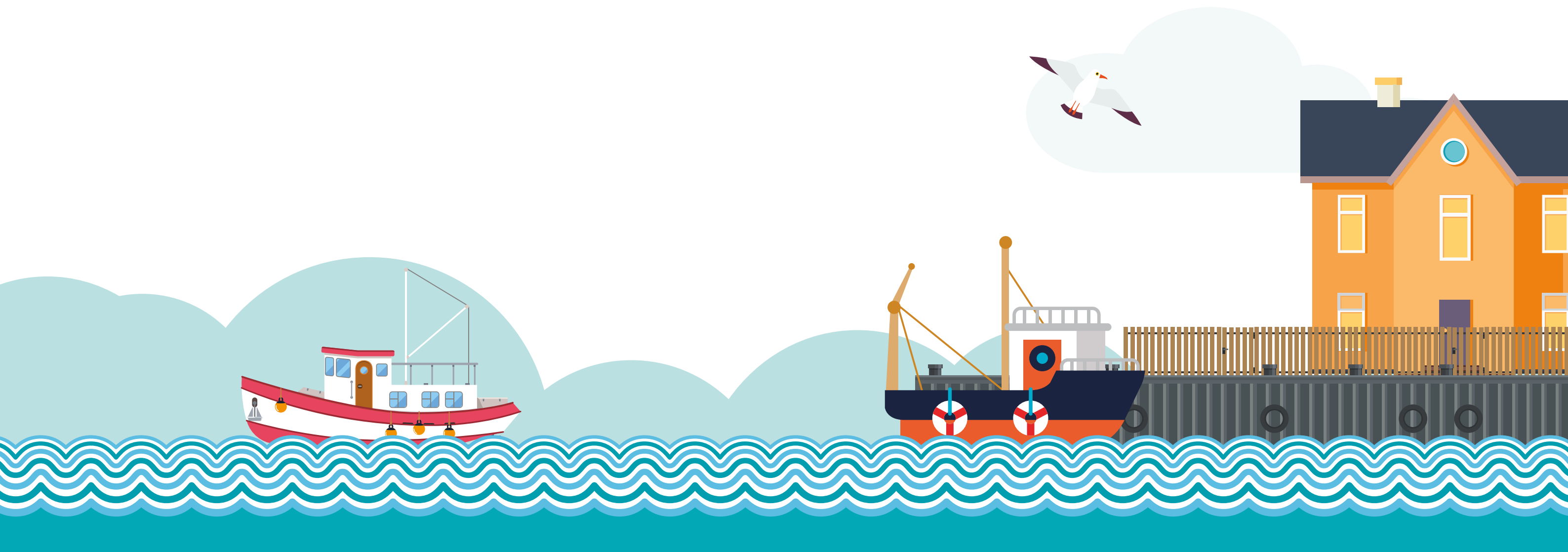
Flood Re Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2020

Company Registration Number: 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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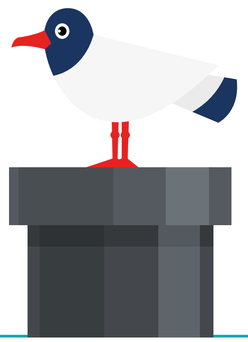

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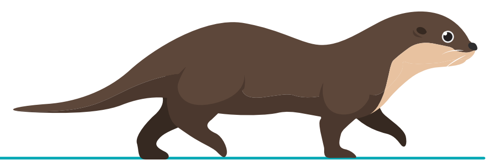

Flooding in York in the aftermath of Storm Dennis 2020.

THE POWER OF RESILIENT ADAPTATION IN THE HOME

Storm Ciara and Dennis devastated many homes across the UK during the winter of 2020 and left many communities in despair.

In 2019, Flood Re worked with Mary Dhonau Associates (MDA) to produce an emagazine entitled Property Flood Resilience.

The emagazine is full of real life stories of how people have adapted their homes and businesses to be more resilient to future flooding. One of the homes featured includes Clare's story about being flooded multiple times and most recently due to Storm Ciara and Dennis. Clare installed resilient measures in her home before Storm Ciara and Dennis hit, proving she could recover quicker than ever after being flooded.

Clare's kitchen featuring resilient measures to help better protect against flooding. Photo courtesy of the Todmorden Flood Group

"THIS FEBRUARY 2020 I HAD WATER UP THE OUTSIDE OF MY HOUSE AS HIGH, IF NOT HIGHER THAN THE PREVIOUS TWO OCCASIONS OUR HOME HAS FLOODED.

This was the first time my hometown had flooded this badly since we had had all the work done, so was it's first proper test. The tanking held. The PVC flood doors held. The concrete floor held. Instead of standing in half a foot of water inside I just had a dribble coming in where some wires went through the wall to the meters outside. It was getting through at a speed at which I could mop it up.

In the end I had a third of a mop bucket of water instead of a £25,000 insurance claim. I couldn't be more happy!"

CLARE
from Todmorden

COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2020

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
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280 Bishopsgate
London
EC2M 4RB

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

COMPANY OVERVIEW
FOR THE YEAR ENDED 31 MARCH 2020

The Flood Re Limited 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 £2.244bn (2019: £2.198bn) 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 Limited 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 the Financial Conduct Authority (FCA).

Flood Re Limited launched on 4 April 2016.

Flood Re Scheme highlights	2020	2019	2018	2017
Gross written premium	£34m	£34m	£32m	£28m
Gross insurance claims	£161m	£16m	£8m	£11m
Levy income	£180m	£180m	£180m	£180m
Profit before tax	£61m	£136m	£134m	£130m
Invested and liquid assets	£487m	£358m	£257m	£157m
Solvency capital ratio	522%	349%	425%	237%
Number of policies written	196,638	164,480	150,051	127,326

Flood Re Scheme Highlights

More than **300,000** properties benefiting since launch

Four out of five households with previous flood claims have seen a price reduction o more than **50%**

94% of the home insurance market offer the Scheme

196,638 policies this year

98% with prior flood claims can now receive quotes from five or more insurers

£61m profit before tax

522% solvency capital ratio

£487m invested & liquid assets

Optimised a more efficient three-year reinsurance programme

Launched the first National Flood Forum Flood Risk Communities' Charter

Modelling potential impact of climate change on future flooding

Partnered with the Environment Agency's 'What the Flood?' awareness campaign

Developed a blueprint for how Flood Protection Certificates could work

COVID-19 Overview

Overview and operational response

The global outbreak of COVID-19 in 2020 presented unique challenges to individuals, companies and governments across the world. At Flood Re, our focus from the beginning was always on ensuring the safety and wellbeing of our staff and this enabled us to ensure the continued operation of the Scheme and the ability to pay claims. We activated our well-established business continuity plans early, including home working for all employees and our outsourced partners. Our prompt actions ensured the seamless operation of all our key business services and the meeting of all our statutory obligations.

Storms Ciara and Dennis hit large parts of the country and caused widespread flooding shortly before the UK Government announced lockdown measures to control the spread of COVID-19. At Flood Re, we were acutely aware that some people, recently devastated by this flooding, might now have to endure further hardships. We were aware of cases where families had to stay longer in alternative accommodation through unavoidable delays to reinstatement. Others were hit with increased building costs as a result of lockdown restrictions. These increases to the cost of insurance claims have been estimated and provided for within the Financial Statements.

Ongoing risk management

The Company is working effectively on a remote basis and is capable of doing so for an ongoing period, including meeting its business continuity and information security needs.

Flood Re's risk focus going forward will primarily be in relation to:

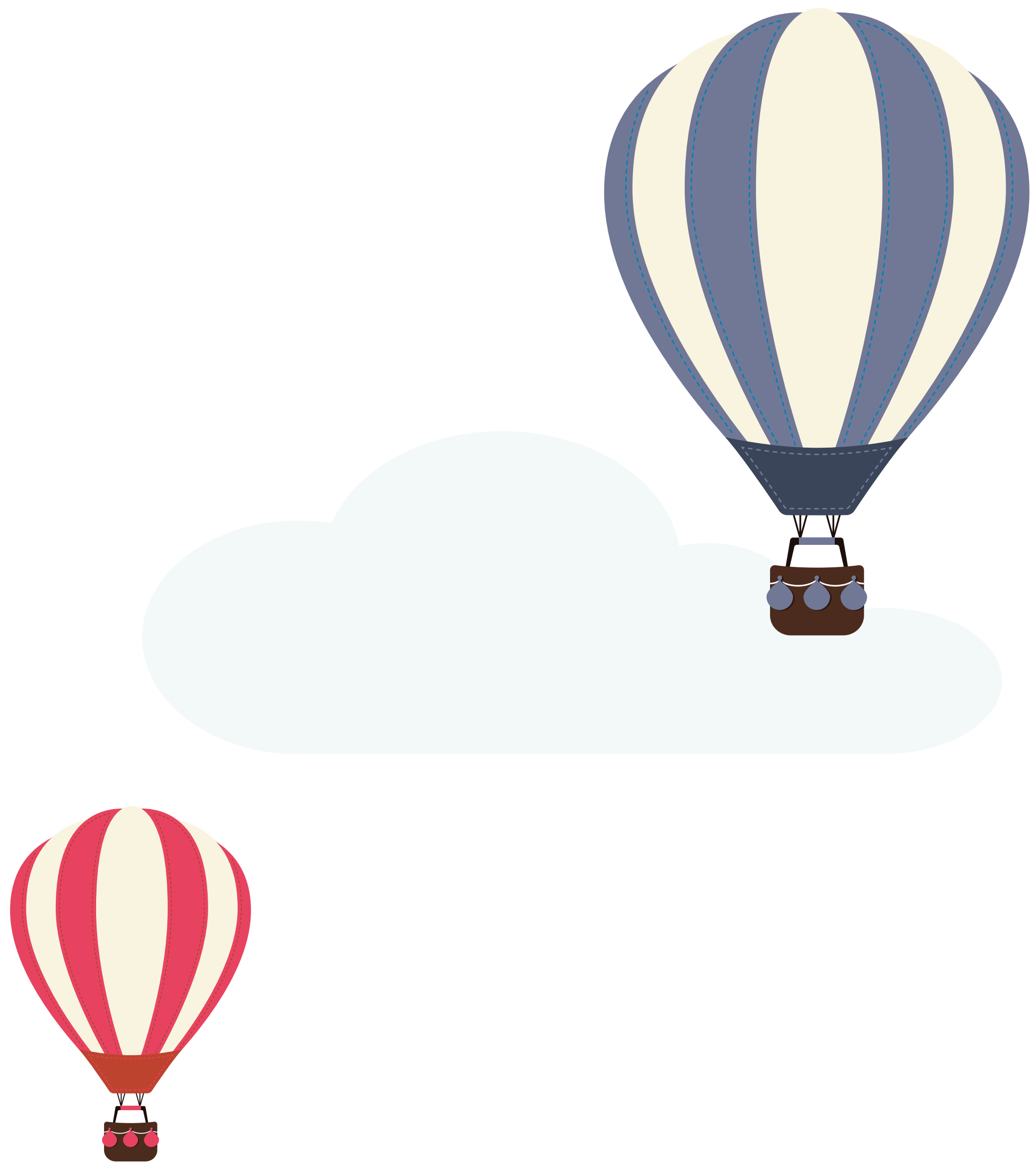
(i) Counterparty credit risk, driven by the wider insurance and reinsurance industry impacts from COVID-19

(ii) The potential future impact on reinsurance market capacity and the pricing of the Company's reinsurance protection needs.

These risks are actively monitored and managed on an ongoing basis by the Flood Re Executive Committee.

Financial assessment and going concern

Outside of these claims costs, Flood Re has limited direct financial exposure to the impacts of COVID-19. This is due to the Company's single peril risk exposure, conservative investment portfolio, secure level of capitalisation and the Scheme's financial structure. As such, the Board considers it appropriate to prepare these Financial Statements on a going concern basis.



STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Directors present their Strategic Report on the Company for the year ended 31 March 2020.

Statement by the Chair of Flood Re

Flood Re is a unique joint initiative between the insurance industry and the UK 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.

The past year has been an extraordinary one for all of us. The need to respond to the COVID-19 pandemic in March 2020 presented significant challenges for the organisation and our response to these is detailed on the previous page. I am proud to say that the team at Flood Re continued through this period to deliver strongly against both of our objectives.

