



ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2017

Company No. 08670444

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



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COMPANY INFORMATION

Directors

Mark Hoban - Chair

Andy Bord - Chief Executive Officer

Judith Eden - Independent Non-Executive Director

Huw Evans - Independent Non-Executive Director

Adam Golding - Chief Financial Officer

David Hindley - Independent Non-Executive Director

Claire Ighodaro - Independent Non-Executive Director

Paul Leinster - Independent Non-Executive Director

Company Secretary

Harriet Boughton

Registered Office

75 King William Street

London

EC4N 7BE

Company Registration Number

08670444

Bankers

National Westminster Bank Plc

280 Bishopsgate

London

EC2M 4RB

Auditors

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London

E14 5EY

THE FLOOD RE SCHEME

Flood Re Limited (“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, while minimising the costs of doing so, and 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 £180m levy on UK Household Insurers. The levy also finances the purchase of an outwards reinsurance programme to protect the Company up to a £2.1bn maximum liability limit.

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 the power necessary to fulfil its purpose.

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

127,326

Number of policies
written

£180m

Levy income

£28m

Gross written
premium



£157m

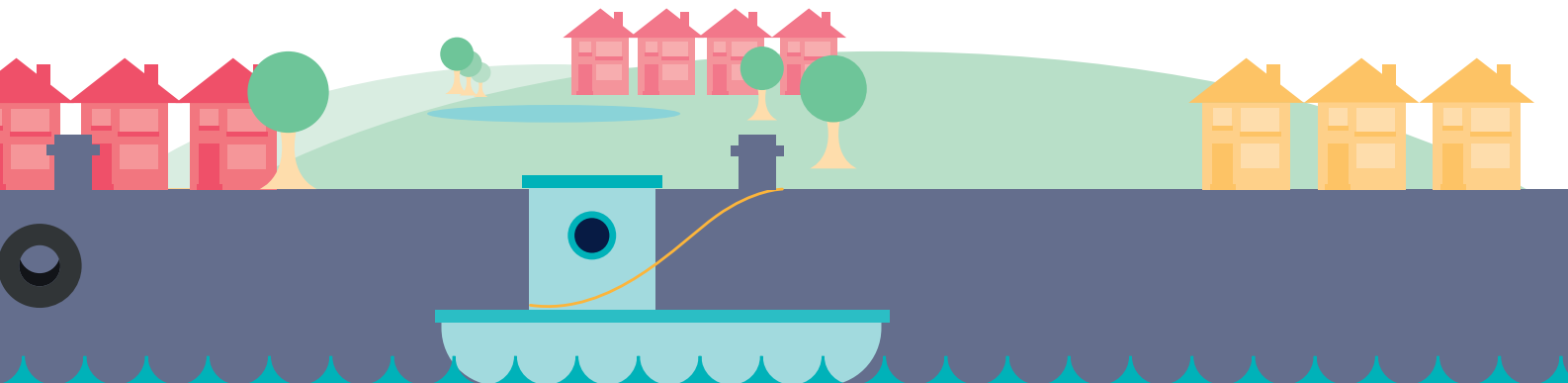
Invested and liquid
assets

£130m

Profit before tax

237%

Solvency capital
ratio



STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their Strategic Report on the Company for the year ended 31 March 2017.

Chairman's Statement

Flood Re was established by the insurance sector and the Government to improve the availability and affordability of flood cover for homes. I am pleased to report that in its first year of operation, Flood Re has made significant progress in achieving this goal.

Based on an independent survey, there has been a step change in the availability of flood cover:

- Prior to launch only 9 percent of householders who had made prior flood claims could access a quote from two or more insurers, with none being able to get quotes from five or more.
- By December 2016, this had increased significantly so that 95 percent could get quotes from two or more and 84 percent could get quotes from five or more insurers.

This represents a dramatic increase in consumer choice. Since our launch, more firms have joined the Scheme and currently there are 60 providers offering Flood Re backed policies. Collectively, they represent more than 90 percent of the home insurance market. Householders access insurance across a range of different channels: direct from insurers, online and through brokers. Providers have made good progress in opening these channels to their customers. However, more work needs to be done to improve access to Flood Re backed policies through insurance brokers.

Increased choice has enabled customers to shop around and has led to improvements in affordability. Since the introduction of the Scheme, four out of five householders with previous flood claims have seen a reduction in the price of available quotes of more than 50 percent. For the majority of householders, the insurance excess for flood cover is now £250, having previously, in many cases, been a multiple of that.

Because of the advantages that Flood Re brings, providers have ceded more than 127,000 policies in the first year. This is in line with our expectations and is encouraging particularly given the relatively benign weather conditions.

I am proud that Flood Re has been able to help so many people whose lives have been devastated by flooding.


Alongside our goal of improving the availability and affordability of flood insurance, we have a second goal: to manage over the lifetime of the Scheme the transition to an affordable market for household flood insurance where prices reflect the risk of flooding. We will be working with the insurance industry, communities at risk of flooding, government at all levels and society to ensure that by 2039 Flood Re is no longer needed. To achieve this, we set out our preliminary thinking in our first Transition Plan published in February 2016 and we will be updating the plan in 2018.

We will also be taking stock after our first full year by looking at optimising our financial performance, testing our assumptions and seeking more efficient and effective ways of delivering the Scheme.

We have established Flood Re's operational effectiveness during the year. Our systems have been tested in all aspects of operations: from processing policies to managing claims. Operational resilience is matched by financial resilience. Because of relatively benign weather throughout 2016 and into 2017, few claims have been made against the Scheme. This has allowed us to build our capital reserves to meet future claims and we can report that our eligible and available own funds under the Solvency II Directive stand at £100.3m.

During the year, we also bid farewell to our Chief Executive Brendan McCafferty who successfully steered Flood Re through its development and launch. He deserves a great deal of the credit for Flood Re's early success. He has been succeeded by Andy Bord, who has the challenge of taking Flood Re through the next stage of its development.

I would like to thank the Flood Re team for their contribution throughout the year. Together we have made a reality of the vision of a world-leading Scheme, improving the availability and affordability of flood cover. We need to build on a successful first year to make sure even more people can benefit from a Flood Re backed reinsurance policy.



Mark Hoban
Chair

Date: 23 June 2017

Chief Executive Officer's Statement

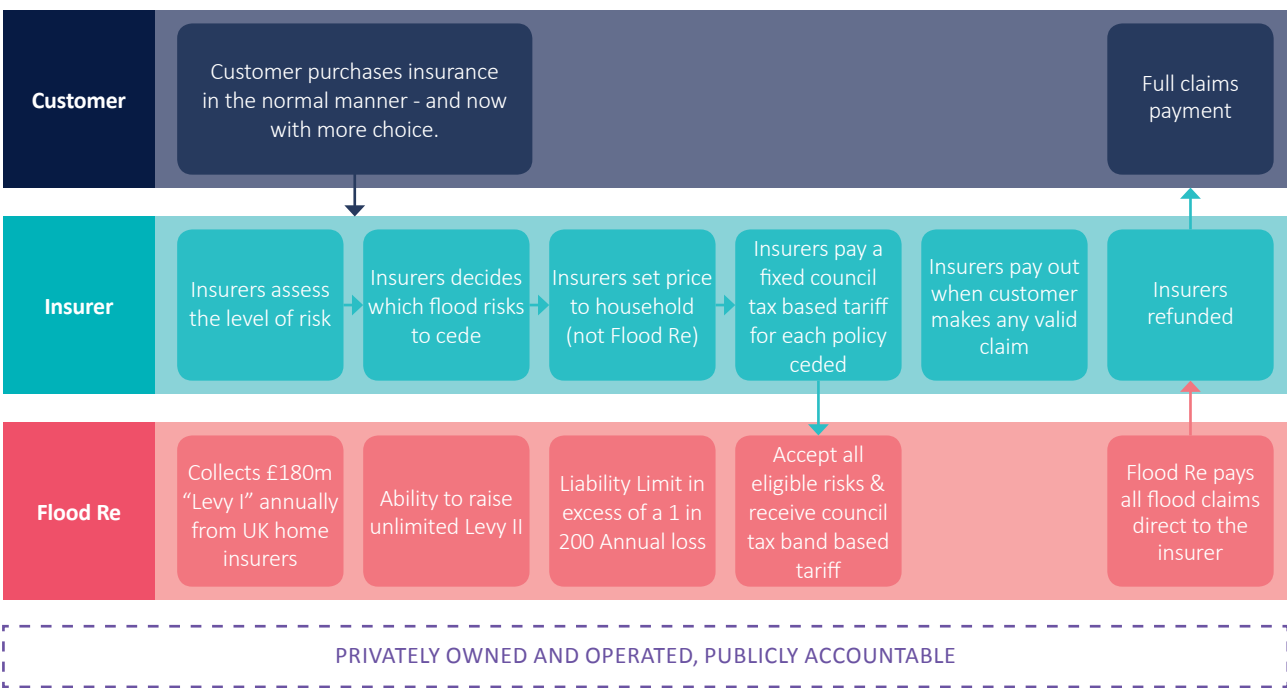
Flood Re was established by the common objectives of the insurance industry and Government to meet the growing need for affordable flood cover for people who live in areas at risk of flooding. The impact that flooding can have on individuals, households and communities can be devastating. As well as the financial consequences of damage to property and possessions, flooding can leave householders in temporary accommodation for many months while their homes are repaired and dried out, destroy irreplaceable sentimental items and lead to significant emotional strain and physical injury.

Insurance can provide vital help to those affected at a time of crisis by helping to manage the financial consequences, and at other times can provide an important level of comfort that, should flooding occur, they are at least financially protected.

Flood Re was launched just over a year ago. The Flood Re team, working in conjunction with our partners, including Capita and Guy Carpenter, successfully delivered an end-to-end operation. This included the necessary systems and processes to begin accepting policies ceded to us by insurers. I was delighted to join Flood Re in January 2017 and to begin taking the organisation forward by building on the Scheme's strong start.

