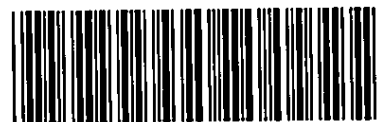


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ANNUAL REPORT 2008

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CHAIRMAN'S STATEMENT

The Company's profit after tax for 2008 was £148.2 million, and the accumulated balance on the profit and loss account available to meet future claims increased to £3,004.8 million at 31 December 2008. Gross premium income was £320.8 million, which is around the same level as last year (2007: £320.0m).

Members will be all too aware of the turbulent conditions which obtained in financial markets during 2008, and which have continued up to the date of this report. Our investments are managed in line with a policy set by the Board, the object of which is to invest the assets against the contingency that they may be required in the short term to meet claims, but with recognition that they may not be called upon for long periods.

Given the market conditions, the Company's investments have inevitably been subject to high levels of volatility during the year. However, as a result of our diversified investment policy, the "flight to quality" which became a feature of the market during the year, benefited certain of our assets, and the overall portfolio proved to be resilient. At the end of the year the financial assets of the Company stood at £3.2 billion (2007: £3.0 billion). A fuller explanation of the risks facing the Company, including those relevant to the investment portfolio is given in note 6 to the financial statements. The Board continues to monitor investment performance at every Board meeting. During the year a new Board committee was established dedicated to investment matters. Mr Alan Brown, who is Group Chief Investment Officer of Schroders, joined the Board in July and became a member of the new Investment Committee. I am pleased to welcome him.

We have been fortunate in the last few years not to experience any incidents giving rise to claims. According to the Government and other authorities there remains a high risk of further terrorist attacks in the UK. It is important that we, and Members of the Scheme, remain alert to this level of threat. Members should continue to keep under review their readiness to deal with claims arising under the Scheme, particularly those involving chemical, biological, radiological or nuclear contamination.

You will recall that I reported last year that we had revisited the basis of the Office of Fair Trading's decision in 2004 under Chapter 1 of the Competition Act. Members may recall that this process is no longer available to us and instead, it is now incumbent on each company to ensure that their arrangements remain compliant. The Board reviewed the position in June 2008, and once again concluded that, based upon the facts known to it and the legal advice it has received, the arrangements continue to meet the exemption requirements.

During the year we have agreed a number of amendments to the Retrocession Agreement with HM Government and details of these have been circulated to Members. These changes reflect our commitment to maintain the operation of the Scheme, and keep it under constant review, and are aimed at ensuring that the Agreement is up to date with regard to changes in legislation and practice since it was originally signed in July 1993.

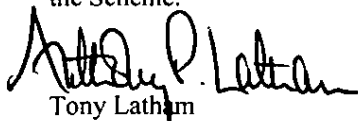
During 2008 the number of Members remained stable and at the end of the year the Membership totalled 266 (2007: 274). In the absence of a major incident, it is anticipated that the future development of the Scheme will be in line with present trends.

The Company's programme of visits to Members' offices to review their accounting, technical and claims procedures continued during the year, and the results of these visits are considered by the Board. In addition the Company continues to maintain links with relevant industry bodies.

Reinsurance rates charged to Members have now remained unchanged for a number of years. Members should be aware that rates may be changed at any time should circumstances require.

As in previous years the Annual Report includes a separate report on corporate governance, including the arrangements for the Board self assessment process.

I hope many of you will be able to attend the Annual General Meeting again, and as usual the notice of that meeting is contained within a separate circular. Finally, I pass on my thanks to the Directors, those involved in the Advisory Committee, those employed by Pool Re, and all the Members for their continuing support of the Scheme.



Tony Latham
Chairman

18th March 2009

THE BOARD

Anthony P Latham ACII#

Chairman

Aged 58. A Director since May 1996 and appointed Chairman in June 2003. Previously Group Director, Global Relationships, RSA Insurance Group PLC. Chairman of Pool Reinsurance (Nuclear) Limited. Deputy Chairman of Codan A/S and Codan Forsakring A/S. Non-executive Director of Ecclesiastical Insurance Group PLC, Ecclesiastical Insurance Office PLC, Flagstone Reinsurance Holdings Limited, Realty Insurances Limited and Torus Insurance (UK) Limited. Non-executive Chairman of the UK Audit Committee of RSA Insurance Group PLC.

Roderick D Armitage Barrister FCIS

Aged 65. A Director since August 2003. Former Head of Company Affairs at the Confederation of British Industry. Previously Legal Director and Company Secretary at Staveley Industries PLC. Non-executive Director of Centre for Effective Dispute Resolution Limited.

Alan J Brown FSIP#

Aged 55. Group Chief Investment Officer and Director of Schroders PLC. Director of the Carbon Disclosure Project. Chairman and Treasurer of Centre for Economic Research and Graduate Education – Economics Institute (CERGE-EI US Foundation). Chairman of the Chartered Financial Analyst Institute's Advisory Council for Market Integrity.

Graham V Doswell FCII#

Aged 63. A Director since January 2002. Former Group Chief Executive of Ecclesiastical Insurance Group. Director of MMA Insurance PLC and Pool Reinsurance (Nuclear) Limited.

Dane J Douetil CBE#

Aged 48. A Director since August 2007. Chief Executive of Brit Insurance Holdings PLC.

Brian J G Hilton CB*

Aged 68. A Director since January 2001. Former Director General of the Department of Trade and Industry. Chairman of the Gibraltar Financial Services Commission and First Ondemand Limited. Director of Pool Reinsurance (Nuclear) Limited and Scor Insurance (UK) Limited. Governor of the Royal Agricultural College. LIFFE Complaints Ombudsman.

