



Flood Re Limited
Solvency and Financial Condition Report
for the year ended 31 March 2025

Contents

Summary	3
Approval by the Board	11
Audit Exemption	12
A. Business and Performance	13
A.1 Business	13
A.2 Underwriting Performance	16
A.3 Performance of other activities	19
A.4 Any other information	20
B. System of Governance	21
B.1 General Information on the System of Governance	21
B.2 Fit and Proper requirements	28
B.3 Risk management system including the own risk and solvency assessment	30
B.4 Internal control system	38
B.5 Internal audit function	40
B.6 Actuarial Function	41
B.7 Outsourcing	42
B.8 Any other information	44
C. Risk Profile	45
C.1 Insurance Risk	45
C.2 Market Risk	48
C.3 Counterparty Default Risk	49
C.4 Liquidity Risk	50
C.5 Operational Risk	50
C.6 Other Material Risks	51
D. Valuation for Solvency Purposes	56
D.1 Assets	57
D.2 Technical Provisions	58
D.3 Other liabilities	64
D.4 Alternative methods for valuation	65
D.5 Any other information	66
E. Capital Management	67
E.1 Own Funds	67
E.2 Solvency Capital Requirement and Minimum Capital Requirements	72
E.3 Differences between the standard formula and any internal model used	74
E.4 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement	78
E.5 Any other information	78
F. Appendices – PUBLIC QRTs	79

Summary

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 2025, the annual Levy was £135m (2024: £135m). 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 2025, the Liability Limit was £2.2bn (2024: £2.1bn). During the last exercise for setting scheme parameters the Liability Limit was reset to £3.2bn with effect from 1 April 2025 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. Substantive amendment Regulations came into force on 1 April 2022 and further on 1 April 2025. 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.

Executive summary

The Solvency II regulatory framework, which governs industry regulation and prudential capital requirements within the European Union, became effective from 1 January 2016. In the United Kingdom (UK) the final Prudential Regulation Authority (PRA) rules for Solvency UK became effective from 31 December 2024, completing the review by the PRA of Solvency II and replacing assimilated law inherited from the European Union.

‘Solvency UK’ has been referred to in this document except when referring to our Solvency II results, where we refer to ‘Solvency II’ in line with the current PRA guidance. The purpose of the SFCR is to provide information required by the Solvency UK PRA rules as at 31 March 2025. This report sets out aspects of business and performance, system of governance, risk profile, valuation methods used for solvency purposes and the Group’s capital management practices.

Financial assessment and going concern

Flood Re has assessed its Going Concern status over a 12-month period and evaluated its viability over a three-year financial planning horizon commencing 1 April 2025.

Management has conducted comprehensive stress testing of both Flood Re’s solvency position and operational capabilities. These assessments confirm the Company’s ability to remain a going concern and demonstrate its continued financial strength and operational resilience throughout the planning period.

The 2025–2028 Reinsurance Programme was renewed in a more challenging market environment than in 2022. Increased exposure—driven by a growing number of policies and the need for higher indemnity levels—has led to higher reinsurance costs. As a result, Flood Re anticipates losses across the planning horizon.

However, as a not-for-profit organisation, this position remains satisfactory, particularly in light of Flood Re’s strong capital base as at 31 March 2025, which includes:

- Total invested and liquid funds of £1.0 billion (2024: £899.8 million),
- Net assets of £672 million (2024: £661.3 million), and
- Eligible Own Funds of £835.3 million (2024: £744.4 million).

While Flood Re has historically maintained a strong solvency position, the evolving external environment now warrants more proactive monitoring and timely management action where appropriate. Nevertheless, as of 31 March 2025, the Solvency Capital Requirement (SCR) coverage ratio stands at 235%, significantly above industry averages and reflective of the Company’s continued financial resilience.

Management concludes that under all scenarios tested during the planning period, the Company will be able to implement appropriate management actions to ensure that, even in extreme stress

scenarios, it continues to meet its solvency and liquidity requirements. Flood Re is therefore expected to remain a going concern, with sustained financial strength and operational resilience.

Accordingly, it has been deemed appropriate to adopt the going concern basis in the preparation of these Financial Statements. Further details can be found in Note 2.2 to the Financial Statements

Business and performance

Result for the year

The profit before tax at 31 March 2025 was £13.5m, reflecting claims received and expected of £115.5m as well as the continued development in claims related to the prior year storm events of Babet and Henk, and less material attritional claims of £26.6m (A total of £144.8m, see LFIC additional claims incurred in the year in Note 16 of the Annual Report & Accounts).

The total claim costs over the year, though down on 2023/24, are still significantly above average for Flood Re. During the year, the named storm Bert, and two periods of rain in September 2024 and January 2025 were significant contributors to this. The latter two rain periods were not named storms, nor were they covered in any detail in the media and are unusual in that respect in Flood Re's experience to date.

Solvency Capital Ratios

In addition, the new scheme parameters and resulting outwards reinsurance program have prompted a major revision to our Partial internal model, and our Solvency position. Our net retention on the 2025-28 programme now stands at £347m, previously £130m under the 2022-25 programme. This, coupled with the Article 90-revised scheme parameters described above, and the increased cost of the programme, results in an increase in the Scheme's Solvency UK Capital Requirements. While Flood Re works on the major model change required to accommodate the new structure and parameters, an estimated a Voluntary Capital Add On (CAO) that has been applied to Flood Re's approved SCR as at 31 March 2025 and has been agreed with the PRA. The CAO applied is £280m in addition to the SCR of £74.7m, resulting in a total of £354.7m. Once the revised model has been approved, the CAO will no longer apply.

Eligible and Available Own Funds under the Solvency II and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (Solvency II regulations) stand at £835.3m (2024: £744.4m).

We have retained gross written premiums and gross claims as key performance indicators, with the former totalling £73m (2024: £59m) and the latter £178.9m (2024: £241.6m).

System of Governance

The System of Governance is considered appropriate to the Company given the nature, scale and complexity of the operations. The governance structure of the Company has operated throughout the year with the Committees highlighted in Section B.1.

The Company ensures that individuals meet the Fit and Proper requirements at all times.

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

Flood Re’s business strategy relies on a number of operational outsourcing arrangements, some of which are regarded as critical and important to the running of the business, as opposed to developing the functionality in-house.

Valuation for Solvency Purposes

For Solvency UK valuation purposes, assets and liabilities are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm’s length transaction.

Amounts due but not yet received or paid are included in the SII Balance Sheet. Amounts not yet due are included in the cash flows used to calculate Technical Provisions.

Solvency II Technical Provisions are calculated consistent with a probability-weighted average of future cash flows, taking account of the time value of money using the relevant risk-free interest rate and reflect the benefit of the reinsurance programme in place.

Exposure relating to legal obligations is included. An explicit risk margin is added to Technical Provisions.

The Solvency II best estimate includes cash flows from expenses incurred servicing existing policies during their lifetime and are allocated between premium and claims provisions.

The Company does not make use of any matching adjustment (Article 77b), volatility adjustment (Article 77d), transitional risk-free interest rate term structures (Article 308b) or transitional deductions (Article 308d) referred to in the Solvency UK Regulations.

Capital Management

The Flood Re Partial Internal Model (PIM) was approved for use from 1st April 2020 onwards to determine the regulatory SCR. Flood Re now has a PIM as defined by the PRA, to calculate the regulatory SCR. Since its approval Flood Re PIM has had three Major Model Changes (MMC), with the last one approved by the PRA for use from 31 March 2023. Approval for a new Major Model Change covering the change to Flood Re’s outwards reinsurance program and scheme parameters is currently being sought.

The expected changes in the financial structure of Flood Re, due to the new scheme parameters and resulting outwards reinsurance program, has meant that there is an increase in the Scheme’s Solvency UK Capital Requirements (SCR). While Flood Re works on the major model change required to accommodate the new reinsurance structure and scheme parameters, Flood Re have been asked to estimate and hold a Voluntary Capital Add On (CAO) on top of it’s approved SCR (that

is calculated using Flood Re's Partial Internal Model). The CAO was approved for use by the PRA as at 31 March 2025 in April 2025. Once the major model change has been approved by the PRA, the CAO will no longer apply.

Flood Re utilises its Partial Internal Model 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 models 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

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

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

As at 31 March 2025, the Company had available own funds of £835.3m (2024: £744.4m) comprising £760.3m (2024: £711.4m) of basic own funds (tier 1 unrestricted) and £75m (2024: £33.0m) of Tier 2 ancillary own funds. The Solvency Capital Ratio as at 31 March 2025 is 235% (2024: 1127%).

The PRA has approved (in March 2022) Flood Re to use 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 1 April 2023 to 31 March 2027 (prior approval was effective for the period from 29 April 2019 to 31 March 2023).

As at 31 March 2025, the Company had an approved SCR of £74.7m based on the Partial Internal Model (2024: £66.0m), with a CAO of £280.0m approved for use at 31 March 2025 by the PRA. This resulted in a total SCR of £354.7m as at 31 March 2025.

While the approved SCR has not changed significantly over the year there have been a number of movements in the underlying risk categories capital charges, specifically an increase of £8.5m in Insurance Risk and a £1.3m increase in Counterparty Default Risk. These increases have been offset by a reduction of £1.8m in Market Risk. In the main, these changes have been driven by variations in Flood Re's financial risk profile as a result of flood events in the year, including Storm Bert, as well as change in expected volumes of policy that will be ceded to Flood Re in the future. Please see section E for more details.

For the years ending 31 March 2025, the Company has complied at all times with the regulatory Minimum Capital Requirements ("MCR") and SCR.

