



Flood Re Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2022



Photo by Flood Control International

Company Registration Number: 08670444

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

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Contents

Company Information	6
Company Overview	7
Strategic Report	10
Directors' Report	27
Auditor's Report	49
Statement of Profit or Loss	58
Statement of Comprehensive Income	59
Statement of Financial Position	60
Statement of Changes in Equity	61
Statement of Cash Flows	62
Notes to the Financial Statements	63

MAKING BUILD BACK BETTER HAPPEN

What is Build Back Better (BBB)?

Build Back Better is our world leading and innovative new approach to home flood insurance. It is designed to reduce the cost and impact of future floods by including property resilience measures up to the value of £10,000 as part of flood repairs. This way the next time the area floods, the previously affected home will be better prepared to keep as much of the water out as possible.

This may also involve installing certain measures so that when water does enter, it is easier, quicker, and safer for families to clean up and move back in – often in a number of days rather than many months.

Together with other interventions such as flood defences, BBB provides a powerful tool to address the increased risks of flooding posed by climate change.



What do people say about us?

The initial participating insurers are:

- Ageas
- Aviva
- NFU Mutual
- Lloyds Banking Group (Bank of Scotland, Halifax and Lloyds Bank home insurance products)
- LV= General Insurance

“Increasing the UK’s resilience to flooding and adapting to our changing climate are key priorities for our industry and wider society. As part of COP26 activity, Flood Re led an innovative programme of events and public outreach, bringing together a diverse range of stakeholders and those affected by flooding, to highlight the importance of adaptation and their plans to help people ‘Build, Back, Better’ after a flood event.”

Hannah Gurga
Director General, Association of British Insurers

“Flood Re is leading the way in radical collaboration between government and insurers with Build Back Better. Their initiative sees a new paradigm in how we think about insurance and is a world first. This innovative step forward to build resilience in the UK will be looked at around the globe as a way pioneering partnerships can work together to make real change.”

Nigel Topping
UN High Level Climate Change Champion

“Being flooded with insurance is a terrible experience. But being flooded without insurance is unthinkable. Flood Re’s Build Back Better initiative has the potential to be a game changer for these communities by actively supporting people to make their homes more resilient after a flood.”

Carol Raeburn
Director, Scottish Flood Forum

“As a flood resilience campaigner and flood survivor I’ve seen first-hand the utter devastation that being flooded causes. Flood Re have worked tirelessly through their COP26 work and Build Back Better work in highlighting the need for the UK to learn to live with water and adapt our homes and communities to withstand the climate of today and the future. Compelling evidence shows that Build Back Better works. Build Back Better is turning the dial on how insurers deal with flood insurance claims.”

Mary Dhonau OBE
Flood Resilience Campaigner

“We must ensure that our homes are more resilient to extreme weather events. Build Back Better delivers on the Government’s commitment to better protect the country against flooding, and prepare for it.”

Rebecca Pow
Floods Minister

Find out more about BBB and watch our short documentary here:



COMPANY INFORMATION FOR THE YEAR ENDED 31 MARCH 2022

Company Name

Flood Re Limited

Directors

Mark Hoban	Chair
Andy Bord	Chief Executive Officer
Judith Eden	Independent Non-Executive Director
Simon Green	Independent Non-Executive Director
Paul Leinster	Independent Non-Executive Director
Stuart Logue	Chief Financial Officer
Jean Sharp	Independent Non-Executive Director
Perry Thomas	Independent Non-Executive Director

Company Secretary

Harriet Boughton

Registered Office

75 King William Street
London
EC4N 7BE

Company Registration Number

08670444

Bankers

National Westminster Bank PLC
280 Bishopsgate
London
EC2M 4RB

Auditors

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

COMPANY OVERVIEW FOR THE YEAR ENDED 31 MARCH 2022

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'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 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 Levy on UK household insurers. For the year ended 31 March 2022, the annual Levy was £180m (this changed to £135m from 1 April 2022). The Levy also finances the purchase of an outwards reinsurance programme to protect the Company up to a maximum Liability Limit. For the year ended 31 March 2022, the Liability Limit was £2.286bn (2021: £2.273bn). During the last annual Quinquennial Review (QQR) process the Liability Limit was adjusted and reset to £1.9bn for 2022/23 with effect from 1 April 2022 for a period of three years.

Flood Re is a mutual reinsurer and was incorporated in August 2013 as a private UK Company limited by guarantee. Regulations designating the Flood Re Scheme came into force on 11 November 2015, providing Flood Re with the power necessary to fulfil its purpose. Amendment Regulations came into force on 1 April 2022.

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

Flood Re launched on 4 April 2016.

Flood Re Scheme highlights	2022	2021	2020	2019	2018
Gross written premium	£46m	£39m	£34m	£34m	£32m
Gross insurance claims	£32m	£8m	£161m	£16m	£8m
Levy income	£180m	£180m	£180m	£180m	£180m
Profit before tax	£132m	£142m	£61m	£136m	£134m
Invested and liquid assets	£691m	£611m	£487m	£358m	£257m
Solvency capital ratio	900%	1,251%	522%	349%	425%
Operational capital ratio*	496%	521%	427%	349%	235%
Number of policies written	256,634	218,090	196,638	164,480	150,051

*This is a management metric, calculated as operational capital of £130m (2017-2021 £100m (see page 18), as a percentage of Solvency II Eligible Own Funds, which includes associated Tier II Ancillary Own Funds of £65m (2017-2021 £50m), being 50% of £130m (2017-2021 £100m) Operational Capital.



Flood Re Scheme highlights



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

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

The Directors present their Strategic Report on the Company for the year ended 31 March 2022.

CHAIRMAN'S STATEMENT

The next phase

2021 marked an acceleration in the delivery of our very clear purpose and objectives: to promote available and affordable home insurance for those UK homes at risk of flooding, and to manage the smooth transition to an affordable and risk-reflective home insurance market by 2039.

That end-date galvanises us as an organisation and injects real energy and drive into the way in which we and our partners function. The foundations - financial and purpose-driven - which we have laid during the first five years of our short history have proved to be resilient and dynamic. We are now building on those strong foundations and evolving to engage more actively with a broader range of stakeholders in order to influence practical change - examples of which we have documented in this report.

Planning for the introduction of the Build Back Better scheme was for us undoubtedly the major event of the year. Its successful, and we hope, widespread adoption across the industry represent a significant development in the transition journey.

Climate change and COP26

Although 2021 was a relatively dry year in the UK, flooding events were as unpredictable and potentially damaging as in previous years.

In the height of Summer 2021, London experienced some of its worst floods in recent history - a reminder that surface water flash flooding in urban areas can cause huge damage over a very short period of time.

And in February 2022, three named storms - Dudley, Eunice and Franklin - affected the UK within the space of a week, the first time this has occurred since storm-naming was introduced in 2015. Thankfully, on this occasion the flood damage was not as severe as it might have been, but it could so easily have been far more serious - as it sadly was for our neighbours in western Germany and Belgium who suffered terrible devastation and loss of life caused by flooding in July 2021.

Much of the debate at COP26 was of course about efforts to slow the pace of climate change. This is essential, but it is equally important to recognise that climate change is happening now and we must take steps to adapt to it. In the run-up to the Glasgow summit, we took our Floodmobile on a tour of the UK to highlight ways in which flood resilience measures can be installed in homes to limit the potential damage caused by flooding.

Cost of living

The impact of flooding on households is both emotionally traumatic and financially costly. In many ways, the first of these is far more damaging: the need for a family to leave their home and relocate to alternative accommodation, sometimes for over a year, can have long-term psychological consequences.

STRATEGIC REPORT (cont.)

But, as households are experiencing the most severe cost-of-living crisis in this generation, the financial implications of the cost of insurance on household budgets is becoming more serious and relevant.

The way in which the Flood Re Scheme has been set up and implemented is helping to ease the burden on all households at risk of flooding. Since the introduction of the Scheme, four out of five householders with previous flood claims saw a reduction in the price of available quotes of more than 50%. The policy excess continues to be capped at £250, and real reductions in premiums were maintained.

There is already emerging evidence that households are reducing the level of insurance cover to save on premium bills. We want to make sure that the affordability and availability of flood insurance are not compromised for all households throughout the crisis and beyond.

In addition, as a result of Flood Re's strong financial position, the Levy paid by insurers to fund the Scheme has been reduced by 25% to £135m from 1 April 2022.

Private independence, public accountability

Flood Re has a unique structure. It is privately owned and operated, but by virtue of being funded by a statutory levy on the insurance industry is a public body.

As a regulated business, Flood Re must be financially robust, and have the right resources to run its reinsurance programme. At the same time, to deliver on its public policy goals, it must work alongside a wide range of stakeholders, including UK and devolved

governments and their agencies, the insurance industry, communities, and individuals. During the year, the organisation made good progress in meeting its objective to broaden and strengthen these relationships through a variety of initiatives. It is part of the challenge to promote and sustain Flood Re's profile in both wet and dry seasons.

Build Back Better

The most significant development in the year was the support received from Parliament for Flood Re's Build Back Better initiative, which is designed to reduce the cost and impact of future floods by including property resilience measures as part of flood repairs.

This is a major step forward in so many ways. The evidence is there to show how incorporation of such measures will have a profound impact on the reduced costs of future flooding events, but, even more important, on the peace of mind of affected households.

Build Back Better will act as a catalyst to heighten awareness of the importance of property resilience measures and trigger the introduction of a number of future initiatives. We're confident that, as the year ahead progresses, more insurers will offer Build Back Better as it increasingly becomes a standard component of household insurance.

2039 is looming

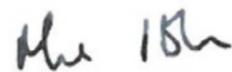
The 18% increase in the number of policies ceded to the Flood Re Scheme during the past year shows that demand is strong. The capacity to accommodate such growth demonstrates the unique dynamic nature of the Scheme's structure.

Maintaining the balance between continuing to make insurance affordable and available to those households most at risk of flooding, whilst at the same time reducing the inherent risk through the adoption of initiatives such as Build Back Better, will require a sustained effort to galvanise the commitment of all of our stakeholders.

Much has been achieved in the year under review, but as the end-date of Flood Re's existence draws nearer, the pace of activity and innovation must increase.

On the evidence of the partnerships, ecosystem and shared purpose which have been established to date, I have every confidence that the challenge will be met within the given timeframe.

I want to thank the Flood Re team for their continued resilience and effectiveness during another challenging year. I would also like to take this opportunity to thank three of my fellow board members who retired during 2021. Huw Evans, David Hindley and Claire Ighodaro all served on the board since Flood Re's launch and I am grateful to them for their contribution, particularly Huw who took Flood Re from concept to successful execution.



.....
Mark Hoban

Chair

Date: 24 June 2022

Chief Executive Officer's statement

This year we completed our statutory five-year review and laid the groundwork for the launch of Build Back Better, which gained Parliamentary approval on 24 March 2022. Build Back Better is a significant milestone for Flood Re and a decisive step towards ensuring the UK's transition to a flood-resilient future.

The number of policies ceded to Flood Re grew by 18% in the year ending 31 March. Our responsiveness to this uplift has been enabled by Flood Re's continued strong financial position.

Affordability and availability driving growth

Rising inflation, coupled with the reduction of Flood Re's inwards premiums in real terms, has increased the propensity of insurers to cede policies to the Scheme - in part accounting for the 18% year-on-year growth.

The results of the Company for the year ended 31 March 2022 show a profit before tax of £131.9m (2021: £141.8m), with an income from the Levy of £180m (2021: £180m) and gross written premiums of £46.4m (2021: £38.8m). Eligible and available own funds under the Solvency II Directive stand at £613.6m (2021: £490.7m). During the financial year, we incurred gross claims of £32.1m (2021: £8.2m).

While the year was unusually dry, with fewer flooding events in the UK compared to the previous year, the extreme and damaging floods that afflicted Germany further motivated insurers to recognise the value of the Scheme and cede more policies.

Those floods could have easily affected the UK, and the storms that we did experience earlier this year saw very high winds without corresponding levels of rainfall. This will be the nature of climate change. We can be certain that the climate will get warmer and wetter, leading to extreme weather events that will themselves become more frequent and more severe, yet more unpredictable.

The strength of our financial position means that we can be confident in our ability to meet the future needs of households in the UK as the climate becomes more unpredictable.

Build Back Better and property resilience

A key success of the past year was achieving political and insurer support for Build Back Better. This initiative will allow the scheme to reimburse insurers for claims that include resilient repairs over and above the original flood-related loss by up to £10,000.