Igal M Mayer CICA

Aged 47. A Director since September 2007. Chief Executive of Norwich Union Insurance (part of Aviva Group). Formerly President and Chief Executive Officer of Aviva Canada. Holds a BA Honours in Commerce and Economics from the University of Toronto, is a chartered accountant and has received an honorary Chartered Insurance Professional designation from the Insurance Institute of Canada. Member of the General Management Committee of the Association of British Insurers.

Geoffrey M Riddell ACA MA

Aged 53. A Director since February 2005. Member of the Group Executive Committee and Chairman of Global Corporate Business of Zurich Financial Services. Director of Allied Zurich Limited, Zurich Financial Services (UKISA) Limited and Zurich North America Holdings. Director of the Forum for the Global Health Protection CIC. Member of the Foundation Board of the International Institute for Management Development IMD in Lausanne. Member of the CBI President's Committee and International Advisory Boards. Member of the City EU Advisory Board and of the Lord Mayor of London's Advisory Board.

Member of the Investment Committee

* Mr Hilton was appointed as a Director by HM Government, in accordance with the Articles of Association of the Company.

EXECUTIVE MANAGEMENT

Chief Executive Stephen A Atkins BSc FCII MSI MCMI

Chief Financial Officer Nicholas J Maguire FCCA

Company Secretary John K Taylor LLB FCIS

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

E-mail enquiries@poolre.co.uk

Website www.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 2008.

STATUS OF COMPANY

The Company is a private company limited by guarantee, 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 16 (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 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 has no subsidiary undertakings and no branches outside the United Kingdom. The Company does not undertake activities in the field of research and development.

The Company covers losses resulting from damage to commercial property within England, Wales and Scotland caused by an Act of Terrorism (as defined in the Reinsurance (Acts of Terrorism) Act 1993). The Company has a retrocession agreement with HM Government whereby HM Government would make funds available to pay claims should the assets accumulated by Pool Re become exhausted.

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 important events that occurred during the year, the position of the Company at the year end and an indication of the likely future developments in the business can be found in the Chairman's statement on page 2.

During the year a number of amendments were made to the Retrocession Agreement with HM Government and details of these were circulated to members in July 2008. Certain adjustments were also agreed in respect of interest payable on outwards reinsurance premiums for previous years, and these are reflected in the financial statements.

Management of Risk

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.

Principal Risks

- **Insurance Risk**

Insurance risk arises from the unpredictability of the timing, frequency and severity of insured events. Under the terms of the Pool Re Scheme the Company indemnifies its reinsureds for all losses falling within the definition of covered loss within its reinsurance agreement, and will accept all risks validly presented to it. There is no limit on the volume of business that the Company can accept, and it has access to unlimited indemnity through its retrocession agreement with HM Government.

- **Financial Risk**

The Company is exposed to a range of financial risks through its financial assets including its investments. The overall financial and investment 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's pricing is structured with the aim of collecting adequate premiums such that when premium income is combined with investment proceeds the amounts received are sufficient to meet claims and other costs incurred over the life of the Pool Re Scheme.

- **Operational Risk**

The Company has processes in place to identify, assess and manage its operational risks on an ongoing basis. The Company's risk assessment is reviewed regularly and the controls applied to the risks are tested annually as part of the review of internal controls. The Company's approach to compliance with the Competition Act 1998 is described in the Chairman's statement.

- **Investment Risk**

The principal risks and uncertainties facing the Company are related to the Company's investment portfolio and are described in note 6 on page 21.

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 31. Taking account of this and the other information provided in this report, the notes to the financial statements, and in view of the nature of the Company, there are no additional key performance indicators that are considered necessary for an understanding of the Company's business. Nor are there any 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 £148.2 million for the year ended 31 December 2008, £224.6 million was transferred from the general business technical account and there were investment expenses, interest and bank facility charges of £75.6 million. Investment income amounted to £138.0 million. Unrealised investment losses were £97.0 million and realised investment losses were £37.1 million (see note 5c on page 19) and an amount for taxation of £4.7million.

Taxation relates to the United Kingdom corporation tax on investment income receivable and realised and unrealised losses, 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, when a deficit exists within the technical provisions the Company can recover this from HM Government. The Agreement specifies circumstances in which amounts paid by HM Government will be subject to repayment by the Company. 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 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

All the Directors serve in a non-executive capacity, and copies of their service contracts are available for inspection at the Company's registered office. The Directors listed on page 3 all held office throughout the year, with the exception of Mr A J Brown who was appointed on 11 July 2008. In accordance with the Articles of Association of the Company, Mr A J Brown will seek election at the Annual General Meeting and Mr G V Doswell and Mr A P Latham will retire by rotation and seek re-election. The Company does not have any share capital, has not issued debentures, and is not part of a group. Accordingly, the Directors do not have relevant interests that require disclosure.

DIRECTORS' INDEMNITIES

The Company 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 third party 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 6 on page 21.

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.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all steps that ought to have been taken as a Director to be aware of any relevant audit information, and to establish whether the Company's auditors were aware of that information.

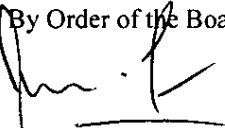
POST BALANCE SHEET EVENTS

There have been no important events affecting the Company since the end of the financial year.

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



J K Taylor
Secretary

18th March 2009

STATEMENT ON CORPORATE GOVERNANCE

The Company is not required to prepare a statement on Corporate Governance. However, the Board of Directors consider that it is appropriate to make a statement about the Company's corporate governance arrangements. The Company's compliance with the Combined Code is assessed each year and the results of the assessment are reviewed by the Board.

