

# FLOODRE

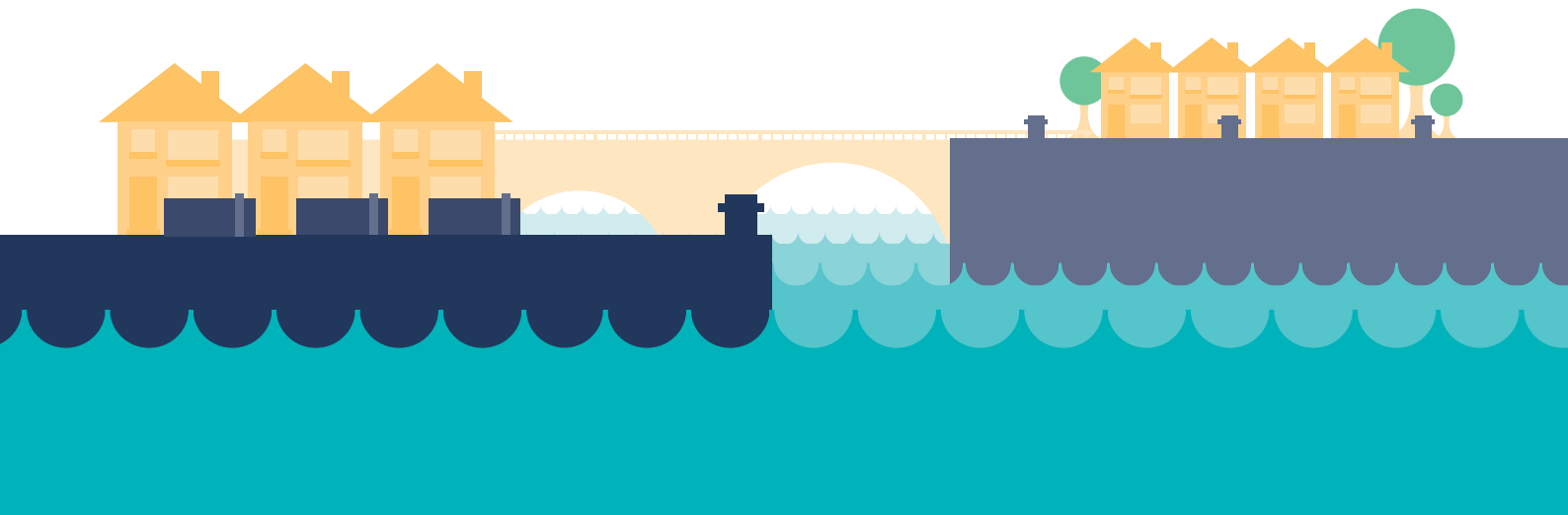
## ANNUAL REPORT AND FINANCIAL STATEMENTS

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Year ended 31 March 2016

**Company No. 08670444**

Authorised by the Prudential Regulation Authority and regulated by the  
Prudential Regulation Authority and the Financial Conduct Authority FRN 706046.





# CONTENTS

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Company Information	4
The Flood Re Scheme	5
Strategic Report	6
Directors' Report	12
Auditor's Report	27
Statement of Comprehensive Income	30
Statement of Financial Position	32
Statement of Cash Flows	34
Statement of Changes in Equity	36
Notes to the Financial Statements	38

# COMPANY INFORMATION

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## Directors

Mark Hoban - Chairman

Judith Eden - Independent Non-Executive Director

Huw Evans - Independent Non-Executive Director

Adam Golding - Chief Financial Officer

David Hindley - Independent Non-Executive Director

Claire Ighodaro - Independent Non-Executive Director

Paul Leinster - Independent Non-Executive Director

Brendan McCafferty - Chief Executive Officer

## Company Secretary

Harriet Boughton

## Registered Office

75 King William Street

London

EC4N 7BE

## Bankers

National Westminster Bank Plc

280 Bishopsgate

London

EC2M 4RB

## Auditors

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London

E14 5EY

# THE FLOOD RE SCHEME

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Flood Re's purpose is to promote the availability and affordability of flood insurance for eligible homes, while minimising the costs of doing so, and manage, over its lifetime, the transition to risk reflective pricing for household flood insurance.

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Regulations designating the Flood Re Scheme came into force on 11 November 2015, providing Flood Re the power necessary to fulfil its purpose.

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On 1 April 2016 Flood Re was authorised by the Prudential Regulatory Authority and the Financial Conduct Authority.

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Flood Re launched on 4 April 2016 with 16 brands taking part in the scheme representing more than half of the UK home insurance market.

# STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016

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The Directors present their Strategic Report on the Company for the year ended 31 March 2016.

## Chairman's statement

### Background

Flood Re (the Company) has been set up to meet a growing need for affordable flood cover for homes. As a result of increasingly volatile weather and a better understanding of flood risk, premiums and excesses for homes that have been flooded or are in high flood risk areas have increased significantly. Whilst the Government and insurance sector had an agreement in place to facilitate the availability of flood cover, they concluded that, in the light of the increasing premiums and excesses, the issue of the affordability of that cover needed to be tackled. They, therefore, worked together to design Flood Re.

Flood Re was set up under the Water Act 2014 and launched on 4 April 2016. Flood Re is financed by a statutory levy of £180m per annum on UK home insurers and the premiums it charges insurers for each policy ceded to it. These premiums are based on council tax bands. The levy effectively subsidises the premiums that Flood Re charges insurers. This enables insurers to offer lower premiums to their customers. Flood Re charges insurers an excess of £250 per policy which is passed onto consumers. If an insurer charged a customer a higher excess on a policy ceded to Flood Re, we would charge the insurer the same excess: this effectively caps the excess at £250. Flood Re will meet all flood claims made in respect of policies ceded to it, but its exposure is limited to £2.1bn

per financial year and it has put in place reinsurance cover to this level. The model underpinning Flood Re enables insurers to manage their flood risk exposure more effectively and offer lower premiums and excesses to their customers; thus increasing competition and choice for consumers.

