FLOOD RE

Flood Re Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2021

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ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2021

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OUR PROGRESS SO FAR
AND WHAT'S TO COME

COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2021

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
David Hindley	Independent Non-Executive Director
Claire Ighodaro	Independent Non-Executive Director
Stuart Logue	Chief Financial Officer
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COMPANY OVERVIEW
FOR THE YEAR ENDED 31 MARCH 2021

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 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 £2.273bn (2020: £2.244bn) 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	2021	2020	2019	2018	2017
Gross written premium	£39m	£34m	£34m	£32m	£28m
Gross insurance claims	£8m	£161m	£16m	£8m	£11m
Levy income	£180m	£180m	£180m	£180m	£180m
Profit before tax	£142m	£61m	£136m	£134m	£130m
Invested and liquid assets	£611m	£487m	£358m	£257m	£157m
Solvency capital ratio	1,251%	522%	349%	425%	237%
Operational capital ratio*	521%	427%	349%	235%	125%
Number of policies written	218,090	196,638	164,480	150,051	127,326

*This is a management metric, calculated as operational capital of £100m (see page 19), as a percentage of Solvency II Eligible Own Funds, which includes associated Tier II Ancillary Own Funds of £50m, being 50% of £100m Operational Capital.

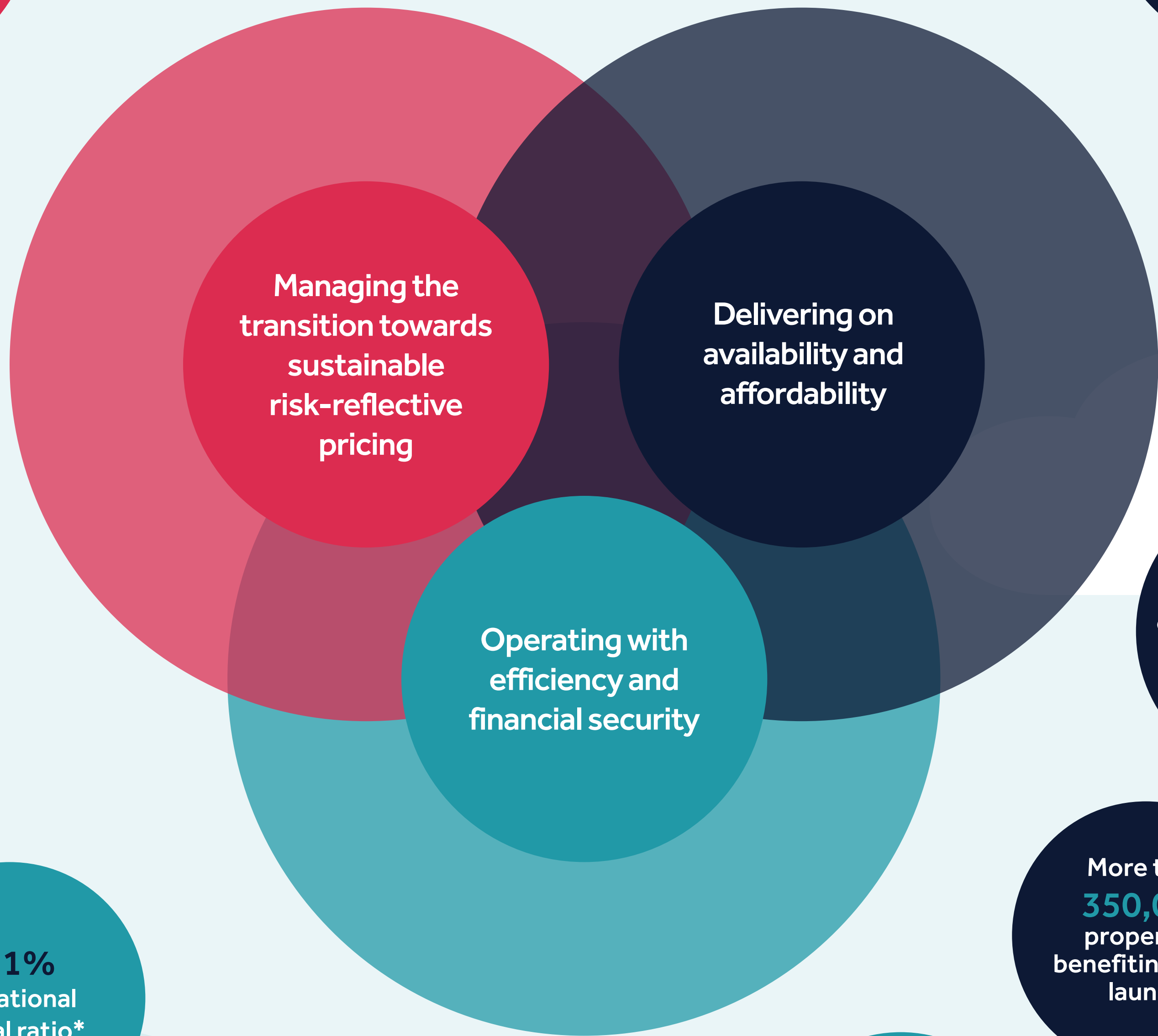
Flood Re Scheme Highlights

Researching the impact of floods on vulnerable communities

Influencing the debate on Property Flood Resilience by advocating for Flood Performance Certificates

Engaging with planners on how to take account of insurance, climate change and flooding

Leadership through the independent chair of the Property Flood Resilience Roundtable



218,090 policies this year

94% of the home insurance market offer the Flood Re Scheme

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

94% of householders with prior flood claims can now receive quotes from five or more insurers

We provided evidence to the Blanc Review, sharing our unique perspective on the issues confronting those who live in flood risk areas

More than **350,000** properties benefiting since launch

521% operational capital ratio*

£142m profit before tax

£611m invested and liquid assets

* This management metric was used in discussions with the PRA as a useful means of understanding Flood Re's capital management strategy.

Covid-19 Overview

Overview and operational response

The global outbreak of Covid-19 in early 2020 and subsequent lockdowns across the last year have presented unique challenges to individuals, companies and governments around the world.

As highlighted in our report last year, our focus from the beginning has been to ensure the safety and wellbeing of our staff. This has enabled us to maintain the continued operation of the Scheme and the ability to pay claims.

Our management of Covid-19 across 2020/21 can broadly be split between our Operational Response and the wider consideration of its implications on Flood Re's risk profile.

Operational Response and Resilience

We activated our well-established and tested 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 allowed us to meet all our statutory obligations.

The team continues to operate effectively through remote working and more recently have sought to use the lessons learnt from the last 12 months to inform our future work-state at Flood Re.

Ongoing Risk Management

Our wider assessment of risks and uncertainty posed by Covid-19 across 2020/21 particularly focused on Reserve risk from inflationary pressures (cost of materials and labour during lockdowns) on open claims particularly from flooding in November 2019 and Storms Ciara and Dennis in February 2020 and Counterparty credit risk, driven by the wider insurance and reinsurance industry impacts from Covid-19.

These two elements resulted in a small combined impact, but constituted a 'major' model change for the Flood Re Partial Internal Model ("PIM") which was approved by the PRA in March 2021. The ongoing review of these and other elements of uncertainty stemming from Covid-19 has been facilitated through weekly updates to the executive committee to highlight shifts in the external environment and agree actions to manage any implications for Flood Re.

Financial assessment and going concern

Outside of the potential claims inflationary pressures from Covid-19, 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 2021

The Directors present their Strategic Report on the Company for the year ended 31 March 2021.

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 home insurance market by 2039.

2020 tested the effectiveness of Flood Re. Storms Ciara and Dennis in February 2020 brought some of the wettest weather the UK has seen in recent years. Although these flooding events happened in our last financial year, the vast majority of the claims were processed in this year. In December 2020 and January 2021, we saw more localised flooding with Storms Bella and Christoph, which had a devastating impact on hundreds of householders and their homes. The way we managed the financial and operational consequences of these incidents, with multiple storms in a condensed period, proved that our model continues to be effective and impactful.

I was proud to see our financial and operational efficiency in response to major flooding recognised by ratings agency Standard & Poors ("S&P"), who upgraded our credit rating to A (Stable) in October 2020, noting that we had "successfully surpassed the critical start-up phase".

I am also proud of the team at Flood Re and how they have responded to the unique challenges thrown at them by the Covid-19 Pandemic. Led by our CEO, Andy Bord, their personal resilience ensured that the business continued to function with no interruption and that we were able to progress a series of operational enhancements as well as drive forward our work on the transition.

This year has also seen some changes to our Board. We said farewell to Claire Ighodaro and Adam Golding and thank them for their enormous contribution to establishing Flood Re and leading it through its early years. We welcomed Jean Sharp to the Board as a new Non-Executive Director and Stuart Logue as our new Chief Financial Officer. In addition, Judith Eden took over as Chair of the Remuneration Committee from Huw Evans in March 2021.

Delivering practical change

It has been five years since the Scheme was launched, and independent research shows that we continue to deliver on our primary function of providing affordable and available home insurance in flood risk areas. Year on year we have increased our activity in support of our second objective, and this year has been no exception. To return to risk reflective pricing by 2039, we need, directly and indirectly, to deliver the practical change necessary to ensure our successful transition out of the market.

QQR proposals

In July 2019, we published our Quinquennial Review (QQR) proposals – a series of practical suggestions to improve the Scheme. For example, 'Build Back Better' would permit Flood Re to pay claims that include an additional amount for resilient or resistant repair, above and beyond the cost of the original damage. Our proposal for 'discounted premiums', would permit us to recognise and reward those householders who have adapted their homes to be more resilient to flooding.

We believe these policies could send a significant signal to consumers and the insurance market and so help incentivise the take-up of property flood resilience (PFR) measures more widely.

We have also made positive proposals to improve the efficiency of the Scheme. We believe the levy on insurers to fund Flood Re should be reviewed on a three-year cycle in line with the procurement of our reinsurance programme, our largest item of expenditure. Our effective administration of the Scheme over the past five years could allow us, prudently, to reduce the levy in future.

In conversations with partners across industry and Government our proposals have been widely welcomed. The Department of Environment, Food & Rural Affairs is currently considering responses to their public consultation on changes to the Flood Re Scheme and we are eagerly awaiting the outcome.

However, statutory changes to the Scheme are only part of the plan and once approved all of our stakeholders will need to take further action. In due course, the insurance industry will need to support the roll out of 'Build Back Better' and, in time, discounted premiums for the installation of PFR measures. For their part, governments and their agencies across the UK will need to lead a step change in the installation of resilience measures and adaptation to climate change, in addition to continued long term investment in building new flood infrastructure and maintenance of our ageing defences. Further, governments will need to promote planning policies that do not exacerbate the problem. The public have a role to play too. Their awareness of flooding needs to be raised, but they also need the tools and incentives to adapt, particularly the most vulnerable. Behavioural change is necessary if Flood Re is to transition successfully in 2039, more importantly if we are to succeed as a nation in meeting the ever increasing challenge of flooding resulting from climate change.

Making more houses in the UK resilient to flooding is in the interest of everyone. 'Build Back Better' and 'discounted premiums' will only work if insurers promote the Scheme and implement the benefits these new measures offer to householders. Encouraging uptake of resilience measures is a huge task and we need the industry to proactively explain the benefits to householders as well as proactively changing their approach to repair, to make it more resilient.

Those with better protected homes will be able to recover more quickly from a flooding incident, have less to fear when the weather turns and may as a result be more loyal to their existing insurer. It will also help support the most socially vulnerable in our society, many of whom are particularly susceptible to flood risk. Insurers will be able to price policies more accurately and reduce the costs of pay-outs when heavy flooding hits. If the Scheme is to ensure a smooth exit out of the insurance market by 2039, we must continue progress on our Transition Plan, to change how the market works, and to influence consumer behaviour. As the impact of climate change exacerbates, we expect the incidence of flooding to increase in frequency and severity, so it is essential that PFR measures become the norm, rather than the exception as they are at present.

Climate change

The UK will be hosting the 26th UN Climate Change Conference (COP26) later this year in Glasgow. Domestic and international agendas will be focused on how we can build back better from the pandemic whilst also tackling climate change which poses an even more existential threat. Flood Re is unique because it improves the affordability and availability of flood cover today, whilst reducing the cost of flooding to households tomorrow. However, the Flood Re Scheme is time limited and will not exist forever. We will be using our work on how to incentivise the uptake of resilience to provide insights into how nations need to not only mitigate the risks of climate change through net zero targets, but also to adapt to the consequences of climate change that are already being felt.

