Flood Re Limited

Annual report and accounts 2022-2023

For the period 1 April 2022 to 31 March 2023

Presented to Parliament pursuant to Part 4 S. 67(5)(e) of the Water Act 2014

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FLOOD RE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2023

Company Registration Number: 08670444

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

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FLOODRE | Build Back Better

CELEBRATING BUILD BACK BETTER

To mark the one-year anniversary of the Build Back Better scheme, Flood Re launched a consumer-focused campaign aimed at promoting the take-up of prevention measures to reduce damage and loss caused by flooding.

The first phase of the campaign, launched in April 2023, included a hero video animation and supporting social media posts targeting people in flood-prone areas and nudging them towards Property Flood Resilience (PFR) as a proactive, preventative action they can take.

The financial impact of flood damage can be severe, but underneath that is something that can be equally traumatising. Afterall, the loss of sentimental items, family heirlooms and one-of-a-kind pieces is (in most cases) a permanent one.

The teaser campaign followed the idea of 'Protecting the heart of your home' ensuring the audience empathised and related to the scenarios depicted in order to understand the importance of taking preventative measures. The creative idea was drawn on the results of a commissioned survey of 2000 UK adults, which highlighted the most at-risk household items during a flood.

According to the survey, paper-based possessions such as family photographs, birth certificates, passports, insurance policy documents, and family heirlooms were the most cherished household items. They are also the most at risk from flood, as the majority of respondents stated they keep these items on the ground floor or in their cellars or basements.

The full launch of the consumer campaign will take place in the Summer of 2023.

See the video in action here

PRESS COVERAGE REACH

79,550

SOCIAL MEDIA REACH

1,414,381

across paid and organic

Company Information
For the year ended 31 March 2023

COMPANY NAME
Flood Re Limited

DIRECTORS

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

COMPANY SECRETARY
Harriet Boughton

REGISTERED OFFICE
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London
EC4N 7BE

COMPANY REGISTRATION NUMBER
08670444

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London
EC2M 4RB

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

THE FLOOD RE LIMITED SCHEME

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

Flood Re's purpose is to promote the availability and affordability of flood insurance for eligible homes and to manage, over its lifetime, the transition to risk-reflective pricing for household flood insurance.

In order to do this, Flood Re provides reinsurance cover at a subsidised fixed rate to cedants, resulting in an expected underwriting loss each financial year. The Company finances this through a Levy on UK household insurers. For the year ended 31 March 2023, the annual Levy was £135m (this was changed from £180m from 1 April 2022). The Levy also finances the purchase of an outwards reinsurance programme to protect the Company up to a maximum Liability Limit. For the year ended 31 March 2023, the Liability Limit was £1.9bn (2022: £2.286bn). During the last Quinquennial Review (QQR) process the Liability Limit reset to £1.9bn for 2022/23 with effect from 1 April 2022 for a period of three years adjusting for CPI annually.

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

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

Flood Re launched on 4 April 2016.

FLOOD RE SCHEME HIGHLIGHTS	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Gross written premium	£52m	£46m	£39m	£34m	£34m	£32m
Gross insurance claims	£46m	£32m	£8m	£161m	£16m	£8m
Levy income	£135m	£180m	£180m	£180m	£180m	£180m
Profit before tax	£110m	£132m	£142m	£61m	£136m	£134m
Invested and liquid assets	£772m	£691m	£611m	£487m	£358m	£257m
Solvency capital ratio	1063%	900%	1,251%	522%	349%	425%
Operational capital ratio*	420%	496%	521%	427%	349%	235%
Number of policies written	265,826	256,634	218,090	196,638	164,480	150,051

*This is a management metric, calculated as operational capital of £175m (2022 £130m and 2017-2021 £100m (see page 18)), as a percentage of Solvency II Eligible Own Funds, which includes associated Tier II Ancillary Own Funds of £75m (2017-2021 £50m and 2022 £65m). This management metric was used in discussion with the PRA as a useful means of understanding Flood Re's capital management strategy.

FLOOD RE SCHEME HIGHLIGHTS

Delivering on availability and affordability

- Four out of five households with previous flood claims saw a price reduction of more than 50%
- 99% of householders at high risk of flooding are able to obtain quotes from 15 or more insurers
- 265,826 policies were ceded this year

Operating with efficiency and financial security

- £110m profit before tax
- £772m invested and liquid assets
- 420% operational capital ratio

Managing Flood Re's transition

- 63% of the UK market have committed to offer the option of Build Back Better
- Proved concept of Flood Performance Certificates with a scoring methodology of PFR through a pilot in East Peckham
- Engaged with partners across the country on Climate Risk

Company Overview
For the year ended 31 March 2023

The Directors present their Strategic Report on the Company for the year ended 31 March 2023.

Chair's statement

Reflecting on my last eight years as Chair of Flood Re, I am struck by how much has been accomplished by such a unique Scheme in such a short time.

This will be my final annual report as Chair, and I am proud to share the highlights of Flood Re's performance over the past year, and the strides we have made towards achieving our strategic goals. I will also take this opportunity to draw some insights and guidance for the future, as the Scheme continues towards its eventual transition and exit from the market in 2039.

We are driven by our clear purpose

Flood Re's purpose was, and remains, very clear: to promote available and affordable home insurance for those UK homes at risk of flooding, and to manage the transition to an affordable market by 2039.

Before Flood Re's existence, fewer than one in ten homes with a previous flood claim could get quotes from two or more insurers.

All the decisions and actions we have undertaken over these past eight years have been guided by our public purpose and to fix this issue. Indeed, it has become even more relevant over the past year as the cost-of-living crisis has hit household budgets. If Flood Re did not exist today, many households would find the cost of insuring against flood risk unaffordable, leading potentially to higher levels of under-insurance and the terrible financial and emotional consequences that would result in the event of a flood.

Instead, today, 99% of householders at high risk of flooding are able to obtain quotes from 15 or more insurers. And four out of five households with previous flood claims have seen a price reduction of more than 50%.

A future overshadowed by a volatile climate

In recent years the UK has seen some of its most volatile weather events on record, including the hottest ever summer's day in July last year, and this year the wettest March for forty years.

The UK is not alone; there has been a marked increase in extreme weather events around the world, highlighting the fact that climate change is already with us. The time for urgent action is now. It should be a salutary reminder that, if weather patterns had changed only slightly, the UK could have experienced the terrible consequences of flooding which caused so much devastation in Germany in 2021.

In financial terms, we all pay a price for what happens worldwide given that reinsurance is purchased on a global basis. Global insured natural catastrophe losses have increased significantly over the last few years and consequently the price of global catastrophe reinsurance has also increased. This will impact the insurance industry generally and Flood Re specifically when we renew our large reinsurance programme in April 2025.

In the past year Flood Re continued to build on the strength of its financial position during a period when flood insurance claims were relatively low to ensure that when major claims do occur, as they inevitably will, we will be able to meet them. Our overall financial stability is confirmed by Standard & Poor's continued rating of Flood Re as A (stable).

Fortunately, this year the UK has been spared flooding, but we have seen the other side of the coin – drought and heatwaves. These moments of extreme heat and dryness should serve as a warning of increased and unpredictable periods of wet weather to come, rather than fool us into a false sense of security.

We are working with our partners to communicate these extremes in the context of general climate change and increasing unpredictability.

Innovation and leadership

Flood Re is a world-first, and so we have had to learn as we go and be prepared to take risks and amend the Scheme to deliver the best outcomes for households and insurers. This year, following the conclusion of our Quinquennial Review, we have made significant improvements and amendments to how Flood Re operates.

This includes introducing another world first initiative, Build Back Better, to improve householders' future flood resilience.

This year, we were also able to reduce the levy we charge insurers by 25% to reflect the underlying strength of the Scheme and agreed a new approach to our investments which has helped us mitigate the erosion effects of recent high inflation.

Partnership

All Flood Re's stakeholders – households, insurers and government – share a common objective (to pool the risk of flood insurance) and want a similar outcome (improved availability and affordability). Our unique partnership approach has generated interest in other countries across the world.

As we look to the future, the strength and breadth of these partnerships will become even more important as we reach our ultimate Transition out of the market. If we want premiums and excesses to remain affordable after we exit, it is absolutely the clear that Flood Re cannot achieve this alone. To ensure the market's transition in 2039 will need significant action from all these other actors.

We welcome the Government's continued and renewed investment in flood defences and want to see even longer-term commitments. Every one pound spent on maintenance saves seven pounds in avoidable future costs.

Recognising the UK's need for more homes but also the risk of future flooding posed by climate change, we have urged planners and policy makers to ensure that planning guidance, policy and implementation effectively account for the impact of elevated flood risk.

We have called for action and provided practical support to households to take up Property Flood Resilience (PFR) measures. We have worked with the suppliers of PFR products to help drive demand

and normalise an emerging market. The Build Back Better initiative is an important contribution to this emerging ecosystem.

We are working alongside our other partners to improve consumer awareness and bring about the behavioural changes needed through highly targeted communications and campaigns.

Above all, our relationship with UK and devolved governments and their agencies remains crucial to the way in which we operate and are accountable. We're proud of our unique private-public structure, which we believe offers a blueprint which others might follow.

2039

My successors will need to meet the challenge of the fast-approaching end-date of Flood Re's existence, if it is to be succeeded by an effective and affordable market for flood insurance.

Much has been achieved in this initial phase, but, as our next transition plan will set out, we must see practical action from a wide range of stakeholders the closer we get to our market exit.

We will continue to be ambitious. Flood risk is not a niche topic; it is central to climate change and Net Zero conversations. Achieving the goals set out will require real commitment. I am confident that the work that has been undertaken to date by my colleagues and our partners across the public and private sectors has created in Flood Re a very strong foundation and culture on which to build in the crucial years ahead.

While the Scheme will end in 2039 as a matter of law it provides clear purpose and a mission that can and will be achieved – and Flood Re has got the right talent, teams and purpose.

People

I would like to thank Paul Leinster who has been a valued Board colleague, who retired on 31 March, for his commitment and wise counsel. I would also like to welcome Shirel Stedman, who joined the Board in January 2023 and brings with her a wealth of flood knowledge.

As I conclude my final report as Chair, I would like to thank all my colleagues at Flood Re, both past and present, for their dedication and hard work. I know from talking to householders who have benefitted from the Scheme that together we have made a real difference to the lives of so many. I am proud to have been the first chair of Flood Re and wish everyone continued success in the future.

…………………………
Mark Hoban
Chair

Date: 23 June 2023

Chief Executive Officer's statement

This year Flood Re has reached several important milestones. We have launched Build Back Better and seen it enthusiastically adopted by insurers and offered to their customers. We have successfully completed wide-ranging changes to our operating system and we have implemented the first reduction of the Levy charged to insurers.

These developments support our core purpose of long-term affordability and availability of home insurance to communities at risk from flooding.

Adapting to protect against a volatile climate

Since we launched, more than half a million households have benefitted from a Flood Re-backed policy. Over the past year the number of households benefiting from a Flood Re-backed insurance policy has grown by 3.6% to 265,826.

The results of the Company for the year ended 31 March 2023 show a profit before tax of £109.8m (2022: £131.9m), with an income from the Levy of £135m (2022: £180m) and gross written premiums of £51.6m (2022: £46.4m). Eligible own funds under the Solvency II Directive stand at £692.4m (2022: £613.6m). During the financial year, we incurred gross claims of £45.9m (2022: £32.1m).

Flood Re continues to promote the availability and affordability of home insurance for those living with flood risk, while actively engaging with its stakeholders, including the insurance industry to drive practical change across planning, flooding and environmental policy in response to the intensifying effects of climate change.

The year under review has seen yet another period of severe weather in the UK, featuring drought and crop failure during a record-breaking hot summer, but, despite the wettest March for 40 years, we have thankfully seen few flooding events and consequent claims to the Scheme. Flooding along the Severn Valley in January resulted in minimal damage to households because of the investment in flood defences and adaptation measures in the areas affected.

A wetter and warmer future due to climate change is a certain event, so we are already living with the effects of increased volatility. COP27 was a significant and important event with the launch of the Sharm-El-Sheik Adaptation agenda – aiming to build climate resilience for four billion people globally by 2030.

In my conversations with other attendees at the conference it was notable just how much urgency we shared to protect against effects of climate change today, compared to COP26. From temperatures plummeting to minus 28 degrees in Afghanistan to Europe experiencing its warmest winter ever, the extreme weather events we have seen globally have concentrated minds. Recognition is just the first step; sustained action must now follow. COP27 reflected the global nature of the challenges around flood and the need for international collaboration and sharing of best practice.

By placing resilience at the heart of the planning policy debate, Flood Re believes it is possible to reduce householders' vulnerability to extreme weather events and help communities reap the benefits of a safer, better-planned built environment. This would also improve the affordability and availability of insurance for consumers in the long run.

Flood Re's Build Back Better scheme, launched in April 2022, has already seen 63% of the UK market commit to offering it as an option.

Build Back Better enables participating insurers to offer relevant customers access to reimbursement costs of up to £10,000 to invest in property flood resilience (PFR) measures, over and above work to repair damage and loss caused by a flood. This ground-breaking scheme has also been recognised at three industry award ceremonies - the British Insurance Awards, the Post Claims Awards and the Flood Expo Awards.

Build Back Better is the first nationwide initiative to help normalise PFR and ought to help ensure that those who have been flooded should not have to suffer the same awful experience on future occasions.

Scheme evolution

We have been able to deliver a 25% reduction in the levy charged to insurers, from £180m to £135m, as a result of our long-term sound financial management of the Scheme, and by enacting the changes to its financial parameters that we proposed to government.

This is the first year that we have aligned the levy determination with our procurement schedule for reinsurance on the global market. Looking ahead, this will enable us to ensure that our income meets our costs and strengthens our ability to manage the finances of the Scheme.

As a result of further changes to the Scheme, this was also the first year we have been able to diversify where we invest our capital beyond the Debt Management Office. Using this capability has helped us to mitigate the erosion effects of inflation by increasing our investment income to £13.7m for this financial year, compared to £0.3m in the preceding year.

In April 2023 the premium charged by Flood Re for policies ceded to the Scheme increased by 3.4%, against a backdrop of volatile and high inflation. This is the first change in pricing since a reduction in 2019.

This action comes amidst a progressive increase in the headline rate of inflation in the UK and was needed to sustain the long-term viability of the Scheme.

Operational changes

March 2023 marked the end of a project which saw us move from reliance on a single provider for our combined outsourced support services to a number of best-in-class providers.

This is now fully implemented and will future-proof the resilience of the Scheme as well as delivering operational cost savings and user-experience enhancements for our insurer partners.

The year ahead and towards our exit in 2039

We are especially looking forward to the launch of the next Transition Plan this year. This will set out the actions required by stakeholders across UK, public and private sectors, to secure a flood resilient future for the UK in time for our exit from the market in 2039.

Its development has been long in the making and has already seen an extraordinary and heartening degree of collaboration and partnership. We have used the opportunity to reach out to an even wider number of stakeholders to generate constructive challenge and discussion.

Flood Re's exit from the market will precipitate a market transition to risk-reflective pricing. This development is not dependent on any conditions being met, but we as a company want to see flood insurance remaining affordable and available for all households when we exit. Through our work we have identified a number of conditions which need to be satisfied in order for Flood Re to leave the market in 2039 and insurance remain affordable:

- We need to reduce the risk of homes being flooded by placing flood risk management and climate change as central principles in planning and environmental policy.
- UK homes need to be made more resilient to future flooding by promoting the installation of PFR measures through supporting and expanding initiatives such as Property Flood Performance Certificates and Flood Re's Build Back Better scheme.
- And finally, the UK must maintain sufficiently high levels of investment in new and existing flood defences.

Our 2023 Transition Plan will set out the wider set of changes required and how Flood Re will support these changes.

A team fit for the future

I must take this opportunity to personally thank Mark Hoban for his chairing of the Scheme since its inception. Under his guidance Flood Re, a world-first, has flourished and succeeded in its mission to improve the affordability and availability of insurance for homes susceptible to flooding.

This success, I am sure, will continue due to the hard-work and talent of the Flood Re team to whom I am incredibly grateful.