There is no reasonably foreseeable risk of non-compliance with the MCR or SCR and there are no foreseeable dividend distributions.

Risk Profile

Flood Re classifies risks into six key areas (Strategic Risk, Insurance Risk, Credit Risk, Market Risk, Liquidity Risk and Operational Risk).

The Company's most significant Insurance Risk exposure is to losses arising from low frequency, high severity flood events. 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 up to the Liability Limit.

In line with Flood Re's design, the premium the Company charges is not reflective of the underlying risk that is assumed. The Company expects that the assumed premium will not be sufficient to cover the estimated mean cost of claims. This deficiency is met by a Levy raised from all insurers writing home insurance in the UK. Coupled with the open market costs of significant reinsurance protection, the resulting net premium income is negative.

The Company adheres to the Prudent Person Principle through the application of a conservative Market Risk strategy that prioritises capital preservation over investment return. As at 31 March 2025, the Company has invested and liquid assets of £1,011m (2024: £899.8m), representing 150% (2024: 136%) of its total equity and 285% (2024: 1362%) of the Solvency Capital Requirement (SCR), including for the year ended 31 March 2025, the Voluntary Capital Add On of £280m.

The Company's maximum exposure to Credit Risk is the gross carrying value of its Levy receivables, reinsurance premium receivables, reinsurance recoveries, trade and other receivables, debt instruments and cash and short-term investments and deposits.

The Company has a statutory duty to publish a transition plan, updated on an ongoing basis that sets out how the market will return to risk-reflective pricing post Flood Re in 2039. The first transition plan was published in February 2016 and the second transition plan with an update, "The Flood Re Transition Vision", published in July 2018.

In 2023 the third transition Plan was published and highlighted both the progress made to date in delivering Flood Re's purpose, alongside the risks to be managed and steps to be taken by a range of Flood Re's stakeholders to achieve a successful exit in 2039. In our Transition Plan, we outlined four pivotal policy steps crucial for enhancing UK flood resilience.

Current Operating Environment

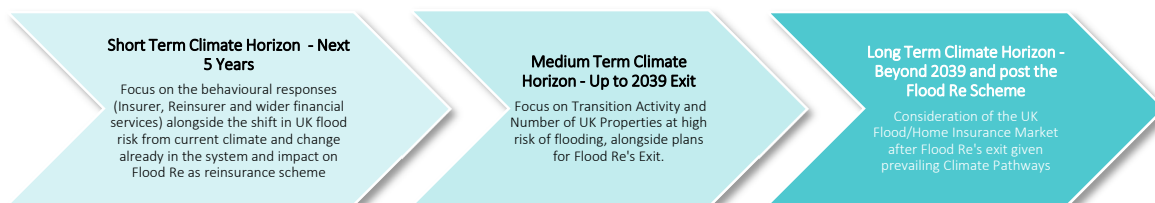
Flood Re's current operating model, in the year to 31 March 2024 has continued and maintained a Hybrid Working Model which seeks to draw on the benefits of both flexible home working and in office cross-team collaboration.

Flood Re recognises macro-economic pressures, specifically the inflationary environment, the resulting impact on cost of living and development in the reinsurance markets reacting to natural catastrophe events globally. The business has no direct exposure to current international conflicts, but is impacted by the inflationary consequences. Flood Re has no investment exposure beyond Debt Management Office (DMO) deposits and short-dated UK Gilts, Treasury Bills and Supranational bonds.

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 through 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 Quinquennial Reviews 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 to reduce its impact on the environment.

Approval by the Board

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency UK regulations.

We are satisfied that:

- a) throughout the financial year in question, Flood Re has complied in all material respects with the requirements of the PRA Rules and the Solvency UK regulations, as applicable to the insurer; and
- b) it is reasonable to believe that Flood Re has continued to comply subsequently and will continue to comply in future.



Perry Thomas
Chief Executive Officer
9 July 2025



David Dunning
Chief Financial Officer
9 July 2025

Audit Exemption

The Company has taken advantage of policy statement PS25/18 Solvency II: External audit of the public disclosure requirement issued in October 2018 by the Prudential Regulation Authority which allows exemption from audit of this Solvency and Financial Condition Report for Flood Re Limited as a small insurer for external audit purposes.

The Company's Auditors, Ernst and Young LLP, have audited the Annual Report and Financial Statements of the Company for the year ended 31 March 2025.

Capital resources and capital requirements are disclosed within Note 5 of the Financial Statements.

A. Business and Performance

A.1 Business

Name and legal form

Flood Re Limited ("Flood Re" or "the Company") is the Scheme Administrator for the Flood Reinsurance Scheme ("Flood Re Scheme").

The Flood Re 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 Flood Re Scheme was established by the Water Act 2014 and is expected to be in place for 25 years while the industry transitions to risk-reflective pricing.

Flood Re is a mutual reinsurance company and was incorporated in August 2013 as a private UK Company limited by guarantee.

In accordance with the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, Flood Re is consolidated into the Department for Environment, Food and Rural Affairs ("DEFRA") annual report and accounts.

The ONS has assessed Flood Re as a public body, in the central government subsector with effect from 11 November 2015, the date on which The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 came into force.

The registered office is 75 King William Street, London, EC4N 7BE.

Supervisory Authorities

Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA.

Financial Conduct Authority, 25 the North Colonnade, London, E14 5HS.

Auditors

Ernst and Young LLP, 25 Churchill Place, Canary Wharf, London, E14 5EY.

Qualifying Holdings

For the year ended 31 March 2025 the following two Ordinary Members have qualifying holdings in Flood Re. Individually they account for 10% or more of the voting rights of Ordinary Members.

- Aviva Insurance Limited
- Lloyds Bank General Insurance Holdings Limited

Parent and Group undertakings

None

Material lines of business

Flood Re is engaged in the provision of reinsurance cover for a single risk (property), a single peril (flood), single currency (pounds sterling) within a single territory (United Kingdom).

Under Solvency UK, all underwriting transactions are classified and recorded under the Proportional Reinsurance – Fire and other damage to property line of business.

Significant business or events during the period

The year under review was notable primarily for the successful placement of Flood Re's Reinsurance Programme for the next three years (1 April 2025 to 31 March 2028) to accommodate its newly established Liability Limit of £3.2bn for the same period. In addition, Flood Re saw three flood events, of which only one – Storm Bert – was a named storm, that as at 31 March 2025 account for £115m of final case reserves. The data in this report shows that Flood Re delivered, not just for those households with policies backed by the Scheme, but also for flood risk communities and the home insurance market as a whole

Inflation continues to be an influencing factor on exposure and results.

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

Quinquennial Review outcome

Flood Re is required to limit potential losses to not exceed £100m in any one financial year. This is defined as the "Loss Limit" and is captured in the Company's Articles of Association. It was designed to limit the Scheme's potential impact on the UK Government Public Sector Net Borrowing. Flood Re submitted an Article 90 Report in September 2023 seeking an amendment to the Loss Limit, along with our recommendations for the new Liability Limit and Levy for the next three-year period commencing April 2025.

As a result of engagement with Defra and HM Treasury officials we together achieved an outcome representing the right balance between all the stakeholders of the Scheme. Changes include:

- Increasing the Liability Limit to £3.2bn (from £2.2bn)
- Increasing Levy 1 to £160m a year (from £135m). This is still below the £180m set at the start of the scheme in 2016.
- Increase the Loss Limit to £250m (from £100m)

The changes became effective from April 2025 and remain applicable until March 2028, unless an earlier change is required. These modifications aim to ensure that the Scheme remains viable, can accommodate increasing policy numbers, and responds to the changes in the global reinsurance markets over the last three years of increased pricing. Importantly, it also means that we can put more of Flood Re's capital to work supporting the Scheme.

Build Back Better

Alongside financial stability, we continue to invest in long-term resilience. Our Build Back Better (BBB) initiative continues to grow, with 12 major insurance providers onboard who account for over 70% of the UK's residential property insurance market. By helping homeowners rebuild with greater resilience, BBB is a crucial step towards long-term flood protection. As we scale this initiative, our goal is to embed it as a mainstream solution for flood-affected households, complementing wider efforts to mitigate flood risk at a national level.

A.2 Underwriting Performance

The following underwriting performance analysis is on an International Financial Reporting Standards ("IFRS") GAAP basis as reported in the Statutory Financial Statements for the years ended 31 March 2025 and 2024.

A.2.1 Insurance service result

	2025	2024	Movement
	£000s	£000s	
Revenue from reinsurance inward contracts	65,826	53,279	12,547
Total revenue from reinsurance inward contracts	65,826	53,279	12,547
Insurance service expenses			
Incurred claims and other directly attributable expenses	(17,044)	(130,947)	113,903
Losses on onerous contracts and reversal of those losses	(160,657)	(144,844)	(15,813)
Total insurance service expenses from reinsurance inward contracts	(177,701)	(275,791)	98,090
Total insurance service result from reinsurance inward contracts	(111,875)	(222,512)	110,637
Net income/(expenses) from reinsurance outward contracts			
Allocation of reinsurance premiums	(76,150)	(67,928)	(8,222)
Income on initial recognition of onerous reinsurance inward contracts	44,398	78,870	(34,472)
Reversals of a loss-recovery component	(72,545)	(46,243)	(26,302)
Effect of changes in the risk of reinsurers non-performance	2,427	723	1,704
Claims and other insurance service expenses recovered	78,441	100,943	(22,502)
Changes relate to adjustments to incurred claims and premiums recovered	(12,633)	16,036	(28,669)
Total insurance service result from outward contracts	(36,062)	82,401	(118,463)
Net insurance service result	(147,937)	(140,111)	(7,826)

Storms Bert, along with flooding in September 2024 and January 2025 have resulted in a substantial increase in gross claims, which impact the liability for Incurred Claims (LFIC). They were partially offset by increased Reinsurance recoveries, and corresponding increases to the risk adjustment.