Directors

The names of the Chairman and all other Directors are set out on page 3. Six of the 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. 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 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 one third of the 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.

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 meetings during the year the overall level of attendance measured in percentage terms was 80 per cent (2007: 80 per cent). 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 the executive management the power to make decisions on operational matters within a framework of internal control procedures.

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 meeting with the other Directors without the Chief Executive or any of the executive management present. When assessing the performance of the Chairman, the other Directors meet without the Chairman being present. The Board Procedures Manual details the division of responsibilities between the Chairman and the Chief Executive.

The Chairman, in conjunction with the Company Secretary, ensures that the Board receives the information it needs to discharge its responsibilities. 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. New Directors are given an induction briefing. The appointment and removal of the 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 new 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 Company Secretary, each of whom may be replaced by a Director if they are unavailable.

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, subject to such terms as it thinks fit, authorises situations where a Director's interests may conflict with the interests of the

Company. The Committee comprises the Chairman and one other Director and acts in consultation with the Chief Executive. The Chairman will be replaced by another Director if he is unavailable or the matter under consideration is one in which he has an interest.

The Investment Committee considers the Company's investment matters and where appropriate, 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' and Executive Management's Remuneration

In accordance with the Company's Articles of Association, the Directors' remuneration, by way of Directors' fees, is subject to approval by ordinary resolution of the Members. 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 management remuneration levels. The Chairman and the other Directors who serve on the Investment Committee receive additional fees to reflect the extra commitment which this involves. None of the Directors receives any additional remuneration from the Company other than their fees.

Auditors

The Board has adopted a policy on the provision of non-audit services to the Company by the auditors.

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 an external provider. A summary of each review has been considered by the Board.

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 13 to 30, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments 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 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 2008 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Directors' Report, the Chairman's Statement, the Statement of Corporate Governance and the Statement of Director's 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 2008 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

18 March 2009

PROFIT AND LOSS ACCOUNT

Technical account - general business for the 12 months to 31 December 2008

	Note	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Gross premiums written		320,795	319,952
Outwards reinsurance premiums	18	(95,474)	31,399
Net premiums written		<u>225,321</u>	<u>351,351</u>
Change in the gross provision for unearned premiums		833	(9,569)
Change in the provision for unearned premiums, reinsurers' share		1,402	(530)
Earned premiums, net of reinsurance		<u>227,556</u>	<u>341,252</u>
Claims incurred, net of reinsurance			
Claims paid - gross amount		(1,300)	(5,876)
Change in provision for claims - gross amount		1,495	8,112
Claims incurred, net of reinsurance		<u>195</u>	<u>2,236</u>
Net operating expenses	7	(3,178)	(2,707)
Balance on the technical account for general business		<u>224,573</u>	<u>340,781</u>

The notes on pages 17 to 30 form an integral part of these financial statements.
The auditors' report is on pages 11 to 12.

PROFIT AND LOSS ACCOUNT

**Non-technical account
for the 12 months to 31 December 2008**

	Note	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Balance on the technical account for general business		224,573	340,781
Investment income from financial assets at fair value		137,989	120,918
Net (losses) on realisation of investments		(37,063)	(11,658)
Net unrealised (losses)/gains on investments		(97,012)	89,175
Investment expenses and charges	8	(75,552)	2,225
Profit on ordinary activities before tax		152,935	541,441
Tax on profit on ordinary activities	13	(4,703)	(51,354)
Profit for the financial year		<u>148,232</u>	<u>490,087</u>

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.

The above results all relate to continuing operations.

The notes on pages 17 to 30 form an integral part of these financial statements.
The auditors' report is on pages 11 to 12.

BALANCE SHEET
as at 31 December 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
ASSETS					
Financial assets					
Other financial investments	14		3,242,254		2,995,136
Reinsurers' share of technical provisions					
Provision for unearned premiums			14,743		13,340
Debtors					
Debtors arising out of reinsurance operations		63,473		68,756	
Other debtors		<u>24</u>		<u>20</u>	
			63,497		68,776
Other assets					
Tangible Assets	15	149		35	
Cash at bank and in hand	16	<u>7,006</u>		<u>13,155</u>	
			7,155		13,190
Prepayments and accrued income					
Accrued interest		44,190		31,528	
Other prepayments		<u>167</u>		<u>106</u>	
			44,357		31,634
Total assets			<u><u>3,372,006</u></u>		<u><u>3,122,076</u></u>
LIABILITIES					
Capital and Reserves					
Profit and Loss Account	23		3,004,822		2,856,590
Financial liabilities					
Other financial investments	14		91,181		28,249
Technical provisions					
Provisions for unearned premiums		147,429		148,262	
Claims outstanding		<u>10,627</u>		<u>12,123</u>	
			158,056		160,385
Provisions for other risks and charges	18		71,935		40,531
Creditors					
Creditors arising out of reinsurance operations		38,089		660	
Other creditors including current taxation	17	6,813		34,813	
Accruals and deferred income		<u>1,110</u>		<u>848</u>	
			46,012		36,321
Total liabilities			<u><u>3,372,006</u></u>		<u><u>3,122,076</u></u>

Approved by the Board on 18th March 2009 and signed on its behalf by

Director



Director



The notes on pages 17 to 30 form an integral part of these financial statements.
The auditors' report is on pages 11 to 12.

