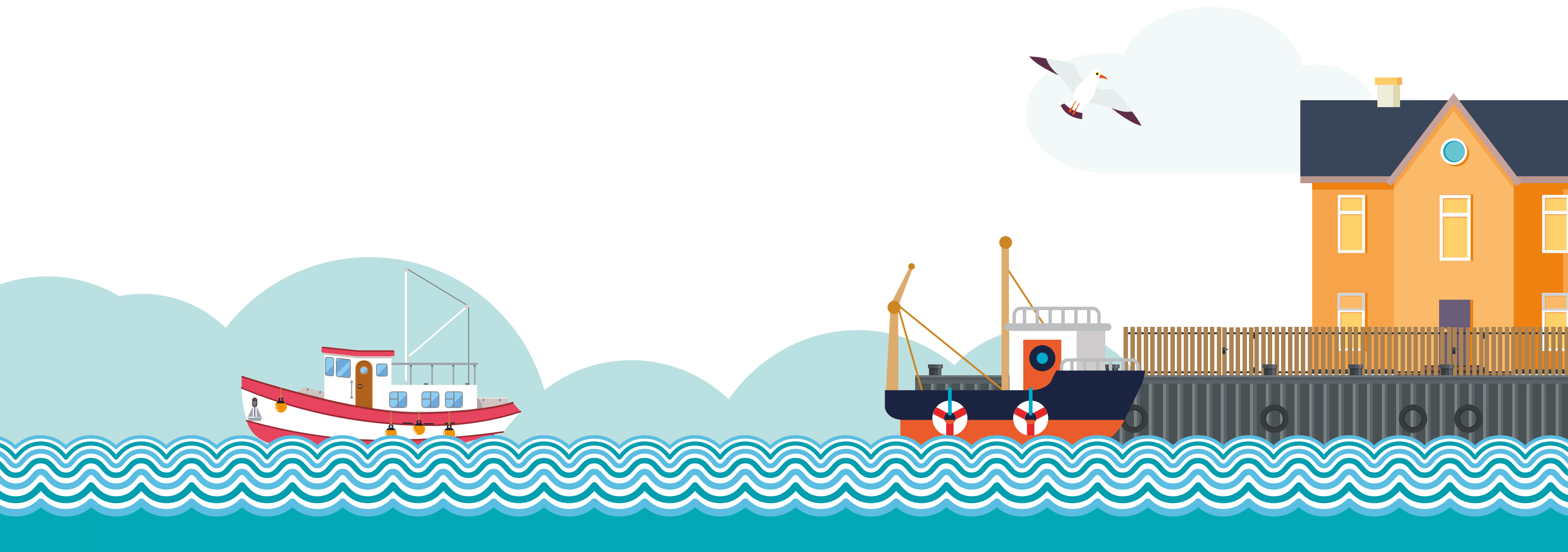
FLOOD RE

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2019

Company No. 08670444

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



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Any enquiries regarding this publication should be sent to us at information@floodre.co.uk.

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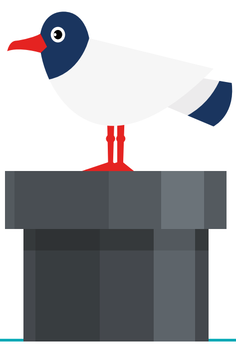

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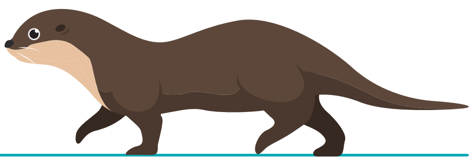


FLOOD RE PEOPLE

2018 /2019

KIRSTY MACRAE

(Director, Scottish Flood Forum)

Working with Flood Re to put on the Tackling Flooding Together events across Scotland has given people the opportunity to come together and share their experiences. I am always inspired by the readiness of communities in Scotland to come together to face common challenges.

MAXWELL BERO

(Chief Internal Auditor)

Because of Flood Re, UK households that are at the greatest risk of flooding are now protected which is great to see. We are working towards a future in which affordable home insurance is widely available and this is a hugely motivating factor for me.

PAUL COBBING

(Chief Executive, National Flood Forum)

Working in partnership with Flood Re on the Let's Talk about Flooding campaign in England and Wales enabled us to talk to people living with the risk of flooding, identify their priorities for action and to develop our Charter. I was energised by the determination of community leaders to bring change in their localities.

DR. EMMA BERGIN
(Flood Risk Specialist)

I believe passionately in Flood Re's purpose and am motivated to use my skills as a Hydrologist and Flood Risk Specialist to achieve our Transition objective to make flood insurance more affordable and accessible.

MAGGIE MASON
(Kendal Flood Action Group)

It was important to me at the recent Flood Re and National Flood Forum event in Lancaster to make sure the voice of my community gets heard at a national level.

ANDREW CHARGE
(IT Operations Manager)

At Flood Re, I feel that everyone has a contribution to make to achieve our purpose of bringing peace of mind and security to people living with risk of flooding.

COMPANY INFORMATION

Company Name
Flood Re Limited

Directors
Mark Hoban- Chair

Andy Bord- Chief Executive Officer

Judith Eden- Independent Non-Executive Director

Huw Evans- Senior 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

Company Secretary
Harriet Boughton

Registered Office
75 King William Street
London
EC4N 7BE

Company Registration Number
08670444

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

Flood Re Limited (hereinafter “Flood Re” or “the Company”) is the Scheme Administrator for the Flood Reinsurance Scheme (“Flood Re Scheme”) and is principally engaged in the provision of flood peril reinsurance cover within the UK. The Flood Re Scheme is a joint initiative between the UK insurance industry and the UK Government. The Flood Re Scheme was established by the Water Act 2014. Further details of the Scheme can be found on the Company’s website at www.floodre.co.uk.

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

In order to do this, Flood Re Limited provides reinsurance cover at a subsidised fixed rate to cedants, resulting in an expected underwriting loss each financial year. The Company finances this through a £180m Levy on UK household insurers. The Levy also finances the purchase of an outwards reinsurance programme to protect the Company up to a £2.198bn (2018: £2.133bn) maximum Liability Limit.

Flood Re Limited is a mutual reinsurer and was incorporated in August 2013 as a private UK Company limited by guarantee. Regulations designating the Flood Re Scheme came into force on 11 November 2015, providing Flood Re Limited with the power necessary to fulfil its purpose.

On 1 April 2016, Flood Re Limited was authorised by the Prudential Regulatory Authority (“PRA”) and is regulated by the PRA and Financial Conduct Authority (“FCA”).

Flood Re Limited launched on 4 April 2016.

Flood Re Scheme highlights	**2019**	**2018**	**2017**
Gross written premium	£34m	£32m	£28m
Levy income	£180m	£180m	£180m
Profit before tax	£136m	£134m	£130m
Invested and liquid assets	£358m	£257m	£157m
Solvency capital ratio	349%	425%	237%
Number of policies written	164,480	150,051	127,326

SCHEME HIGHLIGHTS

FOR THE YEAR ENDED 31 MARCH 2019

4 out of 5 households with previous flood claims have seen a price reduction of more than **50%**

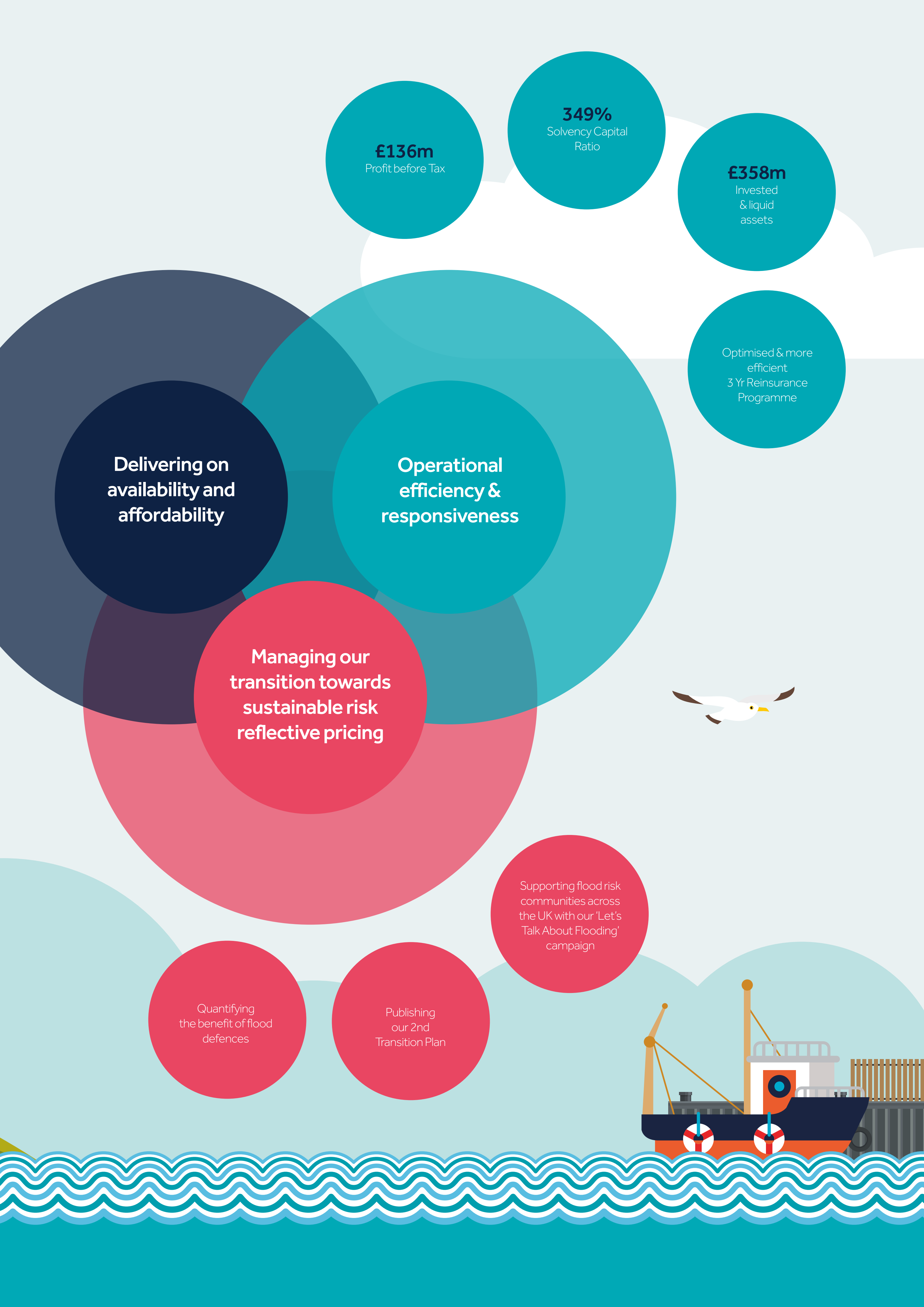
Nearly **250,000** properties benefiting since launch

164,480 Policies this year

94% of the home insurance market offer the Scheme

93% with prior flood claims can now receive quotes from five or more insurers

Premium reduction for insurers of **12.5%** for buildings, **33%** for contents


£136m
Profit before Tax
349%
Solvency Capital Ratio
£358m
Invested & liquid assets
Optimised & more efficient 3 Yr Reinsurance Programme
Delivering on availability and affordability
Operational efficiency & responsiveness
Managing our transition towards sustainable risk reflective pricing
Supporting flood risk communities across the UK with our 'Let's Talk About Flooding' campaign
Quantifying the benefit of flood defences
Publishing our 2nd Transition Plan

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019

The Directors present their Strategic Report on the Company for the year ended 31 March 2019.

Statement by the Chair of Flood Re

Flood Re is a unique joint initiative between the insurance industry and the Government. We are a purpose driven organisation with two clear objectives at our core: to promote available and affordable home insurance for those UK homes at risk of flooding and to manage the ultimate transition to an affordable and risk reflective market by 2039.

At the end of our third year of operations, we continue to deliver strongly against both these objectives.

Since our launch, Flood Re has benefited nearly 250,000 properties across the UK, including households which would not have been able to get any form of cover before the Scheme's introduction. Now consumers are able to shop around and find a product that is right for them from a range of providers. More than nine out of ten people with a recent flood claim can get quotes from as many as five or more insurers.

Furthermore, following another year of efficient management of the Scheme, we were able in January this year to reduce the premiums we charge to insurers, making home insurance even more affordable for those most at risk of flooding.

The Scheme, by design, has a finite lifespan, so our second purpose is to manage the transition to affordable, risk reflective pricing by 2039. Last July we published our second Transition Plan, entitled Our Vision: Preparing for a future of affordable flood insurance – in which we committed to working with all our stakeholders to do all that we can to ensure that after 2039 flood insurance remains affordable for as many 'at risk' homes as possible. To deliver our goal together, we need to reduce the impact and incidence of flooding.

One way to reduce the impact is to build more resilient communities. As part of our transition activity, for six months from November 2018 we worked with the National Flood Forum and Scottish Flood Forum to hold a series of events across the UK. These events brought together people from Kent to Aberdeenshire, involving some of the local communities who have been affected by flooding to share their experiences, support each other and make active plans to reduce and manage the risk in the future.

Effective flood risk management is essential to reduce the frequency and severity of flooding. To make this case we have published new research with RMS which revealed that Government investment in physical flood defences to date is already delivering an average annualised benefit of £1.1bn. We have been sharing this information with insurers and public bodies and working through the implications for future investment.

As the Scheme Administrator, Flood Re has a statutory requirement to review the Scheme every five years to ensure it is operating efficiently and effectively. The first of these Quinquennial Reviews (QQR) is due to be completed with any changes to the Scheme implemented by April 2021.

Therefore, over the last 12 months we have been reviewing all aspects of the Scheme, examining our efficiency and effectiveness from financial, operational and policy viewpoints. We have engaged with our members, partners and stakeholders to include their experiences and perspectives, and we will publish our review and recommendations at our AGM.

We will be proposing a number of recommendations to the Secretary of State for Environment, Food and Rural Affairs that we believe will improve the Scheme by making it more efficient and responsive to the needs of insurers, consumers and the public as well as making more progress on transition.

The Quinquennial Review does not mark the end of the evolution of the Scheme. Flooding is a dynamic risk. We believe that climate change will influence the nature of that risk and so will drive the evolution of the Scheme and our work on transition. Flood Re has a leading role to play in the sector in developing a practical response to climate change. We look forward to continued collaboration with our industry partners, the Environment Agency, Defra, the Committee on Climate Change and others.

I am extremely proud of what the Flood Re team has achieved over the past year. The Scheme is unique and complex, requiring an expert group of people to lead and manage it. I would like to take this opportunity to thank them for their continued hard work and dedication. Our role is an important one in helping hundreds of thousands of people living in flood prone areas across the UK to access more affordable flood insurance.

We look forward to working with our different partners in the year ahead to ensure that Flood Re continues to deliver on our purpose and to run the Scheme in an efficient and responsive way.

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Mark Hoban
Chair

Date: 20 June 2019

Chief Executive Officer's Statement

At the end of our third year, Flood Re is a strong, efficient and effective business that is making home insurance more available and affordable for those most at risk of flooding.

Independent research confirms that insurance is now widely available for those homes most at risk, including properties that have been flooded before. More than nine out of ten people with a recent flood claim can get quotes from as many as five or more insurers. Flood Re has helped to create an affordable and competitive market where previously one did not exist.

This year we chose not to increase the premiums we charge insurers in line with inflation but instead hold rates static and further decided to reduce these premiums by 12.5% for buildings policies and 33% for contents policies. This has meant a reduction of between £44 and £112 for a combined buildings and contents policy.

These improvements in affordability, coupled with improved availability across more consumer channels, has resulted in a further increase in 2018/19 in the number of policies ceded to us by insurers to more than 164,000.

Results and Performance

The results of the Company for the year ended 31 March 2019 show a profit before tax of £136m (2018: £134m) with an income from the Levy of £180m (2018: £180m) and gross written premium of £34m (2018: £32m). Eligible and available own funds under the Solvency II Directive stand at £349m (2018: £210m). Flood Re has paid the costs of all relevant flood claims back to insurers.

An important focus this year has been increasing the number of insurers, Managing General Agents and brokers offering quotes that take advantage of the Scheme. As a result, 94% of the home insurance market is now able to access Flood Re including more than 85 different home insurance brands.

Flood Re's third year of relatively dry weather means that our balance sheet remains well-capitalised. This is good news for both industry and consumers. For industry, this significantly reduces the likelihood that we will need to call for further support, via Levy II. For consumers, it means that the Scheme is well placed to deal with any large scale or long-term flooding event in the future.