This is a major innovation that will help improve the flood resilience of the housing stock in the UK. While Build Back Better will reduce future flood claims and benefit insurers, its true benefit is the confidence and peace of mind it will provide to households.

The trauma and severe inconvenience of a home being flooded goes beyond the solely financial calculation. Build Back Better will provide households with the comfort of knowing that their possessions will be better protected in any subsequent flooding events they face and enable them to return to their homes in a far shorter amount of time.

We already have some very powerful evidence of this being the case. In one example, portrayed in our Build Back Better film documentary, a householder who had previously been flooded incurred an insurance claim of £48,000 and a long period in alternative accommodation. The property flood resilient measures subsequently installed resulted in a zero-insurance claim and a return to the property within a week of the next flood event.

We are therefore delighted that, with effect from 1 April 2022, customers of a significant number of insurers (covering over 50 per cent of the insurance market) will be able to benefit from Build Back Better. We all now have a duty to drive awareness of the scheme and encourage understanding among people that flooding is becoming more widespread than is commonly recognised. According to the latest survey by JBA Risk Management, one in four households in the UK is now at risk of flooding.

The roadmap to making UK resilient to flooding

Flood Re is working to normalise property flood resilience (PFR) measures and we believe Build Back Better will help by driving up demand and boost the market for these products. More innovative public-private partnerships are also needed to encourage take-up and provide the right behavioural nudges to householders.

Flood Re has championed the Code of Practice for resilient repair, developed by Defra's PFR Roundtable, and is encouraging the industry to embed it throughout their Build Back Better processes. But much more still needs to be done.

That is why in the year ahead we will be working with our partners at the Environment Agency (EA) to raise public awareness of the benefits of PFR. A high-profile campaign will be targeted at those living in areas most at risk of flooding to increase familiarity, understanding and ultimately drive take-up of PFR in their homes.

We will also be collaborating with stakeholders, including the EA and Defra, to run an innovative pilot in East Peckham. We will use the opportunity of an ongoing EA flood management scheme, which includes installing property level measures in a significant number of properties, to test standardising data collection, a new PFR scoring mechanism and ultimately the use of Flood Performance Certificates in real conditions.

Flood Re has long believed that Flood Performance Certificates have the potential to remove many of the barriers preventing the more widespread take up of PFR, enabling those who have taken up property flood resilience measures to demonstrate to their mortgage providers, insurers and future buyers that their property is safeguarded against future floods.

The year ahead and beyond

By statute Flood Re must and will exit the market by 2039 – only 17 years from now.

Within that time-frame, ensuring the right homes are built in the right locations to the right standard is the biggest single step we can take as a nation to make sure we do not increase the risk of flooding. Planning policies must ensure that flood risk is accounted for in new housing developments, and that if homes must be built in areas prone to flooding, they have the right resilience measures in place.

Government must also consider and support ways to harness green investment as a means to manage future flood risk. That is why Flood Re is currently supporting a pilot project in the Wyre Valley in the northwest of England to bring private investment into natural flood management. Working with a range of stakeholders, including The Rivers Trust and an investment bank, the aim is to test where 'at risk' communities and businesses can become buyers of natural flood management ecosystem services - such as earth bunds that slow the movement of water, creating dams and rewetting drained wetlands.

The project is intended to be a ten-year trial that will include the construction and ongoing maintenance of a natural flood management scheme and will test the extent to which flood risk is reduced. We are advocating for a scalable approach that can further unlock investment for natural flood management across the country. This is just one example of measures designed to improve flood resilience and reduce the damage caused by flooding in the long-term.

Limiting risk requires significant and sustained investment in flood risk management, and so recent Government promises of capital funding for new physical flood defences are welcome. Going further, with a longer-term commitment on funding now would help to consolidate this and provide certainty into the future. There must also be adequate spending for maintenance. As the frequency and intensity of flooding increases, it is hugely important that these

defences continue to be fit for purpose. Well-maintained flood defences rarely breach - so maintenance is essential to ensure the protection they offer to homes and communities remains in place. Flood Re research confirms that this is cost effective to do: every £1 spent on maintenance now saves £7 in the future.

Finally, all this flood risk management must contend and compensate for the certainty of climate change making the country warmer, wetter and more prone to flooding in the decades ahead. That is why Flood Re is so passionate about adapting now to the climate change that is already inevitable and mitigating, through demanding net-zero targets, to reduce the threat of further climate change in the future.

A team focused on implementation

Every organisation's success is built on its people and Flood Re is no exception, so I would like to extend my gratitude to the professional and committed Flood Re team. I am also delighted to welcome new appointments to the Executive Committee Andrea Santolalla as Operations Director and the promotion of Jenny Cooper as Head of HR.

This year we have again signed up to the Women in Finance Charter and having exceeded our previous target, set ourselves a further objective to achieve gender parity on the Executive Committee by 2024. An inclusive and accepting environment should always be a priority, but this is even more important for organisations like ours which seek to drive widespread and societal change.

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 PRA and the FCA, 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.

The ONS has recently undertaken a classification assessment of Flood Re and they have concluded that Flood Re is classified as a public body, in the central government subsector with effect from 11 November 2015, the date on which The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 came into force.

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 accordance with UK-adopted International Accounting Standards 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 key objectives for the Scheme. At the end of the sixth successful year of operation of the Scheme, the initial objectives of the Scheme are being reviewed to consider the appropriate ongoing measures for the business. This is refined in line with our

Public Purpose Assessment remaining relevant in the context of our statutory purpose of promoting the availability of affordable home insurance to those at the highest risk of flooding.

1. Public Purpose

Flood Re is a purpose driven organisation. That purpose is to promote the availability and affordability of flood insurance for eligible homes and manage over our lifetime the transition to a market where insurance remains affordable for flood-risk homes without the cross subsidy provided by Flood Re. Our purpose guides everything we do.

This year the board considered Flood Re's long-term exit strategy in relation to both parts of its purpose and agreed three guiding principles:

1. Flood Re will continue to deliver on its purpose to promote affordability and availability throughout its lifetime.
2. Flood Re will define a Public Purpose Assessment as a tool to ensure delivery of its purpose.
3. Flood Re will seek to describe the market that will exist post exit for all our stakeholders.

Flood Re needs to ensure that its public purpose is delivered within the Scheme's financial parameters. It is recognised that some parameters will need to become more dynamic to ensure delivery of the purpose over the Scheme's whole lifetime.

Our Public Purpose Assessment will form part of our next Transition Plan to be published next year. We will consult with our stakeholders and interested parties to get input and feedback and ensure our test is widely understood. It will need to balance the interests of consumers, the insurance industry and the public good.

Consumers need to have access to affordable flood cover as part of their home insurance at the point of purchase. For those consumers who are at low or no flood risk, they need to know that the cross subsidy is proportionate.

The insurance industry wants there to be a functioning, competitive market where flood cover as part of home insurance is both widely available and affordable. They want to ensure that all customers are treated fairly and that there is as little intervention or distortion of the market as possible to meet these ends.

And the broader public have an interest in managing the nation's flood risk including through a functioning, competitive and affordable insurance market, avoiding creating areas of insurance blight and the efficient management of public money.

Taken together within the constraints of the Scheme's parameters these considerations will form the centre of our Public Purpose Assessment.

2. Operation of the Scheme

Flood Re ensures availability and choice of insurers for customers, affordable for those households at the highest risk of flooding.

The premiums have been maintained at the current level since 2019, resulting in ongoing 'real' reductions in premium cost over the past three years (2020 - 2022) that has contributed to the 31% 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.

Reinsurance

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 2022/23 financial year. Our flood programme is the largest European Flood Programme and one of the largest natural catastrophe programmes globally. It is supported by 31 reinsurance participants and provides capacity of £1.9bn annually.

This renewal enabled the launch of the Build Back Better initiative with reinsurers providing a 'pay as you go' cover for the initiative. The support of this innovation demonstrates our successful

partnership with our markets and that we are a target account for many reinsurers as they seek to create opportunity in the area of Public/Private natural catastrophe partnerships.

Based upon our actual portfolio, coupled with optimising coverage, the programme has been successfully placed and will protect the Scheme's performance over the next three financial years.

Flood Re is a credible reinsurance partner for UK insurers and strongly capitalised to withstand the UK flood peril supported by the reinsurance industry.

The security of the Scheme is confirmed by Standard & Poor's continued rating of Flood Re at A (stable), reflecting the successful operation of the Scheme.

Key management metrics

A robust financial position with an internal model solvency capital ratio coverage of 987% (2021: 1,557%) and invested and liquid assets of £690.9m (2021: £610.7m) demonstrates this successful operation.

Our capital requirements have a cyclical brought about by our reinsurance programme and our Solvency II Partial Internal Model. This is part of the design of Flood Re and operates as expected. Consequently, our capital requirement varies through the year and is usually at its lowest, all other things being equal, at year end. We established an Operational Capital Requirement to more usefully reflect the capital required across the year. This is currently determined by the Board to be £130m and has been updated from the previous requirement of £100m to reflect the reduction in the levy income going forward, from £180m to £135m, increased policy volumes, and the new reinsurance programme in place from 1 April 2022.

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 496% (2021: 521% and 2020: 427%).

The Scheme is operating effectively, addressing its Levy 1 credit risk, collecting all Levy income due to the Scheme with £180m of Levy income raised and received to 31 March 2022, which represents a 100% successful collection (2021: 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.

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 six years of operation up to 31 March 2022, the Scheme has accumulated net assets, on an IFRS basis, of £588.5m (2021: £481.6m), and Available and Eligible Own Funds (Solvency II basis) of £613.6m (2021: £490.7m) as well as holding invested and liquid assets of £690.9m (2021: £610.7m).

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.

3. 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 has identified the actions required to achieve an affordable risk-reflective market.

We have been engaging and working with others to realise this vision through collaboration, advocacy, support, co-ordination, 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

Flood Re continues to make progress on its Transition objectives by seeking to understand, influence, and engage with our stakeholders and to create better tools and policies, and build capacity. For each of the four dimensions (buckets) of our long-term vision we introduced Transition Indicators in our Annual Report last year. We would not expect to see significant year-on-year changes in aggregate UK flood risk and so we are holding each of the indicators steady. However, it is worth noting that if, for example, significant funding was reallocated away from flood defence investment and/or maintenance, the indicators could show an unwelcome decline in progress.

1. Reducing the risk of flooding

Resources to support resilient housing development

Given the adverse impact of building more homes in areas at risk of flooding, Flood Re is working with the Town & Country Planning Association and others to further develop flood risk management capacity and expertise within planning practice.

Capacity building for planners

Flood Re held four capacity building workshops to explain the insurance implications of building homes in flood prone areas reaching hundreds of planners across more than fifty local authorities. We also attended the National Planning Summit for the first time and participated in a panel concerning the role of planning in delivering on the climate change agenda.

2. Reducing the damages and costs of flooding

Increasing the number of properties with flood resilience measures continues to be challenging as homeowners have insufficient knowledge about their risk and what they can do to mitigate the damage in the event of a flood. However, Flood Re has continued to take steps to improve understanding of the effectiveness of PFR.

Property Flood Resilience (PFR) scoring

Through Flood Re's continued chairing of Defra's PFR Roundtable, we continued to promote the adoption of the Code of Practice for installing PFR measures. This year we initiated a scoring project to help quantify the impact of different resilience measures on properties so that homeowners, banks, the public sector, and insurers might make more informed decisions about suitable adaptation strategies. We look forward to reporting back next year on the trial of an initial scoring methodology in East Peckham where households will benefit from prototype Flood Performance Certificates that will

give them greater clarity on their risk, steps that have been taken to reduce that risk, and further actions they can take in the future.

PFR knowledge sharing

Flood Re has been supporting the development of a PFR implementation app - a tool that will support risk assessors, contractors, and homeowners through the Code of Practices' six steps to ensure appropriate and effective PFR installation.

Further Flood Re has committed to supporting the Chartered Institution of Water and Environmental Management's (CIWEM) Community of Practice, a hub of resources for PFR practitioners. Partnering with Hazard and Hope, Flood Re produced a short film to highlight the benefit of PFR. The film focused on a case study of a family in York who have taken measures to make their home more flood resilient and resistant.

Community engagement

Flood Re worked with the National Flood Forum (NFF) to develop a resource for communities and residents to increase engagement of communities at risk of flooding: 'Building a safer future – a guide for communities navigating the planning system and flood risk'.