Our operating model, outlined below, provides a seamless experience for the home insurance customers who continue to buy household cover in the normal manner. We have successfully collected £180m of levy income from insurers, accepted more than 127,000 policies ceded to us and paid the costs of all relevant flood claims back to insurers.

How Flood Re Operates



Strategic Objectives and Key Performance Indicators

The Board established six key objectives at launch and these remain relevant today.

They clearly articulate our core purpose of ensuring the availability and affordability of home insurance for those people at risk of flooding. They also reflect the requirements of Flood Re as the designated Scheme Administrator under the Water Act 2014.

Our performance against each objective, including an assessment of our risk profile is set out in the table below.

Objective 1. To enable flood cover to be affordable for those households at highest risk of flooding.			
Explanation	Principal Risks and Uncertainties	Key Risk Mitigants and controls	Measures and KPIs
The core of Flood Re's reason for existence is to help those most vulnerable to severe flooding. We currently estimate that there are potentially up to 350,000 properties that could be ceded to Flood Re at maturity. We want these households to see lower premiums and excesses, compared to the charges for their previous policy and that both remain affordable if they are flooded in the future.	<p>In order to facilitate affordable flood cover for households at the highest risk of flooding, Flood Re charges premium levels that are lower than the underlying risk reflective price.</p> <p>This exposes Flood Re to material levels of Premium Risk and given the single peril nature of our exposures, Catastrophe Risk.</p>	<p>The cost of setting lower premiums is borne by Levy 1, which is raised from all insurers writing home insurance business in the UK.</p> <p>A comprehensive programme of outwards reinsurance protection to mitigate both higher than expected levels of attritional losses (Premium Risk) and more extreme losses stemming from severe flooding (Catastrophe Risk).</p>	<p>Prior to launch, Flood Re commissioned a benchmarking exercise to examine the impact on availability and affordability of flood cover.</p> <p>This research undertaken by a specialist in customer satisfaction and insight in the financial services sector showed that since the introduction of Flood Re, four out of five householders, with previous flood claims, saw a reduction in the price of available quotes of more than 50%.</p>

STRATEGIC REPORT (cont.)

Objective 2. To increase availability and choice of insurers for customers.			
Explanation	Principal Risks and Uncertainties	Key Risk Mitigants and controls	Measures and KPIs
<p>Choice drives competition and competition drives better and more affordable products.</p> <p>Before Flood Re, many properties had extremely limited insurance options. The Scheme aims to increase the range of choices available to consumers and to cover the majority of the market over time.</p>	<p>Flood Re's Strategic Risk profile highlights the need for ongoing support from the UK insurance industry. Without continued buy-in and engagement with insurers, Flood Re will not be able to enhance and ultimately maintain the improved availability and choice of insurers for UK consumers.</p>	<p>Insurer engagement and communication strategies. This takes place at all levels including CEO engagement.</p>	<p>Before the introduction of Flood Re, only 9% of householders who had made prior flood claims could get quotes from two or more insurers, with 0% being able to get quotes from five or more.</p> <p>By December 2016, 84% could get quotes from five or more insurers and 95% could get quotes from two or more.</p> <p>Currently, 58% of those households that had previously made flood claims now have access to ten or more quotes.</p> <p>At launch, 16 insurance providers were signed up to the scheme. This has now increased to 60 insurance providers representing 90% of the home insurance market.</p>

Objective 3. To create a level playing field for new entrants and existing insurers in the UK home insurance market.

Explanation	Principal Risks and Uncertainties	Key Risk Mitigants and controls	Measures and KPIs
Flood Re was set up in such a way that the funding of the business would be spread across all market participants in an equitable fashion based on their gross written premium.	<p>The £180m Levy 1 income is drawn from the UK household insurance industry in line with their market share.</p> <p>Whilst the full £180m Levy 1 income is recognised on the 1st April each year, it is payable on a quarterly basis.</p> <p>This leads to a large Levy 1 receivable and hence at the outset of each financial year Flood Re is exposed to a material level of Credit Risk.</p> <p>Flood Re's insurer credit risk exposure also extends to premium receivables from the ceding insurers.</p>	<p>Insurer Engagement, Onboarding process and communications.</p> <p>Flood Re monitors a suite of metrics to manage its insurer credit risk exposure, most notably credit ratings, payment patterns and aged debtor reporting.</p>	£180m Levy income raised from insurers proportional to their market share of business written.

STRATEGIC REPORT (cont.)

Objective 4. To operate as an independent body that is privately owned and operated, whilst also meeting the needs of public accountability.

Explanation	Principal Risks and Uncertainties	Key Risk Mitigants and controls	Measures and KPIs
<p>Flood Re has a statutory obligation to manage resources in the public interest. In order to meet the obligations of public accountability whilst maintaining the advantages of private ownership and operation, a range of measures are required to facilitate the dual requirements and consequences.</p> <p>Flood Re is a not-for-profit mutual organisation with 37 ordinary members. We abide by the principles of Managing Public Money as published by HM Treasury and are regulated by the Prudential Regulation Authority and Financial Conduct Authority.</p> <p>Flood Re's design and business requirements actively look to a number of operational outsourcing arrangements.</p>	<p>Flood Re has a unique Operational and Reputational Risk profile in light of its operation as a privately-owned entity, whilst also aligning to government guidance for public bodies and public procurement rules.</p> <p>Flood Re's operating model also makes significant use of outsource service providers to deliver a number of key elements of the scheme, including front-end systems (Property Data Hub and Bordereaux Web Portal), internal IT systems, data and MI provisions, finance services and insurer auditing. As a result, a major element of Flood Re's Operational Risk profile relates to our relationship with and management of these outsource service providers.</p>	<p>Flood Re operates a 3 lines of defence Corporate Governance Framework, which targets best practice in terms of oversight and challenge and seeks to manage this element of the scheme's operational and reputational risk profile alongside providing oversight of our key outsource partners.</p> <p>This includes a fully embedded risk management framework, separate risk and compliance functions and an independent internal audit function.</p> <p>Flood Re utilises media monitoring services to highlight references to the scheme to ensure Flood Re is being represented accurately in TV, radio, print and online media.</p>	<p>End of Year 1 net assets (IFRS basis) of £98m.</p> <p>End of Year 1 Available and Eligible Own Funds (Solvency II basis) of £100m.</p> <p>Invested and liquid assets of £157m.</p> <p>Insurer facing system up-time at 100%.</p> <p>Regular contact with representatives from across the UK at all levels providing one-to-one and group briefings, roundtable discussions, mailings and materials to give to their constituents about Flood Re.</p> <p>Information for the public, online and in print, including customised materials for England, Scotland, Northern Ireland and Wales (translated into Welsh).</p>

Objective 5. To seek to be ‘capital neutral over time’ on insurers, whilst accepting that there are agreed exceptions.

Explanation	Principal Risks and Uncertainties	Key Risk Mitigants and controls	Measures and KPIs
Flood Re has been created, under the Solvency II regime, as a financially robust stand-alone reinsurance vehicle allowing cedants access to flood peril reinsurance below the price that reflects the underlying risk.	<p>Flood Re takes a number of unique risk appetite decisions compared to commercial reinsurers in order to achieve its objective of being “capital neutral over time”.</p> <p>In particular, Flood Re has adopted a conservative Market and Liquidity Risk strategy, which prioritises “capital preservation” and liquidity over investment return.</p> <p>Flood Re’s considerable outwards reinsurance protection is also aligned to achieving this objective. As the scheme’s policy volumes increases towards steady state, and in particular following major catastrophes, Flood Re will be exposed to a material Reinsurance Credit Risk.</p>	<p>Flood Re’s Board Risk Appetite Statement sets out the clear and prudent criteria in relation to its Market and Liquidity risk profile.</p> <p>Similarly, the Board Risk Appetite Statement also sets out minimum credit ratings for Flood Re’s reinsurance counterparties and maximum single counterparty exposures.</p>	<p>37 Ordinary Members; between them underwriting more than 90% of the UK domestic insurance market.</p> <p>Standard & Poor’s rating of A- (stable outlook).</p> <p>No call upon Levy 2 made in Year 1 of operation.</p> <p>End of Year 1 robust financial position established with a solvency capital ratio of 237% and £157m of liquid resources.</p>

STRATEGIC REPORT (cont.)

Objective 6. To create transitional measures to allow flood insurance to move towards risk-reflective pricing within 20-25 years

Explanation	Principal Risks and Uncertainties	Key Risk Mitigants and controls	Measures and KPIs
<p>Over time, this means the cost of flooding falls so that the levy is no longer needed and prices remain affordable without the benefit of a subsidy.</p> <p>This will require a series of actions by governments, agencies, insurers, customers and others to reduce the impact of flooding.</p>	<p>In order to achieve this longer-term objective, Flood Re requires the support of a wide range of stakeholders so that steps are taken to reduce the cost of flooding. Alongside maintaining the support of the UK insurance industry (as highlighted as a key dependency for Objective 2), Flood Re's Strategic Risk profile also highlights the need for continued political and wider-stakeholder support for the Scheme and its Transition Plan.</p> <p>Managing and protecting Flood Re's reputation and maintaining support from key stakeholders (Consumers, Insurers, Parliament etc.) is therefore fundamental to achieving the successful transition to risk reflective pricing.</p>	<p>In order to maintain support for the Scheme, the Board and ExCo deliver a programme of engagement with UK and devolved government officials and ministers.</p> <p>The first Transition Plan was published in February 2016 and highlighted the details of this strategic objective.</p>	<p>First transition plan published and second due in 2018. This will set out a series of steps that could be taken to reduce the cost of flooding.</p> <p>Research project nearing completion to better understand and quantify the effectiveness of property level resilience measures.</p>

Results and Performance

The results of the Company for the year ended 31 March 2017 show a profit before tax of £130.1m (2016: loss before tax of £7.6m) with an income from the levy of £180m and Gross Written Premium of £27.7m.