CASH FLOW STATEMENT
for the 12 months to 31 December 2008

	Note	<u>2008</u> £'000	<u>2007</u> £'000
Operating activities			
Net cash inflow from operating activities	20	354,368	385,315
Taxation			
Tax paid		(42,095)	(27,243)
Net cash inflow	21	<u>312,273</u>	<u>358,072</u>
Cash flows were invested as follows:			
(Decrease)/Increase in cash holdings		(6,149)	6,833
Portfolio investment			
Shares and other variable yield securities and units in unit trusts		84,488	9,824
Deposits with credit institutes		13,020	(869)
Debt securities and other fixed interest securities		197,666	341,545
Other		<u>23,088</u>	<u>704</u>
Net portfolio investments		318,262	351,204
Tangible fixed assets		160	35
Net investment of cash flows	21	<u>312,273</u>	<u>358,072</u>

The above results all relate to continuing operations.

The notes on pages 17 to 30 form an integral part of these financial statements.
The auditors' report is on pages 11 to 12.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation

These 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 2006. The Company also complies with applicable accounting standards in the United Kingdom as considered appropriate for an insurance company.

2. Changes in Accounting Policies

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

3. 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 Company has entered into a Retrocession Agreement with HM Government which provides that when a deficit exists within the technical provisions the Company can recover this from HM Government. 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 2008. 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.

4. 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 FRS26 and has therefore treated the relevant contracts as insurance contracts for the purposes of these financial statements.

5. Basis of Accounting

(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) 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 retentions. 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 including amounts that may become payable to HM Government under the terms of the Retrocession Agreement.

(b) Expenses

- (i) Expenditure on computer equipment and office equipment above a minimum level 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) 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

All assets including 'Other financial investments' are accounted for at fair value through the profit and loss account.

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 unlisted securities and all other financial assets for which there is no active market, 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.

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.

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

(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 as 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 liability.

(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 securities. 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. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative other than where the legal right of set off exists.

(g) Cash at bank and in hand

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

(h) Taxation

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

(i) 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 and is recognised in the profit and loss account for the period. Deferred tax balances are not discounted.

(j) Operating leases

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

6. Management of Financial Risk

The 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.

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, during 2008, the Company established an Investment Committee which considers all aspects of the Company's investment activity and, where appropriate, makes recommendations to the Board.

The benchmark investment portfolio of the Company provides that 83% of the Company's assets are managed on a passive basis against well established market indices. The remaining 17% are managed by bond managers on an active basis.

The Company has an investment risk policy including a benchmark investment portfolio and an investment profile which was determined using Value at Risk (VaR) methodology. The VaR is measured annually and reported to the Investment Committee against a predetermined limit. The investment portfolio is diversified and the investment policy sets limits on the Company's exposure to various types of investment and requires that a proportion of the assets are held in cash. There is a formal process to review, and where appropriate, rebalance the portfolio towards the neutral benchmark each quarter.

Reports on performance against benchmark are considered at the quarterly Investment Committee meetings and as a standing item in the Company's quarterly Board meetings. Meetings are held regularly with the investment managers to consider their performance against the benchmark. In addition the Company meets frequently with the custodian and there is a process of considering and resolving any operational issues which arise in respect of the custodian or the investment managers. 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.

Derivative contracts are only used by the Company 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. Derivatives are not used for speculative purposes.

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.

The measures used within the sensitivity analyses shown in the following paragraphs relating to equity price risk, interest rate risk and currency have all been increased for 2008 to take account of the volatile financial market conditions during the last 12 months. The comparative figures for 2007 have been amended accordingly.

(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 £358,141k (2007: £377,301k) in shares and other equity securities. This comprised 11.4% (2007: 12.7%) 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. The benchmark weight for the UK equity holdings for 2008 comprised 25 % of the equity element of the portfolio and the remainder was spread across a number of overseas markets.

A 30% change in the value of equities at the year end would have resulted in a movement in the profit and loss account of £107m (2007: £111m). Since this sensitivity was measured using the actual values at the year end no assumptions needed to be made. 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 risks which arise primarily from investments in fixed interest securities. Sensitivity to interest rate changes is determined by the average duration of the fixed interest assets. Using this measure the effect of an instantaneous change of 200 basis points in interest yields would result in a movement in the profit for the period of £94,618k (2007: £91,189k).

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 2008 the average modified duration of the fixed interest portfolio was 1.92 years (2007: 2.03 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 currencies other than Sterling within the portfolios was £163m (2007: £175m). The policy is to hedge a proportion of the passively managed element of the non-Sterling denominated investments back into Sterling using a limited number of forward contracts.

A 25 per cent change in the value of Sterling at the year end against the mix of currencies within the Company's investment portfolio would result in a movement in profit and loss for the period of approximately £42,600k (2007: £43,748k). Since this sensitivity was measured using the actual values at the year end there have been no assumptions made. 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 portfolio 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, individual issuer limits, and the output of quantitative risk models.

The total exposure of the investment portfolio to credit risk (excluding equities and commodities) at the year end was £2,959m (2007: £2,545m), representing the total value of bonds issued by UK and overseas governments, government agencies, municipal authorities and corporations, asset and mortgage-backed securities, bank deposits and commercial paper. Of this total, 81% (2007: 85%) was invested in UK Government Gilts and other AAA/AA rated securities. A full analysis is included on page 23.

At the balance sheet date, excluding UK Government Gilts, the maximum credit risk exposure to a single counterparty (a AAA rated issuer) amounted to less than 6% of the Net Asset Value (2007: 6%).

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

	December 2008 £m	December 2007 £m
Debt securities	2,562	2,135
Derivatives	25	16
Cash and cash equivalents	364	379
Undertaking for collective investments	7	8
Other	1	7
Total assets bearing credit risk	2,959	2,545
	%	%
AAA (including UK gilts)	72	76
AA	9	9
A	4	2
BBB	1	1
Below BBB or not rated	3	2
A-I+	3	6
A-I	8	4
Total assets bearing credit risk	100	100

The concentration of credit risk has not changed significantly compared to the prior year.