Flood Re buys its own reinsurance programme every three years to cover losses of up to £2.2bn per annum. It is one of the world's largest global single peril multi-year procurements of reinsurance. The initial programme which commenced at launch in April 2016 was based on an assumed risk profile and expired at the end of the 18/19 year. The recent re-procurement has again been well supported by the global reinsurance market and is now based on a sound understanding of the actual risk profile. This will result in cost savings in the order of £50m over the forthcoming 3 year period.

Flood Re's public policy goals and its legislative basis make it a unique and complex organisation that has operational independence from the Government whilst being owned by the insurance industry. Flood Re is regulated by the Prudential Regulation Authority and the Financial Conduct Authority. It is directly accountable to Parliament for achievement of its public policy objectives as set out in legislation and for its stewardship of public money.

As such, Flood Re lays its accounts before Parliament and I, as the Flood Re CEO, am designated as the Responsible Officer and directly accountable to Parliament. These Financial Statements have therefore been prepared in line with International Financial Reporting Standards ("IFRS"), as adopted by the European Union and are in accordance with directions issued by the Secretary of State for the Environment, Food and Rural Affairs.

Flood Re operates to high standards of corporate governance as detailed in the Directors' Report. This report also includes the composition of the Board and sub-committees along with details of our risk framework.

Towards a successful transition

Since publishing our second Transition Plan "Our Vision: Preparing for a future of affordable flood insurance" we have been acting to make this vision a reality. This work was recognised by being shortlisted for the Risk and Resilience category at the British Insurance Awards 2019.

One high profile activity has been our campaign to support and empower local flood risk communities across the nations and regions of the UK to adapt and respond to the unique issues they face. Let's Talk About Flooding in association with the National Flood Forum (NFF) in England and Wales and Tackling Flooding Together with the Scottish Flood Forum saw local roadshows all round the country. Lively and passionate events took place in Birmingham, Tonbridge, Perth, Llandudno, Aberdeen, Lancaster and Glasgow. Flood Re, together with our partners, the NFF, are in the process of collating the information from the events and will be forming a Flood Communities Charter, which we will be sharing with national leaders later in the year.

Flood Re also has an important role to play in informing public debate about how to achieve an affordable and risk reflective market, including how to manage and mitigate flooding. Therefore, Flood Re, in collaboration with global risk assessment firm RMS, have recently produced new research to quantify the value of Flood Defences. This concluded that:

- Flood defences reduce losses from UK inland flood by £1.1bn annually on average.
- This corresponds to an 82% reduction of river flooding losses nationally.
- More deprived households benefit from 70% of the loss reductions.

We shared these findings with our partners in the Environment Agency, Defra, the ABI and our member insurers and have been exploring with them the implications for future investment strategies.

We have collaborated with partners and third parties to advance our collective understanding of the challenges we face and in seeking solutions. We worked with Cranfield University through the BRIM Network and wpi economics to publish a report on "Communication and Consumer Decision Making Over Property Flood Resilience Measures".

We have continued to work closely and productively with the Defra Property Flood Resilience Roundtable. We have supported the round table's one-stop-shop flood guidance website with expert digital design consultancy and search engine optimisation advice. We have joined with Mary Dhonau Associates again to continue to promote case studies of property level adaptions in-situ.

Flood Re has been actively exploring, through a cross sector collaboration, innovative investment approaches to natural flood management identifying the financial benefits and potential new funding sources for different approaches to catchment management.

We have also reviewed all aspects of the Flood Re Scheme itself, in preparation for our five yearly statutory review, to determine how we should evolve to become more active in supporting our Transition vision.

Flexible, responsive and efficient for the future

The Scheme will be reviewed every five years through a statutory process known as the Quinquennial Review (QQR). It is Flood Re's responsibility in this process to review the business and to ensure that it is optimised and operating efficiently and effectively.

The first three years have demonstrated that the Scheme is delivering as envisaged, fulfilling its purpose to make home insurance more available and affordable and that this is having the desired effect on the market.

In our review of the Scheme, we identified areas where greater efficiency could be achieved by making some operating parameters more flexible and responsive. For example, currently Levy 1 and liability limit calculations are completed on a five-year cycle whereas our reinsurance programme is procured on a three-year cycle. Aligning these cycles would increase efficiency and reduce operational complexity.

In addition, we would like to see the Scheme evolve to support our Transition objectives. We believe there are important ways Flood Re could develop to encourage and incentivise the adoption of property level resilience improvements. We have been discussing the possibilities of building back better with insurers. This would mean that where the insurer chooses to offer it, the Scheme in future could cover payment of claims to include a limited amount of resilient and resistant repair, above and beyond the loss, designed to reduce any future flood damage to the property.

We are also keen to look at the best ways of informing policyholders about their flood risk and what they can do about it.

The first Quinquennial Review (QQR) is due to be completed, including the implementation of any necessary recommendations by April 2021.

Flood Re People

The achievements of the past 12 months, and indeed the past three years, are a testament to all the hard working and dedicated professionals that work at Flood Re. Their efforts do not go unnoticed and I would like to take this opportunity to thank them for all that they do.

When it comes to our business, Flood Re is committed to diversity and inclusion. I am very proud to say that in autumn 2018 we signed the Women in Finance Charter and we committed to at least doubling the level of female representatives on our Executive Committee by 2022. There are a number of actions that will help us to make this possible, which are already being implemented. They include anonymising job applications, requiring that presented shortlists are gender balanced, working only with recruiters whose values and goals are aligned with ours and actively enquiring about the gender balance of panels that Flood Re is invited to take part in.

Creating an inclusive and positive culture is of paramount importance, not only to make Flood Re a great place to work but to ensure that we achieve our purpose, meet all of our regulatory obligations and run an effective and sustainable business. During 2018/19, we have been further developing the culture at Flood Re through our High Performance Organisation (HPO) development programme. This has been a key initiative and an area in which we have made a significant investment to ensure we embed and reinforce our desired behaviours.

Strong relationships will be fundamental in the future success of the Scheme and we do all that we can to encourage strong ties, both within our business and with all our stakeholders. I look forward to continuing to work with our industry partners to support communities living in flood-prone areas.

Strategic Objectives and Key Performance Indicators

At Flood Re's launch in 2016, the Board set six key objectives for the Scheme. They are just as relevant today and are helpful measures against which to track our progress.

The table below summarises each objective and our progress to date. It also includes an assessment of our risk profile.

Objective 1. To increase availability and choice of insurers for customers.			
Explanation	**Principal Risks and Uncertainties**	**Key Risk Mitigants and Controls**	**Success Measures and KPIs**
Flood Re exists to help those most vulnerable to severe flooding. Before Flood Re, many properties had limited household insurance options. The Scheme aims to increase the range of choices available to consumers.	Flood Re does not provide flood insurance directly to consumers. It must work with and through the UK household insurance industry. Flood Re cannot provide more choices without their support.	Flood Re aims to ensure that insurers can participate in the Scheme in the most efficient way possible through use of technology or alternative flexible approaches. Engagement and communication with the insurance industry takes place at all levels, up to and including CEO level.	Availability is such that 93% of households who had made prior flood claims can get quotes from five or more insurers, 81% can choose from at least 10 insurers and 66% have a choice from 15 or more insurers. Consumers can increasingly buy Flood Re backed home insurance through the channel of their own choice as Flood Re's channel readiness has grown to 85%.

Objective 2. To enable flood cover to be affordable for those households at highest risk of flooding.			
Explanation	**Principal Risks and Uncertainties**	**Key Risk Mitigants and Controls**	**Success Measures and KPIs**
We want households at risk of flooding to see lower premiums and excesses when purchasing household insurance. Furthermore, premiums and excesses should remain affordable following a flood claim.	Flood Re charges premium at levels that are often lower than the underlying risk reflective price. This exposes the Scheme to material levels of insurance risk and creates the potential for a shortfall in funding.	This shortfall is subsidised by raising a Levy from all insurers writing UK household insurance as defined in the Water Act 2014.	Since the introduction of Flood Re, four out of five householders with previous flood claims saw a reduction in the price of available quotes of more than 50%. The Flood Re excess continues to be capped at £250. On 1 January 2019 Flood Re reduced premium levels for building (12.5% reduction), contents (33% reduction) and combined (aggregate reduction) policies for all council tax bands, with the exception of the highest, in order to further facilitate affordable cover for those at risk of flooding.

Objective 3. To seek to be 'capital neutral over time' for insurers, while accepting that there are agreed exceptions.			
Explanation	**Principal Risks and Uncertainties**	**Key Risk Mitigants and Controls**	**Success Measures and KPIs**
Flood Re has been created to underwrite the worst of UK flood risks.	Flood Re needs to be seen as a credible inwards reinsurance partner for UK insurers and sufficiently capitalised to withstand the UK flood peril.	Flood Re is operated as a financially-robust, standalone reinsurance vehicle under the Solvency II regime and is required to demonstrate this to insurers. Flood Re has an articulated Levy II risk appetite within which solvency and liquidity positions are actively managed. This is periodically validated with insurance partners.	Standard & Poor's rating of A- (stable outlook). No call upon Levy II made. A robust financial position with a solvency capital ratio of 349% (2018: 425%) and liquid resources of £358m (2018: £257m). Significant work undertaken in preparation of an Internal Model Application to the PRA in 2019.
Through economies of scale, Flood Re aims to efficiently reinsure this risk onto the global reinsurance market. This is subject to the statutory requirement to protect up to the Liability Limit and Loss Limit.	Prior to Flood Re, a multi-year contract of this nature and level of uncertainty had not been previously placed in the reinsurance market. Market appetite, placement and pricing risk were therefore untested.	Flood Re continually harnesses market data in relation to the UK flood peril and uses modelling and analysis in the ongoing management of its outwards reinsurance programme.	Over the last year, Flood Re has renewed its reinsurance protection; one of the world's largest global single peril multi-year procurements of reinsurance. Based upon a real, rather than hypothetical portfolio, coupled with optimising coverage, this has resulted in a cost saving of the order of £50m over the forthcoming three year period.

Objective 4. To create a level playing field, with an equal opportunity to participate in the Scheme for the UK home insurance market.			
Explanation	**Principal Risks and Uncertainties**	**Key Risk Mitigants and Controls**	**Success Measures and KPIs**
It is important that any insurer can gain access to Flood Re's services in a proportionate manner.	There is a risk that Flood Re is, or is perceived to be, disproportionately difficult for UK insurers to utilise.	Continued efficient and relevant onboarding processes and ongoing support.	85 insurers representing 94% of the UK household insurance market participate in the Flood Re Scheme. During the year Flood Re has been developing its IT infrastructure to make it easier for Managing General Agents (MGA) representing multiple insurers to operate within the Scheme.
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.	At the outset of each financial year, Flood Re is exposed to a material level of credit risk (£180m) arising from the annual Levy I invoice process.	Flood Re monitors a suite of metrics to manage its insurer credit risk exposure, most notably credit ratings, payment patterns and aged debtor reporting.	£180m of Levy income raised and received in 2018/19, representing 100% successful collection, from insurers proportionate to their market share of business written.
	There is also the risk of the Levy being incorrectly calculated.	Levy guidance is provided to insurers.	Flood Re monitors the basis of calculating the Levy and reviews individual insurer declarations to ensure consistency and equity.

Objective 5. To operate as an independent body that is privately owned and operated while also meeting the needs of public accountability.			
Explanation	**Principal Risks and Uncertainties**	**Key Risk Mitigants and Controls**	**Success Measures and KPIs**
As a Regulated business, Flood Re must be a financially-robust, standalone reinsurance vehicle.	Flood Re must ensure it has enough capital of sufficient quality to ensure it can meet its ongoing solvency and liquidity requirements.	Flood Re undertakes a robust planning, monitoring and contingency process to ensure sufficient capital management and liquidity measures are in place for the short and medium term.	Net assets (IFRS basis) of £318m (2018: £208m). Available and Eligible Own Funds (Solvency II basis) of £349m (2018: £210m). Invested and liquid assets of £358m (2018: £257m).
In addition, Flood Re must ensure continual operational stability.	Flood Re is required to operate a number of complex services, including front-end systems (Property Data Hub and Bordereau Web Portal).	Flood Re mitigates this operational risk through the use of specialist outsource service providers to deliver a number of key elements of the Scheme.	These are all managed to explicit Key Performance Indicators and Service Level Agreements. These are reviewed on an ongoing basis for continued appropriateness, robustness and contingent arrangements. This includes simulation of the impact of a major flood event. During the year Flood Re has achieved ISO 270001 Information Security Management certification.
In the context of acting as an independent body, Flood Re also has a statutory obligation to manage resources in the public interest.	Flood Re has a unique Reputational Risk profile in light of its operation as a privately-owned entity which is also publicly accountable.	Flood Re abides by the principles of Managing Public Money as published by HM Treasury. Flood Re also follows the Official Journal of the European Union ("OJEU") procurement requirements.	Renewal of the 3 year reinsurance protection with material optimisation and cost savings.

Objective 6. To manage the transition towards affordable risk-reflective pricing by 2039.			
Explanation	**Principal Risks and Uncertainties**	**Key Risk Mitigants and Controls**	**Success Measures and KPIs**
Over time, the cost of flooding must fall so that the Levy is no longer needed and prices remain affordable without the benefit of a subsidy. To achieve this Flood Re believes that the UK must: • Reduce the risk of flooding; • Reduce the costs of flooding; • Achieve an effective market.	Flood Re cannot deliver this outcome on its own. It requires the support and actions of a wide range of stakeholders including Government, the insurance industry, communities and individuals.	Flood Re needs to define the actions required to achieve an affordable risk reflective market. It must then engage and work with others to realise this vision through collaboration, advocacy, support, coordination, information and communication.	Publication of the updated Transition Plan. Publish a view, in support of the previous work on incentivisation of household resilience, on the optimum channels to convey flood insurance and flood mitigation (PFR) messages to a household audience. Determine the optimum way that Flood Re can promote the use of Build Back Better including: • Required changes to Regulations • Financial impact on insurers, Flood Re and reinsurers • Stakeholder engagements across industry, government and consumer groups.

See following table for additional progress in relation to objective 6.

Managing the transition towards affordable risk-reflective pricing			
Vision Statement	**Aims**	**What Flood Re has been doing**	**What others have been doing**
Reducing the Risks of Flooding	Investing in flood risk management and defences. Development with flood risk in mind.	Published research in collaboration with RMS into the Value of Flood Defences. Presented findings to the ABI Building a Resilient Future conference. Worked with the Defra Property Level Flood Resilience Roundtable (PLFRR) to develop Code of Practice for resilient installation. Exploring new Investment models for Natural Flood Management in a cross sector collaboration with public and private organisations. Gave evidence to the coastal flooding and adaptation to climate change inquiry by the Environment, Food and Rural Affairs Select Committee.	Environment Agency (EA) published its Long Term Investment Scenarios looking at the next 50 years. EA publish new Flood and Coastal Erosion Strategy. Committee on Climate Change publishes UK Housing: Fit for the future?

Managing the transition towards affordable risk-reflective pricing – Cont.			
Vision Statement	**Aims**	**What Flood Re has been doing**	**What others have been doing**
Reducing the Damage and Costs of Flooding	Improving property flood resilience and resistance products. Improving the operation of community resilience. Increasing the overall flood resilience of the UK housing stock. Reducing the costs of reinstatement.	Let's Talk about Flood and Tackling Flooding Together campaigns in England, Wales and Scotland with the National Flood Forum and the Scottish Flood Forum. Collaborated with Building Research Establishment on user experience improvements and search engine optimisation for wwww.floodguidance.co.uk. Investigated options for Flood Re to be able to support Build Back Better at reinstatement by insurers. Collaboration with the University of West England to quantify the financial benefits of PFR to householders and insurers. Supported publication of new Emag with case studies of resilience homes which have experienced flooding with Mary Dhonau Associates.	Chancellor announces £12M in the budget for further research to encourage adaptation and three new resilience pathfinder projects. Westminster Sustainable Business Forum publishes a report Bricks & Water. The Property Flood Resilience Delivery Group launched in Scotland.

Managing the transition towards affordable risk-reflective pricing – Cont.			
Vision Statement	**Aims**	**What Flood Re has been doing**	**What others have been doing**
Achieving an effective market	A smooth Flood Re exit. Improving consumer information on flooding and the value of insurance. Improving flood modelling. Active engagement in the market.	Sponsoring work by Professor Paula Jarzabkowski of Cass Business School into Protection Gap entities. Completed review of all aspects of Flood Re in preparation for the statutory five yearly review including how to evolve the Scheme to encourage the take up of PFR. Commissioned review and briefing on flood Research Needs of the Re(In)surance Sector by the Lighthill Risk Network. Worked with major model vendors to improve understanding and insight into different catastrophe modelling approaches.	Publication in the journal Water by Cranfield University and wpi economics of report on Communication and Consumer Decision Making Over Property Flood Resilience Measures.