After our first five years, we have met all challenges to the Scheme and demonstrated that it works to fulfil its public purpose. This year we are looking forward to progressing on our plans with the support of the industry and Government, and I hope all our stakeholders will help support us on this journey.

Mark Hoban

Chair

Date: 28 June 2021

Chief Executive Officer's statement

Since the first quarter of 2020, we've had four named storms, bringing about some of the UK's heaviest flooding in recent years. Storms Ciara and Dennis caused widespread damage across the UK in the first few months of 2020. They were followed by Storms Bella and Christoph over the Christmas and New Year period which caused devastation for hundreds of properties. Together, these were the biggest tests of the Flood Re Scheme since it was set up in 2015.

While we saw fewer claims this financial year when compared to 2019/20, this does not reflect the impact on those affected. Having heard multiple stories of hardship and seen images of whole towns under water, I am aware of the damage flooding has caused to too many of our communities. That is why I am proud to confirm that we delivered payments of £44 million to insurers in this financial year, underpinning their settlement of customer claims. I am particularly pleased that our team responded so well to the Covid-19 pandemic and ensured all our services and pay-outs continued without interruption.

The number of claims made this year has allowed us to build up our capital, currently standing at £482m, putting us in a strong position to ensure that we are able to pay out claims in the years ahead. Climate change and emerging weather patterns means that flooding can no longer be considered as predominantly a winter phenomenon.

Independent research confirms the continued achievement of our purpose to make available affordable home insurance in flood risk areas. To date, we have helped more than 350,000 households across the UK and paid out a total of £67m in claims. We know that 94% of householders with a previous flood claim can receive quotes from five or more insurers thanks to Flood Re, compared to 0% before the introduction of the Scheme. Four out of five of these households with previous flood claims found quotes that are more than 50% cheaper.

We have continued to freeze the premiums we charge insurers this year, which has the effect of a combined buildings and contents insurance premium "real terms" reduction of 26% since the start of the Scheme, which we expect to be passed on to consumers given the competitive home insurance market.

Results and performance

The results of the Company for the year ended 31 March 2021 show a profit before tax of £142m (2020: £61m), with an income from the Levy of £180m (2020: £180m) and gross written premiums of £39m (2020: £34m). Eligible and available own funds under the Solvency II Directive stand at £491m (2020: £417m).

During the financial year, we incurred gross claims of £8.2m (2020: £160.8m). This figure is largely a result of the reduction in Insurance contract liabilities in the year of £45.5m (2020: Increase of £153.3m), subsequent to actual claims experienced following Storms Ciara and Dennis.

Preparing for the future

We made proposals to government in 2019 to improve the effectiveness and efficiency of the Scheme and, importantly, to enable more progress towards a future where the UK housing stock is more resilient against flooding. We believe that, taken together, our QQR proposals can act as a catalyst to change thinking amongst consumers about PFR measures, and therefore protecting houses across the UK against some of the effects of climate change.

We will be working with Defra over the coming months to deliver the results of their recent consultation on changes to the Flood Re Scheme and look forward to getting these changes on the statute book, working with insurer partners to roll out 'Build Back Better' and making this vision of more resilient housing a reality.

In December 2020 we were delighted to launch a report, alongside Defra Flooding Minister Rebecca Pow MP, detailing the benefits of Flood Performance Certificates (FPCs). FPCs could provide prospective buyers and renters with a clear view of the flood risk posed to their property and, crucially, would also provide details on what measures have already been taken to protect the property from flooding and what further actions could to be taken to reduce that risk.

We believe FPCs can act as a nudge to encourage people to make their homes resilient to flooding, thus giving them peace of mind. The stakeholder reaction to these proposals so far has been positive, with the Public Accounts Committee (PAC) highlighting the key role FPCs can play in its latest inquiry into Managing Flood Risk.

Blanc Review

In November 2020 Amanda Blanc published the outcomes of her independent review into flooding in and around Doncaster the previous winter. The Review examined the level of insurance held by those affected, as well as any barriers they faced in obtaining cover. Flood Re was an active participant in the Review, providing evidence and sharing our unique perspective on the issues confronting those who live in flood risk areas.

The Review made several recommendations that we hope will improve the situation for those facing such risks. Crucially it highlighted that while flooding impacts everyone, it doesn't impact everyone equally. We agree with the Report's finding that at least 6% of households surveyed in Doncaster having insurance which excluded flood cover is "concerning", and we strongly support any moves to ensure that consumers are only sold home insurance products that include flood cover as standard.

While the Review found no evidence of systemic issues when it comes to accessibility, availability, or affordability of home insurance, it did shed a light on areas where our industry needs to improve. We will continue to work with the Association of British Insurers (ABI) and the British Insurance Brokers' Association (BIBA) to ensure there is clear communication to consumers about the different ways to shop around to get the right insurance policy for them.

Helping drive Transition

To maximise the likelihood of a successful Transition we have been working with a wide range of stakeholders and partners from several sectors and have initiated and actively participated in numerous projects, all designed to help the UK better manage flood risk.

Our Director of Communications and Transition, Dermot Kehoe, is currently the independent Chair of the Property Flood Resilience Roundtable, which brings together stakeholders from across industry and Government. We are managing a new project, on behalf of the Property Flood Resilience Roundtable, to establish a widely accepted flood resilience-based scoring system in the UK for residential properties.

Flood Re has also been working closely with individual insurers, the Environment Agency, Defra and public bodies in Wales, Scotland, and Northern Ireland to build the evidence base for the financial value of PFR. We also worked with flood risk management expert Paul Sayers to explore the relationship between income levels, housing tenure, ethnicity and flood risk. This highlighted how the most socially vulnerable experience systemic flood disadvantage and we will be collaborating with social housing providers to better understand these risks and develop mitigation strategies.

No consideration of Flood Risk would be complete without a recognition of the role that Climate Change will increasingly play. Higher global temperatures mean we will experience wetter winters, more extreme rainfall, and rising sea levels. To ensure Flood Re's smooth exit to risk-based pricing and affordable flood insurance, we need to see, not just the risks of climate change mitigated though reduced carbon emissions, but also adaptation to the effects of climate change which are already inevitable. That is why we are looking forward to COP26 later this year in Glasgow at which we will be promoting the importance of flood adaptation through property level resilience.

A focused team

We have lived through a year like no other in our lifetimes. It is important for me to recognise how immensely proud I am of our whole team, who quickly adapted to working from home when the Covid-19 pandemic hit. We have continued to run the Scheme remotely, while ensuring a smooth operation and a high-performing culture.

To help build on our team's fantastic work, we have recently recruited new members to our Executive Committee, with Andrea Santolalla taking on the role of Director of Operations and Stuart Logue being appointed as our Chief Financial Officer.

We operate at Flood Re with a set of defined "desired behaviours" that are central to how we work and the way we reach decisions. We also continually challenge ourselves to ensure the business and leadership team is diverse. We are signatories to the Women in Finance Charter and have a target to achieve 25% female representation at Executive Committee level by 2022. I am pleased to confirm that this target was achieved a year early (with Andrea's arrival) however this does not take us far enough and we will be revising this objective later in 2021.

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 statutory objectives, which are set out in legislation, and for its stewardship of public money.

Consequently, Flood Re has to lay 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 Accounting Standards in conformity with the requirements of the Companies Act 2006, 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. At the end of the fifth successful year of operation of the Scheme, the initial objectives of the Scheme remain relevant in the overall context of our statutory purpose of promoting the availability of affordable home insurance to those at the highest risk of flooding. A number of these have been fully achieved and are subject to ongoing monitoring rather than regular reporting.

OBJECTIVE 1: To promote the availability and choice of insurers for customers

This objective has been securely delivered with availability such that 96% of households at risk of flooding can get quotes from five or more brands, 95% can choose from at least 10 brands. 94% of households that have suffered a recent flood were able to get quotes from five or more brands and 91% had the choice of 10 or more.

Consumers can increasingly buy Flood Re backed home insurance through their channel of choice, as Flood Re's overall market penetration is 85%.

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 choice 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.

OBJECTIVE 2: To enable flood cover to be affordable for those households at highest risk of flooding

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 policy 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 premiums have been maintained at this level since 2019, resulting in ongoing "real" reductions in premium cost over the past 2 years that has contributed to the 33% increase in policy volumes over the period.

Flood Re premiums are deliberately set at levels that are often lower than the underlying risk reflective price, which creates a funding shortfall. This is subsidised by the raising of a Levy from all insurers writing UK household insurance as defined in the Water Act 2014.

The QQR proposals allow for flexibility in determining the Levy I to align with the needs of the business, and its purchase of an appropriate outwards reinsurance programme.

OBJECTIVE 3: To seek to be 'capital neutral over time' for insurers, while accepting that there are agreed exceptions

Flood Re has been created to underwrite the worst of UK flood risks. 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 provide aggregate cover up to the "Liability Limit" and to limit the maximum P&L loss to the "Loss Limit".

Flood Re secures its reinsurance protection on a three-year basis, with the renewal of the current programme effective from the beginning of the 19/20 financial year. Based upon the actual portfolio, coupled with optimising coverage, the programme has been successfully placed and has protected the Scheme's performance over the last two financial years.

Flood Re is a credible inwards reinsurance partner for UK insurers and sufficiently capitalised to withstand the UK flood peril. The Scheme developed a Partial Internal Model which was approved by the PRA for use within the business from 1 April 2020.

The security of the Scheme is reflected in Standard & Poor's upgrading of Flood Re's rating to A (from A-) reflecting the successful operation of the Scheme through Storms Dennis and Ciara.

There has been no call for Levy II funding from the insurance industry in the life of the Scheme.

A robust financial position with an internal model solvency capital ratio of 1,251% (2020: 522%) and liquid resources of £611m (2020: £487m) demonstrates this successful operation.

With the implementation of the Solvency II Partial Internal Model there is cyclicality in our capital requirement, due to changes in our outward reinsurance profile through the year. This is part of the design of Flood Re and is operating as expected. As a result of this our capital requirement varies through the year and is usually at its lowest, all other things being equal, at year end. In order to more usefully reflect a level of capital required across the year, we established an internal Operational Capital Requirement. This is currently determined by the Board to be £100m.

This management metric was used in discussions with the PRA as a useful means of understanding Flood Re's capital management strategy. The current year Operational Capital Ratio is 521%, (2020: 427% and 2019: 349%).

OBJECTIVE 4: To create a level playing field, with an equal opportunity to participate in the Scheme for the UK home insurance market

The Scheme is operating effectively, addressing its Levy I credit risk, collecting all Levy income due to the Scheme with £180m of Levy income raised and received in 2021, which represents a 100% successful collection (2020: 100%) from insurers, proportionate to their market share of business written.

Flood Re monitors a suite of metrics to manage its insurer credit risk exposure, most notably credit ratings, payment patterns and aged debtor reporting.

There is also a risk of the Levy being incorrectly calculated. Levy guidance is provided to insurers and the Scheme monitors the basis of calculating the Levy and reviews individual insurer declarations to ensure consistency and equity.

In terms of participation in the Scheme itself 85 insurers representing 94% of the UK household insurance market utilise the Flood Re Scheme.

OBJECTIVE 5: To operate as an independent body that is privately owned and operated while also meeting the needs of public accountability

As a Regulated business, Flood Re must be a financially robust, standalone reinsurance vehicle which ensures continual operational stability. 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. In the five years of operation up to 31 March 2021, the Scheme has accumulated net assets, on an IFRS basis, of £482m (2020: £367m) and Available and Eligible Own Funds (Solvency II basis) of £491m (2020: £417m) as well as holding invested and liquid assets of £611m (2020: £487m).

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. The Scheme also follows the public procurement requirements.

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.

OBJECTIVE 6: To manage the transition towards affordable risk-reflective pricing by 2039

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.

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.

The following section outlines the next stage of our plan to deliver on our transition objective.

Delivering on our strategic Transition objective

Gearing up to change and new challenges

As Flood Re looks to the future, we are increasingly focused on our Transition. We recognise that climate change and inappropriate housing development in flood plains could impact progress in other areas. That's why we have begun to step up our engagement, working with the Town and Country Planning Association, the Climate Change Committee ('the CCC') and becoming a member of ClimateWise.

We know that more needs to be done to tackle flood risk and adapt as a country. We have broadened our vision to look at social vulnerability and financial inclusion, evaluating how Flood Re can play a role. Particularly as events in the past year have highlighted the pace of social change. Insurance alone cannot be the solution for those at high risk of flooding, but it does have an important role to play. That is why we have been such strong advocates for changes to the Scheme such as Build Back Better, which will provide financial support for many more householders to become resilient to future flooding. We want all our stakeholders to work with us, because we believe real progress will require action from many areas.