In 2019/20, the UK experienced the first major floods since Flood Re was launched four years ago. Storms during November 2019 followed by Ciara and Dennis in February 2020 battered the country, causing significant damage and flooding to thousands of homes, affecting people in the Midlands and Northern England, Southern Scotland and South Wales.

Householders whose homes have flooded can benefit from Flood Re in one of two ways. A significant proportion (around 30%) of the insured homes were backed directly by Flood Re, and others benefitted indirectly from access to the competitive home insurance market enabled by the Flood Re Scheme.

Since 2016, Flood Re has benefitted more than 300,000 homes across the UK, some of which would have been uninsurable prior to Flood Re's creation. Now, householders in flood-prone areas can shop around across a range of different insurers, covering almost the entire market, to find the right policy for them. Independent research for Flood Re shows that 98% of those surveyed with prior flood claims can now receive quotes from five or more insurers. As a result of this competitive market, four out of five households with a previous flood claim have seen a price reduction of more than 50% in the cost of their home insurance. Flood Re has given hundreds of thousands of people vital peace of mind that they are now protected against financial loss if they were to be flooded.

Flooding is a dynamic risk. Over recent years, we believe that losses from flooding have reduced as a consequence of investment in flood defences, but as we look to the future we can see climate change increasing the frequency and severity of flooding, putting more homes at risk. By the 2050s for example, annual losses from flooding are expected to increase by between 25% and 80% depending on whether global temperatures warm by 2°C or 4°C. This is the case even with current levels of investment in flood defences, underlining the need for further adaption measures to protect homes from flooding.

The Scheme will be impacted by climate change. As the incidence of flooding increases, it is likely that insurers will cede more homes to Flood Re and more households will benefit from the security of continued affordability and availability. Secondly, it will intensify the challenge we face in managing the market back to affordable, risk-reflective pricing by 2039.

The Scheme was designed to be dynamic and respond efficiently to both the historic level of claims and the projections of future losses, thus we are confident that we can accommodate increased volumes. As part of our Quinquennial Review (QQR)[1], which we concluded last year, we proposed changes to the financial parameters of the Scheme that will enable it to adjust to changing volumes of business and claims on a more timely basis.

Climate change also threatens our ability to exit the market by 2039. That is why effective flood risk management and investment in defences are essential to reduce the frequency and severity of future flooding. We have been encouraged by the announcement in the 2020 Budget of significant increases of funding in this area and would like to see the UK Government go further by ensuring this investment is sustained over the longer term. In addition, it is essential that all new housing developments are built with flood risk in mind. This means that existing planning guidance is followed and, where necessary, enforced.

In the QQR, Flood Re made practical proposals to support and accelerate the adoption of resilience measures in homes at risk. The first is the 'Build Back Better' initiative, where Flood Re would be permitted to pay claims that include an additional amount for resilient or resistant repair, above and beyond the original damage. The second proposal is for 'discounted premiums' that would recognise and reward those householders who have proactively made their homes more resilient to flooding, by offering them discounted premiums on their home insurance policies. Flood Re's package of reforms was presented to the Secretary of State for Environment, Food and Rural Affairs last year and we await his response.

The proposals in the QQR to improve the resilience of the housing stock are only part of the work we are undertaking to support the market transition. We are clear though that we will only be able to achieve this if measures to reduce the cost of flooding are sustainable in the long-term and respond effectively to the challenge of climate change.

After three benign winters, the floods in November and Storms Ciara and Dennis were the first significant weather events to which we have had to respond. Flooding is a dreadful event and no one would ever want to experience it, but I hope that Flood Re will enable households to continue to benefit from affordable insurance cover. The continued ability of people to benefit from the Scheme is dependent upon the hard work and expertise of the Flood Re team and I am grateful for their contribution over the last 12 months.

Mark Hoban - Chair
Date: 22 June 2020

[1] Further details of the QQR can be found on the Company's website at www.floodre.co.uk/about-us/reports/

Chief Executive Officer's statement

Four years after launch, Flood Re continues to make home insurance more widely available and affordable for households at risk of flooding across the UK.

After three relatively dry years, 2019/20 saw the first major Storms, Ciara and Dennis, causing widespread flooding across the UK. Between November 2019 and February 2020, thousands of homes were flooded in South Wales, Northern and Central England and the Scottish Borders. This year highlighted the importance of the Flood Re Scheme and demonstrated it working successfully as planned and designed.

During the past financial year, the number of policies backed by Flood Re increased to almost 200,000, a rise of 20% over 2018/19. The decision we took to reduce premiums in January 2019 – by 33% for contents policies and 12.5% for buildings policies – has contributed to this growth. I am proud that this means that in total more than 300,000 properties have benefitted from a policy backed by the Scheme since its launch in April 2016.

Not only has Flood Re provided financial protection to hundreds of thousands of householders over its lifetime, but it means that those whose homes and lives have been devastated by flooding in the last year will still be able to access affordable home insurance; giving them peace of mind.

Results and performance

The results of the Company for the year ended 31 March 2020 show a profit before tax of £61m (2019: £136m), with an income from the Levy of £180m (2019: £180m) and gross written premiums of £34m (2019: £34m). Eligible and available owned funds under the Solvency II Directive stands at £417m (2019: £349m).

In 2019/20 we incurred claims at a gross cost of £160m (2019: £16m). This year, we have processed more claims and paid out more than we did in the combined first three years of operation.

Making the Scheme more efficient, responsive and flexible

We completed our first statutory review of Flood Re, known as the Quinquennial Review (QQR), last year and published our findings at our AGM. We made proposals to improve the efficiency and responsiveness of the Scheme and to enable and accelerate the transition process by supporting and incentivising the increased resilience of homes to flood damage.

In this review of the Scheme, we identified a number of areas where greater efficiency and responsiveness could be achieved by making changes to our operating parameters. Specifically, at present, the amount collected from insurers annually (Levy 1) and the required level of protection (liability limit) are both fixed in legislation and can only be changed every five years. Further, they are not linked to the exposure of Flood Re backed policies or the actual cost of the outwards reinsurance (the Scheme's largest item of expenditure excluding claims). The QQR thus proposed that we become responsible for determining both of these values and to do so on a three-year cycle – therefore aligning with the purchase of the outwards reinsurance. This will make the Scheme more responsive to market needs at the time and create a framework where the Scheme can be operated on both a prudent and efficient basis for its lifetime.

The QQR recommendations were presented to the Secretary of State for Environment, Food and Rural Affairs in July 2019 and will be subject to a consultation by his Department. We continue to be ready to support this so that any agreed measures can be implemented as quickly as possible.

Towards a successful transition

Flood Re has progressed its plan to exit from the market in 2039. We have been looking at potential changes to the Scheme, deepening our understanding of flood risk and working with partners to bring about changes we need to see to make our transition possible.

As part of the QQR, we propose permitting Flood Re to offer lower premiums where householders have taken steps to make their properties more resilient to future flooding. This discount will, we believe, incentivise more people to take pre-emptive action and also help to support the market for resilience products.

Another recommendation would allow the Scheme to reimburse insurers for claims that include some resilient repair over and beyond the original flood-related loss. This idea of 'Build Back Better' would help to reduce impact of future flooding on homes and reduce the cost of future claims.

Our 'Let's talk about Flooding' and 'Tackling Flooding Together' campaigns in partnership with the National Flood Forum and the Scottish Flood Forum successfully concluded this year. Lively events were held for communities tackling flooding across the UK – including those in Birmingham, Kent, Lancaster, Llandudno, Perth, Glasgow and Aberdeen.

The culmination was the Parliamentary launch of the National Flood Forum's new Flood Risk Communities' Charter in November 2019. This declaration contains recommendations and demands to ensure that communities are at the heart of the nation's response to the challenge of flooding. The lasting legacy for the campaign is this Charter being used by the NFF to give focus and direction to their advocacy on behalf of communities at risk of flooding. I am very pleased that Flood Re was able to provide support for this important initiative.

We have collaborated with our stakeholders to promote flood awareness and advance our agenda to make the country more flood resilient. We partnered with the Environment Agency for its 'What the Flood?' awareness campaign – this included a powerful video, using imagery of a dolls house, to bring home the true impacts of flooding. More than five million people watched the video across various forms of social media, including Facebook and Twitter, and it was widely shared by many of our partners in the insurance industry.

We have continued to develop our work on Flood Protection Certificates. This proposal will let homeowners, as well as those interested in buying or renting a property, know more about the real risks of that property being affected by flooding and inform them clearly about what they can do to reduce that risk. We intend to progress this concept in the coming year.

In response to the threat posed by climate change to both parts of Flood Re's purpose, we have also focused our research efforts on better understanding these risks and challenges and how we can catalyse action aimed at mitigation and adaptation. These are areas that Flood Re will be devoting more effort and resource to in the coming year.

A high-performing team

Our ability to meet successfully the challenge of our first major flood during the winter storms of 2019/20 was only possible due to the expertise of the professionals who make up Flood Re. I would like to take this opportunity to thank them for their hard work and commitment to Flood Re and our purpose.

The COVID-19 pandemic has created unprecedented challenges for everyone and Flood Re is no exception. Thanks to the effectiveness of our business continuity planning and the flexibility and resilience of our staff, we continued the smooth operation of the business while maintaining a high-performing culture. A top priority for our leadership team throughout has been ensuring that Flood Re continues to meet all its statutory, regulatory and operational obligations while supporting the health and well-being of our staff.

We have this year continued to invest in our organisational development programme to ensure we embed and reinforce the right set of desired behaviours. In addition, Flood Re remains a strong supporter of the Women in Finance Charter and we maintain our commitment to at least doubling the proportion of female representation on our Executive Committee by 2022.

Strategic objectives and key performance indicators

Flood Re is a uniquely complex organisation, being operationally independent from the UK Government and owned by the insurance industry. Regulated by the Prudential Regulation Authority and the Financial Conduct Authority, the Scheme is directly accountable to Parliament for the achievement of its public policy objectives, which are set out in legislation, and for its stewardship of public money.

Consequently, Flood Re lays its Accounts before Parliament and I, as the Scheme's CEO, am the designated Responsible Officer who is 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 Environment, Food and Rural Affairs.

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

When Flood Re launched in 2016, the Board set six key objectives for the Scheme. They remain relevant today and provide helpful measures against which to track our progress.

The following table 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 98% of households who had made prior flood claims can get quotes from five or more insurers, 95% can choose from at least 10 insurers and 92% 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. The QQR proposals allow for flexibility in setting the Levy I to align with the needs of the business.	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 buildings (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. These lower premiums were available throughout the entire financial year and supported the 20% increase in policies ceded to Flood Re in the year.

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 operates 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 for Levy II funds. A robust financial position with a solvency capital ratio of 522% (2019: 349%) and liquid resources of £487m (2019: £358m). Flood Re's own Partial Internal Model approved by the PRA for use within the business from 1 April 2020.
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.	Flood Re secures its reinsurance protection on a three-year basis, with the renewal of the programme effective from the beginning of the 19/20 financial year. Based upon a real, rather than hypothetical, portfolio – coupled with optimising coverage – this has resulted in a cost saving to the order of £17m in the past year with a further £33m over the next two years.

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.	Efficient, relevant and proportionate onboarding processes.	85 insurers representing 94% of the UK household insurance market participate in the Flood Re 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 2019/20, 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 £367m (2019: £318m). Available and Eligible Own Funds (Solvency II basis) of £417m (2019: £349m). Invested and liquid assets of £487m (2019: £358m).
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 Bordereaux Web Portal).	Flood Re mitigates this operational risk through the use of specialist outsourced 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, reviewed on an ongoing basis for continued appropriateness and robustness. Flood Re has achieved ISO 27001 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 three-year reinsurance brokerage relationship with 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 UK 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.	See the following table for progress in relation to: • Reducing the risk of flooding • Reducing the costs of flooding • Achieving an effective market.