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

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Andy Bord
Chief Executive Officer

Date: 20 June 2019
Registered Office: 75 King William Street,
London EC4N 7BE

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2019

The Directors present their Report and the audited Financial Statements of the Company for the year ended 31 March 2019.

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 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.

During the year, the Company has fully implemented its employee desired behaviour framework and linked this to the annual reward scheme, as well as continuing a Flood Re employee engagement temperature check.

Climate Change

Flood Re was established by the insurance industry and the Government as a direct response to extreme weather events and the resultant impact on the price of home insurance. Flooding poses a serious climate-related risk to the UK. Flood Re believes that the UK needs a long-term approach to both mitigation and adaptation to ensure that both current and increased flood risk resulting from climate change are managed effectively.

In relation to Flood Re's statutory purposes

Climate change presents a risk to the insurance industry's ability to achieve a successful, sustainable and affordable Transition in 2039 and beyond. Climate change will increase the number of homes in the UK that are unable to obtain affordable home insurance due to flood risk without the necessary adaptation steps in place. Through its transition activities, Flood Re works closely with third party stakeholders to enable a sustainable and effective insurance market for these homes.

Flood Re's strategy for a successful, sustainable and affordable Transition is set out in its Transition Plan which is kept under review and updated regularly in light of the latest evidence. Working in partnership with others, we believe it is necessary to:

- Reduce the risk of flooding though investment in flood risk management and defences, and that new development should always have flood risk in mind;
- Reduce the damage and costs of flooding by improving flood resilience and resistance measures at a property, community and national level; and
- Achieve an effective insurance market with informed consumers.

Flood Re's Quinnquennial Review will highlight the need for and seek certain changes to the Scheme to further promote the adoption of mitigation and adaption activity.

Flood Re believes that climate change should be factored into flood policy development, including the planning process in relation to developments in areas at risk of flooding.

Flood Re will continue to work with third parties to improve the understanding of the medium and long-term impact of flooding. This will better inform investment in flood defences and Property Flood Resilience and enable greater understanding of the benefit of mitigation activity.

Flood Re as an organisation

Flood Re seek, wherever possible, to reduce any adverse effect it may have on climate change and will act with climate change in mind in order to reduce its impact on the environment.

Brexit

The Company solely underwrites flood peril in the UK, insuring UK household insurers. Levy income is derived from insurers underwriting UK household risks and is dominated by UK domiciled entities. Investments are based in sterling and largely comprise of UK Government backed securities. As such there is minimal first degree exposure to Brexit implications in these areas.

The outwards reinsurance protection is placed globally with carriers in many countries within and outside of the EU. The Company has ensured appropriate mitigating actions have been put in place with reinsurers operating in mainland Europe or via a UK branch to address the impact and uncertainties over Brexit.

Modern Slavery Act 2015

The Company has a Board approved Prevention of Modern Slavery and Human Trafficking Policy. The Company has made enquiries of its material outsource providers and other service providers to ensure that they too have appropriate policies in place.

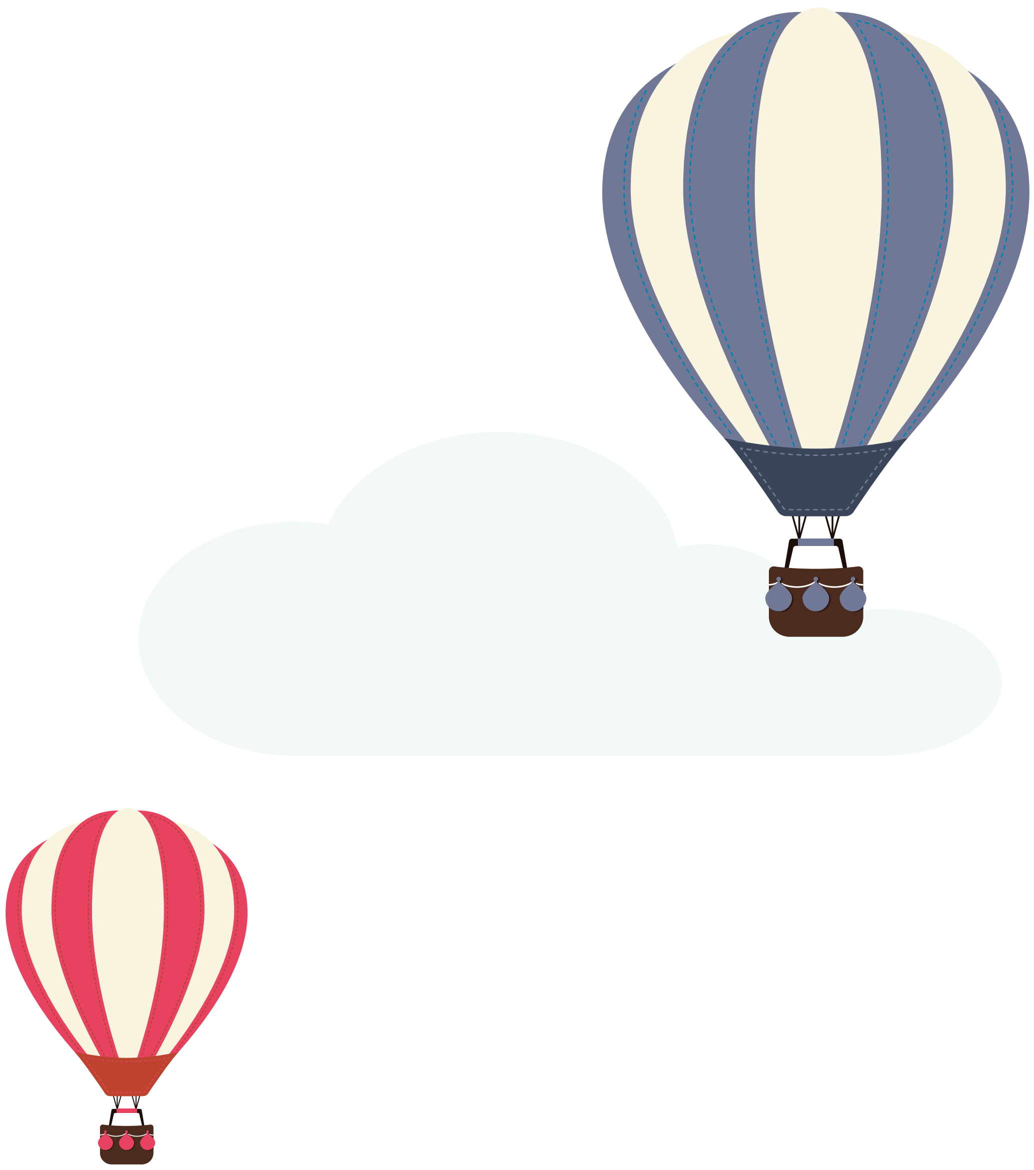
Flood Re Tax Strategy

The Flood Re Tax Strategy was approved by the Board and published in January 2018. The Tax Strategy complies with the UK tax strategy publication requirements set out in Part 2 of Schedule 19 Finance Act 2016. The Tax Strategy covers the following key areas: Tax compliance, Engagement with the UK tax authority, Tax planning, Management of tax risks and Governance.

Flood Re's commercial activities are carried out in a tax compliant manner, only claiming reliefs and incentives where applicable. Flood Re is committed to paying the appropriate amount of tax and maintaining a good relationship and reputation with other stakeholders including the Government and Regulatory authorities.

Creditor payment policy

The Company is committed to ensuring the payment of all trade creditors within the agreed payment terms.



Board Members

Mark Hoban

Mark Hoban was appointed as the first Chair 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 is a non-executive director of LSE plc and Borsa Italiana SpA. He is a Commissioner at the Jersey Financial Services Commission and a senior advisor to PwC. Mark chairs the International Regulatory Strategy Group which is co-sponsored by TheCityUK (where he is on the Board) and the City of London Corporation. Mark was the Member of Parliament for Fareham between 2001 and 2015. He was a Government minister between 2010 and 2013 and is a Fellow of the Institute of Chartered Accountants.

Andy Bord

Andy Bord was appointed as Chief Executive Officer (CEO) of Flood Re in February 2017. He was previously CEO of Capita Insurance Services; accountable for multiple businesses – both stand-alone insurance trading entities and those delivering outsourced insurance solutions.

Andy has also held senior leadership roles in high profile consumer-facing businesses including the BGL Group and Vodafone UK.

Adam Golding

Adam Golding is the Chief Financial Officer (CFO) of Flood Re. He has responsibility for the planning, implementation and management of all aspects of Flood Re's finance, accounting, capital management, reinsurance and human resources functions.

Adam is a Fellow of the Institute of Chartered Accountants of England and Wales (FCA) and has previously worked for Amlin, BNP Paribas, QBE and Coopers & Lybrand in the insurance industry.

Independent Non-Executive Directors

Judith Eden

Judith Eden is independent Non-Executive Director at Flood Re. She is also independent Non Executive Director at Invesco UK and ICBC Standard Bank plc. Previously, Judith was International Chief Administrative Officer at Morgan Stanley Investment Management (MSIM) and Chief Executive Officer of MSIM's European cross border fund management company. Judith has also held senior positions in Operations and Finance at 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 Flood Re's Senior Independent Non-Executive Director and 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 led to the establishment of Flood Re. He previously worked in banking, politics and journalism.

Huw is a Non-Executive Director of TheCityUK and a member of the Executive Board of Insurance Europe.

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. He is currently a Non-Executive Director of three companies – British Gas Insurance Limited, British Gas Services Limited and The Channel Managing Agency Limited (where he is also Chair of the Audit Committee).

Claire Ighodaro CBE

Claire Ighodaro is Chair of Flood Re's Audit and Compliance Committee. Claire is also Chair of AXA XL UK entities, Governance Committee Chair of Merrill Lynch International and a Council Member of University of Surrey. She was a Board Member and Audit Committee Chair of Lloyd's of London and a Board Member of the International Ethics Standards Board for Accountants and is a Past President of the Chartered Institute of Management Accountants.

Professor Paul Leinster CBE

Paul Leinster is Professor of Environmental Assessment at Cranfield University. He is Chair of the Board of BPHA, a housing association, and a Non-Executive Director with the Centre for Ecology and Hydrology and with a consultancy providing specialist product safety and regulatory compliance services. Paul also provides advice to a number of public and private sector organisations and is a member of the Natural Capital Committee.

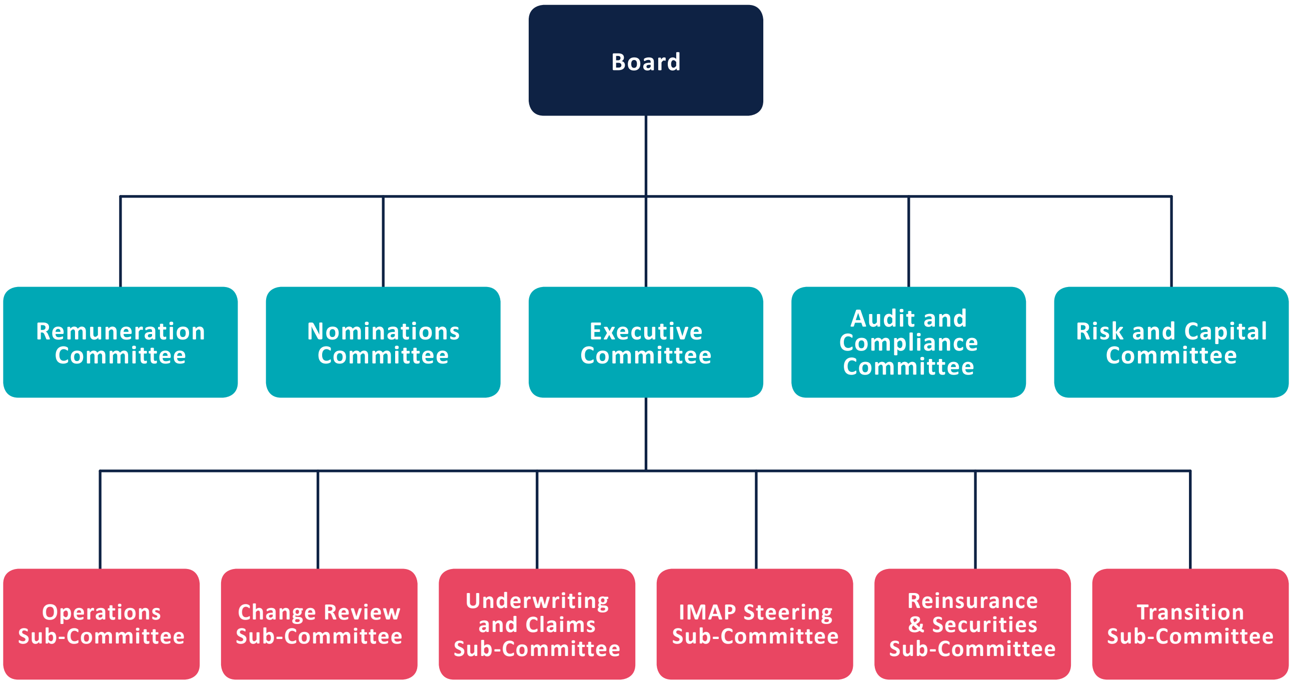
Paul was Chief Executive of the Environment Agency from June 2008 to September 2015.

Non-Executive Directors rotation policy

At the sixth Annual General Meeting of Flood Re and at every subsequent Annual General Meeting, one-third of the Non-Executive Directors will be subject to retirement by rotation. Commencing from the 2022 Annual General Meeting, the Non-Executive Directors to retire by rotation will be those who have been longest in office since their last appointment or reappointment. Non-Executive Directors may be reappointed but can only serve for a period of nine years from the date of their original appointment.

Governance framework

The Committee structure as at 31 March 2019 is outlined in the diagram below.



The table below shows the composition of the Flood Re Board and Committees (excluding the Executive Committee).

Name	Board	Remuneration Committee	Nomination Committee	Risk and Capital Committee	Audit and Compliance Committee
Mark Hoban	CHAIR	INED	CHAIR	INED	INED
Andy Bord	CEO and ED				
Judith Eden	INED	INED	INED	INED	INED
Huw Evans	SID	CHAIR	INED		
Adam Golding	CFO and ED				
David Hindley	INED	INED	INED	CHAIR	INED
Claire Ighodaro	INED	INED	INED	INED	CHAIR
Paul Leinster	INED	INED	INED	INED	INED

CHAIR = Chair of the Board or Committee, SID = Senior Independent Non-Executive Director,
INED = Independent Non-Executive Director, CFO = Chief Financial Officer, CEO = Chief Executive Officer, ED = Executive Director

Committee attendance record

The table below shows the Committee attendance record for the year ended 31 March 2019.

Name	Board	Remuneration Committee	Nomination Committee	Risk and Capital Committee	Audit and Compliance Committee
Total number of meetings	6	2	1	4	5
Directors					
Mark Hoban	6	2	1	4	5
Andy Bord	6				
Judith Eden	6	2	1	4	5
Huw Evans	6	2	1		
Adam Golding	6				
David Hindley	6	2	1	4	5
Claire Ighodaro	6	2	1	4	5
Paul Leinster	6	2	1	4	5

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 the powers that the Company has been granted under the Water Act 2014, the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 and the Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015 (collectively "the Regulations"). The Board also oversees the running of the following Committees:

Remuneration Committee

Flood Re's Remuneration Committee is responsible for setting the remuneration of the Executive Directors and Chair and overseeing Flood Re's overall Remuneration Policy. Fees for the Chair and other Independent Non-Executive Directors are determined annually by the Remuneration Committee and approved by the Board. An activity was undertaken during the year to ensure appropriate benchmarking of remuneration across the organisation. The Committee also oversaw the full implementation of the Flood Re behaviours and alignment to objectives during the year.

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 continues to actively monitor succession planning for Directors and other Senior Executives across the organisation.

Creating an inclusive environment where all types of diversity are valued is important to the Company and underpinned by the Company's High Performance Organisation (HPO) programme. During the year the Company also signed up to the Women in Finance Charter with the pledge to make changes to improve gender diversity within the senior levels of the organisation including increasing the female representation on the Executive Committee to at least 25% by 2022.

Risk and Capital Committee ("RCC")

The RCC is responsible for the oversight of the risk management framework and capital adequacy; ensuring that all risks to the Company are identified, assessed and monitored in line with the risk appetite and policies. During the year, the RCC has continued to focus in particular on Flood Re's Internal Model Application to the PRA and on its consideration of Flood Re's key strategic risks relating to the Scheme's Transition Plan and Quinquennial Review. Flood Re intend to submit an internal model application to the PRA in 2019, and throughout 2018/19 the Committee has continued to oversee internal model change, usage and validation.