The Company receives a quarterly compliance report from its investment managers detailing any breaches of mandates including identification of any defaults and past due items. No financial assets are past due or impaired at the reporting date.

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 2009.

(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 portfolio is structured such that at all times during the period under review the Company had a minimum of 10 per cent of total investment assets held in cash and cash equivalents.

The Company has financial liabilities shown on the face of the balance sheet in respect of creditors and short positions on certain derivatives, which are 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	Between 6 and 10 Years	Between 11 and 20 Years	Greater than 20 Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2008						
Other creditors	6,813	0	0	0	0	6,813
Derivatives	63,636	11,427	2,242	742	16,081	94,128
	<u>70,449</u>	<u>11,427</u>	<u>2,242</u>	<u>742</u>	<u>16,081</u>	<u>100,941</u>
At 31 December 2007						
Other creditors	34,813	0	0	0	0	34,813
Derivatives	13,198	6,693	-731	1,996	5,283	26,439
	<u>48,011</u>	<u>6,693</u>	<u>-731</u>	<u>1,996</u>	<u>5,283</u>	<u>61,252</u>

(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.

(e) **Capital Management**

The Company retains investment managers to manage its assets in excess of working capital, according to an investment policy set by the Board.

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.

7 Net Operating Expenses

The Company's net operating expenses consist of Administrative expenses of £3,178k (2007: £2,707k).

8 Investment Expenses and Charges

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Investment expenses and charges comprised:		
Investment management and other charges	(1,986)	(1,747)
Bank facility charges	(30)	(156)
Interest payable on outwards reinsurance (see note 18)		
Less than 1 year	(7,625)	-
Greater than 1 year	(5,784)	(2,315)
Adjustment to prior year's interest payable (see note 18)	(60,127)	6,443
	<u>(75,552)</u>	<u>2,225</u>

9 Operating Lease Rentals

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Operating lease payables:		
Land and Buildings	109	107
Plant and Machinery	9	8
	<u>118</u>	<u>115</u>

The Company is committed to making payments in respect of outstanding operating leases as follows:

	<u>Within the</u> <u>next year</u> <u>£'000</u>	<u>Within the</u> <u>next 2-5</u> <u>years</u> <u>£'000</u>
Operating lease commitments (excluding VAT)	<u>86</u>	<u>326</u>

10 Employee Information

The average number of persons employed by the Company during the year was 11 (2007 - 11).

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Staff costs for these persons were:		
Wages and salaries	1,054	908
Social security costs	134	114
	<u>1,188</u>	<u>1,022</u>

11 Directors' Emoluments

The aggregate emoluments payable to certain Directors of the Company as individuals for the year was £88,333 (2007: £44,677). In addition £79,000 (2007: £83,200) was paid to third parties for making available the services of the other Directors.

12 Profit on Ordinary Activities Before Tax

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 £64,200 (2007: £64,500) excluding VAT and for fees in respect of non audit services pursuant to local legislation of £21,400 (2007: £21,500) excluding VAT. Other fees payable to PricewaterhouseCoopers LLP in respect of the year amounted to £86,500 (2007: £48,300) for taxation work.

13 Taxation on Profit on Ordinary Activities

	<u>2008</u> £'000	<u>2007</u> £'000
Taxation on Profit on Ordinary Activities comprised:		
United Kingdom corporation tax at 28.5% (2007: 30%)		
current tax on income for the period	(18,752)	(50,205)
adjustments in respect of prior periods	4,622	798
total current tax	<u>(14,130)</u>	<u>(49,407)</u>
Deferred tax - origination and reversal of timing differences	9,427	(1,947)
Tax on profit from ordinary activities	<u>(4,703)</u>	<u>(51,354)</u>

Factors affecting the tax charge for the period

The tax assessed for the year is different from the standard rate of UK corporation tax: 28.5%. The differences are explained below:

	<u>2008</u> £'000	<u>2007</u> £'000
Non-technical account		
Profit on ordinary activities before tax	<u>152,935</u>	<u>541,441</u>
Profit on ordinary activities at the standard rate of UK corporation tax: 28.5% (2007: 30%)	(43,586)	(162,432)
Technical income - not taxable	64,003	102,234
Dividend income - not taxable	1,042	2,114
Other investment expenses	66	45
Adjustments in respect of prior periods	4,622	798
Unrealised (losses)/gains on equities	(40,277)	7,834
Total current tax charge for the period	<u>(14,130)</u>	<u>(49,407)</u>

14 Other Financial Investments

	<u>2008</u> £'000	<u>2007</u> £'000
Other financial investments comprise:		
Financial Assets		
Shares and other variable-yield securities and units in unit trusts	358,141	377,301
Deposits with credit institutions	7,543	47,214
Debt securities and other fixed income securities	2,790,645	2,548,461
Other (including derivative instruments)	85,925	22,160
	<u>3,242,254</u>	<u>2,995,136</u>
Financial Liabilities		
Derivative instruments	<u>(91,181)</u>	<u>(28,249)</u>

The fair value through the Profit and Loss Account for Financial Investments amounted to £247million in relation to Financial Assets and a loss of £63million in relation to the Financial Liabilities.

Shares and other variable-yield securities, debt securities and other fixed income securities are listed on recognised exchanges. The purchase price of the Shares and other variable-yield securities was £410,626,013 (2007: £320,645,726) and the purchase price of the debt securities and other fixed income securities was £2,668,107,158 (2007: £2,497,871,335) and the purchase price of derivatives was £126,624 (2007: £2,373,269)

The Company's investment managers have entered into derivative contracts of the following types in 2008.