To better understand the resilience of communities, Flood Re participated in numerous focus groups as part of a project co-ordinated by Defra and the EA on 'Measuring resilience to flooding and coastal change'.

3. Achieving an effective market

Achieving an effective market requires reducing the physical risk and creating the right incentives for the take up of resilience measures across UK properties.

Build Back Better

Working closely with Defra and the insurance industry, in April 2022, Flood Re announced the introduction of the 'Build Back Better' scheme. Participating insurers can now offer reimbursement costs of up to £10,000 over and above the cost of flood repairs and losses to allow homeowners to install PFR measures. This is a world first public-private initiative to drive behavioural change and increase take up of PFR which we hope will improve the products on the market, the quality of installation and the effectiveness overall.

Natural flood risk management

To reduce flood risk, we need to deploy every tool in the box, including Natural Flood Risk Management (NFM). Just as the scoring project is seeking to quantify the returns of PFR, Flood Re's involvement in the Wyre Valley Natural Flood Management Pilot seeks to track the avoided losses due to natural flood risk management. The pilot went live in March 2022 and will seek to test a new model to attract private sector investment to reduce flooding (amongst other benefits) through NFM. Partners in this exciting project include Defra, United Utilities, the EA, Co-op Insurance, Esmée Fairbairn Foundation (EFF), The Rivers Trust and Triodos Bank UK.

4. Limits of affordability

Despite the significant efforts outlined above, there will always be households who struggle to afford insurance. Further, with climate change and the increasing sea level rise and precipitation we can expect in the future, more homes will face higher risk of flooding and therefore greater financial pressure to mitigate the damage from those inevitable floods.

COP26

Climate change is already increasing the likelihood of flooding, with six of the wettest years in history having occurred since 1998. It is now the greatest natural disaster risk in the UK, with an estimated 1 in 4 properties in England and Wales at risk. Without urgent action, many more people will experience its devastating consequences in the years to come.

Last autumn's COP26 saw world leaders come together to shape the world's recovery from COVID-19, and its preparedness for a warmer and wetter planet. However, whilst 'Net Zero' is critically important, adaptation and resilience took centre stage.

Much of the debate at COP26 concerned efforts to slow the pace of climate change. However, COP26 also provided a pivotal moment to highlight the benefits of establishing sustainable and resilient foundations for the future.

Flood Re used the opportunity of COP26 to talk about the need for adaptation and resilience to communities throughout the UK dealing with the impacts of climate change. From January 2022 we

entered the Year of Resilience, giving Flood Re the opportunity to continue to be a thought leader and key voice on this vital issue.

Vulnerable communities

Flood Re increased its engagement with Housing Associations speaking at the National Housing Federation Asset Management Conference and Exhibition concerning managing flood risk and

insurance, where we focused on the affordability of contents insurance for residents. We also attended the steering committee for the Rochdale Valley Flood Poverty Project working with insurers, loss adjusters, property management professionals, Rochdale Borough Housing, and Rochdale Council to explore ideas to increase financial resilience among at-risk vulnerable communities.

Flood Re uses these indicators to provide a view of our exit in 2039.

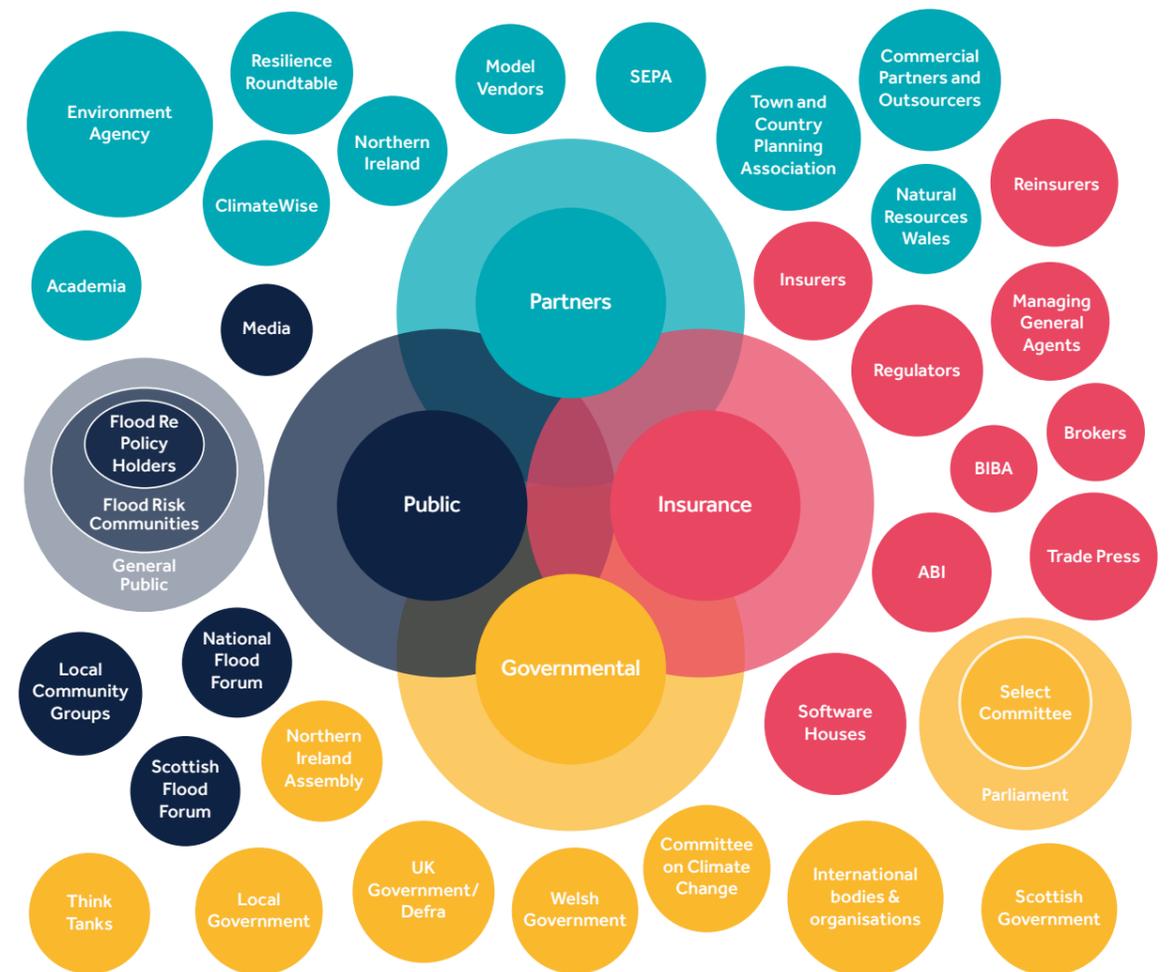
Transition area	Progress assessment	Leading indicator / Expert judgement
Reduce the risk of flooding		<ol style="list-style-type: none"> Level of flood defence investment Extent of housing development in the floodplain
Reduce the damage and cost of flooding		<ol style="list-style-type: none"> British Standard for flood resistance products Level of engagement of community with flood groups Number of properties that benefit from PFR Overall cost and time taken to settle claims
Achieve an effective market		<ol style="list-style-type: none"> Flood modelling use in risk-reflective pricing and awareness Effective level of Flood Re subsidy Householder flood risk awareness of their home Engagement with insurers at strategic and operations level
Limits of affordability		<ol style="list-style-type: none"> Number of households at highest flood risk Support for those at highest risk post-Flood Re CO₂ 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.



Our stakeholders

Flood Re’s key partners are the insurance, Parliament and the UK Government and its agencies, and it exists to benefit householders at high risk of flooding. This year Flood Re is

continuing to deliver on its objectives, increasingly evolving to engage more actively with a broader range of stakeholders to deliver positive and practical change. Flood Re does this in three strategic ways:

STRATEGIC REPORT (cont.)

1. Affordability and availability

Flood Re continues to enable people to get affordable policies.

2. Climate change

We are increasingly acting as a catalyst by encouraging adaptation and recognising the impact climate change has on communities throughout the UK.

3. Promoting change in the market

Influencing insurer and consumer behaviour with the introduction of Build Back Better.

Key strategic activities

With our three strategic stakeholder objectives in mind, the table below highlights some of the areas 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 procurement	The Board approved the re-procurement of the three-year reinsurance programme, for implementation from 1 April 2022. The reinsurance industry support of the Scheme through our re-procurement in the year, has provided financial security for the operation of the Scheme for the next three financial years.	<ul style="list-style-type: none"> • Insurers • Defra • Reinsurers
Outsourced partnership procurement	The Board approved the re-procurement of all outsourced operational partnerships in May 2020, including the re-procurement of our back office services currently hosted by Capita PLC, our reinsurance back office and our communications agencies. This work has been a key focus for Flood Re over the last year with many new strategic partners coming onboard. The work continues into the next year.	<ul style="list-style-type: none"> • Insurers • Outsourced service partners
Quinquennial review (QQR)	The Secretary of State supported all but one (discounted premiums) of the QQR proposals. A 12-week public consultation ran until 26 April 2021 with the findings published in July 2021. Rebecca Pow MP, Parliamentary Under Secretary of State for Defra confirmed the changes to the Flood Re Scheme on 25 November 2021 and these changes were agreed in Parliament in March 2022.	<ul style="list-style-type: none"> • Secretary of State, Defra • Defra officials • Insurers • Environment Agency • Scottish Environment Protection Agency • Industry bodies • Flood campaign groups • Consumer • Media

STRATEGIC REPORT (cont.)

Activity	Detail	Stakeholder consideration
ClimateWise	ClimateWise engagement and reporting on principles. Report submitted August 2021.	<ul style="list-style-type: none"> • ClimateWise insurance membership
Flood defence maintenance	June 2021 Flood Re and the Association of British Insurers published a joint report produced by JBA Risk Management into flood defence maintenance. The report found that every £1 spent on flood defence maintenance, saves £7 in spending on new defences.	<ul style="list-style-type: none"> • ABI • Insurers • JBA Risk Management
COP26	November 2021 COP26 saw world leaders come together to discuss climate change. While the call for the world to reach 'Net Zero' was the main focus, adaptation and resilience also took centre stage. Flood Re took part in a range of activities in the weeks leading to and during COP26. Flood Re's message was clear we need to adapt our country to the effects of increased weather events now. We cannot wait for 'Net Zero'.	<ul style="list-style-type: none"> • Defra • Environment Agency • Insurers • Scottish Environment Protection Agency • Climate change campaigners • Local flood community groups • Scottish Flood Forum • Members of Parliament • Flood campaigners • Local authorities • Consumer • Media
Property Flood Resilience scoring project	Flood Re is leading a scoring project to help quantify the impact of different resilience measures on properties.	<ul style="list-style-type: none"> • Defra • Environment Agency • Natural Resources Wales • Department for Infrastructure (NI) • SEPA • Insurers • Industry bodies
Resources to support resilient housing development	Produced a climate change guide for local authorities.	<ul style="list-style-type: none"> • Town and Country Planning Association • Royal Town and Planning Institute • Local authorities
Natural Flood Risk Management	Flood Re is a partner in the Wyre Valley Natural Flood Management Pilot. This seeks to track the avoided losses due to natural flood risk management. The pilot went live in March 2022.	<ul style="list-style-type: none"> • Defra • United Utilities • The Environment Agency • Insurers • Esmée Fairbairn Foundation • The Rivers Trust • Triodos Bank UK

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



.....
Andy Bord
Chief Executive Officer
Date: 24 June 2022

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022

The Directors present their Report and the audited Financial Statements of the Company for the year ended 31 March 2022.

Future developments

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

Employee engagement and stakeholder interests

Diversity and inclusion

Creating an inclusive environment where all types of diversity are celebrated is of huge importance to Flood Re. We believe that differences in not just characteristics you can see but also in background, perspective, expertise, experience and culture are an asset to the Company. The greater the mix of people, the greater the mix of skills, experiences, thinking styles, perspectives and ideas we can draw on. We want our employees to trust that their differences are respected and valued so they can genuinely be themselves at work.

Employee engagement

We regularly seek feedback from our employees and consultation occurs at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect employee interests. All employees are aware of the financial and economic performance of the business.

During the year, the Company has continued to focus on maintaining a positive and appropriate culture, with an emphasis on 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.

Current Operating Environment

The majority of the first order implications of COVID-19 have diminished over the course of 2021/22. Flood Re's operating model, in the latter half of 2021/22 has moved from a fully remote working environment in response to COVID-19 lockdowns to a Hybrid Working Model which seeks to draw on the benefits of both flexible home working and in office cross-team collaboration.