Audit and Compliance Committee ("ACC")

The ACC is responsible for acting independently from Flood Re's Executive Team to ensure that the interests of Members and stakeholders are properly protected in relation to financial reporting and internal control. The ACC has oversight of the internal and external audit arrangements and the management and monitoring of Flood Re's capital position. The ACC also oversees legal, regulatory and compliance matters. It also ensures that public money is handled and reported in line with Governmental requirements for the prudent stewardship of financial resources. The Audit and Compliance Committee Chair is the whistleblowers' champion for Flood Re.

The Committee has also undertaken a number of deep-dive reviews into the treatment of Flood Re specific technical accounting issues alongside establishing the ongoing internal audit programme. The Committee also has oversight of Flood Re's adoption of International Financial Reporting Standard 17: Insurance Contracts which will be effective for the financial year commencing 1 April 2022.

Executive Committee ("ExCo")

The Executive Team is responsible for the day-to-day running of the Company and oversees the running of its Sub-Committees. The scope of the Reinsurance Sub-Committee was enhanced in the year to cover other securities and was renamed the Reinsurance & Securities Sub-Committe. Three new committees were created in the year in order to ensure focus on specific areas, namely the IMAP Steering Sub-Committee (to oversee the Company's Internal Model Application Process), the Underwriting and Claims Sub-Committee (to oversee underwriting activities) and the Change Review Sub-Committee (for change management purposes).

Executive Team

Andy Bord and Adam Golding are joined by:

Maxwell Bero

Maxwell Bero is Chief Internal Auditor. He is responsible for providing assurance over the design and operating effectiveness of the internal control environment, information systems and governance processes. Maxwell has over 15 years' experience in assurance and financial control covering insurance, reinsurance and asset management.

Harriet Boughton

Harriet Boughton is General Counsel and Head of Compliance, and is responsible for overseeing the firm's legal and compliance framework and embedding best practice corporate governance across the organisation. Harriet is also the Flood Re Data Protection Officer. 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.

Daniel Byrne

Daniel is the Chief Risk Officer for Flood Re. He is responsible for overseeing, coordinating and facilitating the Scheme's risk management framework. Prior to joining Flood Re, Daniel worked in the group Enterprise Risk Management function of AIG Europe where his responsibilities included leading the delivery of the entity's regulatory stress testing and delivering the AIG Group's first Global Own Risk and Solvency Assessment ("ORSA") Report. Preceding this, Daniel worked at the UK Financial Services Authority, implementing Solvency II.

Dermot Kehoe

Dermot Kehoe is Communications and Transition Director, responsible for leading communications strategy. He is also developing Flood Re's response to its strategically-important statutory purpose of transitioning the market to affordable, risk reflective pricing.

Dermot has more than 20 years of experience in strategic communications, public policy and journalism including at the NHS, Home Office and the BBC.

Aidan Kerr

Aidan Kerr is the Director of Operations, responsible for ensuring the Company's operating model allows Flood Re to deliver its objectives, including oversight of outsourcing partners, relationships with the insurance industry and the technology underpinning the operation.

Aidan is a chartered management accountant with over 20 years experience within banking, consulting, Government and the insurance industry.

Gary McInally

Gary McInally is Chief Actuary, responsible for building market links and ensuring Flood Re has the right actuarial capabilities in place, including delivering reserving, capital modelling and leading the development of Flood intelligence.

Gary brings 20 years of actuarial experience to Flood Re as both a practitioner and as a consultant to a wide range of UK and International insurers and reinsurers.

Directors’ Remuneration

The Remuneration Committee is responsible for setting the remuneration of the Executive Directors and Chair and overseeing Flood Re’s overall Remuneration Policy.

The table below shows the Executive Directors’ total remuneration figure for the financial years ended 31 March 2019 and 2018.

Name	Year	Salary £	Taxable benefit £	Bonus £	Pension £	Pension allowance £	Total £
Andy Bord	**2019**	**360,500**	**-**	**97,335**	**-**	**37,852**	**495,687**
	2018	343,622	-	101,850	-	33,688	479,160
Adam Golding	**2019**	**251,540**	**4,099**	**67,469**	**19,864**	**6,547**	**349,519**
	2018	251,000	4,076	73,041	30,120	0	358,237

Pension contributions represent 12% of base salary. Pension allowances are only paid by the Company when lifetime or annual allowances are exceeded. Executive Directors were eligible to join the pension scheme from 1 January 2016.

The table below shows the Independent Non-Executive Directors' fee structure for the years ended 31 March 2019 and 2018. The Board reviewed the Independent Non-Executive Directors' fees during the year in accordance with the Remuneration Policy.

Name	Year	Fees £	Total £
Mark Hoban	**2019**	**142,800**	**142,800**
	2018	140,000	140,000
Judith Eden	**2019**	**46,818**	**46,818**
	2018	45,900	45,900
Huw Evans^	**2019**	**-**	**-**
	2018	-	-
David Hindley*	**2019**	**56,818**	**56,818**
	2018	55,900	55,900
Claire Ighodaro*	**2019**	**56,818**	**56,818**
	2018	55,900	55,900
Paul Leinster	**2019**	**46,818**	**46,818**
	2018	45,900	45,900

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

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

Directors' Indemnity

The Directors and Officers of the Company have the benefit of insurance that provides suitable cover in respect of legal actions that could potentially be brought against them.

Remuneration Policy

The Remuneration Committee meets twice a year: in November to set policy decisions and approve the renewal of staff benefits schemes, and in May to accept or amend recommendations for pay and bonuses from the CEO.

Flood Re's Remuneration Policy and practices reflect its objectives of good corporate governance and sustained, long-term value to industry participants and the need to attract and retain talent with suitable experience. The Remuneration Policy and practices also aim to promote robust and effective risk management. Flood Re's Remuneration Policy applies to all employees.

The Remuneration Policy is owned by the Remuneration Committee. It is reviewed by the Remuneration Committee at least annually and sent to the Board for approval. This helps ensure it remains appropriate and relevant. The general principles of the Remuneration Policy are as follows:

- Flood Re provides total remuneration packages delivered through fixed and variable pay components. Fixed remuneration is determined based on the role and position of the individual employee and reflects the need to meet the threshold conditions set by Regulators and to attract individuals with the requisite experience and expertise to operate in a highly regulated environment. Factors affecting this will include professional experience, responsibility, job complexity, and local market conditions.

- Performance-based bonuses are in place and are intended to motivate and reward high performers who significantly contribute to the Company's achievements and results and out-perform their individual objectives, including behaviours, and those set for the Company as a whole. The performance-based bonus is in the form of a cash settlement capped at a maximum of 30% of base salary (dependent on the role and seniority of the employee within the organisation). Given the unique ownership of Flood Re there are no shares nor share options included in the performance-based bonus.

- Flood Re offers all employees access to a Defined Contribution Pension Plan.

- The Company aims to provide total remuneration packages that reward superior performance in a way that is consistent with the Company's values and culture, and are appropriate for its ownership structure.

The Remuneration Committee determines the performance-based remuneration of the Executive Team, along with the performance-based remuneration pool available for allocation by the CEO to all other staff.

Fees for the Chair and other Independent Non-Executive Directors are determined annually by the Remuneration Committee and approved by the Board.

The Chair and other 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 determined annually, with changes based upon inflation, by the Remuneration Committee and approved by the Board after taking advice from the CEO. The Remuneration Committee takes 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 the wider financial services sector, undertaking external benchmarking activities.

Whistleblowing

The Board reviewed the annual Whistleblowing Report during the year. Flood Re continues to meet its regulatory requirements in relation to the operation and effectiveness of its systems and controls for managing the disclosure of reportable concerns by whistleblowers.

General Data Protection Regulation ("GDPR")

The Company prepared for the major changes to UK data protection law by revising policies, processes and systems for the handling of personal data. A robust governance programme was put in place to track progress and ensure readiness, overseen by the appointed Data Protection Officer. Flood Re's data protection governance framework and internal control procedures around storing, managing and processing personal data ensures compliance with the new Regulation that was effective from May 2018.

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. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Financial Statements. Please refer to note 2.1 in the Notes to the Financial Statements.

Dividends

The Company did not pay or propose any dividends during the year ended 31 March 2019 (2018: £nil).

Political donations

The Company did not make any political donations during the year ended 31 March 2019 (2018: £nil).

Financial Instruments

Financial instruments comprise cash and short-term deposits. Risks associated with financial instruments are addressed in note 5 in the Notes to the Financial Statements.

Risk Framework

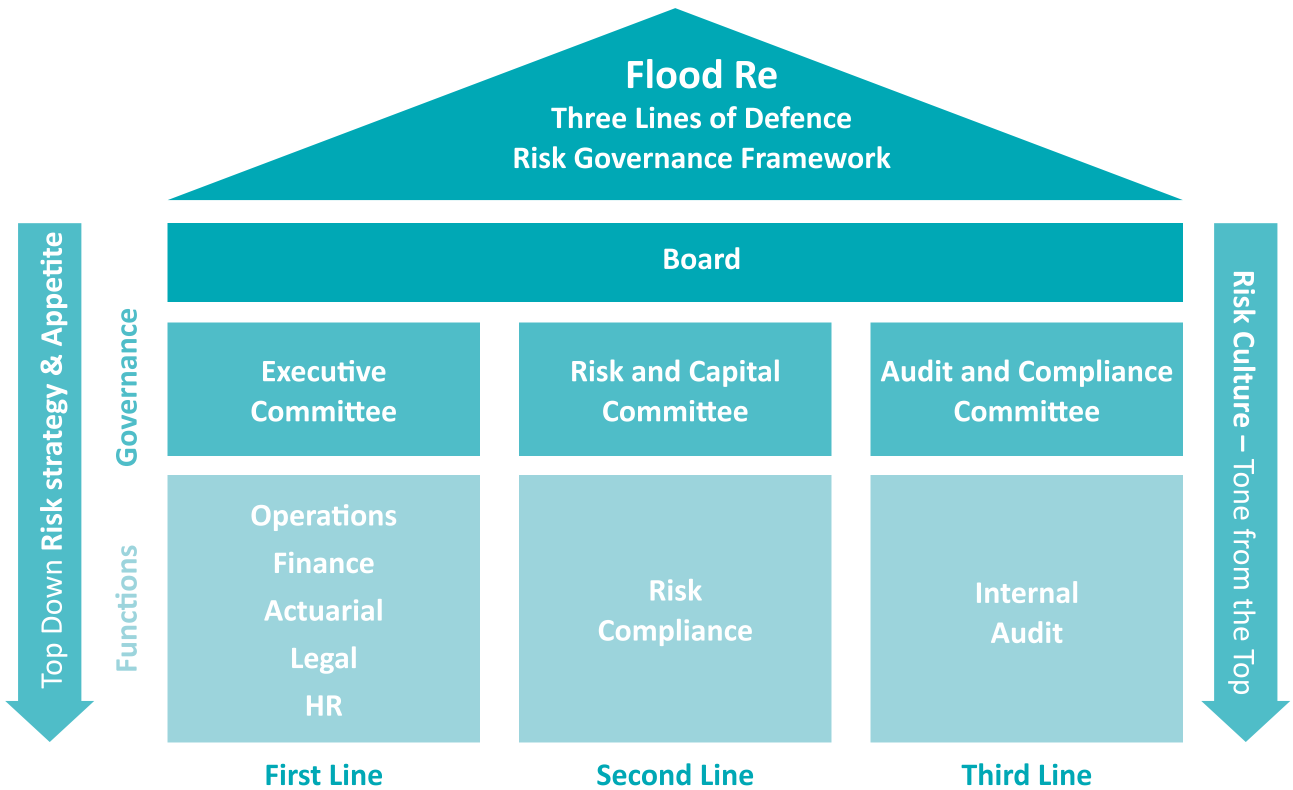
Overview of Risk

Flood Re defines risk as the possibility of incurring misfortune or loss. In principle, a risk is expressed by the combination of the probability (likelihood) of an event and its impact. Uncertainty occurs where it is not possible to assess the probability and/or impact with sufficiently reliable accuracy (see the Strategic Report- Principal risks and uncertainties).

Risk Governance and Culture

Ultimate responsibility for risk management within Flood Re lies with the Board. Critical to this is the tone it sets with respect to Risk Culture: attitudes and behaviours regarding openness, risk awareness and training, and accountability for prudent risk management and relevant Public Body requirements. The Board's responsibility for risk management is discharged through the Flood Re committee structure (see Directors report – governance framework).

Flood Re uses the UK financial industry standard three lines of defence approach to managing risks.



First line of defence is undertaken by the Executive Team and staff of Flood Re. Its responsibility is to identify and manage risks (mainly through operating mitigating controls), generate and review risk information, and to take appropriate action where necessary to maintain Flood Re's risk exposure within risk appetite. The first line of defence reports to the Executive Committee and the Risk Function on its management of current and forward-looking risk exposures.

Second line of defence is carried out by the Risk Function, led by the CRO and the Compliance Function led by the General Counsel.

The Risk Function is responsible for providing risk advice, facilitating and co-ordinating first line risk activity, monitoring risks and providing independent commentary, oversight and challenge of the management of risks and Internal Model validation. The Risk Function reports to the RCC.

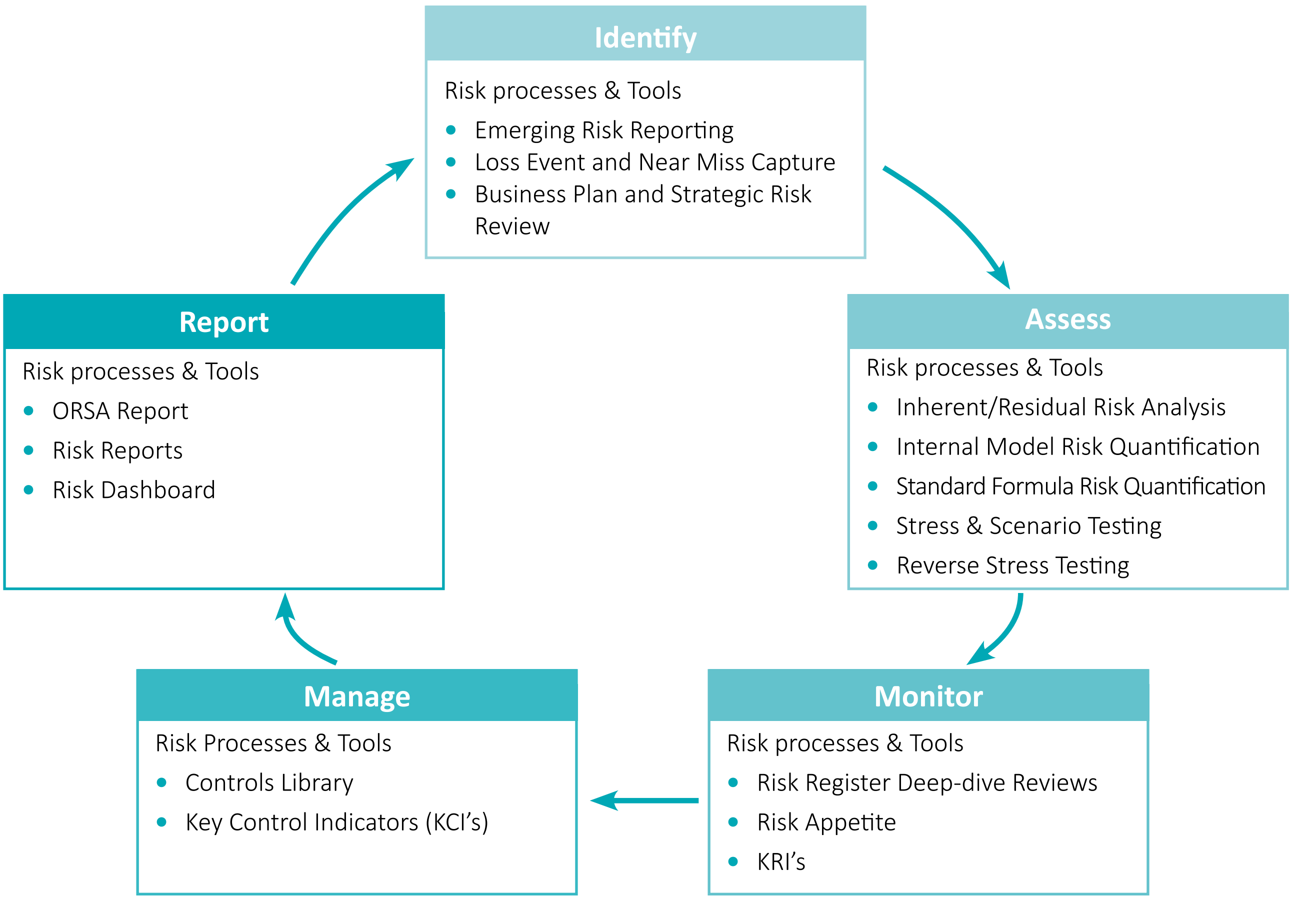
The Compliance Function forms an independent part of the second line of defence and is responsible for implementing a governance framework across the Company, compliance monitoring, regulatory disclosure and monitoring potential Compliance Risk arising from the activities of Flood Re's outsourced service providers. The Compliance Function reports to the ACC.