A series of leading indicators to track progress

Over the last year, we have developed high-level 'leading indicators' as a way of tracking progress towards our goal of exiting the market by 2039. These indicators do not themselves determine success, nor are they something that Flood Re can control. Instead, they provide an objective assessment of the direction of travel. The aim is that these leading indicators will enable us to monitor both the long-term and slow-moving risks to transition.

We assess many of these indicators as currently 'in the red', but, there is still time for this to change. They are an early warning that the UK needs to do more to prevent, respond and adapt to all forms of flooding.

Our Transition Plan, published in 2018, spells out in detail what needs to be true for the market to successfully transition to risk reflective pricing, without the continued need for Flood Re. We identified areas of activity, or 'buckets' in our vision, where there must be concrete action. We have identified leading indicators for each of these areas of activity.

Our approach acknowledges that there is a hierarchy of driving forces (e.g. climate change), enabling activities (e.g. products and consumer information) and resulting impacts (e.g. the size of the uninsurable population). Some transition areas are easier to quantify than others, so we have developed the indicators from both quantitative analyses and qualitative judgements. They are at varying stages of maturity. We expect that the indicators will evolve but believe that this first assessment underlines the urgent need for action, particularly given the headwinds of climate change.

1. Reducing the risk of flooding

We have welcomed the Government's commitment to an additional £5.2bn of spending for flood defences over the next five years. However, this is not sufficient alone and there is a need for continued investment and long-term commitment. This includes funding for the maintenance of the current infrastructure, as well as for new defences.

This demonstrates early progress and has helped to make this indicator 'amber', but there is still much to do. We are building an evidence base on the benefits of flood defences working with modellers and engineers including RMS and JBA.

We are also working to develop our relationships with partners in the Environment Agency (EA) and the private sector. We hope to work to enable others to identify opportunities and new approaches to bring in new funding sources. Green finance, in particular, could increase the number of nature-based solutions to flooding.

Ongoing development on the floodplain could offset this early progress. Flood Re does not cover properties built after 2009 and we continue to believe that this cut-off remains as a disincentive to inappropriate development. However, if house building continues at current rates in areas at risk of flooding, a new protection gap will open. That is why we are supporting additional training for planners to promote flood awareness and have responded strongly to the Ministry of Housing, Communities and Local Government (MHCLG) on proposed changes to the planning system.

2. Reducing the damages and costs of flooding

There is real momentum for the emerging area of property flood resilience, so we place an 'amber' rating to this area. We have supported the development of a new Code of Practice for resilience measures by the Property Flood Resilience Roundtable. We have taken on chairing this body and are committed to providing it with leadership and practical support.

We launched, with the Minister for Flooding Rebecca Pow MP, a new report advocating the introduction of 'Flood Protection Certificates' (FPCs). FPCs would mean that householders could demonstrate independent validation of the resilience work done to their property.

Our Build Back Better and Lower Premiums proposals have been subject to consultation by Defra. We continue to be eager to introduce these new insurance incentives for property level resilience.

Nonetheless, increased momentum from Government, the insurance industry and other stakeholders is still needed. We are a long way from normalising the behavioural changes by householders that we want to see.

3. Achieving an effective market

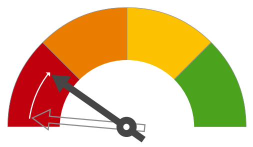
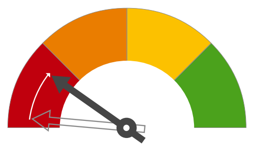
We continue to advocate for wider insurance solutions in the longer term. If Flood Re were to exit the market today, the level of risk would not have significantly changed since the 2014 Water Act and so there would be a significant "rate shock". As such, we are on 'red'. This assessment is not unexpected, given Flood Re is still at an early stage in its journey.

4. Limits of affordability

The ongoing availability and affordability of household insurance to those at high flood risk remains the top priority for us. We are concerned that vulnerable groups continue to be hit the hardest by flooding. The recent independent review by Amanda Blanc into insurance cover in Doncaster gave grounds for optimism that there are no systemic issues. We are working with our partners in the ABI, BIBA and the EA to take forward her recommendations and ensure flood cover remains available to all. We will also be looking to support social housing providers to improve flood awareness and resilience.

The reality of climate change gives us concern and we are looking to COP26 later this year to provide much needed global leadership. For this reason, we consider this indicator as 'red' in terms of Transition progress.

Leading indicators for all areas of transition, along with a view on the 'maturity' of their development.

Transition Area	Progress Assessment	Leading Indicator/ Expert Judgement
Reduce the risk of flooding		1. Level of flood defence investment 2. Extent of housing development in the floodplain
Reduce the damage and cost of flooding		3. British Standard for flood resistance products 4. Level of engagement of community with flood groups 5. Number of properties that benefit from PFR 6. Overall cost and time taken to settle claims
Achieve an effective market		7. Flood modelling use in risk-reflective pricing and awareness 8. Effective level of Flood Re subsidy ("rate shock") 9. Householder flood risk awareness of their home 10. Engagement with insurers at strategic and operations level
Limits of affordability		11. Number of households at highest flood risk 12. Support for those at highest risk post-Flood Re 13. CO_2 emissions and the likely "climate pathway"

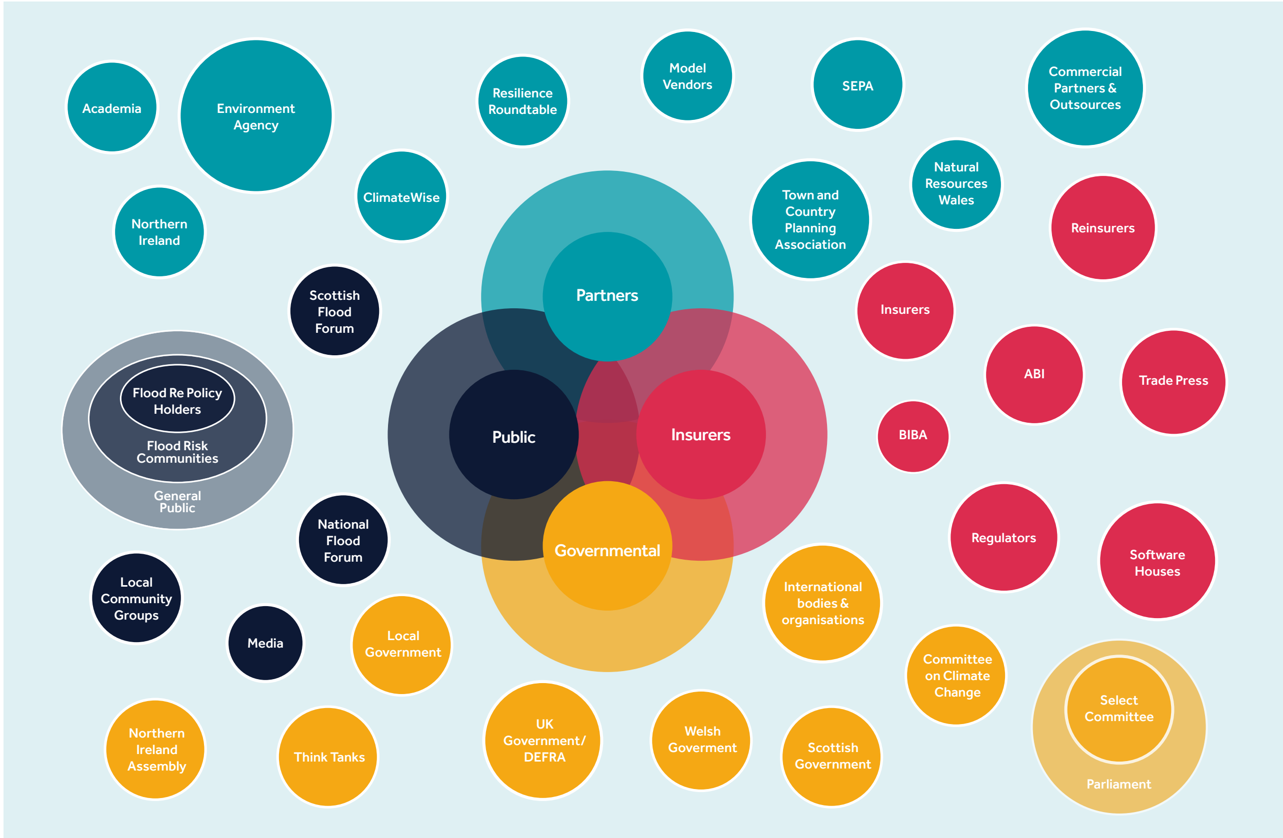
Section 172 (1) statement and our stakeholders

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 its agencies, 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 the Board and Executive Strategy Day, held in December 2020, the Directors considered the road map required to engage long-term with stakeholders to improve the flood resilience of UK households. Looking at the broad range of stakeholders that could assist in achieving property flood resilience, the Board highlighted that Flood Re has both a leadership and co-ordination role to play in achieving the desired outcomes.

The Directors also recognised that our continuing relationships with policy makers such as Defra and the Environment Agency will be crucial in delivering tangible change in areas such as Build Back Better and Flood Performance Certificates.

The Board acknowledges 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. A 'desired behaviours' framework is well established and is linked to the annual reward Scheme. During the year, the Exec launched its 'Leadership Charter' to distinguish the behaviours that Flood Re expects from its senior leadership team members. Staff consultations, using regular 'temperature checks', are undertaken and acted upon.

Key strategic activities

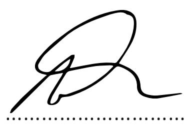
Some example activities are highlighted in the table below where serious consideration was given to the interests of, relationships with, and impact on key stakeholders. The Directors took into account the likely long-term consequences of their decision and the need for Flood Re to maintain a reputation 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 the re-procurement of the three-year reinsurance programme, for implementation from 1 April 2022. The programme is founded on the actual risk profile of the Company following its first five years of operation, while maintaining protection up to the defined Liability Limit. The requirement for a stop loss reinsurance treaty was removed as it was no longer required to protect the loss limit, following approval from the members of Flood Re and the relevant amendment to the Articles of Association.	• Reinsurers • Insurers • Secretary of State, Defra
Outsourced partnership procurement	The Board approved the re-procurement of all outsourced partnerships in May 2020, including the re-procurement of our back office services currently hosted by Capita PLC, our reinsurance back office and our public affairs partners.	• Insurers • Outsourced service partners
Quinquennial review (QQR)	The Secretary of State supported all but one of the QQR proposals, with public consultation run between 1 February 2021 and 26 April 2021 and Defra is considering the feedback. The QQR proposals include the ability to review the levy on a triennial basis and could allow us to prudently reduce the levy for insurers in future, as well as the ability to discount premiums, which would permit us to recognise and reward those householders who have made adaptations to make their homes more resilient to flooding.	• Secretary of State, Defra • Insurers • Industry bodies • Householders

Flood Performance Certificates	In late 2020, the Board approved the launch of a report, detailing the benefits of a Flood Performance Certificate. These would provide prospective buyers and renters with a clear overview of the flood risk posed to the property. The certificates would also include information on what measures have already been taken to protect the property from flooding and explain what actions needs to be taken to further reduce that risk.	• Householders • Industry bodies • Insurers • Property agencies
Review of the impact of flooding on the socially vulnerable	With Board support, the Flood Re team worked with flood risk management expert Paul Sayers to explore the relationship between income levels, housing tenure, ethnicity and flood risk. The report highlighted how the most socially vulnerable experience systemic flood disadvantage and we will be collaborating with social housing providers to better understand these risks and develop mitigation strategies.	• Householders • Industry bodies • Insurers • Reinsurers
Streamlined Energy & Carbon Reporting	The Company is reporting its first Streamlined Energy & Carbon Reporting Report for the year ended 31 March 2021 in the Directors' Report. By including the energy usage of our outsourced partners and including estimations of energy used during homeworking in the year, we are able to measure, and will be considering how we direct the energy usage and carbon emissions for which Flood Re's activity is directly or indirectly responsible.	• UK Government • Insurers • Industry bodies
Covid-19	The Board's considerations in relation to the implications of Covid-19 on the Company and its Stakeholders are detailed on page ten.	

By Order of the Board

For and on behalf of Flood Re Limited



Andy Bord

Chief Executive Officer

Date: 28 June 2021

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2021

The Directors present their Report and the audited Financial Statements of the Company for the year ended 31 March 2021.