Flood Re's public policy goals and its legislative basis give it a unique characteristic as an autonomous body with operational independence from the Government, run and managed independently and owned by the insurance industry. It is directly accountable to Parliament for its achievement of the policy objectives set out in legislation and for its custodianship of public money.

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

Flood Re operates to high standards of corporate governance. Full details of this, including the composition of the Board and sub-committees along with details of our risk framework are included within the Directors report section of this document.

Flood Re People

Flood Re is a unique organisation in many ways, operating as a commercial reinsurer delivering an important public policy objective. A great deal has been achieved in the first year of operation that has already benefited thousands of customers. The successful first year of operation has been possible due to the hard work and commitment of everyone at Flood Re and I take this opportunity to thank them.

A strong relationship between Flood Re and the industry is critical to the future success of the Scheme and I look forward to continuing to work with our insurer partners in the year ahead.

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



Andy Bord
Chief Executive Officer

Date: 23 June 2017
Registered Office: 75 King William Street,
London EC4N 7BE

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their report and the audited Financial Statements of the Company for the year ended 31 March 2017.

Future developments

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

Employees

Disabled persons

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

Employee involvement

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

Modern Slavery Act 2015

The Company is mindful that the Modern Slavery Act 2015 has come into force and has a Modern Slavery Act Policy. The Company has made enquiries of its material outsource providers and other service providers to ensure that they too have appropriate policies in place.

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 was the Member of Parliament for Fareham between 2001 and 2015 and is a Chartered Accountant.



Andy Bord

Andy Bord, formerly CEO at Capita Insurance Services, was appointed as Chief Executive Officer (CEO) of Flood Re in February 2017. He is an experienced business leader with strong insurance and telecommunications expertise.

Andy has held senior roles at companies including Capita, BGL Group and Vodafone UK and brings a significant amount of relevant experience in high profile, consumer-facing businesses to Flood Re.



Adam Golding

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

Adam is a Fellow of the Institute of Chartered Accountants of England and Wales (FCA) and has been working in the insurance industry since 1991.

Independent Non-Executive Directors



Judith Eden

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



Huw Evans

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



David Hindley

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



Claire Ighodaro CBE

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



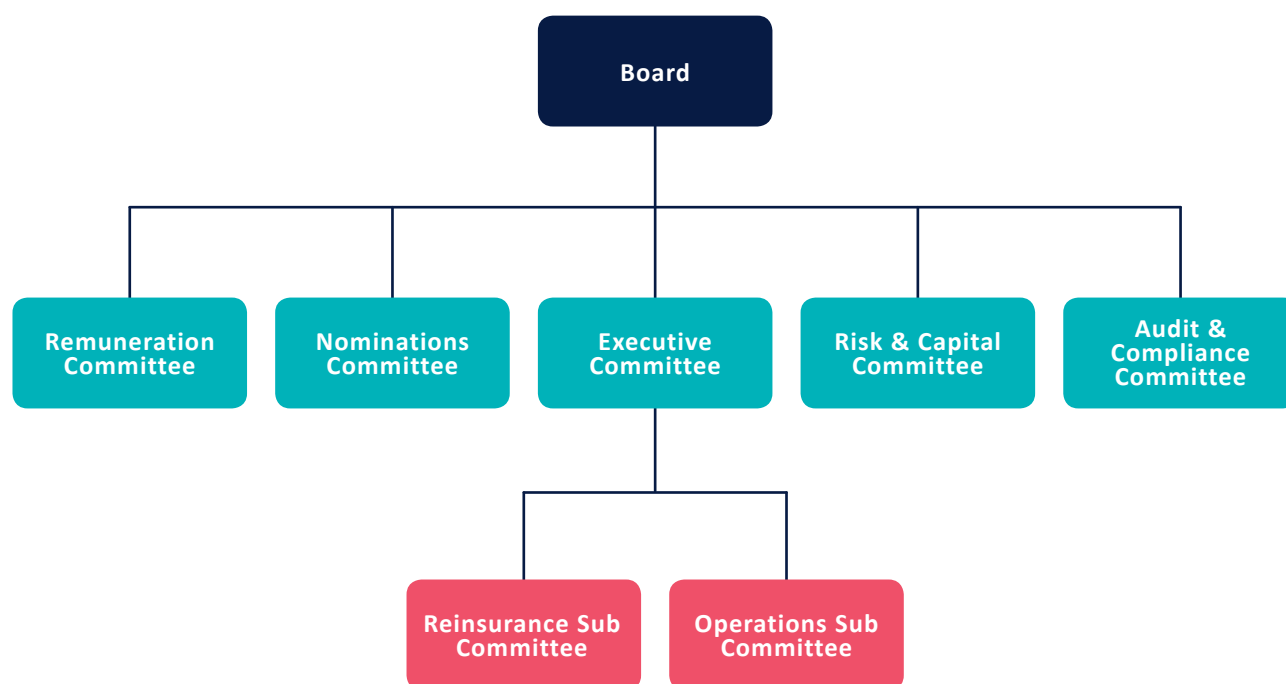
Professor Paul Leinster CBE

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

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

Governance framework

The Committee structure as at 31 March 2017 is underlined in the diagram below



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

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

INED = Independent Non-Executive Director, CFO = Chief Financial Officer, CEO = Chief Executive Officer, ED = Executive Director

Board

The Flood Re Board maintains overall responsibility for the governance of the Company, setting strategic aims and providing the leadership to put them into effect within the scope of Flood Re's Articles and powers that the Company has been granted under the Water Act 2014, the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 and the Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015 (collectively the Regulations).

Remuneration Committee

Flood Re's Remuneration Committee is responsible for setting the remuneration of the Executive Directors and Chair and overseeing the overall remuneration policy of Flood Re. Fees for the Chair and other Independent Non-Executive Directors are determined annually by the Remuneration Committee and approved by the Board.

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. During the year, the Committee has considered succession planning for Directors and other Senior Executives and has been responsible for the recruitment of Andy Bord as CEO.

Risk and Capital Committee ("RCC")

The RCC is responsible for the oversight of the risk management framework and capital adequacy, and to ensure that all risks of the Company are identified, assessed and monitored in line with the risk appetite and policies, and to provide guidance, review and oversight on risk management and capital assessment. During the year, the RCC has focused in particular on Flood Re's internal model application to the PRA and on enhancing the risk management framework.

Audit and Compliance Committee ("ACC")

The ACC is responsible for acting independently from the Executive Team of Flood Re, to ensure that the interests of Members and stakeholders are properly protected in relation to reserving, financial reporting and internal controls. The ACC has responsibility for regulatory and compliance matters, including supporting Parliament's requirement for prudent stewardship of financial resources. The Committee is also responsible for managing and monitoring the capital held by Flood Re in order to manage its risks. During the year, the Committee has selected Mazars as co-source internal audit partner and undertaken a number of deep dive reviews into the treatment of Flood Re specific technical accounting issues alongside establishing the first internal audit programme.

Executive Committee (“ExCo”)

The ExCo comprises the full Executive Team and is responsible for day to day running of the Company. The Executive Team oversees the running of the Reinsurance Sub-Committee, Internal Model Steering Group and Operations Sub-Committee.

Executive Team

Andy Bord and Adam Golding are joined by:



Michael Bartholomeusz

Until 31 May 2017, Michael Bartholomeusz has been the Chief Risk Officer (CRO), responsible for overseeing, coordinating and facilitating the Company’s risk management framework, as well as leading the governance of risk management practices across the organisation.

Michael is a Chartered Accountant with a career spanning over 30 years in insurance, lending and risk consulting. *



Maxwell Bero

Maxwell Bero is Chief Internal Auditor. He is responsible for providing assurance over the design and operating effectiveness of the internal control environment, information systems and governance processes. Maxwell has over 15 years’ experience in Assurance and Financial Control covering Insurance, Reinsurance and Asset Management.



Harriet Boughton

Harriet Boughton is General Counsel and Head of Compliance, responsible for overseeing the firm’s legal and compliance framework and embedding best practice corporate governance across the organisation.

Harriet joined Flood Re from a Lloyd’s Managing Agency where she initiated its in-house legal function and as Head of Legal and Compliance, was central to its successful regulatory Authorisation.



Dermot Kehoe

Dermot Kehoe is Communications and Transition Director, responsible for leading communications strategy in order to increase positive awareness of the Scheme and leading activity towards the delivery of Flood Re's strategically important statutory Transition Plan.

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



Aidan Kerr

Aidan Kerr is the Director of Operations, responsible for ensuring the Company's operations are designed and set up to deliver its objectives, including oversight of Capita and Landmark, the firms that deliver the key operational processes for Flood Re, as well as designing and implementing Flood Re's target operating model.

Aidan is a chartered management accountant with over 17 years' experience within banking, consulting, Government and the insurance industry.



Gary McNally

Gary McNally is Chief Actuary, responsible for building market links and ensuring Flood Re has the right actuarial capabilities in place.

Gary brings over 17 years of actuarial experience to Flood Re, latterly as Head of Capital at Canopus.

* Daniel Byrne took over the role of CRO from the 1st June 2017. 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. Preceding this, Daniel worked at the UK Financial Services Authority, implementing Solvency II into the FSA's supervisory framework

Committee attendance record

Name	Job Title	Board	Risk and Capital Committee	Audit and Compliance Committee	Remuneration Committee	Nomination Committee
Total number of meetings		6	4	4	2	1
Directors						
Mark Hoban	CHAIR	6/6	4/4	4/4	2/2	1/1
Andy Bord	CEO and ED	1/1				
Judith Eden	INED	6/6	4/4	4/4	2/2	1/1
Huw Evans	INED	6/6			2/2	1/1
Adam Golding	CFO and ED	6/6				
David Hindley	INED	6/6	4/4	4/4	2/2	1/1
Claire Ighodaro	INED	5/6	4/4	4/4	2/2	1/1
Paul Leinster	INED	6/6	4/4	4/4	2/2	1/1
Brendan McCafferty	CEO and ED (resigned)	6/6				

INED = Independent Non-Executive Director, CFO = Chief Financial Officer, CEO = Chief Executive Officer, ED = Executive Director

Whistleblowing

The Board received its first Annual Whistleblowing Report in 2016. Flood Re continues to meet its regulatory requirements in relation to the operation and effectiveness of its systems and controls for managing the disclosure of reportable concerns by whistleblowers. The whistleblowing procedures are proportionate in the context of the nature, scale and complexity of the Company.