Third line of defence is performed by the Internal Audit Function which evaluates the effectiveness of the design and operation of Flood Re's control environment and reports to the ACC. Its responsibility is to evaluate whether the controls and risk information determined as required by the first line of defence (in conjunction with the second line) are adequate and effective in mitigating risk to the Board agreed risk appetite levels.

It is the responsibility of each of the three lines of defence to ensure the delivery of Flood Re's complete risk management system.

Risk Management System

The following diagram sets out the major risk management tools and procedures that make up Flood Re's risk management system.



Flood Re operates a live risk register containing all identified and emerging risks. Each risk on the register is subject to an assessment of both its likelihood (of occurrence) and impact (given occurrence). Flood Re monitors changes in its risk profile against a set of Key Risk Indicators ("KRIs") and Board-approved risk appetite metrics on an ongoing basis. Each risk is allocated to a risk owner. Risk owners ensure risks are managed in accordance with Flood Re's Risk Management Policy and within the risk appetite metrics. The management of each risk is aligned to one or more of the following types of actions: Transfer, Avoid, Reduce or Accept.

Key Control Indicators are used to monitor the effectiveness of risk controls. Regular risk management information (such as position versus appetite and KRIs) is reported to each risk owner to ensure that risks are being monitored and a quarterly CRO report is delivered to the RCC. The ongoing delivery of the risk cycle and its associated processes and procedures, ultimately culminates in the completion of the Own Risk and Solvency Assessment ("ORSA") Report. The ORSA Report is completed at least annually, presented to the RCC and Board for their review and challenge and reported through to the PRA supervisory team.

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 as adopted by the European Union.

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.

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. 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 year ended 31 March 2019 were:

Mark Hoban	Chair
Andy Bord	Chief Executive Officer
Judith Eden	Independent Non-Executive Director
Huw Evans	Senior 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

Company Secretary

Harriet Boughton

Independent Auditors

The Auditors, Ernst & Young LLP, have been re-appointed to office during the period.

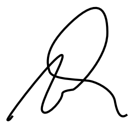
Disclosure of information to Auditors

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 2019 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



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Andy Bord
Director

Date: 20 June 2019
Registered Office: 75 King William Street,
London EC4N 7BE

AUDIT REPORT

Independent Auditor's Report to the Members of Flood Re Limited

Opinion

We have audited the financial statements of Flood Re Limited for the year ended 31 March 2019 which comprise the Statement of Profit or Loss, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 32, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2019 and of its profit 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.

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 below. 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

Overview of our audit approach

Key audit matters	• Valuation of insurance claims liabilities • Pipeline premium estimation
Materiality	• Overall materiality of £6.4m which represents 2% of equity

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit & Compliance Committee
Valuation of insurance claims liabilities (£26.4m, 2018: £16.1m) *Refer to the Strategic Report (page 10); Accounting policies (page 58); and Note 21 of the Consolidated Financial Statements (page 88)* One of the significant risk areas from both a business and an audit perspective is the valuation of provisions for insurance claims liabilities. Key judgements include assessing: 1) the value of any claims that have been incurred but not yet reported to the company (IBNR). 2) any adjustments made to amounts reported to the company that may not reflect the most up-to-date information.	We gained an understanding of the process for estimating insurance claims liabilities and assessed the design and implementation of key controls within the Company's processes; Supported by our actuarial team, we have understood and evaluated the methodology against market practice, and challenged key assumptions and judgements used in the reserving estimates based on our market knowledge and industry data where available; We have performed testing of the accuracy and completeness of the data used in setting the insurance contract liabilities.	We have concluded that management's judgements are reasonable based on the information available at the date of this report. Based on our work performed we consider the company's booked gross reserves to be reasonable.

Risk	Our response to the risk	Key observations communicated to the Audit & Compliance Committee
Pipeline Premium Estimation (£3.1m, 2018: £4.4m) *Refer to the Strategic Report (page 10); Accounting policies (page 58); and Note 18 of the Consolidated Financial Statements (page 86)* Due to the timing of premium information sent by primary insurers to Flood Re on the underlying risks written, there is a portion of Flood Re's income which is estimated at any given reporting date. The process for estimating these pipeline premiums uses data from the primary insurers and is estimated based on communication with the insurers, an understanding based on historic experience, and Flood Re's knowledge of each insurer's operations. We consider the pipeline premium estimate to be a significant risk due to the judgement involved in the process.	We have understood management's process for recognising premiums, including the booking of estimated pipeline premium, and assessed the design and implementation of key controls within those processes; We have assessed, in conjunction with our actuarial team, the reasonableness of management's assumptions used in estimating premium volume within the pipeline premium estimate; We have tested premiums written in the year to subsequent cash receipts on a sample basis, noting that premiums written are also used as source data to the pipeline estimate; and We have compared estimated premiums to subsequent cash receipts on a sample basis;	We have concluded that estimated pipeline premium income has been recorded appropriately.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £6.4m (2018: £4.2m), which is 2% of equity. We consider the main stakeholders to be government, insurers and regulators. Given the focus of these stakeholders on the Company's solvency and ability to settle claims appropriately, we have determined equity as the most appropriate basis for setting our materiality. During our audit, we reassessed initial materiality and concluded that materiality assessed at the planning stage of our audit remained appropriate.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2018: 50%) of our planning materiality, namely £4.8m (2018: £2.0m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected. Our change in the proportion of materiality we use for performance materiality is based on our consideration of the stability in the business.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the directors all uncorrected audit differences in excess of £300k (2018: £207k), which is set at approximately 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 44, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and

- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and determined the applicability of direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by: making enquiries of management, internal audit, and those responsible for legal and compliance matters; reviewing correspondence between the Company and UK regulatory bodies; reviewing minutes of the Committees; and gaining an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control processes.

- For direct laws and regulations affecting the Company's reporting, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures included: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; making enquiries with regards to the policies that have been established to prevent non-compliance with laws and regulations by officers and employees; inquiring about the Company's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with the FCA and PRA.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by: considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud; and considering areas of significant judgement, complex transactions, performance targets and external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the testing of manual journals, which were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Audit and Compliance Committee on 20 April 2016 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 March 2016 to present.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

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.

Ernst & Young LLP

Angus Millar (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,
Statutory Auditor
London

20 June 2019

Notes:

1. The maintenance and integrity of the Flood Re Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £000	2018 £000
Gross written premiums		33,728	32,376
Premiums ceded to reinsurers		(75,411)	(74,678)
Net written premiums		(41,683)	(42,302)
Net change in unearned premiums provision		962	(661)
Net earned premiums	8	(40,721)	(42,963)
Levy income	9	180,000	180,000
Fees and commission income	10	19,215	17,683
Investment income	11	1,656	291
Total revenue		**160,150**	**155,011**
Gross claims paid		(6,080)	(2,517)
Claims ceded to reinsurers		2,792	1,018
Gross change in insurance contract liabilities		(10,329)	(5,455)
Change in contract liabilities ceded to reinsurers		5,162	2,614
Net insurance claims	12	(8,455)	(4,340)
Finance costs	13	-	-
Other operating and administrative expenses	14	(16,054)	(16,231)
Total expenses		**(24,509)**	**(20,571)**
Profit before tax		135,641	134,440
Income tax expense	17	(25,773)	(24,710)
Profit for the year		**109,868**	**109,730**

All of the Company's operations are continuing.

For the years ended 31 March 2019 and 2018, the Company has no other comprehensive income and the profit for the year equals the total comprehensive income for the year.

The notes on pages 58 to 97 are an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	2019 £000	2018 £000
Assets			
Reinsurers' share of contract liabilities	21	40,592	34,561
Reinsurance receivables	18	17,689	17,426
Trade and other receivables	19	748	499
Cash and short-term deposits	20	358,207	256,920
Total assets		**417,236**	**309,406**
Equity			
Retained earnings		317,644	207,776
Total equity		**317,644**	**207,776**
Liabilities			
Insurance contract liabilities	21	43,050	32,814
Deferred commission income	25	8,439	7,766
Reinsurance payables	26	17,328	17,037
Current tax liabilities		15,541	12,797
Trade and other payables	27	15,234	31,216
Total liabilities		**99,592**	**101,630**
Total equity and liabilities		**417,236**	**309,406**

The notes on pages 58 to 97 are an integral part of the Financial Statements.

The Financial Statements on pages 54 to 97 were authorised for issue by the Board of Directors on 20 June 2019 and were signed on its behalf by:

....

Andy Bord
Chief Executive Officer

....

Adam Golding
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

	2019	2018
	£000	£000
Retained earnings brought forward	**207,776**	**98,046**
Profit for the year	109,868	109,730
Other comprehensive income	-	-
Total comprehensive income for the year	109,868	109,730
Retained earnings carried forward	**317,644**	**207,776**

The notes on pages 58 to 97 are an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £000	2018 £000
Operating activities			
Profit before tax		135,641	134,440
Adjustments for			
Finance expense	13	-	-
Investment income	11	(1,656)	(291)
Changes in operating assets and liabilities			
(Increase) in reinsurers' share of contract liabilities		(6,031)	(3,274)
(Increase) in reinsurance receivables		(263)	(4,825)
(Increase) Decrease in trade and other receivables		(6)	359
Increase in gross insurance contract liabilities		10,236	6,776
Increase (Decrease) in deferred commission income		673	(266)
Increase (Decrease) in reinsurance payables		291	(2,713)
(Decrease) in trade and other payables		(15,982)	(5,372)
Cash generated from operations		122,903	124,834
UK Corporation taxes paid		(23,029)	(25,322)
Interest received		1,413	232
Net cash flows from operating activities		**101,287**	**99,744**
Financing activities			
Finance expense on bank borrowings	13	-	-
Net cash flows from financing activities		**-**	**-**
Net increase in cash and cash equivalents		**101,287**	**99,744**
Cash and cash equivalents at 1 April		256,920	157,176
Cash and cash equivalents at 31 March	**20**	**358,207**	**256,920**

The notes on pages 58 to 97 are integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Flood Re Limited ("the Company") is the Scheme Administrator for the Flood Reinsurance Scheme ("the Scheme") and is principally engaged in the provision of flood peril reinsurance cover within the UK.

The Scheme is a joint initiative between the UK insurance industry and the UK Government in order to make domestic flood insurance more affordable and available to households in high flood risk areas. The Scheme was established by the Water Act 2014 and is expected to be in place for a total of 25 years while the industry transitions to risk-reflective pricing.

The Company is a mutual reinsurer and was incorporated in August 2013 as a private UK company limited by guarantee. The Company was authorised by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA") on 01 April 2016 and commenced underwriting on 04 April 2016.

The Registered Office is located at 75 King William Street, London, EC4N 7BE.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These accounting policies have been applied consistently throughout the current and, where applicable, the prior financial year.

2.1. Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS.

The Financial Statements have been prepared on an accruals basis under the historical cost convention, except for those financial assets and liabilities that have been measured at fair value. Unless otherwise noted, the Financial Statements are presented in pounds sterling rounded to the nearest thousand.

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. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Financial Statements.

The preparation of Financial Statements in conformity with IFRS 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.

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally-enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liability simultaneously.

The Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the respective notes.

2.2. Consolidation

The Company is a solo entity with no parent, subsidiary or associated undertakings. There is no requirement to prepare consolidated Financial Statements.

In accordance with the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, the information contained in the Company's Annual Report and Accounts is consolidated into the Annual Report and Accounts of the Department for Environment, Food and Rural Affairs. The Company is yet to be classified as a non-departmental Public Body by the Office for National Statistics.

2.3. Product classification

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. The Company has reviewed the nature of the inwards and outwards reinsurance business it transacts and all relevant contracts are treated as insurance contracts for the purposes of these Financial Statements.

2.4. Segment reporting

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

2.5. Foreign currency translation

The Company's functional and presentational currency is pounds sterling; this is the currency in which all the Company's transactions are denominated.

2.6. Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided on a straight-line basis over the useful lives of the following classes of assets:

Furniture, fixtures and fittings	2 years
Computer equipment	2 years

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year-end date.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the Statement of Profit or Loss as an expense.

An item of property and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year the asset is de-recognised.

The Company only recognises property, plant and equipment on individual items purchased with a valuation in excess of £10,000. As at 31 March 2019 and 2018, the company has not recognised any property, plant or equipment in its Statement of Financial Position.

2.7. Financial assets and liabilities

(a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss ("FVPL"). Assets measured at amortised costs are subject to impairment.

The classification of financial assets is determined by Management at initial recognition and depends on the nature and purpose of the investment.

Financial assets are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the financial cost of the financial asset. Subsequent to initial recognition, these financial assets are carried at amortised cost, using the effective interest method.

Financial assets measured at amortised cost are included in Note 19: Trade and other receivables and Note 20: Cash and short term deposits.

Financial liabilities are classified, at initial recognition, as financial liabilities at amortised cost.

Trade and other payables, classified as financial liabilities, are recognised initially at fair value, including any directly attributable acquisition costs, are included in note 27: Trade and other payables.

(b) Subsequent measurement

Financial assets classified as FVPL are re-measured at fair value. The fair values of financial assets are based on the quoted bid prices. Changes in fair value are recorded in fair value gains and losses in the period in which they arise. Interest is accrued and presented in investment income.

After initial measurement, financial assets measured at amortised cost are valued, using the effective interest rate method, less allowance for impairment.

After initial measurement, financial liabilities are measured at amortised cost.

(c) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires.

(d) Impairment of financial assets

The Company assesses the expected credit losses associated with its financial assets measured at amortised cost. The impairment methodology depends upon whether there has been a significant increase in credit risk.

The Company recognises an allowance for expected credit losses ("ECLs") for financial assets not held at fair value through profit or loss. These comprise trade and other receivables and cash and short-term deposits carried at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

For balances held at bank and short term deposits, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether these instruments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company monitors the credit rating of the instrument issuer from external sources. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

When applying the low credit risk simplification, the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from S&P or equivalent both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

2.8. Reinsurers' share of contract liabilities

The Company cedes insurance risk in the normal course of business. Reinsurers' shares of contract liabilities represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurers' policies and are in accordance with the related reinsurance contracts.

Reinsurers' shares of contract liabilities are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurers' share of contract liability that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

Reinsurance contracts held do not relieve the Company from its obligations to policyholders.

2.9. Reinsurance receivables and payables

Reinsurance receivables consist primarily of assumed reinsurance premiums due from policyholders and commission income and paid loss recoveries due from reinsurers.

Reinsurance payables consist primarily of premiums payable for ceded reinsurance contracts and assumed reinsurance claims payable.

Premiums and claims are presented on a gross basis for both assumed and ceded reinsurance.

2.10. Cash and short-term deposits

Cash and short-term deposits comprise cash at bank and on-hand and short-term deposits with a maturity of three months or less and which are subject to an insignificant risk of changes in value.

2.11. Current and deferred income tax

The tax expense for the period comprises current and deferred tax.

(a) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income ("OCI") is recognised in equity or OCI and not in the Statement of Profit or Loss.

(b) Deferred tax

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A net deferred tax asset is recognised as recoverable only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying temporary differences can be deducted.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally-enforceable right exists to set off current tax assets against current tax liabilities.

Deferred tax is measured on an undiscounted basis.

2.12. Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at inception date. This requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if the asset is not explicitly specified in the arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. Leases that do not transfer substantially all of the risks and rewards of ownership of an asset to the Company are classified as operating leases.

Operating lease payments are recognised as an expense in the Statement of Profit or Loss on a straight-line basis over the lease term.

2.13. Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premiums and the provision for premium deficiency.

(a) Outstanding claims provision

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the year-end date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. The ultimate cost of these cannot therefore be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claims projection techniques, based on empirical data and current assumptions. The outstanding claims provision is made up of an actuarial best estimate plus a prudential management risk margin. The liability is not discounted for the time value of money. The liabilities are de-recognised when the obligation to pay a claim expires, is discharged or cancelled.

(b) Provision for unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums charged and is brought to account as premium income over the term of the contract in accordance with the pattern of reinsurance service provided under the contract.

(c) Provision for premium deficiency (liability adequacy test)

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine if there is any overall excess of expected claims over unearned premiums. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the Statement of Profit or Loss by setting up a provision for premium deficiency.

2.14. Deferred commission income

Commission income is deferred and recognised as revenue when the related services are rendered.

Ceding commission is deferred and recognised as commission income in the Statement of Profit or Loss as the related ceded premium is earned.