The Liability for remaining coverage (LFRC) saw an increase in gross premiums and claims due to increased policy count projections for the year ahead following the storm events in the year.

Increases in expenses across the board, mainly relating to headcount and associated costs, also impact the insurance liabilities, and therefore the Insurance service result.

There is some additional benefit from discounting due to the higher values involved.

Investment Performance

The Company has a conservative market risk strategy that prioritises capital preservation over investment return. The investment mandate agreed between the Company, Government and the Insurance Industry restricts the type, duration and amount of holdings that may be invested in. Flood Re only invests in UK Government backed securities (Treasury Gilts and Bills) and Supranationals. Through its designated status as a Public Body, Flood Re has access to the UK Debt Management Office (“DMO”) for investment purposes. Short-term deposits with the DMO vary for periods between one day and six months.

The debt instruments portfolio as at 31 March 2025 comprised:

	Within 1 year	Between 1 year and 2 years	Between 2 years and 5 years	31 March 2025
	£000	£000	£000	£000
Debt and fixed income holdings	96,154	47,619	76,769	220,542
Short-term deposits	765,000	-	-	765,000
Cash at bank	25,576	-	-	25,576
	886,730	47,619	76,769	1,011,118

As at 31 March 2025, the Company had £765m (2024: £546.9m) of short-term deposits invested with the DMO, £64.8m (2024: £56.8m) was invested in debt instruments, £58.2m (2024: £286.9m) in UK treasury bills and £97.6m (2024: Nil) invested in Supranational Bonds.

Fair values at the balance sheet date analysed by contractual maturity as at 31 March 2024

	Within 1 year	Between 1 year and 2 years	Between 2 years and 5 years	31 March 2025
	£000	£000	£000	£000
Debt and fixed income holdings	312,608	31,035	-	343,643
Short-term deposits	546,900	-	-	546,900
Cash at bank	9,257	-	-	9,257
	868,765	31,035	-	899,800

Finance income as at 31 March 2025 comprised:

	2025 £000s		2024 £000s		Difference £000s
Finance Income	40,531		33,751		6,780
Interest income on cash and short-term deposits	3,147		6,150		(3,003)
Investment management fees	(28)		(74)		46
Total investment income	43,650		39,827		3,823

For the year ended 31 March 2025, the Company received interest income on cash and short-term deposits of £3.2m (2024: £6.1m). This represents an annualised investment return on average invested assets of 0.41% (2024: 0.69%). For the years ended 31 March 2025 and 2024, the Company has invested in financial assets and recognised unrealised investment losses in equity.

A.3 Performance of other activities

	2025 £000		2024 £000		Difference £000
Levy I Income	135,000		135,000		-
Levy II Income	-		-		-
Total Levy income	135,000		135,000		-

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.

The Levy I is set out in the Regulations (as amended) and is payable by UK household insurers. Levy I income for the year ended 31 March 2025 was £135m (2024: £135m). From 1 April 2025, the Levy has increased to £160m.

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

The Company has not received any Levy II contributions at any time since the inception of the scheme.

Operating and Administrative expenses

	2025 £000		2024 £000		Difference £000
Total operating and administrative expenses	23,944		19,487		4,457
<i>Of which:</i>					
<i>Attributable to Insurance related services:</i>	13,764		11,464		2,300
<i>Not attributable to insurance related services.</i>	10,180		8,023		2,157

During the year ended 31 March 2025, the company incurred operating expenses of £23.9m (2024: £19.5m) representing an increase of £4.4m compared to the prior year.

UK Corporation Tax

	2025 £000		2024 £000		Difference £000
Total UK Corporation tax charge (credit)	3,376		7,164		

The UK Corporation Tax charge for the year ended 31 March 2025 was £3.4m (2024: £7.2m) calculated at an effective tax rate of 25% (2024: 25%) on the profit before tax of £13.5m (2024: £23.8m).

A.4 Any other information

None

B. System of Governance

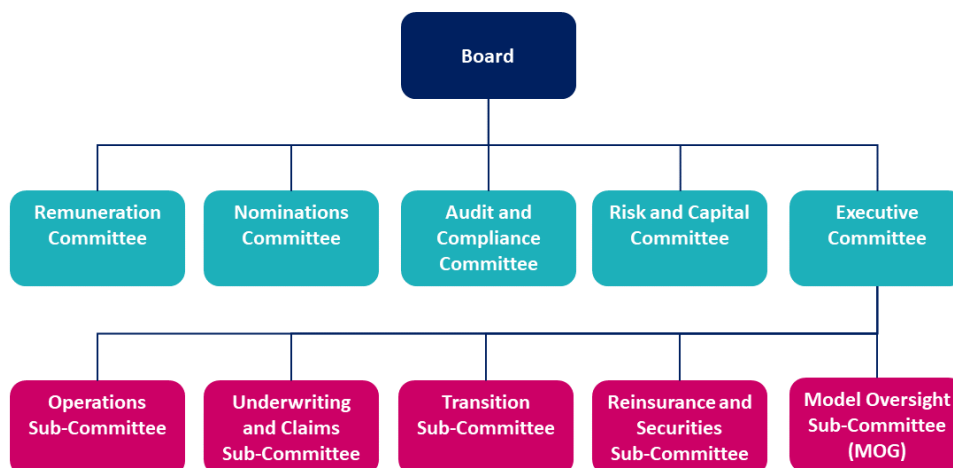
B.1 General Information on the System of Governance

The System of Governance comprising the Board and Committee composition and structure, fit and proper requirements, internal control system, risk management framework, key function holders and outsourcing arrangements are considered appropriate to the Company given the nature, scale and complexity of the operations. This is reviewed annually through the Board and Committee Effectiveness Review.

General Information on the System of Governance

The Board

The Committee structure as at 31 March 2025 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
Bridget Rosewell	CHAIR	Member (INED)	CHAIR	Member (INED)	Attendee
Perry Thomas ¹	Member (CEO and ED)	Attendee	Attendee	Attendee	Attendee
Simon Green ²	Member (SID)	Member (INED)	Member (INED)	CHAIR	Member (INED)

Name	Board	Remuneration Committee	Nominations Committee	Risk and Capital Committee	Audit and Compliance Committee
Jean Sharp	Member (INED)	Member (INED)	Member (INED)	Member (INED)	CHAIR
Shirel Stedman	Member (INED)	Member (INED)	Member (INED)	Member (INED)	Member (INED)
Tony Ballance ³	Member (INED)	CHAIR	Member (INED)	Member (INED)	Member (INED)

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

¹ Perry Thomas was appointed as CEO on 3 February 2025 and received PRA approval 6 June 2025.

² Simon Green was appointed as Chair of the Risk and Capital Committee on 24 April 2025.

³ Tony Ballance was appointed as Chair of Remuneration Committee on 25 April 2025.

The 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 regarding any changes. The Committee continues to actively monitor succession planning for Directors and other Senior Executives across the organisation.

Simon Green was appointed on 9 January 2024 as Senior Independent Director (SID) and was appointed Risk and Capital Committee Chair on 24 April 2025.

Risk and Capital Committee (RCC)

The RCC is responsible for the oversight of the Scheme's 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 relevant policies. During the year, the RCC has continued to focus in particular on securing reinsurance to protect Flood Re's Scheme Parameters (Liability Limit, Levy 1 and Loss Limit) at appropriate levels for the next 3-year cycle which commenced 1 April 2025.

During the year, a significant focus of the RCC has been the re-procurement of our next three-year Reinsurance programme. As part of this overall programme, the committee approved the issuance of a Catastrophe Bond in March 2025 and is effective from 1 April 2025. Consequently, London Bridge 2 PCC Limited issued a single UK £140 million tranche of notes via a protected cell named Vision 2039 (Series 2025-1) on Flood Re's behalf, which provides three years of retrocessional UK flood reinsurance to the end of March 2028, on an indemnity trigger and annual aggregate basis.

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.

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
- The Model Oversight Group: responsible for overseeing the ongoing appropriateness of the Partial Internal Model Design and Operations.

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, to approve the renewal of staff benefit schemes if appropriate, and to set the budget for pay increases, and in April 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 sustainable, long-term value to industry participants, status as a public body, 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, parameters of the Framework Agreement, 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.
- A bonus scheme is in place and is intended to motivate and reward those who significantly contribute to the Company's achievement of its objectives and results. The 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 Group Personal 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 remuneration of the members of the Executive Committee along with the 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, 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.

Flood Re has collaborated with government to agree pay governance controls as part of a new Framework Agreement which became effective during the financial year 2024-2025.

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 2025 and 2024.

Name	Year	Salary £	Taxable benefit £	Bonus £	Pension £	Pension allowance £	Total £
Perry Thomas¹	2025	57,333	94	-	-	6,020	63,447
Andy Bord²	2025	466,217	-	66,481	10,000	36,537	579,235
	2024	422,100	-	126,630	22,000	22,321	593,051
Stuart Logue³	2025	379,692	3,426	-	10,000	29,883	423,001
	2024	300,000	3,090	81,900	10,000	21,500	416,490

¹ Perry Thomas was appointed as CEO on 3 February 2025 and was paid for the period February and March 2025.

² Andy Bord was paid for the period from April to October 2024.

³ Stuart Logue was paid for the period from April 2024 to March 2025.

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 2025 and 2024. The Board reviewed the Independent Non-Executive Directors' fees during the year in accordance with the Remuneration Policy.