		Fair value		Fair value	
		2008 £'000	2008 £'000	2007 £'000	2007 £'000
Interest rate swaps	Assets	25,004		10,672	
	Liabilities	<u>(30,341)</u>	(5,337)	<u>(12,234)</u>	(1,562)
Credit default swaps	Assets	2,403		1,217	
	Liabilities	<u>(114)</u>	2,289	<u>(358)</u>	859
Options			4,193		4,339
Foreign exchange contracts	Assets	15,209		4,812	
	Liabilities	<u>(60,726)</u>	(45,517)	<u>(15,657)</u>	(10,845)
			<u>(44,372)</u>		<u>(7,209)</u>

The fair value movement through the Profit and Loss Account for derivatives was as follows: interest rate swaps incurred a loss of £3,775k; credit default swaps produced a profit of £1,430k; options incurred a loss of £146k and foreign exchange contracts incurred a loss of £34,672k.

	Contract/notional amount			Contract/notional amount		
	2008			2007		
	£'000	£'000	£'000	£'000	£'000	£'000
	Asset	Liability	Net	Asset	Liability	Net
Interest rate swaps	715,197	(715,197)	-	1,836,826	(1,836,826)	-
Credit default swaps	43,713	(43,713)	-	87,556	(87,556)	-
Options	160,760	-	160,760	367,916	(44,922)	322,994
Foreign exchange contracts	971,486	(971,486)	-	888,629	(888,629)	-

At the end of the year the total amount of margin lodged in respect of derivatives was £41,141k (2007: £8,517k). 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.

All financial investments are accounted for at fair value through the profit and loss account.

15 Tangible Assets

	Total £000	Computer & Telephone Equipment £000	Furniture & Fixtures £000
Book Cost			
At 1 January 2008	129	69	60
Additions	160	24	136
Disposals	(68)	(57)	(11)
At 31 December 2008	<u>221</u>	<u>36</u>	<u>185</u>
Depreciation			
At 1 January 2008	94	69	25
Charge for the period	46	12	34
Disposals	(68)	(57)	(11)
At 31 December 2008	<u>72</u>	<u>24</u>	<u>48</u>
Net Book Value			
At 31 December 2008	<u>149</u>	<u>12</u>	<u>137</u>
At 31 December 2007	<u>35</u>	<u>-</u>	<u>35</u>

Furniture and fixtures have been depreciated over 5 years and computer and telephone equipment have been depreciated over 2 years

16 Cash at Bank and in Hand

	<u>2008</u> £'000	<u>2007</u> £'000
Cash at bank and in hand	7,006	13,155
	<u>7,006</u>	<u>13,155</u>

The average interest rate earned by the Company for Cash at bank and in hand was 3.63% (2007: 4.50%)

17 Other Creditors

	<u>2008</u> £'000	<u>2007</u> £'000
Other creditors comprise:		
Current tax	6,813	34,779
Other creditors	-	34
	<u>6,813</u>	<u>34,813</u>

Creditors are all current and payable within 12 months.

18 Provisions for Other Risks and Charges

Provisions for Other Risks and Charges comprise:	Deferred Tax £'000	Outwards reinsurance premiums £'000	Total £'000
As at 1 January 2008	9,427	31,104	40,531
Utilised in the year		(128,179)	(128,179)
Interest movement	-	73,536	73,536
Profit and loss account charge / (credit)	(9,427)	95,474	86,047
As at 31 December 2008	-	71,935	71,935

The charge to the profit and loss account for outwards reinsurance premium and interest includes adjustments made relating to prior years.

As at 31 December 2008 there was a potential deferred tax asset of £20.1 million (2007: £Nil). The Directors consider it unlikely that, on the basis of all available evidence, there will be suitable taxable profits against which to relieve these losses and consequently they consider it appropriate not to recognise this amount. This deferred tax asset may be recovered in future periods if the Company disposes of its equity investments and generates taxable capital gains to offset against these losses.

19 Bank Facility

At the beginning of the year the Company had in place a revolving credit facility with a syndicate of banks for an amount of up to £500,000,000. 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. This facility expired on 12 March 2008.

20 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	152,935	541,441
Depreciation	46	-
Losses/ (Gains) on realisation of investments	37,063	11,658
Unrealised (profits)/losses on investments	97,012	(89,175)
(Increase)/Decrease in debtors excluding tax	5,279	(6,817)
(Increase)/Decrease in prepayments and accrued income	(12,723)	(3,833)
(Increase)/Decrease in reinsurers share of technical provisions	(1,403)	529
Increase/(Decrease) in technical provisions	(2,329)	1,457
Increase/(Decrease) in creditors excluding tax	37,657	(34,420)
Increase/(Decrease) in provisions for risks and charges excluding deferred tax	40,831	(35,525)
Net cash inflow from operating activities	354,368	385,315

21 Cash Flows

	<u>2008</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Cash flows were invested as follows:				
Increase/(Decrease) in cash holdings		(6,149)		6,833
Purchases of shares and other variable-yield securities and units in unit trusts	516,473		402,729	
Sales of shares and other variable-yield securities and units in unit trusts	(431,985)		(392,905)	
Purchases of debt securities and other fixed income securities	3,881,858		2,809,849	
Sales of debt securities and other fixed income securities	(3,684,192)		(2,468,304)	
Net increase/(decrease) of deposits with credit institutions	13,020		(869)	
Net increase/(decrease) of other	<u>23,088</u>		<u>704</u>	
Net portfolio investments for the period		318,262		351,204
Purchases of tangible fixed assets		160		35
Net investment of cash flows		<u>312,273</u>		<u>358,072</u>

22 Movement in Opening and Closing Portfolio Investment

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Net portfolio investments for the period	318,262	351,204
Changes in market values and exchange rate affects	(134,076)	77,519
Net portfolio investments at 1 January 2008	2,966,887	2,538,164
Net portfolio investments at 31 December 2008	<u>3,151,073</u>	<u>2,966,887</u>

23 Reconciliation of Movements in Profit and Loss Account

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Profit for the financial year	148,232	490,087
Opening profit and loss account	2,856,590	2,366,503
Closing profit and loss account	<u>3,004,822</u>	<u>2,856,590</u>

24 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.