Flood Re recognises the economic environment, both in European and global perspectives with the recovery from the COVID-19 pandemic and the effects of the conflict in Ukraine. The business has no direct exposure to the current conflict, but is impacted by the inflationary consequences. Flood Re has no investment exposure beyond Debt Management Office (DMO) deposits and short-dated UK Gilts.

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 2022. 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 2022

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 Energy & Carbon Reporting (“SECR”) legislation as at 31 March 2022 as a result.

Environmental indicators

Flood Re’s 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 reported on SECR data for the first time as at 31 March 2021 with its base year set as 31 March 2020. 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 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 2022 and 2021.

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 January 2022.

Energy performance results

Energy use (kWh)	31 March 2022	31 March 2021
Transport Energy	6,376	2,029
Electricity	129,653	142,692
Natural Gas	302,738	127,538
Total	438,767	272,259

*Usage of transport energy mainly comprised of energy consumption by Flood Re staff during their commute on business related travels and it excludes any other air travel and travel between staff residence and office. Consumption of Electricity and Gas energy are directly from the office rental property and purchased by Flood Re.

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.

electricity usage, we have used the UK 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>

In estimating the impact of emissions from homeworking on Scope 3 carbon emissions from incremental gas and

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 January 2022.

Carbon performance results

Carbon dioxide equivalent emissions (t/Co2e)	31 March 2022	31 March 2021
Scope 1 emissions	58	23
Scope 2 emissions	28	33
Scope 3 emissions	49	51
Total	135	107

*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 2022	31 March 2021
	2.7	2.6

Operational trends

The kWh energy usage of kwh 438.8k in the year to 31 March 2022 was noted significantly higher than previous reporting year 2021 of kwh 272.2k, as we and many other companies in the office building have transitioned from remote working and have adopted hybrid working during the reporting period.

For our carbon emissions, the contrast between the predominant COVID-19 lockdown periods from April 2020 and the 'business as usual' in baseline year where business travel levels were at normal levels, is slightly lower in both 2021 and 2022 than might be expected due to the impact on scope 3 emissions from homeworking gas and electric usage. The overall impact, however, is an increment year on year of 21 tonnes of Co2e, and a per capita emission has slightly increased from 2.6 to 2.7.

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 2022 and aim to refine a methodology that better reflects our teams' circumstances once our future working arrangements have been determined.

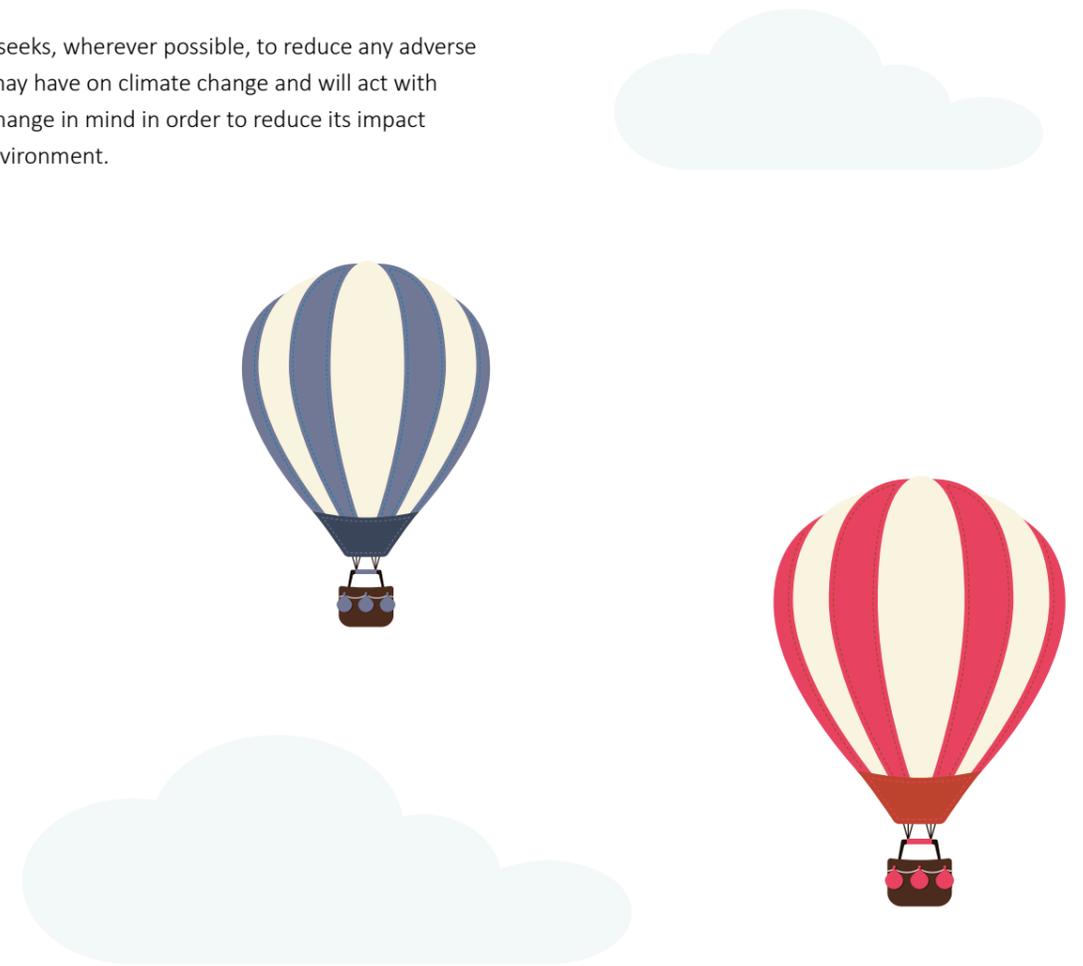
Flood Re recognises that our ability to manage our limited carbon footprint is much less significant than our wider stakeholder influence on flood and property flood resilience adoption and adaptation; we continue to consider both elements of our operations. Given our restricted ability to directly

manage the total energy usage arising from Flood Re's activity, going forward the board will consider options both to offset our carbon emissions, and to assess opportunities for Flood Re to engage with 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 comprises of deposits with the UK DMO throughout the year and investments in UK Treasury Gilts. 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 Chair of the Jersey Financial Services Commission and Pay.UK. He sits on PwC's Advisory Council. Mark 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 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. In addition, Stuart also oversees the actuarial reserving function.

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 Senior Independent Director and Audit Committee Chair at 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).

Judith was appointed as the Senior Independent Director (SID) at Flood Re with effect from 10 June 2022, subject to regulatory approval.



Simon Anthony Green

Simon Green is an Independent Non-Executive Director at Flood Re. Simon is also a Non-Executive Director of Arthur J Gallagher Holdings (UK) Limited, who joined the board in 2017. Simon is a member of the Audit Committee, Chair of the Risk Committee, and Chair of Pen Underwriting Limited.

Simon has worked at the Bank of England, FSA and FCA, latterly as Director of General Insurance and Protection. Simon has extensive experience across the financial services industry, prior to his regulatory roles he spent 15 years in corporate, investment and retail banking across the UK and Europe.



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 Water Resources East, and a Non-Executive Director with the Office for Environmental Protection and with a consultancy providing specialist product safety and regulatory compliance services. Paul 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 and Chair of Flood Re's Audit and Compliance Committee.

She is also an Independent Non-Executive Director and Audit Committee Chair at Personal Assets Trust plc and FBD Holdings plc. She is also a Director at RAC Pension Trustees Limited. She spent over 20 years in financial services with Aviva plc.

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



Perry Ian Thomas

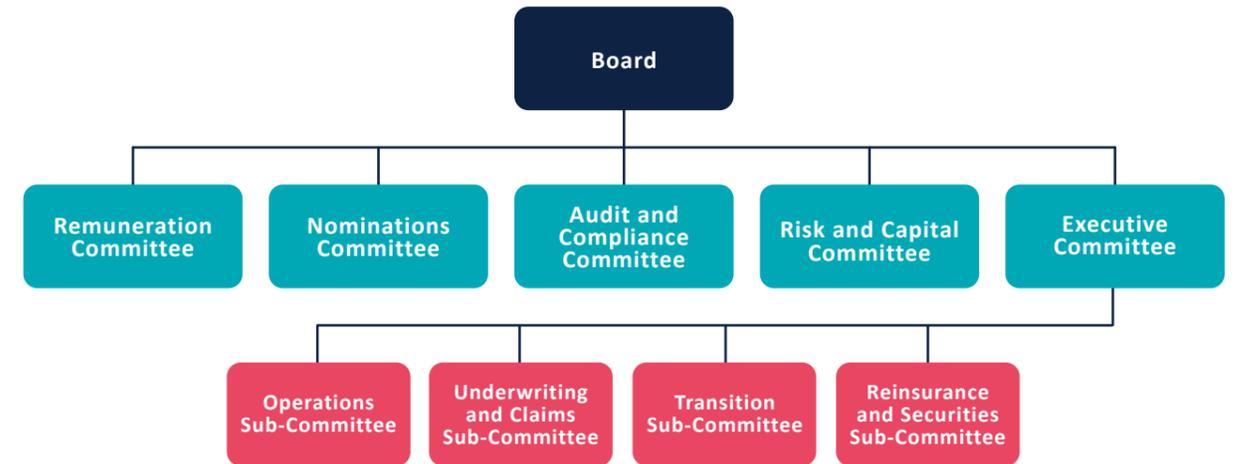
Perry Thomas is an Independent Non-Executive Director and Chair of Flood Re’s Risk and Capital Committee. He’s an actuary with more than 30 years in financial services in roles including CEO, CRO and Group Chief Actuary. He’s held directorships in UK, Bermuda, Ireland, India, South Africa, Malta and Luxembourg, and been on the Council of the Institute and Faculty of Actuaries. Perry is dyslexic, which he believes can bring a different perspective.

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. Mark Hoban will be subject to retirement and reappointment at the 2022 AGM.

Governance Framework

The Committee structure as at 31 March 2022 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
Huw Evans ²	SID	CHAIR/INED	INED		
Simon Green ³	INED	INED	INED	INED	INED
David Hindley ⁴	INED	INED	INED	CHAIR	INED
Claire Ighodaro ⁵	INED	INED	INED	INED	CHAIR
Paul Leinster	INED	INED	INED	INED	INED
Stuart Logue	CFO and ED				
Jean Sharp ⁶	INED	INED	INED	INED	INED/CHAIR
Perry Thomas ⁷	INED	INED	INED	CHAIR	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 Judith Eden is the Chair of the Remuneration Committee from 19 March 2021 and was appointed as the Senior Independent Director (SID) at Flood Re with effect from 10 June 2022, subject to regulatory approval. ² Huw Evans was the Chair of the Remuneration Committee until 19 March 2021 and Senior Independent Director for period to 31 December 2021. The Board, on the recommendation of the Nominations Committee has appointed Judith Eden to be the Senior Independent Director replacing Huw Evans. ³ Simon Green was appointed to the Board on 1 January 2022. ⁴ David Hindley stepped down as Chair of the Risk & Capital Committee and resigned from the Board effective 31 December 2021. ⁵ Claire Ighodaro stepped down as Chair of the Audit and Compliance Committee and resigned from the Board effective 30 June 2021. ⁶ Jean Sharp was appointed to the Board on 1 April 2021 and chaired the Audit and Compliance Committee from 1 July 2021. ⁷ Perry Thomas was appointed to the Board on 1 January 2022 and has chaired the Risk & Capital Committee from 11 January 2022.

Committee attendance record

The table below shows the Committee attendance record for the year ended 31 March 2022 (attended/eligible).

Name	Board	Remuneration Committee	Nomination Committee	Risk and Capital Committee	Audit and Compliance Committee
Total number of meetings	6	2	3	5	5
Directors					
Mark Hoban	6/6	2/2	3/3	4/5	4/5
Andy Bord	6/6				
Judith Eden	6/6	2/2	3/3	5/5	5/5
Huw Evans ¹	3/3	1/1	3/3		
Simon Green ²	1/1	1/1		2/2	1/1
David Hindley ¹	5/5	1/1	3/3	3/3	4/4
Claire Ighodaro ¹	2/2	1/1	1/1	1/1	2/2
Paul Leinster	6/6	2/2	3/3	5/5	5/5
Stuart Logue	6/6				
Jean Sharp ²	6/6	2/2	3/3	5/5	5/5
Perry Thomas ²	1/1	1/1		2/2	1/1

¹ Huw Evans, Clare Ighodaro and David Hindley left during the year and had full attendance at all meetings during their time on the Board.