The scope of the Flood Re Scheme is set out in statute and has a number of exclusions, for example it does not cover homes built after 1 January 2009 or businesses. Further details on eligibility are set out on the Flood Re website.

Because the principal source of Flood Re's funding is a statutory levy, it is publicly accountable; although set up, owned and funded by the insurance sector. Flood Re has to meet the principles of Managing Public Money and is subject to audit by the National Audit Office and accountable to the Public Accounts Committee. It is also accountable to Parliament for the delivery of its objective to facilitate lower prices and excesses for consumers and value for money.

### **Flood Re in operation**

Once the insurance industry and the Government agreed the design of Flood Re, the ABI oversaw its development and, in Autumn 2014, appointed its CEO, Brendan McCafferty. The Flood Re team working in conjunction with its partners, including Capita and Guy Carpenter, built the business and its operations with the goal of launching on 4 April 2016. As well as ensuring our own systems and processes were ready, we worked with insurers to enable as many as possible to offer Flood Re backed policies to their customers.

At launch, customers were able to choose from 16 insurance brands, representing more than half of the UK home insurance market. Since launch a further 20 brands are offering Flood Re backed policies. The high profile media campaign around our launch was aimed at raising awareness of Flood Re in high flood risk areas and encouraging householders to take advantage of the Scheme. The first Flood Re backed policies were sold on the launch date with customers benefitting from the lower premiums and excesses that the Scheme was designed to facilitate.

### Looking ahead

Over time, we expect approximately 350,000 homes to benefit from more affordable flood cover and lower excesses. It will take time to build up to this level and we will work with insurers and others to build awareness of Flood Re with people who have been flooded or who live in high flood risk areas.

One of the features built into the Scheme is that it has a finite life. This is to incentivise Government and its agencies, insurers and householders to address the cost of flooding so that in 2039, when the Scheme comes to an end, the market can return to risk reflective pricing and is able to sustain affordable prices and excesses. Flood Re has a statutory duty to develop a Transition Plan setting out a path to that goal. We published our first Transition Plan in February 2016 setting out where Flood Re can and should work with others to achieve this goal. This covers a range of areas including flood risk management, property level flood resilience and cutting the cost of flood repairs. The Board and the Executive of Flood Re will be focused on this in the year ahead as well as ensuring we deliver our primary objective of facilitating more affordable flood cover for homes in high flood risk areas.

### Strategic objectives

The Board set six key objectives for Flood Re prior to its launch which remain relevant now. These reflected elements from two principal sources, firstly the Water Act 2014, which creates the role of Scheme Administrator and sets out accompanying objectives for the Scheme and secondly, the Memorandum of Understanding (MoU) struck between Government and the industry in 2013 setting out the high level principles of Flood Re.

#### I. **Objective One: To enable flood cover to be affordable for those households at highest risk of flooding;**

The first objective is at the core of Flood Re's reason for existence. It is estimated that there are potentially up to 350,000 properties that may be ceded to Flood Re at maturity. This implies that these households should expect to see lower premiums and excesses, compared to the charges for their current policy and that premiums and excesses remain affordable if they are flooded in the future.

#### II. **Objective Two: To increase availability and choice of insurers for customers;**

Flood Re aims to cover the majority of the market over time. Provided that customers are aware of that market they will be able to obtain a better price by shopping around.



**III. Objective Three: To create transitional measures to allow flood insurance to move towards risk-reflective pricing within 20-25 years;**

This is addressed through the publication of a Transition Plan from time to time.

**IV. Objective Four: To create a level playing field for new entrants and existing insurers in the UK home insurance market;**

This objective was designed to ensure that Flood Re was set up in such a way that the funding of the business would be spread across all market participants in an equitable fashion.

**V. Objective Five: To operate as an independent body that is privately owned and operated, whilst also meeting the needs of public accountability;**

Flood Re is publicly accountable, consequently having a statutory obligation to manage resources in an efficient, effective and economical manner (value for money) and in the public interest. In order to meet the obligations of public accountability whilst maintaining the advantages of private ownership and operation, a range of measures are required to facilitate the dual requirements and consequences.

**VI. Objective Six: To seek to be 'capital neutral over time' on insurers, whilst accepting that there are agreed exceptions.**

The Board is satisfied that the Executive Team have the capacity, skills and resources to ensure that all of these objectives are met and that Flood Re is now set up to succeed in the medium to long term.

## Results and performance

The results of the Company for the year, as set out between pages 30 and 37, show a loss after tax of £6.1m (2015: £0m) ahead of its receipt of regular income at the start of the 2016/17 financial year on 1 April 2016.

Flood Re's public policy goals and its legislative basis give it a unique characteristic: it is an industry funded and industry owned company backed by guarantee, but with direct accountability to Parliament for its achievement of the policy objectives set out in legislation and for its custodianship of public money.

As such, Flood Re will lay its accounts before Parliament and the Flood Re CEO is directly accountable to Parliament as the Responsible Officer. Accordingly, the Financial Statements have been prepared in line with International Financial Reporting Standards (IFRS), as adapted by the 2015-16 Government Financial Reporting Manual (FRoM) issued by HM Treasury, and are in accordance with directions issued by the Secretary of State for the Environment, Food and Rural Affairs.

### Key performance indicators ('KPIs')

Prior to the regulations designating the Flood Re Scheme coming into force on 11 November 2015, the creation of Flood Re was financed by member firms of the Association of British Insurers on a voluntary basis.

Since designation it has been appropriate for Flood Re to finance its own setup costs, as a publicly accountable body. As such, since designation, contracts and responsibilities have been transferred to Flood Re from the ABI on a transitional basis when and where possible. As a result, set up costs to launch of £7.6m were approved by the Board and incurred by the Company.