Members' Profile

as at 31 December 2008

	Number of Members	Percentage of Number of Members	Number of Votes	Percentage of Number of Votes
<u>Analysis by Type of Member</u>				
Insurance companies incorporated in:				
Belgium	2	0.8%	85	2.6%
Bermuda	7	2.6%	8	0.2%
France	7	2.6%	20	0.6%
Germany	5	1.9%	98	3.0%
Gibraltar	5	1.9%	5	0.2%
Guernsey	45	16.8%	212	6.4%
Iceland	1	0.4%	1	0.0%
Isle of Man	21	7.9%	70	2.1%
Italy	2	0.8%	7	0.2%
Luxembourg	3	1.1%	10	0.3%
Malaysia	1	0.4%	1	0.0%
Malta	3	1.1%	10	0.3%
Netherlands	1	0.4%	0	0.0%
Republic of Ireland	29	10.8%	137	4.1%
Sweden	2	0.8%	8	0.2%
Switzerland	1	0.4%	338	10.2%
United Kingdom	85	32.0%	2,168	65.3%
United States of America	6	2.3%	50	1.5%
	226	85.0%	3,228	97.2%
Active Underwriters of Lloyd's Syndicates	40	15.0%	92	2.8%
	266	100.0%	3,320	100.0%

Analysis by Size of Vote

0	82	30.7%	0	0.0%
1-25	164	61.6%	541	16.3%
26-50	5	1.9%	191	5.8%
51-100	8	3.0%	617	18.6%
101-150	2	0.8%	216	6.5%
151-200	0	0.0%	0	0.0%
201-250	2	0.8%	440	13.3%
251-300	0	0.0%	0	0.0%
301-350	1	0.4%	338	10.2%
351-400	0	0.0%	0	0.0%
401-450	0	0.0%	0	0.0%
451-500	2	0.8%	977	29.3%
	266	100.0%	3,320	100.0%

Note

Under Article 29 of the Articles of Association for the first calendar year of membership a member shall have one vote. Thereafter, under the provisions of Article 27, 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 27A, 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.

LIST OF MEMBERS AS AT 31 DECEMBER 2008

ABP Insurance Limited
Absolut Insurance Limited
Acadia International Insurance Limited
ACE Bermuda International Insurance (Ireland) Limited
ACE European Group Limited
ACE Insurance SA-NV
AEA Insurance Limited
AG Insurance Company Limited
AIG Europe (Ireland) Limited
AIG UK Limited
Aioi Motor and General Insurance Company of Europe Limited
Allianz Corporate Ireland plc
Allianz Global Corporate & Specialty AG
Allianz Insurance plc
Allied World Assurance Company
Alreford Limited
Ansvar Insurance Company Limited
Arch Insurance Company (Europe) Limited
Arriva Insurance Company (Gibraltar) Limited
Aspen Insurance UK Limited
Assicurazioni Generali SpA
Assurances Generales de France IART
AstraZeneca Insurance Company Limited
Atlantic Mutual International Limited
Augusta Assicurazioni SpA
Aviva Insurance Limited
Aviva International Insurance Limited
Avon Insurance plc
AXA Art Insurance Limited
AXA Corporate Solutions Assurance
AXA General Insurance Limited
AXA Global Risks (UK) Limited
AXA 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
BBA Aviation Insurances 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 Bonus Limited
 CGU Underwriting Limited
 Chantrey Global Risks Limited
 Chemists' Defence Association Limited
 CHG Insurance Limited
 China Insurance Company (UK) Limited
 Chubb Insurance Company of Europe S.A.
 Church of Scotland Insurance Company Limited
 CIS General Insurance Limited
 Classic Brand (Europe) Limited
 CNA Insurance Company Limited
 Communicator Insurance Company Limited
 Compagnie D'Assurances Maritimes Aeriennes & Terrestres S.A.
 Consolidated Mutual Insurance Limited
 Consolidated Provident Insurance PCC Limited
 Co-operative Insurance Society Limited
 Cornish Mutual Assurance Company Limited
 Crosskeys Limited
 Crucible Insurance Company Limited
 CX Reinsurance Company Limited

Derwent Insurance Limited
 DMG Insurance Limited
 Douglas Insurance Limited
 Dowa Insurance Company (Europe) Limited
 Dunard Insurance (Isle of Man) Limited

E & D F Man Holdings Insurances Limited
 Eagle Star Insurance Company Limited
 Eastern Corporate Insurance Limited
 Ecclesiastical Insurance Office plc
 EDF Energy Insurance 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
 Fortum Insurance Limited
 Fuji International Insurance Company Limited

Gamond Insurance Company Limited
 GAN Assurances IARD
 GAN Eurocourtage IARD
 GCF Insurance Limited
 GD Insurance Company Limited
 Generali France