² Jean Sharp, Perry Thomas and Simon Green joined during the year and had full attendance at all meetings since they joined the Board.

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 Desired Behaviours and High-Performing culture. The Company has committed to the Women in Finance Charter with the pledge to make changes to improve gender diversity within the senior levels of the organisation. In 2021 we achieved our first Women in Finance Charter target early and increased female representation on our Executive Committee from 12.5% to 25% (with the arrival of Andrea Santolalla). As of 1 March 2022, there are eight members of the Executive Committee – three are female and five are male (37.5% v 62.5%). Whilst we are delighted with the progress we have made so far, we have further to go to achieve gender balance across the senior levels of the Company. We have therefore set a further Women in Finance Charter target to achieve at least gender parity on the Executive Committee by 2024.

The Board, on 10 June 2022 on the recommendation of the Nominations Committee has appointed Judith Eden to be the Senior Independent Director, subject to regulatory approval.

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.

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 ACC 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 ExCo 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.

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, 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 Chief Risk Officer for Flood Re. He is responsible for overseeing, co-ordinating 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 all our communications activity. He also leads Flood Re's strategy to transitioning the market to affordable, risk reflective pricing. Dermot has extensive experience in strategic communications, public policy and journalism including at the NHS, Home Office, Channel 4, and the BBC.



Andrea Santolalla

Andrea Santolalla is Director of Operations overseeing Claims and Underwriting Operations; Change Management; Data, IT and Information Security and Outsourcing and Vendor Management. 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 insurance supervision. Andrea joined Flood Re on 26 May 2021.



Jenny Cooper

Jenny Cooper is Head of Human Resources and takes the lead in developing, delivering and implementing Flood Re's people strategy. Jenny is a member of the Chartered Institute of Personnel and Development and has over 20 years of Human Resources experience. Before joining Flood Re Jenny had worked in financial services for many years, most recently in a Senior HR role at the Bank of Montreal, Global Asset Management, EMEA.

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 2022 and 2021.

Name	Year	Salary £	Taxable benefit £	Bonus £	Pension £	Pension allowance £	Total £
Andy Bord	2022	386,500	-	90,441	-	40,582	517,523
	2021	379,000	-	105,741	-	39,795	524,536
Stuart Logue	2022	269,000	3,186	68,192	9,552	18,021	367,951
	2021	171,217*	-	-	7,634	-	178,851

Pension allowances 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.

*Stuart Logue was appointed as Director on 3 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 2022 and 2021. The Board reviewed the Independent Non-Executive Directors' fees during the year in accordance with the Remuneration Policy.

Name	Year	Total Fees £
Mark Hoban	2022	146,965
	2021	145,799
Judith Eden	2022	48,183
	2021	47,801
Simon Green	2022	12,046
	2021	-
David Hindley*	2022	43,637
	2021	57,801
Claire Ighodaro*	2022	14,546
	2021	57,801
Paul Leinster	2022	48,183
	2021	47,801
Jean Sharp*	2022	55,683
	2021	-
Perry Thomas*	2022	14,546
	2021	-

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

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

Going concern

Flood Re has reviewed its Going Concern status over a three-year financial planning period, and a five-year operational planning period. The Company has considered both stresses to Flood Re's solvency position and operations to confirm its ability to remain a going concern both in terms of financial strength and operational resilience.

From a Solvency perspective the Company's ability to withstand multiple severe flood events over its three years of financial planning projections is afforded by a combination of its material levels of eligible own funds (many multiples of its 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 the maximum net retention). The only scenarios 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 the Company's 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 2022 (2021: £nil).

Political donations

The Company did not make any political donations during the year ended 31 March 2022 (2021: £nil).

Financial instruments

Financial instruments comprise cash, short-term deposits and investments in UK Treasury Gilts. Risks associated with financial instruments are addressed in Note 5 in the Notes to the Financial Statements.

Risk framework

Overview of risk

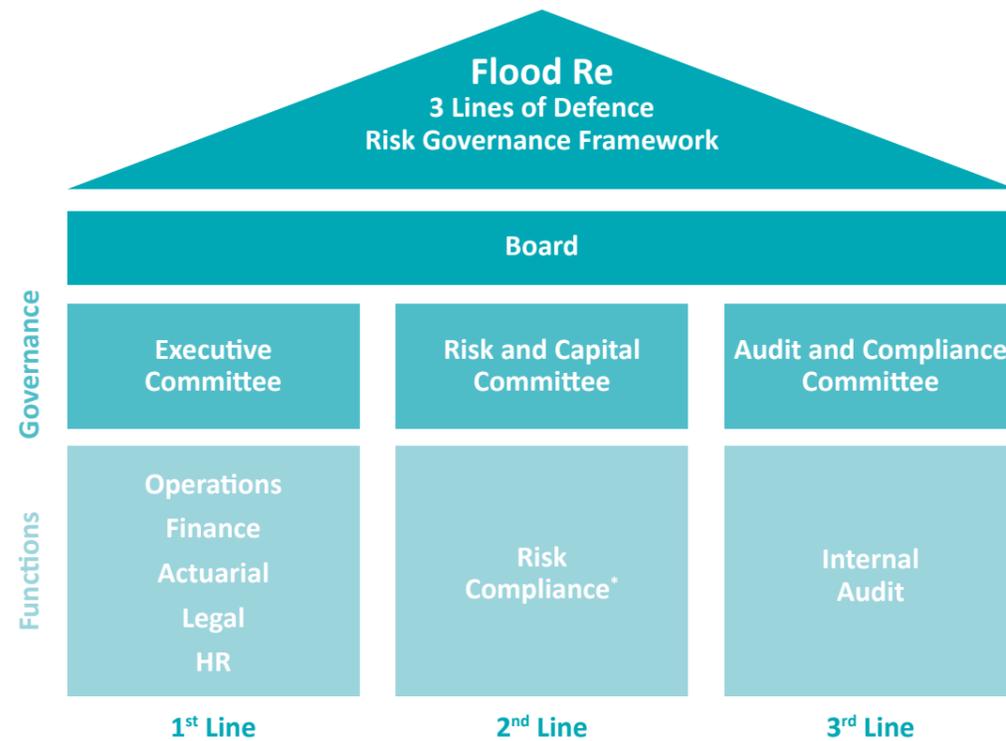
Flood Re defines risk as the possibility of incurring misfortune or loss. In principle, a risk is expressed by the combination of the probability (likelihood) of an event

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 principal risks and how they are managed or mitigated are set out in Note 5 of the Notes to the Financial Statements.

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 Legal and 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 Legal and 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 Legal and Compliance risk arising from the activities of Flood Re’s outsourced service providers. The Legal and 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.

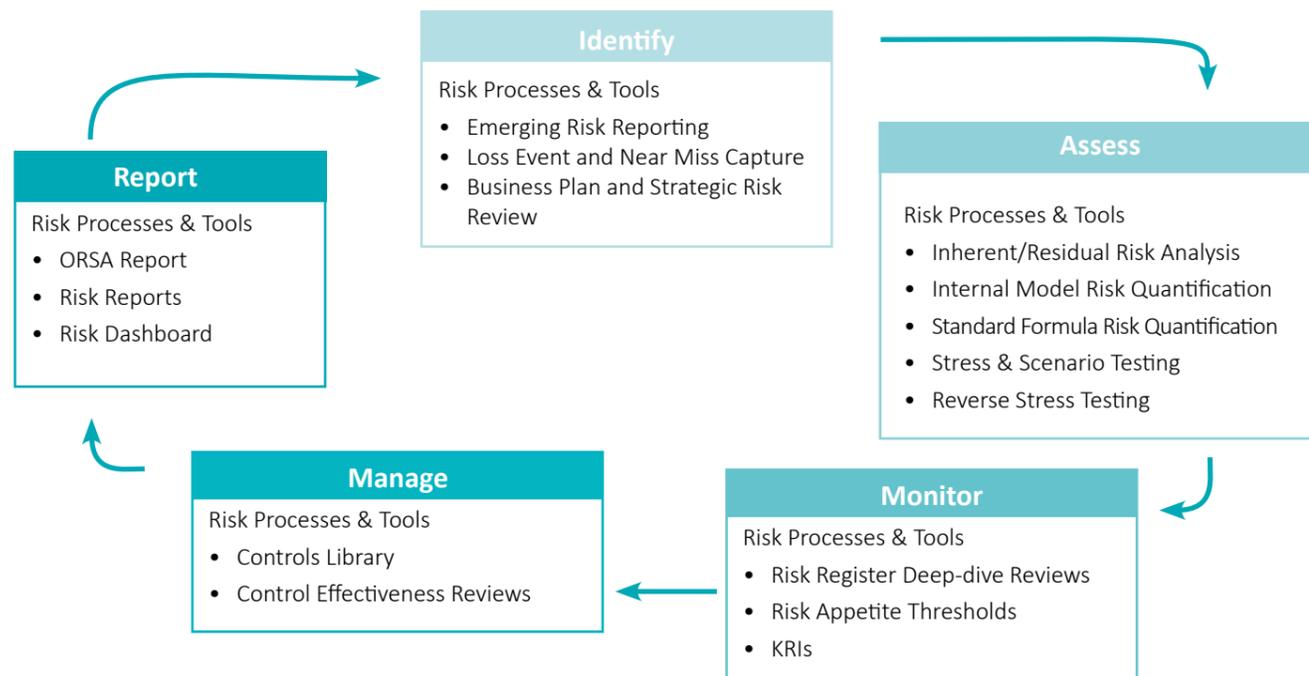
It is the responsibility of each of the three lines of defence to ensure the delivery of Flood Re’s complete risk management system.

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 and setting Levy 1 in line with risk appetite thresholds and responding to and managing external stresses from COVID-19 and the escalating inflationary environment.



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 UK-adopted International Accounting Standards.

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 UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements

- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the Company website, www.floodre.co.uk. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT (cont.)

Directors:

The Directors of the Company during the year ended 31 March 2022 were:

Mark Hoban	Chair
Andy Bord	Chief Executive Officer
Judith Eden	Independent Non-Executive Director
Huw Evans	Senior Independent Non-Executive Director (Resigned 31 December 2021)
David Hindley	Independent Non-Executive Director (Resigned 31 December 2021)
Claire Ighodaro	Independent Non-Executive Director (Resigned 30 June 2021)
Paul Leinster	Independent Non-Executive Director
Stuart Logue	Chief Financial Officer
Jean Sharp	Independent Non-Executive Director (Appointed 1 April 2021)
Perry Thomas	Independent Non-Executive Director (Appointed 1 January 2022)
Simon Green	Independent Non-Executive Director (Appointed 1 January 2022)

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 2022 of which the Auditors are unaware.
2. The Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

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



Andy Bord

Director

Date: 24 June 2022

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

AUDITOR'S REPORT FOR THE YEAR ENDED 31 MARCH 2022

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 2022 which comprise the Statement of Profit or Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 33 (except for those sections marked as unaudited in note 6), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the Financial Statements:

- Give a true and fair view of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- Have been properly prepared in accordance with UK adopted international accounting standards; 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. 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:

- Performing a walkthrough of the Company's financial close process, in which we confirmed our understanding of management's Going Concern assessment process;
- Obtaining and reviewing management's going concern assessment, including the cashflow forecast for the going concern period, which covers three years from the balance sheet date;
- Reviewing management's three-year forecast and considering the appropriateness of the methods and assumptions used in the cashflow forecasts and determining through inspection and testing that the methods were appropriate, and the assumptions used were reasonable;

- Reviewing and understanding 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.
- Reviewing 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 three years from 1 April 2022.

- 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 £11.7m (2021: £9.6m) which represents 2% of equity (2021: 2% of equity)

An overview of the scope of our audit

Tailoring the scope

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

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The company has determined that currently there is no material impact from climate change on its operations and financial position. The company recognises that in the future climate will become more unpredictable and it is working to adapt now to the inevitable climate change and mitigating the

effects of climate in the future. This is explained in the Strategic Report, which forms part of the “Other information,” rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on challenging management’s risk assessment of the impact of physical and transition risks and the resulting conclusion that there was no material impact from climate change.