These costs are equivalent to the Company self-funding its set up from designation to launch. The principal costs relate to the Company's service arrangements with Guy Carpenter, which provides the Company's reinsurance broking services, and with Capita and Landmark, the firms which deliver the key operational processes for Flood Re. In order to finance these arrangements, the Company obtained use of a revolving credit facility of up to £25.0m, arranged with the Company's bankers, National Westminster Bank Plc. £3.0m was drawn by the Company in January 2016.

First quarterly payments of the insurer Levy 1, totalling £45.0m, were due to be received by the Company on 1 April 2016. Early receipt of £29.3m of payments enabled the Company to repay the revolving credit facility prior to 31 March 2016.

The Company has obtained an insurer credit rating from S&P of A- (stable outlook) from launch on 4 April 2016.

### Principal risks and uncertainties

Principal forward looking risks and uncertainties of the business are considered to be:

- **Strategic risk:**
  - Failure to deliver the primary public policy objective of enabling affordable flood cover to consumers, via inward insurers, to sufficient households at the highest risk of flooding
  - Loss of support from inward insurers for the Flood Re model
- **Insurance risk:**
  - A series of extreme weather events affecting the timing, frequency or severity of insured events or claims significantly outside of expectations
  - Claims reserves based on the quantity and quality of available information prove materially different to the actual future claims outgo
  - Flood Re's outward reinsurance programme does not cover insured losses as expected

- **Operational risk:**

- Inadequate operational performance or errors, including those by Flood Re’s outsourced service providers, result in poor service to insurers and unexpected costs. As at 31 March 2016, the systems and processes by which insurers and their potential consumers interact with Flood Re were yet to commence. However, from the launch date of 4 April 2016 they have operated as intended
- Claims paid include items not intended to be covered by the Flood Re Scheme, such as after the insured event policy inception, out-of-scope or inflated losses
- Incorrect data or modelling assumptions, methods or errors result in unexpected financial variances
- Data loss, including as a result of cyber crime

- **Credit risk:**

- Inability of Flood Re to recover amounts due by third parties such as inward insurers or reinsurance counterparties

- **Market risk:**

- Variability of the value of investments, including that arising from uncertainties caused by the 2016 United Kingdom European Union Membership Referendum

- **Liquidity risk:**

- Inability of Flood Re to meet its current and future financial obligations as and when they fall due, or only being able to do so at excessive cost

The Board has taken steps to ensure that best practice corporate governance and risk management procedures are in place. Through these mechanisms, all known ongoing risks and uncertainties are monitored and mitigated where possible to an appropriate level.

**By Order of the Board  
For and on behalf of Flood Re Limited**

.....  
**Mark Hoban**  
Chairman

Date: 23 June 2016  
Registered Office: 75 King William Street,  
London EC4N 7BE

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2016

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The Directors present their report and the audited Financial Statements of the Company for the 12 month period ended 31 March 2016.

## Future developments

Likely future developments in the business of the Company are discussed in the Strategic Report.

## Employees

### Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

### Employee involvement

Consultation with employees occurs at all levels, with the aim of ensuring that through regular team meetings with the Chief Executive Officer and the Executive Team views are taken into account when decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of the business.

### Modern Slavery Act 2015

The Company is mindful that the Modern Slavery Act 2015 has come into force and will include a Modern Slavery Act Transparency Statement in next year's Annual Report. In the meantime, the Company is adapting its existing policies and practices accordingly.

## Board Members



### **Mark Hoban**

Mark Hoban was appointed as the first Chairman of the Board of Directors for Flood Re in January 2015. Mark plays a crucial role in providing strategic direction to Flood Re, and ensuring it can achieve its strategic objectives and manage its risks effectively. Mark was the Member of Parliament for Fareham between 2001 and 2015 and is a Chartered Accountant.



### **Brendan McCafferty**

Brendan McCafferty is the Chief Executive Officer of Flood Re and his responsibilities include ensuring Flood Re is embraced by the insurance industry and achieves its key objective of enabling availability and affordability of flood insurance for households at risk of flooding. As part of this Brendan has overall responsibility for the operation of Flood Re along with the ongoing relationship with senior members of the insurance industry and the financial regulators. He is directly accountable to Parliament for Flood Re's statutory responsibilities. Brendan is a qualified accountant with 30 years' industry experience within the insurance sector.



### **Adam Golding**

Adam Golding is the Chief Financial Officer for Flood Re and is a member of the Executive Management Team and Flood Re Board member. He has responsibility for the planning, implementation and management of all aspects of Flood Re's finance, accounting and capital management functions. Adam is a Fellow of the Institute of Chartered Accountants of England and Wales (FCA) and has been working in the insurance industry since 1991.

## DIRECTORS' REPORT (cont.)

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### **Judith Eden**

Judith Eden has over 25 years' international financial services industry experience. Prior to retiring from Morgan Stanley in mid-2015 to fulfil a Non-Executive Director portfolio, Judith was International Chief Administrative Officer of Morgan Stanley Investment Management. Judith has also held senior positions in Operations and Finance within Morgan Stanley. Judith is a Fellow of the Institute of Chartered Accountants of England and Wales (FCA) and holds INSEAD's Corporate Governance Certificate (IDP-C).



### **Huw Evans**

Huw Evans is Chair of Flood Re's Remuneration Committee. He has been Director General of the Association of British Insurers (ABI) since February 2015, having joined the ABI as a member of the Executive Team in 2008. He helped lead the negotiations with the Government that lead to the establishment of Flood Re. He previously worked in banking, politics and journalism.



### **David Hindley**

David Hindley is Chair of Flood Re's Risk and Capital Committee. David is an actuary with over 30 years' general insurance experience. In mid-2013, after 16 years as a Partner with Bacon & Woodrow/Deloitte, he switched to a portfolio career and is currently a Non-Executive Director with three other general insurance companies – MBIA UK Insurance Limited (where he is Chair of the Audit Committee), The Channel Managing Agency Limited (where he is also Chair of the Audit Committee) and Sabre Insurance Company Limited. He is also a member of the Actuarial Council, which is part of the Financial Reporting Council.



