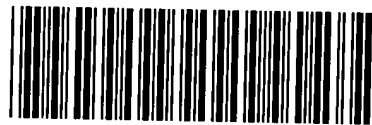




Pool Reinsurance (Nuclear) Limited

**Annual Report and Financial Statements  
For the year ended 31 December 2018**

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Registered Number 3084992

**Pool Reinsurance (Nuclear) Limited**  
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**for the year ended 31 December 2018**

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**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Directors and Officers**

**The Directors of the Company who were in office during the year and up to the date of signing the financial statements were**

**Garry Fearn (Chairman)**

A Director since May 2013. Chairman of EC Insurance Holdings Ltd, and Chief Executive of EC Insurance Services Ltd, subsidiaries of the Electrical Contractors' Association. Chairman of Tradex Insurance Company Limited and Chairman of Tradex Insurance Holdings Ltd. Former Chief Executive of MMA Insurance plc and former Executive Deputy Chairman of Covea Insurance PLC and Non-Executive Director of Swinton Group Limited.

**John Ayton**

A Director since October 2010 and Chairman of the Audit and Risk Committee from October 2017. Chartered Accountant and former partner in a major international firm of accountants. Until 2015, was the Finance Director of Nipponkoa Insurance Company (Europe) Limited, a subsidiary of one of Japan's largest insurance groups. A member of AGM Partners LLP, a small niche accounting and tax consultancy.

**Sir Brian Bender**

A Director since November 2014, retired from the Civil Service in 2009, having been a Permanent Secretary for nearly 10 years. Currently Chairman of London Metal Exchange. Non-Executive Director at The Financial Reporting Council and Pool Reinsurance Company Limited, Governor of Dulwich College, Trustee of Lloyd's Register Foundation, and holds senior advisory roles with Fingleton Associates and a UK Advisory Board established by CGN.

**Hugh Bohling**

A Director since February 2007. A Solicitor, principal of his own law firm CityNet Law, specialist in the insurance market where he has practised for more than 30 years. A former partner of a major international law firm, he is currently a Consultant to various law firms, a Director of Advent Underwriting Limited, managing agent of Lloyd's syndicate 780, and a Director of Trust Underwriting Limited, a corporate member at Lloyd's.

**Michael Dawson**

A Director since July 1995. Underwriter of Lloyd's Syndicate 1176 and Consultant to Chaucer Syndicates Limited. Director of Nuclear Risk Insurers Limited and Non-Executive Director of Lancashire Holdings Limited.

**Chief Executive Officer (CEO)**

**Barry McConway**

**Company Secretary**

Tricor Corporate Secretaries Limited, 4<sup>th</sup> Floor, 50 Mark Lane, London, EC3R 7QR.

**Independent Auditor**

Deloitte LLP, 2 New Street Square, London, EC4A 3BZ.

**Registered Office**

Tricor Suite, 4<sup>th</sup> Floor, 50 Mark Lane, London, United Kingdom, EC3R 7QR.

Telephone Number: + 44 (0)20 3216 2000.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Chairman's statement**

For the year ended on 31st December 2018, the Company made a profit after tax of £0.8m (2017: £0.7m). This has resulted in the accumulated reserves on the profit and loss account available to meet future claims increasing to £30.6m at the end of December 2018 (2017: £29.8m). Gross written premium income amounted to £1.8m in 2018 (2017: £1.3m). The increase is a result of one of our Members reviewing their insurance programme and consequently moving their renewal date forward by six months. The increase in profit is attributable to reduced legal fees in relation to reviews of Membership documentation, reinsurance and retrocession agreements, and the Company's Articles of Association.

The Company continues to work closely with both the Prudential Regulation Authority (PRA) and HM Government. During the year the PRA undertook one of its regular reviews of the Company. This resulted in a Periodic Summary Letter which was considered by the Board at the December meeting. One matter was raised and this has been actioned. As mentioned in previous statements, the Company continues to operate with a capital waiver granted by the PRA which covers the period up to 31st December 2020.

The purpose of the Company is to provide an efficient and cost-effective reinsurance mechanism to enable Members to provide direct insurance cover to the owners of nuclear installations in the United Kingdom. The cover is limited to the risk of damage to certain property from fire or explosion caused by acts of terrorism. In this respect, I can confirm that the Directors do not anticipate any changes to the nature of the business.

With regard to Brexit, our assessment continues to be that our business model is not directly affected. Nonetheless, we are not, of course, immune from the broader systemic features, such as effects on investments. However, in this instance, our asset allocation policy prioritises capital preservation, in order to try to mitigate any such impact.

I am pleased to report that there were no incidents giving rise to claims during the year. However, the Government and other authorities have maintained the threat level at severe with regard to the likelihood of terrorist attacks in the UK. I take the opportunity once again to remind Members of the need to keep under continuous review their readiness to deal with claims arising under the Scheme.

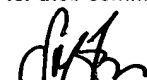
The total Membership of the Company at the end of the year was 35 (2017: 34) and we do not expect any significant change to this number during 2019.

As mentioned in previous statements, in 2016 the Company commenced a review of Membership and reinsurance documentation and the Articles of Association. The amendments to the Articles were duly passed at the June 2018 AGM. In addition, we continued to work during 2018 with Members on the Membership and reinsurance document changes. I am pleased to announce that the new documentation has been agreed and signed by all Members, and took effect from 1st January 2019.

As usual, a separate report on corporate governance is included in this Annual Report. We continue to carry out our annual assessment of the effectiveness of the Board and Chairman. These are valuable processes and an appropriate amount of time is set aside within the Board calendar to review and discuss the results. In 2018 an external evaluation was undertaken and presented to the Board at their December meeting. The recommendations will be discussed and addressed during 2019.