General Data Protection Regulation (GDPR)

The GDPR is European Union Regulation that aims to standardise and enhance the data protection framework for individuals within the European Union. It is effective

from May 2018. The Company is currently assessing the GDPR requirements against its existing data protection governance framework and internal control procedures around storing, managing and processing personal data to ensure compliance with the new Regulation.

Framework Agreement

Flood Re will be governed by a Framework Agreement between the Company and DEFRA, the contents of which are currently being finalised.

Risk Framework

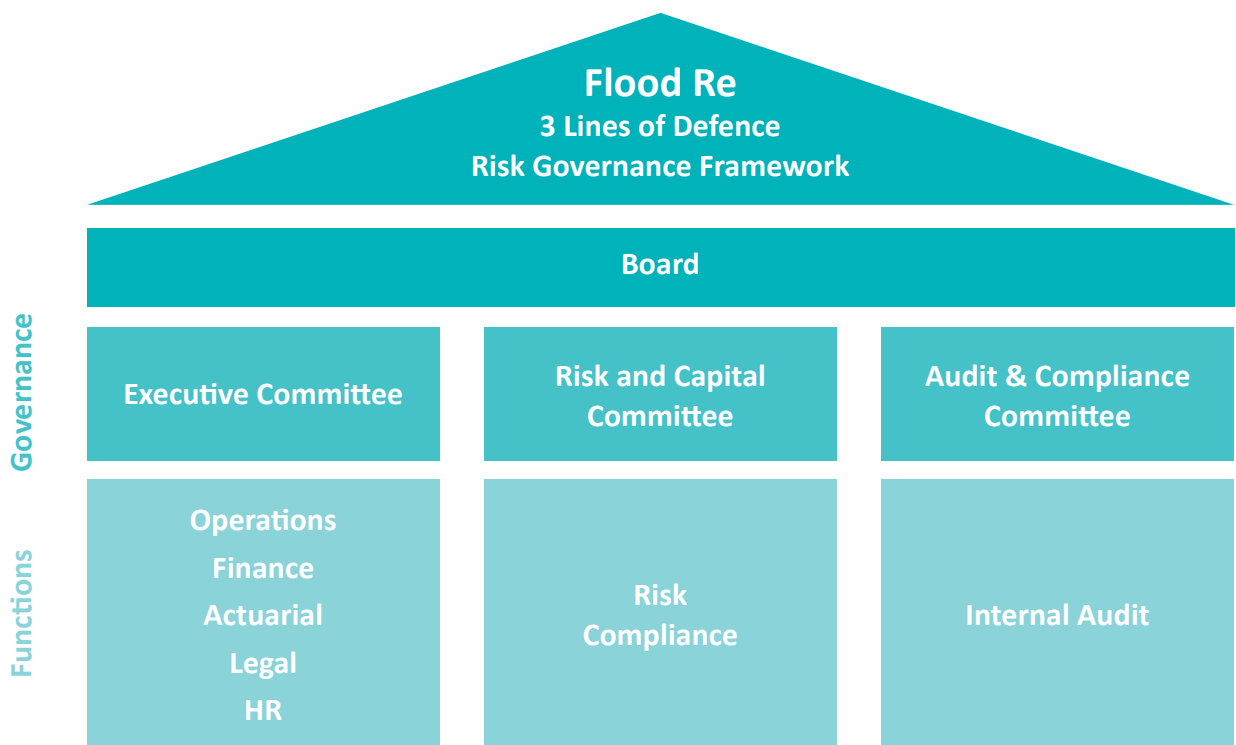
Overview of Risk

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 key areas (see Strategic Report - Principal risks and uncertainties).

Risk Governance and Culture

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

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



DIRECTORS' REPORT (cont.)

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 actions to maintain the risk exposure within risk appetite. The first line of defence reports to ExCo and the Risk Function on their management of current and forward looking risk exposures.

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

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

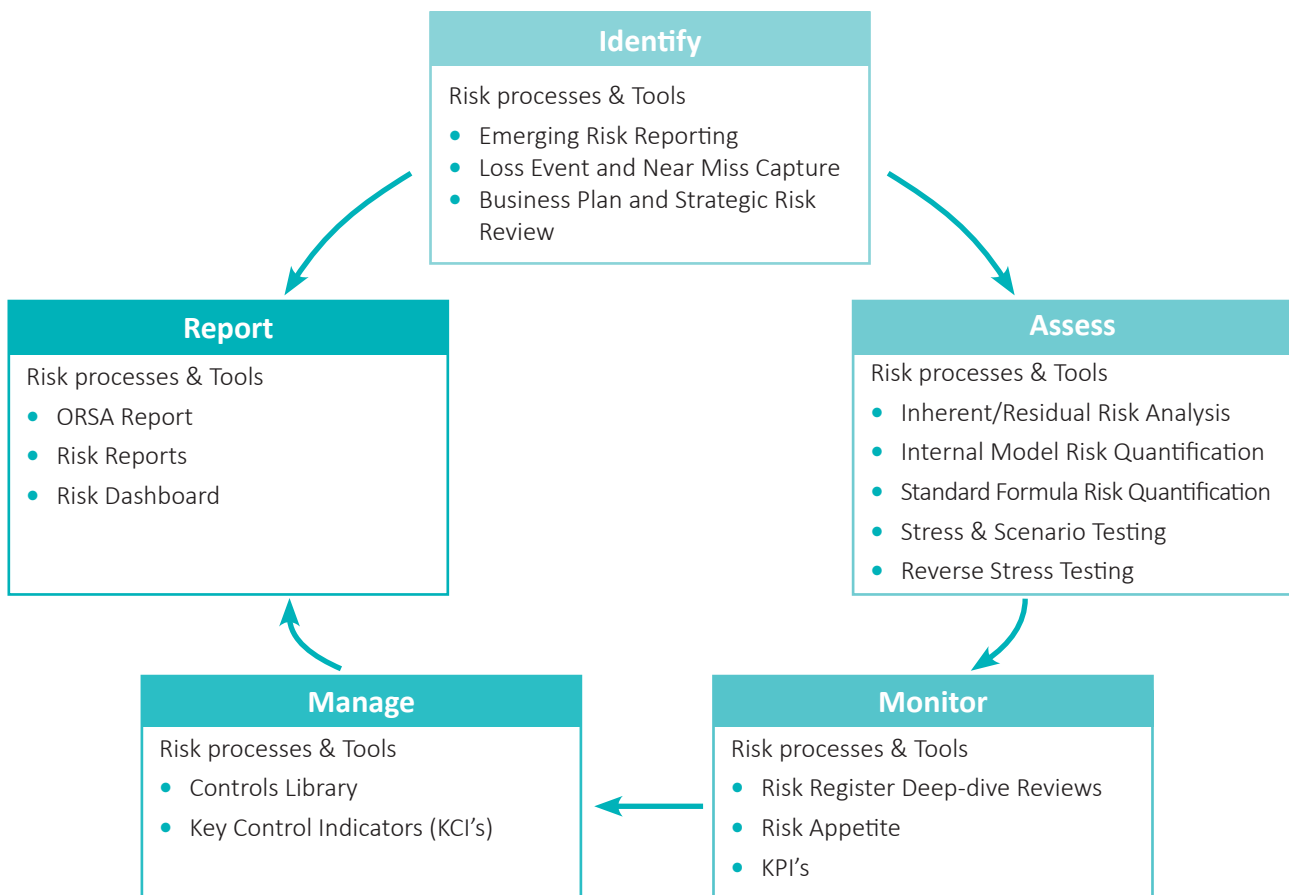
The Compliance function forms an independent part of the second line of defence and is responsible for implementing a governance framework across the Company, compliance monitoring, regulatory disclosure and monitoring of compliance risk arising from activities of outsourced service providers. The Compliance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

Third line of defence, carried out by the Internal Audit Function, evaluate and report to the ACC on the effectiveness of the design and operation of the (risk) control environment. Its responsibility is to evaluate whether the controls and risk information determined as required by the first line of defence (in conjunction with the second line) are adequate and effective in mitigating risk to the Board agreed risk appetite levels.

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

Risk Management System

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



Flood Re operates a live risk register containing all identified and emerging risks 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 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. Key control indicators are used to monitor the effectiveness of risk controls. Regular risk management information (e.g. position versus appetite, KRI's) is reported to each risk owner to ensure that risks are being monitored and a CRO report is delivered to the RCC. The ongoing delivery of the risk cycle and its associated processes and procedures, ultimately culminates in the completion of the Own Risk and Solvency Assessment ("ORSA") report. The ORSA report is completed at least annually, presented to the RCC and Board for their review and challenge, and reported through to the PRA supervisory team.

DIRECTORS' REPORT (cont.)

Directors' Remuneration

The Remuneration Committee is responsible for setting the remuneration of the Executive Directors and Chair, and overseeing the overall remuneration policy of Flood Re.

The table below shows the Executive Directors' total remuneration figure for the financial years ended 31 March 2017 and 2016.

Name	Year	Salary £	Taxable benefit £	Bonus £	Pension £	Total £
Andy Bord	2017	60,479*	-	-	-	60,479
	2016	-	-	-	-	-
Adam Golding	2017	246,417	4,143	74,100	29,570	354,230
	2016	60,000^^	-	72,000	7,200	139,200
Brendan McCafferty	2017	264,331^	3,900	-	24,418	292,649
	2016	72,500^^	-	82,500	8,250	163,250

* Andy Bord was paid as a director on a day rate basis for the period from 3 February 2017 to 31 March 2017.