**Claire Ighodaro CBE**

Claire Ighodaro is Chair of Flood Re’s Audit Committee. She is also a Board member and Audit Committee Chair of Lloyd’s of London, a Non-Executive Director and Governance Committee Chair of Merrill Lynch International, a Council member of University of Surrey and a Board Member of the International Ethics Standards Board for Accountants. Claire is a Fellow of CIMA and of the Institute of Directors. She was awarded a CBE in 2008 for services to business.



**Professor Paul Leinster CBE**

Paul Leinster is Professor of Environmental Assessment at Cranfield University. He is also a Non-Executive Director of a consultancy providing specialist product safety and regulatory compliance services and he provides advice to a number of public and private sector organisations. Paul is also a member of the Natural Capital Committee. Paul was Chief Executive of the Environment Agency from June 2008 to September 2015.

### Executive Team

Brendan McCafferty and Adam Golding are joined by:



#### Michael Bartholomeusz

Michael Bartholomeusz is the Chief Risk Officer, responsible for overseeing, coordinating and facilitating the Company's risk management framework, as well as leading the governance of risk management practices across the organisation. Michael is a Chartered Accountant with a career spanning over 30 years in insurance, lending and risk consulting.



#### Harriet Boughton

Harriet Boughton is General Counsel, responsible for overseeing the firm's legal and compliance framework and embedding best practice corporate governance across the organisation. Harriet joined Flood Re from a Lloyd's Managing Agency where she initiated its in-house legal function and as Head of Legal and Compliance, was central to its successful regulatory Authorisation.



#### Aidan Kerr

Aidan Kerr is the Director of Operations, responsible for ensuring the Company's operations are designed and set up to deliver its objectives, including oversight of Capita and Landmark, the firms that deliver the key operational processes for Flood Re, as well as designing and implementing Flood Re's target operating model. Aidan is a chartered management accountant with over 17 years' experience within banking, consulting, Government and the insurance industry.

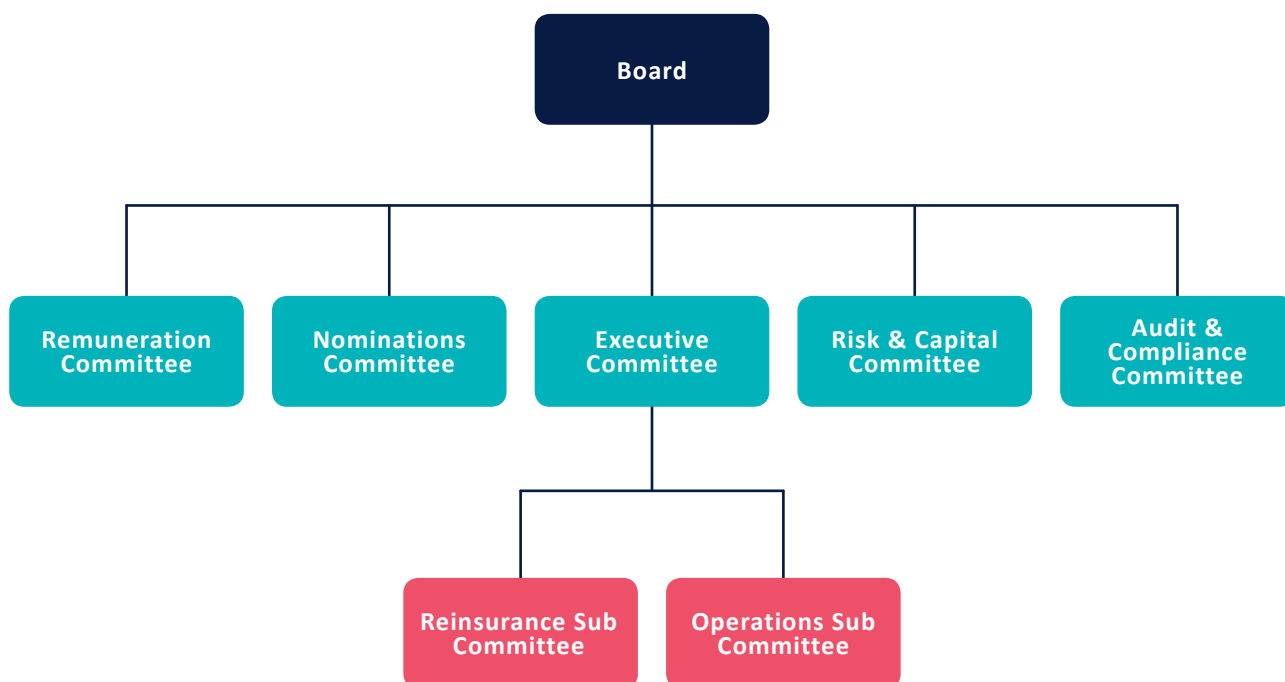


#### Gary McNally

Gary McNally is Chief Actuary, responsible for building market links and ensuring Flood Re has the right actuarial capabilities in place. Gary brings over 15 years of actuarial experience to Flood Re, latterly as Head of Capital at Canopus.



## Governance framework



### Board

The Flood Re Board maintains overall responsibility for the governance of the Company, setting strategic aims and providing the leadership to put them into effect within the scope of Flood Re's Articles and powers that the Company has been granted under the Water Act, the associated Regulations and the Scheme Document.

The Flood Re Board comprises:

- Mark Hoban - Independent Non-Executive Chairman
- Judith Eden - Independent Non-Executive Director
- Huw Evans - Independent Non-Executive Director
- Adam Golding - Chief Financial Officer
- David Hindley - Independent Non-Executive Director
- Claire Ighodaro - Independent Non-Executive Director
- Paul Leinster - Independent Non-Executive Director
- Brendan McCafferty - Chief Executive Officer

## DIRECTORS' REPORT (cont.)

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### Remuneration Committee

Flood Re's Remuneration Committee is responsible for setting the remuneration of the Executive Directors and Chairman, and overseeing the overall remuneration policy of Flood Re.