2.15. Trade and other payables

Trade and other payables are recognised when services are rendered. They are initially recognised at fair value and then subsequently held at amortised cost.

Trade and other payables comprise accruals and deferred income and include Levy I payments received in advance of the invoice date.

2.16. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset only if the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

The Company recognises a provision for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

2.17. Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation but either an outflow of resources is not probable or the amount cannot be reliably estimated.

2.18. Revenue Recognition

(a) Levy income

Levy income is payable by UK Household insurers in proportion to their respective market shares as required under Statute. There is no service delivery obligation that the Company is required to fulfil in relation to the Levy.

Levy income is recognised when it is due on 01 April of each year and is payable quarterly and measured at amortised cost of the consideration received or receivable.

(b) Gross written premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Gross written premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Estimated pipeline premiums are actuarially-assessed based on underwriting data or past experience and are included in the gross written premiums.

Gross written premiums are earned on a pro-rata basis over the term of the underlying insurance contract as a proxy to the underlying risk. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

(c) Ceded premium

Ceded premiums comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned ceded reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned ceded reinsurance premiums are deferred over the term of the underlying inwards reinsurance policies for risks-attaching contracts and over the term of the outwards reinsurance contract for losses-occurring contracts.

Ceded reinsurance premiums on the face of the Statement of Profit or Loss have been presented as negative items within premiums; this is consistent with how the business is managed.

(d) Fee and commission income

Fee and commission income consists entirely of commissions receivable on ceded reinsurance contracts. Commission income varies with, and is directly related to, the underlying reinsurance contracts.

Ceding commission is deferred and recognised as commission income in the Statement of Profit or Loss as the related ceded premium is earned.

(e) Investment income

Investment income consists of interest income from all interest-bearing financial instruments less investment expenses and charges. Investment income is recognised when earned and is accrued using the effective interest rate method.

2.19. Claims and expenses recognition

(a) Gross claims and loss adjustment expenses

Gross claims and loss adjustment expenses are charged to the Statement of Profit or Loss as incurred, based on the estimated liability for compensation owed to contract holders. Claims include all insurance claims occurring during the year, an estimate of claims incurred but not reported, related claims handling costs, a reduction for the value of salvage and other recoveries, plus any adjustments to claims outstanding from previous years.

(b) Claims ceded to reinsurers

Claims ceded to reinsurers are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

(c) Finance costs

Interest paid is recognised in the Statement of Profit or Loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

(d) Employee benefits

Short-term employee benefits, including salaries, accrued bonuses, pension contributions and social security costs, are recognised on an undiscounted basis over the period in which employees provide the services to which the payments relate.

The Company recognises a bonus accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

The Company pays contributions to an independently administered defined contribution pension fund. The Company has no further payment obligations once the contributions have been paid.

Termination benefits are recognised when approved by the Remuneration Committee and the Company is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3. Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

The Company has adopted the following International

Financial Reporting Standards which were effective for the first time for the financial period beginning on or after 01 April 2018.

IFRS 9: Financial instruments

IFRS 9 impacts the measurement and presentation of financial instruments, depending on the contractual cash flows and the business model under which they are held. IFRS 9 establishes an expected credit loss model that replaces the IAS 39 incurred loss model. The impairment requirements will generally result in earlier recognition of credit losses.

The Company has adopted IFRS 9 with effect from 01 April 2018, on a fully retrospective basis, with no material impact.

IFRS 15: Revenue from contracts with customers

IFRS 15 outlines the principles that an entity must apply to measure and recognise revenue. IFRS 15 applies a five-step model to the recognition of revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has adopted IFRS 15 with effect from 01 April 2018, on a fully retrospective basis, with no material impact.

(b) New standards, amendments and interpretations issued but effective for the financial period beginning on or after 01 April 2019 and which have not been adopted early.

IFRS 16: Leases

IFRS 16 requires lessees to account for all leases under a single Statement of Financial Position model in a similar way to finance leases. The standard includes exemptions for low value assets and short-term leases. Under IFRS 16, the Company would need to recognise a lease liability and associated interest expense and a right of use asset with associated depreciation in relation to rental office leases.

The Company has adopted IFRS 16 with effect from 01 April 2019, on a fully retrospective basis, which has no material impact on the Company's Financial Statements.

IFRS 17: Insurance contracts

IFRS 17 will apply to all types of insurance contracts and proposes an approach based on the expected present value of future cash flows to measuring insurance contract liabilities.

IFRS 17 is effective for annual periods beginning on or after 1 January 2022.

The adoption of IFRS 17 is anticipated to have a material impact on the Company's Financial Statements and disclosures and the Company continues to monitor the impact of adoption.

4. Critical accounting estimates and judgements

The preparation of the Company's Financial Statements requires Management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting date, that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Insurance contract liabilities

The Company's most critical accounting estimate is the estimation of the ultimate liability arising from claims made under inwards reinsurance contracts.

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported ("IBNR"), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.

The ultimate cost of outstanding claims is estimated using standard actuarial techniques.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. The Company commenced underwriting in April 2016 and has limited historical claims data of its own. The actuarial techniques used utilise historical industry data.

Estimating the ultimate cost of losses resulting from catastrophic events is inherently difficult, due to the uncertainty of catastrophe claims. Due to this uncertainty, it is often harder to determine the future development of these claims with the same degree of reliability as with other types of claim.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims from the range of outcomes, taking account of all the uncertainties involved.

Judgement is required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Similar judgements, estimates and assumptions are employed in the assessment of the premium deficiency provision. Using reinsurance premium thresholds as described in the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 restricts the amount that the Company can charge insurers for reinsuring flood risk. These thresholds are capped at a rate dependent on the council tax banding of the property insured and may give rise to less than adequate market pricing for the risk insured. An estimate of the premium deficiency provision is made for any anticipated claims and claims handling costs that are expected to exceed the unearned premiums.

The carrying value of gross insurance claims liabilities as at 31 March 2019 is £26.4m (2018: £16.1m).

(b) Inwards Reinsurance

The Company provides treaty reinsurance coverage to cedants (insurance companies). Under this type of reinsurance, the Company's ultimate written and earned premiums are not known at the inception of the reinsurance policy. There is a 120-day maximum accepted reporting delay between the inception of the underlying insurance policy and notification to the Company. The underlying insurance policy attaches to the reinsurance policy once ceded to the Company. The Company estimates the pipeline gross premium that it anticipates will attach to the reinsurance policy during this 120-day lag.

The estimated pipeline premium is calculated at a cedant company level and takes into account Management's experience and familiarity with the cedants, the insurance brands and products they offer, the scale and level of historical participation in the Company Scheme and the current status of their onboarding onto the Company's Property Data Hub. Pipeline premium is calculated by multiplying an actuarial estimate of the average premium per policy by the estimated number of policies anticipated to be notified to the Company during the 120-day reporting time lag. Premium estimates are updated as new information is received from cedants and recorded in the period in which estimates are changed or the actual amounts are determined.

Current pipeline premium estimates account for £3.1m or 9.2% of the gross written premium for the year ended 31 March 2019 (2018: £4.4m or 13.5%).

5. Risk

5.1. Insurance risk

(a) Premium risk

Premium risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing assumptions.

The premium the Company charges is not reflective of the underlying risk that the Company assumes. The Company's principal objective is to enable the continued availability of affordable flood cover for households at risk of flooding and to manage a transition to a market with risk-reflective pricing over a 25-year period. Accordingly, the Company's premium risk strategy is to charge insurers a subsidised fixed rate that is set according to the council tax band associated with the insured property.

The premium thresholds have been set at a level that is:

- Below the maximum the Company can charge its cedants;
- Below the level that would be charged for properties with the highest risk if prices fully reflected those risks; this provides a subsidy for those properties judged to be at risk and improves affordability; and
- Still sufficiently high to ensure that insurers only cede those properties at high risk; this ensures that the industry retains a significant portion of household flood risk that can affordably and profitably be covered in the open market.

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. The cost of the subsidy provided through the premium charged is met by a Levy raised from all insurers writing home insurance in the UK. The Levy is set at £180 million per annum.

(b) Reserve risk

Reserve risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to the actual future costs of claims differing from expectations based on reserving assumptions. This is influenced by the frequency of claims, the severity of claims, the timing of actual claims payments and the development of the claims over a period of time.

Overview

The Company provides reinsurance protection for a single risk (property damage) and a single peril (flood) within the United Kingdom. Claims are linked to weather and other events that cause floods. The responsibility for settling flood claims remains with the direct insurer. The maximum loss payable by the Company is limited to the sum insured less a £250 policy deductible or end consumer policy deductible, if larger. The Company monitors flood risk exposure on a per risk and on an aggregate sum insured basis and performs exposure modelling on at least a quarterly basis or on the occurrence of an event.

Given the relatively high cost of flood claims compared with the size of typical household claims, most flood claims will have been assessed by a loss adjuster before being notified to the Company. Furthermore, using strict claims review policies, performing regular detailed reviews of claims handling procedures and the frequent investigation of possible fraudulent claims also help reduce the risk exposure of the Company. The Company enforces a policy of actively managing and promptly pursuing claims in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

Time lags

Claims are typically settled within a year. Claims bordereaux are received on a monthly basis and the Company is required to pay a claim within 30 days once the underlying claim has been settled by the cedant.

Reserving methodology and assumptions

The claims reserves are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not.

The gross claims reserves are calculated consistent with a probability-weighted mean best estimate of a range of potential outcomes using actuarial estimation techniques. A prudential margin is held, with the level being a management judgement rather than an actuarial judgement. Future claims handling expenses need to be allowed for in addition to the outstanding claims reserve and are based on estimated expenses per claims. The Company's fixed pricing methodology means that a premium deficiency provision is expected to be required in most years. Premium deficiency represents the excess of the estimated value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date over the unearned premiums provision in relation to such policies after deduction of any acquisition costs deferred. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims and in accordance with the related reinsurance contracts.

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. The Company only commenced underwriting in April 2016 and is therefore partly reliant on historical industry claims data rather than company specific claims data.

Uncertainty

Qualitative judgements are used to assess the extent to which past trends may not apply in the future. There will be uncertainty around:

- The number of flood-affected properties ceded to the Company;
- The portfolio mix of business impacting average premium and average claims cost assumptions, for example:
  - Split of business by council tax band;
  - Type of policy (buildings only, contents only or combined cover);
- Variability in the actual claims pay-out patterns;
- Delays in notification of claims to the Company;
- Assessment of the level of claims costs, including aspects such as additional living expenses; and
- Recoverability of amounts due under the outwards reinsurance programme.

Sensitivity

The insurance claims liabilities, which comprise attritional, large and catastrophic flood events represent the most significant assumptions and impact gross loss ratios. Scenario analysis is used to assess the sensitivity to changes in key assumptions and the resulting gross loss ratios. The use of scenario analysis helps to illustrate the potential financial impact of assumptions varying from expectations where there is little or no historical data and therefore there is no need to consider the likelihood of the variances considered.

The following analysis is designed to consider reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions were changed on an individual basis.

	2019 Change in gross claim reserves £000	**2019 Change in net claim reserves £000**	**2018 Change in gross claim reserves £000**	**2018 Change in net claim reserves £000**
10% increase in loss ratio	3,382	1,691	3,548	1,798
10% decrease in loss ratio	(3,382)	(1,691)	(3,534)	(1,791)

Large losses

The Company defines a large loss as an individual claim in excess of £0.4m. Large losses may exhibit different characteristics to attritional claims and are subject to separate actuarial reserving analysis. During the year ended 31 March 2019 and 2018, the Company did not incur any large losses.

Loss Development

In setting claims reserves, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the required confidence in the adequacy of the provisions is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always turn out to have been in surplus. The table below shows the development of ultimate claim cost, calculated on an accident year basis, gross and net of outwards reinsurance protection purchased.

Gross of reinsurance				
Accident year ending 31 March	**2017**	**2018**	**2019**	**Total**
	£000	**£000**	**£000**	**£000**
Incurred claims				
At the end of accident year	7,661	9,446	**15,846**	
One year later	2,267	**5,762**		
Two years later	**2,008**			
Current estimate of ultimate claim cost	**2,008**	**5,762**	**15,846**	**23,616**
At the end of accident year	(96)	(654)	**(2,381)**	
One year later	(1,480)	**(3,413)**		
Two years later	**(1,924)**			
Cumulative payments to date	**(1,924)**	**(3,413)**	**(2,381)**	**(7,718)**
Gross outstanding claims provision	**84**	**2,349**	**13,465**	**15,898**
Surplus/(Deficit) of ultimate claim cost in year	**259**	**3,684**		

Net of reinsurance				
Accident year ending 31 March	**2017**	**2018**	**2019**	**Total**
	£000	**£000**	**£000**	**£000**
At the end of accident year	3,830	4,723	**7,923**	
One year later	1,134	**2,881**		
Two years later	**1,004**			
Current estimate of ultimate claim cost	**1,004**	**2,881**	**7,923**	**11,808**
At the end of accident year	(48)	(327)	**(1,190)**	
One year later	(740)	**(1,707)**		
Two years later	**(962)**			
Cumulative payments to date	**(962)**	**(1,707)**	**(1,190)**	**(3,859)**
Net outstanding claims provision	**42**	**1,174**	**6,733**	**7,949**
Surplus/(Deficit) of ultimate claim cost in year	**130**	**1,842**		

Catastrophe risk

The Company's most significant insurance risk exposure is to losses arising from low frequency, high severity catastrophe flood events. A catastrophe flood event is defined by the Company as a UK flood that

- Impacts more than 250 properties ceded to the Company; or
- Is expected to have claims costs in excess of £5m.

The table below shows the probable maximum loss, on a prospective basis, which allows for new business as well as run-off of existing liabilities for the portfolio as at 31 March 2019 and 31 March 2018 arising from a given return period.

	2019 Estimated gross claims £000	2019 Estimated net claims £000	2018 Estimated gross claims £000	2018 Estimated net claims £000
1 in 50 year or 2% probability	419,846	131,540	341,906	170,953
1 in 200 year or 0.5% probability	825,059	137,697	668,986	175,000
1 in 250 year or 0.4% probability	914,268	138,978	735,359	175,000

Catastrophe loss events may result in a high level of volatility in the financial results of the Company. During the years ended 31 March 2019 and 2018, the Company classified and reserved for May flooding in parts of the United Kingdom as a low level catastrophe loss event.

The Company uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

(c) Risk mitigation

The Company purchases reinsurance as part of its overall risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis and is the Company's primary mechanism for managing and mitigating insurance risk.

The Company Scheme document establishes the requirement for the Company to set an annual aggregate loss amount ("Liability Limit"). The Liability Limit for the year ended 31 March 2019 was £2.198bn (2018: £2.133bn). Each financial year, the amount of the Liability Limit is adjusted for the percentage increase or decrease in the Consumer Price Index in the prior calendar year. Subject to these adjustments, the Liability Limit is set for a period of five years. If claims were to exceed the Liability Limit, relevant insurers would continue to be liable to policyholders in accordance with the terms of the insurance policy sold.

The Company requires that its outwards reinsurance protections match the full Liability Limit and has therefore purchased an extensive reinsurance programme to meet this need. Furthermore, HM Government requires the Company to protect itself from an annual accounting loss of £100m which is protected by a £100m excess of £100m reinsurance cover.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded reinsurance, to the extent that any reinsurer is unable or unwilling to meet its obligations assumed under such reinsurance agreements.

5.2. Market risk

(a) Interest rate risk

Interest rate risk is the risk that the fair market value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. An increase in interest rates will result in a decrease in the market value of debt securities and vice versa.

The Company has very limited exposure to interest rate risk due to the short-term nature of its assets and liabilities. Insurance contract liabilities are not subject to discounting and are not interest bearing.

As at 31 March 2019 and 2018, the Company does not hold any financial instruments, designated as at fair value through profit and loss, in its investment portfolio (see liquidity risk for a discussion about cash and short-term deposits).

(b) Market concentration risk

Concentration risk is the risk of a financial loss arising from a lack of diversification in the investment portfolio or from a large exposure to any single issuer or sector.

The Company has a conservative market risk strategy that prioritises capital preservation over investment return. The investment mandate agreed between the Company, Government and the insurance industry restricts the type of holdings that may be invested in. The Company only invests in UK Government backed securities (gilts, treasury notes and UK Government backed liquidity funds). Through its anticipated status as a Public Body, the Company has access to the UK Debt Management Office (DMO) for investment purposes.

As at 31 March 2019, the Company has £353m (2018: £247m) of short-term deposits invested with the DMO, representing 99% (2018: 96%) of its total invested assets.

(c) Equity risk, property risk, corporate credit spread risk and foreign currency risk

The company does not have any risk appetite or exposure to equity risk, property risk, corporate credit spread risk or foreign currency risk. All transactions are settled in pounds sterling.