In March 2018, the first meeting of the Audit and Risk Committee was held. In September 2018, it was agreed by the Board that this committee should now meet every quarter to ensure that the appropriate time is given to cover these important areas.

In conclusion, I would again like to thank the Members for their continuing support and Directors and Management for their commitment and application over the course of the year.



Garry Fearn  
Chairman

21 March 2019

## **Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**

### **Strategic report**

The Directors of Pool Reinsurance (Nuclear) Limited present their strategic report of the Company for the year ended 31 December 2018.

#### **Review of the business**

During the year under review the principal activity of the Company remained unchanged. The Company is a mutual reinsurance company created by its Members and financially supported by a retrocession agreement with HM Government to provide reinsurance for its Members. The terms of the agreement also specify circumstances in which amounts paid by HM Government under the indemnity will be subject to repayment by the Company.

The reinsurance coverage provided by the Company under the Scheme established with the Government (the Scheme) is limited to losses as a result of damage to or destruction of Property by fire and/or explosion where the proximate cause is an act of terrorism on insured registered nuclear sites. The "act of terrorism" must be certified as such by the Government and the insurances of the site must have been underwritten by a Member in accordance with the terms and conditions contained in the Underwriting manual. The Scheme therefore facilitates the continued provision of insurance to the owners of nuclear installations in the United Kingdom against the risk of damage to property from fire or explosion caused by acts of terrorism.

The Company is authorised by the PRA to carry on in the United Kingdom general insurance business classes 8 (fire and natural forces) and 16 (miscellaneous financial loss - including business interruption) restricted to reinsurance business only.

A review of the business of the Company, including particulars of any important events that occurred during the year, the business environment and the Company's strategy can be found in the Chairman's statement on page 2.

#### **Results and performance**

The Company made a profit on ordinary activities before tax of £0.8m (2017: £0.7m) after transferring £0.6m (2017: £0.6m) from the general business technical account. Investment income amounted to £0.2m (2017: £0.1m). The profit after tax for the financial year was £0.8m (2017: £0.7m). The taxation charge relates to United Kingdom corporation tax on investment income receivable less interest payable and investment expenses. There is no taxation of the underwriting result as the business is conducted on a mutual basis.

The Company has accumulated profits of £30.6m as at 31 December 2018 (2017: £29.8m).

The Company continues to rely on the protection of the Retrocession Agreement entered into with HM Government which has the effect of setting a nil capital requirement, a summary of which is set out at Note 5 to the financial statements.

#### **Key performance indicators**

Taking account of the information provided in this report and the 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 business.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Strategic report (continued)**

**Principal risks and uncertainties**

The Company has adopted Risk Policies and Procedures 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. The Company's risk assessment is reviewed by the Audit and Risk Committee. The Board and the Executive Management are responsible for ownership and management of risks that might impact upon the Company's objectives.

The effectiveness of the Company's system of internal controls and its risk management framework are reviewed by an external provider of internal audit and risk control review services. Whilst the Company has an exemption from the PRA with regard to requiring an internal audit function, it undertakes external reviews (at least annually) of the risks and controls that are in place. The reports on such reviews, including recommendations and management responses, are considered by the Audit and Risk Committee, and reported to the Board as appropriate.

The Directors consider that the principal risks which face the Company, together with details of the control measures adopted by the Company are as follow:

Principal risk	Mitigating factors
<p><b>Insurance risk</b></p> <p>The Company is exposed to insurance risk arising from inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities.</p>	<p>The Company's approach to the management of insurance risk reflects the commitments contained in the agreements which underpin the Company's Scheme. The Company undertakes to accept all risks presented to it which meet the Scheme's criteria.</p> <p>Exposure to insurance risk is managed through controls to ensure, as far as possible, that liquid funds are available to meet a claim 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.</p> <p>This risk and its mitigations are described further in note 5(a) to the financial statements.</p>
<p><b>Market risk</b></p> <p>The investment strategy exposes the Company to a range of financial risks arising from investing its 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.</p>	<p>Exposure to market risk is managed through the investment strategy which rests on the two main objectives for the fund of stability and liquidity, with the asset allocation aligned to these.</p> <p>The strategy is conservative and designed to preserve capital and limit volatility from market risk.</p> <p>This risk and its mitigations are described further in note 5(c) to the financial statements.</p>
<p><b>Credit risk</b></p> <p>The Company is exposed to credit risk arising from a counterparty failing to perform its contractual obligations, including failure to perform them in a timely manner.</p>	<p>Exposure to credit risk predominately arises from investments. These exposures are managed through use of high quality counterparties and setting appropriate limits to investment.</p> <p>There is credit risk with the Company's Members and its retrocessionaire, HMT. This risk is considered to be minimal given the structure of the scheme.</p> <p>This risk and its mitigations are described further in note 5(d) to the financial statements.</p>
<p><b>Liquidity Risk</b></p> <p>The Company is exposed to liquidity risk through its investments.</p>	<p>Exposure to liquidity risk is managed through holding assets in high quality liquid funds, meeting any cash outflow by using its existing funds and then drawing on the unlimited support provided by HM Government.</p> <p>This risk and its mitigations are described further in note 5(e) to the financial statements.</p>

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Strategic report (continued)**

Principal risk	Mitigating factors
<b>Operational risk</b>  The Company is exposed to operational risk where failure in relation to people, processes, systems and external factors, including conduct risk, jeopardise the operation of the Company's Scheme.	Exposure to operational risk is managed by ensuring that there are effective processes, systems and controls throughout the Company. Arrangements with outsource providers are monitored and their appropriateness assessed periodically. The Company maintains a strong and open relationship with its regulators.  Legal advice is obtained annually to review the Company's position in relation to Competition Act 1998, to determine that the Scheme continues to meet the exemption requirements set out in that Act.