Gerling-Konzern Allgemeine Versicherungs-AG
Golden Arches Insurance Limited
Great Lakes Reinsurance (UK) plc
Groupama Insurance Company Limited
Groupama SA

Hampden Insurance NV
HCC International Insurance Company plc
Hibernian General Insurance Limited
Hiscox Insurance Company Limited
Houston Casualty Company
HSB Engineering Insurance Company Limited
HSBC Insurance (Bermuda) Limited
HSBC Insurance (Ireland) Limited
HSBC Insurance PCC Limited

IC Insurance Limited
Ichem Insurance Company Limited
If P&C Insurance Limited (publ)
IGI Insurance Limited
Infrasure Limited
Inreska Limited
Insurance Corporation of the Channel Islands Limited
International Insurance Company of Hannover Limited
International Risk Insurance Company Limited
Inveralmond Insurance Limited
Isis Insurance Company Limited

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

LCR Insurance Limited
Legal & General Assurance Society Limited
Legal & General Insurance Limited
Liberty Mutual Insurance Company (UK) Limited
Liverpool Victoria Insurance Company Limited
Lloyds TSB Bank Insurance Company Limited
Lochside Insurance Limited
London & Edinburgh Insurance Company Limited
London Transport Insurance (Guernsey) Limited
Loomis Insurance Limited
Lothbury Insurance Company Limited

M.S. General Insurance LP
M.S. Insurance Limited
Mallory Insurance PCC Limited
Man Group Insurances Limited
Markel International Insurance Company Limited
Martinsurance Teoranta
Maxfort Insurance Limited
Methodist Insurance plc

Mitsui Sumitomo Insurance Company (Europe) Limited
ML Insurance (IOM) Limited
MMA Insurance plc
Montpelier Reinsurance Limited
Morgan Stanley International Insurance Limited
Mountainbran Limited
MUI Continental Insurance Berhad
Multi Risk Insurance Company Limited

National Express Guernsey Limited
The National Farmers Union Mutual Insurance Society Limited
National Grid Insurance Company (Isle of Man) Limited
The National Insurance & Guarantee Corporation Limited
Navigators Insurance Company
Network Rail Insurance Limited
New Hampshire Insurance Company
The New India Assurance Company Limited
Nipponkoa Insurance Company (Europe) Limited
Northern Foods Insurance Limited
Norwich Union Insurance Limited
Novae Insurance Company 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
Primelux Insurance SA
Propgen Insurance 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
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
Swiss Re Specialty Insurance (UK) Limited
Swiss Reinsurance Company UK 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 Europe Insurance Limited
Tokio Marine Global Limited
Trafalgar Insurance plc
Tryon Assurance Company Limited

UK Insurance Limited
The Underwriter Insurance Company Limited
UPS International Insurance Limited

Vatryggingafelag Islands hf
Vaultex Isle of Man Insurance Limited
Verzekeringsmaatschappij Palma NV
Voyager Insurance Company Limited

W. R. Berkley Insurance (Europe), Limited
Wagram Insurance Company Limited
Wharf Reinsurance Inc
White Horse Insurance Ireland Limited
White Rock Insurance (Gibraltar) PCC Limited
Woodcroft Insurance Company Limited
Woodstock Insurance Company Limited
Woolworths Insurance (Guernsey) Limited
WTCD Insurance Corporation Limited
Württembergische Versicherung A.G.

XL Insurance Company Limited

Zurich Insurance Company
Zurich Insurance Ireland Limited
Zurich International (UK) Limited
Zurich Specialties London Limited

Lloyd's Syndicate number 1007 - J L J Butcher
Lloyd's Syndicate number 1084 - B P Bartell
Lloyd's Syndicate number 1200 - N G Jones & MW Lawrence
Lloyd's Syndicate number 1206 - G M Halpin
Lloyd's Syndicate number 1221 - R P Bardwell
Lloyd's Syndicate number 1225 - D Croom-Johnson
Lloyd's Syndicate number 1245 - N S Breton
Lloyd's Syndicate number 1301 - R Katzaros
Lloyd's Syndicate number 2000 - A G Stout
Lloyd's Syndicate number 2001 - A W Holt
Lloyd's Syndicate number 2007 - J L J Butcher
Lloyd's Syndicate number 2010 - J C Hamblin
Lloyd's Syndicate number 2121 - P Hunt
Lloyd's Syndicate number 2147 - J L J Butcher
Lloyd's Syndicate number 218 - J E Josiah
Lloyd's Syndicate number 2488 - R V Pryce
Lloyd's Syndicate number 2623 - A F Beazley

Lloyd's Syndicate number 2987 - M A Sibthorpe
Lloyd's Syndicate number 3000 - G Albanese
Lloyd's Syndicate number 3010 - J C Hamblin
Lloyd's Syndicate number 318 - M S F Pritchard
Lloyd's Syndicate number 3200 - N G Jones
Lloyd's Syndicate number 3210 - D Warren
Lloyd's Syndicate number 33 - R C Watson
Lloyd's Syndicate number 382 - A J Walker
Lloyd's Syndicate number 3820 - P J Gage
Lloyd's Syndicate number 4000 - M H Wheeler
Lloyd's Syndicate number 4040 - C L C Manchester
Lloyd's Syndicate number 435 - MJ Rayner & PNE Ceurvorst
Lloyd's Syndicate number 4444 - J A Giordano
Lloyd's Syndicate number 5000 - S G Eccles
Lloyd's Syndicate number 510 - R G Hargreaves
Lloyd's Syndicate number 5151 - R M M Chattock
Lloyd's Syndicate number 570 - K W Wilkins
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 - I W Mercer