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.	Assessed impact of climate change on UK housing and current Flood Re portfolio to inform transition metrics and areas of influence Flood Re has played an active role on the Department for Environmental, Food and Rural Affairs (Defra) Property Resilience Roundtable (PLFRR). Supported Environment Agency's (EA) Flood Action Campaign 'What the Flood'. Presented at Town and Country Planning Association's Spring Conference concerning the importance of future insurance availability in development Partnered with Mary Dhonau Associates to produce a Property Flood Resilience magazine, targeted to reach householders, which includes examples of how people have adapted their homes to make them resilient to future flooding.	Following the consultation process the EA has been finalising the National Flood and Coastal Erosion Risk Management (FCERM) Strategy text with Defra colleagues. At the end of January, the FCERM Strategy was submitted to the Minister. EA completed 30 separate flood management projects which have better protected 5,170 homes – bringing the cumulative total since April 2015 to 200,425. Defra Pathfinder flood resilience projects awarded and initiated. The UK Government announced funding for the flood and coastal defence programme in England would be increased to £5.2bn over six years (2021-2027) better protecting a further 336,000 homes and non-residential properties. According to EA modelling, this will reduce national flood risk by up to 11% by 2027. Committee on Climate Change publishes 'Progress in preparing for climate change – 2019 Progress report to Parliament'. The Environment Bill was introduced to Parliament in October 2019 but fell due to the general election. It was re-introduced on 30 January 2020.

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.	Completed Flood Performance Certificates feasibility study with the independent think tank WPI Economics. Continued to work on enabling 'Build Back Better' at reinstatement by insurers. Explored options for discounted premiums for Flood Re policyholders who have proactively taken steps to make their homes more resilient to flooding. Held an event in Parliament to launch the National Flood Forum's Flood Risk Communities Charter and bring communities together. Supported the National Flood Forum's Annual Conference. Funded community events focused on resilience in Scotland. Raised awareness in communities impacted by Storm Ciara and Dennis with a multimedia campaign across radio, print and social media. Promoted storm anniversaries in various communities to remind householders of Flood Re's key messages.	Defra Property Resilience Roundtable (PLFRR) developed Code of Practice for resilient installation. The National Infrastructure Assessment, published in July 2019, highlighted the growing threat from flooding and coastal erosion. It recommended a national standard should be set for resilience to flooding with an annual likelihood of 0.5% by 2050, where feasible – an even higher standard of 0.1% was proposed for more densely populated areas – along with a rolling six-year funding programme. The UK Government announced funding £200m over six years to promote resilience.

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.	Joined ClimateWise, a consortium of academic and insurance providers working to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap. Conducted assessments of the drivers of surface water flooding and the connection between social vulnerability and flood risk. Assessed best practices to communicate property-based flood resilience.	ClimateWise published its first Principles Review since the framework was aligned with the Taskforce for Climate-related Financial Disclosures (TCFD). Bank of England consults on its proposals for stress testing the financial stability implications of climate change.

Climate change impact on strategic objectives

Observed changes

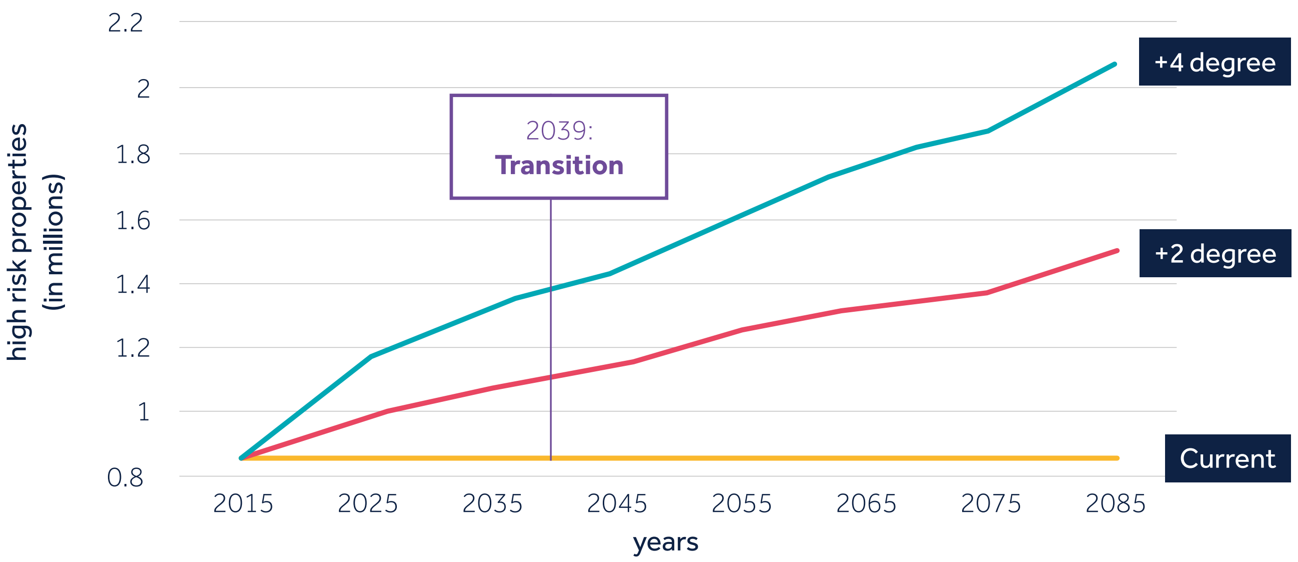
The scientific consensus is that climate change is already happening. Global average temperatures are approximately 1°C higher than in pre-industrial times. As the atmosphere warms, it holds more water and the rate of evaporation from oceans increases, which leads to more precipitation.

Given the current levels of greenhouses gases, further climate changes are inevitable – even if the UK meets its target of net zero emissions by 2050. According to the latest UK Climate Projections released in September 2019, by 2070 the UK can expect:

- Increases in extreme hourly rainfall intensity raising the possibility of more frequent surface water flooding especially in urban environments
- Changes in rainfall patterns such that winter rain is expected to come from higher intensity frontal rain when cold fronts meet warm fronts and shorter duration, high-intensity summer rain
- Increases in sea-level leading to more frequent and extreme water levels around the UK coastline and consequent coastal flood risk. [2 3]

While 2070 is beyond the expected 25-year lifespan of Flood Re, the number of households exposed to high risk flooding is expected to grow before then. By the time Flood Re is due to exit the market in 2039, assuming a 2°C warming scenario, almost 1.3 times as many properties may be at a high risk of flooding, increasing from 860,000 to 1.1 million properties. [4]

Projected number of UK properties at high-risk of flooding
(with a 1 in 75 or greater annual probability of flooding) by climate change scenario



Climate Change Risk Assessment 2017 Projections of future flood risk in the UK, page 63
https://www.theccc.org.uk/publication/sayers-for-the-asc-projections-of-future-flood-risk-in-the-uk/

Flood Re was established by the insurance industry and the UK Government as a direct response to extreme weather events and the resultant impact on the price of home insurance. The projected increase in properties at risk of flooding due to climate change poses a risk to both aspects of Flood Re's purpose: availability and affordability of flood insurance, and ultimately a transition to an affordable risk-reflective market.

Impact on insurers

As the risk and the incidence of flooding rises, insurers may back more of their flood risks with Flood Re to avoid paying frequent and high claims.

In extreme instances, where flood becomes the dominant peril for a group of households, it is conceivable that rather than write a policy and cede the majority of the policies to Flood Re, some insurers may instead decide to withdraw coverage entirely for those areas. While this would reduce the availability and affordability of flood insurance for homeowners, its likelihood is mitigated by Flood Re's coverage of nearly 100% of the competitive home insurance market through a range of distribution channels.

Impact on reinsurance

If insurers pass more risk to Flood Re, reinsurance is likely to become more costly. Additionally, if there were a number of significant flooding events in the UK, the global reinsurance capacity could contract; making it more difficult for Flood Re to buy reinsurance at an affordable level and manage the Scheme's Liability and Loss Limits. By way of comparison, after two consecutive years of heavy wildfire losses in California, rates for renewals of California wildfire exposed reinsurance programs are expected to see increases as high as 30% to 70% according to S&P Global Ratings. [5] The impact of such challenges on Flood Re are mitigated by the financial strength of the Scheme and the diversification benefit available to global reinsurers from UK flooding.

Impact on transition

The projected increase in properties at risk of flooding due to climate change poses a risk to both aspects of Flood Re's purpose: availability and affordability of flood insurance, and ultimately a Transition to a risk-reflective market. To achieve this goal, current flood risk needs to be reduced. Given projected climate change; population growth; and development, greater effort is needed from all stakeholders, working in partnership, to deliver a successful market transition by:

- Reducing the risk of flooding though high and sustained levels of investment in flood risk management and defences, and ensuring that all new developments are built with flood risk in mind
- Reducing the damage caused by, and the costs of, flooding by improving flood resilience and resistance measures at a property and community level including through national policy measures
- Achieving an effective insurance market with improved information and informed consumers.

There have been encouraging developments in the last year. The Budget announcement in March 2020 included a record commitment of £5.2bn for flood defences intended to better protect 336,000 homes and non-residential properties between 2021 and 2027 (this doubles the current investment of £2.6bn.) According to EA modelling, this will reduce flood risk in England by up to 11% by 2027. [6]

[2] https://www.metoffice.gov.uk/pub/data/weather/uk/ukcp18/science-reports/ukcp-infographic-headline-findings.pdf
[3] https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-overview-summary.pdf
[4] Climate Change Risk Assessment 2017 Projections of future flood risk in the UK, page 63
[5] https://www.artemis.bm/news/california-wildfire-reinsurance-may-rise-30-70-as-market-smarts-from-losses-sp/
[6] https://www.gov.uk/government/publications/budget-2020-documents/budget-2020

A Flood Re study conducted with RMS showed that existing investments in flood defences have already reduced inland flood losses by £1.1bn annually on average. This year, Flood Re is pursuing similar research to investigate the benefits of maintenance spending on flood defences.

In addition, the Budget added £200m over the next six years to develop place-based resilience programmes for 25 communities where flooding and coastal erosion cannot be avoided. Communities will be selected based on a range of criteria, including significant past flooding. [7]

Flood Re's Quinquennial Review proposes specific changes to the Scheme to promote the adoption of mitigation and adaption activity. 'Build Back Better' would permit Flood Re to pay claims that include an additional amount for resilient or resistant repair, above and beyond the original damage. The proposal for discounted premiums would reward homeowners who invest in resilience adaptions even before a flood occurs by offering them a lower premium on their home insurance policies.

Flood Re believes that the ability to address climate change should be further strengthened in planning processes by ensuring local authorities have the technical capacity to incorporate future flood risk into planning decisions, including the increased threat of surface water flooding. Therefore, Flood Re has begun to engage with the planning sector on incorporating assumptions of insurance availability into policy development and to improve mutual understanding of the medium- and long-term impact of climate change on flooding.