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.

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 2021. 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.

Streamlined Energy & Carbon Reporting (SECR) Report for the year ended 31 March 2021

Organisational structure

Flood Re is classified as a large unquoted company due to its size in terms of turnover, measured in Gross Written Premiums and Total Assets. It is required to report in accordance with Streamlined Carbon & Energy Reporting ("SECR") legislation as at 31 March 2021 as a result.

Environmental indicators

Flood Re's first report focuses on the Energy and Carbon indicators mandated by the SECR. The Company intends to report on the other relevant environmental indicators in future reporting periods.

Reporting period

Flood Re is reporting for the first time as at 31 March 2021. Its base year has been set as 31 March 2020 due to the exceptional circumstances created by the Covid-19 lockdowns that have significantly reduced office occupation and staff travel. This will provide a more representative base from which to analyse and compare future annual energy usage and emissions.

Reporting Boundary

The reporting boundary for this Energy and Carbon Report is Flood Re Limited and its outsourced services. This incorporates 100% of the energy use for the Company. Flood Re's energy and carbon footprint covers Scope 1, 2 and selected Scope 3 emissions* from 1 April- 31 March for each reporting year in 2021 and 2020.

Measurement methodology: Energy Performance

Flood Re's own kWh Scope 1 Gas and Scope 2 Electricity energy use is calculated as a percentage of the total office space owned by its managed services provider and is allocated based on the square footage of its occupied space. Scope 1 Transport Energy represents recorded business travel in Km by employees using their own vehicles that has been converted to kWh.

Equivalent kWh energy usage for our outsourced service partners has been allocated on a per capita basis.

kWh energy use is calculated using the most up to date conversions factors from the Department for Business, Energy & Industrial Strategy (BEIS), published 17 July 2020.

Energy Performance Results

Energy Use (kWh)	31 March 2021	31 March 2020 (Baseline year)
Transport Energy	2,029	5,742
Electricity	142,692	178,555
Natural Gas	127,538	191,131
Total	**272,259**	**375,428**

Measurement Methodology: Carbon Performance

Scope 3 emissions include travel by land and air, and homeworking. Land and air travel emissions are based on the actual journeys taken in the reporting year, with conversion factors applied to calculate the carbon emissions equivalent.

In estimating the impact of emissions from homeworking on Scope 3 carbon emissions from incremental gas and electricity usage, we have used the U.K. assumptions and calculations from the Homeworking emissions whitepaper, published by EcoAct and written in partnership with Lloyds Banking Group and NatWest Group: https://info.eco-act.com

Carbon emissions are calculated in accordance with the Greenhouse Gas (GHG) Protocol, with outputs for Carbon emissions (CO2e) calculated using the most up to date conversions factors from the Department for Business, Energy & Industrial Strategy (BEIS), published 17 July 2020.

Carbon performance results

Carbon dioxide equivalent Emissions (t/Co2e)	31 March 2021	31 March 2020 (Baseline year)
Scope 1 emissions	23	37
Scope 2 emissions	33	42
Scope 3 emissions	51	39
Total	**107**	**118**

* Scope 1 emissions are direct emissions produced by the burning of fossil fuels by Flood Re. Scope 2 emissions are indirect emissions generated by the electricity consumed and purchased by Flood Re. Scope 3 emissions (limited to business travel and homeworking) are indirect emissions produced by Flood Re activity but owned and controlled by a different emitter.

Intensity Ratio

Reporting boundary t/CO2e/employee	31 March 2021	31 March 2020 (Baseline year)
	2.6	3.0

DIRECTORS' REPORT (cont.)

Operational trends

The kWh energy usage in the year to 31 March 2021 was considerably lower than the baseline reporting year, as we and many other companies in the office building we usually occupy switched to home working in April 2020.

For our carbon emissions, the contrast between the predominant Covid-19 lockdown periods from April 2020 and the 'business as usual' prior year where business travel levels were at normal levels, is lower than might be expected due to the impact on scope 3 emissions from homeworking gas and electric usage. The overall impact, however, is a reduction year on year of 11 tonnes of Co2e, and a per capita emission reduction from 3 to 2.6.

Energy efficiency and management actions

We have noted that our partitioned office space, part of a set of offices within one larger building, limits our ability to manage our energy usage. As areas of the whole building have variously been in use or not, it is clear that there is an underlying energy usage required for heating and lighting, and for security and systems maintenance that is unavoidable. In addition, our allocation of the total energy usage varies as occupation throughout the building changes.

It is also clear that the incremental impact of homeworking is not a simple factor to determine due to complex variables relative to individual circumstances. The incremental energy created by homeworking from shared accommodation rather than independent households can differ considerably, and for individuals from households where a family member or shared occupant is usually present anyway, the incremental energy usage is minimal, whereas for two people usually absent from home during the day, the incremental energy usage could be significant. We have followed the methodology from EcoAct's Homeworking emissions whitepaper for the year to 31 March 2021, and aim to refine a methodology that better reflects our teams' circumstances once our future working arrangements have been determined.

Given our restricted ability to directly manage the total energy usage arising from Flood Re's activity, the board will consider options in 2021 and beyond both to offset our carbon emissions, and to assess opportunities for Flood Re to engage with UK Woodland and Wetland projects that are expected to assist in the reduction of future flood risk, and to reduce carbon emissions.

Impact of climate change on investment risk

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.

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 and Pay.UK. He also sits on PwC's Advisory Council. 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.

Stuart Logue

Stuart Logue is the Chief Financial Officer (CFO) of Flood Re responsible for the planning, implementation and management of all aspects of Flood Re's finance, accounting, capital management and reinsurance functions.

Stuart is a member of the Institute of Chartered Accountants of Scotland and has previously worked in senior finance roles within Ageas, Direct Line Group and Royal Bank of Scotland across Insurance and Financial Services.

Independent Non-Executive Directors

Judith Eden

Judith Eden is an independent Non-Executive Director at Flood Re and Chair of Flood Re's Remuneration Committee. She is also an independent Non-Executive Director and Remuneration Committee Chair at Pension Insurance Corporation, 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. 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 was Chair of Flood Re's Audit and Compliance Committee throughout the financial year ending 31 March 2021. Claire is also Chair of Axa XL UK entities, Non-Executive Director and Remuneration Committee Chair of Pennon Group PLC and a Member of TheCityUK Leadership Council. Claire resigned from the Board and stepped down as Chair of the Audit and Compliance Committee on 30 June 2021.

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 a past President of the Chartered Institute of Management Accountants.

Professor Paul Leinster CBE

Paul Leinster is an independent Non-Executive Director at Flood Re. He is also Chair of the Board of bpha, a housing association and of the Institute of Environmental Management and Assessment, a professional membership body 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. Up to December 2020 he was also Professor of Environmental Assessment at Cranfield University and a member of the Natural Capital Committee.

Paul was appointed as a non-executive member of the new Office for Environmental Protection on 7 June 2021, and was Chief Executive of the Environment Agency from June 2008 to September 2015.

Jean Sharp

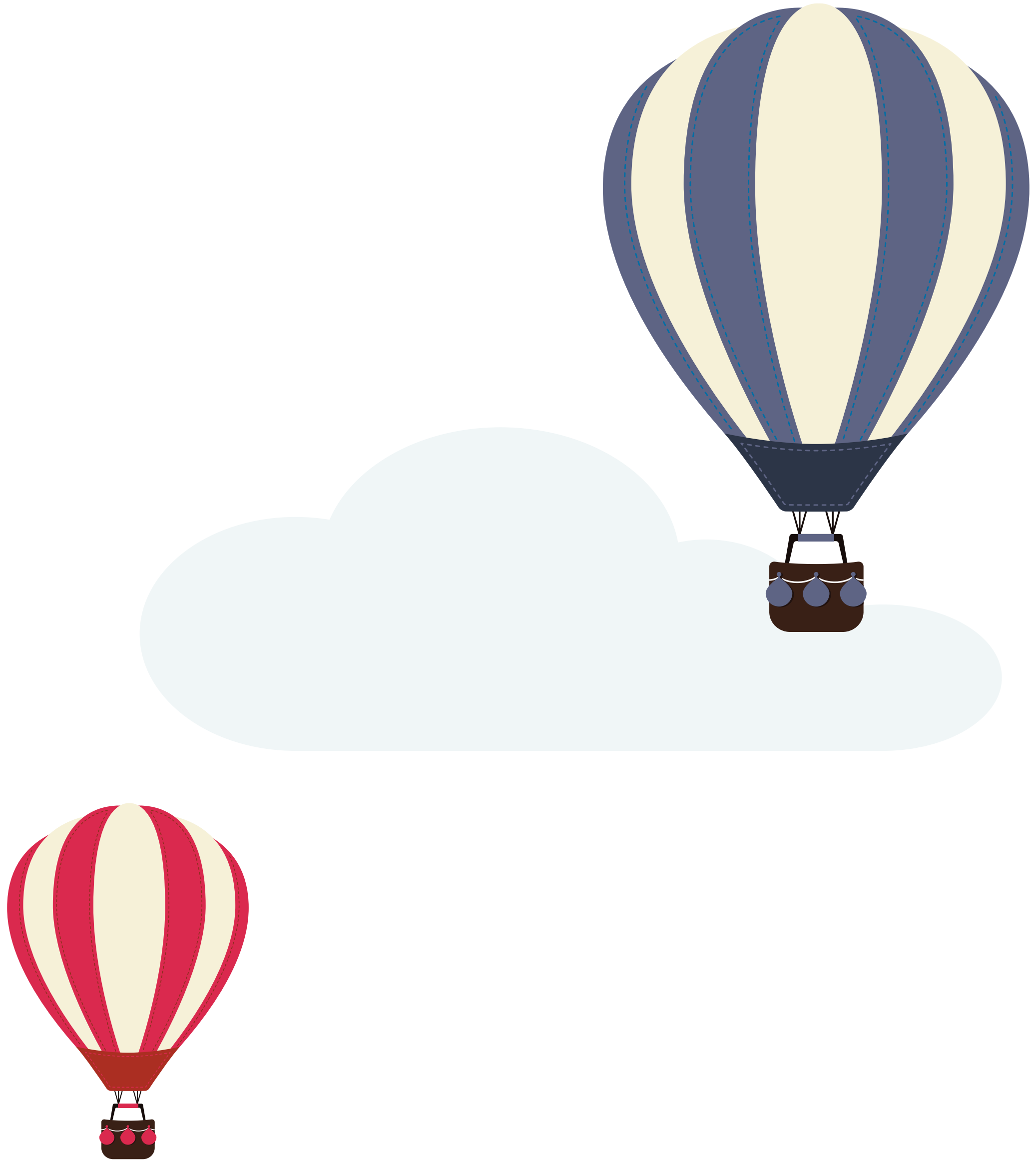
Jean Sharp is an independent Non-Executive Director at Flood Re.

She is also an independent Non-Executive Director and Audit Committee Chair at Personal Assets Trust plc and a Director at RAC Pension Trustees Limited and Friends Provident Pension Scheme Trustees Limited. Jean was previously Chief Taxation Officer at Aviva plc.

Jean is a Chartered Accountant and a former Partner at EY.