^ Resigned effective 11 February 2017. Includes £12,961 of non-pensionable, non-bonus related allowance and £4,372 of pension allowance.

^^ Fees in the prior year relate to the three month period from 1 January 2016 to 31 March 2016.

Pension contributions represent 12% of base salary. Executive Directors were eligible to join the Scheme from 1 January 2016.

The table below shows the Independent Non-Executive Directors' fee structure for the years ended 31 March 2017 and 2016. The Board reviewed the Independent Non-Executive Directors' fees during 2017 in accordance with the Remuneration Policy.

Name	Year	Fees £	Total £
Mark Hoban*	2017	140,000	140,000
	2016^	27,821	27,821
Judith Eden	2017	45,000	45,000
	2016^	11,250	11,250
Huw Evans^^	2017	0	0
	2016	0	0
David Hindley	2017	55,000**	55,000
	2016^	13,750	13,750
Claire Ighodaro	2017	55,000**	55,000
	2016^	13,750	13,750
Paul Leinster	2017	45,000	45,000
	2016^	11,250	11,250

* Annualised fee to 21 January 2016 of £150,000, £100,000 for the period from 22 January 2016 to 31 March 2017, £140,000 thereafter; fee adjusted by the Remuneration Committee to reflect time committed prior to and post launch.

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

^ Fees in the prior year relate to the three month period from 1 January 2016 to 31 March 2016.

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

Directors' Indemnity

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

Remuneration Policy Summary

Flood Re's remuneration policy and practices reflect its objectives of good corporate governance and sustained, long-term value to the industry participants 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 Company aims to provide total remuneration packages that reward superior performance in a way that is consistent with the Company's values and target culture.

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. Factors affecting this will include professional experience, responsibility, job complexity, and local market conditions.

The performance-based bonus motivates and rewards high performers who significantly contribute to the Company's achievements and results, and out-perform according to objectives set for the individual in question and the Company as a whole. The performance based bonus is in the form of a cash settlement capped at a maximum of between 10% and 30% of base salary (dependent on the role and seniority of the employee within the organisation). There are no shares or share options included in the performance-based bonus.

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

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

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

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

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

Going Concern

The future financing of the Company's liabilities will be met through the Company's ability to raise a Levy on UK Household Insurers of £180m per annum from 1 April 2016. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Financial Statements. Please refer to note 2.1 in the Notes to the Financial Statements.

Dividends

The Company did not pay or propose any dividends during the year ended 31 March 2017 (2016: £nil).

Political donations

The Company did not make any political donations during the year ended 31 March 2017 (2016: £nil).

Financial Instruments

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

Statement of Directors' Responsibilities

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

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

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

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent

- State whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

DIRECTORS' REPORT (cont.)

Directors

The Directors of the Company during the year ended 31 March 2017 were:

Mark Hoban	Chair
Andy Bord	Chief Executive Officer
Judith Eden	Independent non-executive director
Huw Evans	Independent non-executive director
Adam Golding	Chief Financial Officer
David Hindley	Independent non-executive director
Claire Ighodaro	Independent non-executive director
Paul Leinster	Independent non-executive director
Brendan McCafferty	Chief Executive Officer

Andy Bord was appointed as an Executive Director on 3 February 2017 and assumed the role of Interim Chief Executive Officer on 11 February 2017. On 13 April 2017, Andy Bord was appointed Chief Executive Officer on a permanent basis.

Brendan McCafferty resigned as Chief Executive Officer effective 11 February 2017.

Company Secretary

Harriet Boughton

Independent Auditors

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

Disclosure of information to Auditors

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

1. As far as each of them is aware, there is no information relevant to the audit of the Company's Financial Statements for the year ended 31 March 2017 of which the Auditors are unaware; and
2. The Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board

For and on behalf of Flood Re Limited



.....
Andy Bord

Director

Date: 23 June 2017

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

AUDIT REPORT

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

We have audited the financial statements of Flood Re Limited for the year ended 31 March 2017 which comprise Statement of Profit or Loss, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' Responsibilities set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

AUDIT REPORT (cont.)

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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.
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

Ernst & Young LLP

Angus Millar (Senior statutory auditor)

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

27 June 2017

Notes:

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

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

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £000	2016 £000
Gross written premiums		27,672	-
Premiums ceded to reinsurers		(75,154)	-
Net written premiums		(47,482)	-
Net change in unearned premiums provision		10,664	-
Net earned premiums	8	(36,818)	-
Levy income	9	180,000	-
Fees and commission income	10	8,531	-
Investment income	11	158	2
Total revenue		151,871	2
Gross claims paid		(593)	-
Claims ceded to reinsurers		48	-
Gross change in insurance contract liabilities		(10,653)	-
Change in contract liabilities ceded to reinsurers		5,238	-
Net insurance claims	12	(5,960)	-
Finance costs	13	(19)	(23)
Other operating and administrative expenses	14	(15,726)	(7,586)
Total expenses		(21,705)	(7,609)
Profit/(loss) before tax		130,166	(7,607)
Income tax (expense)/credit	17	(26,034)	1,521
Profit/(loss) for the year		104,132	(6,086)

All of the Company's operations are continuing.

For the years ended 31 March 2017 and 2016, the Company has not recognised income or expense other than that included in the Statement of Profit or Loss. Accordingly, no separate statement of comprehensive income has been presented.

The notes on pages 42 to 77 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	Note	2017 £000	2016 £000
Assets			
Deferred tax assets	17	-	1,521
Reinsurers share of contract liabilities	21	31,287	-
Reinsurance receivables	18	12,601	-
Trade and other receivables	19	799	103
Cash and short term deposits	20	157,176	27,428
Total assets		201,863	29,052
Equity			
Retained earnings		98,046	(6,086)
Total equity		98,046	(6,086)
Liabilities			
Insurance contract liabilities	21	26,038	-
Deferred commission income	25	8,032	-
Reinsurance payables	26	19,750	-
Current tax liabilities	17	13,409	-
Trade and other payables	27	36,588	35,138
Total liabilities		103,817	35,138
Total equity and liabilities		201,863	29,052

The notes on pages 42 to 77 are an integral part of the financial statements.

The financial statements on pages 42 to 77 were authorised for issue by the board of Directors on 23 June 2017 and were signed on its behalf by.



.....
Andy Bord
Chief Executive Officer



.....
Adam Golding
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Retained Earnings £000
Balance as at 1 April 2016	(6,086)
Profit for the year	104,132
Other comprehensive income	-
Total comprehensive income for the year	104,132
Balance as at 31 March 2017	98,046
Balance as at 1 April 2015	-
Loss for the year	(6,086)
Other comprehensive income	-
Total comprehensive loss for the year	(6,086)
Balance as at 31 March 2016	(6,086)

The notes on pages 42 to 77 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £000	2016 £000
Operating activities			
Profit (loss) before tax		130,166	(7,607)
Adjustments for:			
Finance expense		19	23
Finance income	11	(158)	(2)
Changes in operating assets and liabilities			
Increase in reinsurers' share of contract liabilities		(31,287)	-
Increase in reinsurance receivables		(12,601)	-
Increase in trade and other receivables		(680)	-
Increase in gross insurance contract liabilities		26,038	-
Increase in deferred commission income		8,032	-
Increase in reinsurance payables		19,750	-
Increase in trade and other payables		1,450	35,035
Cash generated from operations		140,729	27,449
UK Corporation taxes paid		(11,104)	-
Interest received		142	2
Interest paid on bank borrowings	13	-	(6)
Net cash flows from operating activities		129,767	27,445
Investing activities			
Sales of financial assets		-	-
Purchases of financial assets		-	-
Net cash flows from investing activities		-	-
Financing activities			
Proceeds from bank borrowings		-	3,000
Repayment of bank borrowings		-	(3,000)
Finance expense on bank borrowings	13	(19)	(17)
Net cash flows from financing activities		(19)	(17)
Net increase in cash and cash equivalents		129,748	27,428
Cash and cash equivalents at 1 April		27,428	-
Cash and cash equivalents at 31 March	20	157,176	27,428

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Flood Re Limited (“Flood Re” or “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 25 years while the industry transitions to risk-reflective pricing.

Flood Re is a mutual reinsurer and was incorporated in August 2013 as a private UK company limited by guarantee. The Company was authorised by the Prudential Regulatory Authority (“PRA”) and the Financial Conduct Authority (“FCA”) on 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 presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adapted by the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury, and are in accordance with directions issued by the Secretary of State for the Environment, Food and Rural Affairs. The FReM applies IFRS, as adapted or interpreted for the public sector context.

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective notes.

Prior year comparatives have been subject to financial statement and note disclosure presentation adjustments to conform with the disclosure in the current year.

2.2. Consolidation

Flood Re is a solo entity with no parent, subsidiary or associated undertakings. There is no requirement to prepare consolidated financial statements.

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

2.3. Product classification

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. The Company has reviewed the nature

of the inwards and outwards reinsurance business it transacts and all relevant contracts are treated as insurance contracts for the purposes of these financial statements.

2.4. Segment reporting

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

2.5. Foreign currency translation

The Company's functional and presentational currency is pounds sterling, which represents the currency in which all of the Company's transactions are denominated.

2.6. Property, plant and equipment

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

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

Furniture, fixtures and fittings	2 years
Computer equipment	2 years

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition 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 derecognised.

The Company only recognises property, plant and equipment on individual items purchased with a valuation in excess of £10,000. As at 31 March 2017 and 2016, the company has not recognised any property, plant or equipment in its Statement of Financial position.

2.7. Financial assets and liabilities

(a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit and loss ("FVPL"), loans and receivables, held to maturity ("HTM") investments or available-for-sale ("AFS") financial assets.

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL or other financial liabilities.