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
<p>Valuation of insurance contract liabilities – IBNR (£11.6m, 2021: £28.3m) and premium deficiency provision (£28.9m, 2021: £17.7m)</p> <p>Refer to the Accounting policy 2.13, critical accounting judgement 4 (a); and Note 22 of the Financial Statements.</p> <p>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.</p> <p>Claims reserves are inherently uncertain and subjective by nature and therefore more</p>	<p>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.</p> <p>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.</p> <p>We performed testing of the accuracy and completeness of</p>	<p>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.</p> <p>We consider the Company’s booked IBNR reserves and the premium deficiency provision to be reasonable.</p>

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.

Key judgements include assessing:

1. The value of any claims that have been incurred but not yet reported to the company.
2. The effects of inflation on the cost of claims whether caused by the impact of the COVID-19 pandemic, Brexit, the war in Ukraine or other macro-economic impacts.
3. The level of prudential margin held by management
4. The loss ratio assumption used for the valuation of earned reserves and determination of the premium deficiency provision.

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 effects of inflation on the ultimate costs of claims whether caused by the impact of the COVID-19 pandemic, Brexit, the war in Ukraine or other macro-economic impacts.

Using our actuaries, we independently calculated a best estimate IBNR and premium deficiency provision and established a range of reasonable estimates around the IBNR reserve and premium deficiency provision. We then compared management's booked IBNR and premium deficiency provision to confirm that they were within our range of reasonable estimates.

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 £11.7m (2021: £9.6m), which is 2% (2021: 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% (2021: 75%) of our planning materiality, namely £8.8m (2021: £7.2m). 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 £588k (2021: £482k), 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 contained within the annual report.

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.

AUDITOR'S REPORT (cont.)

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 course of 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 this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 47, 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 REPORT (cont.)

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company 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 The Water Act 2014 and the 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 our 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

Following the recommendation from the audit committee 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 7 years, covering the years ending 31 March 2016 to present.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Ernst & Young LLP
.....

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

24 June 2022

STATEMENT OF PROFIT OR LOSS AS AT 31 MARCH 2022

	Note	2022 £000	2021 £000
Gross written premiums		46,431	38,772
Premiums ceded to reinsurers		(69,565)	(67,456)
Net written premiums		(23,134)	(28,684)
Net change in unearned premiums provision		(1,849)	(665)
Net earned premiums	8	(24,983)	(29,349)
Levy income	9	180,000	180,000
Fees and commission income	10	12,510	11,059
Interest income from debt instruments	11	7	-
Interest on cash and short-term deposits		332	433
Total revenue		167,866	162,143
Gross claims paid		(62,538)	(53,711)
Claims ceded to reinsurers		29,226	25,672
Change in insurance contract claims liabilities		30,410	45,490
Change in contract liabilities ceded to reinsurers		(14,767)	(22,043)
Net insurance claims	12	(17,669)	(4,592)
Finance costs		(45)	(33)
Other operating and administrative expenses	13	(18,207)	(15,692)
Total expenses		(35,921)	(20,317)
Profit before tax		131,945	141,826
Income tax expense	16	(25,065)	(26,948)
Profit for the year		106,880	114,878

STATEMENT OF COMPREHENSIVE INCOME AS AT 31 MARCH 2022

	Note	2022 £000	2021 £000
Profit for the year		106,880	114,878
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Net loss on debt instruments at fair value through other comprehensive income	20	(40)	--
		106,840	114,878
Total comprehensive income for the year		106,840	114,878

All of the Company's operations are continuing.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022

	Note	2022 £000	2021 £000
Assets			
Property, plant and equipment	17	2,984	1,929
Reinsurers' share of contract liabilities	22	78,020	89,644
Reinsurance receivables	18	16,491	16,602
Trade and other receivables	19	927	706
Debt instruments at fair value through other comprehensive income	20	17,916	-
Cash and short-term deposits	21	672,946	610,668
Total assets		789,284	719,549
Equity			
Retained earnings		588,514	481,634
Fair value reserve		(40)	-
Total equity		588,474	481,634
Liabilities			
Insurance contract liabilities	22	128,271	153,691
Deferred commission income	26	5,305	3,876
Reinsurance payables	27	39,240	43,591
Deferred tax liabilities	16	11	-
Current tax liabilities		2,228	87
Lease liabilities	28	2,722	1,980
Trade and other payables	29	23,033	34,690
Total liabilities		200,810	237,915
Total equity and liabilities		789,284	719,549

The Notes on pages 63 to 103 are an integral part of the Financial Statements.

The Financial Statements on pages 58 to 103 were authorised for issue by the Board of Directors on 24 June 2022 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 2022

	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance as at 31 March 2020	-	366,756	366,756
Profit for the year	-	114,878	114,878
Balance as at 31 March 2021	-	481,634	481,634
Profit for the year	-	106,880	106,880
Other comprehensive income/(loss)	(40)	-	(40)
Total comprehensive income/(loss)	(40)	106,880	106,840
Balance as at 31 March 2022	(40)	588,514	588,474

The Notes on pages 63 to 103 are an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS AS AT 31 MARCH 2022

	Note	2022 £000	2021 £000
Operating activities			
Profit before tax		131,945	141,826
Adjustments for			
Depreciation	13	1,304	1,338
Interest on cash and short-term deposits		(332)	(433)
Interest income from debt instruments		(7)	-
Changes in operating assets and liabilities			
Decrease in reinsurers' share of contract liabilities		11,624	20,367
Decrease/(increase) in reinsurance receivables		111	(11,678)
Decrease in trade and other receivables		67	38
Decrease in gross insurance contract liabilities		(25,420)	(43,149)
Increase in deferred commission income		1,429	256
(Decrease)/increase in reinsurance payables		(4,351)	22,960
(Decrease)/increase in trade and other payables		(11,657)	13,297
Cash generated from operations		104,713	144,822
UK Corporation taxes paid		(22,913)	(21,120)
Net interest received		51	913
Net cash flows from operating activities		81,851	124,615
Investing activities			
Purchases of property, plant and equipment	17	(73)	-
Net purchases of deposits placed with a duration greater than three months		(130,150)	(63,900)
Net purchases of debt instruments		(17,956)	-
Net cash flows from investing activities		(148,179)	(63,900)
Financing activities			
Payment of principal portion of lease liabilities		(1,544)	(1,316)
Net cash flows from financing activities		(1,544)	(1,316)
Net (decrease)/increase in cash and cash equivalents		(67,872)	59,399
Cash and cash equivalents at 1 April		95,118	35,719
Cash and cash equivalents at 31 March	21	27,246	95,118

The Notes on pages 63 to 103 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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 4 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 UK-adopted International Accounting Standards.

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 accordance with UK-adopted International Accounting Standards 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.

Flood Re recognises the economic environment, both in European and global perspectives with the recovery from the COVID-19 pandemic and the effects of the conflict in Ukraine. The business has no direct exposure to the current conflict but is impacted by the inflationary consequences.

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'). In 2021/22 the Company was formally designated as a non-departmental Public Body by the Office for National Statistics and the classifications became public on 23 December 2021.

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 at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVOCI). All assets measured at amortised cost and FVOCI debt instruments are subject to impairment assessment. For debt instruments the FVOCI classification is mandatory for certain assets unless the fair value option is elected.

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.

The Company applies IFRS 9 for debt instruments measured at FVOCI when both of the following conditions are met: (a) The instrument is held within a business model, the objective of which is both collecting contractual cash flows and selling financial assets (b) The contractual terms of the financial asset meet the SPPI test. Debt instruments in this category are those that are intended to be held to collect contractual cash flows and which may be sold in response to needs for liquidity or in response to changes in market conditions.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the financial cost of the financial asset. Financial assets at amortised cost are subsequently measured using the effective interest rate method (EIR) and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets measured at amortised cost are included in Note 19: Trade and other receivables; Note 20: Debt instruments measured at fair value through other comprehensive income and Note 21: 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 29: 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.

Financial assets classified as FVOCI are subsequently re-measured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. The interest income on FVOCI debt instruments is recognised in profit or loss in the same manner as for financial assets measured at amortised cost and is calculated using the EIR method. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement.

Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss.

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 and at fair value through other comprehensive income. The impairment methodology depends upon whether there has been a significant increase in credit risk.

The Company recognises a loss allowance for ECLs on 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 and debt instruments at fair value through other comprehensive income. 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.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the asset.

ECLs are recognised in two stage model based on the level of credit risk is applied to and financial assets.

- 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 are recognised and interest income is calculated on the gross carrying amount of the asset.
- 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 are recognised and interest income is calculated on the gross carrying amount of the asset.

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 and in UK Treasury Gilt investments, 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. The financial assets comprise of treasury gilts issued by the UK government as part of the wider investment portfolio that were purchased during the year. The composition of the gilts portfolio are graded as AA.

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.

2.11 Current and deferred income tax

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

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

Deferred tax is measured on an undiscounted basis.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, which are charged or credited to OCI. These are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain.

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 Company 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

As our premiums are deficient by design 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.

(f) Investment income

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

2.19 Claims and expenses recognition

(a) Gross claims and loss adjustment expenses

Gross claims and loss adjustment expenses are charged to the Statement of Profit or Loss as incurred, based on the estimated liability for compensation owed to contract holders. Claims include all insurance claims

occurring during the year, an estimate of claims incurred but not reported, related claims handling costs, a reduction for the value of salvage and other recoveries, plus any adjustments to claims outstanding from previous years.

(b) Claims ceded to reinsurers

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

(c) Finance costs

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

Cash transfer and transaction fees attached to purchase of gilt investments and payment of annual broker fee and charges are accrued as investment expenses and is charged as finance costs, whereas interest income is credited to finance income.

(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

On 31 December 2020, EU adopted IFRS at that date was brought into UK law and became UK adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. There were no new or amended International Accounting Standards effective for the first time for the financial period beginning on or after 1 April 2021 that were relevant to Flood Re's Financial Statements. An amendment to IFRS 16, COVID-19 Related Rent Concessions, was issued in June 2020 and was subsequently extended in March 2021, however, Flood Re had no rent concession in the financial year ended 31 March 2022. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective 1 April 2021), Interest Rate Benchmark Reform – Phase 2, had no impact on the Company.

(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 and will be effective for Flood Re from the financial year commencing 1 April 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 2022 is £103.8m (2021: £134.3m).

(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 £4.7m or 10.1% of the gross written premium for the year ended 31 March 2022 (2021: £4.2m or 10.8%).

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 for the first six years of the Scheme has been set at £180m per annum, with this shifting to £135m for the next three years. The outwards reinsurance programme has been structured hand in hand with the lower Levy 1 to manage Flood Re's Solvency and Loss Limit Risk Appetites.

(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 two years. 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 every year. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

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 inflationary pressures, as households experience increased building materials, contents and repair costs

- 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 and in turn this is used to inform the prudential management margin.

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.

	2022	2022	2021	2021
	Change in gross claim reserves	Change in net claim reserves	Change in gross claim reserves	Change in net claim reserves
	£000	£000	£000	£000
10% increase in loss ratio	5,336	2,788	3,714	1,940
10% decrease in loss ratio	(5,336)	(2,788)	(3,714)	(1,940)

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. At the year ended 31 March 2022, the Company had incurred 28 large losses (2021: ten 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

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 and gross of outward reinsurance protection purchased.