I am delighted to welcome Shirel Stedman as a non-executive member of the board who brings a wealth of knowledge in flooding and water management, the environment and technical expertise. I would also like to thank Paul Leinster as he steps down after seven years for his valuable contribution to the Flood Re board since its formation in 2016. Paul has played a key role in guiding the direction of Flood Re; helping to ensure the delivery of affordable and available home insurance for those in high flood risk areas.

Strategic objectives and key performance indicators

Flood Re is a unique organisation, being operationally independent from the Government and owned by the insurance industry. Regulated by the PRA and the FCA, the Scheme is directly accountable to Parliament for the achievement of its statutory objectives, which are set out in legislation, and for its stewardship of public money.

Strategic Report
For the year ended 31 March 2023

Flood Re, as a public body, lays its Accounts before Parliament and I, as the Scheme's CEO, am the designated Responsible Officer who is directly accountable to Parliament. These Financial Statements have therefore been prepared in accordance with UK-adopted International Accounting Standards and are in accordance with directions issued by the Secretary of State for Environment, Food and Rural Affairs.

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

1) Public purpose

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

Flood Re delivers its public purpose within the Scheme's financial parameters. These parameters are kept under review to ensure the Scheme can continue delivery of the public purpose across the Scheme's lifetime.

Flood Re produces a Transition Plan every five years. This is because Flood Re was always intended to be a time-limited intervention to enable both the Government and the insurance industry to better manage flood risk and provision of insurance for those at high flood risk. In 2039 Flood Re will exit the market which will then transition to risk-reflective pricing. Therefore, flood risk must be reduced in the UK before that time.

Flooding causes personal misery and high levels of disruption for households. Having insurance reduces costs but doesn't eliminate them, nor does it eliminate the trauma and mental health impacts often associated with flooding. That is why there is a strong macroeconomic case for investment in flood defences. Research commissioned by Flood Re found that investment in inland flood defences alone saved the UK £1.1bn a year.

Furthermore, climate change means that the status quo is not an option. As understanding of climate change and its likely impact grows, the context in which Flood Re operates has been transformed. The Flood Re model of pooling risk will not necessarily be sustainable, even during its lifetime, if these growing risks are not addressed.

Getting to a position where flood risk is sufficiently managed and flood insurance is widely available is not within Flood Re's gift. But this does not make Flood Re a passive observer. Flood Re uses all the resources at its disposal to maximise the chances of this change being achieved. Since inception Flood Re has managed to bring about significant change by "punching above our weight", and the ambitions for the next five years will remain high.

Flood Re has to be strategic and systematic in using its resources to gain the greatest impact. Over the next five years Flood Re will use the resources at its disposal – financial, partnerships and its accrued knowledge to maximise the chances of achieving a market where flood insurance remains affordable without Flood Re.

2) Operation of the Scheme

Flood Re ensures availability and affordability of insurance for households at the highest risk of flooding from multiple insurance providers.

Flood Re is funded by raising a Levy from all insurers writing UK household insurance as defined in the Water Act 2014.

It also charges inward premiums to these insurers for every risk they pass to the Scheme. These charges have been maintained at the current level since 2019, resulting in ongoing "real" reductions in premium cost over the past four years (2020 - 2023) that has contributed to the 35% increase in policy volumes over the period.

Reinsurance

Flood Re has been created to underwrite the worst of UK flood risks. Through economies of scale, Flood Re aims to efficiently reinsure this risk in the global reinsurance market. This is subject to the statutory requirement to provide aggregate cover up to the "Liability Limit" and to limit the maximum P&L loss to the "Loss Limit".

Flood Re secures its reinsurance protection on a three-year basis, with the renewal of the current programme effective from the beginning of the 2022/23 financial year. Our flood programme is the largest European flood programme and one of the largest natural catastrophe programmes globally. It is supported by 32 reinsurance participants and provides capacity of £1.9bn annually.

This renewal enabled the launch of the Build Back Better initiative with reinsurers providing a "pay as you go" cover for the initiative. The support of this innovation demonstrates our successful partnership with our markets and that we are a target account for many reinsurers as they seek to create opportunity in the area of public/private natural catastrophe partnerships and recognises the strength of Flood Re in their ESG propositions.

Based on our actual portfolio, coupled with optimising coverage, the programme has been successfully placed and will protect the Scheme's performance over the next two financial years. Flood Re is a credible reinsurance partner for UK insurers and strongly capitalised to withstand the UK flood peril supported by the reinsurance industry.

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

Key Management metrics

A robust financial position is maintained with an internal model solvency capital ratio coverage of 1,063% (2022: 900%) and invested and liquid assets of £771.6m (2022: £690.9m) demonstrating this successful operation.

Our capital requirements have a cyclicality brought about by our reinsurance programme and our Solvency II Partial Internal Model. This is part of the design of Flood Re and operates as expected. Consequently, our capital requirement varies through the year and is usually at its lowest, all other things being equal, at year end. We established an Operational Capital Requirement to more usefully reflect the capital required across the year. This is currently determined by the Board to be £175m and has been updated from the previous requirement of £130m to reflect the reduction in the levy income going forward, from £180m to £135m, increased policy volumes, and the new reinsurance programme in place from 1 April 2022.

This management metric was used in discussions with the PRA as a useful means of understanding Flood Re's capital management strategy. The current year Operational Capital Ratio is 420% (2022: 496% and 2021: 521%).

The Scheme is operating effectively, addressing its Levy 1 credit risk, collecting all Levy income due to the Scheme with £135m of Levy income raised and received to 31 March 2023, which represents a 100% successful collection (2022: 100%) from insurers, proportionate to their market share of business written.

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

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

As a regulated business, Flood Re must be a financially robust, standalone reinsurance vehicle which ensures continual operational stability. Flood Re undertakes a robust planning, monitoring, and contingency process to ensure sufficient capital management and liquidity measures are in place for the short- and medium-term. In the seven years of operation up to 31 March 2023, the Scheme has accumulated net assets, on an IFRS basis, of £677.3m (2022: £588.5m), and Eligible Own Funds (Solvency II basis) of £692.4m (2022: £613.6m) as well as holding invested and liquid assets of £771.6m (2022: £690.9m).

Flood Re also has a statutory obligation to manage resources in the public interest. Flood Re has a unique Reputational Risk profile in light of its operation as a privately-owned entity which is also publicly accountable. Flood Re abides by the principles of Managing Public Money as published by HM Treasury, and is working closely with government where this is not the case The Scheme also follows the public procurement requirements.

Flood Re operates a number of services, including front-end systems (Property Data Hub and Bordereaux Web Portal). Flood Re mitigates this operational risk through the use of specialist outsourced service providers to deliver a number of key elements of the Scheme. These are all managed to explicit key performance indicators and service level agreements, reviewed on an ongoing basis for continued appropriateness and robustness. Flood Re has renewed for a second year its ISO 27001 Information Security Management certification.

3) Transition towards affordable risk-reflective pricing by 2039

As outlined above, Flood Re will cease to exist in 2039. The Company's vision is for domestic flood insurance to remain widely available and affordable as the market transitions to risk reflective pricing. For this to happen, change is needed across three 'buckets':

1. Reducing flood risk
2. Reducing the damage and cost of flooding
3. Achieving an effective market

As part of Flood Re's commitment to be open and transparent with stakeholders about the risks associated with our exit, the company has undertaken a detailed assessment of current progress against these three buckets. This will be published in greater detail as part of the Transition Plan, and the summary findings are re-produced below. Some of these ratings appear to have changed significantly from last year, however this is partly due to some movement of the indicators between buckets, and the re-baselining of the numbers owing to a deeper assessment of evidence, which will be detailed in the Transition Plan.

<table>
<tr><th>Transition Area</th><th>Progress Assessment</th><th>Key Indicators</th></tr>
<tr><td>Reduce the risk of flooding</td><td></td><td>1. Investment in flood risk management and defences
2. Extent of housing development in areas of flood risk
3. CO2/GHG emissions and the likely climate pathway</td></tr>
<tr><td colspan="3">Flood Re's Summary Assessment: Government is increasingly active in terms of spending and policy to address flood risk, supporting defences and measures to keep pace with increased risks. But headwinds are growing as we now know much more about the likely effects of climate change on UK flood risk, these impacts now recognised as being to some extent unavoidable.

Action remains urgent and a similar focus is now needed on adapting to climate change and meeting the risks it poses. The UK needs to ensure that guidance not to build new housing stock in areas that are at risk to flooding is followed and enforced.

Flood Re has been active in supporting a range of research work to develop implementable options for more resilient homes and communities, in capacity building work so these and other best practices can be implemented, and in advocating for the Government to maintain its focus on flood resilience. Continued vigilance and action by those partners in industry and in Government is needed because we need to increase action in the face of growing headwinds. Government expenditure aims to hold risks constant. However (as noted by the National Infrastructure Commission and Climate change Committee in their March 2023 assessments of UK risks), rising climate risks and growth of at-risk UK housing stock is slowly but steadily increasing the total level of risk.</td></tr>
</table>

<table>
<tr><td>Reduce the damage and cost of flooding</td><td></td><td>4. Number of properties that benefit from Property-level Flood Resilience (PFR)
5. A robust and sustainable market for flood resistance products
6. Level of engagement of communities with flood preparedness
7. Cost and time taken to settle claims</td></tr>
<tr><td colspan="3">Flood Re’s Summary Assessment: Major policy breakthroughs – in particular the launch of Build Back Better - have laid the groundwork for increased PFR take up, with the potential to dramatically enhance property and community flood resilience and reduce costs. However, implementation at scale has yet to be achieved. Research into the Property-level Flood Resilience (PFR) sector (see below) found that PFR is not yet seeing widespread uptake beyond government schemes. Overall, the launch of BBB and enhanced PFR awareness over the last year has positioned this area for future success, but the current level of implementation and preparedness means risks are still slowly but steadily increasing.</td></tr>
<tr><td>Achieve an effective market</td><td></td><td>8. Improved quality and use of flood models
9. Effective level of Flood Re’s impact on the market
10. Householder flood risk awareness
11. Insurers’ engagement with flooding issues and flood risk management</td></tr>
<tr><td colspan="3">Flood Re’s Summary Assessment: Flood Re’s entry into the market has had substantial impact on the market and promoted availability and affordability. The insurance industry has been actively engaged in finding market-led solutions to risks, although more will need to be done on a broader range of issues as 2039 approaches. The continued lack of homeowner awareness, acceptance or action to mitigate flood risk remains a challenge.</td></tr>
<tr><td>Limits of affordability</td><td></td><td>12. Number of households at highest flood risk</td></tr>
<tr><td colspan="3">Flood Re’s Summary Assessment: Considerable effort remains to reduce the number of properties that will be difficult to insure in the absence of Flood Re. As noted above, pressures such as climate change, an immature market for flood resilience, and a lack of homeowner awareness are all slowly but steadily increasing the size of the group facing prohibitively expensive flood insurance in the absence of Flood Re, if decisive action is not taken now.</td></tr>
</table>

Achieving our Transition objectives

Flood Re used 2022/23 to plan a five-year Transition Plan to support its transition objectives. Flood Re uses a collaborative model, seeking to understand, influence, and engage with stakeholders to create better policies and build capacity.

Highlights from 2022/23 include:

Build Back Better

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

Since the launch of the Build Back Better initiative we have 63% of the UK's residential property market committed to offer the scheme as an option. The insurers committed to offering Build Back Better are as at the end of May 2023: Ageas, Aviva, AXA UK, Covea, Hiscox, NFU Mutual, Lloyds Banking Group (Bank of Scotland, Halifax, and Lloyds Bank home insurance products), LV= General Insurance, Prestige and RSA.

We also ran a highly successful digital media campaign around the theme of "protecting the heart of your home: preventative actions save more than peace of mind." Our research showed that most people would choose to save unique or sentimental items from their home if they had to evacuate in the event of a flood, such as family photographs, their passport, heirlooms and other keepsakes. The Flood Re campaign reached more than one million people in March 2023.

Creating a scoring methodology for Property Flood Resilience

Property Flood Resilience (PFR) is the term used for building-level adaptations which can be put in place to reduce the risk of flooding. This can be resistance measures to prevent water ingress or recoverability measures to reduce the damage caused by flooding. Both approaches are vital to reduce the costs of flooding. However, efforts to support investment in PFR are hampered by a lack of proper modelling as to how PFR works, how different PFR measures can combine and how they work with intrinsic features of a property. To tackle this, Flood Re commissioned research from Middlesex University to develop a scoring methodology for PFR, building on existing systems used within the insurance industry to understand the relationship between flooding and damages. The first phase of this research has been completed and provided a proof of concept which a wide network of stakeholders have fed into. Phase II will be central to the ambitions in the next Transition Plan to be published later in 2023.

Understanding the Property Flood Resilience Market

Flood Re undertook a study of the PFR market in the UK. The study was undertaken to understand the capacity of the sector to deliver PFR at scale, implement Build Back Better, and other issues relevant to Flood Re's transition work. The study –published in March 2023 - describes the current market for PFR measures in the UK, with a focus on manufacturing and assembly, and design and installation. It found that:

- The sector is relatively small (£20-25m in annual turnover). £7-8m of its output is exported, primarily products
- Roughly two-thirds of its activity is in residential sales and installation, with the remainder in commercial and public. £7.5-9m comes from domestic installations (e.g. fulsome retrofits of homes), accounting for over 500 properties a year, with the vast majority delivered through the Environment Agency's PFR scheme
- 65-75% of the sector's output comes from specialist SME firms

Overall, the study found that the sector has undergone a shift to focus on quality, but that current demand and home retrofit volumes are relatively small, which is a challenge for a sector made up of primarily small businesses.

Resources to support resilient housing development

Given the adverse impact of building more homes in areas at risk of flooding, Flood Re has worked with the Town & Country Planning Association (TCPA) to upskill local planners on the risks of flooding and the economic consequences of climate change. This work has included support for the TCPA and Royal Town Planning Institute's (RTPI) updated Climate Guide.

Working in partnership with the TCPA and Environment Agency, Flood Re held four online training webinars for local authorities with over 1500 attendees in total. Technical topics covered surface water flooding, Strategic Flood Risk Assessments and the updated Planning Practice Guidance for Flood Risk and Coastal Erosion.

Flood Re has continued our engagement with local authorities and members of the Association of Directors of Environment, Economy, Planning and the Transport Flood and Water Management Group stressing the need for consideration of the economic consequences of developing in locations prone to flooding.

Informing National Policy

Flood Re's unique position in the intersection between the Government and industry gives rise to key insights that can inform the development of public policy. This year Flood Re has contributed to the development of several key policy developments including:

- The Scottish Government's National Planning Framework 4 in support of the proposed approach integrating flood planning in street design, notably the use of Sustainable Urban Drainage Systems (SuDS)
- The UK Government's implementation of Schedule 3 of the Flood and Water Management Act 2010, advocating for the adoption of Sustainable Drainage Systems
- The Welsh Government's update to their technical advice note 15 concerning development and flood risk

COP27

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

COP26 in Glasgow marked six years since the 2015 Paris Agreement and was a key moment to finalise the "Paris Rulebook", a plan of action for how climate action targets will be met in the short, medium, and long terms. COP27 in Sharm el-Sheikh, referred to as the "Implementation COP", was all about putting that work into action.

Flood Re used the opportunity of COP27 to talk about the need for adaptation and resilience to communities throughout the UK dealing with the impacts of climate change.

Section 172 (1) statement and our stakeholders

Overview

Flood Re is a purpose-driven organisation. It exists to promote the availability of affordable flood insurance and ultimately manage a transition to a risk-reflective market.

The Directors have had that purpose foremost in mind when making decisions and initiating activities throughout the year.

Our stakeholders

Flood Re's key partners are the insurance industry and the UK Government and its agencies, and it exists to benefit householders at high risk of flooding. This year Flood Re is continuing to deliver on its objectives, increasingly evolving to engage more actively with a broader range of stakeholders to deliver positive and practical change.