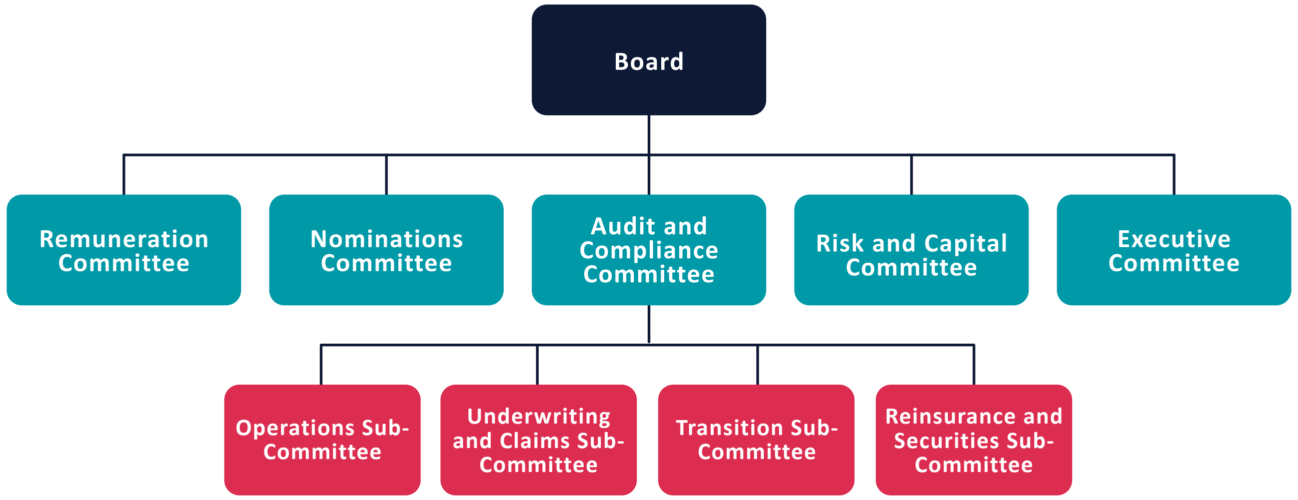
Non-Executive Directors rotation policy

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 2021 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[1]	INED	CHAIR/INED	INED	INED	INED
Huw Evans[2]	SID	CHAIR/INED	INED		
David Hindley	INED	INED	INED	CHAIR	INED
Claire Ighodaro[3]	INED	INED	INED	INED	CHAIR
Paul Leinster	INED	INED	INED	INED	INED
Stuart Logue[4]	CFO and ED				
Jean Sharp[5]	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

1 Huw Evans was the Chair of the Remuneration Committee until 19 March 2021.

2 Judith Eden is the Chair of the Remuneration Committee from 19 March 2021.

3 Claire Ighodaro stepped down as Chair of the Audit and Compliance Committee and resigned from the Board effective 30 June 2021.

4 Stuart Logue was appointed to the Board 3 November 2020.

5 Jean Sharp was appointed to the Board on 1 April 2021 and will chair the Audit and Compliance Committee from 1 July 2021.

Committee attendance record

The table below shows the Committee attendance record for the year ended 31 March 2021.

Name	Board	Remuneration Committee	Nomination Committee	Risk and Capital Committee	Audit and Compliance Committee
Total number of meetings	**7**	**2**	**5**	**4**	**5**
Directors					
Mark Hoban	7	2	5	4	5
Andy Bord	7				
Judith Eden	7	2	5	4	5
Huw Evans	7	2	5		
Adam Golding*	4				
David Hindley	6	1	5	3	4
Claire Ighodaro	7	2	5	4	5
Paul Leinster	7	2	5	4	5
Stuart Logue*	3				

*No attendance missed, left and joined during the year respectively.

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, however we can confirm that this target was achieved a year early (with the arrival of Andrea Santolalla).

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 was 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 whistle-blowers' 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 four 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

DIRECTORS' REPORT (cont.)

Executive Committee

Andy Bord and Stuart Logue 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 Byrne 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 was the Director of Operations until 26 May 2021, 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.

Andrea Santolalla

Andrea Santolalla is the Director of Operations, overseeing Claims and Underwriting, Operations, Outsourcing, and IT and Data functions. Andrea was previously COO of Hiscox Special Risks, and has 15 years' international experience in (re)insurance and banking, spanning operations, risk management, compliance and supervision.

Andrea joined Flood Re on 26 May 2021.

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 2021 and 2020.

Name	Year	Salary £	Taxable benefit £	Bonus £	Pension £	Pension allowance £	Total £
Andy Bord	**2021**	**379,000**	**-**	**105,741**	**-**	**39,795**	**524,536**
	2020	372,396	-	107,250	-	39,102	518,748
Adam Golding	**2021**	**186,403^**	**2,065**	**-**	**2,848**	**15,240**	**206,556**
	2020	264,750	2,944	75,454	10,000	17,799	370,947
Stuart Logue	**2021**	**171,217***	**-**	**-**	**7,634**	**-**	**178,851**
	2020	-	-	-	-	-	-

Pension contributions represent 10.5% 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.

^ Part-year salary. Adam Golding resigned effective 3 November 2020.

* Stuart Logue was appointed as director on 03 November 2020 and was paid on a day rate basis for the period from 12 October 2020 to 28 February 2021 which amounted to £148,800 included within salary.

The table below shows the Independent Non-Executive Directors' fee structure for the years ended 31 March 2021 and 2020. The Board reviewed the Independent Non-Executive Directors' fees during the year in accordance with the Remuneration Policy.

Name	Year	Total Fees £
Mark Hoban	**2021**	**145,799**
	2020	145,799
Judith Eden	**2021**	**47,801**
	2020	47,801
Huw Evans^	**2021**	**-**
	2020	-
David Hindley*	**2021**	**57,801**
	2020	57,801
Claire Ighodaro*	**2021**	**57,801**
	2020	57,801
Paul Leinster	**2021**	**47,801**
	2020	47,801

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

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

There are no other fees paid to the Independent Non-Executive Directors.

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.

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 whistle blowers.

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 reviewed its Going Concern status over a three year financial planning period, and a five year operational planning period. We have considered both stresses to our solvency position and operations to confirm our ability to remain a going concern both in terms of financial strength and operational resilience.

From a Solvency perspective our ability to withstand multiple severe flood events over our three years of financial planning projections is afforded by a combination of our material levels of eligible own funds (many multiples of our solvency capital requirement) and a number of parameters and features of the Scheme which limit the level of gross and net loss which Flood Re can suffer in each year (in particular the Liability Limit, Levy I, and our maximum net retention). The only scenarios we have identified which cause sufficient stress to the scheme to lead to pressure on our capital requirement, are extreme multi-year stresses, materially beyond the 1 in 200 level. These scenarios require combinations of extreme flood losses with defaults of our major outwards reinsurance counterparties, and even in these scenarios Flood Re has the ability to use its Levy II contingent funding to fully recapitalise and hence remain a going concern.

In the annual review of Flood Re's Going Concern status, the directors have considered the Company's liquidity risk and its ability to settle liabilities as they arise, the sensitivity of its claims reserves to key actuarial assumptions, and the impact of extreme stress scenarios to gross and net claims reserves. Management concludes that in all scenarios during the planning periods, the Company will remain a going concern and be able to meet its solvency and liquidity requirements.

In addition, 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.

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 2021 (2020: £nil).

Political donations

The Company did not make any political donations during the year ended 31 March 2021 (2020: £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

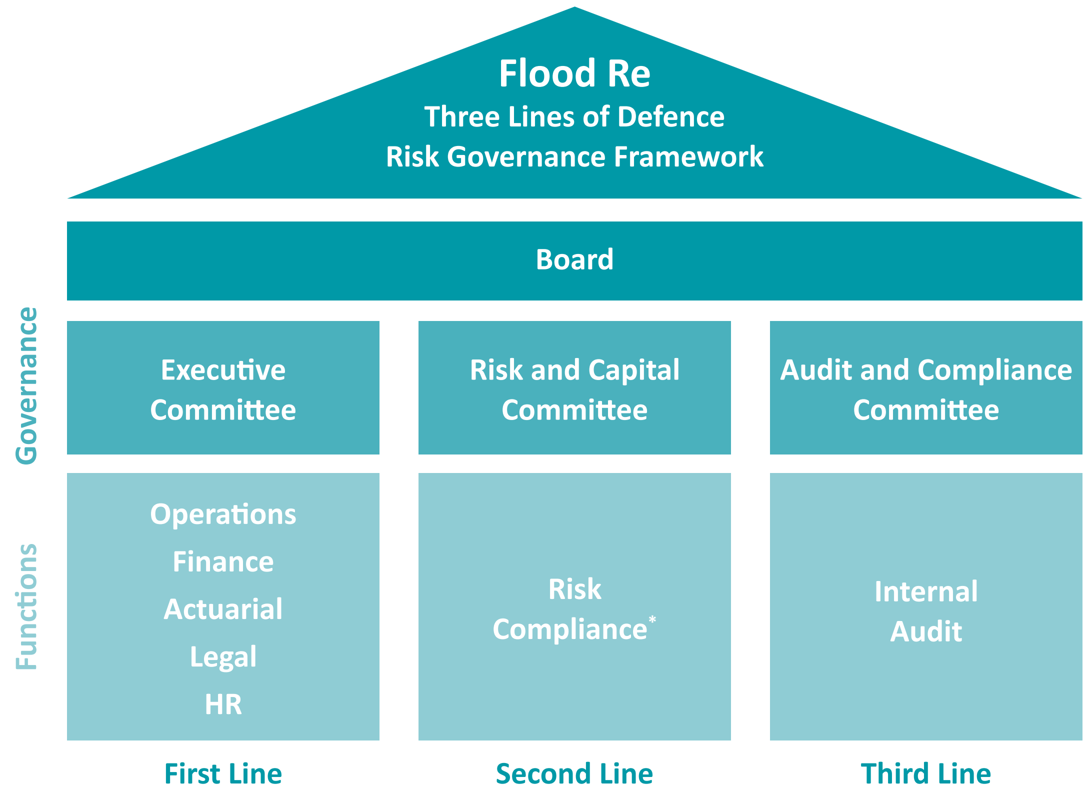
Flood Re defines risk as the possibility of incurring misfortune or loss. In principle, a risk is expressed by the combination of the probability (likelihood) of an event and its impact. Uncertainty occurs where it is not possible to assess the probability and/or impact with sufficiently reliable accuracy. Flood Re classifies risks into six overarching areas (Strategic risk, Insurance risk, Credit risk, Market risk, Liquidity risk and Operational risk). Flood Re's principle risks and how they are managed or mitigated are set out in Note 5 of the Notes to the Financial Statements.

DIRECTORS' REPORT (cont.)

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 Risk and Capital Committee ("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 Audit and Compliance Committee ("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.

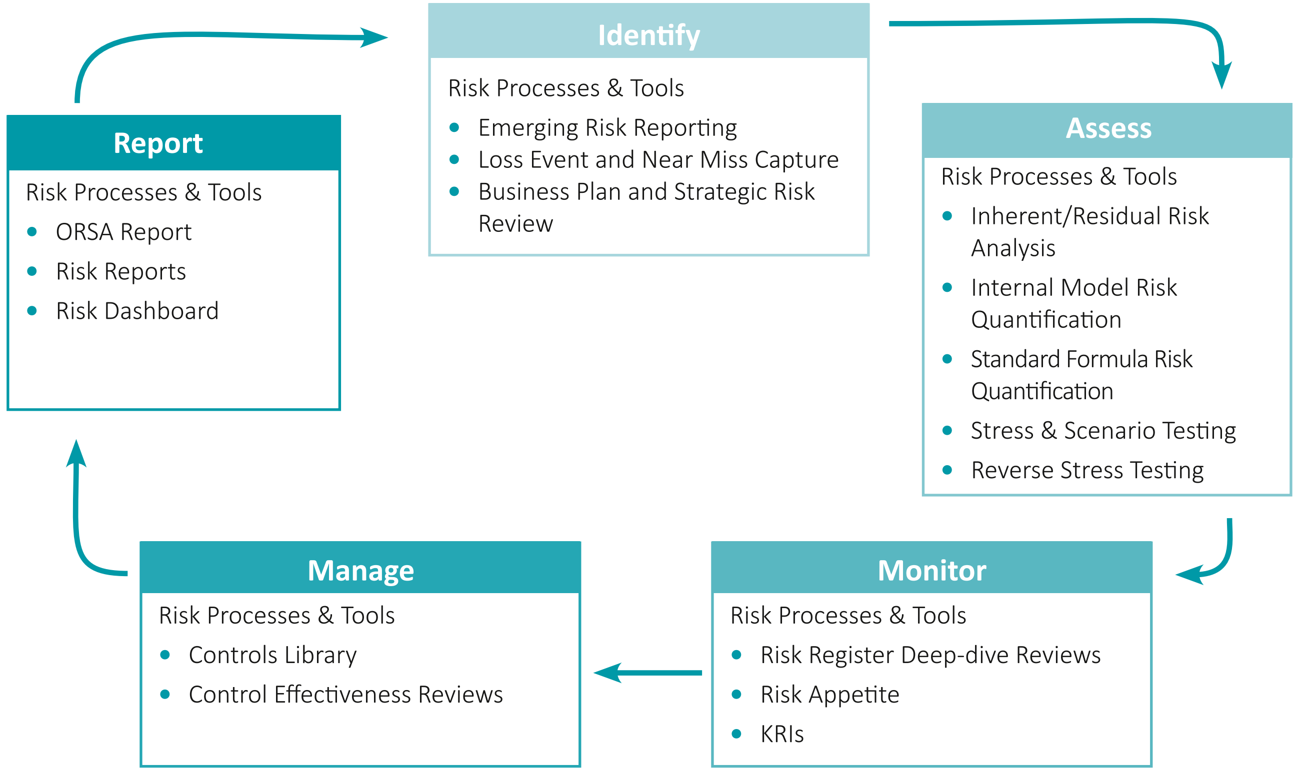
It is the responsibility of each of the three lines of defence to ensure the delivery of Flood Re's complete risk management system.