**Future developments**

The Directors do not anticipate that the nature of the Company's business will change in the near future. The Company only covers first party fire and explosion (including business interruption) at certain registered nuclear sites in the UK. There are a very limited number of risks that are reinsured. With regards to claims, there have been no reported losses since the formation of the Company.

The financial accounting continues to be carried out by Capita Commercial Insurance Services Limited. The role of Company Secretary is performed by Tricor Corporate Secretaries Limited.

The Company provides its Members with a reinsurance facility that is not freely available in the UK insurance market. The Directors are confident that, with the availability of the Retrocession Agreement with HM Government, this can continue.

Approved by the Board and signed on its behalf by



Garry Fearn  
Chairman

21 March 2019

Registered Number 3084992

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Directors' report**

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

**Board of Directors**

*Role of the Board*

The Board is responsible for providing leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the overall strategy of the Company within the context of the Scheme for which purpose the Company was established. In addition, the board oversees its implementation, reviewing the performance of the management team and ensuring that there are appropriate systems of internal controls and risk management.

The Board holds four regularly scheduled meetings each year, at which it considers reports from each of the key functions. In particular, these board agenda items are legal, regulatory, financial performance and risk. In addition to these standing items, the Board considers other matters of significance to the Company annually, in accordance with an agreed schedule of matters to be considered in the forthcoming year.

As appropriate, in addition to the regularly scheduled Board meetings, ad hoc meetings are arranged as necessary.

The Board Procedures manual has a formal schedule of matters reserved to the Board, which is reviewed annually. Such matters include those which are considered to be of significant strategic importance, which affect the structure of the Scheme, setting the values and standards of the Company, or which affect the corporate governance framework. The Board has otherwise delegated to its Committees (where constituted) and to the executive management the power to make decisions on operational matters within a framework of internal controls. Each Committee operates within written terms of reference and the respective roles and responsibilities of the Chairman and the CEO are set out in writing, all of which may only be amended with the Board's approval. The appointment and removal of the CEO and Company Secretary are also matters reserved to the Board.

The Chairman, in conjunction with the Executive Management and the 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 Company Secretary and independent professional advice is available to the Directors in respect of any issue arising in the course of their duties, at the expense of the Company. The Company maintains appropriate directors' and officers' liability insurance in respect of legal actions against its Directors.

Following their appointment, new Directors are given an in-depth induction by executive management. In addition, training is provided to Directors throughout their appointment, as appropriate, to ensure that they possess the appropriate knowledge regarding the Company and its operations necessary for the effective performance of their role.

The Board Procedures Manual includes provision for an annual performance evaluation including self-assessment by the Board and assessment of the CEO and the Chairman. The process for the CEO assessment includes the Chairman holding a meeting with the other Directors without any of the management present, whilst in the case of the Chairman, the other Directors hold a meeting without the Chairman being present.

*Composition*

The Board consists solely of non-executive Directors, including a non-executive Chairman. Brief biographical details of the current Directors are set out on page 1.

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

Otherwise, the appointment of any new Director is considered by the Board according to objective criteria. The provisions of the Articles of Association require that any Directors appointed by the Board must stand for reappointment at the first Annual General Meeting following their appointment. While the appointment of Non-Executive Directors is not subject to a specified term, with the exception of HM Government's nominated Director who is subject to a six year maximum term, the Directors are nonetheless subject to retirement by rotation and therefore must stand for re-election by the Members at least every three years thereafter.



**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Directors' report (continued)**

Therefore, at the forthcoming Annual General Meeting:

Garry Fearn, who will retire by rotation, will seek re-election; and  
John Ayton, who will retire by rotation, will seek re-election.

The composition of the Board is considered periodically to ensure an appropriate balance of expertise and experience to support the strategic and operational direction of the Company.

*Equality and Diversity*

The Board recognises the benefits of a diverse workforce and is committed to providing a working environment that is free from discrimination. In line with the Equality Act 2010 and the requirements of the financial regulators, the Board seeks to promote the principles of equality and diversity in all its dealings with employees, consultants, non-executive directors, members, suppliers, contractors and the reinsureds.

*Directors' Interests*

As a mutual company without a share capital, the Company's Members do not hold shares in the Company. Consequently, the Directors do not have any relevant interests in shares that require disclosure for the purposes of Companies Act 2006.

*Board Committees*

As at 31 December 2018 the Board had established two standing Committees to undertake certain of its responsibilities; being the Admissions Committee and the Audit and Risk Committee.

The role of the Admissions Committee is to consider and approve the admission of prospective Members to the Company and to authorise the execution of the relevant documents. The Members of the Admissions Committee are Hugh Bohling, the Chief Executive and the Company Secretary.

The Admissions Committee meet as and when required to consider applications for Membership.

The role of the Audit and Risk Committee (ARC) is to monitor the integrity of the financial statements of the Company, including its annual report, interim management statements and any other formal announcement relating to its financial performance. The ARC also reviews and reports to the Board on significant financial reporting issues and the judgements which they contain, having regard to matters communicated to it by the Auditor. In addition, the ARC establishes and maintains a risk management framework, under the overall responsibility of the CEO and the Chief Financial Officer (CFO), to align the Company's risk profile against risk appetite.

The first meeting of this Committee was held in March 2018. The Chairman is John Ayton. The rest of the Board are members of the committee.