Name	Year	Total Fees £
Bridget Rosewell	2025	147,000
	2024	93,933
Tony Ballance ¹	2025	47,208
	2024	-
Judith Eden ²	2025	16,909
	2024	53,000
Simon Green	2025	66,483
	2024	53,000
Jean Sharp	2025	65,650
	2024	63,000
Shirel Stedman	2025	55,650
	2024	53,000
Perry Thomas	2025	54,708
	2024	63,000

¹Tony Ballance was appointed as Chair of the Remuneration committee on 25 April 2025.

²Judith Eden left during the year.

Other related party transactions

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 information contained in the Company's Annual Report and Accounts is consolidated into the Annual Report and Accounts of the Department for Environment, Food and Rural Affairs ("DEFRA"). In 2021/22 the Company was formally designated as a public body (central government) by the Office for National Statistics and the classifications became public on 23 December 2021 in line with the expectation of it being a public body since inception.

Ordinary members

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

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

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

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.

Bridget Rosewell is the Chair of the Board of Directors for Flood Re and chairs the M6 Toll Company. In addition, Bridget is a non-executive director of the UK Infrastructure Bank, Northumbrian Water Group and AWE. She was appointed CBE in December 2018 and is also a Fellow of the Institution of Civil Engineers, the Academy of Social Science and the Society of Professional Economists.

Tony Ballance is an independent non-executive director. He is also Chair of the National Forest Company (NFC). He is presently Chief Strategy & Regulation Officer at Cadent Gas Ltd. He has a background as an economic consultant and was Ofwat's Chief Economist. He is also a Trustee of the Soil Association.

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, Chief Executive Officer of the Company, was previously the chair of the Risk and Capital Committee of the Board. He has also previously 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 currently a Non-Executive Director with Assurant, where he chairs the UK Audit and Risk Committee, and the British Friendly Society Limited, where he chairs the Risk & Investment Committee.

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 Chartered Engineer with the Institution of Water and Environment Management. Shirel also is a NED on PJA board and a Director on PJA Environment Ltd.

B.2 Fit and Proper requirements

The Company ensures that individuals performing a role requiring PRA approval meet the Fit and Proper requirements at all times to ensure that they have the appropriate competence, expertise, and propriety to carry out their roles, in accordance with the Senior Managers and Certification Regime.

.

The Company assesses Fit and Proper requirements initially during the recruitment process and subsequently throughout the period of employment. A more granular and role specific analysis is conducted prior to the appointment of an approved person due to the critical nature of the role in terms of the ongoing soundness of the Company and protection of policyholders.

During the recruitment phase the Company will:

- Use specialist and experienced recruitment agencies
- Assess applicant competence against job descriptions and key functional requirements
- Involve ExCo members, Directors and Non-Executive Directors in the interview process as appropriate
- Perform regulatory reference checking covering six years
- Verify professional and educational qualifications
- Conduct criminal record checks
- Complete identity and address verification checks
- Search FCA/PRA registers
- Undertake financial sanctions and anti-money laundering checks.

During the period of employment, the Company will:

- Complete an induction programme
- Conduct bi-annual performance appraisals
- Review job descriptions and delegated authorities
- Maintain a Management Responsibilities map with clearly defined roles
- Monitor actual performance against role requirements, specific targets, objectives, desired behaviours and quality outputs
- Conduct role specific training to ensure technical and non-technical competence
- Conduct compulsory compliance training for all staff
- Fully investigate any breaches or incidents
- Maintain an appropriate Board and Committee structure.

All staff are made aware of and are expected to comply with their specific regulatory obligations. All staff are expected to notify the Company of any change in circumstances impacting on their fitness and propriety. Flood Re has a suite of documents which together reflect the required “Management Responsibilities Map”, comprising an organisational chart, a Committee structure (showing membership and terms of reference) and job descriptions for all SMF and Key Function holders and individuals with Prescribed Responsibilities.

B.3 Risk management system including the own risk and solvency assessment

Risk framework

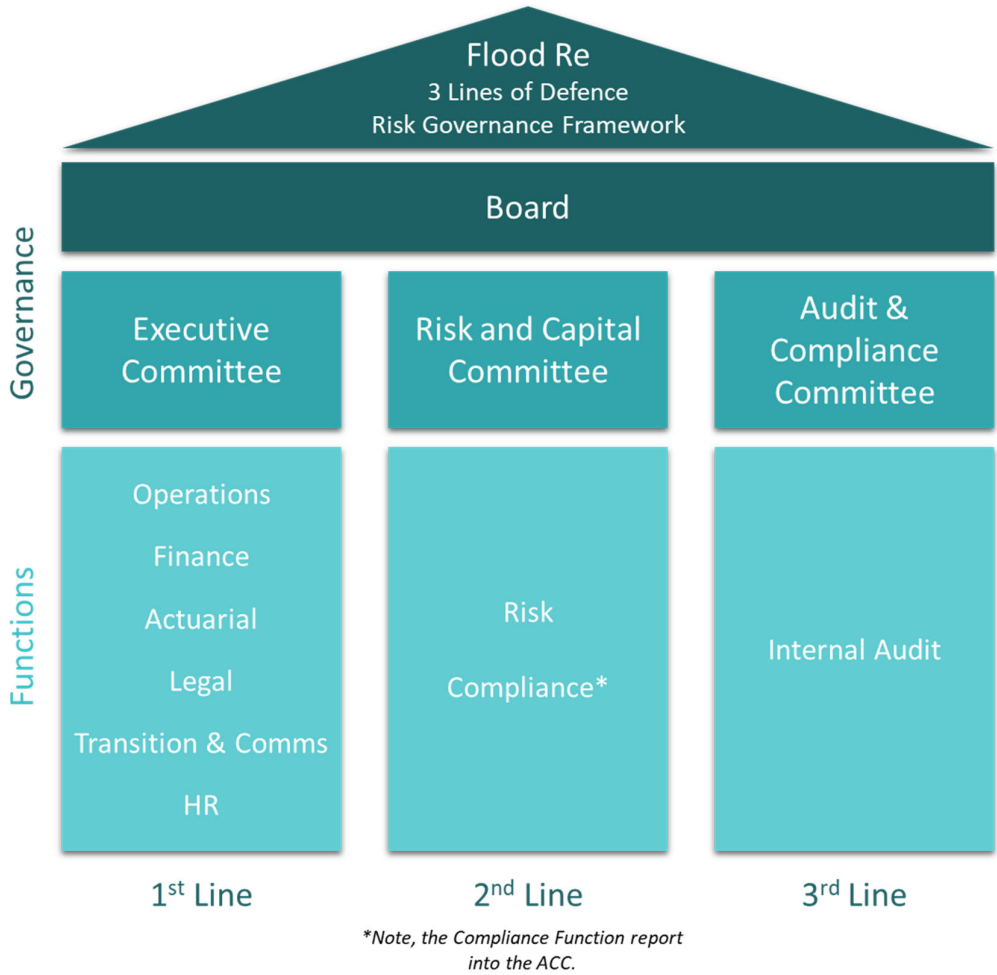
Overview of risk

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 4 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 (IM) 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 identifying and monitoring potential Legal and Compliance risk arising from the activities of Flood Re and its 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.

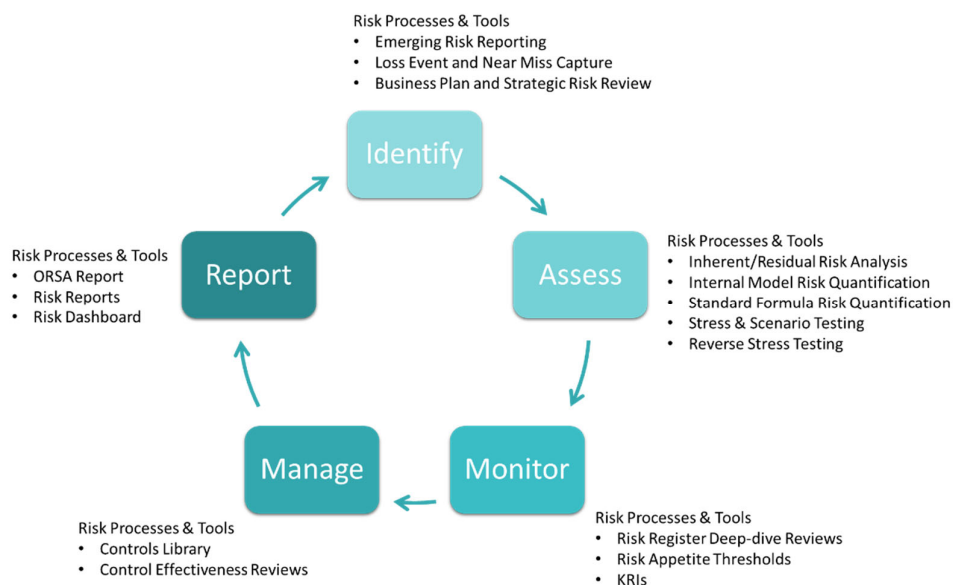
It is the responsibility of each of the three lines of defence to ensure the delivery of Flood Re's complete risk management system.

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 the risk management system being used for major strategic decisions and direction include (a) Assessing the solvency, risk appetite and wider financial implications of the outwards reinsurance and risk transfer structures proposed and ultimately placed for the next three years, (b) Deep Dive Risk reviews on the new forms of risk transfer utilised in the new three year programme, in particular a full risk and opportunity review prior to executing the Catastrophe Bond and (c) Assessing future medium term headwinds facing the scheme (e.g. Climate Change, Ceding Behaviour and Risk Transfer Cost/Capacity constraints) and working with 1st line to actively plan updates to the scheme structure to manage these risks.