The Flood Re Remuneration Committee comprises:

- Huw Evans - Independent Non-Executive Director (Chair, subject to Regulatory Approval)
- Judith Eden - Independent Non-Executive Director
- David Hindley - Independent Non-Executive Director
- Mark Hoban - Independent Non-Executive Chairman
- Claire Ighodaro - Independent Non-Executive Director
- Paul Leinster - Independent Non-Executive Director

### Nominations Committee

The Nominations Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board and makes recommendations to the Board with regard to any changes. The Committee considers succession planning for Directors and other Senior Executives and is responsible for identifying and nominating candidates to fill Board vacancies.

The Flood Re Nominations Committee comprises:

- Mark Hoban, Independent Non-Executive Chairman (Chair)
- Judith Eden - Independent Non-Executive Director
- Huw Evans - Independent Non-Executive Director
- David Hindley - Independent Non-Executive Director
- Claire Ighodaro - Independent Non-Executive Director
- Paul Leinster - Independent Non-Executive Director

### **Risk and Capital Committee**

The Risk and Capital Committee (RCC) is responsible for the governance framework and oversight to manage risk and capital adequacy, and to ensure that all risks of the Company are identified, assessed and monitored in line with the risk appetite and policies, and to provide guidance, review and oversight on risk management and capital assessment. The Committee is also responsible for managing and monitoring the capital held by Flood Re Limited in order to manage its risks.

The RCC's role in relation to claims reserving relates primarily to determining reserving risk in the context of capital modelling. However, if the RCC becomes aware of any reserving risk issues that it believes the Executive Committee, Audit and Compliance Committee and Board should take into account when selecting quarterly reserve estimates, then the RCC will provide input to one or more of these, as appropriate.

The Flood Re Risk and Capital Committee comprises:

- David Hindley - Independent Non-Executive Director (Chair)
- Judith Eden - Independent Non-Executive Director
- Mark Hoban - Independent Non-Executive Chairman
- Claire Ighodaro - Independent Non-Executive Director
- Paul Leinster - Independent Non-Executive Director

### **Audit & Compliance Committee**

Flood Re Limited's Audit and Compliance Committee (ACC) is responsible for acting independently from the Executive Management of Flood Re, to ensure that the interests of Members and stakeholders are properly protected in relation to reserving, financial reporting and internal controls. The ACC has responsibility for regulatory and compliance matters, including supporting Parliament's requirement for prudent stewardship of financial resources.

The Flood Re Audit and Compliance Committee comprises:

- Claire Ighodaro - Independent Non-Executive Director (Chair)
- Judith Eden - Independent Non-Executive Director
- David Hindley - Independent Non-Executive Director
- Mark Hoban - Independent Non-Executive Chairman
- Paul Leinster - Independent Non-Executive Director

### **Executive Committee**

The Executive Committee comprises the full Executive Team and is responsible for day to day running of the Company. The Executive Team oversees the running of the Reinsurance Sub Committee and Operations Sub Committee.

## DIRECTORS' REPORT (cont.)

### Committee attendance

	Job Title	FR Board	Audit & Compliance	Risk & Capital	Remuneration	Nomination
<b>Total number of meetings</b>		<b>11</b>	<b>0**</b>	<b>6</b>	<b>0**</b>	<b>0**</b>
Mark Hoban	Chairman	11	N/A	6	N/A	N/A
Judith Eden	Independent Non-Exec Director	3/3*	N/A	2/2*	N/A	N/A
Huw Evans	Independent Non-Exec Director	11	N/A	N/A	N/A	N/A
David Hindley	Independent Non-Exec Director	11	N/A	6	N/A	N/A
Claire Ighodaro	Independent Non-Exec Director	3/3*	N/A	2/2*	N/A	N/A
Paul Leinster	Independent Non-Exec Director	2/3*	N/A	2/2*	N/A	N/A
Brendan McCafferty	Chief Exec Officer	10				
Adam Golding	CFO	11				

\* Maximum number of meetings possible to attend

\*\* First Audit & Compliance Committee meeting held on 28 April 2016

First Remuneration Committee meeting held on 28 April 2016

Inaugural Nomination Committee meeting yet to be held

## Directors' remuneration

Flood Re's Remuneration Committee is responsible for setting the remuneration of the Executive Directors and Chairman, and overseeing the overall remuneration policy of Flood Re.

### Total remuneration 2016

The tables below set out the Directors' total remuneration figure for the financial year ended 31 March 2016, alongside the annualised base salary of the Executive Directors and fees of the Independent Non-Executive Directors.

### Executive Directors

	Annualised Salary	Prorated Salary	Taxable benefit	Bonus	Pension related benefits	Total
	£	£	£	£	£	£
Brendan McCafferty	290,000*	72,500	-	82,500	8,250	163,250
Adam Golding	240,000	60,000	-	72,000	7,200	139,200

\* This includes a £15,000 annualised non pensionable, non bonus related allowance.

## DIRECTORS' REPORT (cont.)

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### Independent Non-Executive Directors

The table below shows the Independent Non-Executive Directors' fee structure pro-rated from 1 January 2016 to 31 March 2016, alongside annualised fees. The Company reviewed the Independent Non-Executive Directors' fees during 2016 in accordance with the Remuneration Policy.

	Annualised Fees	Prorated Fees	Taxable benefit	Total
	£	£	£	£
Mark Hoban	100,000*	27,821	-	27,821
David Hindley	55,000**	13,750	-	13,750
Judith Eden	45,000	11,250	-	11,250
Claire Ighodaro	55,000**	13,750	-	13,750
Paul Leinster	45,000	11,250	-	11,250

\* Annualised fee to 21 January 2016 of £150,000 (reflecting the higher time commitment expected prior to launch), reduced to £100,000 thereafter.