(d) Liquidity risk

The Company defines liquidity risk as the risk of not being able to meet current and future financial obligations as and when they fall due, or only being able to do so at excessive cost.

The Company must maintain sufficient liquidity at all times to support its cedants by settling claims quickly. The Company generates cash inflows primarily from Levy I, premium and investment income and is exposed to significant cash outflows arising from reinsurance claims costs and operating expenses.

The Company monitors its liquidity and future cash flow requirements on a regular basis and maintains a high quality, well-balanced and liquid investment portfolio. There is uncertainty around the timing and severity of claims costs. The maturity profile of the Company's invested assets is aligned to the short-term nature of the business underwritten whereby insurance contract liabilities are generally incurred and settled within one year.

For the period ending 31 March 2020, the Company anticipates generating positive cash flows, unless there is a series of large flood events.

As at 31 March 2019, the Company has liquid assets of £358m (2018: £257m), representing 86% (2018: 83%) of its total equity and liabilities and 358% (2018: 520%) of the Solvency Capital Ratio ("SCR"). Liquid assets comprise amounts included in the cash and short-term deposits.

5.3. Counterparty credit risk

The Company defines counterparty credit risk as the risk of not recovering money owed to the Company by third parties. The Company's maximum exposure to credit risk is the gross carrying value of its Levy receivables, reinsurance premium receivables, reinsurance recoveries, trade and other receivables and cash and short-term deposits.

The Company uses issuer credit ratings provided by external credit rating agencies to monitor the ongoing creditworthiness of its counterparties, together with other publicly-available data and market information.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance is only placed with counterparties that have a minimum credit rating of A- (S&P equivalent) or provide alternative collateralisation as a credit risk mitigant. No single reinsurer can exceed the maximum credit counterparty exposure thresholds established by the Company's Board.

Cedants submit premium bordereaux on a monthly basis and settlement is due 30 days thereafter. Levy income has a statutory basis and is due quarterly in advance. The level of aged debtor balances is monitored on a monthly basis.

(a) Credit rating

The table below shows the credit rating by financial asset type as at 31 March 2019.

	Note	AA	A	BBB	NR	Total
		£000	£000	£000	£000	£000
Reinsurers' share of claims liabilities	21	9,391	3,441	-	182	**13,014**
Reinsurance receivables	18	9,065	6,896	13	1,715	**17,689**
Trade and other receivables	19	318	-	-	430	**748**
Cash and short-term deposits	20	353,000	5,207	-	-	**358,207**
Total		**371,774**	**15,544**	**13**	**2,327**	**389,658**
%		95%	4%	0%	1%	100%

The table below shows the credit rating by financial asset type as at 31 March 2018.

	Note	AA	A	BBB	NR	Total
		£000	£000	£000	£000	£000
Reinsurers' share of claims liabilities	21	5,596	2,256	-	-	**7,852**
Reinsurance receivables	18	9,045	8,136	37	208	**17,426**
Trade and other receivables	19	75	-	-	424	**499**
Cash and short-term deposits	20	247,000	-	9,920	-	**256,920**
Total		**261,716**	**10,392**	**9,957**	**632**	**282,697**
%		93%	4%	3%	0%	100%

(b) Age analysis

The table below shows the aged debtor analysis by asset type as at 31 March 2019.

	Note	Not yet due	30 days	Total
31 March 2019		£000	£000	£000
Reinsurers share of claims liabilities	21	13,014	-	**13,014**
Reinsurance receivables	18	17,549	140	**17,689**
Trade and other receivables	19	748	-	**748**
Cash and short term deposits	20	358,207	-	**358,207**
Total		**389,518**	**140**	**389,658**
%		100%	0%	100%

As at 31 March 2019 and 2018 the Levy receivable balance is £nil. The Company has received £13.3m (2018: £29.7m) of the 2019 Levy in advance (see note 27).

	Note	Not yet due	30 days	Total
31 March 2018		£000	£000	£000
Reinsurers share of claims liabilities	21	7,852	-	**7,852**
Reinsurance receivables	18	17,395	31	**17,426**
Trade and other receivables	19	499	-	**499**
Cash and short term deposits	20	256,920	-	**256,920**
Total		**282,666**	**31**	**282,697**
%		100%	0%	100%

(c) Impaired financial assets

Trade and other receivables in Note 19 are in line with accounting policy on Note 2.7(d), the Company applies a simplified approach in calculating ECLs in relation to trade and other receivables. The identified impairment loss was immaterial.

The Company held cash deposits with a UK financial institution and short-term deposits with the UK Debt Management Office as detailed in Note 20 totalling £358m at 31 March 2019 (31 March 2018: £257m). Both of which have low credit risk based on the external credit ratings of the counterparties.

The Company, therefore, applies the low credit risk simplification and measures ECLs on cash and short-term deposits on a 12-month basis. The Company concluded that the provision for expected credit losses on these balances was not material to the financial statements.

(d) Pledged assets – letters of credit

As at 31 March 2019, the Company has £8.5m (2018: £9.3m) of irrevocable standby letters of credit issued in its favour. For the years ended 31 March 2019 and 2018, the Company did not incur any finance costs relating to letters of credit issued in its favour.

5.4. Operational risk

The Company defines operational risk as the risk of financial loss due to inadequate or failed internal processes, people and systems, or from external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company manages operational risks to minimise financial losses, and risks to its reputation and industry standing.

The Company's business strategy actively looks to a number of operational outsourcing arrangements, some of which are regarded as critical or important to the running of the business, as opposed to developing the functionality in-house.

- The Company has contracted with Capita Plc to provide managing agency outsourcing services including underwriting, claims management and IT Infrastructure.
- Guy Carpenter provides support in relation to catastrophe modelling, geo-coding and capital modelling.

The relationship with, and management of, the outsourced service providers is a key component of the Company's operational risk profile. The Company's operational risk policies and procedures set out how various operational risks are managed, within Board-approved risk appetite statements, throughout the Company. The Operations Sub-Committee has responsibility for the day-to-day oversight and governance of outsourcing performance.

6. Capital management

(a) Capital objectives

The principal objectives of the Company's capital management framework are:

- Preservation of capital to ensure the long-term financial stability of the Company;
- Policyholder protection through maintenance of capital margins in excess of regulatory capital requirements; and
- Maintenance of an appropriate Standard and Poor's financial strength credit rating of at least A-.

(b) Sources of capital

The Company is a Company limited by guarantee and has no issued share capital. For the purposes of the Company's capital management, capital includes:

- Retained profits (Tier I basic own funds)
- Mutual members accounts (Tier 1 restricted basic own funds)
- Uncalled Levy II income (Tier 2 ancillary own funds); and
- Deferred tax assets (Tier 3 basic own funds).

Solvency II own-fund items are classified into three tiers. The classification depends upon whether they are basic own fund or ancillary own-fund items. Ancillary own funds are commitments to provide capital items to an insurer which, if called, would be available to absorb losses and therefore qualify as basic own funds.

The Company charges cedants subsidised fixed-rate premiums. To meet the costs of this subsidy, Levy I income of £180 million per annum is raised from all insurers writing home insurance in the United Kingdom. The Levy has a statutory basis and provides the Company with a guaranteed income stream. This income stream allows the Company to protect its capital base by purchasing reinsurance protection and also to build up a surplus of funds during low loss occurrence years so that it can withstand large catastrophic loss events.

The Company also has the ability to issue a compulsory call for additional funding from the industry through a Levy II top up mechanism. Levy II contributions received from the Ordinary Members of the Company are initially recognised in a mutual member account ("MMA") within equity. Levy II contributions received from non-members are treated as income in accordance with Levy I.

Ordinary Members of the Company are potentially eligible for their Levy II contributions to be returned, subject to Board and Prudential Regulatory Authority approval.

(c) Capital adequacy

The table below shows the Company's available capital for the years ending 31 March 2019 and 2018. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements.

		2019	2018
		£000	£000
Basic own funds (Tier 1 unrestricted)	A	299,313	185,438
Deferred tax assets (Tier 3)	B	3,483	4,244
Total basic own funds		**302,796**	**189,682**
Ancillary own funds (Tier 2) – 50% of the SCR	C	50,068	24,713
Available own funds	A+B+C	**352,864**	**214,395**
Eligible own funds	A+C	**349,381**	**210,151**
Solvency Capital Requirement (SCR)		100,137	49,427
Minimum Capital Requirement (MCR)		25,034	12,357
Ratio of eligible own funds to meet the SCR		349%	425%
Ratio of eligible own funds to meet the MCR		1,196%	1,501%

Reconciliation of equity to basic own funds

	2019	2018
	£000	£000
Equity on an IFRS basis	317,644	207,776
Adjustments in respect of:		
Decrease in valuation of assets	(14,068)	(13,138)
Increase in valuation of technical provisions	(26,560)	(29,697)
Decrease in the valuation of other liabilities	25,780	24,741
Total basic own funds	**302,796**	**189,682**

As at 31 March 2019, the SCR is subject to supervisory assessment by the PRA.

(d) Standard formula and capital add on

The Company currently uses the Standard Formula to calculate its regulatory Solvency Capital Requirements.

The Standard Formula is a solvency calculation prescribed by the Regulator that has been set to reflect an average European insurance or reinsurance undertaking. Given the Company's unique structure, the Standard Formula does not fully capture the Company's risk profile. As a result:

- The Company has developed a Partial Internal Model ("PIM") which more appropriately captures its risk profile. In order to utilise the PIM to calculate the SCR, it must first be approved by the PRA through an Internal Model approval process. The Company is currently working through this process with the PRA.
- In the interim period, the PRA has set a capital add-on in line with Article 37.1.a.ii of the Solvency II Directive (risk profile deviates significantly from the assumptions underlying the Standard Formula). As at 31 March 2019, the SCR of £100.1m (2018: £49.4m) includes a capital add-on of £70.2m (2018: £22.3m). The capital add-on is calculated in line with the basis discussed and agreed with the PRA.

The Company has identified non-life Premium and Catastrophe risk, Reserve risk, Counterparty credit risk and Operational risk as the four areas where the Standard Formula may not be appropriate, given the risk profile of the Company. The capital add-on and its application to the Company is subject to an annual review with the PRA until the Company has developed an approved PIM.

(e) Ancillary own-funds

The PRA has approved the Company to use up to 50% of the SCR, capped at a monetary amount of £75m, as a method by which uncalled Levy II may be recognised as ancillary own-fund items for the period 29 March 2019 to 31 March 2022. The minimum frequency of recalculation of the amount of ancillary own funds item using this method is every three months.

(f) Eligibility and limits applicable to own funds

The Company must ensure that it has enough capital of sufficient quality to meet the SCR and MCR eligibility requirements.

The Company must be able to meet at least 50% of its SCR with tier 1 own funds, of which only 20% can be restricted. A maximum of 15% of the SCR may be met by Tier 3 Capital. A maximum of 50% of the SCR may be met by Tier 2 and Tier 3 capital.

The Company's Minimum Capital Requirements must be met with a minimum of:

- 80% of basic Tier 1 own funds;
- 20% of basic Tier 2 own funds.

As at 31 March 2019 and 2018, 100% of the SCR and MCR requirements are met with unrestricted Tier 1 own funds.

(g) Dividend distributions

There is no requirement for the Company to redistribute to its Ordinary Members the accumulated surplus held in the MMA. The Company may repay mutual members balances that relate to previous Levy II calls from the industry provided that:

- The accumulated surplus capital is in excess of the SCR requirements;
- A period of five years has elapsed since the original Levy II call was made; and
- The PRA approves the distribution to Ordinary Members.

The Company has not received any Levy II contributions during the years ended 31 March 2019 and 2018. The accumulated mutual members account as at 31 March 2019 is £nil (2018: £nil) and there are no foreseeable dividend distributions.

7. Segment information

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

8. Net premiums

	2019	2018
	£000	£000
Gross written premiums	33,728	32,376
Gross change in unearned premium provision	93	(1,321)
Gross earned premiums	33,821	31,055
Premium ceded to reinsurers	(75,411)	(74,678)
Ceded change in unearned premium provision	869	660
Ceded earned premiums	(74,542)	(74,018)
Net earned premiums	**(40,721)**	**(42,963)**

The premium the Company charges is not reflective of the underlying risk that the Company assumes. The Company's premium risk strategy is to charge insurers a subsidised fixed rate that is set according to the council tax band associated with the insured property.

The Company purchases outwards reinsurance protection at market rates to provide cover up to its Liability Limit of £2.198bn (2018: £2.133bn) and Loss Limit of £100m. Overall this results in negative earned premium for the year.

The cost of the subsidy provided through the premium thresholds is met by a Levy raised from all insurers writing UK household insurance.

9. Levy income

The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 and The Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015 (collectively "the Regulations") enable the Company, among other matters, to raise an annual insurance industry Levy I.

The Levy I has been set out in the Regulations and is payable by UK household insurers. Levy I income for the year ended 31 March 2019 was £180m (2018: £180m).

The Company also has the ability to issue a compulsory call for additional funding from the UK household insurers through a Levy II top up mechanism. Levy II contributions received from the Ordinary Members of the Company are initially recognised in a mutual member account within equity. Levy II contributions received from non-members are treated as income in accordance with Levy I.

Levy II income for the year ended 31 March 2019 was £nil (2018: £nil).

10. Fees and commission income

	2019	2018
	£000	£000
Reinsurance commission income	19,888	17,417
Change in unearned commission income	(673)	266
Total fees and commission income	**19,215**	**17,683**

The Company receives sliding-scale commission income on its outwards reinsurance quota share arrangement.

11. Investment income

	2019	2018
	£000	£000
Interest income on cash and short-term deposits	1,659	291
Investment expenses	(3)	-
Total investment income	**1,656**	**291**

12. Net insurance claims

	Note	2019	2018
Gross claims paid		**£000**	**£000**
Gross claims paid		5,584	2,037
Allocated claims handling costs	14	496	480
Total gross paid claims	22	**6,080**	**2,517**
Total paid claims ceded to reinsurers	22	**(2,792)**	**(1,018)**
Gross change in contract liabilities			
Change in outstanding claims provision	22	3,284	2,661
Change in incurred but not reported provision	22	3,066	(715)
Change in premium deficiency provision	24	3,979	3,509
Total gross change in contract liabilities		**10,329**	**5,455**
Change in contract liabilities ceded to reinsurers			
Change in outstanding claims provision	22	(1,642)	(1,331)
Change in incurred but not reported provision	22	(1,517)	323
Change in premium deficiency provision	24	(2,003)	(1,606)
Total change in contract liabilities ceded to reinsurers		**(5,162)**	**(2,614)**
Claims net of reinsurance		**8,455**	**4,340**

13. Finance Costs

	2019	2018
	£000	**£000**
Loan facility fees	-	-
Total finance costs	**-**	**-**

14. Other operating and administrative expenses

	Note	2019 £000	2018 £000
Service contracts including outsourcing		7,225	7,291
Employee benefits expense	15	5,161	4,876
Other staff costs		520	553
Office costs		1,085	1,107
IT costs		776	311
Consultancy and other third-party costs		493	895
Legal, rating agency, regulatory and audit	16	614	686
Capital model fees and validation		284	564
PR, marketing and communications		392	428
Allocation of expenses to paid claims	12	(496)	(480)
Total other operating and administrative expenses		**16,054**	**16,231**

Included in office costs are £1.0m (2018: £1.0m) of office rental costs incurred under operating leases.

15. Employee benefits expense

	2019 £000	2018 £000
Wages and salaries	4,275	4,087
Social security costs	598	511
Employer pension contributions	288	278
Employee benefits expense	**5,161**	**4,876**
Temporary staff costs	-	-
Total employee benefits expense	**5,161**	**4,876**

	2019	2018
Average number of permanent staff for the year	39	38
Average number of temporary staff for the year	0	0
Number of permanent and temporary staff employed at the end of year	38	36

16. Auditors' remuneration

	2019	2018
	£000	£000
Fees payable for the audit of the financial statements	254	222
Fees payable for other services		
-Audit-related assurance services	31	102
-Tax advisory services	-	-
-Other non-audit related fees	-	-
Total non-audit fees	31	102
Total auditor's remuneration	**285**	**324**

17. Taxation

UK corporation tax charge	2019 £000	2018 £000
UK corporation tax for the current financial year	25,773	25,544
Prior year adjustments	-	(834)
Total current tax expense	**25,773**	**24,710**
Deferred tax		
Temporary differences	-	-
Total deferred tax	**-**	**-**
Total UK corporation tax charge	**25,773**	**24,710**

Reconciliation of UK corporation tax charge	2019 £000	2018 £000
Profit before tax	135,641	134,440
Income tax charge at a rate of 19% (2018: 19%)	25,773	25,544
Adjustments in respect of prior periods	-	(834)
Total UK corporation tax charge	**25,773**	**24,710**

Adjustments in respect of prior periods relate to research and development tax reliefs available to the Company.