Impact on UK insurers and banks

Flood Re is actively engaging with regulators to ensure stakeholders, such as insurance companies and mortgage underwriters, take into account the exit of Flood Re from the market in 2039. In December 2019, the Bank of England published for consultation a discussion paper 'The 2021 biennial exploratory scenario on the financial risks from climate change'. [8]

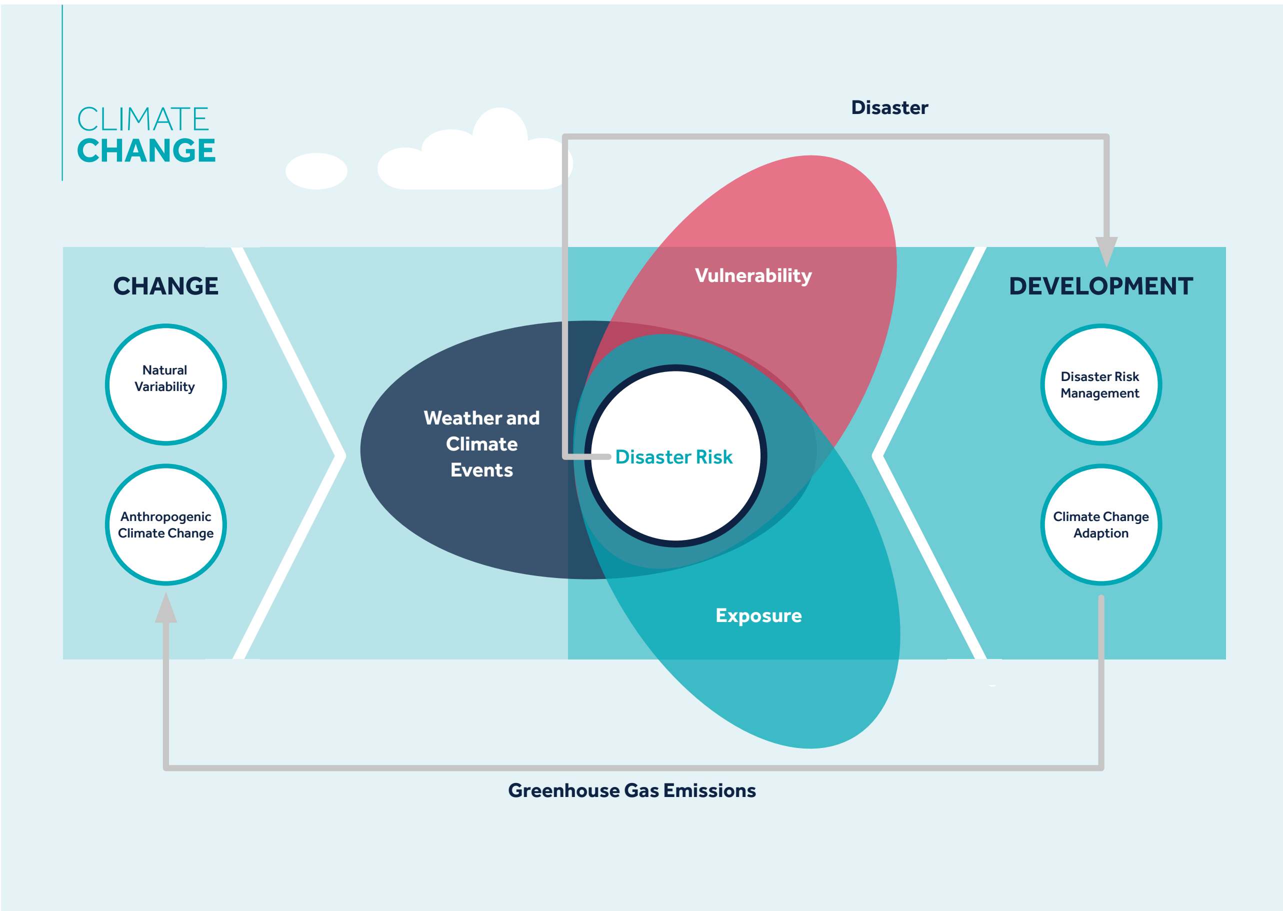
Flood Re highlighted that the scenarios run until 2050 and the transition of the Flood Re Scheme out of the market in 2039 should be considered explicitly by insurers; i.e. pre-2039 where insurers can utilise the Flood Re Scheme to cede high flood risk properties, and post-2039 where they will need to review their underwriting approach. Participants in the BES exercise should explicitly ensure they account for the exit of Flood Re (and the flood risk transfer mechanism it provides to households) after 2039.

Similarly, given the long-term nature of banks' mortgage portfolios, consideration of the availability and cost of insurance in these scenarios both pre- and post-2039 should be drawn out in this exercise. Mortgages issued this year with greater than 20 year durations will run beyond the lifetime of the Flood Re Scheme.

[7] https://www.gov.uk/government/publications/budget-2020-documents/budget-2020
[8] https://www.bankofengland.co.uk/paper/2019/biennial-exploratory-scenario-climate-change-discussion-paper
[9] https://www.ipcc.ch/site/assets/uploads/2018/03/Fig1-1.jpg

Monitoring

Flood Re will actively track observed climate change, climate change projections, levels of adaption and UK Government spending using data published at regular intervals by the Met Office, the National Adaptation Programme, the Committee on Climate Change and others. The complex relationship between the forces of higher CO_2 emissions, flood hazard, development, vulnerability, and adaptation is shown below in a diagram published by the Intergovernmental Panel on Climate Change. [9] Flood Re will only be able to transition out of the market to affordable risk-reflective prices if the centre 'disaster risk' area for the UK falls below the current level – the level which necessitated the market intervention enabled by the Scheme to reinsure UK flood risk.



Flood Re will continue to support stakeholders actively to improve risk mitigation and adaptation, while also seeking to ensure homeowners and property underwriters do not face a cliff edge at the end of the Scheme's planned life.

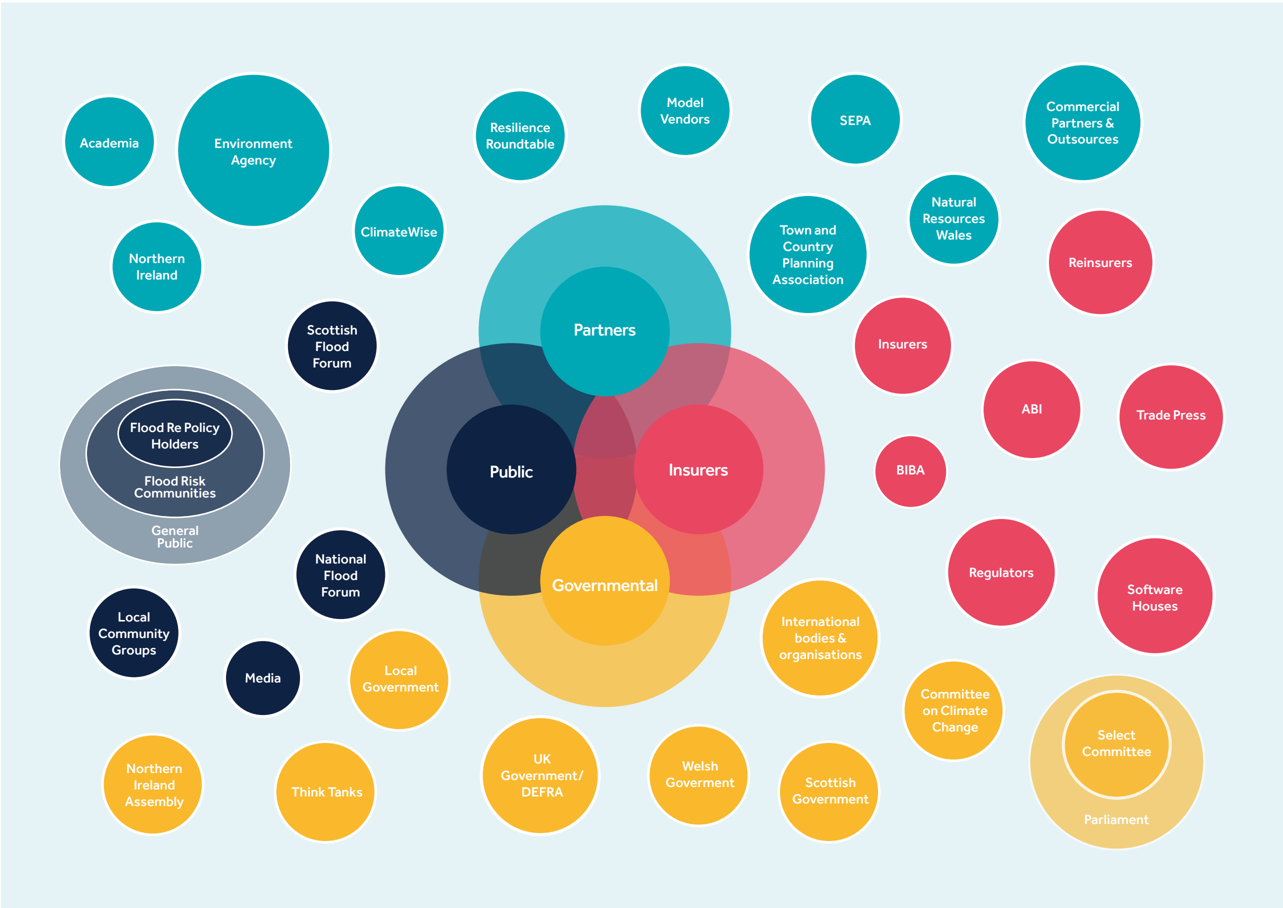
Section 172 (1) statement and our stakeholders

Overview

Flood Re is a purpose-driven organisation. It exists to promote the availability of affordable flood insurance and ultimately manage a transition to a risk-reflective market. The Directors have had that purpose foremost in mind when making decisions and initiating activities throughout the year.

External stakeholder reassessment

Flood Re's key partners are the insurance industry and the UK Government and it exists to benefit householders at high risk of flooding. The Board reviewed the stakeholder engagement strategy and updated the Company's stakeholder map, which is shown below in summary form.



At a Board and Executive Strategy Day, the Directors considered how to engage long-term with stakeholders to progress both parts of Flood Re's purpose. Looking specifically through the lens of climate change, the Board decided to broaden its stakeholder engagement to include potential partners from the planning, development and housing sectors. The Directors also decided to place a greater emphasis on strategic engagements with Flood Re's reinsurance partners and regulators.

The Board recognises that the Company must collaborate and co-create with its stakeholders to advance a policy platform to deliver long-term affordable, risk-reflective insurance for people at high risk of flooding.

External stakeholder interests are ultimately best supported by a motivated and engaged team. At Flood Re, engagement with employees occurs at all levels. An employee-desired behaviour framework is well established and is linked to the annual reward scheme. Staff consultations, using regular 'temperature checks', are undertaken and acted upon.

Key strategic activities

Some example activities are highlighted in the table below where serious consideration was given to the interests of, relationships with, and impact on key stakeholders. The Directors took into account the likely long-term consequences of their decision and the need for Flood Re to maintain a reputation for high standards of business conduct. These should be considered in the context of this wider Strategic Report as a whole.

Activity	Detail	Stakeholder consideration
Reinsurance redesign and procurement	The Board approved a new, materially optimised three-year reinsurance programme, for implementation from 1 April 2019. The procurement was supported by the global reinsurance market and is now based on a better understanding of the actual risk profile of the Company following its first few years of operation. This results in cost savings in the order of £50m for the three-year period 1 April 2019 to 31 March 2022, while maintaining protection of both the Liability and Loss Limits of the Company.	• Reinsurers • Insurers • Secretary of State • Defra
Quinquennial review (QQR)	In June 2019, following extensive consultation with stakeholders, the Board approved Flood Re's first QQR. This was sent to the Secretary of State for Environment, Food and Rural Affairs. It was also published to Members at the AGM in July 2019. The QQR involved both a 'bottom-up' and a 'top-down' review of the Scheme to assess its efficiency and effectiveness as designed, coupled with a recommendation of changes to improve the Scheme's ability to meet its objectives.	• Secretary of State • Defra • Insurers • Industry bodies • Householders
Review of the impact of price changes	The Board considered the Company's renewal experience (defined as the extent to which a property is ceded again by any insurer to Flood Re at expiry of a cover period) since the first year of operation. In particular the Board considered the outcome of the desired impact on end consumer affordability, with particular reference to volume elasticity following the inwards price reductions in January 2019.	• Householders • Industry bodies • Insurers • Reinsurers
Partial internal model (PIM)	In order to ascertain relevant levels of capital, appropriately reflecting the underlying risk of the business, the Company has been developing a Partial Internal Model (PIM) for assessing its Solvency Capital Requirement (SCR). An application to the PRA to use a PIM for assessing the Company's SCR was approved by the Board in July 2019. Subsequent use of the PIM from 1 April 2020 was approved by the Regulator.	• Insurers • Defra • Reinsurers • Regulators

Activity	Detail	Stakeholder consideration
Climate change	A Board Strategy day in the year largely focused upon the impact of climate risk on Flood Re's purpose: details are found on pages 12-13 of the Statement by the Chair; pages 14-16 of the CEO Statement; and pages 26-29 of the Strategic Report.	
COVID-19	The Board's considerations in relation to the implications of COVID-19 on the Company and its Stakeholders are detailed on page four of the Strategic Report.	

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

Andy Bord
Chief Executive Officer

Date: 22 June 2020
Registered Office: 75 King William Street, London EC4N 7BE

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Directors present their Report and the audited Financial Statements of the Company for the year ended 31 March 2020.

Future developments

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

Employee engagement and stakeholder interests

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 Committee – 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 continued both its employee-desired behaviour framework, linking this to the annual reward scheme, and the employee engagement temperature check.

External stakeholder interests

Regard for wider stakeholder interests is addressed in the 'Section 172 (1) Statement and our Stakeholders' in the Strategic Report.

Climate change

The anticipated impact of climate change on Flood Re's statutory purpose is addressed in the Strategic Report.