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.

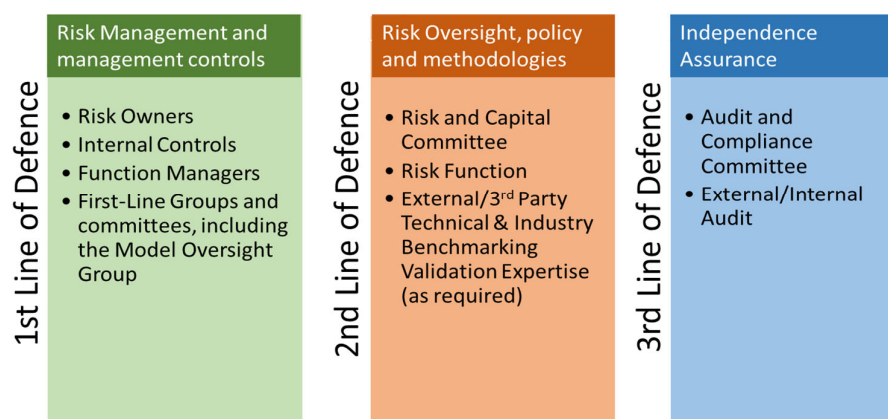
Each risk is allocated to a risk owner. Risk owners ensure risks are managed in accordance with the Risk Management Policy and within the relevant risk appetite metrics. The management of each risk is aligned to one or more of the following types of actions: transfer, avoid, reduce, or accept.

Key Control effectiveness reviews are used to monitor the design and performance of key 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 and managed. A CRO report summarises this activity and is delivered to the RCC on a quarterly basis.

Partial Internal Model Governance

The Flood Re Internal Model Governance framework is used to ensure there is a robust structure around the operation and modification of the Internal Model.

Flood Re maintains a ‘three lines of defence’ model in its approach to risk management; application of this framework to the Flood Re Internal Model is described below:



Roles and responsibilities

Role	Responsibilities
Board	Responsible for the continuous, proper operation of the Flood Re Internal Model in all respects, including approving applicable policies. Responsible for approving Major Model Changes before submission to the PRA.
Risk and Capital Committee	Responsible for second line oversight, including risk management and capital modelling. Provides oversight of the Internal Model scope, design, calibration and use. Ensures the Internal Model is appropriately validated in line with the IM Validation Policy, including signing off the scope of independent model validation cycles and the accompanying key findings.
Model Oversight sub-committee (MOG)	Responsible for overseeing the ongoing appropriateness of the Partial Internal Model's Design and Operations by providing review and challenge to the development of the Internal Model. This includes monitoring progress against the Capital Team work plan and agreed actions in relation to the Internal Model. It also approves minor model changes to the Internal Model and reviews and recommend Major Model changes to the Risk and Compliance Committee/Flood Re Board. The MOG reports to the Executive Committee.

Role	Responsibilities
Head of Capital	Primary responsibility for the production and routine maintenance of, and reporting from, the Internal Model for the purposes of: • Adherence to IM policies; • Capital management; • Informing key risk management metrics; and • Additional model uses as identified in the IM Use Policy (FR0010).
Responsible Executives	The Chief Financial Officer and Director of Operations work with the Head of Capital to ensure the Internal Model is appropriately designed and calibrated to reflect all material and quantifiable risks identified in the Risk Register.
Risk Function	Responsible for review and challenge of the assessment of individual risks within the Internal Model through the Independent Validation Framework.
Internal Audit	Provides the Board with independent challenge and assurance around the governance of the Internal Model and adherence to the Internal Model Governance Policy.

Material changes to the Partial Internal Model governance during the reporting period

There have been no material changes to the governance of the Partial Internal Model during the reporting period. The Model Oversight Group, a sub-committee of the ExCo, continues to manage the lower-level monthly oversight of the PIM. Changes to the Partial Internal Model are still under the remit of the Executive Committee team with ongoing oversight by the RCC as set out above. The Board ultimately approves the SCR alongside major model changes as they are delivered.

The Partial Internal Model validation process

The suitability of the design, methodology and outputs of our Partial Internal Model is determined through the model validation process which includes:

- The performance of first-line testing of the model outputs using a range of top-down (e.g., to review how the board gain comfort with key aspects of the model and key results) and bottom-up (e.g., reviewing detailed justification of individual assumptions) perspectives.
- Using the model and determining how appropriate it is in a business context
- Independent model validation by the Risk Function (with external third-party support as required) of the model to assess its scope, appropriateness and compliance with SUK requirements.

The validation process is designed to help the board and its committees:

- Understand how the methodologies and processes support the continuing appropriateness of the model
- Understand the robustness of the model governance.
- Guard against the risk of model drift.
- Challenge key assumptions and understand the sensitivity of the model results to these.
- Prioritise future development of the model in light of proportionality and impact on the use of the model.

Model testing includes reasonableness checks, variation of assumptions and parameters (sensitivity analysis), risk ranking and scenario testing, as described in section C.

Internal Model Risk Coverage and Appropriateness

The tools Flood Re uses to continuously assess Risk Coverage and Appropriateness are broadly aligned to the following activities:

- Model Use - Using model output for decision making is a key tool for testing its appropriateness. The “feedback loop” following model use ensures any limitations or gaps in risk coverage are identified for remediation
- Model Validation - The various tools used to validate the partial internal model are key to identifying potential gaps in the model scope (e.g., material risks which are not being modelled).
- Risk Register and wider Risk tools - The ongoing review and maintenance of the Risk Register highlights potential limitations in the scope of the model, particularly where emerging risks are being identified.
- Own Risk and Solvency Assessment (ORSA) – Through its forward-looking assessment of non-modelled risk, it is key in assessing the ongoing appropriateness of model scope.

ORSA Policy & Assessment of Capital Requirements

The ongoing delivery of the risk cycle, and its associated processes and procedures, ultimately culminates in the completion of the Own Risk and Solvency Assessment (ORSA) Report.



The ORSA Report seeks to draw together Flood Re’s risk and capital management processes to facilitate understanding of its current and forward-looking risk profile and ultimately inform strategic decision-making. The forward-looking element of the ORSA is inherently linked with Flood Re’s business planning process. The ORSA report sets out both Flood Re’s regulatory Solvency Capital Requirement on both its PRA-approved Partial Internal Model basis and against the Standard Formula.

The Standard Formula is a generic tool for assessing a firm’s solvency capital requirement and given the unique nature and structure of the Scheme, in a number of areas it does not adequately capture Flood Re’s risk profile. As such a Partial Internal Model was developed and has been reported in the ORSA as our view of capital since the PIM received regulatory approval for application on 1 April 2020.

The ORSA report considers the current and forecast solvency position of the Flood Re Scheme against our defined Capital Risk Appetite metrics, and contemplates a number of stresses and scenario tests to determine the mitigating actions and level of capital to be held in order to manage crystallised risks. This year’s ORSA Stress and Scenario Tests focuses in particular on multi year stresses and headwinds to the Scheme which could erode the capital base of Flood Re. Each assesses the pre-emptive and responsive management actions available to remedy the solvency impacts of these scenarios.

The ORSA report is owned by the CRO and delivered at least annually by the Risk team, with considerable involvement from Actuarial, Operations and Finance. It is approved by the Board, with an ultimate audience of the Board, Executive Committee, Employees and Regulators.

A material change in the risk profile of the Company would trigger elements of the ORSA process outside of the annual cycle. The Executive Committee, advised by the CRO, would be required to make a judgement on materiality. Examples of a material change include:

- Unforeseen change in SCR or risk component commensurate with the major model change threshold
- Significant change to the business plan e.g. new perils, change in reinsurance strategy, corporate actions, changes in operating model such as outsourcing arrangements.

B.4 Internal control system

Internal control system

Compliance Risk is defined as the risk of legal or regulatory sanctions, material financial loss or reputational loss to Flood Re as a result of not complying with laws, regulations and administrative provisions.

The Board has ultimate responsibility for compliance and ensuring that an appropriate internal control system is in place and operating effectively throughout the organisation. The internal control system of the Company broadly comprises

- An appropriate Board and Committee structure for the nature and scale of the Company (see Section B.1 above)
- Enterprise risk management framework (see section B3 above)
- Key function holders including a Compliance function holder responsible for Compliance Risk (see B.4.2 below);
- Committee terms of reference
- Clearly defined roles and responsibilities for all staff members
- Ongoing training for all staff
- Policies and Procedures covering all significant areas of applicable law and regulation
- Annual Board and Committee Effectiveness Review.

Terms of Reference

The Board approves terms of reference for each Committee and Sub-Committee of the Company, subject to annual review and approval. Terms of reference outline the Committee structure and composition, roles and responsibilities of individuals, monitoring and oversight responsibility of the Committee or Sub-Committee, the overarching operating principles guiding the Committee, the required frequency of meetings, monitoring requirements and governance requirements (e.g., quorums and voting rights).

Roles and responsibilities (See also section B.2 above)

All employees have clearly defined job descriptions and delegated authorities. These are reviewed annually for appropriateness and particularly with the implementation of the Senior Managers and Certification Regime. All staff must adhere to the requirements of the Flood Re Compliance Framework and Procedures. An annual compliance attestation is required from all staff. Directors

and Key Function holders are responsible for the enforcement of compliance procedures in each of their respective areas of activity.

Training and competence

Flood Re has a formal performance monitoring and assessment framework to ensure that all staff are competent and appropriately supervised. All staff are assessed against Company, department and role specific objectives as part of the annual appraisal process. The appraisal process identifies training and development needs, particularly reflecting the requirements of the Senior Managers and Certification Regime.