Deferred tax asset	2019 £000	2018 £000
Opening deferred tax asset	-	-
Tax credit for the year	-	-
Deferred tax losses utilised in the year	-	-
Closing net deferred tax asset	**-**	**-**

18. Reinsurance receivables

	2019	2018
	£000	£000
Premium due from policyholders	1,846	730
Pipeline premium due from policyholders	3,106	4,399
Premium due from reinsurers	14	-
Reinsurance commission receivable	11,635	11,930
Reinsurance recoveries on paid losses	1,088	367
Total reinsurance receivables	**17,689**	**17,426**
Current	17,689	17,426
Non-current	-	-

The carrying amounts disclosed above approximate fair value at the reporting date.

19. Trade and other receivables

	2019	2018
	£000	£000
Prepayments	419	355
Office lease deposit	-	48
Accrued interest	318	75
Other	11	21
Total trade and other receivables	**748**	**499**
Current	748	499
Non-current	-	-

The carrying amounts disclosed above approximate fair value at the reporting date.

20. Cash and short-term deposits

	2019	2018
	£000	£000
Bank balances	5,207	9,920
Short term deposits	353,000	247,000
Total	358,207	256,920
Bank overdrafts	-	-
Total cash and short-term deposits	**358,207**	**256,920**

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company.

The carrying amounts disclosed above approximate fair value at the reporting date.

21. Insurance contract liabilities

31 March 2019	Note	Assumed	Ceded	Net
		£000	£000	£000
Provision for unearned premium	**23**	**16,613**	**(27,578)**	**(10,965)**
Outstanding claims reserves	22	7,665	(3,833)	3,832
Incurred but not reported reserves	22	8,372	(4,116)	4,256
Total incurred claims reserves		16,037	(7,949)	8,088
Premium deficiency provision	24	10,400	(5,065)	5,335
Total insurance claims liabilities		**26,437**	**(13,014)**	**13,423**
Total insurance contract liabilities		**43,050**	**(40,592)**	**2,458**
Current		36,618	(37,453)	(835)
Non-current		6,432	(3,139)	3,293

31 March 2018	Note	Assumed	Ceded	Net
		£000	£000	£000
Provision for unearned premium	**23**	**16,706**	**(26,709)**	**(10,003)**
Outstanding claims reserves	22	4,381	(2,191)	2,190
Incurred but not reported reserves	22	5,306	(2,599)	2,707
Total incurred claims reserves		9,687	(4,790)	4,897
Premium deficiency provision	24	6,421	(3,062)	3,359
Total insurance claims liabilities		**16,108**	**(7,852)**	**8,256**
Total insurance contract liabilities		**32,814**	**(34,561)**	**(1,747)**
Current		28,806	(32,637)	(3,831)
Non-current		4,008	(1,924)	2,084

As at 31 March 2019, the Company has £8.5m (2018: £9.3m) of irrevocable standby letters of credit issued in its favour in relation to outwards reinsurance contracts.

Amounts due from reinsurers in respect of claims already paid by the Company are included in reinsurance receivables (see note 18).

The Company commenced underwriting in April 2016. See note 5.1 for loss development tables.

22. Movement in incurred claims reserves

		Assumed	Ceded	Net
		£000	**£000**	**£000**
Outstanding claims reserves		4,381	(2,191)	2,190
Incurred but not reported reserves		5,306	(2,599)	2,707
Opening balance as at 01 April 2018		**9,687**	**(4,790)**	**4,897**
Prior accident year		(3,203)	1,602	(1,601)
Current accident year	12	(2,877)	1,190	(1,687)
Claims paid during the year		**(6,080)**	**2,792**	**(3,288)**
Prior accident year		(4,027)	1,970	(2,057)
Current accident year		16,457	(7,921)	8,536
Claims incurred during the year		**12,430**	**(5,951)**	**6,479**
Outstanding claims reserves		7,665	(3,833)	3,832
Incurred but not reported reserves		8,372	(4,116)	4,256
Closing balance as at 31 March 2019		**16,037**	**(7,949)**	**8,088**
Current		14,545	(7,216)	7,329
Non-current		1,492	(733)	759

		Assumed	Ceded	Net
		£000	**£000**	**£000**
Outstanding claims reserves		1,720	(860)	860
Incurred but not reported reserves		6,021	(2,922)	3,099
Opening balance as at 01 April 2017		**7,741**	**(3,782)**	**3,959**
Prior accident year		(1,384)	692	(692)
Current accident year	12	(1,133)	326	(807)
Claims paid during the year		**(2,517)**	**1,018**	**(1,499)**
Prior accident year		(5,561)	2,697	(2,864)
Current accident year		10,024	(4,723)	5,301
Claims incurred during the year		**4,463**	**(2,026)**	**2,437**
Outstanding claims reserves		4,381	(2,191)	2,190
Incurred but not reported reserves		5,306	(2,599)	2,707
Closing balance as at 31 March 2018		**9,687**	**(4,790)**	**4,897**
Current		8,750	(4,331)	4,419
Non-current		937	(459)	478

Included in assumed claims paid in the current accident year are £0.5m (2018: £0.5m) of claims handling costs which have been allocated from operating and administrative expenses (see note 12).

23. Provision for unearned premium

31 March 2019	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2018	**16,706**	**(26,709)**	**(10,003)**
Premium written (ceded) during the year	33,728	(75,411)	(41,683)
Premiums earned during the year	(33,821)	74,542	40,721
Closing balance as at 31 March 2019	**16,613**	**(27,578)**	**(10,965)**
Current	16,613	(27,578)	(10,965)
Non-current	-	-	-

31 March 2018	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2017	**15,385**	**(26,049)**	**(10,664)**
Premium written (ceded) during the year	32,376	(74,678)	(42,302)
Premiums earned during the year	(31,055)	74,018	42,963
Closing balance as at 31 March 2018	**16,706**	**(26,709)**	**(10,003)**
Current	16,706	(26,709)	(10,003)
Non-current	-	-	-

24. Provision for premium deficiency

31 March 2019	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2018	**6,421**	**(3,062)**	**3,359**
Change during the year	3,979	(2,003)	1,976
Closing balance as at 31 March 2019	**10,400**	**(5,065)**	**5,335**
Current	5,460	(2,659)	2,801
Non-current	4,940	(2,406)	2,534

31 March 2018	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2017	**2,912**	**(1,456)**	**1,456**
Change during the year	3,509	(1,606)	1,903
Closing balance as at 31 March 2018	**6,421**	**(3,062)**	**3,359**
Current	3,350	(1,597)	1,753
Non-current	3,071	(1,465)	1,606

The Company provides reinsurance cover at a subsidised fixed rate to cedants, resulting in an expected underwriting loss each financial year, financed by the £180m Levy on UK household insurers. The Company expects that assumed premium will not be sufficient to cover the estimated mean costs of claims. A premium deficiency provision has been recognised as the Company estimates that there is an overall excess of expected claims over unearned premiums.

25. Deferred commission income

	2019	2018
	£000	£000
Opening balance as at 01 April	**7,766**	**8,032**
Commission income deferred during the year	19,888	17,417
Released to Statement of Profit or Loss	(19,215)	(17,683)
Closing balance as at 31 March	**8,439**	**7,766**
Current	8,439	7,766
Non-current	-	-

26. Reinsurance payables

	2019	2018
	£000	**£000**
Premium payable to reinsurers	17,328	16,846
Claims payable to policyholders	0	191
Total reinsurance payables	**17,328**	**17,037**
Current	17,328	17,037
Non-current	-	-

The carrying amounts disclosed above approximate fair value at the reporting date.

The Company is only required to pay a claim when the underlying claim has been settled by the direct insurer. The Company has up to one month to pay a claim from receipt of the claims bordereaux.

27. Trade and other payables

	2019	2018
	£000	**£000**
Levy receipts in advance	13,287	29,707
Accruals and deferred income	1,801	1,365
Staff costs	146	144
Total trade and other payables	**15,234**	**31,216**
Current	15,234	31,216
Non-current	-	-

The carrying amounts disclosed above approximate fair value at the reporting date.

28. Ordinary Members

The Company is limited by guarantee and has 38 guarantors (Ordinary Members) who undertake to contribute not more than £1.00 in the event that the Company is wound up while they are a member or within one year of them ceasing to be a Member.

The Ordinary Members as at 31 March 2019 are:

- Acromas Insurance Company Limited;
- Admiral Insurance (Gibraltar) Limited;
- Ageas Insurance Limited;
- AIG UK Limited;
- Allianz Insurance Plc;
- Amlin Insurance (UK) Plc;
- Ascot Underwriting Limited;
- Aviva Insurance Limited;
- Axa Art Insurance Limited;
- Axa Insurance UK Plc;
- Canopius Managing Agents Limited for and on behalf of Syndicate 4444;
- Catlin Insurance Company (UK) Limited;
- Catlin Underwriting Agencies Limited for and on behalf of Syndicate 2003;
- China Taiping Insurance (UK) Co Limited;
- CIS General Insurance Ltd (The Co-operative Insurance);
- Cornish Mutual Assurance Co Limited(The);
- Covea Insurance Plc;
- Ecclesiastical Insurance Office Plc;
- Great Lakes Reinsurance (UK) SE;
- Gresham Insurance Company Limited;
- Haven Insurance Company Limited;
- Highway Insurance Company Limited;
- Hiscox Insurance Company Limited;
- International Insurance Company of Hannover SE;
- Legal and General Insurance Limited;
- Liverpool Victoria Insurance Company Limited;
- Lloyds Bank General Insurance Limited;
- Methodist Insurance Plc;
- MS Amlin Underwriting Limited as Managing Agent for and on behalf of Lloyds Syndicate 2001;
- The Baptist Insurance Company Plc;
- The National Farmers' Union Mutual Insurance Society Limited;
- Ocaso S.A., Compania de Seguros y Reaseguros;
- Royal & Sun Alliance Insurance Plc;
- St Andrews Insurance Plc;
- Tesco underwriting Limited;
- UK Insurance Limited;
- XL Insurance Company SE;
- Zurich Insurance Plc.

In addition, the Secretary of State for Environment, Food and Rural Affairs is a Special Member of the Company.

Through its normal course of business, a number of transactions are by necessity undertaken by the Company with its Ordinary Members:

- Levy income: Underwriters of UK household insurance business are required to contribute to the Company annual Levy in proportion to their relevant underwriting profiles;
- Gross written premium and associated claims: if signed up to the Company's standard inwards reinsurance treaty, underwriters of UK household insurance business may cede the associated flood peril in relation to their inwards policies to the Company;
- Outwards reinsurance ceded premium and associated technical balances: through a public procurement process subject to the Official Journal of the European Union requirements, the Company places its outwards reinsurance programme on the global reinsurance market;
- Commercial insurance: Ordinary Members participate on the commercial insurance coverage purchased by the Company

All transactions are entered into on arm's length terms and are considered by Management to be market sensitive.

For the years ended 31 March 2019 and 2018, the following four Ordinary Members individually account for 10% or more of the voting rights of Ordinary Members.

- Aviva Insurance Limited;
- Lloyds Bank General Insurance Limited;
- Royal & Sun Alliance Insurance Plc;
- UK Insurance Limited.

The above Ordinary Members write UK household insurance business and contribute to the Levy I income and gross written premium assumed by the Company and may also provide commercial insurance services.

29. Contingencies and commitments

(a) Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal action proceedings, Management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

The Company is also subject to insurance Solvency II regulations and has complied with all the Solvency II regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

(b) **Capital commitments**

The Company has no capital commitments at the reporting date.

(c) Contractual commitments and operating leases

	2019	2018
	£000	£000
Service contracts	6,179	6,363
Staff contractual commitments	1,927	1,799
Operating lease commitments	1,919	854
Other financial commitments	783	724
Total commitments	**10,808**	**9,740**
Due within one year	9,970	9,740
Due later than one year but not later than five years	838	-
Total commitments	**10,808**	**9,740**

Operating Lease commitments relate fully to the Building Lease commitment which has elements due within one year and due later than one year but not later than five years.

All other contractual commitments and operating leases have cancellation clauses of one year or less.

30. Related party transactions

(a) Compensation of Key Management personnel

The Company enters into transactions with key Management personnel. Key Management personnel include the Directors and Non-Executive Directors. There are only two Directors entitled to the Company pension scheme. The summary of the compensation of key management personnel for the year is as follows:

	2019	2018
	£000	£000
Short-term employee benefits	1,127	1,113
Pension allowance	44	34
Post-employment pension and medical benefits	24	34
Termination benefits	-	-
Total Directors' emoluments	**1,195**	**1,181**

(b) Compensation of highest-paid Director

	2019	2018
	£000	£000
Short-term employee benefits	458	445
Pension allowance	38	34
Post-employment pension and medical benefits	-	-
Termination benefits	-	-
Total compensation of the highest-paid Director	**496**	**479**

(c) Department of Environment, Food and Rural Affairs

In accordance with the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, the Company is consolidated into the Department for Environment, Food and Rural Affairs' annual report and accounts. The Company is yet to be classified as a non-departmental Public Body by the Office for National Statistics.

31. Directors and Officers shared with other entities

Andy Bord, Chief Executive Officer of the Company, previously held the position of CEO at Capita Insurance Services. Andy Bord held a small number of shares and share options in Capita Plc all of which have been sold or matured during the year ended 31 March 2018. The Company has contracted with Capita Plc to provide managing agency outsourcing services. For the year ended 31 March 2019 and 2018, the Company incurred Capita managing agency fees of £5.9m (2018: £6.1m).

Claire Ighodaro, an Independent Non-Executive Director, is currently Non-Executive Chair of Axa XL's UK entities and was previously Non-Executive Chair of XL Insurance Company SE. Axa XL's UK entities and XL Insurance Company SE underwrite household insurance business in the United Kingdom and provide flood-related reinsurance protection.

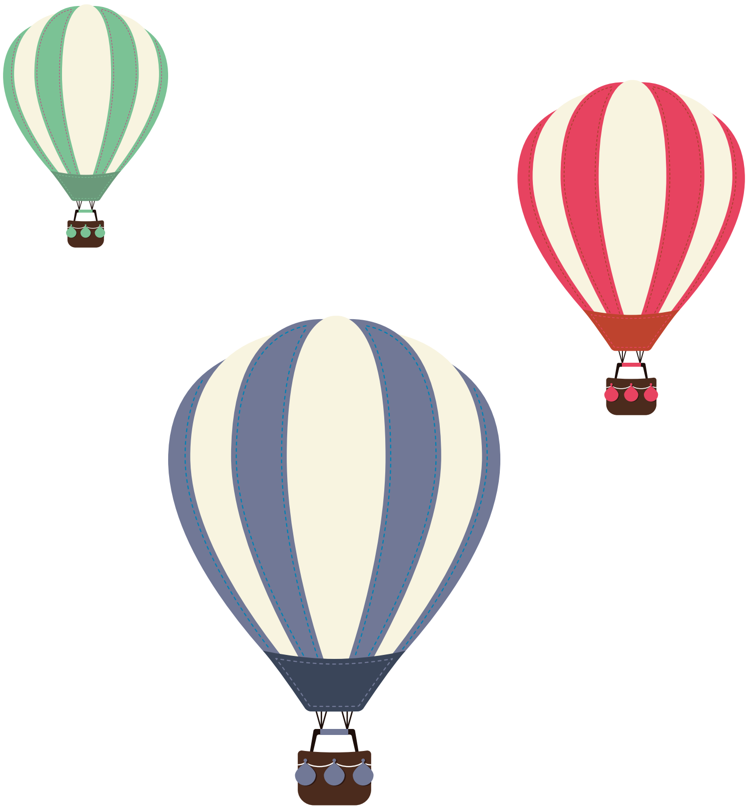
David Hindley, an Independent Non-Executive Director is currently a Non-Executive Director with The Channel Managing Agency Limited (where he is Chair of the Audit Committee). Syndicate 2015, managed by The Channel Managing Agency Limited, writes a portfolio of UK business that includes household exposures. He is also currently a Non-Executive Director with British Gas Insurance Limited and British Gas Services Limited (BGSL).

Huw Evans, Senior Independent Non-Executive Director and Chair of the Remuneration Committee, is currently Director General of the Association of British Insurers (ABI). For the year ended 31 March 2019, the Company incurred £60k (2018: £60k) of ABI Associate membership fees.

Michael Bartholomeusz who resigned as Chief Risk Officer of Flood Re effective 31 May 2017 was also a Director of ORIC International. For the year ended 31 March 2019, the Company incurred £27k (2018: £26k) of ORIC corporate membership fees.

32. Events after the reporting period

There are no relevant material events after the reporting period to highlight.



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