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 being used for major strategic decisions and direction include development and design of the three-year reinsurance programme in line with risk appetite thresholds and responding to and managing Covid-19 driven uncertainty which cut across Flood Re's risk profile (impacting in particular Flood Re's Operational, Reserve and Credit risk).



DIRECTORS' REPORT (cont.)

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 on a quarterly basis.

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 Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 in conformity with the requirements of the Companies Act 2006 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 2021 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 (Resigned 3 November 2020)
David Hindley	Independent Non-Executive Director
Claire Ighodaro	Independent Non-Executive Director (Resigned 30 June 2021)
Paul Leinster	Independent Non-Executive Director
Stuart Logue	Chief Financial Officer (Appointed 3 November 2020)
Jean Sharp	Independent Non-Executive Director (Appointed 1 April 2021)

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 2021 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

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Director
Date: 28 June 2021
Registered Office: 75 King William Street,
London EC4N 7BE

AUDITOR'S REPORT FOR THE YEAR ENDED 31 MARCH 2021

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 2021 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 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's Going Concern assessment process;
- We obtained management's going concern assessment, including the cashflow forecast for the going concern period, which covers three years from the balance sheet date;

- We have reviewed management's three-year forecast. We considered the appropriateness of the methods and assumptions used in the cashflow forecasts and determined through inspection and testing that the methods were appropriate and the assumptions used reasonable;
- We reviewed and understood the output of management's stress and scenario testing in order to evaluate how extreme stresses would have to be in order to result in risks or events that may impact the Company's ability to continue as a going concern. These stresses included a number of reasonable stresses to its claims reserves and actuarial projections which did not impact the going concern assumption and also an extreme scenario which simulates multiple severe flood events in addition to significant reinsurer default beyond a 1 in 200 scenario before management would require the implementation of actions, such as calling Levy II.
- We reviewed the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Conclusion

- Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.
- Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Valuation of insurance contract liabilities – IBNR and Premium Deficiency Provision
Materiality	• Overall materiality of £9.6m (2020: £7.3m) which represents 2% of equity (2020: 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 Committee
Valuation of insurance contract liabilities – IBNR and premium deficiency provision (£46.0m, 2020: £138.7m) Refer to the Accounting policy 2.13, critical accounting judgement 4 (a); and Note 20 of the Consolidated Financial Statements. One of the most significant risk areas from both a business and an audit perspective is the valuation of the Insurance Contract Liabilities, specifically the Incurred but not reported ("IBNR") reserves and premium deficiency provision held. Claims reserves are inherently uncertain and subjective by nature and therefore more susceptible to fraud or error than most other financial statement balances. There is a risk that inappropriate reserve projections are made, whether from the use of inaccurate underlying data, invalid or inappropriate statistical modelling techniques, or the use of unreasonable assumptions. This could lead to reserves falling outside a reasonable range of possible estimates and a misstatement in the financial statements. There is estimation involved in deriving the liability cash-flows for unexpired risks. Where these exceed unearned premiums a premium deficiency provision is required.	We gained an understanding of the process for estimating the IBNR reserves and the premium deficiency provision held, and assessed the design and operational effectiveness of key controls within the Company's processes. We understood and evaluated management's methodology for valuing the IBNR reserve and premium deficiency provision against market practice, and challenged key assumptions and judgements used in the IBNR and premium deficiency estimates based on our market knowledge and industry data where available. We performed testing of the accuracy and completeness of the data used in valuing the insurance contract liabilities. We reconciled key inputs into the actuarial valuation to source systems. We understood and challenged management's assessment of the impact of the COVID-19 pandemic on the ultimate cost of settling claims liabilities based on the experience to date. Using our expert judgment and wider market experience, we assessed the reasonableness of prudential margins	Based upon our work performed, we have concluded that management's assumptions for estimating IBNR reserves and premium deficiency provisions are reasonable and that the data to which those assumptions have been applied are appropriate. We consider the Company's booked IBNR reserves and the premium deficiency provision to be reasonable.

Key judgements include assessing: 1) The value of liabilities arising from the flood events that occurred during the year. 2) The value of any claims that have been incurred but not yet reported to the company. 3) Any adjustments required to amounts reported to the company that may not reflect the most up to date information. 4) 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. 5) The level of prudential margin held by management 6) The a-priori loss ratio assumption used for the valuation of earned reserves and determination of the premium deficiency provision.	We assessed the reasonableness of the approach for establishing the premium deficiency provision and checked the calculation based upon the key inputs.	

We have refined the description of our Key Audit Matter. In the prior period it was in respect of insurance claim liabilities. This year we have described it as being in respect of IBNR and the premium deficiency provision. Because the outstanding claim reserves are booked based on the information provided by cedants and Flood Re applies little judgement in determining the valuation, we believe that the revised description better reflects the audit risks and the areas where we focus the majority of our audit effort.

In the prior year, our auditor's report included a key audit matter in relation to Pipeline Premium Estimation. In the current year, we don't include Pipeline Premium Estimation as key audit matter due to the small size of the estimate relative to the performance materiality.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All of our audit work was completed 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 £9.6m (2020: £7.3m), which is 2% (2020: 2%) of equity. We consider the main stakeholders to be government, insurers and regulators. 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 the course of our audit, we reassessed initial materiality and increased the materiality used at year-end to reflect the increase in equity.

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% (2020: 75%) of our planning materiality, namely £7.2m (2020: £5.5m). 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 £482k (2020: £365k), which is set at 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 on page 45, 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.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are 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 is complying 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.

- 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.

- Our procedures, as detailed in the Key audit matter above, included reviewing accounting estimates for evidence of management bias. Supported by EY actuaries, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved 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.

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 company 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 6 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.

....

Ed Jervis (Senior statutory auditor) for and on behalf of Ernst & Young LLP, Statutory Auditor

London

28 June 2021

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

STATEMENT OF PROFIT OR LOSS
AS AT 31 MARCH 2021

	Note	2021 £000	2020 £000
Gross written premiums		38,772	34,078
Premiums ceded to reinsurers		(67,456)	(63,557)
Net written premiums		**(28,684)**	**(29,479)**
Net change in unearned premiums provision		(665)	(4,355)
Net earned premiums	8	**(29,349)**	**(33,834)**
Levy income	9	180,000	180,000
Fees and commission income	10	11,059	12,693
Interest on cash and short-term deposits		433	2,727
Total revenue		**162,143**	**161,586**
Gross claims paid		(53,711)	(7,467)
Claims ceded to reinsurers		25,672	3,447
Change in insurance contract claims liabilities		45,490	(153,313)
Change in contract liabilities ceded to reinsurers		(22,043)	73,297
Net insurance claims	11	**(4,592)**	**(84,036)**
Finance costs		(33)	-
Other operating and administrative expenses	12	(15,692)	(16,917)
Total expenses		**(20,317)**	**(100,953)**
Profit before tax		141,826	60,633
Income tax expense	15	(26,948)	(11,521)
Profit for the year		**114,878**	**49,112**

All of the Company's operations are continuing.

For the years ended 31 March 2021 and 2020, 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 60 to 99 are an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	2021 £000	2020 £000
Assets			
Property, Plant and Equipment	16	1,929	1,207
Reinsurers' share of contract liabilities	20	89,644	110,011
Current Tax Asset		-	5,741
Reinsurance receivables	17	16,602	4,924
Trade and other receivables	18	706	1,196
Cash and short-term deposits	19	610,668	487,369
Total assets		**719,549**	**610,448**
Equity			
Retained earnings		481,634	366,756
Total equity		**481,634**	**366,756**
Liabilities			
Insurance contract liabilities	20	153,691	196,840
Deferred commission income	24	3,876	3,620
Reinsurance payables	25	43,591	20,631
Current tax liabilities		87	-
Lease Liabilities	26	1,980	1,208
Trade and other payables	27	34,690	21,393
Total liabilities		**237,915**	**243,692**
Total equity and liabilities		**719,549**	**610,448**

The Notes on pages 60 to 99 are an integral part of the Financial Statements.

The Financial Statements on pages 56 to 99 were authorised for issue by the Board of Directors on 23 June 2021 and were signed on its behalf by:

Andy Bord

Chief Executive Officer

Stuart Logue

Chief Financial Officer

Company registered number: 08670444

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

	2021 £000	2020 £000
Retained earnings brought forward	**366,756**	**317,644**
Profit for the year	114,878	49,112
Other comprehensive income	-	-
Total comprehensive income for the year	**114,878**	**49,112**
Retained earnings carried forward	**481,634**	**366,756**

The Notes on pages 60 to 99 are an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £000	2020 £000 Restated*
Operating activities			
Profit before tax		141,826	60,633
Adjustments for			
Depreciation	12	1,338	1,349
Interest on cash and short-term deposits		(433)	(2,727)
Changes in operating assets and liabilities			
Decrease/(increase) in reinsurers' share of contract liabilities		20,367	(69,419)
(Increase)/decrease in reinsurance receivables		(11,678)	12,765
Decrease/(increase) in trade and other receivables		38	(305)
(Decrease)/increase in gross insurance contract liabilities		(43,149)	153,790
Increase/(decrease) in deferred commission income		256	(4,819)
Increase in reinsurance payables		22,960	3,303
Increase in trade and other payables		13,297	6,159
Cash generated from operations		**144,822**	**160,729**
UK Corporation taxes paid		(21,120)	(32,803)
Net interest received		913	2,584
Net cash flows from operating activities		**124,615**	**130,510**
Investing activities			
Purchases of property, plant and equipment	16	-	(52)
Net purchases of deposits placed with a duration greater than three months		(63,900)	(156,650)
Net cash flows from investing activities		**(63,900)**	**(156,702)**
Financing activities			
Payment of principal portion of lease liabilities		(1,316)	(1,296)
Net cash flows from financing activities		**(1,316)**	**(1,296)**
Net increase in cash and cash equivalents		**59,399**	**(27,488)**
Cash and cash equivalents at 01 April		35,719	63,207
Cash and cash equivalents at 31 March	19	**95,118**	**35,719**

*The restated balances are described and set out in Note 19.

The Notes on pages 60 to 99 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 1 April 2016 and commenced underwriting on 04 April 2016.

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

2. Significant accounting policies

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

2.1 Basis of preparation

The Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 reviewed its Going Concern status over a three year financial planning period, and a five year operational planning period. We have considered both stresses to our solvency position and operations to confirm our ability to remain a going concern both in terms of financial strength and operational resilience.

From a Solvency perspective our ability to withstand multiple severe flood events over our three years of financial planning projections is afforded by a combination of our material levels of eligible own funds (many multiples of our solvency capital requirement) and a number of parameters and features of the Scheme which limit the level of gross and net loss which Flood Re can suffer in each year (in particular the Liability Limit, Levy I, and our maximum net retention). The only scenarios we have identified which cause sufficient stress to the scheme to lead to pressure on our capital requirement, are extreme multi-year stresses, materially beyond the 1 in 200 level. These scenarios require combinations of extreme flood losses with defaults of our major outwards reinsurance counterparties, and even in these scenarios Flood Re has the ability to use its Levy II contingent funding to fully recapitalise and hence remain a going concern.

In the annual review of Flood Re's Going Concern status, the directors have considered the Company's liquidity risk and its ability to settle liabilities as they arise, the sensitivity of its claims reserves to key actuarial assumptions, and the impact of extreme stress scenarios to gross and net claims reserves. Management concludes that in all scenarios during the planning periods, the Company will remain a going concern and be able to meet its solvency and liquidity requirements.

In addition, 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.

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 ("Defra"). 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 the majority of 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
Right of use assets	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, and are subsequently measured, at amortised cost or fair value through profit or loss (FVTPL). 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 FVTPL, 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 18: Trade and other receivables and Note 19: 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 FVTPL 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 Interest on cash and short-term deposits.

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

When applying the low credit risk simplification, the Company's policy is 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 Standard & Poors (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 short-term deposits invested with the DMO, with a maturity of three months or less, or with a maturity up to six months where they are not subject to a significant risk of change in value. The treatment of deposits for the purposes of the Statement of Cash Flows separates deposits placed for three months or less and those placed for durations above three months, for the purposes of identifying Cash and cash equivalents. This classification has been restated in the year, as set out in Note 19 Cash and short term deposits.