Annual regulatory, compliance and anti-financial crime training is provided to all staff on a compulsory basis to ensure that they are aware of their regulatory responsibilities.

Employees attend relevant industry training and undergo continuing professional development to keep them abreast of industry developments.

Policies and Procedures

The Company maintains policy and procedure documents for all significant areas of legal and regulatory risk and operations. All Level 1 Policy documents are subject to final review and approval by the Board on an annual basis. All activities of the Company are managed in accordance with the documented policies and procedures. Policy documents are available to all staff on an intranet website.

Compliance Function

Flood Re has a Compliance Function headed by the General Counsel who reports directly into the CEO and the ACC. The Compliance Function forms an independent part of the second line of defence (see section B.3). The General Counsel has rights of access to all records, documents and procedures of the Company. All employees must co-operate to the best of their ability with the Compliance Function.

The Compliance Function has responsibility for the following:

- Providing guidance and training on the proper application and interpretation of law, regulatory principles, rules, guidance, internal policies and codes of practice
- Maintenance of the Framework and Procedures issued to all staff including establishing procedures around anti-financial crime, data protection, conflicts of interest, treating customers fairly, whistleblowing and complaints handling
- Ensuring each business area documents their Policies and Procedures to a common compliant standard with appropriate annual review and approval
- Overseeing eligibility of ceded policies and claims, in accordance with the Regulations
- Conducting risk-based compliance monitoring in accordance with a plan approved by the ACC
- Monitoring compliance risk arising from activities of outsourced service providers through regular client meetings and reviews of Risk and Compliance processes and manuals at the service provider (see section B.7 below)
- Maintenance of an incident log

- Managing the firm's supervisory relationships with its regulators and arm's length government body
- Disclosing to the Regulatory Authorities anything relating to the firm which the regulator would reasonably expect notice of (e.g., Breaches, Solvency adequacy)
- Ensuring that Flood Re acts within the U.K. Government's public procurement process requirements when awarding all major contracts
- Overseeing the governance of Board and Committee meetings (minutes, voting rights, attendance records, notice periods, terms of reference etc.)

Responsible Officer

The Company's Responsible Officer has direct accountability to Parliament for the achievement of the policy objectives set out in the Regulations and must pay due regard to the need to act in the public interest. The Chief Executive Officer is the designated Responsible Officer for the stewardship of the Flood Re Scheme and is required to provide appropriate assurance to Defra's Accounting Officer on regularity and propriety for Flood Re's element of Defra's consolidated account, supported by the Flood Re Board.

B.5 Internal audit function**Internal Audit**

Flood Re has an Internal Audit function led by a Head of Internal Audit. In addition to internal resources, the function utilises external service providers for some of the audit work, especially in cases where specialist skills are required.

The Internal Audit function holder has a documented standard procedure that is aligned to the Global Internal Audit Standards set out by the Institute of Internal Auditors.

The Internal Audit function carries out a risk and cyclical based annual planning process. The audit plan is structured to ensure that each area is audited at least once every four years. The appropriateness of the plan is regularly reviewed and, where necessary, changes are proposed and presented to the ACC for approval.

Audit actions are tracked to help ensure appropriate and timely resolution of issues. A quarterly Internal Audit Report is presented to the ACC. This report includes a summary of the results of audits carried out in the preceding quarter, progress in resolving outstanding issues and an overall view on the control environment. In addition, an Annual Internal Audit report is produced summarising the key issues identified by Internal Audit through the year and how these issues were resolved.

Independence and objectivity

Flood Re's Internal Audit function maintains independence and objectivity as follows:

Reporting Lines: The Head of Audit is directly accountable to the Chair of the ACC to ensure independence. Administratively, the Head of Internal Audit works with the CEO to ensure that key areas of the business are given adequate attention.

Responsibility: The Head of Audit does not have management responsibility over any areas that are subject to internal audits. In instances of potential conflict, safeguards are put in place to preserve independence.

Scope of Work: The work of Internal Audit is governed by an Internal Audit Charter which specifies that Internal Audit should have unlimited access to all areas of the business.

Approach: All audits are conducted in line with the Global Internal Audit Standards set out by the Institute of Internal Auditors. These standards require Internal Audits to be carried out objectively and where necessary, additional measures to be in place to avoid conflict of interest.

B.6 Actuarial Function

The Actuarial Function forms part of Flood Re's System of Governance, working alongside the Risk Management Function, the Compliance Function and the Internal Audit Function.

The Actuarial Function delivers analysis and recommendations for all areas of the business, on both a regular and ad-hoc basis. The Actuarial Function is responsible for the following:

- Calculating and recommending quarterly IFRS best estimate reserves
- Calculating and recommending quarterly Solvency II Technical Provisions
- Calculation of the Solvency Capital Requirement
- Parameterisation and operation of the Internal Model, including assessing and recommending the Solvency Capital Requirement
- Provision of flood intelligence and oversight of exposure management
- Providing actuarial analysis to support the appropriateness of the Levy, inwards premiums and Liability Limit
- Production of analysis from the capital model that facilitates model use as detailed within the Flood Re Model Use Policy, including reinsurance analysis
- Provision of the Actuarial Function Report including the opinions on the adequacy of the Technical Provisions, underwriting policy and reinsurance arrangements.

The Actuarial Function is led by the Chief Actuary, who is a qualified Actuary and holder of the Institute and Faculty of Actuaries (IFoA) Chief Actuary Certificate. The Chief Actuary reports directly to the CEO and the RCC.

Potential conflicts of interest are mitigated by the following:

- The Actuarial Function operates independently in forming opinions and recommendations in line with Solvency UK requirements.
- The Chief Actuary reports directly to the CEO which allows key messages of the Actuarial Function to be communicated directly to the Board.
- The review process ensures appropriate checking and that peer reviews are in place, with clear reporting lines within the Actuarial Function.

Actuarial processes are carried out in accordance with regulatory expectations and Technical Actuarial Standards ("TAS").

B.7 Outsourcing

Outsourcing

Flood Re's design and business strategy requires a number of operational outsourcing arrangements, some of which are critical or important to the running of the business, as opposed to developing the functionality in-house. The table below provides an overview of the critical and important outsourcing contracts the Company has entered into:

Contract	Description	Jurisdiction	Responsibility
Guy Carpenter	Support in relation to catastrophe modelling, geo-coding and capital modelling.	UK	Chief Actuary
Watertrace Limited	Bordereaux Management	UK	Director of Operations
AddressCloud Limited	Reinsurance management services	UK	Director of Operations

The Outsourcing Policy is owned by the Director of Operations. It is reviewed by the Director of Operations and the Operations Sub-Committee at least annually and approved by the Board. This helps ensure it remains appropriate and relevant. Additional reviews may be performed as required and as detailed in the Documentation Policy.

The key components and principles of the Outsourcing Policy, which forms part of the overall risk management strategy, are as follows:

Risk Appetite

Board approved risk appetite statements define the level of Operational Risk the Company is willing to accept through outsourcing. The risk appetite is used to ensure outsourcing is managed in line with acceptable risk thresholds.

Governance and oversight

Each outsourced activity is assigned to a contract owner who has responsibility for monitoring the day-to-day activities of the outsourced arrangement.

The Director of Operations is primarily accountable for the oversight of the outsource providers and their performance in line with service level agreements and key performance indicators. The General Counsel retains responsibility for all compliance matters in relation to the outsource providers and works with the Director of Operations to ensure that outsourced service providers comply with Flood Re's policies and procedures.

The Operations Sub-Committee is responsible for overseeing outsourcing performance. This Sub-Committee is chaired by the Director of Operations and reports into the ExCo.

Define business needs and develop outsourcing strategy

Prior to entering into an outsourcing arrangement, the contract owner must define the scope of Flood Re's outsourced needs and identify all of the stakeholders within the Company that will need to be engaged through the entire process. A risk and impact assessment on the overall business strategy is completed.

Perform due diligence

Due diligence is performed prior to entering into outsourcing arrangements and at regular intervals thereafter (at least every three years). Due diligence includes, but is not limited to, consideration of strategic fit of the service provider with Flood Re, experience and technical expertise, financial strength, business reputation, internal control environment including confidentiality provisions, business continuity, reliance on sub-contractors, ability to provide services over the longer term and degree of insurance coverage.

Procurement

The Company procures services in line with its Board-approved procurement policy which, where necessary, requires us to comply with public procurement rules. The procurement policy in place, as well as the legal framework for public procurement, ensures that contracts are awarded fairly, transparently and without discrimination. The Company is required to advertise the contract by means of the U.K. Government's public procurement process when awarding all contracts above the public procurement thresholds; and to follow specified procedures for selecting candidates and assessing tenders.

Contractual arrangements

All contracts are reviewed by the Legal and Compliance team prior to being signed to ensure that the minimum required terms and clauses are included. To ensure that all regulatory and legal requirements are met, an outsourcing contract review checklist must be completed prior to binding the Company to any contract.

All contracts are recorded in a Contracts Log, maintained by the General Counsel.

Monitoring and review

The performance of the third party service providers is monitored on an on-going basis through the provision of management information and regular review meetings by the Operations Sub-Committee and the Executive Committee.

Retained capability

Where a business activity is outsourced, the Company remains responsible for all of its regulatory obligations, as these cannot be contracted out. Flood Re must retain the necessary expertise to supervise the outsourced service effectively and to manage the risks associated with the outsourcing, and must supervise those functions and manage those risks.

Termination

The Company is required to have exit plans in place for all critical outsourced functions. Exit plans form part of the Company's resilience arrangements and must be developed and maintained in

consultation with the service provider and reviewed annually. Flood Re is re-designing its operational model to ensure it is fit for purpose for the future evolution and advancement of the Scheme.