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

A financial asset can be designated and classified as FVPL if it is managed and evaluated on a fair value basis. The Company's investment strategy is to invest in UK Government fixed income securities and to evaluate the performance of the investment portfolio with reference to their fair values. All invested assets are designated upon initial recognition as at FVPL. Regular purchases and sales of invested assets are recognised on the trade-date at their fair value less

transaction costs which are expensed in the statement of profit or loss.

Levy receivables, reinsurance receivables, trade and other receivables are classified as loans and receivables and recognised initially at fair value including any directly attributable acquisition costs.

The AFS and HTM categories are only used when the relevant liability is passively managed and/or carried at amortised cost. As at 31 March 2017, the Company does not have any financial assets classified as AFS or HTM.

Reinsurance payables, together with trade and other payables, are classified as financial liabilities recognised initially at fair value, including any directly attributable acquisition costs.

(b) Subsequent measurement

Financial assets classified as FVPL are remeasured at fair value. The fair values of financial assets are based on the quoted bid prices. Changes in fair value are recorded in fair value gains and losses in the period in which they arise. Interest is accrued and presented in investment income, using the effective interest rate (EIR).

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost, using the EIR method, less allowance for impairment.

Financial liabilities classified as FVPL are remeasured at fair value. Changes in fair value are recorded in fair value gains and losses in the period in which they arise.

(c) Derecognition

Financial assets are derecognised 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 derecognised when the obligation under the liability is discharged or cancelled or expires.

(d) Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets, carried at amortised cost, is impaired. Impairment losses are incurred only if there is objective evidence of impairment, as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for financial assets and then collectively for groups of financial assets with similar credit risk characteristics.

If there is evidence that an impairment loss has been incurred the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

2.8. Reinsurers' share of contract liabilities

The Company cedes insurance risk in the normal course of business. Reinsurers' share 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 reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurers' share 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.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

2.10. Cash and short-term deposits

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

2.11. Current and deferred income tax

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

(a) Current income tax

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

Current income tax relating to items recognised directly in equity or other comprehensive income (OCI) is recognised in equity or OCI and not in the statement of profit and 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 at the reporting date.

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 timing differences can be deducted.

Deferred tax assets and liabilities are measured at the

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

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

Deferred tax is measured on an undiscounted basis.

2.12. Leases

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

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

Operating lease payments are recognised as an expense in the statement of profit and loss on a straight-line basis over the lease term.

2.13. Insurance contract liabilities

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

(a) Outstanding claims provision

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the year-end date, whether reported or not, together with related claims handling costs

and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. An actuarial estimate is made representing the best estimate plus a management risk margin within a range of outcomes. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or cancelled.

(b) Provision for unearned premiums

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

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

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

If these estimates show that the carrying amount of

the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

2.14. Deferred commission income

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

2.15. Trade and other payables

Trade and other payables are recognised as they fall due. 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 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, but only when 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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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 recognised when it is due on 1 April of each year and is payable quarterly and measured at the fair value 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. 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 gross premium written.

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

Ceded reinsurance premiums on the face of the statement of profit and loss have been presented as negative items within premiums because 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 and loss as the related ceded premium is earned.

(e) Investment income

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

(f) Fair value gains and losses through profit and loss

Fair value gains and losses include both realised and unrealised gains and losses on assets designated as at fair value through profit and loss.

Realised gains and losses on the sale of assets are calculated as the difference between net sales proceeds and the original purchase price. Purchases and sales of assets are recorded on a trade-date basis.

Changes in the estimated fair value of investments are included in unrealised gains and losses in the statement of profit or loss. The movement for the year comprises the increase or decrease during the year in the fair value of investments held at year-end as well as a reversal of previously recognised gains and losses on investments disposed of in the current year.

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 and loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is

included within the carrying value of the interest bearing financial liability.

(d) Employee benefits

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

The Company recognises a bonus provision 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

Following authorisation and a full year of insurance operations, the presentation of the primary statements has been updated to include sub-totals within the Statement of profit and loss and present assets and liabilities in order of liquidity in the statement of financial position.

(a) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial period beginning on or after 1 April 2016 that would be expected to have a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(b) New standards, amendments and interpretations issued but not effective for the financial period beginning on or after 1 April 2016 and are not early adopted.

IFRS 9: Financial instruments

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. A temporary exemption is available to entities whose activities are predominantly connected with Insurance. The temporary exemption will permit Flood Re to defer application until 1 January 2021, but will require the Company to make additional disclosures in relation to IFRS 9.

The adoption of IFRS 9 is not anticipated to have a material impact on the Company's financial statements or disclosures and the Company continues to monitor the impact of adoption.

IFRS 15: Revenue from contracts with customers

IFRS 15 outlines the principles that an entity must apply to measure and recognise revenue. IFRS 15 applies a 5-step model to the recognition of revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The adoption of IFRS 15 is not anticipated to have a material impact on the Company's financial statements or disclosures and the Company continues to monitor the impact of adoption.

IFRS 16: Leases

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The adoption of IFRS 16 is not anticipated to have a material impact on the Company's financial statements or disclosures and the Company continues to monitor the impact of adoption.

IFRS 17: Insurance contracts

IFRS 17 will apply to all types of insurance contracts and proposes a building blocks approach based on the expected present value of future cashflows to measuring insurance contract liabilities.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

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

4. Critical accounting estimates and judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect

the reported amounts of revenues, expenses, assets and 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 uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Insurance contract liabilities

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

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 by standard actuarial techniques.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, 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 utilise

historical industry data and information sourced directly from Ordinary Members of the Company. Historical claims development is mainly analysed by accident years, geographical area and claim types.

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

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

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

Similar judgements, estimates and assumptions are employed in the assessment of the premium deficiency provision. The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 restrict the amount that the Company can charge insurers for reinsuring flood risk through the establishment of reinsurance premium thresholds. 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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

costs that are expected to exceed the unearned premiums.

The carrying value of gross insurance claims liabilities as at 31 March 2017 is £10.7m (2016: £n/a).

(b) 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 reporting delay between the inception of the underlying insurance policy and notification to Flood Re. The underlying insurance policy attaches to the reinsurance policy once ceded to Flood Re. The Company estimates the pipeline gross premium that it anticipates will attach to the reinsurance policy during this 120-day lag.

The estimated pipeline premium is calculated at a cedant company level and takes into account Management's experience and familiarity with the cedants, the insurance brands and products they offer, the scale and level of historical participation in the Flood Re Scheme and the current status of their onboarding onto the Flood Re 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 Flood Re 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.

Pipeline premium accounts for £3.5m or 12.7% of the gross written premium for the year ended 31 March 2017 (2016: £n/a).

(c) Income taxes

Uncertainties exist with respect to the interpretation of complex UK tax regulations and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

The carrying value of net deferred tax asset as at 31 March 2017 is £nil (2016: £1.5m).

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

The premium thresholds have been set at a level that:

- Is below the level that would be charged for properties with the highest risk if prices fully reflected those risks. This provides a subsidy for those properties judged to be at risk and improves affordability; and
- Is 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 thresholds is met by a Levy raised from all insurers writing home insurance in the UK. The Levy is set at £180 million per annum.

(b) Reserving risk

Reserving risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate reserving assumptions. This is influenced by the frequency of claims, the severity of claims, the timing of actual claims payments and the development of the claims over a period of time.

Overview

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

and performs exposure modelling on at least a quarterly basis or on the occurrence of an event.

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

Time lags

Claims are anticipated to be normally settled within a year. Claims bordereau are received on a monthly basis and the Company is only required to pay a claim when 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 on a probability weighted mean best estimate of a range of potential outcomes using actuarial estimation techniques. A prudential margin is held with the level being a management judgement rather than an actuarial judgement. Future claims handling expenses need to be allowed for as an addition to the outstanding claims reserve and are based on estimated expenses per claims. Flood Re's fixed pricing methodology means that a premium deficiency provision is expected to be required in

NOTES TO THE FINANCIAL STATEMENTS (cont.)

most years. Premium deficiency represents the excess of the estimated value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date over the unearned premiums provision in relation to such policies after deduction of any acquisition costs deferred. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims and in accordance with the related reinsurance contract.

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

Uncertainty

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

- The number of flood affected properties ceded to the Company
- The portfolio mix of business impacting average premium and average claims cost assumptions e.g.
 - 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
- Recoverability of amounts due under the outwards reinsurance programme

Sensitivity

The insurance claim liabilities are sensitive to attritional, large and catastrophic flood events. It has not been possible to quantify the sensitivity of certain assumptions, such as uncertainty in the estimation process.

The following analysis is performed for 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.

	Change in gross losses £000	Change in net losses £000
10% increase in loss ratio	2,691	1,355
10% decrease in loss ratio	(867)	(443)

Large losses

The Company defines a large loss as an individual claim in excess of £0.4m. Large losses may exhibit different characteristics to attritional claims and are subject to separate actuarial reserving analysis. During the year ended 31 March 2017, the Company did not incur any large loss events.

Loss Development

In setting claims reserves, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general,

the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the required confidence in the adequacy of the reserves. 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 inherited in the estimation process, the actual overall claim provision may not always turn out to have been in surplus.

The Company has not disclosed any prior year loss development tables as it only commenced underwriting in April 2016.

(c) Catastrophe risk

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

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

The table below shows the probable maximum loss, on a prospective basis, for the portfolio in existence as at 31 March 2017 arising from for a given return period.

	Estimated gross claims £000	Estimated net claims £000
1 in 50 or 2% probability	257,365	128,682
1 in 200 or 0.5% probability	582,738	137,500
1 in 250 or 0.4% probability	652,518	137,500

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

During the year ended 31 March 2017, the Company did not classify any flood activity in the United Kingdom as a catastrophe loss event.

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

(d) 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 Flood Re 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 2017 is £2.1bn. For each subsequent financial year, the amount of the Liability limit is adjusted for the percentage increase or decrease in the consumer price index in the prior calendar year. Subject to these adjustments, the Liability limit is set for a period of five years. Should claims exceed the Liability Limit, then relevant insurers will continue to be liable to policyholders in accordance with the terms of the insurance policy sold.