Flood Re does this in three strategic ways:

1. **Affordability and availability**
   Flood Re continues to enable people to get affordable policies
2. **Climate change**
   We are increasingly acting as a catalyst by encouraging adaptation and recognising the impact climate change has on communities throughout the UK
3. **Promoting change in the market**
   Influencing insurer and consumer behaviour with the introduction of Build Back Better

Key strategic activities

Flood Re's Board has also set key objectives for the Scheme which it reviews every year.

With our three strategic stakeholder objectives in mind, the table below highlights some of the areas where serious consideration was given to the interests of, relationships with, and impact on key stakeholders. The Directors took into account the likely long-term consequences of their decision and the need for Flood Re to maintain a reputation for high standards of business conduct. These should be considered in the context of this wider Strategic Report as a whole.

Activity	Detail	Stakeholders
Reinsurance Programme	The reinsurance industry support of the Scheme remains central to its effectiveness. We continue to maintain our relationships across the industry with our current and potential reinsurance markets to provide financial security for the operation of the Scheme.	- Insurers - Reinsurers
Outsourced Partnership Procurement	Flood Re successfully completed the re-procurement of various outsourced services and strategic partnerships, transitioning from a Managed Agent operating model to a flexible structure leveraging bespoke, best-in-class solutions. The new technology platforms and services across operations, finance and IT enable Flood Re to strengthen its ways of working and provide a better client experience for participants.	- Industry participants - Commercial and outsourced partners

Transition Plan 2023	Two Transition Plan workshops were held in October 2022 and January 2023 with our stakeholders. The first workshop aimed at co-creating a shared vision and identifying priority actions with our partners. The second workshop gathered momentum on our Future Visions and looked to implementation solutions. This collaboration and co-creation fed into to the drafting of our Transition Plan 2023, to be published by July 2023.	- Insurance: insurers, reinsurers, regulators, Managing General Agents BIBA, ABI, software houses - Banking - Community groups: SFF, Local community, NFF - Public sector: UK Govt Defra, DLUHC, SEPA, NI DfI, Environment Agency, Local Govt, Committee on Climate Change, Welsh government, Northern Ireland National Infrastructure Commission, Think tanks, APPG on flooding, Scottish Government, Select committee - Academia: Middlesex University, LSE, Chair PARI. - Water companies: Thames Water - Legal: Law Society, Landmark conveyancing. - PFR suppliers - Third sector: Historic England, RTPI, TCPA, Wildlife Trusts, WWT, CIRIA, CIWEM
Build Back Better	In April 2022 Flood Re introduced the Build Back Better scheme. Flood Re worked with partners across the insurance industry and government to make this possible. Participating insurers can now offer reimbursement costs of up to £10,000 over and above the cost of flood repairs and losses to allow homeowners to install PFR measures. In the first year of the Build Back Better scheme 63% of the UK market committed to offer the option of Build Back Better.	- Defra - Insurers, brokers, loss adjusters - Industry bodies – ABI/BIBA - PFR suppliers - Community groups - Reinsurers
ClimateWise	ClimateWise engagement and reporting on principles. Report submitted August 2022 saw score improve from 83% to 88%. Head of Research joined ClimateWise Managing Committee March 2023. Flood-Re-ClimateWise-response-2022.pdf	- ClimateWise insurance membership

COP27	November 2022 COP27 saw world leaders come together to discuss climate change. COP27 was a platform to promote our messages around climate and the urgent need for adaptation to flood risk. Flood Re took part in a range of activities in the weeks leading to and during COP27. Flood Re's message was clear – we need to adapt our country to the effects of increased weather events now. We cannot wait for 'net zero'.	- World Climate Summit - Media - Defra - Environment Agency - Insurers - SEPA - Local flood community groups - Scottish Flood Forum - Members of Parliament - Flood campaigners - Local authorities
Property Flood Resilience Scoring project	Flood Re completed Phase 1 of the East Peckham Pilot which included an initial scoring methodology for PFR and a proof-of-concept Flood Performance Certificate (FPC).	- Defra - Environment Agency - Natural Resources Wales - Department for Infrastructure (NI) - SEPA - Insurers - Lenders - Model vendors - Academia - Policyholders
Resources to support resilient housing development through planning policy	Held four online training webinars for local authorities with over 1500 attendees in total. Technical topics covered surface water flooding, Strategic Flood Risk Assessments, the August 2022 updated Planning Practice Guidance for Flood Risk and Coastal Erosion. Created three community briefings on these topics. Updated the climate change guide for local authorities.	- Town and Country Planning Association - Royal Town and Planning Institute - Local authorities - Environment Agency - Banks - Insurers
Natural Flood Risk Management	Flood Re is a partner in the Wyre Valley Natural Flood Management Pilot. This seeks to track the avoided losses due to natural flood risk management. The pilot went live in March 2023.	- Defra - Water companies - The Environment Agency - Insurers - Third sector: Esmée Fairbairn Foundation, The Rivers Trust - Banks: Triodos Bank UK

Flood Model Evaluation	Evaluation of the state of the field for modelling flood risk, to understand systemic, and individual vendor, strengths and weaknesses that could impact Flood Re's successful transition out of the market in 2039	- Flood model vendors
Understanding the population of 'difficult to insure' homes	Engagement with insurers, and use of different modelling tools and approaches to understand the population of UK properties that would struggle to access affordable insurance in the absence of the Flood Re scheme, with a view to tracking these different views over time.	- Insurers - Model vendors - Reinsurers

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

…………………………
Andy Bord
Chief Executive Officer

Date: 23 June 2023

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

Directors' Report
For the year ended 31 March 2023

The Directors present their Report and the audited Financial Statements of the Company for the year ended 31 March 2023.

Future developments

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

Employee engagement and stakeholder interests

Diversity and inclusion

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

From 1 September 2022, Simon Green, in addition to his Independent Non-Executive Director role, has taken on 'Employee Engagement' responsibilities.

Creating an inclusive environment where all types of diversity are valued is important to the Company and underpinned by the Company's Desired Behaviours and High-Performing culture. The Company has committed to the Women in Finance Charter with the pledge to make changes to improve gender diversity within the senior levels of the organisation. In 2021 we achieved our first Women in Finance Charter target early and since then have set a further stretching target to achieve gender parity on the Executive Committee by 2025. We continue to focus on our goal of achieving gender balance across the senior levels of the Company.

During the year, we have seen an increase in women in senior roles, showing our progress to achieve gender diversity.

As at 31 March 2023	**Total**	**Male**	**Female**
Board (excl. CEO / CFO)	6	3	3
Executive Committee (incl. CEO / CFO)	8	5	3
All Employees (excl. Executive Committee and Board)	52	24	28

Our employee engagement

We value and regularly seek feedback from our employees through many channels and consultation occurs at all levels, with the aim of ensuring that views are considered, especially when decisions are made that are likely to affect employee interests. All employees are kept informed about the financial and economic performance of the business.

During the year, we have developed a strong employer brand through the creation of our Employment Value Proposition, enabling us to effectively attract and retain talented employees. We continued to focus on our desired behaviours that firmly underpin our positive and open culture. As a result, over the year, we have seen high levels of employee engagement with both our employee engagement survey participation rates and overall scores increasing to their highest yet.

External stakeholder interests

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

Current Operating Environment

Flood Re's current operating model, in the year 2022/23 has continued and maintained a Hybrid Working Model which seeks to draw on the benefits of both flexible home working and in office cross-team collaboration.

Flood Re acknowledges the economic environment with effects of higher inflation, cost of living consequences and the impact of natural catastrophe events on the reinsurance market all being recognised. Flood Re has no investment exposure beyond Debt Management Office (DMO) deposits and short-dated UK Gilts and Treasury Bills.

Modern Slavery Act 2015

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

Flood Re Tax Strategy

The Flood Re Tax Strategy was approved by the Board and published in May 2023. The Tax Strategy complies with the UK tax strategy publication requirements set out in Part 2 of Schedule 19 Finance Act 2016. The Tax Strategy covers the following key areas: tax compliance; engagement with the UK tax authority; tax planning; management of tax risks; and governance.

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

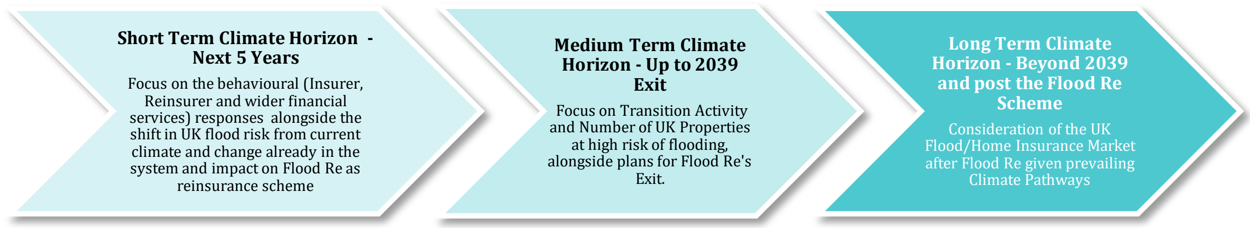
Creditor Payment Policy

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

Climate Change Strategy, Governance and Risk Management

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

Accordingly Flood Re assesses the risks associated with Climate Change over the following time horizons:



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

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

- Reduce the risk of flooding though investment in flood risk management and defences, and that new development should always have flood risk in mind;
- Reduce the damage and costs of flooding by improving flood resilience and resistance measures at a property, community and national level; and
- Achieve an effective insurance market with informed consumers. Each of Flood Re's Quinnquennial Review will highlight the need for and seek certain changes to the Scheme to further promote the adoption of mitigation and adaption activity.

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

Flood Re will continue to work with third parties to improve the understanding of flood risk and its modelling, as well as the medium and long-term impact of flooding. This will better inform investment in flood defences and PFR and enable greater understanding of the benefit of mitigation activity.

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

Streamlined Energy & Carbon Reporting (SECR)
Report for the year ended 31 March 2023

Organisational structure

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

Environmental indicators

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

Reporting period

Flood Re reported on SECR data for the first time as at 31 March 2021 with its base year set as 31 March 2020. This will provide a more representative base from which to analyse and compare future annual energy usage and emissions.

Reporting Boundary

The reporting boundary for this Energy and Carbon Report is Flood Re and its outsourced services. This incorporates 100% of the energy use for the Company. Flood Re's energy and carbon footprint covers Scope 1, 2 and selected Scope 3 emissions* from 1 April - 31 March for each reporting year in 2023 and 2022.

Measurement methodology: Energy Performance

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

Equivalent kWh energy usage for our outsourced service partners has been allocated on a per capita basis. kWh energy use is calculated using the most up to date conversions factors from the Department for Business, Energy & Industrial Strategy (BEIS), published June 2022.

Energy Performance Results

Energy Use (kWh)	**31 March 2023**	**31 March 2022**
Transport Energy	42,148	6,376
Electricity	184,155	129,653
Natural Gas	244,102	302,738
Total	**470,405**	**438,767**

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

Measurement Methodology: Carbon Performance

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

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

Carbon emissions are calculated in accordance with the Greenhouse Gas (GHG) Protocol, with outputs for Carbon emissions (CO2e) calculated using the most up to date conversions factors from the Department for Business, Energy & Industrial Strategy (BEIS), published June 2022.

Carbon performance results

Carbon dioxide equivalent Emissions (t/Co2e)	31 March 2023	31 March 2022
Scope 1 emissions	58	58
Scope 2 emissions	36	28
Scope 3 emissions	55	49
Total	**149**	**135**

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

Intensity Ratio

	31 March 2023	31 March 2022
Reporting boundary t/CO2e/employee	2.5	2.7

Operational trends

The kWh energy usage of kwh 470.4k in the year to 31 March 2023 was higher than previous reporting year 2022 of kwh 438.8k, as we and many other companies in the office building have transitioned from remote working and have adopted hybrid working during the reporting period.

For our carbon emissions, the contrast between the partial COVID-19 lockdown periods from April 2021 and the 'business as usual' in baseline year where business travel levels were at normal levels, is slightly increased in 2023 as expected due to the impact on scope 3 emissions from homeworking gas and electric usage. The overall impact, however, per capita emission has slightly reduced from 2.7 to 2.5.

Energy efficiency and management actions

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

It is also clear that the incremental impact of homeworking is not a simple factor to determine due to complex variables relative to individual circumstances. The incremental energy created by homeworking from shared accommodation rather than independent households can differ considerably, and for individuals from households where a family member or shared occupant is usually present anyway, the incremental energy usage is minimal, whereas for two people usually absent from home during the day, the incremental energy usage could be significant. We have followed the methodology from EcoAct's Homeworking Emissions whitepaper for the year to 31 March 2023 and aim to refine a methodology that better reflects our teams' circumstances once our future working arrangements have been determined.

Flood Re recognises that our ability to manage our limited carbon footprint is much less significant than our wider stakeholder influence on flood and property flood resilience adoption and adaptation; we continue to consider both elements of our operations. Given our restricted ability to directly manage the total energy usage arising from Flood Re's activity, going forward the Board will consider options both to offset our carbon emissions, and to assess opportunities for Flood Re to engage with projects that are expected to assist in the reduction of future flood risk, and to reduce carbon emissions.

Impact of climate change on investment risk

Flood Re's investment portfolio comprises of deposits with the UK DMO throughout the year and investments in UK Treasury Bills and Gilts therefore the associated climate change risks around investments are limited.

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

Board Members

Mark Hoban

Mark Hoban was appointed as the first Chair of the Board of Directors for Flood Re in January 2015. Mark plays a crucial role in providing strategic direction to Flood Re and ensuring it can achieve its strategic objectives and manage its risks effectively.

Mark is Chair of the Jersey Financial Services Commission and Pay.UK. He sits on PwC's Advisory Council. Mark chairs the Financial Services Skills Commission. Mark was the Member of Parliament for Fareham between 2001 and 2015. He was a UK Government Minister between 2010 and 2013 and is a Fellow of the Institute of Chartered Accountants.

Andy Bord

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

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

Stuart Logue

Stuart Logue is Chief Financial Officer (CFO) of Flood Re responsible for the planning, implementation, and management of all aspects of Flood Re's finance, accounting, capital management and reinsurance functions. In addition, Stuart also oversees the actuarial reserving, catastrophe modelling and business insight functions.

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

Independent Non-Executive Directors

Judith Eden

Judith Eden is Flood Re's Senior Independent Non-Executive Director and Chair of Flood Re's Remuneration Committee. She is also an Independent Non-Executive Director and Remuneration Committee Chair at Pension Insurance Corporation, Audit Committee Chair at Invesco UK and Senior Independent Director and Audit Committee Chair at ICBC Standard Bank plc. Judith was previously a Managing Director at Morgan Stanley Investment Management (MSIM) and Chief Administrative Officer of MSIM's International Business.

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

Simon Green

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

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

Jean Sharp

Jean Sharp is an Independent Non-Executive Director at Flood Re and Chair of Flood Re's Audit and Compliance Committee.

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

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

Shirel Stedman

Shirel is an Independent Non-Executive Director and a board member at the Chartered Institute of Water and Environmental Management (CIWEM). Founding her career in civil engineering and in the infrastructure sector she is an advocate for enhancing the environment and promoting Net Zero with her expertise laying in giving strategic direction in the flooding sector.

She has experience as a Chair being responsible for presiding over board and committee meetings ensuring that meetings run smoothly and remain orderly achieving a consensus in board decisions.