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

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

*Directors' and CEO's Remuneration*

The Company's Articles of Association provide that there shall be paid to the Directors such fees as the Directors determine, not exceeding an annual aggregate of £150,000 (2017: £100,000). This amount was increased by £50,000 following agreement by Members at the June 2018 AGM.

Subject to the annual aggregate limit, Directors receive fees at levels approved by the Board. These are reviewed by the Board on a biennial basis, incorporating the use of market data to do so. No Director receives any additional remuneration from the Company other than his or her fees. Directors are not paid compensation for loss of office.

The remuneration of the CEO is set by the Board.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Directors' report (continued)**

**Future developments**

As stated in the strategic report on page 3 and given the nature of the Scheme, the Directors do not envisage any changes to the business structure in the near future.

**Qualifying third party indemnity provisions**

The Company has maintained insurance cover for the Directors and Officers of the Company against certain liabilities that they may incur in carrying out their duties. The Company's Articles of Association provide that every Director and Officer may be indemnified by the Company except to the extent prohibited or restricted by the Companies Act 2006. Consequently, qualifying third party indemnity provisions were in force for the benefit of all Directors and Officers at the time when the Directors' Report for the previous financial year was approved, and were in force during the financial year ended 31 December 2018.

**Financial instruments**

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in the Strategic Report and Note 5 of the financial statements. In particular, the Company's exposures to market risk, credit risk and liquidity risk are separately disclosed in that note. The Company's exposure to cash flow risk is addressed under the headings of 'Credit risk', 'Liquidity risk' and 'Market risk'.

**Post balance sheet events**

The Company has no disclosable post balance sheet events.

**Disclosure of Information to Auditors**

At the date of this report, each individual Director was not aware of any relevant audit information of which the Company's Auditors were unaware, and each individual Director has taken the steps he ought to have taken as a Director to make himself aware of any relevant audit information and establish whether the Company's Auditors were aware of that information.

**Independent Auditors**

Deloitte LLP have been the Company's auditors since June 2017. It is the intention of the Board to put them forward again for re-election at the AGM in June 2019.

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the strategic report, Directors' report and the Company's financial statements (the financial statements) in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) and Financial Reporting Standard 103 "Insurance Contracts" (FRS 103).

Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 and FRS 103 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its Members in writing about the use of disclosure exemptions, if any, of FRS 102 and FRS 103 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Directors' report (continued)**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Corporate governance**

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

The Board has responsibility for establishing systems of internal control to provide reasonable assurance against material misstatement or loss and to ensure compliance with laws and regulations. In establishing controls the Board has regard to the materiality of the relevant risk, the likelihood of loss and the costs of controls. The system of internal control can provide only reasonable and not absolute assurance against the risk of material misstatement or loss.

The Audit and Risk Committee (ARC) undertakes a review of the Company's risks against the Risk Policies and Controls at each committee Meeting and reports to the Board. The ARC continues to review these processes and all other aspects of the effectiveness of internal control systems on a regular basis. Also, there is a quarterly meeting with Capita Commercial Insurance Services Limited in relation to the financial processing, technical accounting and credit control for the Company under contract.

**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 which is, but not limited to, at least 12 months and is financially sound. The HM Government Retrocession Agreement is continuous and ongoing unless there is cancellation within defined and specific criteria. For this reason, the Board has concluded that it can effectively continue indefinitely, barring any significant changes to the reinsurance market in which the Company operates. As a consequence, it considers the going concern basis appropriate for the preparation of financial statements.

**Status of the Company**

The Company is a private company limited by guarantee, not having share capital. The Company is a mutual reinsurer. The guarantee provided is of a nominal amount and all capital is in the form of retained reserves. The trading profit or loss of the Company, the technical result, is attributed to the Members; accordingly there is no taxation on the Company of the underwriting result as the business is conducted on a mutual basis.

The Company is authorised by the PRA and regulated by the PRA and the Financial Conduct Authority.

The Company is not part of a group and has no subsidiaries. It operates solely in the UK.

Approved by the Board and signed on its behalf by



Garry Fearn  
Chairman

21 March 2019

Registered Number 3084992

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Independent Auditor's report to the Members of Pool Reinsurance (Nuclear) Limited**

**Report on the audit of the financial statements**

**Opinion**

In our opinion the financial statements of Pool Reinsurance (Nuclear) Limited ('the company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that no non-audit services were provided to the Company during the period.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Summary of our audit approach**

<b>Key audit matters</b>	The key audit matter that we identified in the current year was financial investments.
<b>Materiality</b>	The materiality that we used in the current year was £500,000 which represents less than 2% of net assets.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	There have been no significant changes in our audit approach.

**Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

***We have nothing to report in respect of these matters.***

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Independent Auditor's report to the Members of Pool Reinsurance (Nuclear) Limited (continued)**

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

During the course of our audit we identified one key audit matter. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