Flood Re as an organisation

Flood Re's investment portfolio solely comprises of deposits with the UK Debt Management Office throughout the year and therefore the associated climate change risks around investments are limited.

Flood Re seeks, 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.

EU Exit

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 comprise of UK Government-backed securities. As such, there is minimal first-degree exposure to EU Exit 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 are in place with reinsurers operating in mainland Europe or via a UK branch to address the impact and uncertainties over EU Exit.

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 outsourced 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 May 2020. 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 UK 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 the Chair of the Jersey Financial Services Commission. He is a Non-Executive Director of LSE PLC and Borsa Italiana SpA and a Senior Advisor to PwC. Mark also chairs the Financial Services Skills Commission. Mark was the Member of Parliament for Fareham between 2001 and 2015. He was a UK 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 and medical 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 an independent Non-Executive Director at Flood Re. She is also an independent Non-Executive Director at Pension Insurance Corporation and Audit Committee Chair at Invesco UK and ICBC Standard Bank PLC. Judith was previously a Managing Director at Morgan Stanley Investment Management (MSIM) and Chief Administrative Officer of MSIM's International Business.

Judith is a Fellow of the Institute of Chartered Accountants of England and Wales (FCA).

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 UK 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. He is also an independent Non-Executive Director at British Gas Insurance Limited and British Gas Services Limited.

David is an actuary with more than 35 years' general insurance experience in industry, consulting and as a Non-Executive Director. He was a Partner at Deloitte LLP for 16 years until May 2013 and for six years was a Member of the Actuarial Council, which is part of the Financial Reporting Council.

Claire Ighodaro CBE

Claire Ighodaro is Chair of Flood Re's Audit and Compliance Committee. Claire is also Chair of Axa XL UK entities, Non-Executive Director of Pennon Group PLC and a Member of TheCityUK Leadership Council.

Claire was a Board Member and Audit Committee Chair of Lloyd's of London, Board Member and Governance Committee Chair of Merrill Lynch International, Board Member of the International Ethics Standards Board for Accountants and is 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 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.

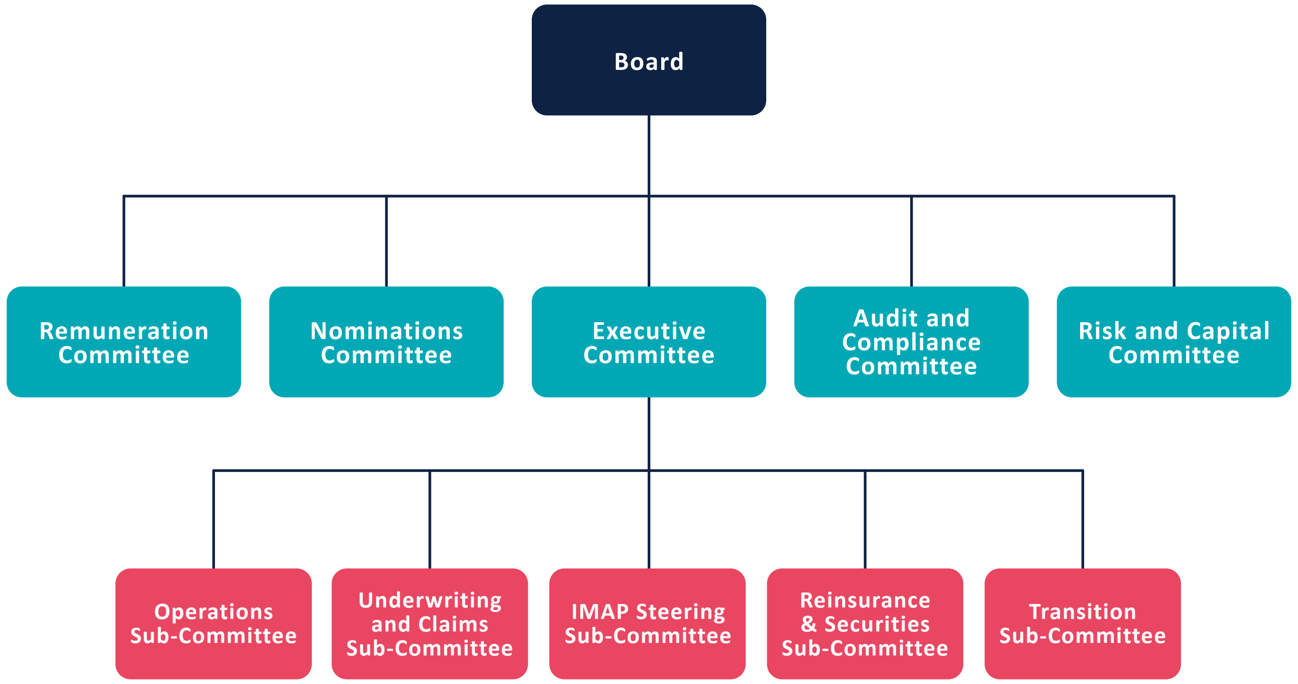
Paul was Chief Executive of the Environment Agency from June 2008 to September 2015.

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 2020 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 2020.

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. The Committee oversees the remuneration including bonus structure and alignment to the Flood Re desired behaviours and objectives.

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. The Company has 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's Internal Model has been approved by the PRA for use in the organisation from 1 April 2020.

Audit and Compliance Committee (ACC)

The ACC is responsible for acting independently from Flood Re's Executive Committee 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 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 2023.

Executive Committee (ExCo)

The Executive Committee is responsible for the day-to-day running of the Company and oversees the running of its Sub-Committees. There are five Sub-Committees in total:

- Reinsurance and Securities Sub-Committees – responsible for oversight on reinsurance counterparties and related activities
- Operations Sub-Committee – responsible for Flood Re's operational activities
- Underwriting and Claims Sub-Committee – responsible for oversight of underwriting activities
- Transition Sub-Committee – responsible for Flood Re's successful, sustainable and affordable transition in 2039 and beyond
- IMAP Sub-Committee – responsible for overseeing the Company's Internal Model Application. However, the IMAP Sub-Committee will be disbanded following the successful model approval by the PRA. Any further Internal Model changes will be directly under the remit of the Executive Committee team with ongoing oversight by the RCC.

Executive Committee

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 more than 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 responsible for regulatory and public administrative matters and led the Company's first Quinquennial Review. 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 objective of transitioning the market to affordable, risk reflective pricing.

Dermot has more than 25 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 more than 20 years' experience within banking, consulting, Government and the insurance industry.

Gary McInally

Gary McInally is Chief Actuary, responsible for the Flood Re Actuarial Function including reserving, capital modelling, flood exposure management and specialist flood modelling. Gary is also responsible for building market links to develop flood Intelligence.

Gary is a Fellow of the Institute and Faculty of Actuaries, bringing 20 years of actuarial experience as both a practitioner in the Lloyd's of London Market and as a consultant to a wide range of UK and international insurers/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 2020 and 2019.

Name	Year	Salary £	Taxable benefit £	Bonus £	Pension £	Pension allowance £	Total £
Andy Bord	**2020**	**372,396**	**-**	**107,250**	**-**	**39,102**	**518,748**
	2019	360,500	-	97,335	-	37,852	495,687
Adam Golding	**2020**	**264,750**	**2,944**	**75,454**	**10,000**	**17,799**	**370,947**
	2019	251,540	4,099	67,469	19,864	6,547	349,519

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 2020 and 2019. The Board reviewed the Independent Non-Executive Directors' fees during the year in accordance with the Remuneration Policy.

Name	Year	Total Fees £
Mark Hoban	**2020**	**145,799**
	2019	142,800
Judith Eden	**2020**	**47,801**
	2019	46,818
Huw Evans^	**2020**	**-**
	2019	-
David Hindley*	**2020**	**57,801**
	2019	56,818
Claire Ighodaro*	**2020**	**57,801**
	2019	56,818
Paul Leinster	**2020**	**47,801**
	2019	46,818

* 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 February to set policy decisions, approve the renewal of staff benefit schemes and to set the budget for pay increases, 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 is appropriate for its ownership structure.

The Remuneration Committee determines the performance-based remuneration of the Executive Committee 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. For 2020/21, the Chair and other independent Non-Executive Directors waived their 2020/21 year fee increase.

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

Flood Re has limited direct financial exposure to the impacts of COVID-19. This is due to the Company's single peril risk exposure, conservative investment portfolio and the secure level of capitalisation. 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 2020 (2019: £nil).

Political donations

The Company did not make any political donations during the year ended 31 March 2020 (2019: £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

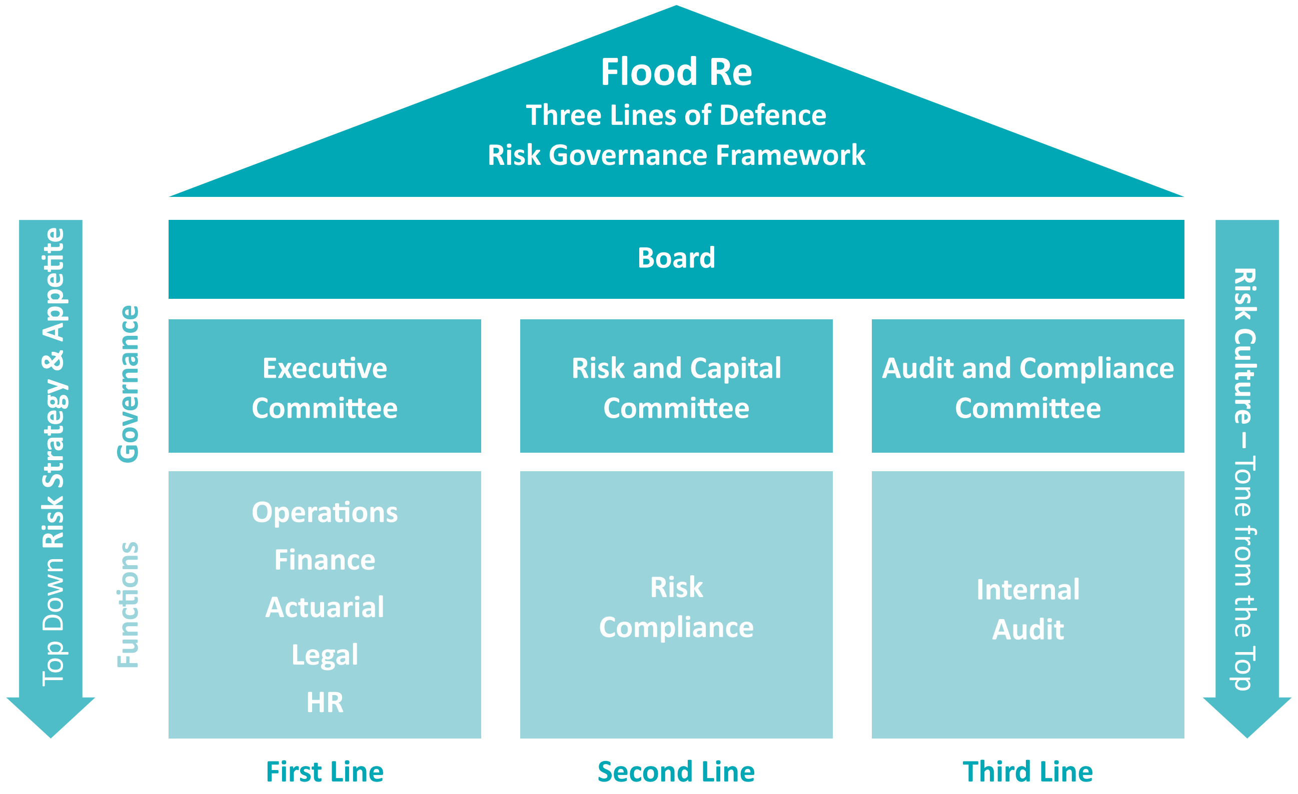
Overview of risk

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. Flood Re classifies risks into six overarching areas (strategic risk, insurance risk, credit risk, market risk, liquidity risk and operational risk).

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. The Board's responsibility for risk management is discharged through Flood Re's Committee structure (see Directors' report – governance framework).

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



The 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.

The second line of defence is carried out by the Risk Function, led by the Chief Risk Officer 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.

The 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.

Each of the processes and tools utilised in the risk management system – in particular the internal model, risk appetite framework and stress and scenario testing – feed into Flood Re's wider business strategy and decision-making processes.