Perry Thomas

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

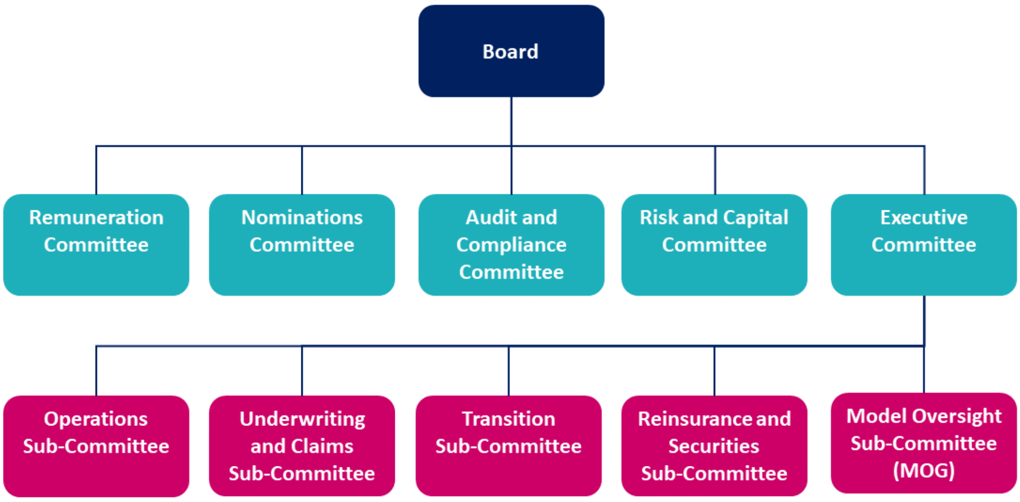
Non-Executive Directors rotation policy

At the sixth Annual General Meeting of Flood Re and at every subsequent Annual General Meeting, one-third of the Non-Executive Directors will be subject to retirement by rotation. Commencing from the 2022 Annual General Meeting, the Non-Executive Directors to retire by rotation will be those who have been longest in office since their last appointment or reappointment. Non-Executive Directors may be reappointed but can only serve for a period of nine years from the date of their original appointment. Mark Hoban will be subject to retirement and reappointment at the 2023 AGM. He is due to retire from the Board in 2023, in line with Board rotation requirements.

Directors' Report
For the year ended 31 March 2023

Governance Framework

The Committee structure as at 31 March 2023 is outlined in the diagram below.



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

Name	Board	Remuneration Committee	Nominations Committee	Risk and Capital Committee	Audit and Compliance Committee
Mark Hoban	CHAIR	Member (INED)	CHAIR	Member (INED)	Attendee
Andy Bord	Member (CEO and ED)	Attendee	Attendee	Attendee	Attendee
Judith Eden	Member (SID)	CHAIR	Member (INED)	Member (INED)	Member (INED)
Simon Green[1]	Member (INED)	Member (INED)	Member (INED)	Member (INED)	Member (INED)
Paul Leinster[2]	Member (INED)	Member (INED)	Member (INED)	Member (INED)	Member (INED)
Stuart Logue	Member (CFO and ED)	x	x	Attendee	Attendee
Jean Sharp	Member (INED)	Member (INED)	Member (INED)	Member (INED)	CHAIR
Shirel Stedman[3]	Member (INED)	Member (INED)	Member (INED)	Member (INED)	Member (INED)
Perry Thomas	Member (INED)	Member (INED)	Member (INED)	CHAIR	Member (INED)

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

[1] Simon Green was appointed to the Board on 1 January 2022.
[2] Paul Leinster resigned from the Board effective 31 March 2023.
[3] Shirel Stedman was appointed to the Board on 16 January 2023.

Committee attendance record

The table below shows the Committee attendance record for the year ended 31 March 2023 (attended/eligible).

Name	Board	Remuneration Committee	Nominations Committee	Risk and Capital Committee	Audit and Compliance Committee
Total number of meetings	**5**	**3**	**3**	**4**	**5**
Directors					
Mark Hoban	5/5	3/3	3/3	4/4	5/5
Andy Bord	5/5	3/3	3/3	4/4	4/5
Judith Eden	5/5	3/3	3/3	4/4	5/5
Simon Green[1]	4/5	3/3	3/3	4/4	5/5
Paul Leinster[2]	5/5	2/2	2/2	4/4	5/5
Stuart Logue	5/5	x	x	4/4	5/5
Jean Sharp	5/5	3/3	3/3	4/4	5/5
Shirel Stedman[3]	1/1	1/1	1/1	1/1	1/1
Perry Thomas	5/5	3/3	3/3	4/4	5/5

[1]Simon Green was appointed as employee representative.

[2]Paul Leinster left during the year and had full attendance at all meetings during his time on the Board.

[3]Shirel Stedman joined during the year and had full attendance at all meetings since she joined the Board.

Board

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

Remuneration Committee

Flood Re's Remuneration Committee is responsible for setting the remuneration of the Executive Directors and other members of the Executive Committee as well as overseeing Flood Re's overall Remuneration Policy. Fees for the Chair and other Independent Non-Executive Directors are determined annually by the Remuneration Committee and approved by the Board. The Committee oversees the delivery of remuneration across Flood Re, including bonus structure and alignment to the Flood Re desired behaviours and objectives.

Nominations Committee

The Nominations Committee reviews the structure, size, and composition (including the skills, knowledge, experience, and diversity) required of the Board and makes recommendations to the Board with regard to any changes. The Committee continues to actively monitor succession planning for Directors and other Senior Executives across the organisation.
The Board, on 16 January 2023, on the recommendation of the Nominations Committee, appointed Shirel Stedman as an Independent Non-Executive Director. As of 31 March 2023, Paul Leinster retired from the post of Independent Non-Executive Director, after more than six years on the Board.

Risk and Capital Committee (RCC)

The RCC is responsible for the oversight of the risk management framework and capital adequacy; ensuring that all risks to the Company are identified, assessed, and monitored in line with the risk appetite and policies. During the year, the RCC has continued to focus in particular on Flood Re's Internal Model change application to the PRA and on its consideration of Flood Re's key strategic risks relating to the Scheme's Transition Plan.

Audit and Compliance Committee (ACC)

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

The Committee also has oversight of Flood Re's adoption of International Financial Reporting Standard 17: Insurance Contracts, which is effective from 1 April 2023.

Executive Committee (ExCo)

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

- Reinsurance and Securities Sub-Committees: responsible for oversight on reinsurance counterparties and related activities
- Operations Sub-Committee: responsible for Flood Re's operational activities
- Underwriting and Claims Sub-Committee: responsible for oversight of underwriting activities
- Transition Sub-Committee: responsible for Flood Re's successful, sustainable, and affordable transition in 2039 and beyond
- Model Oversight Group: responsible for overseeing the ongoing appropriateness of the Partial Internal Model Design and Operations.

Executive Committee

Andy Bord and Stuart Logue are joined by:

Maxwell Bero

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

Harriet Boughton

Harriet Boughton is General Counsel and Head of Compliance, responsible for overseeing the firm's legal and compliance framework and embedding best practice corporate governance across the organisation. Harriet is also responsible for regulatory and public administrative matters and led the Company's first Quinquennial Review. She is also the Flood Re Data Protection Officer.

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

Daniel Byrne

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

Dermot Kehoe

Dermot Kehoe is Communications and Transition Director, responsible for leading all Flood Re's communications activity. He also leads Flood Re's strategy to transitioning the market to affordable, risk reflective pricing. Dermot has extensive experience in strategic communications, public policy and journalism including at the NHS, Home Office, Channel 4, and the BBC.

Andrea Santolalla

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

Jenny Cooper

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

Directors' remuneration

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

The table below shows the Executive Directors' total remuneration figure for the financial years ended 31 March 2023 and 2022.

Name	**Year**	Salary £	Taxable benefit £	Bonus £	Pension £	Pension allowance £	Total £
Andy Bord	**2023**	**402,000**	**-**	**100,098**	**-**	**42,210**	**544,308**
	2022	386,500	-	90,441	-	40,582	517,523
Stuart Logue	**2023**	**279,760**	**3,259**	**73,857**	**4,000**	**25,281**	**386,157**
	2022	269,000	3,186	68,192	9,552	18,021	367,951

Pension allowances represent 10.5% of base salary. Pension allowances are only paid by the Company when lifetime or annual allowances are exceeded. Executive Directors were eligible to join the pension scheme from 1 January 2016.

The table below shows the Independent Non-Executive Directors' fee structure for the years ended 31 March 2023 and 2022. The Board reviewed the Independent Non-Executive Directors' fees during the year in accordance with the Remuneration Policy.

Name	Year	Total Fees £
Mark Hoban	**2023**	**150,000**
	2022	146,965
Judith Eden	**2023**	**50,000**
	2022	48,183
Simon Green	**2023**	**50,000**
	2022	12,046
David Hindley*	**2023**	**-**
	2022	43,637
Claire Ighodaro*	**2023**	**-**
	2022	14,546
Paul Leinster	**2023**	**50,000**
	2022	48,183
Jean Sharp*	**2023**	**60,000**
	2022	55,683
Shirel Stedman	**2023**	**10,641**
	2022	-
Perry Thomas*	**2023**	**60,000**
	2022	14,546

* Includes up to £10,000 allowance for chairing Board Sub-Committees.
Simon Green was appointed as Non-Executive Director on 1 January 2022.
David Hindley resigned on 31 December 2021.
Claire Ighodaro resigned on 28 June 2021.
Paul Leinster resigned on 31 March 2023
Jean Sharp was appointed as Non-Executive Director on 1 April 2021.
Shirel Stedman was appointed as Non-Executive Director on 16 January 2023.
Perry Thomas was appointed as Non-Executive Director on 1 January 2022.

Directors' indemnity

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

Remuneration Policy

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

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

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

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

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

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

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

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

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

The Chair and other Independent Non-Executive Directors are not eligible to participate in annual bonus plans, the employee benefit schemes or the pension scheme. Their pay rates are determined annually, with changes taking into account inflation, by the Remuneration Committee and approved by the Board after taking advice from the CEO. The Remuneration Committee takes into account the time commitment, the responsibilities and complexities of their roles, as well as the rates paid by other comparable organisations within the insurance industry and the wider financial services sector, by undertaking external benchmarking activities.

Whistleblowing

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

Going concern

Flood Re has reviewed its Going Concern status over a three-year financial planning period from 1 April 2023, and a five-year operational planning period. The Company has considered both stresses to Flood Re's solvency position and operations to confirm its ability to remain a going concern both in terms of financial strength and operational resilience.

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

During the past year we have seen macro-economic pressures, specifically the inflationary environment, the resulting impact on the cost of living and development in the reinsurance markets reacting to natural catastrophe events globally. The Flood Re Scheme continues to be financially resilient, with a relatively benign flood year leading to a further strengthening of the Scheme's solvency and ability to manage within the limits of the Scheme.

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

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 2023 (2022: £nil).

Political donations

The Company did not make any political donations during the year ended 31 March 2023 (2022: £nil).

Financial instruments

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

Risk framework

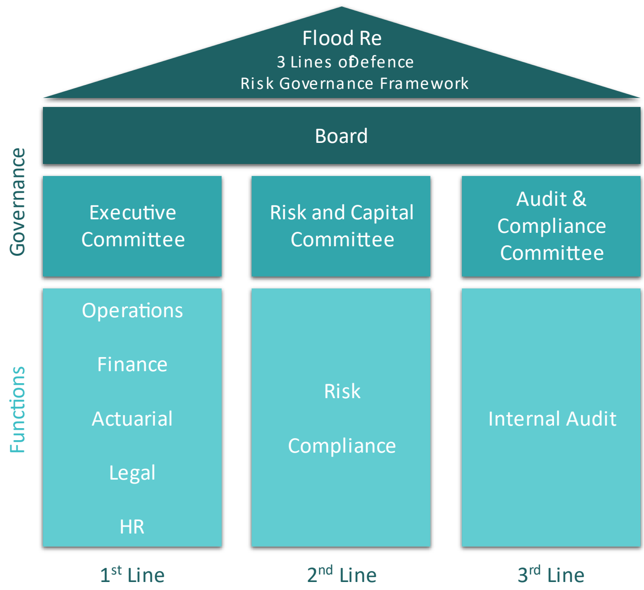
Overview of risk

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

Risk governance and culture

Ultimate responsibility for risk management within Flood Re lies with the Board. Critical to this is the tone it sets with respect to Risk Culture. The Board's responsibility for risk management is discharged through Flood Re's Committee structure (see Directors' report – governance framework).

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



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

The second line of defence is carried out by the Risk function, led by the Chief Risk Officer and the Legal and Compliance function led by the General Counsel.

The Risk function is responsible for providing risk advice, facilitating and co-ordinating first line risk activity, monitoring risks and providing independent commentary, oversight, and challenge of the management of risks. The Risk Function is also responsible for delivering an annual cycle of Internal Model validation. The Risk function reports to the Risk and Capital Committee ("RCC").

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

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

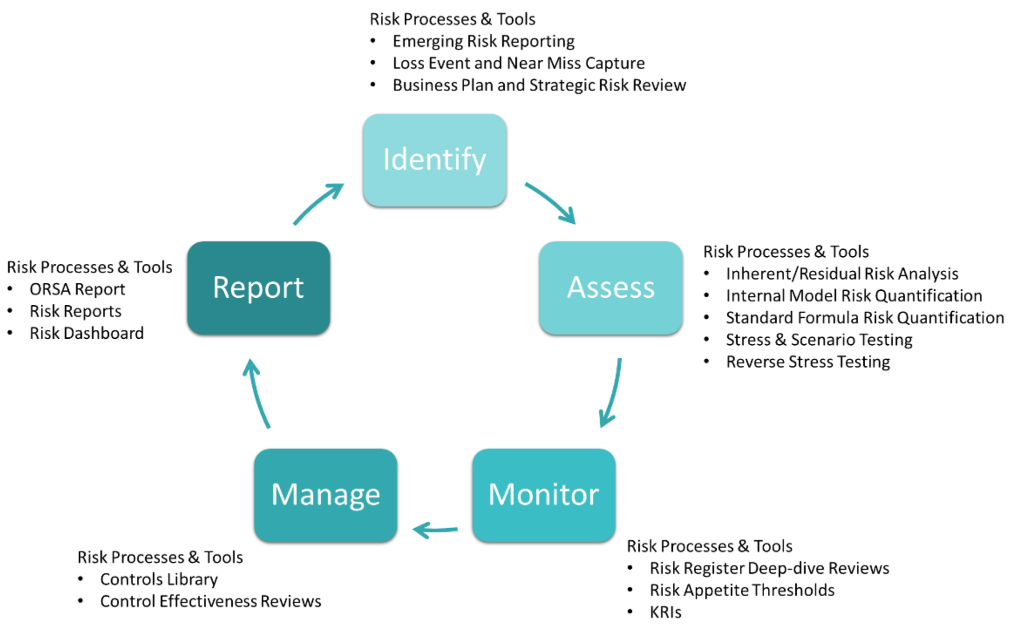
It is the responsibility of each of the three lines of defence to ensure the delivery of Flood Re's complete risk management system.

Risk management system

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

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

Recent examples of these elements of the risk management system being used for major strategic decisions and direction include (a) Responding to volatile macro-economic environment (escalating inflation and interest rates), (b) Preparing for the next three-year cycle of RI placement and Scheme parameter setting and (c) Reviewing the short, medium and long term implications of climate change on UK flood risk.



Risk register

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

Each risk on the register is subject to an assessment of both its likelihood (of occurrence) and impact (given occurrence). Flood Re monitors changes in its risk profile against a set of Key Risk Indicators (KRIs) and Board-approved risk appetite metrics on an ongoing basis.

Each risk is allocated to a risk owner. Risk owners ensure risks are managed in accordance with the Risk Management Policy and within the risk appetite metrics. The management of each risk is aligned to one or more of the following types of actions: transfer, avoid, reduce, or accept.

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have prepared the Company's Financial Statements in accordance with UK-adopted International Accounting Standards.

The directors are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for our stakeholders to assess the company's position and performance, business model and strategy. The Directors' Report describes the principal risks and uncertainties faced, along with how they are being managed or mitigated. Based on its long-term solvency and liquidity position and the principal risks, the directors are satisfied that Flood Re will be able to continue to operate and meet its liabilities.

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

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- State whether applicable UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Directors' Report
For the year ended 31 March 2023

Directors:

The Directors of the Company during the year ended 31 March 2023 were:

Mark Hoban	Chair
Andy Bord	Chief Executive Officer
Judith Eden	Independent Non-Executive Director
Paul Leinster	Independent Non-Executive Director (Resigned 31 March 2023)
Stuart Logue	Chief Financial Officer
Jean Sharp	Independent Non-Executive Director
Shirel Stedman	Independent Non-Executive Director (Appointed 16 January 2023)
Perry Thomas	Independent Non-Executive Director
Simon Green	Independent Non-Executive Director

Company Secretary
Harriet Boughton

Independent auditor
The Auditor, Ernst & Young LLP, has been re-appointed to office during the period.