\*\* Includes £10,000 allowance for chairing Board Sub Committees

Huw Evans did not receive a fee for his position as Independent Non-Executive Director.

### Pension provision

The Executive Directors' pension benefits for the year were as follows.

- Brendan McCafferty joined the Flood Re Pension Scheme and is eligible to receive an employer pension contribution of 12% of base salary per annum, prorated from 1 January 2016.
- Adam Golding joined the Flood Re Pension Scheme and is eligible to receive an employer pension contribution of 12% of base salary, prorated from 1 January 2016.

### Directors' contracts

The Executive Directors' service agreements with Flood Re Limited became effective on the following dates:

Executive Director	Effective date
Brendan McCafferty	1 January 2016
Adam Golding	1 January 2016

### Directors' indemnity

The Directors and Officers of the Company have the benefit of insurance which provides suitable cover in respective legal actions brought against them.

### Remuneration policy summary

Flood Re's remuneration policy and practices reflect its objectives of good corporate governance and sustained, long-term value to the industry participants. The remuneration policy and practices also aim to promote robust and effective risk management.

Flood Re's overriding remuneration principle is that every Flood Re employee should be rewarded for outstanding performance; but not receive any bonus when performance is poor. Flood Re aims therefore to provide total remuneration packages which reward superior performance in a way that is consistent with the Company's values and target culture and take account of Flood Re's status as a public body.

Flood Re's remuneration policy applies to all employees.

### Remuneration Committee

On the basis of the recommendation of the Remuneration Committee, the Board of Directors determines the funds to be allocated to the performance-based remuneration pools.

The Remuneration Committee will meet twice a year: in February to set policy decisions and approve the renewal of staff benefits schemes, and April to accept or amend recommendations for pay and bonuses from the Chief Executive Officer.

The Remuneration Committee will periodically review the general principles of the remuneration policy which will normally be in the February meeting.

### Remuneration policy

#### - Chairman and Independent Non-Executive Directors

Fees for the Chairman and other Independent Non-Executive Directors are determined annually by the Board.

The Chairman and Independent Non-Executive Directors are not eligible to participate in annual bonus plans, the employee benefit schemes or the pension scheme. Their pay rates are set by the Board after taking advice from the CEO, and take into account the time commitment, the responsibilities and complexities of their roles, as well as the rates paid by other comparable organisations within the insurance industry and wider financial services sector.



## Going concern

The future financing of the Company's liabilities will be met through the Company's ability to raise a Levy on UK Household Insurers of £180m per annum from 1 April 2016. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Financial Statements. Please refer to note 2.2 in the Notes to the Financial Statements.

## Financial instruments

Except for the cash held in the Company's bank account, the Company has no other financial instruments. Please refer to note 7.1 in the Notes to the Financial Statements.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have prepared the Company's Financial Statements in accordance with International Financial Reporting Standards and applicable law.

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

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- State whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

## DIRECTORS' REPORT (cont.)

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

The Directors are responsible for the maintenance and integrity of the Company website, [www.floodre.co.uk](http://www.floodre.co.uk). Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

### Directors:

The Directors of the Company during the 12 month period to 31 March 2016 were:-

Judith Eden	(appointed 01/01/2016)
Huw Evans	
Adam Golding	(appointed 13/04/2015)
David Hindley	(appointed 13/04/2015)
Mark Hoban	
Claire Ighodaro	(appointed 01/01/2016)
Paul Leinster	(appointed 01/01/2016)
Brendan McCafferty	

In addition, Harriet Boughton has taken on the role of Company Secretary from 1 January 2016

### Independent auditors

The auditors, Ernst and Young LLP, have been appointed to office during the period.

### Disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1. As far as each of them is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 March 2016 of which the Auditors are unaware; and
2. The Director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**By Order of the Board**

**For and on behalf of Flood Re Limited**

.....  
**Brendan McCafferty**

Director

Date: 23 June 2016

Registered Office: 75 King William Street,  
London EC4N 7BE

# AUDITOR'S REPORT

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## **Independent Auditor's report to the members of Flood Re Limited**

We have audited the financial statements of Flood Re Limited for the year ended 31 March 2016 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## AUDITOR'S REPORT (cont.)

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### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

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

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

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

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**Angus Millar**

Senior Statutory Auditor

For and on behalf of Ernst & Young LLP, Statutory Auditor

Date: 23 June 2016

London

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# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

Company no. **08670444**

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		<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
Continuing operations			
Revenue		0	0
Cost of sales		0	0
Gross profit		0	0
Administration expenses	5.1	(7,586,331)	0
Distribution expenses		0	0
Operating loss		(7,586,331)	0
Finance costs	5.4	(23,056)	0
Finance income	5.5	2,649	0
Loss before tax from continuing operations		(7,606,738)	0
Tax credit	6	1,521,165	0
Loss for the year		(6,085,573)	0
Other comprehensive income			
Items that will not be reclassified to profit or loss:		0	0
Items that will or may be reclassified to profit or loss:		0	0
Other comprehensive income for the year net of tax		0	0
Total comprehensive loss		(6,085,573)	0

# STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

Company no. **08670444**

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		<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
<b>Assets</b>			
Non-current assets			
Deferred tax asset	6	1,521,165	0
		<u>1,521,165</u>	<u>0</u>
Current Assets			
Trade and other receivables	8	102,584	0
Cash and short term deposits	9	27,428,291	0
		<u>27,530,875</u>	<u>0</u>
<b>Total Assets</b>		<u><u>29,052,040</u></u>	<u><u>0</u></u>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	10	29,433,975	0
Accruals & deferred income	11	5,703,638	0
		<u>35,137,613</u>	<u>0</u>
Non-current liabilities		<u>0</u>	<u>0</u>
<b>Total Liabilities</b>		<u><u>35,137,613</u></u>	<u><u>0</u></u>
<b>NET ASSETS</b>		<u><u>(6,085,573)</u></u>	<u><u>0</u></u>
Issued capital and reserves			
Retained earnings		<u>(6,085,573)</u>	<u>0</u>
<b>TOTAL EQUITY</b>		<u><u>(6,085,573)</u></u>	<u><u>0</u></u>