Recent examples of these elements of the risk management system used for major strategic decisions and direction include development and stress testing of the QQR proposals; structuring the three-year reinsurance programme in line with risk appetite requirements; and responding to the COVID-19 emerging risk environment.

Identify

Risk Processes & Tools
- Emerging Risk Reporting
- Loss Event and Near Miss Capture
- Business Plan and Strategic Risk Review

Assess

Risk Processes & Tools
- Inherent/Residual Risk Analysis
- Internal Model Risk Quantification
- Standard Formula Risk Quantification
- Stress & Scenario Testing
- Reverse Stress Testing

Monitor

Risk Processes & Tools
- Risk Register Deep-dive Reviews
- Risk Appetite
- KRI's

Manage

Risk Processes & Tools
- Controls Library
- Control Effectiveness Reviews

Report

Risk Processes & Tools
- ORSA Report
- Risk Reports
- Risk Dashboard

Risk register

Flood Re operates a live risk register containing all identified and emerging risks at a given date.

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 the 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.

Control effectiveness reviews are used to monitor the design and performance of risk controls. Regular risk management information (e.g. position versus appetite, KRIs) is reported to each risk owner to ensure that risks are being monitored. A CRO report summarises this activity and is delivered to the RCC.

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 UK 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 2020 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 Auditor, Ernst & Young LLP, has 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 2020 of which the Auditors are unaware
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

Andy Bord
Director

Date: 22 June 2020
Registered Office: 75 King William Street,
London EC4N 7BE

AUDITOR'S REPORT
FOR THE YEAR ENDED 31 MARCH 2020

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 2020 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 33, 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 2020 and of its profit for the year then ended
- Have been properly prepared in accordance with IFRSs as adopted by the European Union
- 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
- 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 12 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 £7.3m (2019: £6.4m) which represents 2% of equity (2019: 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 (£179.8m, 2019: £26.4m) *Refer to the Accounting Policy 2.13, critical accounting judgement 4 (a); and Note 21 of the Consolidated Financial Statements.* One of the significant risk areas from an audit perspective is the valuation of provisions for insurance claims liabilities. Management uses judgement in the selection of assumptions used in calculating insurance claims liabilities. The risk is that those judgements are not appropriate, and may be open to bias. 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 to ensure the liabilities reflect the most up-to-date information. 3) The impact of the ongoing COVID-19 pandemic in respect of both IBNR and adjustments to reported amounts. The key judgement in this regard is the additional time that may be taken by primary insurers to assess and settle claims.	We gained an understanding of the process for estimating insurance claims liabilities and assessed the design and operational effectiveness of key controls within the Company's processes. Supported by our actuarial team, we have understood and evaluated management's methodology for valuing insurance claims liabilities, 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 valuing the insurance claims liabilities. We have reconciled key inputs into the actuarial valuation to source systems. We have understood management's assessment of the impact of the COVID-19 pandemic on the ultimate cost of settling claims liabilities. This includes management's estimate of the additional time taken by primary insurers which can increase the costs of those claims. We have, focused on the material assumptions, which are: • Additional living expenses for affected policyholders; and • Materials and labour costs.	We have concluded that management's judgements, including those in relation to the allowances made for COVID-19 are reasonable based on the information available at the date of this report. We consider that management's assessment is appropriate, that based on the information available the quantitative impact of COVID-19 to the insurance contract liabilities is not significant in the context of the overall liability. Based on our work performed we consider the Company's booked insurance claims liabilities to be reasonable.

Risk	Our response to the risk	Key observations communicated to the Audit & Compliance Committee
Pipeline Premium Estimation (£2.7m, 2019: £3.1m) *Refer to Accounting Policy 2.18; and Note 18 of the Consolidated Financial Statements.* 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. There is a risk that the assumptions used to estimate the pipeline premiums do not appropriately reflect the number of policies and price of the business written by primary insurers. 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 have gained an understanding of management's process for recognising premiums, including the booking of estimated pipeline premium, and assessed the design and operational effectiveness 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 and average premium value 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; • We have tested the historical accuracy of management's estimate of pipeline premiums; and • We have recalculated management's pipeline premium estimate for 2020.	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. A reasonable degree of our audit work had been completed on-site at the offices of Flood Re and its outsource service provider before the start of the COVID-19 UK Government restrictions. The remaining procedures were completed satisfactorily using remote-working technology. 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 £7.3m (2019: £6.4m), which is 2% of equity. Given the focus of 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% (2019:75%) of our planning materiality, namely £5.5m (2019: £4.8m). 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.

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 £365k (2019: £300k), 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 Directors' responsibilities statement set out on page 52, 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.
- 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 recognising 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 an understanding of the legal and regulatory frameworks that are applicable to the Company and determined 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 Flood Re Limited complies with those frameworks by: making enquires of management, internal audit, and those responsible for legal and compliance matters; reviewing correspondence between the Company and UK regulatory bodies; reviewing minutes of 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
- 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
- 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
- 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://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 five 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.

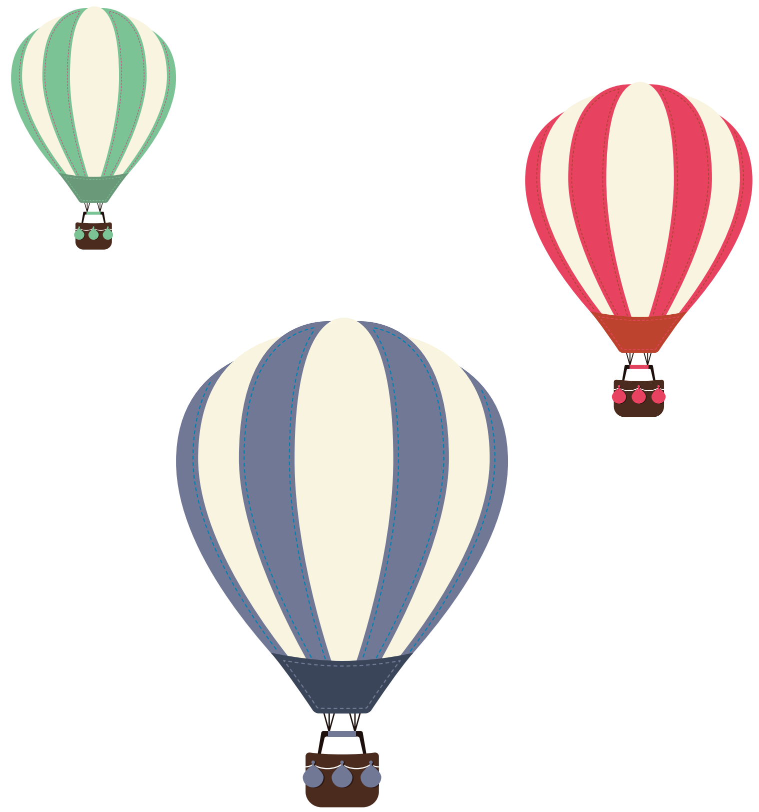
Angus Millar (Senior Statutory Auditor)

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

Date 22 June 2020

Notes:

1. The maintenance and integrity of the Flood Re Limited website 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 website.
2. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.



STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £000	2019 £000
Gross written premiums		34,078	33,728
Premiums ceded to reinsurers		(63,557)	(75,411)
Net written premiums		(29,479)	(41,683)
Net change in unearned premiums provision		(4,355)	962
Net earned premiums	8	(33,834)	(40,721)
Levy income	9	180,000	180,000
Fees and commission income	10	12,693	19,215
Investment income	11	2,727	1,656
Total revenue		**161,586**	**160,150**
Gross claims paid		(7,467)	(6,080)
Claims ceded to reinsurers		3,447	2,792
Change in insurance contract liabilities		(153,313)	(10,329)
Change in contract liabilities ceded to reinsurers		73,297	5,162
Net insurance claims	12	(84,036)	(8,455)
Finance costs		-	-
Other operating and administrative expenses	13	(16,917)	(16,054)
Total expenses		**(100,953)**	**(24,509)**
Profit before tax		60,633	135,641
Income tax expense	16	(11,521)	(25,773)
Profit for the year		**49,112**	**109,868**

All of the Company's operations are continuing.

For the years ended 31 March 2020 and 2019, 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 68 to 111 are an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Note	2020 £000	2019 £000 Restated (Note 3.a)
Assets			
Property, Plant and Equipment	17	1,207	2,504
Reinsurers' share of contract liabilities	21	110,011	40,592
Current Tax Asset		5,741	-
Reinsurance receivables	18	4,924	17,689
Trade and other receivables	19	1,196	748
Cash and short-term deposits	20	487,369	358,207
Total assets		**610,448**	**419,740**
Equity			
Retained earnings		366,756	317,644
Total equity		**366,756**	**317,644**
Liabilities			
Insurance contract liabilities	21	196,840	43,050
Deferred commission income	25	3,620	8,439
Reinsurance payables	26	20,631	17,328
Current tax liabilities		-	15,541
Lease Liabilities	30	1,208	2,504
Trade and other payables	27	21,393	15,234
Total liabilities		**243,692**	**102,096**
Total equity and liabilities		**610,448**	**419,740**

The Notes on pages 68 to 111 are an integral part of the Financial Statements.

The Financial Statements on pages 64 to 111 were authorised for issue by the Board of Directors on 22 June 2020 and were signed on its behalf by:

Andy Bord
Chief Executive Officer

Adam Golding
Chief Financial Officer

Company registered number:
08670444

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	2020 £000	2019 £000
Retained earnings brought forward	**317,644**	**207,776**
Profit for the year	49,112	109,868
Other comprehensive income	-	-
Total comprehensive income for the year	49,112	109,868
Retained earnings carried forward	**366,756**	**317,644**

The Notes on pages 68 to 111 are an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £000	2019 £000 Restated (Note 3.a)
Operating activities			
Profit before tax		60,633	135,641
Adjustments for			
Finance expense		-	-
Depreciation	13	1,349	1,151
Investment income	11	(2,727)	(1,656)
Changes in operating assets and liabilities			
(Increase) in reinsurers' share of contract liabilities		(69,419)	(6,031)
Decrease / (Increase) in reinsurance receivables		12,765	(263)
(Increase) in trade and other receivables		(305)	(6)
Increase in gross insurance contract liabilities		153,790	10,236
(Decrease) / Increase in deferred commission income		(4,819)	673
Increase in reinsurance payables		3,303	291
Increase / (Decrease) in trade and other payables		6,159	(15,982)
Cash generated from operations		160,729	124,054
UK Corporation taxes paid		(32,803)	(23,029)
Interest received		2,584	1,413
Net cash flows from operating activities		**130,510**	**102,438**
Investing activities			
Purchases of Property, Plant and Equipment	17	(52)	-
Net cash flows from investing activities		**(52)**	**-**
Financing activities			
Payment of principal portion of lease liabilities	30	(1,296)	(1,151)
Net cash flows from financing activities		**(1,296)**	**(1,151)**
Net increase in cash and cash equivalents		**129,162**	**101,287**
Cash and cash equivalents at 01 April		358,207	256,920
Cash and cash equivalents at 31 March	**20**	**487,369**	**358,207**

The Notes on pages 68 to 111 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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 Regulation 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. This is the first year in which IFRS 16 has been applied and therefore the primary statements have been restated. Refer to section 3 for more details.

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.

Flood Re has limited direct financial exposure to the impacts of COVID-19. This is due to the Company's single peril risk exposure, conservative investment portfolio and the secure level of capitalisation. The future financing of the Company's liabilities will be met through the Company's ability to raise a Levy on UK household insurers. 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 12 months after the reporting date (current) and more than 12 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 UK 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
Leases	Over the life of the lease

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

An impairment review is performed when there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Profit or Loss.

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.

2.7 Financial assets and liabilities

(a) Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Company's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order 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. Financial assets at amortised cost are subsequently measured using the effective interest rate method (EIR) and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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 loans and borrowings, and payables, as appropriate.

Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs; and 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 recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

(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 (ECLs) 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 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 shortterm 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 financial asset 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.

(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 Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease

agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. In calculating this, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments)
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options
- Payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented within property, plant and equipment in the statement of financial position.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss.

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, complemented with bespoke methods for the assessment of catastrophe flood event losses. 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 1 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 1 April 2019.