Disclosure of information to Auditors
Each of the persons who is a Director at the date of this report confirms that:

1. As far as each of them is aware, there is no information relevant to the audit of the Company's Financial Statements for the year ended 31 March 2023 of which the Auditors are unaware.
2. The Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

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

…………………………
Andy Bord
Director

Date: 23 June 2023
Registered Office: 75 King William Street, London EC4N 7BE

FLOODRE

Auditor's Report
For the year ended 31 March 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLOOD RE LIMITED

Opinion

We have audited the financial statements of Flood Re Limited for the year ended 31 March 2023 which comprise the Statement of Profit or Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 34 (except for those sections marked as unaudited in note 6), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

- In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:
- Performing a walkthrough of the Company's financial close process, in which we confirmed our understanding of management's Going Concern assessment process;
- Obtaining and reviewing management's going concern assessment, including the cashflow forecast for the going concern period, which covers three years from the balance sheet date;
- Reviewing management's three-year forecast and considering the appropriateness of the methods and assumptions used in the cashflow forecasts and determining through inspection and testing that the methods were appropriate, and the assumptions used were reasonable;
- Reviewing and understanding the output of management's stress and scenario testing in order to evaluate how extreme stresses would have to be in order to result in risks or events that may impact the Company's ability to continue as a going concern. These stresses included a number of reasonable stresses to its claims reserves and actuarial projections which did not impact the going concern assumption.
- Reviewing the Company's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of three years from 1 April 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Valuation of insurance contract liabilities – IBNR and Premium Deficiency Provision
Materiality	• Overall materiality of £13.5m (2021: £11.7m) which represents 2% of equity (2022: 2% of equity).

An overview of the scope of our audit

Tailoring the scope

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

Climate change

Stakeholders are increasingly interested in how climate change will impact the Company. The company has determined that currently there is no material impact from climate change on its operations and financial position. The company recognises that flooding poses a serious, growing climate-related risk and it is focused on the risk faced by the insurance industry in the short, medium and long term and the ability of this industry to achieve a sustainable and affordable transition post the termination of the scheme. This is explained in the strategic report, which forms part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

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

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of Insurance Contract Liabilities – IBNR (£13.1m, 2022: £11.6m) and Premium Deficiency Provision (£51.8m, 2022: £28.9m) Refer to the Accounting policy 2.14, critical accounting judgement 4 (a); and Note 23 of the Financial Statements. One of the most significant risk areas from both a business and an audit perspective is the valuation of the Insurance Contract Liabilities, specifically the Incurred but not reported ("IBNR") reserves and premium deficiency provision held. Claims reserves are inherently uncertain and subjective by nature and therefore more susceptible to fraud or error than most other financial statement balances. There is a risk that inappropriate reserve projections are made, whether	We gained an understanding of the process for estimating the IBNR reserves and the premium deficiency provision held and assessed the design and operational effectiveness of key controls within the Company's processes. We understood and evaluated management's methodology for valuing the IBNR reserve and premium deficiency provision against market practice, and challenged key assumptions and judgements used in the setting the level of earned claims reserves and premium deficiency provision, gross and net of reinsurance based on our market knowledge and industry data where available. We performed testing of the accuracy and completeness of the data used in valuing the insurance contract liabilities, reconciling key inputs into the	Based upon our work performed, we have concluded that management's judgements for estimating IBNR reserves and premium deficiency provisions are reasonable and that the data to which those assumptions have been applied are appropriate. We consider the Company's booked gross and net reserves to be reasonable.

from the use of inaccurate underlying data, invalid or inappropriate statistical modelling techniques, or the use of unreasonable assumptions. This could lead to reserves falling outside a reasonable range of possible estimates and a misstatement in the financial statements. There is estimation involved in deriving the liability cash-flows for unexpired risks. Where these exceed unearned premiums a premium deficiency provision is required. Key judgements include assessing: 1) The value of any claims that have been incurred but not yet reported to the company. 2) The effects of inflation on the cost of claims whether caused by the impact of the COVID-19 pandemic, the events in Ukraine or other macro-economic impacts. 3) The level of prudential margin held by management 4) The loss ratio assumption used for the valuation of earned reserves and determination of the premium deficiency provision. This risk has not changed in the current year.	actuarial valuation to source systems. We considered the sufficiency of the reserves held with reference to inflation. Using our actuaries, we have reviewed the loss ratio assumptions in calculating the IBNR and premium deficiency provision. Our actuaries have also independently calculated a best estimate IBNR and established a range of reasonable IBNR estimates, and compared to management's booked IBNR to confirm that they were within our range of reasonable estimates. Additionally, using our EY Actuaries we utilised market knowledge to assess the reasonableness of the management margin held on the earned reserves.	

Our application of materiality

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

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

We determined materiality for the Company to be £13.5 million (2022: £11.7 million), which is 2% (2022: 2%) of equity. We consider the main stakeholders to be government, insurers and regulators. Given the focus of stakeholders is the Company's solvency and ability to settle claims appropriately, we have determined equity as the most appropriate basis for setting our materiality.

During the course of our audit, we reassessed initial materiality and increased the materiality used at year-end to reflect the increase in equity.

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £10.1m (2022: £8.8m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

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

We have reported to the directors all uncorrected audit differences in excess of £677k (2022: £588k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 50, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are applicability of direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included The Water Act 2014 and the permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how Flood Re Limited is complying with those frameworks by making enquires of management, internal audit, and those responsible for legal and compliance matters; reviewing correspondence between the Company and UK regulatory bodies; reviewing minutes of Committees; and gaining an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud; and considering areas of significant judgement, complex transactions, performance targets and external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the testing of top-side journals, which were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; making enquiries with regards to the policies that have been established to prevent non-compliance with laws and regulations by officers and employees; inquiring about the Company's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 20 April 2016 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 31 March 2016 to present.

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

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

Use of our report

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

Ernst & Young LLP

Edward Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 June 2023

FLOODRE

Statement of Profit or Loss
as at 31 March 2023

	Note	2023 £000	2022 £000
Gross written premiums		51,578	46,431
Premiums ceded to reinsurers		(72,778)	(69,565)
Net written premiums		**(21,200)**	**(23,134)**
Net change in unearned premiums provision		(2,935)	(1,849)
Net earned premiums	8	**(24,135)**	**(24,983)**
Levy income	9	135,000	180,000
Fees and commission income	10	28,190	12,510
Interest income from debt instruments	11	3,198	7
Interest on cash and short-term deposits		10,544	332
Total revenue		**152,797**	**167,866**
Gross claims paid		(36,319)	(62,538)
Claims ceded to reinsurers		17,197	29,226
Change in insurance contract claims liabilities		(9,670)	30,410
Change in contract liabilities ceded to reinsurers		3,019	(14,767)
Net insurance claims	12	**(25,773)**	**(17,669)**
Finance costs		(57)	(45)
Other operating and administrative expenses	13	(17,194)	(18,207)
Total expenses		**(43,024)**	**(35,921)**
Profit before tax		109,773	131,945
Income tax expense	16	(20,856)	(25,065)
Profit for the year		**88,917**	**106,880**

FLOODRE

Statement of Comprehensive Income
as at 31 March 2023

	Note	2023 £000	2022 £000
Profit for the year		**88,917**	**106,880**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Net loss on debt instruments at fair value through other comprehensive income	21	(167)	(40)
Deferred tax on unrealised losses	16	42	-
		88,792	**106,840**
Total comprehensive income for the year		**88,792**	**106,840**

All the Company's operations are continuing.

FLOODRE

Statement of Financial Position
as at 31 March 2023

	Note	2023 £000	2022 £000
Assets			
Intangible assets	17	4,797	-
Property, Plant and Equipment	18	4,039	2,984
Deferred tax asset	16	38	-
Reinsurers' share of contract liabilities	23	81,047	78,020
Reinsurance receivables	19	18,898	16,491
Other receivables	20	3,346	927
Debt instruments at fair value through other comprehensive income	21	498,066	17,916
Current tax asset		1,170	-
Cash and short-term deposits	22	273,575	672,946
Total assets		**884,976**	**789,284**
Equity			
Retained earnings		677,431	588,514
Fair value reserve		(165)	(40)
Total equity		**677,266**	**588,474**
Liabilities			
Insurance contract liabilities	23	140,884	128,271
Deferred commission income	27	3,991	5,305
Reinsurance payables	28	29,698	39,240
Deferred tax liabilities	16	-	11
Current tax liabilities		-	2,228
Lease Liabilities	29	3,579	2,722
Trade and other payables	30	29,558	23,033
Total liabilities		**207,710**	**200,810**
Total equity and liabilities		**884,976**	**789,284**

The Notes on pages 65 to 111 are an integral part of the Financial Statements.

The Financial Statements on pages 60 to 111 were authorised for issue by the Board of Directors on **23 June 2023** and were signed on its behalf by:

…………………………………
Andy Bord
Chief Executive Officer
Company registered number: 08670444

…………………………………
Stuart Logue
Chief Financial Officer

FLOODRE

Statement of Changes in Equity
for the year ended 31 March 2023

	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance as at 31 March 2021	-	**481,634**	**481,634**
Profit for the year	-	106,880	106,880
Other comprehensive loss	(40)	-	(40)
Balance as at 31 March 2022	**(40)**	**588,514**	**588,474**
Profit for the year	-	88,917	88,917
Other comprehensive loss	(125)	-	(125)
Total comprehensive income/(loss)	**(125)**	**88,917**	**88,792**
Balance as at 31 March 2023	**(165)**	**677,431**	**677,266**

The Notes on pages 65 to 111 are an integral part of the Financial Statements.

FLOODRE

Statement of Cash Flows
for the year ended 31 March 2023

	Note	2023 £000	2022 £000
Operating activities			
Profit before tax		109,773	131,945
Adjustments for:			
Depreciation	13	1,363	1,304
Interest on cash and short-term deposits		(10,544)	(332)
Interest income from debt instruments		(292)	(7)
Accretion of discounts from debt instruments		(2,906)	-
Changes in operating assets and liabilities			
(Increase)/decrease in reinsurers' share of contract liabilities		(3,027)	11,624
(Increase)/decrease in reinsurance receivables		(2,407)	111
(Increase)/decrease in other receivables		(64)	67
Increase/(decrease) in gross insurance contract liabilities		12,613	(25,420)
(Decrease)/increase in deferred commission income		(1,314)	1,429
Decrease in reinsurance payables		(9,542)	(4,351)
Increase/(decrease) in trade and other payables		6,525	(11,657)
Cash generated from operations		**100,178**	**104,713**
UK Corporation taxes paid		(24,261)	(22,913)
Net interest received		8,480	51
Net cash flows from operating activities		**84,397**	**81,851**
Investing activities			
Purchases of intangible assets	17	(4,797)	-
Purchases of property, plant and equipment	18	-	(73)
Net disposals/(purchases) of deposits placed with a duration greater than three months		397,900	(130,150)
Purchase of debt instruments		(495,410)	(17,956)
Proceeds from maturity of debt instruments		18,000	-
Net cash flows from investing activities		**(84,307)**	**(148,179)**
Financing activities			
Payment of principal portion of lease liabilities		(1,561)	(1,544)
Net cash flows from financing activities		**(1,561)**	**(1,544)**
Net decrease in cash and cash equivalents		**(1,471)**	**(67,872)**
Cash and cash equivalents at 1 April		27,246	95,118
Cash and cash equivalents at 31 March	22	**25,775**	**27,246**

The Notes on pages 65 to 111 are an integral part of the Financial Statements.

1. General information

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

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

The Company is a mutual reinsurer and was incorporated in August 2013 as a private UK company limited by guarantee. The Company was authorised by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on 1 April 2016 and commenced underwriting on 4 April 2016. In 2021/22 the Company was formally designated as a public body (central government) by the Office for National Statistics and the classifications became public on 23 December 2021. The Registered Office is located at 75 King William Street, London, EC4N 7BE.

2. Significant accounting policies

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

2.1 Basis of preparation

The Financial Statements have been prepared in accordance with UK-adopted International Accounting Standards.

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

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

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

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

It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Financial Statements for a period of 3 years from 1 April 2023.

The preparation of Financial Statements in accordance with UK-adopted International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

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

Flood Re recognises the economic environment with effects of higher inflation, cost of living consequences and the impact of natural catastrophe events on the reinsurance market all being recognised. Flood Re has no investment exposure beyond Debt Management Office (DMO) deposits and short-dated UK Gilts and Treasury Bills.

The Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective Notes.

2.2 Consolidation

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

In accordance with the UK Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, the information contained in the Company's Annual Report and Accounts is consolidated into the Annual Report and Accounts of the Department for Environment, Food and Rural Affairs ("Defra").

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 Foreign currency translation

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

2.5 Intangible assets

Intangible assets developed internally are measured at cost on initial recognition. The direct cost incurred to create, produce and develop IT software application is the value recognised at the day the asset is successfully implemented. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses, if appropriate.

The economic lives of the intangible assets are determined by considering factors such as usage of the asset, the length of the contractual obligation to the software provider, potential obsolescence and the period of control over the assets. Finite life intangibles are amortised over their estimated useful lives of the assets as stated below, on a straight-line basis:

IT Software applications (internally developed)	5 years

Development costs
Development expenditures on an individual project are recognised as an intangible asset when the following criteria are met:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sell
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Amortisation of the asset begins when development is complete, and the asset is available for use. During the period of development, the asset is tested for impairment annually. No amortisation in respect of intangible assets have been recognised during the year 2022-23.

Intangible Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where evidence of such impairment is observed, an impairment charge will be recognised in the Statement of Profit or Loss. An impairment charge is recognised as the difference between carrying amount of the asset less its recoverable value, being the higher of an asset's fair value less costs of disposal or its value in use. For the purpose of impairment testing, the recoverable amount is determined on an individual asset basis.

Intangible Assets are reviewed each reporting period for possible reversal of the impairment. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets are derecognised either on disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the income statement when the asset is derecognised.

2.6 Property, plant and equipment

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

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

Furniture, fixtures and fittings	2 years
Computer equipment	2 years
Right of use assets	Over the life of the lease

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year-end date.
An impairment review is performed when there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Profit or Loss.

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

The Company only recognises property, plant and equipment on individual items purchased with a valuation in excess of £10,000.

2.7 Financial assets and liabilities

(a) Initial recognition and measurement

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

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

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

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

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

Financial assets measured at amortised cost are included in Note 20: Other receivables; Note 21: Debt instruments measured at fair value through other comprehensive income; and Note 22: Cash and short-term deposits.

Financial liabilities are classified, at initial recognition, as loans and borrowings, and payables, as appropriate.

Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs; and are included in Note 30: Trade and other payables.

(b) Subsequent measurement

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

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

After initial recognition, financial liabilities are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

(c) De-recognition

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

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

(d) Impairment of financial assets

The Company assesses the expected credit losses (ECLs) associated with its financial assets measured at amortised cost and at fair value through other comprehensive income. The impairment methodology depends upon whether there has been a significant increase in credit risk.

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

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

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

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

For balances held at bank and short-term deposits and in UK Treasury Gilt and Treasury Bills investments, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether these instruments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company monitors the credit rating of the instrument issuer from external sources. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due. The financial assets comprise of treasury gilts and bills issued by the UK government as part of the wider investment portfolio that were purchased during the year. The composition of the UK Treasury gilts portfolio are graded as AA.

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

2.8 Reinsurers' share of contract liabilities

The Company cedes insurance risk in the normal course of business. Reinsurers' shares of contract liabilities represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurers' policies and are in accordance with the related reinsurance contracts. Reinsurers' shares of contract liabilities are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurers' share of contract liability that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

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

2.9 Reinsurance receivables and payables

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

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

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

2.10 Cash and short-term deposits

Cash and short-term deposits comprise cash at bank, and short-term deposits invested with the DMO, with a maturity of three months or less, or with a maturity up to six months where they are not subject to a significant risk of change in value. The treatment of deposits for the purposes of the Statement of Cash Flows separates deposits placed for three months or less and those placed for durations above three months, for the purposes of identifying Cash and cash equivalents.

