase)/decrease in prepayments and accrued income	(3,753)	4,976
Decrease in reinsurers' share of technical provisions	275	5
Decrease in technical provisions	(2,874)	(3,434)
(Decrease)/increase in creditors excluding tax	(2,351)	1,471
Decrease in provisions for risks and charges excluding deferred tax	(3,406)	(3,429)
Net cash inflow from operating activities	380,710	392,919

15 *Cash Flows*

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Cash flows were invested as follows:				
Increase/(decrease) in cash holdings		13,797		(5,677)
Purchases of shares and other variable-yield securities and units in unit trusts	403,217		603,512	
Sales of shares and other variable-yield securities and units in unit trusts	(416,126)		(532,941)	
Purchases of debt securities and other fixed income securities	3,209,700		5,365,550	
Sales of debt securities and other fixed income securities	(2,504,366)		(5,092,757)	
Net (decrease)/increase in deposits with credit institutions	(357,115)		23,964	
Net (decrease)/increase in other	(5,281)		1,323	
Net portfolio investments for the period		330,029		368,651
Net investment of cash flows		343,826		362,974

16 *Movements in Net Portfolio Investments*

	2010 £'000	2009 £'000
Net portfolio investments at 1 January	3,688,095	3,151,073
Net portfolio investments for the period	330,029	368,651
Changes in market values and exchange rate effects	81,873	168,371
Net portfolio investments at 31 December	4,099,997	3,688,095

17 *Movements in the Profit and Loss Account*

	2010 £'000	2009 £'000
Profit and Loss Account at 1 January	3,514,281	3,004,822
Profit for the financial year	434,639	509,459
Profit and Loss Account at 31 December	3,948,920	3,514,281

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 ("FSA") made, on application of the Company, a direction in January 2007 under section 148 of the Financial Services and Markets Act 2000 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

Members' Profile

as at 31 December 2010

	Number of Members	Percentage of Members	Number of Votes	Percentage of Votes
Analysis by Jurisdiction				
Austria	1	0 4%	1	0 0%
Belgium	2	0 8%	87	2 7%
Bermuda	6	2 3%	4	0 1%
France	7	2 7%	8	0 3%
Germany	4	1 6%	97	3 1%
Gibraltar	4	1 6%	7	0 2%
Guernsey	36	14 1%	188	5 9%
Iceland	1	0 4%	0	0 0%
Isle of Man	19	7 4%	31	1.0%
Italy	2	0 8%	9	0 3%
Luxembourg	3	1 2%	10	0 3%
Malaysia	1	0 4%	1	0 0%
Malta	3	1 2%	0	0 0%
Netherlands	1	0 4%	0	0 0%
Republic of Ireland	29	11 4%	513	16 1%
Spain	1	0 4%	4	0 1%
Sweden	2	0 8%	8	0 3%
Switzerland	1	0 4%	1	0 0%
United Kingdom	80	31 4%	2107	66 2%
United States of America	7	2 7%	18	0 6%
	210	82 4%	3,094	97 2%
Active Underwriters of Lloyd's Syndicates	45	17 6%	90	2 8%
	255	100 0%	3,184	100 0%
Analysis by Number of Votes				
0	86	33 7%	0	0 0%
1-25	48	58 0%	431	13 5%
26-50	6	2 4%	187	5 9%
51-100	9	3 5%	655	20 6%
101-150	1	0 4%	110	3 5%
151-200	0	0 0%	0	0 0%
201-250	2	0 8%	414	13 0%
251-300	0	0 0%	0	0 0%
301-350	0	0 0%	0	0 0%
351-400	1	0 4%	395	12 4%
401-450	0	0 0%	0	0 0%
451-500	1	0 4%	483	15 1%
501-550	1	0 4%	509	16 0%
	255	100 0%	3,184	100 0%

Note

Under Article 32 of the Articles of Association, for the first calendar year of membership a member shall have one vote Thereafter, under the provisions of Article 30, 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 31, 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