<b>Financial investments</b>	
<i>Refer to page 21 (significant accounting policies) and, page 26 (financial disclosures).</i>	
<b>Key audit matter description</b>	As at 31 December 2018 the financial investments balance stood at £31.7 million, equating to 99% of total company assets. The balance is comprised of two Money Market Funds ("MMF") which are highly liquid and have low estimation uncertainty in valuing. However, due to the proportion of the net assets represented by this balance, we have identified this balance as a key audit matter.
<b>How the scope of our audit responded to the key audit matter</b>	<p>We have performed a business process walkthrough in order to gain a detailed understanding of the financial investment cycle and how the balance is recorded in the general ledger.</p> <p>We have tested the valuation of financial investments through obtaining price data from reputable third party sources for 100% of the company's investments. We have also considered the impact of Brexit on the company's financial investments.</p> <p>We have tested existence, rights and obligations and completeness of the financial investments by obtaining an independent confirmation letter from the MMF manager confirming the balance held within the account as at 31 December 2018. We then reconciled this confirmation to the amount recorded in the general ledger.</p>
<b>Key observations</b>	We completed our procedures over the financial investments and did not identify any instances of material misstatement.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£500,000 (2017: £500,000)
<b>Basis for determining materiality</b>	Below 2% (2017: Below 2%) of year end company net assets.
<b>Rationale for the benchmark applied</b>	Pool Reinsurance (Nuclear) Limited is a mutual reinsurance company, which exists for the benefit of its members. As such, we have judged net assets to be the most appropriate benchmark, as this represents the Company's ability to meet claims as they fall due, which is deemed to be of most concern to the members.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £25,000 (2017: £25,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Independent Auditor's report to the Members of Pool Reinsurance (Nuclear) Limited (continued)**

**An overview of the scope of our audit**

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The accounting function for the Company has been outsourced to an outsourced service provider. As part of our audit we evaluated the design and implementation of relevant controls in place at the outsourced service provider.

**Other Information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon.

***We have nothing to report in respect of these matters.***

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

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

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

**Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Independent Auditor's report to the Members of Pool Reinsurance (Nuclear) Limited (continued)**

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

**Matters on which we are required to report by exception**

*Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

***We have nothing to report in respect of these matters.***

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

*Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

***We have nothing to report in respect of this matter.***

**Use of our report**

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.



Colin Rawlings FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
21 March 2019

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Profit and loss account**  
**For the year ended 31 December 2018**

**Technical account - general business**

	<u>Notes</u>	<u>2018</u> £000s	<u>2017</u> £000s
Gross premiums written		1,826	1,258
Outward reinsurance premiums	6	(183)	(126)
<b>Net premiums written</b>		<b>1,643</b>	<b>1,132</b>
Change in the gross provision for unearned premiums	12	(534)	2
Change in the provision for unearned premiums, reinsurers' share	12	53	-
<b>Earned premiums, net of reinsurance</b>		<b>1,162</b>	<b>1,134</b>
Net operating expenses	7	(524)	(537)
<b>Balance on the technical account for general business</b>		<b>638</b>	<b>597</b>

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

Company number : 3084992

The notes on pages 19 to 28 form an integral part of these financial statements.



**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**

**Profit and loss account (continued)**

**For the year ended 31 December 2018**

**Non-technical account**

	<u>Notes</u>	<u>2018</u> £000s	<u>2017</u> £000s
Balance on the general business technical account		638	597
Investment income	9	158	110
Investment expenses and charges	9	(12)	(10)
Profit on ordinary activities before tax		<u>784</u>	<u>697</u>
Tax on profit on ordinary activities	10	(24)	(15)
<b>Profit for the financial year</b>		<u><u>760</u></u>	<u><u>682</u></u>

The above results all relate to continuing operations.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the statement of profit or loss. Therefore no statement of other comprehensive income has been presented.

Company number : 3084991

The notes on pages 19 to 28 form an integral part of these financial statements.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**

**Balance sheet**

**As at 31 December 2018**

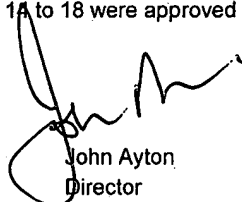
	<u>Notes</u>	<u>2018</u>	<u>2017</u>
		£000s	£000s
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	11	31,744	30,485
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	12	85	32
<b>Debtors</b>			
Debtors arising out of reinsurance operations		2	2
Other debtors		13	15
<b>Other assets</b>			
Cash at bank and in hand		136	66
<b>Prepayments and accrued income</b>			
Other prepayments and accrued income		25	24
<b>Total assets</b>		<u>32,005</u>	<u>30,624</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Profit and Loss Account	16	30,567	29,807
<b>Technical provisions</b>			
Provision for unearned premiums	12	859	325
Claims outstanding		-	-
<b>Creditors: amounts falling due after more than one year</b>			
Creditors arising out of reinsurance operations	13	320	265
<b>Creditors: amounts falling due within one year</b>			
Creditors arising out of reinsurance operations		156	172
Other creditors including taxation and social security	14	24	15
		180	187
<b>Accruals and deferred income</b>		79	40
<b>Total liabilities</b>		<u>32,005</u>	<u>30,624</u>

The financial statements on pages 14 to 18 were approved by the Board on 21 March 2019 and signed on its behalf by



Gary Fearn  
Chairman

Company number : 3084992



John Ayton  
Director

The notes on pages 19 to 28 form an integral part of these financial statements.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**

**Statement of changes in equity**

**For the year ended 31 December 2018**

	<u>2018</u>	<u>2017</u>
	£000s	£000s
Profit and loss account reserves as at the beginning of the year	29,807	29,125
Profit for the financial year	760	682
Profit and loss account reserves as at the end of the year	<u>30,567</u>	<u>29,807</u>

The notes on pages 19 to 28 form an integral part of these financial statements.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Statement of cash flows**  
**For the year ended 31 December 2018**

	<u>Notes</u>	<u>2018</u> £000s	<u>2017</u> £000s
<b>Net cash inflow from operating activities</b>	15	1,186	459
Tax paid		(15)	(24)
<b>Net cash generated from operating activities</b>		<u>1,171</u>	<u>435</u>
<b>Cash flow from investing activities</b>			
Interest received		158	116
<b>Net cash generated from investing activities</b>		<u>158</u>	<u>116</u>
<b>Net cash generated from financing activities</b>		<u>-</u>	<u>-</u>
<b>Net increase in cash and cash equivalents</b>		<u>1,329</u>	<u>551</u>
<b>Cash and cash equivalents at beginning of the year</b>		<u>30,551</u>	<u>30,000</u>
<b>Cash and cash equivalents at end of the year</b>		<u>31,880</u>	<u>30,551</u>
<b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand		136	66
Money Market Open Ended Investment Companies (OEICs) presented within other financial investments		31,744	30,485
<b>Cash and cash equivalents</b>		<u>31,880</u>	<u>30,551</u>

The notes on pages 19 to 28 form an integral part of these financial statements.