2.11 Current and deferred income tax

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

(a) Current income tax

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

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss.

(b) Deferred tax

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

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

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

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

Deferred tax is measured on an undiscounted basis.

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

2.12 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

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

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

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

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.
The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for any re-measurement of lease liabilities.

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

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

2.13 Insurance contract liabilities

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

(a) Outstanding claims provision

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

(b) Provision for unearned premiums

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

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

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

If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the Statement of Profit or Loss by setting up a provision for premium deficiency in the Statement of Financial Position (refer to note 26).

2.14 Deferred commission income

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

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

2.15 Trade and other payables

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

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

2.16 Provisions

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

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

2.17 Contingent liabilities

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

2.18 Revenue recognition

(a) Levy income

Levy income is payable by UK household insurers in proportion to their respective market shares as required under Statute. There is no service delivery obligation that the Company is required to fulfil in relation to the Levy. Levy income is recognised when it is due on 1 April of each year and is payable quarterly and measured at amortised cost of the consideration received or receivable.

(b) Gross written premiums

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

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

(c) Ceded premium

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

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

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

(d) Fee and commission income

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

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

(e) Interest on cash and short-term deposits

Interest on cash and short-term deposits consists of interest income from deposits, less expenses and charges. Interest is recognised when earned and is accrued using the effective interest rate method.

(f) Investment income

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

2.19 Claims and expenses recognition

(a) Gross claims and loss adjustment expenses

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

(b) Claims ceded to reinsurers

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

(c) Finance costs

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

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

(d) Employee benefits

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

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

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

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

3. Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

On 31 December 2020, EU adopted IFRS at that date was brought into UK law and became UK adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board.

There were no new or amended International Accounting Standards effective for the financial period beginning on or after 1 April 2022 relevant to Flood Re. . IFRS 3, IAS 16 and IAS 37, had no impact on the Company.

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

Standards issued but not yet effective

IFRS 17 is effective for annual periods on or after 1 January 2023, with early adoption permitted. Flood Re has not opted for early adoption, therefore the new standard will take effect from the financial year commencing 1 April 2023.

Flood Re will apply IFRS 17 for the first time for the period ended 31 March 2024, including full retrospective adoption to the restatement of results of prior period balances. The standard brings significant change to the timing of recognition and the accounting treatment of reinsurance inwards and reinsurance outwards contracts cash flows, which is expected to have a material impact on the financial statements on initial recognition.

As Levy income does not form part of insurance accounting in Flood Re, IFRS 17 will have no impact on timing and recognition of this in the financial results.

Flood Re is required to disaggregate the amounts recognised in the Statement of Profit or Loss into:

- An insurance service result, comprising insurance revenue and insurance service expenses
- Insurance finance income or expenses

Income or expenses from reinsurance contracts held will be presented separately from the expenses or income from insurance contracts issued.

IFRS 17: Insurance contracts

IFRS 17 will apply to all types of insurance and reinsurance contracts and proposes an approach to measuring insurance contract liabilities that is based on the expected present value of future cash flows. The adoption of IFRS 17 is anticipated to have a material impact on the Company's Financial Statements and disclosures, and the Company continues to plan for the impact of adoption. Some of the key expected impacts are highlighted in the following sections.

Insurance service result

Flood Re is required to present in the Statement of Profit or Loss, revenue arising from the groups of reinsurance contracts issued, and insurance service expenses arising from a group of reinsurance contracts it issues, comprising incurred claims and other incurred insurance service expenses. Gross Written Premiums (GWP) will no longer be separately presented; insurance revenue and insurance service expenses from inwards reinsurance issued, will be shown separately, as will the equivalent outwards reinsurance results.

Given the business which Flood Re writes, an onerous contract provision will be created in the Statement of Financial Position, and all subsequent movements in that liability will be recognised in the Statement of Profit or Loss as either Insurance Revenue or Insurance Service Expenses, as appropriate. A loss component will be presented within the insurance contract liability on the Statement of Financial Position.

For inward reinsurance contracts, appropriately allocated premiums will form part of Insurance revenue, being the movement in the liability for remaining coverage (LfRC).

Insurance finance income or expenses

Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money
- the effect of changes in assumptions that relate to financial risk

Flood Re does not intend to disaggregate insurance finance income or expense amount presented between Statement of Profit or Loss and in other comprehensive income ("OCI").

A. IFRS 17 Insurance Contracts: Nature of Change

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods beginning on or after 1 January 2023. Flood Re applies the standard at the 31 March 2024 year end, with the transition date at 1 April 2022.

The scope of IFRS 17 is similar to IFRS 4 and the definition of "significant insurance risk" does not change, therefore Flood Re's product and reinsurance contracts (inwards and outwards), which is currently in scope of IFRS 4, would remain in the scope of IFRS 17. Areas of differences between IFRS 4 and IFRS 17, such as the separation of non-insurance components, are not relevant to Flood Re.

(a) Level of aggregation

Under IFRS 17, insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and that are managed together.

(b) Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all future cash flows within the boundary of each contract in the group.

The boundary of a (re)insurance contract is primarily dependent on the rights and obligations of the contracting parties and the ability of insurers or reinsurers to assess and price the risks or benefits in a (re)insurance contract. The contract boundary definition also recognises the contracting parties' ability to exercise the unilateral right to terminate the contract unconditionally.

In relation to inwards reinsurance contracts at initial recognition, Flood Re has the right to terminate the contract by providing twelve months' notice to Cedants. This is a unilateral right that is not constrained by the reinsurance inwards contract or by law. Consequently, we have concluded that Flood Re's contract boundary is twelve months.

And for reinsurance outwards contract at initial recognition:

- Flood Re has the unilateral right to cancel or replace its reinsurance outwards contracts by the end of each underwriting year (i.e. from 1 April to 31 March in the following year) based on a fixed notice period of three months before the year ends.
- These cancellation provisions in Flood Re's reinsurance outwards contracts provide sufficient evidence to conclude that the contract boundary is no more than twelve months.
- The quota share contract being proportional reinsurance as a coverage period of twenty four months which matches the coverage period of our inward reinsurance contracts on a risk attaching basis Our XL contracts are 'losses occurring' and therefore have a coverage period of twelve months.

After initial recognition, subsequent contract boundaries will remain at twelve months for inwards and outwards (re)insurance, reflecting the contract boundary assessment at initial recognition, unless the substantive rights and obligations in the contracts are changed. If this change occurs, IFRS 17 requires Flood Re to reassess the contract boundary.

(c) Measurement - Overview

IFRS 17 introduces a measurement model based on the estimates of the present value of future cash flows that are expected to arise as Flood Re fulfils the contracts, an explicit risk adjustment for non-financial risk and or a loss component for loss making or onerous groups of contracts.

The Premium Allocation Approach (PAA) is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria. IFRS 17 specifies two main criteria for assessing an entity's eligibility to use PAA. One criterion is a quantitative measurement requiring no material difference between the estimate of the liability for remaining coverage (LfRC) of the contracts reinsured using the PAA and the same estimate applying the general measurement model (GMM). The other criterion is that the coverage period of each contract in the group of reinsurance contracts (including reinsurance contract services) arising from all premiums within the contract boundary is one year or less.

Flood Re has determined that it is eligible to apply PAA (reinsurance inwards and outwards) based on a quantitative assessment of the LfRC using the PAA approach compared to GMM as described above.

Flood re has determined that it will take a fully retrospective approach to the restatement of results for IFRS 17 implementation.

B. IFRS 17 Insurance Contracts: Impact of Change

The following considerations have been assessed in finalising the IFRS 17 requirements for Flood Re:

- Flood Re's mandate as a reinsurer of a single line of business remains unchanged.
- All policies ceded by insurers under reinsurance inwards contracts issued by Flood Re and underwritten by Flood Re under its Insurance Inwards contracts are onerous on a modelled basis.
- Bound but not incepted (BBNI) reinsurance cover obligations, based on the contract boundary rules, are required to be recognised early in accordance with IFRS 17 recognition rules

requirements. Consequently, Flood Re will maintain a loss component (LC) provision for the inwards reinsurance (i.e. reinsurance contracts issued) business, and a loss recovery component (LRC) for outwards reinsurance (reinsurance contracts held). LC and LRC would be run off against future gross claims and corresponding recoveries respectively in line with the run off of the relevant contracts. The LC is the projected net cashflows of reinsurance inwards contracts i.e. net discounted modelled premiums, claims and attributable expenses with outflows exceeding inflows. The LRC is the modelled value of recoveries as a percentage of the losses recognised.

- For inwards and outwards reinsurance contracts, Flood Re will use a Premium Allocation Approach (PAA) model in the measurement of the liability for remaining coverage (LfRC) calculation, having met the PAA eligibility requirement when compared to general measurement model (GMM). The measurement of the liability for incurred claims (LIC) is the same under both GMM and PAA approaches.
- The LIC will be discounted using an appropriate risk adjusted rate. The LfRC will not be discounted because premiums are collected upfront and therefore have a collection cycle of less than twelve months.
- Risk adjustment for non-financial risk will be calculated separately and will be subject to discounting.

The actual impact of adopting IFRS 17 from 1 April 2023 and comparative may change because:

- Flood Re is continuing to refine the accounting processes and internal controls required for applying IFRS 17; and
- the new accounting policies, assumptions, judgements, and estimation techniques employed are subject to change until Flood Re finalises its first financial statements on initial recognition.

The components within the insurance service result in the IFRS 17 Statement of Profit or Loss can be presented in a number of ways. Flood Re has adopted the following presentation approaches:

(a) Income and expense from outward reinsurance contracts

Flood Re intends to present income and expenses from outward reinsurance separately and as follows:

- The amounts recovered from reinsurers for the period; and
- Premiums incurred net of fixed commission received.

Together these provide a net amount that equates to the loss on outward reinsurance for the financial year.

(b) Discounting the liability for incurred claims

In applying the premium allocation approach to reinsurance contracts, Flood Re will be discounting the liability for incurred claims.

(c) Disaggregate the change in the risk adjustment for non-financial risk

An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service results and insurance finance income or expenses. Accordingly, Flood Re does not intend to disaggregate the risk adjustment between insurance service results and insurance financial income or expenses. The entire risk adjustment for non-financial risk will be reflected only in the reinsurance service results.

(d) Disaggregate insurance finance income between Statement of Profit or Loss and OCI

Entities are required to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between Statement of Profit or Loss and Other Comprehensive Income, with the choice available at the level of portfolios of insurance contracts. Flood Re does not intend to disaggregate insurance finance income or expense amount to OCI.

Summary Impact assessment on opening balance

- The estimated impact would be to reduce the equity, by less than 10% as at the transition date i.e. 1 April 2022
- The biggest change is the net impact of the estimated loss component (projected net outflow) and the loss recovery components (projected reinsurance inflow). The loss component and the loss recovery component relate to an additional year of bound and but not incepted (BBNI) business which is required under IFRS 17 rules for onerous business.
- The estimated net impact of discounting is positive because of Flood Re's insurance business loss making status i.e. the value of future losses is adjusted for the time value of money
- The estimated impact of the early recognition of BBNI losses also creates a positive timing difference on corporation tax liabilities
- Flood Re's proposed policy of recognising risk margin only on expired risk (incurred claims) means there is no additional impact due to IFRS 17 risk adjustment on the expected opening balance

4. Critical accounting estimates and judgements

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

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

(a) Insurance contract liabilities

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

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

The ultimate cost of outstanding claims is estimated using standard actuarial techniques, supplemented with bespoke methods where appropriate.

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

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

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

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

The carrying value of gross insurance claims liabilities, including the premium deficiency provision, as at 31 March 2023 is £113.5m (2022: £103.8m).

(b) Inwards reinsurance

Current pipeline premium estimates account for £6.9m or 13.4% of the gross written premium for the year ended 31 March 2023 (2022: £4.7m or 10.1%).

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

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

5. Risk

5.1 Insurance risk

(a) Premium risk

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

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

The premiums the Company charges have been set at a level that is:

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

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. The cost of the subsidy provided through the premium charged is met by a Levy raised from all insurers writing home insurance in the UK. The Levy for the first six years of the Scheme was set at £180m per annum. From 1 April 2022 for the following three years, this was decreased to £135m. The outwards reinsurance programme is structured hand in hand with the setting of Levy 1 every three years to manage Flood Re's Solvency and Loss Limit Risk Appetites.

(b) Reserve risk

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

Overview

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

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

Claims settlement period

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

Reserving methodology and assumptions

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

The gross claims reserves are calculated consistent with a probability-weighted mean best estimate of a range of potential outcomes using actuarial estimation techniques. A prudential margin is held, with the level being a management judgement rather than an actuarial judgement. The Board has an appetite for a probability of sufficiency in excess of 75%. Future claims handling expenses need to be allowed for in addition to the outstanding claims reserve and are based on estimated expenses per claim. The Company's fixed pricing methodology means that a premium deficiency provision is expected to be required every year. Premium deficiency represents the excess of the estimated value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date over the unearned premiums provision in relation to such policies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims and in accordance with the related reinsurance contracts.

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year.

Uncertainty

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

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

Sensitivity

The Company is most sensitive to the assumptions utilised in the estimation of insurance claims liabilities, which comprise attritional, large and catastrophic flood events, impacting the gross loss ratio. Scenario analysis is used to assess the sensitivity to changes in key assumptions and the resulting gross loss ratios. The use of scenario analysis helps to illustrate the potential financial impact of assumptions varying from expectations where there is little or no historical data and in turn this is used to inform the prudential management margin.

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

	2023 Change in gross claim reserves £000	2023 Change in net claim reserves £000	2022 Change in gross claim reserves £000	2022 Change in net claim reserves £000
10% increase in gross loss ratio	7,916	4,135	5,336	2,788
10% decrease in gross loss ratio	(7,916)	(4,135)	(5,336)	(2,788)

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 2023, the Company had incurred 28 large losses (2022: 28 large losses) in all years.

Loss development

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

Claims development table

Gross of reinsurance **Accident year ending 31 March**	**2017** **£k**	**2018** **£k**	**2019** **£k**	**2020** **£k**	**2021** **£k**	**2022** **£k**	**2023** **£k**	**Total** **£k**
At the end of accident year	7,661	9,446	15,846	160,159	57,576	33,495	**22,897**	
One year later	2,267	5,762	9,668	109,252	56,314	**33,547**		
Two years later	2,008	5,384	8,499	96,676	**55,396**			
Three years later	1,994	5,259	8,474	**96,153**				
Four years later	1,994	5,191	**8,522**					
Five years later	2,000	**5,222**						
Six years later	**2,002**							
Current estimate of ultimate claim cost	**2,002**	**5,222**	**8,522**	**96,153**	**55,396**	**33,547**	**22,897**	
At the end of accident year	(96)	(654)	(2,381)	(1,607)	(2,444)	(3,898)	**(518)**	
One year later	(1,480)	(3,413)	(5,920)	49,461	(27,063)	**(17,328)**		
Two years later	(1,924)	(5,128)	(8,046)	(81,445)	**(40,419)**			
Three years later	(1,994)	(5,151)	(8,363)	**(88,766)**				
Four years later	(1,994)	(5,189)	**(8,402)**					
Five years later	(2,002)	**(5,188)**						
Six years later	**(2,002)**							
Cumulative payments to date	**(2,002)**	**(5,188)**	**(8,402)**	**(88,766)**	**(40,419)**	**(17,328)**	**(518)**	
Gross outstanding assumed claims provision	**0**	**34**	**120**	**7,387**	**14,977**	**16,219**	**22,379**	**61,116**
Claims handling								**613**
Total assumed incurred claims reserves (Note 23, Note 24)								**61,729**

Claims value net of reinsurance

Accident year ending 31 March	**2017 £k**	**2018 £k**	**2019 £k**	**2020 £k**	**2021 £k**	**2022 £k**	**2023 £k**	**Total £k**
At the end of accident year	3,831	4,723	7,923	76,914	28,206	17,017	**11,922**	
One year later	1,133	2,881	4,328	52,894	28,762	**17,312**		
Two years later	1,004	2,692	4,249	50,387	**30,018, 154**			
Three years later	997	2,629	4,237	**50,983**				
Four years later	997	2,595	**4,261**					
Five years later	1,000	**2,611**						
Six years later	**1,001**							
Current estimate of ultimate claim cost	**1,001**	**2,611**	**4,261**	**50,983**	**30,018**	**17,312**	**11,922**	
At the end of accident year	(48)	(327)	(1,191)	(785)	(1,167)	(2,036)	**(271)**	
One year later	(740)	(1,706)	(2,961)	75,071	(14,067)	**(9,160)**		
Two years later	(962)	(2,564)	(4,023)	(42,750)	**(21,458)**			
Three years later	(997)	(2,576)	(4,182)	**(46,497)**				
Four years later	(997)	(2,594)	**(4,201)**					
Five years later	(1,001)	**(2,594)**						
Six years later	**(1,001)**							
Cumulative payments to date	**(1,001)**	**(2,594)**	**(4,201)**	**(46,497)**	**(21,458)**	**(9,160)**	**(271)**	
Net outstanding claims provision	**-**	**17**	**60**	**4,486**	**8,561**	**8,151**	**11,652**	**32,926**
Total claims cost (Note 23, Note 24)								**33,540**

*The breakdown of outstanding claims reserves and incurred but not reported reserves across opening balance, movements and closing balances are disclosed in note 23 – current liabilities and note 23 – movement in incurred, and by accident year is shown above in the total assumed incurred claims reserves of £61,729k and total ceded incurred claims reserve of £33,540k from the above table.