Flood Re requires that the outwards reinsurance protections purchased match the full £2.1bn Liability Limit. Furthermore, HM Government requires that Flood Re protect itself from an annual accounting loss above £100m in any one accounting period.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

To provide for both of these requirements Flood Re has purchased an extensive reinsurance programme.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are 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 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 or interest bearing.

As at 31 March 2017, the Company does not hold any financial instruments, designated as at fair value through profit and loss, in its investment portfolio (see liquidity risk for discussion on cash and short-term deposits).

(b) Market concentration risk

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

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

As at 31 March 2017, the Company has £154m of short-term deposits invested with the DMO, representing 98% of the total invested assets.

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

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

(d) Liquidity risk

Flood Re 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.

In the period ending 31 March 2018, the Company anticipates generating positive cashflows, absent a series of large flood events.

As at 31 March 2017 the Company has liquid assets of £157.2m (2016: £27.4m), representing 78% of the total assets and 371% of the SCR. Liquid assets comprise amounts included in the cash and short-term deposits (see note 20).

5.3. Counterparty credit risk

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

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

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

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

(a) Credit rating

The table below shows the credit rating by financial asset type as at 31 March 2017.

	AA	A	BBB	BB	NR	Total
	£000	£000	£000	£000	£000	£000
Reinsurers share of claims liabilities	3,709	1,529	-	-	-	5,238
Reinsurance receivables	6,040	5,490	915	66	90	12,601
Trade and other receivables	-	-	-	-	799	799
Cash and short term deposits	154,000	-	3,176	-	-	157,176
Total	163,749	7,019	4,091	66	889	175,814
%	93%	4%	2%	0%	1%	100%

As at 31 March 2017, the Company has received £34.4m of the 2017 Levy in advance (see note 27).

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(b) Age analysis

The table below shows the aged debtor analysis by asset type as at 31 March 2017.

	Note	Not yet due £000
Reinsurers share of claims liabilities	21	5,238
Reinsurance receivables	18	12,601
Trade and other receivables	19	799
Cash and short term deposits	20	157,176
Total		175,814
%		100%

(c) Pledged assets – letters of credit

As at 31 March 2017, the Company has £9.5m of irrevocable standby letters of credit issued in its favour.

(d) Impaired financial assets

The Company does not have any impaired financial assets as at 31 March 2017 and the provision for bad debt is £nil (2016: £nil).

5.4. Operational risk

Flood Re 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. Flood Re manages operational risks to minimise financial losses, and risks to its reputation and industry standing.

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

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

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

6. Capital management

(a) Capital objectives

The principal objectives of the Flood Re 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 credit rating.

(b) Sources of capital

Flood Re is a company limited by guarantee and has no issued share capital. For the purpose 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)

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.

Flood Re charges cedants subsidised fixed rate premiums. To meet the costs of this subsidy, Levy I income of £180 million per annum is raised from all insurers writing home insurance in the United Kingdom. The Levy has a statutory basis and provides the Company with a guaranteed income stream.

This income stream allows the Company to protect its capital base by purchasing reinsurance protection and also to build up a surplus of funds during low loss occurrence years so that it can withstand large catastrophic loss events.

Flood Re 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 Flood Re are 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 Flood Re are potentially eligible for their contributions to be returned.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(c) Capital adequacy

The table below shows the Company's available capital compared to the Regulatory Capital for the year ending 31 March 2017 and 2016. The amounts disclosed below are subject to the finalisation of the audited Solvency and Financial Condition Report. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements. As the Company was not authorised to underwrite insurance business at 31 March 2016, no regulatory capital requirement existed at this point.

	2017	2016
	£000	£000
Basic own funds (Tier 1 unrestricted)	79,096	-
Ancillary own funds (Tier 2) - 50% of the SCR	21,185	-
Available and eligible own funds	100,281	-
Solvency Capital Requirement (SCR)	42,370	-
Minimum Capital Requirement (MCR)	10,592	-
Ratio of eligible own funds to meet the SCR	237%	-
Ratio of eligible own funds to meet the MCR	747%	-
Reconciliation of equity to basic own funds		
	2017	2016
	£000	£000
Equity on an IFRS basis	98,046	-
Adjustments in respect of:		
Decrease in valuation of assets	(12,567)	-
Increase in valuation of technical provisions	(38,054)	-
Decrease in the valuation of other liabilities	31,671	-
Basic own funds (Tier 1 unrestricted)	79,096	-

As at 31 March 2017, the SCR is subject to supervisory assessment by the PRA.

(d) Standard formula and capital add on

The Company currently uses the standard formula to calculate its regulatory Solvency Capital Requirements.

The standard formula is a regulatory prescribed solvency calculation that has been set to reflect an average European insurance or reinsurance undertaking. Given Flood Re's unique structure, the standard formula does not fully capture the Company's risk profile. As a result, two actions have been taken

- **Partial Internal Model ("PIM"):** The Company has developed a PIM which more appropriately captures its risk profile. In order to utilise the PIM to calculate the SCR, it must first be approved by the PRA through an internal model approval process. The Company is currently working through this process with the PRA.
- **Capital add-on:** In the interim period, the PRA have set a capital add-on in line with Article 37.1.a.ii of the Solvency II Directive (risk profile deviates significantly from the assumptions underlying the standard formula). As at 31 March 2017, the SCR of £42.4m includes a capital add on of £21.9m (2016: £nil). The Capital add-on is calculated in line with the basis discussed and agreed with the PRA on 26 February 2016.

The Company has identified non-life premium and catastrophe risk, reserve risk, counterparty credit risk and operational risk as the four areas where the standard formula may not be appropriate, given the risk profile of the Company. The capital add-on and its application to Flood Re is subject to an annual review with the PRA until the Company has developed an approved partial internal model.

(e) Ancillary own-funds

The PRA has approved Flood Re 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 1st April 2016 to 31st March 2019. The minimum frequency of recalculation of the amount of ancillary own funds item using this method is every 3 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. At least 40% of the SCR must therefore be met by unrestricted Tier 1 own funds. Any restricted Tier 1 own fund items in excess of this restriction are classified as Tier 2. A maximum of 50% of the SCR may be met by Tier 2 capital.

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

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

As at 31 March 2017, 100% of the SCR and MCR requirements are met with unrestricted Tier 1 own funds.

(g) Dividend distributions

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

The Company has not received any Levy II contributions during the year ended 31 March 2017. The accumulated mutual members account as at 31 March 2017 is £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.

	2017	2016
	£000	£000
Gross written premiums	27,672	-
Gross change in unearned premium provision	(15,385)	-
Gross earned premiums	12,287	-
Premium ceded to reinsurers	(75,154)	-
Ceded change in unearned premium provision	26,049	-
Ceded earned premiums	(49,105)	-
Net earned premiums	(36,818)	-

8. Net premiums

The premium Flood Re 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 £2.1bn and loss limit of £100m. Overall, this results in negative earned premium for the year.

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

9. Levy income

The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 and The Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015 (collectively the Regulations) enable Flood Re, amongst 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 2017 was £180m (2016: £n/a).

Flood Re 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 Flood Re are 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.

Levy II income for the year ended 31 March 2017 was £nil (2016: £n/a).

10. Fees and commission income

	2017	2016
	£000	£000
Reinsurance commission income	16,563	-
Change in unearned commission income	(8,032)	
Total fees and commission income	8,531	-

The company receives sliding scale commission income on its outwards reinsurance quota share arrangement

11. Investment income

	2017	2016
	£000	£000
Interest income on cash and short-term deposits	158	2
Total investment income	158	2

NOTES TO THE FINANCIAL STATEMENTS (cont.)

12. Net insurance claims

	Note	2017 £000	2016 £000
Gross claims paid			
Gross claims paid		97	-
Allocated claims handling costs		496	-
Total gross paid claims	22	593	-
Total claims ceded to reinsurers	22	(48)	-
Gross change in contract liabilities			
Change in outstanding claims provision	22	1,720	-
Change in incurred but not reported provision	22	6,021	-
Change in premium deficiency provision	24	2,912	-
Total gross change in contract liabilities		10,653	-
Change in contract liabilities ceded to reinsurers			
Change in outstanding claims provision	22	(860)	-
Change in incurred but not reported provision	22	(2,922)	-
Change in premium deficiency provision	24	(1,456)	-
Total change in contract liabilities ceded to reinsurers		(5,238)	-
Claims net of reinsurance		5,960	-

13. Finance Costs

	2017 £000	2016 £000
Interest on revolving credit facility	-	6
Loan facility fees	19	17
Total finance costs	19	23

The company paid ongoing loan facility fees to maintain a £25,000,000 revolving credit facility with National Westminster Bank Plc. The Company did not draw down on the facility during the year ended 31 March 2017 and management decided not to renew the credit facility upon expiry in December 2016. In the year ended 31 March 2016, the Company drew down funds of £3,000,000, which were subsequently settled within the same period.

14. Other operating and administrative expenses

		2017	2016*
	Note	£000	£000
Service contracts including outsourcing		6,580	4,417
Employee benefits expense	15	3,896	937
Temporary staff costs		1,013	753
Other staff costs		819	79
Office costs		1,034	226
IT and communications		244	25
Consultancy costs		445	609
Legal fees		168	92
Actuarial		545	34
PR and marketing		464	239
Rating agency fees		16	122
Audit fees	16	290	53
Other administrative expenses		212	0
Total other operating and administrative expenses		15,726	7,586

Included in office costs are £0.8m (2016: £0.2m) of office rental costs incurred under operating lease commitments.