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 needs to recognise a lease liability and associated interest expense and a right of use asset with associated depreciation in relation to rental office leases and leased IT infrastructure.

The Company adopted IFRS 16 using the full retrospective method of adoption, with the date of initial application of 1 April 2019. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Impact of the new definition of a lease

Applying IFRS 16, for all leases (except as noted below), the Company:

a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments

b) The lease liabilities were discounted at the Company borrowing rate;

c) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Financial impact of initial application of IFRS 16

	Note	2020	2019
		£000	£000
Increase in depreciation/amortisation expense	17	1,323	1,151
Decrease in operating and administrative expenses		(1,323)	(1,151)
Increase (Decrease) in profit for the year		-	-

Impact on assets, liabilities and equity as at 31 March 2019

	Note	As previously reported £000	IFRS 16 adjustment £000	As presented £000
Property, Plant and Equipment	17	-	2,504	2,504
Net impact on total assets		**-**	**2,504**	**2,504**
Lease Liabilities	30	-	(2,504)	(2,504)
Net impact on total liabilities		**-**	**(2,504)**	**(2,504)**
Retained Earnings		317,644	-	317,644
Net impact on total liabilities		**317,644**	**-**	**317,644**

Impact on assets, liabilities and equity as at 31 March 2020

	Note	As previously reported £000	IFRS 16 adjustment £000	As presented £000
Property, Plant and Equipment	17	-	1,181	1,181
Net impact on total assets		**-**	**1,181**	**1,181**
Lease Liabilities	30	-	(1,208)	(1,208)
Net impact on total liabilities		**-**	**(1,208)**	**(1,208)**
Retained Earnings		366,756	-	366,756
Net impact on total liabilities		**366,756**	**-**	**366,756**

Impact on Statement of Cashflows as at 31 March 2019

	Note	As previously reported £000	IFRS 16 adjustment £000	As presented £000
Depreciation	13	-	1,151	1,151
Net impact on total assets		**-**	**1,151**	**1,151**
Payment of principal portion of lease liabilities	30	-	(1,151)	(1,151)
Net cash flows from financing activities		**-**	**(1,151)**	**(1,151)**
Net change in cash and cash equivalents		**-**	**-**	**-**

Impact on Statement of Cashflows as at 31 March 2020

	Note	As previously reported £000	IFRS 16 adjustment £000	As presented £000
Depreciation	13	-	1,323	1,323
Net impact on total assets		**-**	**1,323**	**1,323**
Payment of principal portion of lease liabilities	30	-	(1,296)	(1,296)
Net cash flows from financing activities		**-**	**(1,296)**	**(1,296)**
Net change in cash and cash equivalents		**-**	**27**	**27**

(b) New standards, amendments and interpretations issued but not effective for the financial year and which have not been adopted early

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 2023.

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 plan for the impact of adoption.

4. Critical accounting estimates and judgements

The preparation of the Company's Financial Statements requires the Company's 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 – which 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 as follows.

(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. As a result of 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 (including 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.

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, including the premium deficiency provision, as at 31 March 2020 is £179.8m (2019: £26.4m).

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 the Company's management 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 £2.7m or 8.0% of the gross written premium for the year ended 31 March 2020 (2019: £3.1m or 9.2%).

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 premiums the Company charges 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

- 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 £180m 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 UK. 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. The Board has an appetite for a probability of sufficiency in excess of 75%. Future claims handling expenses need to be allowed for in addition to the outstanding claims reserve and are based on estimated expenses per claim. 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. 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
- The post-loss amplification impact on claims as a result of COVID-19, as households experience increased building repair costs and require longer stays in alternative accommodation as a result of lockdown restrictions
- Recoverability of amounts due under the outwards reinsurance programme.

Sensitivity

The Company is most sensitive to the assumptions utilised in estimation of the insurance claims liabilities, which comprise attritional, large and catastrophic flood events, impacting the gross loss ratio. 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.

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.

	2020 Change in gross claim reserves £000	**2020 Change in net claim reserves £000**	**2019 Change in gross claim reserves £000**	**2019 Change in net claim reserves £000**
10% increase in loss ratio	3,360	1,755	3,382	1,691
10% decrease in loss ratio	(3,360)	(1,755)	(3,382)	(1,691)

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 2020, the Company incurred two large losses (2019: nil).

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 and excludes unallocated loss adjustment expenses.

Gross of reinsurance					
Accident year ending 31 March	**2017**	**2018**	**2019**	**2020**	**Total**
	£k	**£k**	**£k**	**£k**	**£k**
At the end of accident year	7,661	9,446	15,846	**160,159**	
One year later	2,267	5,762	**9,668**		
Two years later	2,008	**5,384**			
Three years later	**1,994**				
Current estimate of ultimate claim cost	**1,994**	**5,384**	**9,668**	**160,159**	**177,205**
At the end of accident year	(96)	(654)	(2,381)	**(1,607)**	
One year later	(1,480)	(3,413)	(5,920)		
Two years later	(1,924)	**(5,128)**			
Three years later	**(1,994)**				
Cumulative payments to date	**(1,994)**	**(5,128)**	**(5,920)**	**(1,607)**	**(14,649)**
Gross outstanding claims provision	**0**	**256**	**3,748**	**158,552**	**162,556**
Surplus/(Deficit) of ultimate claim cost in year	**14**	**378**	**6,178**		

Net of reinsurance					
Accident year ending 31 March	**2017**	**2018**	**2019**	**2020**	**Total**
	£k	**£k**	**£k**	**£k**	**£k**
At the end of accident year	3,830	4,723	7,923	**83,245**	
One year later	1,134	2,881	**4,328**		
Two years later	1,004	**2,692**			
Three years later	**997**				
Current estimate of ultimate claim cost	**997**	**2,692**	**4,328**	**83,245**	**91,262**
At the end of accident year	(48)	(327)	(1,190)	**(823)**	
One year later	(740)	(1,707)	**(2,959)**		
Two years later	(962)	**(2,564)**			
Three years later	**(997)**				
Cumulative payments to date	**(997)**	**(2,564)**	**(2,959)**	**(823)**	**(7,343)**
Net outstanding claims provision	**0**	**128**	**1,369**	**82,422**	**83,919**
Surplus/(Deficit) of ultimate claim cost in year	**7**	**189**	**3,595**		

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
- 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 2020 arising from a given return period.

	2020 Estimated gross claims £000	2020 Estimated net claims £000	2019 Estimated gross claims £000	2019 Estimated net claims £000
1 in 50 year or 2% probability	459,331	135,312	419,846	131,540
1 in 200 year or 0.5% probability	911,156	145,455	825,059	137,697
1 in 250 year or 0.4% probability	1,004,321	147,547	914,268	138,978

Catastrophe loss events may result in a high level of volatility in the financial results of the Company.

During the year ended 31 March 2020, the Company classified and reserved for November and February flooding in parts of the UK as catastrophe loss events.

During the year ended 31 March 2019, the Company classified and reserved for May flooding in parts of the UK 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 2020 was £2.244bn (2019: £2.198bn).
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 Liability Limit and has therefore purchased an extensive reinsurance programme to meet this need. Furthermore, UK 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 2020 and 2019, the Company does not hold any financial instruments, designated as at fair value through profit and loss, in its investment portfolio (see liquidity risk in relation to 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, UK 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 2020, the Company has £485m (2019: £353m) of short-term deposits invested with the DMO, representing 99% (2019: 99%) 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 2021, the Company anticipates generating positive cash flows, unless there is a series of large flood events.

As at 31 March 2020, the Company has liquid assets of £487m (2019: £358m), representing 80% (2019: 86%) of its total equity and liabilities and 610% (2019: 358%) of the Solvency Capital Requirement (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 2020.

	Note	AA	A	BBB	NR	Total
		£000	£000	£000	£000	£000
Reinsurers' share of claims liabilities	21	61,423	22,476	-	2,412	**86,311**
Reinsurance receivables	18	1,349	2,108	21	1,446	**4,924**
Trade and other receivables	19	461	-	-	735	**1,196**
Cash and short-term deposits	20	484,650	2,719	-	-	**487,369**
Total		**547,883**	**27,303**	**21**	**4,593**	**579,800**
%		94%	5%	0%	1%	100%

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%

(b) Age analysis

The table below shows the aged debtor analysis by asset type as at 31 March 2020.

	Note	Not yet due	30 days	Total
31 March 2020		£000	£000	£000
Reinsurers share of claims liabilities	21	86,311	-	**86,311**
Reinsurance receivables	18	4,762	162	**4,924**
Trade and other receivables	19	1,196	-	**1,196**
Cash and short-term deposits	20	487,369	-	**487,369**
Total		**579,638**	**162**	**579,800**
%		100%	0%	100%

As at 31 March 2020 and 2019 the Levy receivable balance is £nil. The Company has received £19.2m (2019: £13.3m) of the 2020 Levy in advance (see Note 27).

	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%

(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 £487m at 31 March 2020 (31 March 2019: £358m). 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 2020, the Company had £8.5m (2019: £8.5m) of irrevocable standby letters of credit issued in its favour. For the years ended 31 March 2020 and 2019, 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
- 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)
- 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 £180m per annum is raised in aggregate from all insurers writing home insurance in the UK. 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 2020 and 2019. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements.

		2020	2019
		£000	£000
Basic own funds (Tier 1 unrestricted)	A	377,010	299,313
Deferred tax assets (Tier 3)	B	-	3,483
Total basic own funds		**377,010**	**302,796**
Ancillary own funds (Tier 2) – 50% of the SCR	C	39,899	50,068
Available own funds	A+B+C	**416,909**	**352,864**
Eligible own funds	A+C	**416,909**	**349,381**
Solvency Capital Requirement (SCR)		79,798	100,137
Minimum Capital Requirement (MCR)		19,950	25,034
Ratio of eligible own funds to meet the SCR		522%	349%
Ratio of eligible own funds to meet the MCR		1,890%	1,196%

Reconciliation of equity to basic own funds

	2020	2019
	£000	£000
Equity on an IFRS basis	366,756	317,644
Adjustments in respect of:		
Decrease in valuation of assets	(8,538)	(14,068)
Increase in valuation of technical provisions	(5,299)	(26,560)
Decrease in the valuation of other liabilities	24,091	25,780
Total basic own funds	**377,010**	**302,796**

As at 31 March 2020, 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 SCRs.

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 approval has now been granted for use of the PIM from 1 April 2020
- 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
- Until the effective date of use of the PIM, 1 April 2020, 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 2020, the SCR of £79.8m (2019: £100.1m) includes a capital add-on of £33.2m (2019: £70.2m). The capital add-on is calculated in line with the basis discussed and agreed with the PRA.

(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 2020 and 2019, 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
- The PRA approves the distribution to Ordinary Members.

The Company has not received any Levy II contributions during the years ended 31 March 2020 and 2019. The accumulated Mutual Members account as at 31 March 2020 is £nil (2019: £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

	2020	2019
	£000	£000
Gross written premiums	34,078	33,728
Gross change in unearned premium provision	(477)	93
Gross earned premiums	33,601	33,821
Premium ceded to reinsurers	(63,557)	(75,411)
Ceded change in unearned premium provision	(3,878)	869
Ceded earned premiums	(67,435)	(74,542)
Net earned premiums	**(33,834)**	**(40,721)**

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 £2.244bn (2019: £2.198bn) and Loss Limit of £100m. Overall this results in negative earned premium for the year.

The cost of the subsidy provided through the premiums the Company charges are 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 2020 was £180m (2019: £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 2020 was £nil (2019: £nil).