Catastrophe risk

The Company's most significant insurance risk exposure is to losses arising from infrequent, high severity catastrophe flood events. As these events do not occur frequently, the Company relies on probabilistic catastrophe risk modelling to understand their claims potential.

The table below shows the probable maximum loss, on a prospective basis, for different levels of severity of catastrophe loss years. For example, losses of a level of severity that would be expected to occur no more than once every 50 years, once every 200 or once every 250 years. The estimations allow for new business as well as run-off of existing liabilities for the portfolio as at 31 March 2023.

Between Year End 2022 and Year End 2023, the Company updated its view of flood risk through a Major Model Change and received regulatory approval to embed this new view going forwards. Therefore, the 2023 numbers in the table below reflect both the change in the Company's exposure, and a change in the Company's understanding of flood risk.

	2023 Estimated gross claims £000	2023 Estimated net claims £000	2022 Estimated gross claims £000	2022 Estimated net claims £000
1 in 50 year or 2% probability	912,265	118,236	667,282	116,117
1 in 200 year or 0.5% probability	1,733,429	127,679	1,332,733	125,666
1 in 250 year or 0.4% probability	1,897,541	129,566	1,471,260	127,134

Flood occurrence in the UK varies significantly year on year, due to the inherent volatility in the peril. The year ending 31 March 2023 was benign for catastrophe flood events. The Company did not classify any claims over the period as catastrophe losses, unlike the prior year, where flash floods in London in July 2021 fell into this category.

The Company uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event. A further element of Flood Re's assessment of Catastrophe flood risk is understanding the near term impact of climate change on UK Flood Risk, which the Company considers alongside its periodic review of available flood models as it constructs an in-house view of risk.

(c) Risk mitigation

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

The Company Scheme document establishes the requirement for the Company to set an annual aggregate loss amount ('Liability Limit'). The Liability Limit for the year ended 31 March 2023 was £1.9bn (2022: £2.286bn). Each financial year, the amount of the Liability Limit is adjusted for the percentage increase or decrease in the Consumer Price Index in the prior calendar year. During the last annual QQR process the Liability Limit was adjusted and reset to £1.9bn for 2022/23 with effect from 1 April 2022 for a period of three years. If claims were to exceed the Liability Limit, relevant insurers would continue to be liable to policyholders in accordance with the terms of the insurance policy sold.

The Company requires that its outwards reinsurance protections match the Liability Limit and has therefore purchased an extensive reinsurance programme to meet this need. Furthermore, UK Government requires the Company to protect itself from an annual accounting loss of greater than £100m.

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

5.2 Market risk

(a) Interest rate risk

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

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

(b) UK Government Bond holdings

As at 31 March 2023, the Company holds financial instruments in UK Government bonds and Treasury bills, classified as at fair value through other comprehensive income, in its investment portfolio (see liquidity risk in relation to cash and short-term deposits).

Market concentration risk

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

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

As at 31 March 2023, the Company has £259.8m (2022: £663.7m) of short-term deposits invested with the DMO, representing 34% (2022: 96%) of its total invested assets portfolio including debt instruments.

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

The Company does not currently have any risk appetite or exposure to equity risk, property risk, corporate credit spread risk or foreign currency risk. Other than immaterial sundry expenses, all transactions are settled in pounds sterling.

(d) Liquidity risk

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

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

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

For the period ending 31 March 2023, the Company anticipates generating positive cash flows, unless there is a series of large flood events.

As at 31 March 2023, the Company has liquid assets of £725.8m, made up of cash, DMO and treasury bills (2022: £672.9m), representing 82% (2022: 85%) of its total equity and liabilities and 1114% (2022: 987%) of the Solvency Capital Requirement (SCR).

5.3 Counterparty credit risk

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

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance is only placed with counterparties that have a minimum credit rating of A- (S&P equivalent) or provide alternative collateralisation as a credit risk mitigant. Flood Re's Credit Risk Appetite Statements set out the maximum single counterparty exposure aligned to their credit ratings. These risk appetites seek to balance RI Counterparty credit risk with pricing and placement risks.

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

(a) Credit rating

The table below shows the credit rating by financial asset type as at 31 March 2023.

	Note	AA £000	A £000	NR £000	Total £000
Reinsurers' share of claims liabilities	23	38,670	13,835	16	**52,521**
Reinsurance receivables	19	7,893	6,810	4,195	**18,898**
Trade and other receivables	20	2,654	-	692	**3,346**
Debt instruments at fair value through other comprehensive income	21	498,066	-	-	**498,066**
Cash and short-term deposits	22	259,800	13,775	-	**273,575**
Total		**807,083**	**34,420**	**4,903**	**846,406**
		95%	4%	1%	100%

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

	Note	AA £000	A £000	NR £000	Total £000
Reinsurers' share of claims liabilities	23	36,449	13,018	35	**49,502**
Reinsurance receivables	19	9,590	3,454	3,447	**16,491**
Trade and other receivables	20	303	4	620	**927**
Debt instruments at fair value through other comprehensive income	21	17,916	-	-	**17,916**
Cash and short-term deposits	22	663,700	9,246	-	**672,946**
Total		**727,958**	**25,722**	**4,102**	**757,782**
%		96%	3%	1%	100%

(b) Age analysis

The table below shows the aged debtor analysis by asset type as at 31 March 2023.

31 March 2022	Note	Not yet due £000	30 days £000	90 days £000	Total £000
Reinsurers share of claims liabilities	23	52,521	-	-	**52,521**
Reinsurance receivables	19	18,051	847	-	**18,898**
Trade and other receivables	20	3,346	-	-	**3,346**
Debt instruments at fair value through other comprehensive income	21	498,066	-	-	**498,066**
Cash and short-term deposits	22	273,575	-	-	**273,575**
Total		**845,559**	**847**	**-**	**846,406**
%		100%	0%	0%	100%

As at 31 March 2023 the Levy receivable balance is £0.3m (2022: £0.3m). The Company has received £25.9m (2022: £20.3m) of the 2023 Levy in advance (see Note 30).

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

	Note	Not yet due	30 days	90 days	Total
31 March 2022		**£000**	**£000**	**£000**	**£000**
Reinsurers share of claims liabilities	23	49,502	-	-	**49,502**
Reinsurance receivables	19	16,415	66	10	**16,491**
Trade and other receivables	20	927	-	-	**927**
Debt instruments at fair value through other comprehensive income	21	17,916	-	-	**17,916**
Cash and short-term deposits	22	672,946	-	-	**672,946**
Total		**757,706**	**66**	**10**	**757,782**
%		**100%**	**0%**		**100%**

(c) Impaired financial assets

Other receivables in Note 20 are in line with Accounting Policy on Note 2.7(d), the Company applies a simplified approach in calculating ECLs in relation to trade and other receivables. The identified impairment loss was immaterial.

The Company held cash deposits with a UK financial institution and short-term deposits with the UK Debt Management Office as detailed in Note 22 totalling £273.5m at 31 March 2023 (31 March 2022: £672.9m). During the period 2022/23 the Company invested in debt instruments as detailed in Note 21 totalling £498.1m at 31 March 2023 (31 March 2022: 17.9m). All these have low credit risk, based on the external credit ratings of the counterparties.

The Company therefore applies the low credit risk simplification and measures ECLs on cash and short-term deposits and debt instruments at fair value through other comprehensive income on a 12-month basis. The Company concluded that the provision for expected credit losses on these balances was not material to the financial statements.

(d) Pledged assets – letters of credit

As at 31 March 2023, the Company had nil (2022: £8.7m) irrevocable standby letters of credit issued in its favour. For the years ended 31 March 2023 and 2022, the Company did not incur any finance costs relating to letters of credit issued in its favour.

5.4 Operational risk

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

The Company's business strategy actively looks to a number of operational outsourcing arrangements, some of which are regarded as critical or important to the running of the business (Material Outsourcers), as opposed to developing the functionality in-house. Flood Re's handful of material outsourcer's deliver services and systems including the Property Data Hub (PDH), Work Place IT and our Bordereau Management System. The Company continues to use Guy Carpenter to provide support in relation to catastrophe modelling, geo-coding and capital modelling.

The relationship with, and management of, the outsourced service providers is a key component of the Company's operational risk profile. The Company's operational risk policies and procedures set out how various operational risks are managed, within Board-approved risk appetite statements, throughout the Company. Other key operational risks the company seeks to actively manage include; Information Security/Cyber, Inappropriate Cedant Behaviour and data quality/model risks. The Operations Sub-Committee has responsibility for the day-to-day oversight and governance of outsourcing performance and the wider operational risk profile of the firm.

6. Capital management

(a) Capital objectives

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

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

(b) Sources of capital

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

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

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

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

The Company also has the ability to issue a compulsory call for additional funding from the industry through a Levy II top up mechanism. Levy II contributions received from the Ordinary Members of the Company are initially recognised in a mutual member account (MMA) within equity. Levy II contributions received from non-Members are treated as income in accordance with Levy I. Ordinary Members of the Company are potentially eligible for their Levy II contributions to be returned, subject to Board and Prudential Regulatory Authority approval.

(c) Capital adequacy

The table below shows the Company's available capital for the years ending 31 March 2023 and 2022. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements.

		2023	2022
		£000	£000
		Unaudited	*Unaudited*
Basic own funds (Tier 1 unrestricted)	A	660,016	579,521
Deferred tax assets (Tier 3)	B	4,341	1,701
Total basic own funds		**664,357**	**581,222**
Ancillary own funds (Tier 2) – 50% of the SCR	C	32,574	34,105
Available own funds	A+B+C	**696,931**	**615,327**
Eligible own funds	A+C	**692,590**	**613,626**
Solvency Capital Requirement (SCR)		65,148	68,210
Minimum Capital Requirement (MCR)		16,287	17,052
Ratio of eligible own funds to meet the SCR		1063%	900%
Ratio of basic own funds to meet the MCR		4052%	3,398%

Reconciliation of equity to basic own funds	**2023**	**2022**
	£000	**£000**
Equity on an IFRS basis	677,266	588,474
Adjustments in respect of:		
Decrease in valuation of assets	(22,585)	(17,775)
Increase in valuation of technical provisions	14,072	1,983
(Increase)/decrease in the valuation of other liabilities	(4,396)	8,540
Total basic own funds	**664,357**	**581,222**

The Flood Re Partial Internal Model ("PIM") was approved by the PRA for use to determine the regulatory Solvency Capital Requirement ("SCR") from 1 April 2020. Since its approval Flood Re PIM has had three Major Model Changes (MMC) with the last change approved as at 30 March 2023.

Following the approval of Flood Re's partial internal model, supervisory assessment is no longer required. Additionally, in line with market practice, the outputs of the partial internal model (and other elements which are partially derived from the model) are not subject to audit and consequently are marked "unaudited".

(d) Partial Internal Model (PIM)

As at 31 March 2023, the SCR of £65.1m (2022: £68.2m) was calculated using the Partial Internal Model, which was approved for use from 1 April 2020 onwards to determine the regulatory SCR. Flood Re now has a PIM as defined in Article 112 of Directive 2009/138/EC to calculate the regulatory SCR. In particular, this means that Flood Re's SCR is composed of:

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

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

Before building its model, Flood Re assessed its business needs and used objective criteria to determine which risk criteria should be included. Flood Re's Risk Register was also mapped to the Company's proposed model scope to ensure all relevant and quantifiable risks were captured.

The key uses of the model include**:**

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

(e) Ancillary own-funds

The PRA has approved the Company to use up to 50% of the SCR, capped at a monetary amount of £75m, as a method by which uncalled Levy II may be recognised as ancillary own fund items for the period 29 March 2019 to 31 March 2022, and this was approved again in 2021/22 extending the approval for a further 5 years to 31 March 2027. The minimum frequency of recalculation of the amount of ancillary own funds item using this method is every three months.

(f) Eligibility and limits applicable to own funds

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

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

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

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

As at 31 March 2023 and 2022, 100% of the SCR and MCR requirements are met with unrestricted Tier 1 own funds.

(g) Dividend distributions

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

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

The Company has not received any Levy II contributions during the years ended 31 March 2023 and 2022. The accumulated MMA as at 31 March 2023 is £nil (2022: £nil) and there are no foreseeable dividend distributions.

7. Segment information

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

8. Net premiums

	2023	2022
	£000	£000
Gross written premiums	51,578	46,431
Gross change in unearned premium provision	(2,944)	(4,991)
Gross earned premiums	**48,634**	**41,440**
Premium ceded to reinsurers	(72,778)	(69,565)
Ceded change in unearned premium provision	9	3,142
Ceded earned premiums	**(72,769)**	**(66,423)**
Net earned premiums	**(24,135)**	**(24,983)**

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

The Company purchases outwards reinsurance protection at market rates to provide cover up to its Liability Limit of £1.9bn (2022: £2.286bn) and Loss Limit of £100m. Overall this results in negative earned premium for the year. During the last QQR process the Liability Limit was adjusted and reset to £1.9bn increasing annually in line with CPI for 2022/23 with effect from 1 April 2022 for a period of three years.

The cost of the subsidy provided through the premiums the Company charges are met by a Levy raised from all insurers writing UK household insurance.

9. Levy income

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

The Levy I is set out in the Regulations and is payable by UK household insurers. From 1 April 2022 the Levy I reduced to £135m, therefore Levy I income for the year ended 31 March 2023 was £135m (2022: £180m).

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

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

10. Fees and commission income

	2023	2022
	£000	£000
Reinsurance commission income	26,876	13,939
Change in unearned commission income	1,314	(1,429)
Total fees and commission income	**28,190**	**12,510**

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

11 Income from debt instruments

	2023	2022
	£000	£000
Net interest income from debt investments	292	7
Accretion of discounts from debt instruments	2,906	-
Total interest income from debt instruments	**3,198**	**7**

During the year, the Company invested in short-term deposits with the DMO and earned total net interest income of £10.5m (2022 £0.3m).