* The Company commenced underwriting in April 2016 and incurred a full year of operating and administrative expenses in 2017. Operating expenses in the prior year include significant pre-launch project costs of implementation alongside operating costs for a three-month period from 1 January 2016 to 31 March 2016.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Employee benefits expense

	2017	2016
	£000	£000
Wages and salaries	3,303	769
Social security costs	383	128
Employer pension contributions	210	40
Total employee benefits expense	3,896	937
Temporary staff costs	1,013	753
Average number of permanent staff for the year	27	5
Average number of temporary staff for the year	7	4
Number of permanent and temporary staff employed at the end of year	41	32

16. Auditors' remuneration

	2017	2016
	£000	£000
Fees payable for the audit of the financial statements	178	20
Fees payable for other services		
-Audit-related assurance services	112	-
-Tax advisory services	-	-
-Other non-audit related fees	-	33
Total non-audit fees	112	33
Total auditor's remuneration	290	53

Audit-related assurance services include PRA and other regulatory audit work. Other non-audit related fees include PRA and Government reporting activities.

17. Taxation

	2017 £000	2016 £000
a. UK Corporation tax charge/(credit)		
UK Corporation tax for the current financial year	24,513	-
Adjustments in respect of prior periods	-	-
Total current tax expense	24,513	-
Deferred tax		
Temporary differences	1,521	(1,521)
Total deferred tax	1,521	(1,521)
Total UK Corporation tax charge/(credit)	26,034	(1,521)

	2017 £000	2016 £000
b. Reconciliation of UK Corporation tax charge/(credit)		
Profit/(loss) before tax	130,166	(7,607)
Income tax charge/(credit) at a rate of 20%	26,034	(1,521)
Total UK Corporation tax charge/(credit)	26,034	(1,521)

	2017 £000	2016 £000
c. Deferred tax asset		
Opening deferred tax asset	1,521	-
Tax credit for the year	-	1,521
Deferred tax losses utilised in the year	(1,521)	-
Closing net deferred tax asset	-	1,521

Deferred tax has been recognised at 20%. The deferred tax asset as at 31 March 2016 related to unutilised tax losses.

	2017 £000	2016 £000
d. Corporation tax payable		
Opening Corporation tax payable	-	-
Tax expense for the year	26,034	-
UK Corporation tax payments on account	(11,104)	-
Utilisation of deferred tax losses	(1,521)	-
Closing Corporation tax payable	13,409	-
Current	13,409	-
Non-current	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont.)

18. Reinsurance receivables

	2017	2016
	£000	£000
Premium due from policyholders	1,331	-
Pipeline premium due from policyholders	3,529	-
Reinsurance commission receivable	7,708	-
Reinsurance recoveries on paid losses	33	-
Total reinsurance receivables	12,601	-
Current	12,601	-
Non-current	-	-

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

19. Trade and other receivables

	2017	2016
	£000	£000
Prepayments	162	-
Office lease deposit	96	103
Accrued interest	16	-
Other	525	-
Total trade and other receivables	799	103
Current	799	103
Non-current	-	-

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

20. Cash and short-term deposits

	2017 £000	2016 £000
Bank balances	3,176	27,428
Short term deposits	154,000	-
Total per Statement of Financial Position	157,176	27,428
Bank overdrafts	-	-
Total cash and short-term deposits	157,176	27,428

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

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

21. Insurance contract liabilities

	Note	Assumed £000	Ceded £000	Net £000
Provision for unearned premium	23	15,385	(26,049)	(10,664)
Claims outstanding provision	22	1,720	(860)	860
Incurred but not reported provision	22	6,021	(2,922)	3,099
Premium deficiency provision	24	2,912	(1,456)	1,456
Total insurance claims liabilities		10,653	(5,238)	5,415
Total insurance contract liabilities		26,038	(31,287)	(5,249)
Current		23,496	(30,033)	(6,537)
Non-current		2,542	(1,254)	1,288

As at 31 March 2017, the Company has £9.5m of irrevocable standby letters of credit issued in its favour in relation to outwards reinsurance contracts.

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

The Company has not disclosed any prior year comparative numbers or loss development tables, as it only commenced underwriting in April 2016.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

22. Movement in incurred claims reserves

	Note	Assumed £000	Ceded £000	Net £000
Outstanding claims reserves		-	-	-
Incurred but not reported reserves		-	-	-
Opening balance as at April 1 2016		-	-	-
Prior accident year		-	-	-
Current accident year	12	(593)	48	(545)
Claims paid during the year		(593)	48	(545)
Prior accident year		-	-	-
Current accident year		8,334	(3,830)	4,504
Claims incurred during the year		8,334	(3,830)	4,504
Outstanding claims reserves		1,720	(860)	860
Incurred but not reported reserves		6,021	(2,922)	3,099
Closing balance as at 31 March 2017		7,741	(3,782)	3,959
Current		6,601	(3,229)	3,372
Non-current		1,140	(553)	587

Included in claims paid in the current year are £0.5m (2016: nil) of claims handling costs which have been allocated from operating and administrative expenses.

23. Provision for unearned premium

	Assumed £000	Ceded £000	Net £000
Opening balance as at 1 April 2016	-	-	-
Premium written (ceded) during the year	27,672	(75,154)	(47,482)
Premiums earned during the year	(12,287)	49,105	36,818
Closing balance as at 31 March 2017	15,385	(26,049)	(10,664)
Current	15,385	(26,049)	(10,664)
Non-current	-	-	-

24. Provision for premium deficiency

	Assumed £000	Ceded £000	Net £000
Opening balance as at 1 April 2016	-	-	-
Incurred during the year	2,912	(1,456)	1,456
Utilised during the year	-	-	-
Closing balance as at 31 March 2017	2,912	(1,456)	1,456
Current	1,510	(755)	755
Non-current	1,402	(701)	701

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

25. Deferred commission income

	2017 £000	2016 £000
Opening balance as at 1 April 2016	-	-
Commission income deferred during the year	16,563	-
Released to statement of profit or loss	(8,531)	-
Closing balance as at 31 March 2017	8,032	-
Current	8,032	-
Non-current	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont.)

26. Reinsurance payables

	2017	2016
	£000	£000
Premium payable to reinsurers	19,745	-
Claims payable to policyholders	5	-
Total reinsurance payables	19,750	-
Current	19,750	-
Non-current	-	-

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

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

27. Trade and other payables

	2017	2016
	£000	£000
Levy receipts in advance	34,385	29,303
Accruals and deferred income	2,050	5,704
Staff costs	153	131
Total trade and other payables	36,588	35,138
Current	36,588	35,138
Non-current	-	-

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

28. Mutual Members

The Company is limited by guarantee and has 37 guarantors (Ordinary Members) who undertake to contribute not more than £1.00 in the event that the Company is wound up whilst they are a member or within one year of them ceasing to be a member.

The Ordinary members as at 31 March 2017 are as follows:

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

Members individually accounting for 10% or more of the voting rights of the Ordinary Members are shown in Note 30.

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

29. Contingencies and commitments

Legal proceedings and regulations

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

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

Capital commitments

The Company has no capital commitments at the reporting date.

Contractual commitments and operating leases

	2017	2016
	£000	£000
Service contracts	6,385	6,287
Staff contractual commitments	1,505	1,458
Other financial commitments	1,141	366
Total commitments	9,031	8,111
Due within one year	9,031	8,111

All contractual commitments and operating leases have cancellation clauses of 1 year or less.

30. Related party transactions

Through its normal course of business and on an arm's length basis, a number of transactions are by necessity undertaken by Flood Re with its ordinary members and other related parties.

Management have identified the following transactions as having been undertaken by related parties in the normal course of its operations:

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

All transactions are entered into on arm's length terms and are considered by management to be market sensitive. As such, Management have decided to exclude the quantification of these related party transactions from the analysis of related parties detailed below.

Transactions with Ordinary members

For the year ended 31 March 2017, the following four Ordinary Members have qualifying holdings in Flood Re. Individually they account for 10% or more of the voting rights of Ordinary members.

- Aviva Insurance Limited
- Lloyds Bank General Insurance Limited
- Royal and Sun Alliance Insurance Plc
- UK Insurance Limited

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

Directors and Officers – insurance activities

In the normal course of its operations, the company entered into transactions with companies in which Directors and Officers of the Company are also Directors or non-executive Directors. All transactions entered into were completed on market terms.

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

Claire Ighodaro, an Independent Non-Executive Director, is currently a Board member and Audit Committee chair of XL Catlin Unitary Board. XL Catlin write UK Household insurance business in the United Kingdom and provide flood related reinsurance protection.

Until December 2016, Claire Ighodaro was also a Franchise Board member and the Audit Committee Chair of the Society of Lloyd's. Lloyd's syndicates write UK Household insurance business in the United Kingdom and provide flood related reinsurance protection.

Directors and Officers – operational activities

Andy Bord, Chief Executive Officer of Flood Re, previously held the position of CEO at Capita Insurance Services. During the year, Andy Bord held a number of shares in Capita Plc that have subsequently been sold and currently holds a small number of share options that are exercisable in February 2018. Flood Re has contracted with Capita Plc to provide managing agency outsourcing services. For the year ended 31 March 2017, the Company incurred Capita managing agency fees of £5.5m (2016: £3.3m) and has a receivable due from Capita Plc of £0.5m as at 31 March 2017.

Huw Evans, an Independent Non-Executive Director and chair of the Remuneration Committee is currently Director General of the Association of British Insurers (ABI). For the year ended 31 March 2017, the Company incurred £15k (2016: 20k) of ABI Associate membership fees.

Michael Bartholomeusz, the Chief Risk Officer of Flood Re, is also a Director of ORIC International. For the year ended 31 March 2017, the Company incurred £26k of ORIC corporate membership fees.

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:

	2017	2016
	£000	£000
Short-term employee benefits	985	365
Post-employment pension and medical benefits	62	15
Termination benefits	0	0
Total Directors' emoluments	1,047	380

Compensation of highest paid Director

	2017	2016
	£000	£000
Short-term employee benefits	321	155
Post-employment pension and medical benefits	33	8
Termination benefits	0	0
Total compensation of the highest paid Director	354	163

Department of Environment, Food and Rural Affairs (DEFRA)

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

31. Events after the reporting period

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

FLOODRE

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