10. Fees and commission income

	2020	2019
	£000	£000
Reinsurance commission income	7,874	19,888
Change in unearned commission income	4,819	(673)
Total fees and commission income	**12,693**	**19,215**

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

11. Investment income

	2020	2019
	£000	£000
Interest income on cash and short-term deposits	2,727	1,659
Investment expenses	-	(3)
Total investment income	**2,727**	**1,656**

12. Net insurance claims

	Note	2020	2019
Gross claims paid		**£000**	**£000**
Gross claims paid		6,931	5,584
Allocated claims handling costs	13	536	496
Total gross paid claims	22	**7,467**	**6,080**
Total paid claims ceded to reinsurers	22	**(3,447)**	**(2,792)**
Gross change in contract liabilities			
Change in outstanding claims provision	22	33,364	3,284
Change in incurred but not reported provision	22	113,988	3,066
Change in premium deficiency provision	24	5,961	3,979
Total gross change in contract liabilities		**153,313**	**10,329**
Change in contract liabilities ceded to reinsurers			
Change in outstanding claims provision	22	(16,177)	(1,642)
Change in incurred but not reported provision	22	(54,511)	(1,517)
Change in premium deficiency provision	24	(2,609)	(2,003)
Total change in contract liabilities ceded to reinsurers		**(73,297)**	**(5,162)**
Claims net of reinsurance		**84,036**	**8,455**

13. Other operating and administrative expenses (Restated – Note 3.a)

	Note	2020	2019
		£000	**£000**
Service contracts including outsourcing		6,413	6,902
Employee benefits expense	14	5,230	5,161
Other staff costs		499	520
Office costs		20	257
IT costs		876	776
Depreciation		1,349	1,151
Consultancy and other third-party costs		1,588	493
Legal, rating agency, regulatory and audit	15	643	614
Capital model fees and validation		340	284
PR, marketing and communications		495	392
Allocation of expenses to paid claims	12	(536)	(496)
Total other operating and administrative expenses		**16,917**	**16,054**

14. Employee benefits expense

	2020	2019
	£000	**£000**
Wages and salaries	4,362	4,275
Social security costs	594	598
Employer pension contributions	274	288
Employee benefits expense	**5,230**	**5,161**
Temporary staff costs	-	-
Total employee benefits expense	**5,230**	**5,161**

	2020	2019
Average number of permanent staff for the year	39	39
Average number of temporary staff for the year	0	0
Number of permanent and temporary staff employed at the end of year	42	38

15. Auditor's Remuneration

	2020	2019
	£000	**£000**
Fees payable for the audit of the financial statements	263	254
Fees payable for other services		
-Audit-related assurance services	32	31
-Tax advisory services	-	-
-Other non-audit related fees	-	-
Total non-audit fees	-	-
Total Auditor's remuneration	**295**	**285**

16. Taxation

	2020	2019
UK corporation tax charge	**£000**	**£000**
UK corporation tax for the current financial year	11,517	25,773
Prior year adjustments	4	-
Total current tax expense	**11,521**	**25,773**
Deferred tax		
Temporary differences	-	-
Total deferred tax	**-**	**-**
Total tax charge	**11,521**	**25,773**

	2020	2019
Reconciliation of tax charge	**£000**	**£000**
Profit before tax	60,633	135,641
Income tax charge at a rate of 19% (2019: 19%)	11,521	25,773
Adjustments in respect of prior periods	4	-
Other adjustments	(4)	-
Total tax charge	**11,521**	**25,773**

The substantively enacted UK corporation tax rate at the balance sheet date will remain at 19%, following the cancellation of the previously enacted rate reduction to 17% as announced (and subsequently substantively enacted) by the UK Government in March 2020. This change in future tax rates has not impacted Flood Re as no deferred tax balances have been recognised at 31 March 2020.

17. Property, Plant and Equipment (Restated)

31 March 2020	Computer Equipment £000	Right of Use Assets £000	Total PPE £000
At Cost			
Opening balance as at 01 April 2019	**-**	3,655	3,655
Additions	52	-	52
Closing balance as at 31 March 2020	**52**	**3,655**	**3,707**
Accumulated Depreciation			
Opening balance as at 01 April 2019	**-**	**1,151**	**1,151**
Depreciation Charge	26	1,323	1,349
Closing balance as at 31 March 2020	**26**	**2,474**	**2,500**
Carrying amount at 31 March 2020	**26**	**1,181**	**1,207**

31 March 2019	Computer Equipment £000	Right of Use Assets £000	Total PPE £000
At Cost			
Opening balance as at 01 April 2018	**-**	1,629	1,629
Additions	-	2,026	2,026
Closing balance as at 31 March 2019	**-**	**3,655**	**3,655**
Accumulated Depreciation			
Opening balance as at 01 April 2018	**-**	**-**	**-**
Depreciation Charge	-	1,151	1,151
Closing balance as at 31 March 2019	**-**	**1,151**	**1,151**
Carrying amount at 31 March 2019	**-**	**2,504**	**2,504**

18. Reinsurance receivables

	2020	2019
	£000	£000
Premium due from policyholders	1,189	1,846
Pipeline premium due from policyholders	2,738	3,106
Premium due from reinsurers	8	14
Reinsurance commission receivable	(2)	11,635
Reinsurance recoveries on paid losses	991	1,088
Total reinsurance receivables	**4,924**	**17,689**
Current	4,924	17,689
Non-current	-	-

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

19. Trade and other receivables

	2020	2019
	£000	£000
Prepayments	719	419
Accrued interest	461	318
Other	16	11
Total trade and other receivables	**1,196**	**748**
Current	1,196	748
Non-current	-	-

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

20. Cash and short-term deposits

	2020	2019
	£000	£000
Bank balances	2,719	5,207
Short term deposits	484,650	353,000
Total cash and short-term deposits	**487,369**	**358,207**

Short-term deposits are made for varying periods of between one day and four 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 2020	**Note**	**Assumed £000**	**Ceded £000**	**Net £000**
Provision for unearned premium	**23**	**17,090**	**(23,700)**	**(6,610)**
Outstanding claims reserves	22	41,029	(20,010)	21,019
Incurred but not reported reserves	22	122,360	(58,627)	63,733
Total incurred claims reserves		163,389	(78,637)	84,752
Premium deficiency provision	24	16,361	(7,674)	8,687
Total insurance claims liabilities		**179,750**	**(86,311)**	**93,439**
Total insurance contract liabilities		**196,840**	**(110,011)**	**86,829**
Current		127,048	(76,701)	50,347
Non-current		69,792	(33,310)	36,482

31 March 2019	**Note**	**Assumed £000**	**Ceded £000**	**Net £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

As at 31 March 2020, the Company has £8.5m (2019: £8.5m) 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

	Note	**Assumed £000**	**Ceded £000**	**Net £000**
Outstanding claims reserves		7,665	(3,833)	3,832
Incurred but not reported reserves		8,372	(4,116)	4,256
Opening balance as at 01 April 2019		**16,037**	**(7,949)**	**8,088**
Prior accident year		(5,326)	2,663	(2,663)
Current accident year		(2,141)	784	(1,357)
Claims paid during the year	12	**(7,467)**	**3,447**	**(4,020)**
Prior accident year		(6,688)	3,285	(3,403)
Current accident year		161,507	(77,420)	84,087
Claims incurred during the year		**154,819**	**(74,135)**	**80,684**
Outstanding claims reserves		41,029	(20,010)	21,019
Incurred but not reported reserves		122,360	(58,627)	63,733
Closing balance as at 31 March 2020		**163,389**	**(78,637)**	**84,752**
Current		106,458	(51,359)	55,099
Non-current		56,931	(27,278)	29,653

	Note	**Assumed £000**	**Ceded £000**	**Net £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		(2,877)	1,190	(1,687)
Claims paid during the year	12	**(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

Included in assumed claims paid in the current accident year are £0.5m (2019: £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 2020	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2019	**16,613**	**(27,578)**	**(10,965)**
Premium written (ceded) during the year	34,078	(63,557)	(29,479)
Premiums earned during the year	(33,601)	67,435	33,834
Closing balance as at 31 March 2020	**17,090**	**(23,700)**	**(6,610)**
Current	17,090	(23,700)	(6,610)
Non-current	-	-	-

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	-	-	-

24. Provision for premium deficiency

31 March 2020	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2019	**10,400**	**(5,065)**	**5,335**
Change during the year	5,961	(2,609)	3,352
Closing balance as at 31 March 2020	**16,361**	**(7,674)**	**8,687**
Current	3,500	(1,642)	1,858
Non-current	12,861	(6,032)	6,829

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

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

	2020	2019
	£000	£000
Opening balance as at 01 April	**8,439**	**7,766**
Commission income deferred during the year	7,874	19,888
Released to Statement of Profit or Loss	(12,693)	(19,215)
Closing balance as at 31 March	**3,620**	**8,439**
Current	3,620	8,439
Non-current	**-**	-

26. Reinsurance payables

	2020	2019
	£000	£000
Premium payable to reinsurers	18,046	17,328
Commission payable to reinsurers	2,230	-
Claims payable to policyholders	355	-
Total reinsurance payables	**20,631**	**17,328**
Current	20,631	17,328
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 aims to pay a claim within 30 days of receipt of the claims bordereaux.

27. Trade and other payables

	2020	2019
	£000	£000
Levy receipts in advance	19,212	13,287
Accruals and deferred income	2,021	1,801
Staff costs	160	146
Total trade and other payables	**21,393**	**15,234**
Current	21,393	15,234
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 39 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 2020 are:

- Acromas Insurance Company Limited
- Admiral Insurance (Gibraltar) Limited
- Ageas Insurance Limited
- AIG UK Limited
- Allianz Insurance PLC
- Amlin Insurance (UK) PLC
- Amlin Underwriting Limited (AUK as appointed representative)
- Ascot Underwriting Limited
- Aviva Insurance Limited
- Axa Art Insurance Limited
- Axa Insurance UK PLC
- Baptist Insurance Company 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 Syndicates Limited
- International Insurance Company of Hannover SE
- Legal and General Insurance Limited
- Liverpool Victoria Insurance Company Limited
- Lloyds Bank General Insurance Holdings Limited
- Methodist Insurance PLC
- National Farmers' Union Mutual Insurance Society Limited (The)
- Ocaso S.A., Compania de Seguros y Reaseguros
- Royal & Sun Alliance Insurance PLC
- St Andrews Insurance PLC
- Tesco Underwriting Limited
- UIA Insurance 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 Company management to be market sensitive.

For the years ended 31 March 2020 and 2019, the following five Ordinary Members individually account for 10% or more of the voting rights of Ordinary Members:

- Allianz Insurance PLC
- Aviva Insurance Limited
- Lloyds Bank General Insurance Holdings 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, Company 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 excluding leases

	2020	2019
	£000	£000
Service contracts	6,023	6,179
Staff contractual commitments	2,002	1,927
Other financial commitments	589	783
Total commitments	**8,614**	**8,889**
Due within one year	8,614	8,889
Due later than one year but not later than five years	-	-
Total commitments	**8,614**	**8,889**

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

30. Lease arrangements

The Company has two leases: the first relates to the rental of office space and the second relates to leased IT infrastructure.

Maturity analysis of lease liability

	2020	2019
	£000	£000
Year 1	1,127	1,296
Year 2	81	1,127
Year 3	-	81
Total lease payments	**1,208**	**2,504**

31. 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:

	2020	2019
	£000	£000
Short-term employee benefits	1,177	1,127
Pension allowance	57	44
Post-employment pension and medical benefits	13	24
Termination benefits	-	-
Total Directors' emoluments	**1,247**	**1,195**

(b) Compensation of highest-paid Director

	2020	2019
	£000	£000
Short-term employee benefits	480	458
Pension allowance	39	38
Post-employment pension and medical benefits	-	-
Termination benefits	-	-
Total compensation of the highest-paid Director	**519**	**496**

(c) Department of Environment, Food and Rural Affairs

In accordance with the UK 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.

32. Directors and Officers shared with other entities

In the normal course of its operations, the Company has entered into transactions with companies whose directors and officers include directors or non-executive directors of the Company. All such transactions entered into were completed on market terms.

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 UK and provide flood-related reinsurance protection.

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 2020, the Company incurred £60k (2019: £60k) of ABI associate membership fees.

33. Events after the reporting period

The global outbreak of COVID-19 in 2020 presented unique challenges to individuals, companies and governments across the world. Flood Re activated its business continuity plans in mid-March 2020, including home working for all employees and outsourced partners. This ensured the seamless operation of all key business services and the meeting of all statutory obligations.

The Company continues to work effectively on a remote basis and is capable of doing so for an ongoing period, including meeting its business continuity and information security needs.

The estimated impact of post-loss amplification on claims incurred to the year-end have been provided for within these Financials Statements.

Flood Re has limited direct financial exposure to the impacts of COVID-19. This is due to the Company's single peril risk exposure, conservative investment portfolio, secure level of capitalisation and the Scheme's financial structure.

FLOOD RE