## **1 General information**

The Company is authorised by the PRA to carry on in the United Kingdom general insurance business classes 8 (fire and natural forces) and 16 (miscellaneous financial loss) restricted to reinsurance business only. All transactions relate to ongoing business. The Company is a mutual reinsurer, limited by guarantee and is incorporated in England and Wales. The address of its registered office is 50 Mark Lane, London, EC3R 7QR.

## **2 Statement of compliance**

The financial statements of the Company have been prepared in compliance with UK Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

## **3 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### **a Basis of preparation**

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

### **b Going concern**

Having assessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

### **c Functional and presentation currency**

The financial statements are presented in pound sterling and rounded to thousands. The Company's functional currency is pound sterling.

### **d Insurance contracts - classification**

The Company has reviewed the nature of the inwards and outwards reinsurance business it transacts. It is satisfied that all such business falls within the definition of insurance risk and has therefore treated the relevant contracts as insurance contracts for the purposes of these financial statements. All premiums disclosed in the profit and loss account relate to standard insurance contracts.

### **e Insurance contracts**

The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

#### **(i) Premiums written**

Premiums written relate to business 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, less an allowance for cancellations.

#### **(ii) 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.

**3 Summary of significant accounting policies (continued)**

**e Insurance contracts (continued)**

**(iii) 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.

**(iv) Claims provisions and related 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 estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. 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.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. In estimating the cost of IBNR, any estimate is based on information about any known circumstance that may give rise to a claim.

The nature of the underlying business is such that there should not be a significant delay between the occurrence of the claim and the claim being reported. However, there can be significant delays in assessing the Company's ultimate liability for such claims. Claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim.

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

**(v) Outwards reinsurance premiums**

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

The premium due to HM Government for providing retrocession cover becomes payable only when the funds standing to the credit of the Insurance Fund and the Investment Fund, as defined by the Retrocession Agreement, exceed £10 million. The accumulated funds continued to exceed £10 million during the year to 31 December 2018. These funds are broadly equivalent to premiums received, plus investment income earned, less incurred claims, taxation and expenses, subject to certain differences in the timing of their recognition. In certain circumstances the retrocession premium may become immediately payable if the Company fails to comply with the conditions of the Retrocession Agreement.

**f Expenses**

All expenses are recognised on an accruals basis and, other than direct investment expenses, are charged to the technical account.

**g Investment Income**

Investment income, which is all included in the non-technical account, is determined on an accruals basis. Realised gains or losses represent the difference between net sales proceeds and the purchase price or, if previously valued, the fair value at the previous balance sheet date. Unrealised gains and losses 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.

**3 Summary of significant accounting policies (continued)**

**h Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. It is recognised in the profit and loss account and is not discounted.

**(i) Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by period end. There is no taxation of the underwriting result as the business is conducted on a mutual basis.

**(ii) Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

**i Other financial investments**

The Company has chosen to adopt section 11 and 12 of FRS 102 in respect of its financial investments, which are all Money Market OEICs. The OEICs are initially measured at fair value, which is normally the transaction price. These assets are subsequently carried at fair value and the changes in fair value are recognised in profit and loss. These assets are derecognised on redemption of the OEIC. In the notes to the financial statements these assets are referred to as 'Shares and other variable-yield securities and units in unit trusts'.

**j Cash and cash equivalents**

Cash and cash equivalents consist of the Company's current bank account and the Money Market OEICs which comprise the Company's other financial investments.

**k Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. Please see Note 3 e (ii) for details of the unearned premium provisions.

**l Related party transactions**

The Company discloses transactions with related parties. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Company's financial statements.

**4 Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are currently no significant judgements when applying the accounting policies or sources of estimation uncertainty to disclose.

**5 Management of insurance and financial risk**

**a Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. However, to date, the Company has never incurred a claim.

The Company's approach to the management of insurance risk is influenced by the commitments contained in the agreements which form the foundations of the Company's Scheme. The Company undertakes to accept all risks presented to it which meet the criteria of the Scheme and has a Retrocession Agreement with HM Government providing unlimited indemnity where it faces claims beyond the extent of its ability to pay from its own resources. Under the PRA capital regime the Company has a capital resource requirement set equal to zero. This is possible because the Company's financial commitments are assured through its retrocessional facility with HM Government, the arrangements being designed to ensure that the Company can accept all exposures presented to it without limit.

In turn, these arrangements ensure that the Company can provide primary insurers with the reinsurance protection they need to enable them to provide terrorism cover to all clients upon request to the full extent of their policy programme. Hence it is not an objective to limit the assumption of insurance risk but to ensure that:

- risks accepted fall within the criteria set by the Scheme and fall within the coverage of the Retrocession Agreement;
- pricing is consistent between the Members of the Scheme; and
- adequate arrangements are in place in the event of a major claim.