12. Net insurance claims

	Note	2023	2022
Gross claims paid		**£000**	**£000**
Gross claims paid		34,664	60,864
Allocated claims handling costs	13	1,655	1,674
Total gross paid claims	24	**36,319**	**62,538**
Total paid claims ceded to reinsurers	24	**(17,197)**	**(29,226)**
Gross change in contract liabilities			
Change in outstanding claims provision	24	(14,697)	(24,930)
Change in incurred but not reported provision	24	1,517	(16,711)
Change in premium deficiency provision	26	22,850	11,231
Total gross change in contract liabilities		**9,670**	**(30,410)**
Change in contract liabilities ceded to reinsurers			
Change in outstanding claims provision	24	7,348	11,528
Change in incurred but not reported provision	24	409	8,523
Change in premium deficiency provision	26	(10,776)	(5,284)
Total change in contract liabilities ceded to reinsurers		**(3,019)**	**14,767**
Claims net of reinsurance		**25,773**	**17,669**

13. Other operating and administrative expenses

	Note	2023	2022
		£000	**£000**
Service contracts including outsourcing		4,665	5,118
Employee benefits expense	14	6,901	6,747
Other staff costs		1,001	692
Office costs		63	22
IT costs		1,680	2,324
Depreciation	18	1,363	1,304
Consultancy and other third-party costs		1,476	2,136
Legal, rating agency, regulatory and audit		1,078	860
Capital model fees and validation		168	177
PR, marketing and communications		454	501
Allocation of expenses to paid claims	12	(1,655)	(1674)
Total other operating and administrative expenses		**17,194**	**18,207**

14. Employee benefits expense

	2023	2022
	£000	**£000**
Wages and salaries	5,744	5,659
Social security costs	744	700
Employer pension contributions	413	388
Total employee benefits expense	**6,901**	**6,747**

Average number of permanent staff for the year	56	49
Number of permanent staff employed at the end of year	60	53

15. Auditor's Remuneration

	2023	2022
	£000	**£000**
Fees payable for the audit of the financial statements	377	361
Fees payable for other services		
- Audit-related assurance services	-	35
Total non-audit fees	-	35
Total Auditor's remuneration	**377**	**396**

16. Taxation

	2023	2022
UK corporation tax charge	**£000**	**£000**
Profit before tax	109,773	131,945
Income tax charge at a rate of 19% (2022: 19%)	20,857	25,070
Disallowed expenses	14	12
Super capital allowances	(8)	(28)
Deferred tax	(7)	11
Total tax charge	**20,856**	**25,065**
Net loss on debt instruments at fair value through other comprehensive income	(167)	-
Income tax charge at a rate of 25% (2022: 19%)	42	-
Deferred tax on unrealised losses	**42**	-

Deferred tax		
Deferred tax provision as temporary differences		
Deferred tax to 31 March 2024 other comprehensive income profile	42	-
Deferred tax to 31 March 2023 depreciation profile	-	(7)
Deferred tax to 31 March 2024 depreciation profile	(4)	(4)
Total deferred tax asset/(liabilities)	**38**	**(11)**

The UK corporation tax rate for the current financial year remains at 19%. At the balance sheet date, an increase in the corporation tax rate to 25% from 1 April 2023 had been enacted in Finance Act 2021. Deferred tax balances have been calculated within reference to the enacted rate.

17. Intangible assets

	Software £000	Total £000
At Cost		
Opening balance as at 1 April 2022	-	-
Additions	4,797	4,797
Closing balance as at 31 March 2023	**4,797**	**4,797**
Accumulated amortisation		
Opening balance as at 1 April 2022	-	-
Amortisation charge	-	-
Closing balance as at 31 March 2023	-	**-**
Carrying amount at 31 March 2023	**4,797**	**4,797**

Intangible assets consist solely of internally generated software assets, of which two have been recognised during the year. One is a new accounting software system for processing IFRS17 calculations and reporting, and the other is the development and integration of the Bordereaux Management System (BMS). Software development costs recognised as intangible assets using IAS 38 are costs that are separable from, and not integral to the relevant hardware.

18. Property, Plant and Equipment

	Computer	Right of Use Assets		Office	Total
	equipment £000	**Property £000**	**Software £000**	**equipment £000**	**PPE £000**
At Cost					
Opening balance as at 1 April 2022	52	1,902	2,286	73	4,313
Additions	-	2,142	276	-	2,418
Disposals	-	(1,902)	(107)	-	(2,009)
Closing balance as at 31 March 2023	**52**	**2,142**	**2,455**	**73**	**4,722**
Accumulated Depreciation					
Opening balance as at 1 April 2022	52	1,189	67	21	1,329
Depreciation charge	-	981	345	37	1,363
Depreciation on disposals	-	(1,902)	(107)	-	(2,009)
Closing balance as at 31 March 2023	**52**	**268**	**305**	**58**	**683**
Carrying amount at 31 March 2023	**-**	**1,874**	**2,150**	**15**	**4,039**

Additions in the year are renewal of office leases and the new lease of an IFRS 17 technical accounting software system.

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

19. Reinsurance receivables

	2023	2022
	£000	£000
Premium due from policyholders	1,949	2,389
Pipeline premium due from policyholders	6,888	4,698
Premium due from reinsurers	9	-
Reinsurance commission receivable	5,257	883
Reinsurance recoveries on paid losses	4,795	8,521
Total reinsurance receivables	**18,898**	**16,491**
Current	18,898	16,491
Non-current	-	-

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

20. Other receivables

	2023	2022
	£000	£000
Prepayments	688	599
Accrued interest	2,653	297
Other	5	31
Total other receivables	**3,346**	**927**
Current	3,346	927
Non-current	-	-

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

21. Debt instruments at fair value through other comprehensive income

	2023	2022
	£000	£000
Balance as at 1 April	**17,916**	-
Additions at cost	495,411	17,956
Proceeds upon maturity	(18,000)	-
Loss on fair valuation of investments	(167)	(40)
Accretion of discounts from debt instruments	2,906	-
Closing balance as at 31 March	**498,066**	**17,916**
Current assets	473,076	14,877
Non-current assets	24,990	3,039

The levels of the fair value hierarchy define Level 1 as fair values measured using quoted prices (unadjusted) in active markets for identical instruments. During the year, £498.1m of debt instruments have been recognised in Level 1. The debt instruments portfolio as at 31 March 2023 comprised of

£45.7m UK Treasury gilts and £452.4m UK Treasury bills, all invested during the year, of which £473.1m will mature within the next 12 months and the remaining balance of £25.0m in less than 24 months.

22. Cash and short-term deposits

	2023 £000	2022 £000
Cash at bank	13,775	9,246
Short-term deposits with a duration of less than 3 months on placement	12,000	18,000
Cash and cash equivalents	**25,775**	**27,246**
Short-term deposits with a duration of more than 3 months on placement	247,800	645,700
Total cash and short-term deposits	**273,575**	**672,946**

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

23. Insurance contract liabilities

31 March 2023	**Note**	**Assumed £000**	**Ceded £000**	**Net £000**
Provision for unearned premium	25	**27,365**	**(28,526)**	**(1,161)**
Outstanding claims reserves	24	48,593	(24,036)	24,557
Incurred but not reported reserves	24	13,136	(4,153)	8,983
Total incurred claims reserves		61,729	(28,189)	33,540
Premium deficiency provision	26	51,790	(24,332)	27,458
Total insurance claims liabilities		**113,519**	**(52,521)**	**60,998**
Total insurance contract liabilities		**140,884**	**(81,047)**	**59,837**
Current		101,984	(63,219)	38,765
Non-current		38,900	(17,828)	21,072

31 March 2022	**Note**	**Assumed £000**	**Ceded £000**	**Net £000**
Provision for unearned premium	25	**24,421**	**(28,518)**	**(4,097)**
Outstanding claims reserves	24	63,290	(31,384)	31,906
Incurred but not reported reserves	24	11,619	(4,562)	7,057
Total incurred claims reserves		74,909	(35,946)	38,963
Premium deficiency provision	26	28,941	(13,556)	15,385
Total insurance claims liabilities		**103,850**	**(49,502)**	**54,348**
Total insurance contract liabilities		**128,271**	**(78,020)**	**50,251**
Current		102,163	(66,053)	36,110
Non-current		26,108	(11,967)	14,141

* Amounts disclosed are inconsistent with note 25 and note 26 due to rounding

As at 31 March 2023, the Company has nil (2022: £8.7m) 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 19). The Company commenced underwriting in April 2016. See Note 5.1 for loss development tables.

24. Movement in incurred claims reserves

As at 31 March 2023	**Note**	**Assumed £000**	**Ceded £000**	**Net £000**
Outstanding claims reserves		63,290	(31,384)	31,906
Incurred but not reported reserves		11,619	(4,562)	7,057
Opening balance as at 1 April 2022		**74,909**	**(35,946)**	**38,963**
Prior accident year		(34,146)	16,949	(17,197)
Current accident year		(2,173)	248	(1,925)
Claims paid during the year	12	**(36,319)**	**17,197**	**(19,122)**
Prior accident year		(1,631)	1,595	(36)
Current accident year		24,770	(11,035)	13,735
Claims incurred during the year		**23,139**	**(9,440)**	**13,699**
Outstanding claims reserves		48,593	(24,036)	24,557
Incurred but not reported reserves		13,136	(4,153)	8,983
Closing balance as at 31 March 2023		**61,729**	**(28,189)**	**33,540**
Current		58,816	(27,268)	31,548
Non-current		2,913	(921)	1,992

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

Included in assumed claims paid in the current accident year are £1.7m (2022: £1.7m) of claims handling costs which have been allocated from operating and administrative expenses (see Note 13).

25. Provision for unearned premium

31 March 2023	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 1 April 2022	**24,421**	**(28,518)**	**(4,097)**
Premium written (ceded) during the year	51,578	(72,778)	(21,200)
Premiums earned during the year	(48,634)	72,769	24,135
Closing balance as at 31 March 2023	**27,365**	**(28,527)**	**(1,162)**
Current	27,365	(28,527)	(1,162)
Non-current	-	-	-

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

* Amounts disclosed are inconsistent with note 23 due to rounding

26. Provision for premium deficiency

31 March 2023	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 1 April 2022	**28,941**	**(13,556)**	**15,385**
Change during the year	22,850	(10,776)	12,074
Closing balance as at 31 March 2023	**51,791**	**(24,332)**	**27,459**
Current	15,803	(7,425)	8,378
Non-current	35,988	(16,907)	19,081

31 March 2022	Assumed	Ceded	Net
	£000	£000	£000
Opening balance as at 1 April 2021	**17,710**	**(8,271)**	**9,439**
Change during the year	11,231	(5,285)	5,946
Closing balance as at 31 March 2022	**28,941**	**(13,556)**	**15,385**
Current	6,292	(2,947)	3,345
Non-current	22,649	(10,609)	12,040

* Amounts disclosed are inconsistent with note 23 due to rounding

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

27. Deferred commission income

	2023	2022
	£000	£000
Opening balance as at 1 April	**5,305**	**3,876**
Commission income deferred during the year	26,876	13,939
Released to Statement of Profit or Loss	(28,190)	(12,510)
Closing balance as at 31 March	**3,991**	**5,305**
Current	3,991	5,305
Non-current	-	-

28. Reinsurance payables

	2023	2022
	£000	£000
Premium payable to reinsurers	23,784	21,685
Commission payable to reinsurers	140	9,864
Claims payable to policyholders	5,774	7,691
Total reinsurance payables	**29,698**	**39,240**
Current	29,698	39,240
Non-current	-	-

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

The Company is only required to pay a claim when the underlying claim has been settled by the direct insurer. The Company aims to pay a claim within 30 days of receipt of the claims bordereaux.

29. Lease arrangements

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

	2023	2022
	£000	£000
Opening balance as at 1 April	2,722	1,980
Lease liability recognised during the year	2,418	2,286
Lease payments	(1,618)	(1,589)
Interest payable	57	45
Closing balance as at 31 March	**3,579**	**2,722**

29. Lease arrangements cont.

Maturity analysis of lease liability

	2023	2022
	£000	£000
Year 1	1,454	1,200
Year 2	1,295	369
Year 3	411	350
Year 4	418	355
More than 5 year	1	448
Total lease payments	**3,579**	**2,722**

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

30. Trade and other payables

	2023	2022
	£000	£000
Levy receipts in advance	25,872	20,328
Accruals and deferred income	3,462	2,435
Staff costs	224	270
Total trade and other payables	**29,558**	**23,033**
Current	29,558	23,033
Non-current	-	-

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

31. Related party transactions

(a) Compensation of Key Management personnel

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

	2023	2022
	£000	£000
Short-term employee benefits	1,286	1,198
Pension allowance	67	59
Post-employment pension and medical benefits	7	13
Total Directors' emoluments	**1,360**	**1,270**

(b) Compensation of highest-paid Director

	2023	2022
	£000	£000
Short-term employee benefits	502	477
Pension allowance	42	41
Total compensation of the highest-paid Director	**544**	**518**

(c) Department of Environment, Food and Rural Affairs

In accordance with the UK Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, the Company is consolidated into the Department for Environment, Food and Rural Affairs' Annual Report and Accounts. In 2021/22 the Company was formally designated as a public body (central government) by the Office for National Statistics and the classification became public on 23 December 2021 in line with the expectation of it being a public body since inception.

(d) Directors and Officers shared with other entities

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

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

Perry Thomas is an Independent Non-Executive Director, and Chair of Risk and Capital Committee in Flood Re. Perry held directorships in the UK, Bermuda, Ireland, India, South Africa, Malta and Luxembourg, and was on the Council of the Institute and Faculty of Actuaries. He is a Non-Executive Director with PlanetWatchers and the British Friendly Society Limited. He also chairs the Risk & Investment Committee of the British Friendly Society.

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

Shirel Stedman is an Independent Non-Executive Director. She is a fellow chartered member of the Institution of Civil Engineers (FICE) and a board member at the Chartered Institute of Water and Environmental Management (CIWEM), responsible for the governance and oversight of the institution. She currently works at the Ministry of Defence as Global Head of Growth, leading the development of hydrographic data.

32. Ordinary Members

The Company is limited by guarantee and has 39 guarantors (Ordinary Members) who undertake to contribute not more than £1.00 in the event that the Company is wound up while they are a Member or within one year of them ceasing to be a Member. The Ordinary Members as at 31 March 2023 are:

- Acromas Insurance Company Limited
- Admiral Insurance (Gibraltar) Limited
- Ageas Insurance Limited

- AIG UK Limited
- Allianz Insurance plc
- Amlin SE
- Ascot Underwriting Limited
- Aviva Insurance Limited
- Axa Art Insurance plc
- Axa Insurance UK plc
- Baptist Insurance Company PLC (The)
- Canopius Managing Agents Limited for and on behalf of Syndicate 4444
- Catlin Underwriting Agencies Ltd - XL London Market
- China Taiping Insurance (UK) Co Limited
- CIS General Insurance Limited
- Cornish Mutual Assurance Co Limited (The)
- Covea Insurance plc
- Ecclesiastical Insurance Office plc
- Fairmead Insurance Limited
- Great Lakes Reinsurance (UK) SE
- Gresham Insurance Company Limited
- Haven Insurance Company Limited
- HDI Global Speciality SE
- Highway Insurance Company Limited
- Hiscox Insurance Co Ltd
- Liverpool Victoria Insurance Company Limited
- Lloyds Bank General Insurance Holdings Limited
- Methodist Insurance plc
- Ms Amlin Underwriting Limited
- National Farmers' Union Mutual Insurance Society Limited (The)
- Ocaso S.A., Compania de Seguros y Reaseguros
- Royal & Sun Alliance Insurance Ltd
- St Andrews Insurance plc
- Tesco Underwriting Limited
- UIA Insurance Limited
- UK Insurance Limited
- XL Catlin Insurance Company (UK) Limited
- XL Insurance Company SE
- Zurich Insurance plc

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

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

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

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

For the years ended 31 March 2023 and 2022, the following three Ordinary Members individually account for 10% or more of the voting rights of Ordinary Members:

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

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

33. Contingencies and commitments

(a) **Legal proceedings and regulations**

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

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

(b) **Capital commitments**

The Company has no capital commitments at the reporting date.

(c) **Contractual commitments excluding leases**

	2023	2022
	£000	£000
Service contracts	1,534	1,941
Staff contractual commitments	2,942	2,416
Other financial commitments	1,035	628
Total commitments	**5,511**	**4,985**
Due within one year	5,511	4,985
Due later than one year but not later than five years	-	-
Total commitments	**5,511**	**4,985**

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

34. Events after the reporting period

There are no events after the reporting period that would materially alter our assessment of risk, going concern, recognition of income or expenses, or the valuation of assets and liabilities as at the financial year ended 31 March 2023.

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