Claims development table

Gross of reinsurance Accident year ending 31 March	2017	2018	2019	2020	2021	2022	Total
	£k	£k	£k	£k	£k	£k	£k
At the end of accident year	7,661	9,446	15,846	160,159	57,576	33,495	
One year later	2,267	5,762	9,668	109,252	56,314		
Two years later	2,008	5,384	8,499	96,676			
Three years later	1,994	5,259	8,474				
Four years later	1,994	5,191					
Five years later	2,000	-	-	-	-	-	-
Current estimate of ultimate claim cost	2,000	5,191	8,474	96,676	56,314	33,495	
At the end of accident year	(96)	(654)	(2,381)	(1,607)	(2,444)	(3,898)	
One year later	(1,480)	(3,413)	(5,920)	(49,461)	(27,063)		
Two years later	(1,924)	(5,128)	(8,046)	(81,445)			
Three years later	(1,994)	(5,151)	(8,363)				
Four years later	(1,994)	(5,189)					
Five years later	(2,002)						
Cumulative payments to date	(2,002)	(5,189)	(8,363)	(81,445)	(27,063)	(3,898)	
Gross outstanding claims provision	(2)	2	111	15,232	29,251	29,597	74,191
Claims handling							718
Total assumed incurred claims reserves							74,909*

(Note 22, Note 23)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

Reinsurance							
Accident year ending 31 March	2017	2018	2019	2020	2021	2022	Total
	£k	£k	£k	£k	£k	£k	£k
At the end of accident year	3,830	4,723	7,923	83,245	29,370	16,478	
One year later	1,134	2,881	5,340	56,357	27,552		
Two years later	1,004	2,692	4,250	45,514			
Three years later	997	2,629	4,237				
Four years later	997	2,595					
Five years later	1,000	-	-	-	-	-	-
Current estimate of ultimate claim cost	1,000	2,595	4,237	45,514	27,552	16,478	
At the end of accident year	(48)	(327)	(1,190)	(823)	(1,277)	(1,861)	
One year later	(740)	(1,707)	(2,959)	(25,610)	(12,924)		
Two years later	(962)	(2,564)	(4,023)	(38,873)			
Three years later	(997)	(2,575)	(4,182)				
Four years later	(997)	(2,590)					
Five years later	(1,000)						
Cumulative payments to date	(1,000)	(2,590)	(4,182)	(38,873)	(12,924)	(1,861)	
Ceded claims provision	-	5	55	6,641	14,628	14,617	35,946
Total ceded incurred claims reserve							35,946*

*The breakdown of outstanding claims reserves and incurred but not reported reserves across opening balance, movements and closing balances are disclosed in note 22 – current liabilities and note 23 – movement in incurred, and by accident year is shown above in the total assumed incurred claims reserves of £74,909k and total ceded incurred claims reserve of £35,946k from the above table. This note has been amended compared to prior year presentation, in order to better illustrate the relationship between claims development over time and the balances recognised in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

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 1000 properties in the UK; or
- Is expected to have claims costs to Flood Re 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 2022 arising from a given return period.

	2022	2022	2021	2021
	Estimated gross claims	Estimated net claims	Estimated gross claims	Estimated net claims
	£000	£000	£000	£000
1 in 50 year or 2% probability	667,282	116,117	492,750	136,062
1 in 200 year or 0.5% probability	1,332,733	125,666	981,197	147,028
1 in 250 year or 0.4% probability	1,471,260	127,134	1,080,873	149,266

Catastrophe loss events may result in a high level of volatility in the financial results of the Company. The estimated net claims figure has reduced year on year due to the re-procured reinsurance programme incepting from 1 April 2022.

During the year ended 31 March 2022, the Company classified and reserved for flash floods in London in July 2021 as a catastrophe loss event.

During the year ended 31 March 2021, the Company classified and reserved for December (Storm Bella) and January (Storm Christoph) flooding 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 2022 was £2.286bn (2021: £2.273bn). 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. During the last annual QQR process the Liability Limit was adjusted and reset to £1.9bn for 2022/23 with effect from 1 April 2022 for a period of three 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.

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) UK Government Bond holdings

As at 31 March 2022, the Company holds financial instruments in UK Government bonds, classified as at fair value through other comprehensive income, 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 designation as a Public Body, the Company has access to the UK Debt Management Office (DMO) for investment purposes.

As at 31 March 2022, the Company has £663.7m (2021: £593.5m) of short-term deposits invested with the DMO, representing 96% (2021: 97%) of its total invested assets.

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

The Company does not currently 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 2023, the Company anticipates generating positive cash flows, unless there is a series of large flood events.

As at 31 March 2022, the Company has liquid assets of £672.9m (2021: £610.7m), representing 85% (2021: 85%) of its total equity and liabilities and 987% (2021: 1,556%) 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, debt instruments at fair value through other comprehensive income 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. Flood Re's Credit Risk Appetite Statements set out the maximum single counterparty exposure aligned to their credit ratings. These risk appetites seek to balance RI Counterparty credit risk with pricing and placement risks.

Cedants submit premium bordereaux 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

(a) Credit rating

The table below shows the credit rating by financial asset type as at 31 March 2022.

	Note	AA £000	A £000	NR £000	Total £000
Reinsurers' share of claims liabilities	22	36,449	13,018	35	49,502
Reinsurance receivables	18	9,590	3,454	3,447	16,491
Trade and other receivables	19	303	4	620	927
Debt instruments at fair value through other comprehensive	20	17,916	-	-	17,916
Cash and short-term deposits	21	663,700	9,246	-	672,946
Total		727,958	25,722	4,102	757,782
%		96%	3%	1%	100%

The table below shows the credit rating by financial asset type as at 31 March 2021.

	Note	AA £000	A £000	NR £000	Total £000
Reinsurers' share of claims liabilities	22	46,897	16,904	467	64,268
Reinsurance receivables	18	9,508	4,980	2,114	16,602
Trade and other receivables	19	9	-	697	706
Cash and short-term deposits	21	593,550	17,118	-	610,668
Total		649,964	39,002	3,278	692,244
%		94%	6%	0%	100%

(b) Age analysis

The table below shows the aged debtor analysis by asset type as at 31 March 2022.

	Note	Not yet due £000	30 days £000	90 days £000	Total £000
31 March 2022					
Reinsurers share of claims liabilities	22	49,502	-	-	49,502
Reinsurance receivables	18	16,415	66	10	16,491
Trade and other receivables	19	927	-	-	927
Debt instruments at fair value through other comprehensive income	20	17,916	-	-	17,916
Cash and short-term deposits	21	672,946	-	-	672,946
Total		757,706	66	10	757,782
%		100%	0%	0%	100%

As at 31 March 2022 the Levy receivable balance is £0.3m (2021: £nil). The Company has received £20.3m (2021: £32.4m) of the 2022 Levy in advance (see Note 29).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

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

	Note	Not yet due £000	30 days £000	Total £000
31 March 2021				
Reinsurers share of claims liabilities	22	64,268	-	64,268
Reinsurance receivables	18	16,307	295	16,602
Trade and other receivables	19	706	-	706
Cash and short-term deposits	21	610,668	-	610,668
Total		691,949	295	692,244
%		100%	0%	100%

(c) Impaired financial assets

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

The Company held cash deposits with a UK financial institution and short-term deposits with the UK Debt Management Office as detailed in Note 21 totalling £672.9m at 31 March 2022 (31 March 2021: £610.7m). During the period 2021/22 the Company invested in debt instruments as detailed in Note 20 totalling £17.9m at 31 March 2022 (31 March 2021: nil). All these 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 and debt instruments at fair value through other comprehensive income 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 2022, the Company had £8.683m (2021: £8.615m) of irrevocable standby letters of credit issued in its favour. For the years ended 31 March 2022 and 2021,

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 (Material Outsourcers), as opposed to developing the functionality in-house. In 2021/22 the Company has commenced a change in our Material outsourcers in a number of areas including, Workplace IT and delivery of our externally facing Property Data Hub and Bordereau Management Systems. The Company continues to use Guy Carpenter to provide 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. Other key operational risks the Company seeks to actively manage include: Information Security/Cyber, Inappropriate Cedant Behaviour and data quality/model risks. The Operations Sub-Committee has responsibility for the day-to-day oversight and governance of outsourcing performance and the wider operational risk profile of the firm.

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 A (stable).

(b) Sources of capital

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

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

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

The Company charges cedants subsidised fixed-rate premiums. To meet the costs of this subsidy, Levy I income 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 2022 and 2021. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements.

		2022	2021
		£000	£000
		Unaudited	Unaudited
Basic own funds (Tier 1 unrestricted)	A	579,521	471,077
Deferred tax assets (Tier 3)	B	1,701	2,006
Total basic own funds		581,222	473,083
Ancillary own funds (Tier 2) – 50% of the SCR	C	34,105	19,606
Available own funds	A+B+C	615,327	492,689
Eligible own funds	A+C	613,626	490,683
Solvency Capital Requirement (SCR)		68,210	39,211
Minimum Capital Requirement (MCR)		17,052	9,803
Ratio of eligible own funds to meet the SCR		900%	1,251%
Ratio of basic own funds to meet the MCR		3,398%	4,805%
Reconciliation of equity to basic own funds		2022	2021
		£000	£000
Equity on an IFRS basis		588,474	481,634
Adjustments in respect of:			
Decrease in valuation of assets		(17,775)	(16,526)
Increase/decrease in valuation of technical provisions		1,983	(31,639)
Decrease in the valuation of other liabilities		8,540	39,614
Total basic own funds		581,222	473,083

As at 31 March 2020 the Internal Model was subject to supervisory approval by the PRA for SCR purposes and as at 31 March 2022, the Company had Major Model Change approval. 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 2022, the SCR of £68.2m (2021: £39.2m)

was calculated using the Partial Internal Model, which was approved for use from 1 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) 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, and this was approved again in 2021/22 extending the approval for further 5 years to 31 March 2027. The minimum frequency of recalculation of the amount of ancillary own funds item using this method is every three months.

(f) Eligibility and limits applicable to own funds

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

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

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

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

As at 31 March 2022 and 2021, 100% of the SCR and MCR requirements are met with unrestricted Tier 1 own funds.

(g) Dividend distributions

There is no requirement for the Company to redistribute to its Ordinary Members the accumulated surplus held in the Mutual Membership Account (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 2022. The accumulated MMA as at 31 March 2022 is £nil (2021: £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

	2022	2021
	£000	£000
Gross written premiums	46,431	38,772
Gross change in unearned premium provision	(4,991)	(2,341)
Gross earned premiums	41,440	36,431
Premium ceded to reinsurers	(69,565)	(67,456)
Ceded change in unearned premium provision	3,142	1,676
Ceded earned premiums	(66,423)	(65,780)
Net earned premiums	(24,983)	(29,349)

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 £2.286bn (2021: £2.273bn) and Loss

Limit of £100m. Overall this results in negative earned premium for the year. During the last annual QQR process the Liability Limit was adjusted and reset to £1.9bn for 2022/23 with effect from 1 April 2022 for a period of three years.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

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 2022 was £180m (2021: £180m). From 1 April 2022 the Levy I reduces to £135m.

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.

No Levy II has been raised during the life of the Scheme.

10. Fees and commission income

	2022	2021
	£000	£000
Reinsurance commission income	13,939	11,315
Change in unearned commission income	(1,429)	(256)
Total fees and commission income	12,510	11,059

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

11. Interest income from debt instruments

	Note	2022	2021
		£000	£000
Interest income from debt investments		11	-
Interest payables		(4)	-
Total interest income from debt instruments		7	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

12. Net insurance claims

	Note	2022	2021
		£000	£000
Gross claims paid			
Gross claims paid		60,864	52,447
Allocated claims handling costs	13	1,674	1,264
Total gross paid claims	23	62,538	53,711
Total paid claims ceded to reinsurers	23	(29,226)	(25,672)
Gross change in contract liabilities			
Change in outstanding claims provision	23	(24,930)	47,191
Change in incurred but not reported provision	23	(16,711)	(94,030)
Change in premium deficiency provision	25	11,231	1,349
Total gross change in contract liabilities		(30,410)	(45,490)
Change in contract liabilities ceded to reinsurers			
Change in outstanding claims provision	23	11,528	(22,902)
Change in incurred but not reported provision	23	8,523	45,542
Change in premium deficiency provision	25	(5,284)	(597)
Total change in contract liabilities ceded to reinsurers		14,767	22,043
Claims net of reinsurance		17,669	4,592

13. Other operating and administrative expenses

	Note	2022	2021
		£000	£000
Service contracts including outsourcing		5,118	5,591
Employee benefits expense	14	6,747	5,428
Other staff costs		692	643
Office costs		22	20
IT costs		2,324	1,609
Depreciation	17	1,304	1,338
Consultancy and other third-party costs		2,136	1,084
Legal, rating agency, regulatory and audit		860	694
Capital model fees and validation		177	176
PR, marketing and communications		501	373
Allocation of expenses to paid claims	12	(1,674)	(1,264)
Total other operating and administrative expenses		18,207	15,692

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

14. Employee benefits expense

	2022	2021
	£000	£000
Wages and salaries	5,659	4,555
Social security costs	700	569
Employer pension contributions	388	304
Total employee benefits expense	6,747	5,428
Average number of permanent staff for the year	49	41
Number of permanent and temporary staff employed at the end of year	53	38

15. Auditor's remuneration

	2022	2021
	£000	£000
Fees payable for the audit of the Financial Statements	361	269
Fees payable for other services		
• Audit-related assurance services	35	32
• Tax advisory services	-	-
• Other non-audit related fees	-	-
Total non-audit fees	35	32
Total auditor's remuneration	396	301

16. Taxation

	2022	2021
	£000	£000
UK corporation tax charge		
Profit before tax	131,945	141,826
Income tax charge at a rate of 19% (2021: 19%)	25,070	26,947
Adjustments in respect of prior periods	-	(4)
Disallowed expenses	12	5
Super capital allowances	(28)	-
Deferred tax	11	-
Total tax charge	25,065	26,948
Deferred tax liabilities		
<i>Deferred tax provision as temporary differences</i>		
Deferred tax to 31 March 2023 depreciation profile	7	-
Deferred tax to 31 March 2024 depreciation profile	4	-
Total deferred tax	11	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

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. The UK corporation tax rate at the balance sheet date remains at 19%.