The Company's appetite for insurance risk is unlimited within the context of the Scheme, and therefore assumes that losses in excess of the Company's own funds will ultimately be met by its retrocessional cover. Its policy is to assume all relevant risks presented to it whilst ensuring that it accepts only risks falling within the criteria set by the Scheme.

**b Financial risk management objectives**

The Company is exposed to a range of financial risks through its financial investments and its reinsurance assets and liabilities. In particular, the key financial risk is that the proceeds from financial investments are not sufficient to fund the obligations arising from reinsurance policies as they fall due.

The overall financial risk management objective is to invest the assets against the contingency that they could be exhausted suddenly by a claim or series of claims, but with recognition that they may not be called upon for long periods.

The two main objectives of the Company's investment strategy are stability and liquidity. The Company therefore considers that Money Market OEICs are suitable to meet its financial risk objective.

The Company is exposed, therefore, to limited financial risk (market risk, credit risk and liquidity risk) as the portfolio in which it is invested is restricted to high-quality, short-term, money market instruments. These are issued by, but not limited to, HM Government, the Organisation for Economic Cooperation and Development, sovereign governments, supranational entities, public corporations, local authorities, banks and other financial institutions.



**5 Management of insurance and financial risk (continued)**

**c Market risk**

**(i) Interest rate risk**

Interest rate risk is the risk that arises from fluctuating interest rates on the Company's investments in Money Market OEICs. The Company therefore monitors its interest rate risk by reporting the individual fund performance against its benchmark to the Board on a quarterly basis. The funds that the Company invests in have an weighted average maturity of 99 days across the two institutions, which further reduces interest rate risk. The sensitivity analysis for interest rate risk shows that a 0.1% increase/decrease in interest rates will increase/decrease the Company's investment income by £32k, assuming all other assumptions remain unchanged.

**(ii) Price risk**

The Company is exposed to price risk as a result of changes in the value of investments in Money Market OEICs. The Company has limited exposure to price risk as a result of its restricted investment portfolio in money market OEICs which have a short weighted average maturity and therefore have limited price volatility. All the OEIC funds invest in high quality, short term, fixed and variable rate securities, listed or traded on one or more Recognised Exchanges, across a range of financial institutions, sovereign and corporate issuers.

**(iii) Currency Risk**

Currency risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. However as all the Company's business is transacted in Sterling, it has no currency risk.

**d Credit Risk**

Credit risk arises from the failure of a counterparty to perform its financial obligations to the Company, or a failure to perform those obligations in a timely manner. The risk of non-payment or late payment of premiums to the Company by its reinsureds is limited as the Company's agreement with its Members sets deadlines for the payment of premiums.

The Company's only retrocessionaire is HM Government and therefore is not considered to be a source of credit risk.

The Company's risk policies take account of credit risk arising through the investment portfolio (£31.7m) and cash at bank (£0.1m) by restricting it to readily realisable assets. All its investments are held in AAA rated funds whilst its cash at bank is held with Lloyds Bank Plc.

The credit rating of these institutions is monitored on a quarterly basis by the Board and would form part of a risk report if required.

## 5 Management of insurance and financial risk (continued)

### e Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The Company's investment portfolio is therefore structured with the objective of ensuring that all funds are held in readily realisable assets in the event of a claim.

The table below analyses the maturity of the Company's creditors. All liabilities are presented on a contractual undiscounted cash flow basis.

	£000s	£000s	£000s	2018 £000s
	0-1 year	1-2 years	2-3 years	Total
Creditors	180	132	188	500
Total	180	132	188	500

	£000s	£000s	£000s	2017 £000s
	0-1 year	1-2 years	2-3 years	Total
Creditors	187	136	129	452
Total	187	136	129	452

### f Capital management

The principal activity of the Company is reinsurance business conducted for the benefit of Members providing protection as part of the Scheme to facilitate the continued provision of insurance to the owners of nuclear installations in the United Kingdom against the risk of damage to property from fire or explosion caused by acts of terrorism. The Company is a mutual reinsurer and, as a private Company limited by guarantee, the Company does not have any share capital, so all capital is retained reserves.

The Company falls within the exclusion in Article 1 (2)(d) of EU Directive 2005/68/EC (Reinsurance Directive). The PRA made, on application of the Company, a direction in December 2015 under section 138A of the Financial Services and Markets Act 2000 which replaces the Company's previous waiver. The effect of the direction is that, inter alia, the Company's capital resources requirement is zero.

Since the inception of the Company, no claims have been incurred. However, the investment strategy is predicated on the basis that should such an event occur, all the investment funds could be realised within 2 working days.

### g Fair value estimation

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

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

All financial instruments held are classed as Level 1.

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Notes to the financial statements (continued)**

**6 Particulars of business**

The Company is authorised by the PRA to carry on in the United Kingdom general insurance business classes 8 (fire and natural forces) and 16 (miscellaneous financial loss) restricted to reinsurance business only. All transactions relate to ongoing business. Gross premiums written by the Company in 2018 totalled £1,826k (2017:£1,258k).

Under the Company's Retrocession Agreement with HM Government, 10% of the value of gross premiums written incepted in the year is payable as outwards reinsurance premiums to HM Government. In 2018 this amounted to £183k (2017: £126k).

**7 Expenses**

<b>a Net operating expenses</b>	<u>2018</u> £000s	<u>2017</u> £000s
Administrative expenses (including Auditor's remuneration)	<u>524</u>	<u>537</u>
<b>b Auditor's Remuneration</b>	<u>2018</u> £000s	<u>2017</u> £000s
Fees payable to the Company's Auditors for the audit of the Company's financial statements	25	24
Fees payable to the Company's Auditors for other services: Audit-related assurance services	<u>2</u> <u>27</u>	<u>2</u> <u>26</u>
Fees are stated excluding VAT.		