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016

Company no. **08670444**

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		<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
Cash flows from operating activities			
Loss before tax from continuing operations		(7,606,738)	0
Adjustments for:			
Finance income	5.5	(2,649)	0
Finance cost	5.4	23,056	0
		<u>(7,586,331)</u>	<u>0</u>
Increase in trade and other receivables	8	(102,584)	0
Increase in trade and other payables	10	29,433,975	0
Increase in accruals & deferred income	11	5,703,638	0
		<u>27,448,698</u>	<u>0</u>
Cash generated from operations		27,448,698	0
Income taxes paid		0	0
Interest received	5.5	2,649	0
Interest paid on bank borrowings	5.4	(23,056)	0
		<u>27,428,291</u>	<u>0</u>
Net cash flows from operating activities		27,428,291	0
Net cash used in investing activities		0	0
Financing activities			
Proceeds from bank borrowings	7.2	3,000,000	0
Repayment of bank borrowings	7.2	(3,000,000)	0
		<u>0</u>	<u>0</u>
Net cash used in financing activities		0	0
Net increase in cash and cash equivalents		27,428,291	0
Cash and cash equivalents at beginning of year		0	0
		<u>27,428,291</u>	<u>0</u>
Cash and cash equivalents at end of year		<u><u>27,428,291</u></u>	<u><u>0</u></u>

STATEMENT OF  
CHANGES IN EQUITY  
FOR THE YEAR ENDED  
31 MARCH 2016

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	<b>Retained Earnings</b>	<b>Total Equity</b>
	<b>£</b>	<b>£</b>
31 March 2015	0	0
Comprehensive Income for the year		
Loss for the year	(6,085,573)	(6,085,573)
Other comprehensive income	0	0
Total comprehensive loss for the year	(6,085,573)	(6,085,573)
31 March 2016	(6,085,573)	(6,085,573)

Signed: .....

**Adam Golding**

Chief Financial Officer

(For and on behalf of Flood Re Limited)

Date : 23 June 2016

# NOTES TO THE FINANCIAL STATEMENTS

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## 1 Corporate information

The Financial Statements of Flood Re Limited for the year ended 31 March 2016 were authorised for issue in accordance with a resolution of the Directors on 23 June 2016. Flood Re Limited (the Company) is a limited company incorporated and domiciled in the UK. The registered office is located at 75 King William Street, London in the United Kingdom.

The Company is principally engaged in the provision of flood peril reinsurance cover.

## 2 Statement of accounting policies

The Financial Statements have been prepared in accordance with IFRS as adapted by the 2015-16 Government Financial Reporting Manual (FRoM) issued by HM Treasury and are in accordance with directions issued by the Secretary of State for the Environment, Food and Rural Affairs.

The FRoM applies International Financial Reporting Standards (IFRS), as adapted or interpreted for the public sector context.

The Company's accounting policies have been applied consistently in dealing with items which are considered material in relation to the Accounts.

## 2.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention.

## 2.2 Going concern

The future financing of the Company's liabilities will be met through the Company's ability to raise a Levy on UK Household Insurers of £180m per annum from 1 April 2016. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Financial Statements.

## 2.3 Income

Income is recognised on an accruals basis and the amounts are recorded at fair value. Flood Re receives fixed annual Levy from the UK household insurers (Levy 1). Cash received for the Levy in advance of due date of 1 April 2016 has been recognised as an advance receipt for the current year. The Levy will be recognised as other income on 1 April 2016.

## 2.4 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks.

## 2.5 Administration expenditure

Administration costs reflect the costs of running the Company during its phase of development. All expenses are recognised on an accruals basis.

## **2.6 Foreign currency transactions**

The functional and presentational currency of the Company is sterling. The Company is not exposed to any foreign currency risk.

## **2.7 Provisions**

The Company provides for obligations arising from past events where the Company has a present obligation at the Statement of Financial Position date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made.

## **2.8 Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with IAS 37, the Company discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote.

## **2.9 Impending application of newly issued accounting standards not yet effective**

IAS 8 requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. The Company has not adopted any new IFRS standards early. IFRS 16 (Leases) has not been adopted ahead of its implementation date. The Company has reviewed the changes and has determined that there will be no significant impact on the accounts from 2015-16.

## **3 Segment information**

The Company does not report information in segments, as 100% of business relates to UK based flood peril reinsurance

## **4 Capital management**

For the purpose of the Company's capital management, capital includes retained profits, mutual member funds and tier 2 ancillary own funds. The primary objective of capital management within the Company is to maintain economic and regulatory capital in accordance with risk appetite, whilst ensuring application of Levy 1 and Levy 2 capital is adhered to. The Company is supported by Levy 1 and Levy 2 as ongoing sources of capital, using the capital model will ensure the optimum ratio between surplus capital and investments.

As the Company was not authorised to underwrite insurance business at 31 March 2016, no minimum capital requirement existed at this point.

## NOTES TO THE FINANCIAL STATEMENTS (cont.)

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### 5 Other income/expenses

#### 5.1 Administrative expenses

	31 March 2016	31 March 2015
	£	£
Service contracts	4,417,009	0
Wages and salaries	769,262	0
Social security costs	127,958	0
Pension costs	40,110	0
Temporary staff costs	752,692	0
Office costs	235,946	0
Consultancy costs	608,579	0
PR and marketing	239,400	0
Rating agency fees	122,400	0
Other administrative expenses	272,975	0
Total	7,586,331	0

#### 5.2 Employee Benefits Expenses

	31 March 2016	31 March 2015
	£	£
Wages and salaries	769,262	0
Social security costs	127,958	0
Employer pension contributions	40,110	0
Total	937,330	0

Average number of permanent staff for the full year **5**  
Average number of temporary staff for the full year **4**

At the end of the Financial Year, 32 permanent and temporary members of staff were employed by the Company.