17. Property, plant and equipment

	Computer equipment	Right of use assets		Office equipment	Total PPE
	£000	Property	Software	£000	£000
At cost					
Opening balance as at 1 April 2021	52	1,902	1,223	-	3,177
Additions	-	-	2,286	73	2,359
Disposals	-	-	(1,223)	-	(1,223)
Closing balance as at 31 March 2022	52	1,902	2,286	73	4,313
Accumulated depreciation					
Opening balance as at 1 April 2021	52	238	958	-	1,248
Depreciation charge	-	951	332	21	1,304
Depreciation on disposals	-	-	(1,223)	-	(1,223)
Closing balance as at 31 March 2022	52	1,189	67	21	1,329
Carrying amount at 31 March 2022	-	713	2,219	52	2,984

Additions in the year comprise lease of new software systems including the new property data hub and a new bordereaux system.

	Computer equipment	Right of use assets		Office equipment	Total PPE
	£000	Property	Software	£000	£000
At cost					
Opening balance as at 1 April 2020	52	-	3,655	-	3,707
Additions	-	1,902	186	-	2,088
Disposals	-	-	(2,618)	-	(2,618)
Closing balance as at 31 March 2021	52	1,902	1,223	-	3,177
Accumulated depreciation					
Opening balance as at 1 April 2020	26	-	2,474	-	2,500
Depreciation charge	26	238	1,074	-	1,338
Depreciation on disposals	-	-	(2,590)	-	(2,590)
Closing balance as at 31 March 2021	52	238	958	-	1,248
Carrying amount at 31 March 2021	-	1,664	265	-	1,929

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

18. Reinsurance receivables

	2022	2021
	£000	£000
Premium due from policyholders	2,389	1,650
Pipeline premium due from policyholders	4,698	4,207
Reinsurance commission receivable	883	950
Reinsurance recoveries on paid losses	8,521	9,795
Total reinsurance receivables	16,491	16,602
Current	16,491	16,602
Non-current	-	-

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

19. Trade and other receivables

	2022	2021
	£000	£000
Prepayments	599	697
Accrued interest	297	9
Other	31	-
Total trade and other receivables	927	706
Current	927	706
Non-current	-	-

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

20. Debt instruments at fair value through other comprehensive income

	2022	2021
	£000	£000
Balance as at 1 April	-	-
Additions at cost	17,956	-
Disposal proceeds	-	-
(Deficit)/surplus on the sale and fair valuation of investments	(40)	-
Closing balance as at 31 March	17,916	-
Current assets	14,877	-
Non-current assets	3,039	-

The levels of the fair value hierarchy define Level 1 as fair values measured using quoted prices (unadjusted) in active markets for identical instruments. During the year, £17.8m of UK treasury bonds have been recognised in Level 1. The debt instruments portfolio as at 31 March 2022 comprised of £17.9m UK Treasury gilts and all invested during the year, of which 6 investments are maturing within the next 12 months and 1 investment in 18 months.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

21. Cash and short-term deposits

	2022	2021
	£000	£000
Cash at bank	9,246	17,118
Short-term deposits with a duration of less than 3 months on placement	18,000	78,000
Cash and cash equivalents	27,246	95,118
Short-term deposits with a duration of more than 3 months on placement	645,700	515,550
Total cash and short-term deposits	672,946	610,668

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.

22. Insurance contract liabilities

31 March 2022	Note	Assumed £000	Ceded £000	Net £000
Provision for unearned premium	24	24,421	(28,518)	(4,097)
Outstanding claims reserves	23	63,290	(31,384)	31,906
Incurred but not reported reserves	23	11,619	(4,562)	7,057
Total incurred claims reserves		74,909	(35,946)	38,963
Premium deficiency provision	25	28,941	(13,556)	15,385
Total insurance claims liabilities		103,850	(49,502)	54,348
Total insurance contract liabilities		128,271	(78,020)	50,251
Current		102,163	(66,053)	36,110
Non-current		26,108	(11,967)	14,141
31 March 2021		£000	£000	£000
Provision for unearned premium	24	19,431	(25,376)	(5,945)
Outstanding claims reserves	23	88,220	(42,912)	45,308
Incurred but not reported reserves	23	28,330	(13,085)	15,245
Total incurred claims reserves		116,550	(55,997)	60,553
Premium deficiency provision	25	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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

As at 31 March 2022, the Company has £8.7m (2021: £8.6m) of irrevocable standby letters of credit issued in its favour in relation to outwards reinsurance contracts. Amounts due from reinsurers in respect of claims already paid by the Company are included in reinsurance receivables (see Note 18). The Company commenced underwriting in April 2016. See Note 5.1 for loss development tables.

23. Movement in incurred claims reserves

As at 31 March 2022	Note	Assumed £000	Ceded £000	Net £000
Outstanding claims reserves		88,220	(42,912)	45,308
Incurring but not reported reserves		28,330	(13,085)	15,245
Opening balance as at 1 April 2021		116,550	(55,997)	60,553
Prior accident year		(56,966)	27,365	(29,601)
Current accident year		(5,572)	1,861	(3,711)
Claims paid during the year	12	(62,538)	29,226	(33,312)
Prior accident year		(14,555)	7,303	(7,252)
Current accident year		35,452	(16,478)	18,974
Claims incurred during the year		20,897	(9,175)	11,722
Outstanding claims reserves		63,290	(31,384)	31,906
Incurring but not reported reserves		11,619	(4,562)	7,057
Closing balance as at 31 March 2022		74,909	(35,946)	38,963
Current		71,450	(34,588)	36,862
Non-current		3,459	(1,358)	2,101
As at 31 March 2021	Note	Assumed £000	Ceded £000	Net £000
Outstanding claims reserves		41,029	(20,010)	21,019
Incurring but not reported reserves		122,360	(58,627)	63,733
Opening balance as at 1 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	12	(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
Incurring but not reported reserves		28,330	(13,085)	15,245
Closing balance as at 31 March 2021		116,550	(55,997)	60,553

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

Current	108,116	(52,102)	55,014
Non-current	8,434	(3,895)	4,539

Included in assumed claims paid in the current accident year are £1.7m (2021: £1.3m) of claims handling costs which have been allocated from operating and administrative expenses (see Note 13).

24. Provision for unearned premium

31 March 2022	Assumed £000	Ceded £000	Net £000
Opening balance as at 1 April 2021	19,431	(25,376)	(5,945)
Premium written (ceded) during the year	46,430	(69,565)	(23,135)
Premiums earned during the year	(41,440)	66,423	24,983
Closing balance as at 31 March 2022	24,421	(28,518)	(4,097)
Current	24,421	(28,518)	(4,097)
Non-current	-	-	-

31 March 2021	Assumed £000	Ceded £000	Net £000
Opening balance as at 1 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	-	-	-

25. Provision for premium deficiency

31 March 2022	Assumed £000	Ceded £000	Net £000
Opening balance as at 1 April 2021	17,710	(8,271)	9,439
Change during the year	11,231	(5,285)	5,946
Closing balance as at 31 March 2022	28,941	(13,556)	15,385

Current	6,292	(2,947)	3,345
Non-current	22,649	(10,609)	12,040

31 March 2021	Assumed £000	Ceded £000	Net £000
Opening balance as at 1 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

The Company provides reinsurance cover at a subsidised fixed rate to cedants, resulting in an expected underwriting loss each financial year, financed by 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.

26. Deferred commission income

	2022	2021
	£000	£000
Opening balance as at 1 April	3,876	3,620
Commission income deferred during the year	13,939	11,315
Released to Statement of Profit or Loss	(12,510)	(11,059)
Closing balance as at 31 March	5,305	3,876
Current	5,305	3,876
Non-current	-	-

27. Reinsurance payables

	2022	2021
	£000	£000
Premium payable to reinsurers	21,685	20,467
Commission payable to reinsurers	9,864	13,246
Claims payable to policyholders	7,691	9,878
Total reinsurance payables	39,240	43,591
Current	39,240	43,591
Non-current	-	-

The carrying amounts disclosed above represent 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.

28. Lease arrangements

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

	2022	2021
	£000	£000
Opening balance as at 1 April	1,980	1,208
Lease liability recognised during the year	2,286	2,088
Lease payments	(1,589)	(1,349)
Interest payable	45	33
Closing balance as at 31 March	2,722	1,980

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (cont.)

28. Lease arrangements cont.

Maturity analysis of lease liability

	2022	2021
	£000	£000
Year 1	1,200	1,224
Year 2	369	756
Year 3	350	-
Year 4	355	-
Year 5	360	-
Year 6	88	-
Total lease payments	2,722	1,980

The new liability recognised in the year relates to lease of new software systems including the new property data hub and a new bordereaux system. The contract terms for the property data hub and bordereaux system are both six years.

29. Trade and other payables

	2022	2021
	£000	£000
Levy receipts in advance	20,328	32,394
Accruals and deferred income	2,435	2,140
Staff costs	270	156
Total trade and other payables	23,033	34,690
Current	23,033	34,690
Non-current	-	-

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

30. Related party transactions

(a) Compensation of Key Management personnel

The Company enters into transactions with Key Management personnel. Key Management personnel include the Directors and Non-Executive Directors. There are only two Directors entitled to the Company pension scheme.

The summary of the compensation of Key Management personnel for the year is as follows:

	2022	2021
	£000	£000
Short-term employee benefits	1,198	1,199
Pension allowance	59	55
Post-employment pension and medical benefits	13	13
Total Directors' emoluments	1,270	1,267

(b) Compensation of highest-paid Director

	2022	2021
	£000	£000
Short-term employee benefits	477	485
Pension allowance	41	40
Total compensation of the highest-paid Director	518	525

(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. In 2021/22 the Company was formally designated as a non-departmental Public Body by the Office for National Statistics and the classifications became public on 23 December 2021.

(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.

Simon Green is an Independent Non-Executive Director and is also a Non-Executive Director of Arthur J. Gallagher, Chair of the Risk Committee and Chair of Pen Underwriting Limited. His career was in banking and financial services regulation as a senior regulator at the Bank of England, FSA and FCA.

Perry Thomas is an Independent Non-Executive Director, and Chair of Risk and Capital Committee in Flood Re. Perry held directorships in the UK, Bermuda, Ireland,

India, South Africa, Malta and Luxembourg, and was on the Council of the Institute and Faculty of Actuaries. He is a Non-Executive Director with PlanetWatchers and the British Friendly Society Limited.

Jean Sharp is an Independent Non-Executive Director, and Chair of the Audit and Compliance Committee in Flood Re. She is also an Independent Non-Executive Director at Personal Assets Trust plc and FBD Holding plc (an Irish insurance group). She spent over 20 years in financial services with Aviva plc and is a former partner with EY. She is a chartered accountant.

Claire Ighodaro was an Independent Non-Executive Director until 30 June 2021, and at the time, Non-Executive Chair of Axa XL's UK entities and 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 was the Senior Independent Non-Executive Director until 31 December 2021, and Chair of the Remuneration Committee until 19 March 2022, and was Director General at the Association of British Insurers (ABI) until December 2021. For the year ended 31 March 2022, the Company incurred £71.7k (2021: £60k) of ABI associate membership fees.

31. 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 2022 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)
- Canopus Managing Agents Limited for and on behalf of Syndicate 4444
- Catlin Underwriting Agencies Ltd - XL London Market
- 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 Ltd
- 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 UK 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 2022 and 2021, the following three Ordinary Members individually account for 10% or more of the voting rights of Ordinary Members:

- Aviva Insurance Limited
- Lloyds Bank General Insurance Holdings Limited
- Royal & Sun Alliance Insurance Ltd

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.

32. 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

	2022	2021
	£000	£000
Service contracts	1,941	5,126
Staff contractual commitments	2,416	2,057
Other financial commitments	628	569
Total commitments	4,985	7,752
Due within one year	4,985	7,752
Due later than one year but not later than five years	-	-
Total commitments	4,985	7,752

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

33. 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 2022.

FLOODRE