B.8 Any other information

Risk assessment is described in section C with a financial assessment in section D.

C. Risk Profile

The following section sets out the major elements of the Flood Re Risk Profile, which are managed through the risk cycle and ultimately presented in the quarterly CRO reports and annual ORSA report. The SCR for Flood Re is calculated using a Partial Internal Model. The basis of each of the standalone capital charges is given in the relevant sub-section below. Please note that the standalone capital positions in the below section are on Flood Re's "Approved" Partial Internal Model. The Partial Internal Model is currently in the process of being updated through a major model change to reflect the new outwards reinsurance structure and scheme parameters, currently this basis is designated as "Proposed". Where the Approved Standalone capital charges do not capture the latest risk profile of the Scheme these are noted in the sections below. Flood Re has calculated and agreed with the PRA a Solvency UK voluntary capital add-on to manage the period whilst the Proposed Model is being reviewed through the Major Model Change process with the PRA.

C.1 Insurance Risk

Premium

As at 31 March 2025, the undiversified Premium Risk capital charge is £32.2m (2024: £28.8m). The capital charge for this risk is calculated using the Approved Partial Internal Model.

Premium Risk is defined as the risk of fluctuations in the timing, frequency and severity of insured events relative to the expectations at the time of underwriting, and is inclusive of catastrophe risk within our internal model. Flood Re's most significant premium risk exposure is to losses arising from UK flood events, either from low frequency, high severity catastrophe events or from aggregation of more modest events.

The Company's most significant net Premium Risk exposure is to losses within Flood Re's outwards reinsurance retention. Gross losses in advance of the aggregate excess of loss attachment point are recovered from Flood Re's programme of outwards reinsurance. Note that under the new reinsurance program, larger scale losses do have wider credit risk implications for Flood Re's risk profile as well as implications for future years' cost and potential coverage of outwards RI.

The £3.4m increase in Premium Risk is primarily driven by the effects of higher volumes of ceded policies on net earned premiums and retained losses, as well as an increase in the assumed operating expenses. Note that on the Proposed Model basis (subject to major model change approval from the PRA), the premium risk standalone risk has increased materially due to the higher retention and cost under the new outwards reinsurance programme. This difference has been captured through a voluntary capital add-on for the period whilst the proposed basis is subject to approval.

Premium thresholds represent the maximum that Flood Re can charge to insurers for flood cover. The premium thresholds, which can be adjusted annually for the percentage increase or decrease in the Consumer Price Index (CPI) in the prior calendar year, are set at a level that:

- Is below the level that would be charged for properties at the highest risk of flood if prices fully reflected those risks. This provides a subsidy for those properties judged to be at risk and improves affordability; and
- Is still sufficiently high to help ensure that insurers only cede those properties at high risk. This is designed to ensure that the insurance industry retains a significant portion of household flood risk that can affordably and profitably be covered in the open market.

A decision was taken by the Company in 2018 to not pass on the effect of CPI indexation for 2019 to insurers. In addition, from 1 January 2019, Flood Re Limited reduced premium levels for buildings (12.5% reduction), contents (33% reduction) and combined (aggregate reduction) policies for all council tax bands, with the exception of the highest, in order to further facilitate affordable cover for those most at risk of flooding. A rate increase of 5% was introduced for policies incepting from 1 April 2024 in response to the high inflationary environment.

The impact of the increase in the Reinsurance Programme cost for 2025-2028 and increase in ceding volumes has resulted in a further review of inwards pricing, with significant changes planned in 2025/26. Flood Re will be making its first half yearly change to inwards premiums from 1 October 2025 to seek to actively manage the scheme's gross exposure, with further actions planned for the beginning of 2026/27.

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. The cost of the subsidy provided through the premium thresholds is met by a Levy raised from all insurers writing Home Insurance in the UK. The Levy was originally set at £180m per annum, and was reduced to £135m per annum from 1 April 2023. Following the latest review of the scheme parameters, the Levy has been set at £160m for the next three years, from 1 April 2025.

Reserve Risk

As at 31 March 2025, the undiversified Reserve Risk capital charge (Approved Model) is £26.9m (2024: £18.2m). The capital charge for this risk is calculated using the Partial Internal Model.

Reserve Risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate reserve 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.

The major drivers behind the change in the year are:

- Reserves associated from Flood Re's large events in 2023/24 (Storms Babet and Henk), have matured over the last 12 months which lowers this risk.
- These two events combined with wider claims for 2023/24 were sufficiently large in aggregate to attach to the bottom layer of our aggregate excess of loss treaty (£175m xs £175m). This meant that the impact from potential changes in the gross reserves was largely absorbed by the reinsurers, reducing Flood Re's net exposure to reserve risk.

- By comparison, a number smaller flood events have occurred more recently in the latter half of 2024/25 which in aggregate do not attach to the aggregate excess of loss treaty. Hence the net reserve risk for these events by comparison is higher.

Lapse Risk

As at 31 March 2025, the undiversified non-life Lapse Risk capital charge is £nil (2024: £nil).

Lapse Risk is defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders. Lapse rates have been historically low and, as business written by Flood Re is written at a discount to the expected cost of claims, policy lapse rates do not present a material risk.

Underwriting Risk mitigation

The Company purchases reinsurance as a key element of its overall risk mitigation programme. Outwards reinsurance is placed on both a proportional and non-proportional basis and is the Company's primary mechanism for managing and mitigating Insurance Risk.

The Flood Re Scheme Document establishes the requirement for the Company to set an annual aggregate loss amount or Liability Limit. The amount of the Liability Limit is adjusted annually for the percentage increase or decrease in the Consumer Price Index in the prior calendar year. Subject to these adjustments and a process of ongoing confirmation of appropriateness, the Liability Limit is set for a period of three years. Should claims exceed the Liability Limit, primary insurers will continue to be liable to policyholders in accordance with the terms of the insurance policy sold. However, Flood Re will only be liable to insurers up to the Liability Limit.

Flood Re aims to ensure that the outwards reinsurance protections purchased match the Liability Limit. Furthermore, HM Government requires that Flood Re protect itself from an annual accounting loss above £250m in any one accounting period. To provide for both of these requirements Flood Re has purchased an extensive reinsurance programme.

The reinsurance programme is reviewed and approved by the Board in line with the Company's business strategy and risk appetite. The Company uses both its own and commercially available proprietary risk management tools and models to assess catastrophe exposure. The outwards reinsurance programme is placed every three years, and this cycle is aligned to the three yearly setting of both the Levy 1 and Liability Limit. This cycle was delivered most recently over 2024/25 to procure Flood Re's next three year outwards RI programme. As is highlighted elsewhere in this report, the cost and structure of the programme deliver a material shift in a number of elements of the Scheme's Financial Risk Profile.

Quarterly aggregate exposure monitoring involving catastrophe analysis by Guy Carpenter and reviewed by the Actuarial Function, combined with quarterly reserve reviews, are used to monitor the ongoing appropriateness of the reinsurance programme and the sufficiency of the reserves, premium and Levy income, as well as the Liability Limit.

C.2 Market Risk

Prudent Person Principle

The Company adheres to the Prudent Person Principle through the application of a conservative Market Risk strategy that prioritises capital preservation over investment return. The investment mandate agreed between the Company, Government and the Insurance Industry restricts the type, duration and amount of holdings that may be invested in. Flood Re only invests in UK Government backed securities (gilts, treasury notes and UK Government backed liquidity funds). Through its status as a Public Body, Flood Re has access to the UK Debt Management Office (“DMO”) for investment purposes. Short-term deposits with the DMO vary for periods between one day and three months, depending on the immediate cash requirements of the Company.

Interest Rate Risk

As at 31 March 2025, the undiversified Interest Rate Risk capital charge, calculated on a Standard Formula basis, is £3.1m (2024: £4.9m).

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 £1.8m decrease in Market Risk is due to a reduction in net asset value subject to Market Risk over the year. This is due to an increase in the proportion of the asset portfolio invested in DMOs (which are not subject to Interest Rate Risk) and an increase in discounted Technical Provisions offsetting our fixed income interest rate exposed assets.

Given the relatively low level of assumed correlation in the standard formula between Market and Insurance Risk, one of the main drivers of the SCR, the impact of the change in the Interest Rate Risk is much less material to the SCR.

Market Concentration Risk

As at 31 March 2025, the undiversified Market Concentration Risk capital charge is £nil (2024: £nil).

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 risk appetite for, and accepts Market Risk concentration arising from, exposure to the UK Government and from exposure to the financial services sector.

As at 31 March 2025, the Company has £765.0m (2024: £546.9m) of short-term deposits invested with the DMO, representing 76% (2024: 61%) of the total invested assets. In addition, the Company has £64.8m in UK Treasury Gilts (2024: £56.8m), £58.2m in UK Treasury Bills (2024: £286.9m) and £97.6m in Supranational Bonds (2024: Nil), representing 24% (2024: 39%) of the total invested assets.

Equity Risk, Property Risk, Corporate Credit Spread Risk and Foreign Currency Risk.

As at 31 March 2025, the undiversified risk capital charge is £nil (2024: £nil).

The company does not currently have any risk appetite or exposure to Equity Risk, Property Risk, Corporate Credit Spread Risk or Foreign Currency Risk. All transactions (other than a small number of expenses) are settled in pounds sterling.

Market Risk mitigation

Flood Re's investment strategy is conservative with a focus on preservation of capital. The investment portfolio is managed in accordance with the Board-approved risk appetite statements.