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 re-measures 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 re-measured by discounting the revised lease payments using a revised discount rate.

The Company made one such adjustment 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 re-measurement 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) Interest on cash and short-term deposits

Interest on cash and short-term deposits consists of interest income from deposits, less expenses and charges. Interest 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

There were no new or amended International Accounting Standards effective for the first time for the financial period beginning on or after 1 April 2020 that were relevant to Flood Re’s Financial Statements. An amendment to IFRS 16, Covid-19 Related Rent Concessions, was issued in June 2020, however, Flood Re had no rent concession in the financial year ended 31 March 2021.

(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, supplemented with bespoke methods where appropriate.

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 2021 is £134.3m (2020: £179.8m).

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 £4.2m or 10.8% of the gross written premium for the year ended 31 March 2021 (2020: £2.7m or 8.0%).

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.

Claims settlement period

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 the estimation of 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.

	2021 Change in gross claim reserves £000	2021 Change in net claim reserves £000	2020 Change in gross claim reserves £000	2020 Change in net claim reserves £000
10% increase in loss ratio	3,714	1,940	3,360	1,755
10% decrease in loss ratio	(3,714)	(1,940)	(3,360)	(1,755)

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 2021, the Company incurred ten large losses (2020: two large losses).

Loss development

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

Gross of reinsurance

Accident year ending 31 March	2017 £k	2018 £k	2019 £k	2020 £k	2021 £k	Total £k
At the end of accident year	7,661	9,446	15,846	160,159	**57,576**	
One year later	2,267	5,762	9,668	**109,252**		
Two years later	2,008	5,384	**8,499**			
Three years later	1,994	**5,259**				
Four years later	**1,994**					
Current estimate of ultimate claim cost	**1,994**	**5,259**	**8,499**	**109,252**	**57,576**	**182,580**
At the end of accident year	(96)	(654)	(2,381)	(1,607)	**(2,444)**	
One year later	(1,480)	(3,413)	(5,920)	**(49,461)**		
Two years later	(1,924)	(5,128)	**(8,046)**			
Three years later	(1,994)	**(5,151)**				
Four years later	**(1,994)**					
Cumulative payments to date	**(1,994)**	**(5,151)**	**(8,046)**	**(49,461)**	**(2,444)**	**(67,096)**
Gross outstanding claims provision	**-**	**108**	**453**	**59,791**	**55,132**	**115,484**
Surplus/(Deficit) of ultimate claim cost in year	**-**	**125**	**1,169**	**50,907**	**-**	**-**

Net of reinsurance

Accident year ending 31 March	2017 £k	2018 £k	2019 £k	2020 £k	2021 £k	Total £k
At the end of accident year	3,830	4,723	7,923	83,245	**29,370**	
One year later	1,134	2,881	4,328	**56,357**		
Two years later	1,004	2,692	**4,250**			
Three years later	997	**2,629**				
Four years later	**997**					
Current estimate of ultimate claim cost	**997**	**2,629**	**4,250**	**56,357**	**29,370**	**93,603**
At the end of accident year	(48)	(327)	(1,190)	(823)	**(1,277)**	
One year later	(740)	(1,707)	(2,959)	**(25,610)**		
Two years later	(962)	(2,564)	**(4,023)**			
Three years later	(997)	**(2,575)**				
Four years later	**(997)**					
Cumulative payments to date	**(997)**	**(2,575)**	**(4,023)**	**(25,610)**	**(1,277)**	**(34,482)**
Net outstanding claims provision	**-**	**54**	**227**	**30,747**	**28,093**	**59,121**
Surplus/(Deficit) of ultimate claim cost in year	**-**	**63**	**78**	**26,888**	**-**	**-**

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 2021 arising from a given return period.

	2021 Estimated gross claims £000	2021 Estimated net claims £000	2020 Estimated gross claims £000	2020 Estimated net claims £000
1 in 50 year or 2% probability	492,750	136,062	459,331	135,312
1 in 200 year or 0.5% probability	981,197	147,028	911,156	145,455
1 in 250 year or 0.4% probability	1,080,873	149,266	1,004,321	147,547

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

During the year ended 31 March 2021, the Company classified and reserved for December and January flooding in parts of the UK as low-level catastrophe loss events.

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.

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 un-modelled 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 2021 was £2.273bn (2020: £2.244bn). 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.

(b) As at 31 March 2021 and 2020, 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).

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 2021, the Company has £594m (2020: £485m) of short-term deposits invested with the DMO, representing 97% (2020: 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 2022, the Company anticipates generating positive cash flows, unless there is a series of large flood events.

As at 31 March 2021, the Company has liquid assets of £611m (2020: £487m), representing 85% (2020: 80%) of its total equity and liabilities and 1,566% (2020: 610%) 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 2021.

	Note	AA	A	BBB	NR	Total
		£000	**£000**	**£000**	**£000**	**£000**
Reinsurers' share of claims liabilities	20	46,897	16,904	-	467	**64,268**
Reinsurance receivables	17	9,508	4,980	-	2,114	**16,602**
Trade and other receivables	18	9	-	-	697	**706**
Cash and short-term deposits	19	593,550	17,118	-	-	**610,668**
Total		**649,964**	**39,002**	**-**	**3,278**	**692,244**
%		**94%**	**6%**	**0%**	**0%**	**100%**

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	20	61,423	22,476	-	2,412	**86,311**
Reinsurance receivables	17	1,349	2,108	21	1,446	**4,924**
Trade and other receivables	18	461	-	-	735	**1,196**
Cash and short-term deposits	19	484,650	2,719	-	-	**487,369**
Total		**547,883**	**27,303**	**21**	**4,593**	**579,800**
%		94%	5%	0%	1%	100%

(b) Age analysis

The table below shows the aged debtor analysis by asset type as at 31 March 2021.

	Note	Not yet due	30 days	Total
31 March 2021		**£000**	**£000**	**£000**
Reinsurers share of claims liabilities	20	64,268	-	**64,268**
Reinsurance receivables	17	16,307	295	**16,602**
Trade and other receivables	18	706	-	**706**
Cash and short-term deposits	19	610,668	-	**610,668**
Total		**691,949**	**295**	**692,244**
%		100%	0%	100%

As at 31 March 2021 and 2020 the Levy receivable balance is £nil. The Company has received £32.4m (2020: £19.2m) of the 2021 Levy in advance (see Note 27).

31 March 2020	Note	Not yet due £000	30 days £000	Total £000
Reinsurers share of claims liabilities	20	86,311	-	**86,311**
Reinsurance receivables	17	4,762	162	**4,924**
Trade and other receivables	18	1,196	-	**1,196**
Cash and short-term deposits	19	487,369	-	**487,369**
Total		**579,638**	**162**	**579,800**
%		100%	0%	100%

(c) Impaired financial assets

Trade and other receivables in Note 18 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 19 totalling £611m at 31 March 2021 (31 March 2020: £487m). Both 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 2021, the Company had £8.6m (2020: £8.5m) of irrevocable standby letters of credit issued in its favour. For the years ended 31 March 2021 and 2020, 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 1 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 2021 and 2020. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements.

		2021	2020
		£000	**£000**
		Unaudited	
Basic own funds (Tier 1 unrestricted)	A	471,077	377,010
Deferred tax assets (Tier 3)	B	2,006	-
Total basic own funds		**473,083**	**377,010**
Ancillary own funds (Tier 2) – 50% of the SCR	C	19,606	39,899
Available own funds	A+B+C	**492,689**	**416,909**
Eligible own funds	A+C	**490,683**	**416,909**
Solvency Capital Requirement (SCR)		39,211	79,798
Minimum Capital Requirement (MCR)		9,803	19,950
Ratio of eligible own funds to meet the SCR		1,251%	522%
Ratio of eligible own funds to meet the MCR		5,005%	2,090%

Reconciliation of equity to basic own funds	**2021**	**2020**
	£000	**£000**
Equity on an IFRS basis	481,634	366,756
Adjustments in respect of:		
Decrease in valuation of assets	(16,526)	(8,538)
Increase in valuation of technical provisions	(31,639)	(5,299)
Decrease in the valuation of other liabilities	39,614	24,091
Total basic own funds	**473,083**	**377,010**

As at 31 March 2020, the Internal Model was subject to supervisory approval by the PRA for SCR purposes. Following the approval of our partial internal model, supervisory assessment is no longer required. Additionally, in line with market practice, the outputs of the partial internal model (and other elements which are partially derived from the model) are not subject to audit and consequently are marked "unaudited".

(d) Partial Internal Model (PIM)

As at 31 March 2021, the SCR of £39.2m was calculated using the Partial Internal Model, which was approved for use from 1st April 2020 onwards to determine the regulatory SCR. Flood Re now has a PIM as defined in Article 112 of Directive 2009/138/EC to calculate the regulatory SCR. In particular, this means that Flood Re's SCR is composed of:

- Internally-Modelled elements, using stochastic and deterministic parameters and methods specifically for:
  - Premium and Catastrophe risk;
  - Reserve risk;
  - Counterparty credit risk and;
  - Operational risk.
- Market Risk calculated using prescribed deterministic parameters and/or methods, as per the Standard Formula;
- A Standard Formula correlation approach for the aggregation of risk elements.

We model different risk areas separately and then aggregate the modelled outputs to create our overall SCR; this aggregation takes any relationships that exist between different risk types or risk areas into account.

Before building our model, we assessed our business needs and used objective criteria to determine which risk criteria should be included. Our Risk Register was also mapped to our proposed model scope to ensure all relevant and quantifiable risks were captured.

The key uses of the model include:

- Assessing current and projected capital requirements;
- Business planning and future financial projections, including the impacts of proposed QQR changes to the Scheme;
- Reviewing the structure and effectiveness of our reinsurance programme;
- Monitoring risk appetite;
- Cash flow analysis;
- Input to our Own Risk and Solvency Assessment (ORSA);
- Informing investment decisions and management of liquidity.

(e) Standard Formula and capital add on

Up to and including the year ended 31 March 2020, the Company used the Standard Formula alone 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.

Due to the Company's unique structure, the Standard Formula did not fully capture the Company's risk profile, therefore a capital add-on was agreed with the PRA in line with Article 37.1.a.ii of the Solvency II Directive (where the risk profile deviates significantly from the assumptions underlying the Standard Formula), in order to address the known limitations of the Standard formula when applied to the Flood Re business.

The SCR in 2020 of £79.8m included a capital add-on of £33.2m.

(f) 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.

(g) 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 2021 and 2020, 100% of the SCR and MCR requirements are met with unrestricted Tier 1 own funds.

(h) 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 2021 and 2020. The accumulated Mutual Members account as at 31 March 2021 is £nil (2020: £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

	2021	2020
	£000	£000
Gross written premiums	38,772	34,078
Gross change in unearned premium provision	(2,341)	(477)
Gross earned premiums	**36,431**	**33,601**
Premium ceded to reinsurers	(67,456)	(63,557)
Ceded change in unearned premium provision	1,676	(3,878)
Ceded earned premiums	(65,780)	(67,435)
Net earned premiums	**(29,349)**	**(33,834**

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 £2.273bn (2020: £2.244bn) 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 2021 was £180m (2020: £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 2021 was £nil (2020: £nil).