**8 Employees and Directors**

<b>a Employees</b>	<u>2018</u> £000s	<u>2017</u> £000s
Wages and Salaries	111	111
Social security costs	<u>15</u> <u>126</u>	<u>15</u> <u>126</u>

The Company has a total of 2 part-time employees, CEO and CFO (2017 – 2 part-time employees). These employees are also the Company's key management.

<b>b Directors</b>	<u>2018</u> £000s	<u>2017</u> £000s
The Directors' emoluments were as follows: Aggregate emoluments	<u>87</u>	<u>87</u>
Fees are stated excluding VAT.		

<b>9 Investment return</b>	<u>2018</u> £000s	<u>2017</u> £000s
<b>Investment income</b>		
Interest income on financial assets at fair value through profit and loss	<u>158</u>	<u>110</u>
	<u>2018</u> £000s	<u>2017</u> £000s
<b>Investment expenses and charges</b>		
Interest payable on retrocession premiums	<u>(12)</u>	<u>(10)</u>

**Pool Reinsurance (Nuclear) Limited - Annual report and financial statements 2018**  
**Notes to the financial statements (continued)**

**10 Tax on profit on ordinary activities**

The Company is a mutual and as such does not pay corporation tax on its technical result. Corporation tax is however payable on its non-technical account.

	<u>2018</u>	<u>2017</u>
	£000s	£000s
United Kingdom corporation tax at 19% average rate (2017: 19.25%):		
Current tax on income for the year	<u>24</u>	<u>15</u>
<b>Tax on profit on ordinary activities</b>	<u><u>24</u></u>	<u><u>15</u></u>

**Factors affecting the tax charge for the year:**

The tax assessed for the year is lower (2017: lower) than the standard weighted rate of corporation tax in the UK (19.00%) (2017: 19.25%). The difference is explained below.

	<u>2018</u>	<u>2017</u>
	£000s	£000s
<b>Non technical account</b>		
Profit on ordinary activities before tax	<u>784</u>	<u>697</u>
Profit on ordinary activities at standard weighted rate of corporation tax in the UK of 19.00% (2017: 19.25%)	149	134
Balance on the technical account - not taxable	(121)	(115)
Other investment expenses - taxable	<u>(4)</u>	<u>(4)</u>
<b>Total current tax charge for the year</b>	<u><u>24</u></u>	<u><u>15</u></u>

**11 Other financial investments**

	<u>2018</u>	<u>2017</u>
	£000s	£000s
Investments at fair value through profit or loss:		
Shares and other variable-yield securities and units in unit trusts	<u>31,744</u>	<u>30,485</u>

**12 Reconciliation of provision for unearned premiums**

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

	<u>2018</u>	<u>2017</u>
	£000s	£000s
<b>Gross</b>		
As at 1 January	325	327
Change in the gross provision for unearned premiums	<u>534</u>	<u>(2)</u>
As at 31 December	<u><u>859</u></u>	<u><u>325</u></u>
<b>Reinsurers' share</b>		
As at 1 January	32	32
Change in the provision for unearned premiums, reinsurers' share	<u>53</u>	<u>-</u>
As at 31 December	<u><u>85</u></u>	<u><u>32</u></u>

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**13 Creditors: amounts falling due after more than one year**

	<u>2018</u> £000s	<u>2017</u> £000s
Retrocession payable to HM Government on 31/3/2020 (2017: 31/3/2019)	132	136
Retrocession payable to HM Government on 31/3/2021 (2017: 31/3/2020)	<u>188</u>	<u>129</u>
Total	<u><u>320</u></u>	<u><u>265</u></u>

**14 Other creditors including tax and social security**

	<u>2018</u> £000s	<u>2017</u> £000s
Corporation tax	<u>24</u>	<u>15</u>
	<u><u>24</u></u>	<u><u>15</u></u>

**15 Reconciliation of profit for the financial year to net cash inflow from operating activities**

	<u>2018</u> £000s	<u>2017</u> £000s
Profit for the financial year	760	682
Adjustments:		
(Increase) in reinsurers' share of technical provisions	(53)	-
Decrease/(Increase) in debtors	2	(5)
(Increase)/Decrease in other prepayments and accrued income	(1)	1
Increase/(Decrease) in provision for unearned premium	534	(2)
Increase/(Decrease) in creditors excluding taxation	39	(88)
Increase/(Decrease) in accruals and deferred income	39	(34)
Tax on profit on ordinary activities	24	15
Interest income	<u>(158)</u>	<u>(110)</u>
Net cash inflow from operating activities	<u><u>1,186</u></u>	<u><u>459</u></u>

**16 Reconciliation of movements in the Profit and Loss Account**

	<u>2018</u> £000s	<u>2017</u> £000s
Profit and loss account balance brought forward	29,807	29,125
Profit for the financial year	<u>760</u>	<u>682</u>
Profit and loss account balance carried forward	<u><u>30,567</u></u>	<u><u>29,807</u></u>

**17 Related party transactions**

All Members of the Company are offered identical terms for all transactions with the Company.

Michael Dawson, a Director of the Company, is also a Director of Nuclear Risk Insurers Limited (NRI), a Managing General Agent some of whose members are also Members of the Company. NRI acting for those Members, placed £33k of premiums during the financial year on terms offered to all Members of the Company. All premiums derived from NRI members, other than £2k which is not due until January 2019, were settled during the year.

Key management personnel and directors' compensation are disclosed in total in Note 8.

**18 Subsequent events**

There have been no events since the year end.