### 5.3 Directors' emoluments

	31 March 2016	31 March 2015
	£	£
Short-term employee benefits	364,821	0
Post-employment pension and medical benefits	15,450	0
Termination benefits	0	0
Total	380,271	0

Key management personnel for Flood Re Limited include the Directors and Non-Executive Directors.

There are only 2 Directors entitled to the Company pension scheme.

Compensation of highest paid Director

	31 March 2016	31 March 2015
	£	£
Short-term employee benefits	155,000	0
Post-employment pension and medical benefits	8,250	0
Termination benefits	0	0
Total	163,250	0

## NOTES TO THE FINANCIAL STATEMENTS (cont.)

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### 5.4 Finance costs

	31 March 2016	31 March 2015
	£	£
Interest on revolving credit facility	5,541	0
Loan fees	17,515	0
Total	23,056	0

### 5.5 Finance income

	31 March 2016	31 March 2015
	£	£
Bank interest received	2,649	0
Total	2,649	0

### 5.6 Auditor's remuneration

	31 March 2016	31 March 2015
	£	£
Audit of the financial statements	20,000	0
Other non-audit fees	33,400	0
Total	53,400	0

## 6 Taxation

	<b>31 March 2016</b>
	<b>£</b>
Income statement	<hr/>
Loss before tax	(7,606,738)
Income tax credit	1,521,165
Loss after tax	<hr/> <hr/>
Income tax note	
The tax credited/(charged) to the Income Statement is as follows:	
Deferred tax credit	1,521,165
Total tax credited	<hr/> <hr/>
Reconciliation of the Income tax credit/(charge)	
Loss before tax	(7,606,738)
Loss at UK tax rate of 20%	(1,521,348)
Expenses not deductible	183
Total tax credited	<hr/> <hr/>
Deferred tax asset	
Net deferred tax position as at 1st April 2015	-
Credit for the year	1,521,165
Deferred tax asset as at 31 March 2016	<hr/> <hr/>

The credit for the year relates to tax losses. It is expected that there will be sufficient suitable taxable profits to utilise the losses. Deferred tax has been recognised at 20%.

## NOTES TO THE FINANCIAL STATEMENTS (cont.)

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### 7 Financial assets and financial liabilities

**7.1** Except for the cash held in the Company's bank account, the Company has no other financial instruments.

#### **7.2 Financial liabilities: interest-bearing loans and borrowings**

The Company has a revolving credit facility for £25,000,000.00 in place with National Westminster Bank Plc. During the period the Company drew down funds of £3,000,000.00, which was subsequently settled within the period. The drawdown of funds attracted interest charges of £5,541 as per Note 5.4.

#### **7.3 Financial instruments risk management objectives and policies**

##### **Overarching strategy**

To remain within the Board's tolerance for investment risk (credit, liquidity and market) covering counterparty exposures, concentrations and durations.

##### **Counterparty risk exposure (policyholder and shareholder funds)**

Operations – One deposit account and one current account following a public sector public procurement process. Other deposit accounts on approval by the Board. UK Government exposures only through GILTS, Trading Notes and UK Government Bond Money Market Funds or other funds backed by the UK Government.

##### **Credit risk**

Flood Re will be only investing in UK Government backed securities (such as gilts, treasury notes, UK Government backed money market funds) and hold cash or deposits in large UK regulated clearing houses.

##### **Market risk**

Given the short tail nature of Flood Re's assets and liabilities coupled with the asset and liability matching policy, the mismatch between assets and liabilities cash-flows is limited and interest rate risk is of low materiality.

##### **Liquidity risk**

Flood Re is to maintain or have access to sufficient liquidity resources to meet claims and operational expenses in the normal course of business.

These will be monitored through cash flow forecasts and reported to the Executive Committee and Board as appropriate. Planned timing of reinsurance recoveries and cash calls sufficient to meet inwards claims obligations in a 1 in 200 event. This is to be monitored through detailed cash flows.

## 8 Trade and other receivables

Trade and other receivables are comprised as follows;

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£</b>	<b>£</b>
Lease Deposit	102,584	0
Total	102,584	0

## 9 Cash and short term deposits

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£</b>	<b>£</b>
Cash at bank and in hand	27,428,291	0
Total	27,428,291	0

## 10 Trade and other payables

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£</b>	<b>£</b>
Staff costs accrual	131,088	0
Levy - advance receipts	29,302,887	0
Total	29,433,975	0

## NOTES TO THE FINANCIAL STATEMENTS (cont.)

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### 11 Accruals and deferred income

	31 March 2016	31 March 2015
	£	£
Expense accruals	5,665,094	0
Other expense accrual	38,544	0
Total	5,703,638	0

### 12 Commitments and contingencies

Financial commitments inclusive of operating lease obligations as at 31 March 2016 for services to be rendered in future periods for no longer than 1 year.

	31 March 2016	31 March 2015
	£	£
Service contracts	6,287,200	0
Staff contractual commitments	1,458,000	0
Other financial commitments	366,000	0
Total	8,111,200	0

**13 Guarantors**

The Company is limited by guarantee and has 35 guarantors who undertake to contribute not more than £1.00 in the event that the Company is wound up whilst they are a member or within one year of them ceasing to be a member. Flood Re's activities were set up under the Water Act 2014 and launched on 4th April 2016.

**14 Related parties**

The company did not enter transactions with any related parties during the year except with key management personnel.

**FLOODRE**