10. Fees and commission income

	2021 £000	2020 £000
Reinsurance commission income	11,315	7,874
Change in unearned commission income	(256)	4,819
Total fees and commission income	**11,059**	**12,693**

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

11. Net insurance claims

	Note	2021	2020
Gross claims paid		**£000**	**£000**
Gross claims paid		52,447	6,931
Allocated claims handling costs	12	1,264	536
Total gross paid claims	21	**53,711**	**7,467**
Total paid claims ceded to reinsurers	22	**(25,672)**	**(3,447)**
Gross change in contract liabilities			
Change in outstanding claims provision	21	47,191	33,364
Change in incurred but not reported provision	21	(94,030)	113,988
Change in premium deficiency provision	23	1,349	5,961
Total gross change in contract liabilities		**(45,490)**	**153,313**
Change in contract liabilities ceded to reinsurers			
Change in outstanding claims provision	21	(22,902)	(16,177)
Change in incurred but not reported provision	21	45,542	(54,511)
Change in premium deficiency provision	23	(597)	(2,609)
Total change in contract liabilities ceded to reinsurers		**22,043**	**(73,297)**
Claims net of reinsurance		**4,592**	**84,036**

12. Other operating and administrative expenses

	Note	2021 £000	2020 £000
Service contracts including outsourcing		5,591	6,413
Employee benefits expense	13	5,428	5,230
Other staff costs		643	499
Office costs		20	20
IT costs		1,609	876
Depreciation		1,338	1,349
Consultancy and other third-party costs		1,084	1,588
Legal, rating agency, regulatory and audit		694	643
Capital model fees and validation		176	340
PR, marketing and communications		373	495
Allocation of expenses to paid claims	11	(1,264)	(536)
Total other operating and administrative expenses		**15,692**	**16,917**

13. Employee benefits expense

	2021 £000	2020 £000
Wages and salaries	4,555	4,362
Social security costs	569	594
Employer pension contributions	304	274
Total employee benefits expense	**5,428**	**5,230**
Average number of permanent staff for the year	41	39
Number of permanent and temporary staff employed at the end of year	44	42

14. Auditor's Remuneration

	2021 £000	2020 £000
Fees payable for the audit of the financial statements	269	263
Fees payable for other services		
- Audit-related assurance services	32	32
- Tax advisory services	-	-
- Other non-audit related fees	-	-
Total non-audit fees	32	32
Total Auditor's remuneration	**301**	**295**

15. Taxation

UK corporation tax charge	2021 £000	2020 £000
UK corporation tax for the current financial year	26,952	11,517
Prior year adjustments	(4)	4
Total current tax expense	**26,948**	**11,521**

Reconciliation of tax charge	2021 £000	2020 £000
Profit before tax	141,826	60,633
Income tax charge at a rate of 19% (2020: 19%)	26,947	11,521
Adjustments in respect of prior periods	(4)	4
Other adjustments	5	(4)
Total tax charge	**26,948**	**11,521**

In March 2021, the UK Government announced that the corporation tax rate for the year commencing 1 April 2023 will increase to 25% and was substantively enacted in May 2021, after the balance sheet date. This change in future tax rates has not impacted Flood Re, as no deferred tax balances have been recognised at 31 March 2021. The UK corporation tax rate at the balance sheet date remains at 19%.

16. Property, Plant and Equipment

	Computer Equipment £000	Right of Use Assets £000	Total PPE £000
At Cost			
Opening balance as at 1 April 2020	52	3,655	3,707
Additions	-	2,088	2,088
Disposals	-	(2,618)	(2,618)
Closing balance as at 31 March 2021	**52**	**3,125**	**3,177**
Accumulated Depreciation			
Opening balance as at 1 April 2020	26	2,474	2,500
Depreciation Charge	26	1,312	1,338
Depreciation on disposals	-	(2,590)	(2,590)
Closing balance as at 31 March 2021	**52**	**1,196**	**1,248**
Carrying amount at 31 March 2021	**-**	**1,929**	**1,929**

Additions in the year comprise a new two year office lease commencing 1 January 2021, and a six month extension to a property data software asset agreed in December 2020 that extends the existing contract to January 2022.

16. Property, Plant and Equipment

	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 1 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**

17. Reinsurance receivables

	2021 £000	2020 £000
Premium due from policyholders	1,650	1,189
Pipeline premium due from policyholders	4,207	2,738
Premium due from reinsurers	-	8
Reinsurance commission receivable	950	(2)
Reinsurance recoveries on paid losses	9,795	991
Total reinsurance receivables	**16,602**	**4,924**
Current	16,602	4,924
Non-current	-	-

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

18. Trade and other receivables

	2021 £000	2020 £000
Prepayments	697	719
Accrued interest	9	461
Other	-	16
Total trade and other receivables	**706**	**1,196**
Current	706	1,196
Non-current	-	-

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

19. Cash and short-term deposits

	2021 £000	2020 £000 Restated
Cash at bank	17,118	2,719
Short-term deposits with a duration of less than 3 months on placement	78,000	33,000
Cash and cash equivalents	**95,118**	**35,719**
Short-term deposits with a duration of more than 3 months on placement	515,550	451,650
Total cash and short-term deposits	**610,668**	**487,369**

Short-term deposits invested with the DMO vary in maturity between one day and a maximum of six months. The carrying amounts disclosed above approximate fair value at the reporting date.

Restatement of cash and cash equivalents in the Statement of Cash flows (Reclassification)

In 2020 all short term deposits were disclosed as a single balance. In the year ended 31 March 2021, the company has restated comparative amounts previously classified as cash and cash equivalents into investing activities. The amounts reclassified as investing activities relate to deposits with DMO with duration greater than three months. These deposits cannot be cancelled on demand and therefore do not qualify as cash equivalents within the cash flows statements. The restatement has not resulted in a change to the comparative period total assets, net asset position or result for the period.

The adjustments to the prior year comparative amounts on the face of the Statement of cash flows are set out below:

Impact of the restatement on the Statement of Cash flows at 31 March 2020

	As previously reported £000	Re-classification £000	As restated £000
Investing activities			
Purchase of property, plant and equipment	(52)	-	(52)
Net purchase of deposits placed with a duration greater than three months	-	(156,650)	(156,650)
Net cash flows from investing activities	**(52)**	**(156,650)**	**(156,702)**
Net increase/(decrease) in cash and cash equivalents	**129,162**	**(156,650)**	**(27,488)**
Cash and cash equivalents at 01 April	358,207	(295,000)	63,207
Cash and cash equivalents at 31 March	**487,369**	**(451,650)**	**35,719**

20. Insurance contract liabilities

31 March 2021	**Note**	**Assumed £000**	**Ceded £000**	**Net £000**
Provision for unearned premium	22	**19,431**	**(25,376)**	**(5,945)**
Outstanding claims reserves	21	88,220	(42,912)	45,308
Incurred but not reported reserves	21	28,330	(13,085)	15,245
Total incurred claims reserves		116,550	(55,997)	60,553
Premium deficiency provision	23	17,710	(8,271)	9,439
Total insurance claims liabilities		**134,260**	**(64,268)**	**69,992**
Total insurance contract liabilities		**153,691**	**(89,644)**	**64,047**
Current		131,397	(79,276)	52,121
Non-current		22,294	(10,368)	11,926

31 March 2020	**Note**	**Assumed £000**	**Ceded £000**	**Net £000**
Provision for unearned premium	22	**17,090**	**(23,700)**	**(6,610)**
Outstanding claims reserves	21	41,029	(20,010)	21,019
Incurred but not reported reserves	21	122,360	(58,627)	63,733
Total incurred claims reserves		163,389	(78,637)	84,752
Premium deficiency provision	23	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

As at 31 March 2021, the Company has £8.6m (2020: £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 17).

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

21. Movement in incurred claims reserves

31 March 2021	Note	Assumed	Ceded	Net
		£000	£000	£000
Outstanding claims reserves		41,029	(20,010)	21,019
Incurred but not reported reserves		122,360	(58,627)	63,733
Opening balance as at 01 April 2020		**163,389**	**(78,637)**	**84,752**
Prior accident year		(50,012)	25,060	(24,952)
Current accident year		(3,699)	612	(3,087)
Claims paid during the year	11	**(53,711)**	**25,672**	**(28,039)**
Prior accident year		(52,474)	19,003	(33,471)
Current accident year		59,346	(22,035)	37,311
Claims incurred during the year		**6,872**	**(3,032)**	**3,840**
Outstanding claims reserves		88,220	(42,912)	45,308
Incurred but not reported reserves		28,330	(13,085)	15,245
Closing balance as at 31 March 2021		**116,550**	**(55,997)**	**60,553**
Current		108,116	(52,102)	56,014
Non-current		8,434	(3,895)	4,539

31 March 2020	Note	Assumed	Ceded	Net
		£000	£000	£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	11	**(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

Included in assumed claims paid in the current accident year are £1.3m (2020: £0.5m) of claims handling costs which have been allocated from operating and administrative expenses (see Note 12).

22. Provision for unearned premium

31 March 2021	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2020	**17,090**	**(23,700)**	**(6,610)**
Premium written (ceded) during the year	38,772	(67,456)	(28,684)
Premiums earned during the year	(36,431)	65,780	29,349
Closing balance as at 31 March 2021	**19,431**	**(25,376)**	**(5,945)**
Current	19,431	(25,376)	(5,945)
Non-current	-	-	-

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	-	-	-

23. Provision for premium deficiency

31 March 2021	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 01 April 2020	**16,361**	**(7,674)**	**8,687**
Change during the year	1,349	(597)	752
Closing balance as at 31 March 2021	**17,710**	**(8,271)**	**9,439**
Current	3,850	(1,798)	2,052
Non-current	13,860	(6,473)	7,387

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

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.

24. Deferred commission income

	2021	2020
	£000	£000
Opening balance as at 01 April	**3,620**	**8,439**
Commission income deferred during the year	11,315	7,874
Released to Statement of Profit or Loss	(11,059)	(12,693)
Closing balance as at 31 March	**3,876**	**3,620**
		3,620
Current	3,876	3,620
Non-current	-	-

25. Reinsurance payables

	2021	2020
	£000	£000
Premium payable to reinsurers	20,467	18,046
Commission payable to reinsurers	13,246	2,230
Claims payable to policyholders	9,878	355
Total reinsurance payables	**43,591**	**20,631**
Current	43,591	20,631
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.

26. Lease arrangements

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

	2021	2020
	£000	£000
Opening balance as at 1 April	1,208	2,504
Lease liability recognised during the year	2,088	-
Lease payments	(1,349)	(1,296)
Interest payable	33	-
Closing balance as at 31 March	**1,980**	**1,208**

Maturity analysis of lease liability

	2021	2020
	£000	£000
Year 1	1,224	1,127
Year 2	756	81
Year 3	-	-
Total lease payments	**1,980**	**1,208**

The new liability recognised in the year relates to a new two year office lease commencing 1 January 2021, and a six month extension to a property data software asset agreed in December 2020 that extends the existing contract to January 2022.

27. Trade and other payables

	2021	2020
	£000	£000
Levy receipts in advance	32,394	19,212
Accruals and deferred income	2,140	2,021
Staff costs	156	160
Total trade and other payables	**34,690**	**21,393**
Current	34,690	21,393
Non-current	-	-

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

28. 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:

	2021	2020
	£000	£000
Short-term employee benefits	1,199	1,177
Pension allowance	55	57
Post-employment pension and medical benefits	13	13
Total Directors' emoluments	**1,267**	**1,247**

(b) Compensation of highest-paid Director

	2021	2020
	£000	£000
Short-term employee benefits	485	480
Pension allowance	40	39
Total compensation of the highest-paid Director	**525**	**519**

(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.

(d) 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 until 19 March 2021, is currently Director General of the Association of British Insurers (ABI). For the year ended 31 March 2021, the Company incurred £60k (2020: £60k) of ABI associate membership fees.

29. 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 2021 are:

- Acromas Insurance Company Limited
- Admiral Insurance (Gibraltar) Limited
- Ageas Insurance Limited
- AIG UK Limited
- Allianz Insurance PLC
- Amlin SE
- Ascot Underwriting Limited
- Aviva Insurance Limited
- Axa Art Insurance PLC
- Axa Insurance UK PLC
- Baptist Insurance Company PLC (The)
- Canopius Managing Agents Limited for and on behalf of Syndicate 4444
- Catlin Underwriting Agencies Limited for and on behalf of Syndicate 2003
- China Taiping Insurance (UK) Co Limited
- CIS General Insurance Limited
- Cornish Mutual Assurance Co Limited (The)
- Covea Insurance PLC
- Ecclesiastical Insurance Office PLC
- Fairmead Insurance Limited
- Great Lakes Reinsurance (UK) SE
- Gresham Insurance Company Limited
- Haven Insurance Company Limited
- HDI Global Speciality SE
- Highway Insurance Company Limited
- Hiscox Insurance Co Ltd
- Liverpool Victoria Insurance Company Limited
- Lloyds Bank General Insurance Holdings Limited
- Methodist Insurance PLC
- Ms Amlin Underwriting Limited
- 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 Catlin Insurance Company (UK) 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: the Company places its outwards reinsurance programme on the global reinsurance market through the U.K. Government's public procurement process
- 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 2021 and 2020, 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.

30. 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

	2021	2020
	£000	**£000**
Service contracts	5,126	6,023
Staff contractual commitments	2,057	2,002
Other financial commitments	569	589
Total commitments	**7,752**	**8,614**
Due within one year	7,752	8,614
Due later than one year but not later than five years	-	-
Total commitments	**7,752**	**8,614**

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

31. Events after the reporting period

There are no events after the reporting period that would materially alter our assessment of risk, going concern, recognition of income or expenses, or the valuation of assets and liabilities as at the financial year ended 31 March 2021.