Flood Re's key liabilities derive from short tail, natural flood catastrophe events. It is anticipated that most claims will settle within one year of the date of loss. The Company ensures appropriate consideration of asset and liability duration matching to ensure policyholder protection.

Given the short tail nature of Flood Re's assets and liabilities coupled with the asset and liability matching policy, the mismatch between assets and liabilities cash flows is limited and Interest Rate Risk is of low materiality.

C.3 Counterparty Default Risk

As at 31 March 2025, the undiversified Credit Counterparty Risk capital charge is £13.2m (2024: £11.9m). The capital charge for this risk is calculated using the Partial Internal Model.

Counterparty Credit Risk is defined as the risk of not recovering amounts owed to Flood Re by third parties. The Company's maximum exposure to credit risk is the gross carrying value of its levy receivables, reinsurance premium receivables, reinsurance recoveries, trade and other receivables and cash and short-term deposits.

Of the £1.3m increase in Counterparty Default Risk, £1.0m relates to an increase in the level of expected future recoveries given the increase in gross losses from higher assumed policy volumes.

Credit Risk mitigation

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). Single reinsurer concentration risk is managed through thresholds established by the Company's Board.

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

C.4 Liquidity Risk

As at 31 March 2025, the Liquidity Risk capital charge is £nil (2024: £nil).

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, however, the maturity profile of the Company's invested assets is aligned to the generally short-term nature of the business underwritten. For the period ending 31 March 2026, the Company anticipates generating negative cash flows, due to the increased cost of the new Reinsurance programme, and expected average flood loss experience.

As at 31 March 2025, the Company has invested and liquid assets of £1,011m (2024: £899.8m), representing 78% (2024: 77%) of its total equity and liabilities and 285% (2024: 1362%) of the Solvency Capital Requirement (SCR), or 285% (2024: not applicable) of the SCR plus capital add-on. Invested and liquid assets comprise amounts included in the investments in debt instruments, cash and short-term deposits.

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. A gross premium deficiency provision of £85.9m (2024: £66.6m) has been established to recognise the overall excess of expected claims over unearned premium. As at 31 March 2025, the Expected Profit Included in Future Premium (EPIFP) is £nil (2024: £nil).

C.5 Operational Risk

As at 31 March 2025, the undiversified Operational Risk capital charge is £21.2m (2024: £21.1m). The capital charge for this risk is calculated using the Approved Partial Internal Model.

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

When controls fail to perform, Operational Risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. Flood Re manages Operational Risks to minimise financial losses, and risks to its reputation and industry standing.

The Flood Re risk register has identified a number of Operational Risks split into four risk levels (Top, High, Medium and Low). The Operational Risks classified into the top and high risk category include failure of outsourced service provisioning, key person and information security risks.

There has been an immaterial increase to the stand-alone Operational Risk capital charge over the year. The movement, however, a reduction in the assessment for Inappropriate Cedant Behaviour (ICB) (i.e. where ceding insurers may (deliberately or unknowingly) inflate the value of claims paid to customers or submit claims that relate to non-flood losses in the knowledge that they can recover the cost from Flood Re) after updates to the level for gross claims and reserves across 2023-24.

The primary driver stems from the higher underlying gross claims, which means that a large proportion of the additional cost from the ICB risks is assumed to be recoverable from the reinsurers.

Note that as with Premium Risk on the new Proposed Model basis (subject to major model change approval), the Operational Risk standalone increases materially due to the impact of the higher retention under the new outwards reinsurance programme has on the ICB sub risks. This difference has been captured through the voluntary capital add on for the period whilst the proposed basis is subject to approval.

Operational Risk mitigation

The Company's operating model makes use of outsourced service providers (see Section B.7) to deliver a number of key operational elements. The relationship with, and management of, the outsourced service providers is a key component of the Operational Risk profile.

The Company's operational policies and procedures set out how various Operational Risks are managed throughout the Company. See section B.4 for a discussion of risk mitigating factors arising from the operation of the Internal Control system.

C.6 Other Material Risks**Strategic Risk**

Strategic Risk is defined as the risk of non-achievement of the Company's strategic objectives due to the failed implementation of strategic plans, a flawed strategic plan or changed external environment.

Risk mitigation

The CEO is responsible for the execution of the overall business strategy. The business strategy and operational plans are reviewed and approved by the Board on at least an annual basis. Performance against plan is monitored on an ongoing basis. The Board includes Independent Non-Executive Directors with Public Sector experience and background to engage with political stakeholders. The Company has an extensive ongoing engagement process with the insurance industry and DEFRA.

The Company has a statutory duty to publish a transition plan, updated on a regular basis which sets out how the market will return to risk-reflective pricing. The first transition plan was published in February 2016, with an update, "The Flood Re Transition Vision" published in July 2018. The following Transition Plan was published in 2023, and includes Flood Re's progress towards, and plans for its 2039 exit.

Sensitivity, Stress and Scenario Testing

Sensitivity, Stress and Scenario Tests are key risk management tools that allow the Company to assess the consequences of future events and determine whether risk-mitigating actions should be taken to manage their associated impacts.

- **Sensitivity and Stress Tests** – Simple shocks focused on changing one key variable or parameter (e.g. expected volumes, loss ratios, investment income, operational expenses) to assess the impact on the Company's financial strength.
- **Scenario Tests** – More complex sequences of shocks that can be based on historic events or created to assess the impacts of potential events that have not yet occurred.
- **Reverse stress tests** – Stress tests that require Flood Re to assess scenarios and circumstances that would render its business model unviable. Flood Re's reverse stress tests seek to consider both the key threats to its operation as a reinsurance entity as well as medium- and longer-term threats to its Transition Objectives.

It is essential that Flood Re's Board, Committees and management are able to understand the effect of changing market and business conditions on Flood Re's business plan, risk profile, solvency and liquidity. This will ensure they are able to proactively manage risks and the Company's capital position.

Flood Re has broadly split Sensitivity, Stress and Scenario Testing into the following areas and uses:

Sensitivity, Stress & Scenario Testing of the Business / Strategic Plans (Business Planning and ORSA Stress and Scenario Tests)

- The assumptions underpinning the business plan and financial forecasts, are subject to a range of sensitivity, stress and scenario testing to determine the robustness of the business model and to identify potential management actions following a major event.

Model Validation

- Sensitivity, Stress and Scenario Testing can provide an alternative quantitative lens through which to assess specific risks to Flood Re and compare these against equivalent partial internal model outputs.
- The Company undertakes internal model validation exercises and delivers a suite of Sensitivity and Stress Tests (across each of its risk areas), focused in particular on assessing the most material assumptions and expert judgements within the Internal Model.

Model Calibration

- Flood Re uses a scenario-based approach to model Operational Risk in the Internal Model. Operational Risk workshops assist in the identification of the scenarios and facilitate risk quantification.

Reverse Stress Testing (RST)

- Annual RSTs seek to identify and assess events and scenarios that could lead to the business model becoming unviable and consider key points of strategic dependencies and consequences of severe reputational damage.

Risks not captured in the PIM

- Flood Re uses targeted stress/scenario tests to assess risks not explicitly captured within the Internal Model.

Regulatory Sensitivity, Stress and Scenario Testing

- The Company performs Sensitivity, Stress and Scenario testing in response to industry stress testing exercises requested by the UK Regulator (PRA). The most recent exercise was the 2022 General Insurance Stress Testing (GIST). Flood Re expects to participate in the PRA's 2026 Dynamic General Insurance Stress Test (DyGIST) in May 2026.

Emerging Risk Sensitivity, Stress and Scenario Testing

- Emerging Risks (e.g. Climate Change) are subject to Sensitivity, Stress and Scenario Testing on an ad-hoc basis to assess the impact and identify the appropriate management actions to control or mitigate the risks.

Sensitivity, Stress and Scenario Testing – Focus and Results

Flood Re uses Stress and Scenario Testing as a key tool to assess a range of potential future states and how they could impact the Scheme's (a) Solvency, (b) Wider Limits and Financial Risk Appetites and (c) Ongoing operation of the Scheme and delivery of its public purpose.

Since launching in 2016, Flood Re has built up material levels of solvency, and has consistently been able to transfer considerable amounts of its gross exposure to the reinsurance and retrocession market through its outwards RI Programmes. As such, over the last few years' ORSA exercises, the focus of scenario testing has been on stressing wider scheme parameters and limits (such as the loss limit or proximity to the liability limit), rather than solvency. This activity has supported a range of strategic deliverables and decisions, in particular the last Article 90 exercise to set both the Liability Limit, Loss Limit and Levy 1 in preparation for the RI procurement in 2024/25.

With the new Reinsurance Structure for Years 10 to 12 of the Scheme (2025/26 to 2027/28), Flood Re's Solvency returns to being the key binding financial constraint of the Scheme. As such the Stress and Scenario Testing in this year's ORSA focusses on multi year scenarios over the next three years (within the period of the new RI Programme and Scheme Parameters) which could lead to strain on the Scheme's solvency position.

- **Targeting Solvency:** The focus of these 2025 ORSA SST's is on Solvency of the Scheme over the next 3 years and, specifically, stresses which could deliver solvency strains either from (1) Significant erosion of Flood Re's Eligible Own Funds (Numerator of the Solvency Ratio) or (2) Increases in the Peak SCR (Denominator of the Solvency Ratio).
- **Pre and Post Management Actions:** Each Scenario has been run both with and without management actions to (a) Test the Scheme's Financial Risk Management Action Playbook, (b) demonstrate the benefit and necessity of the management actions, and (c) set out which of the actions are the most material and beneficial.

Three scenarios of varying degrees of stress have been delivered for the 2025 ORSA Exercise. Each target different elements and dynamics of the new Flood Re Financial Risk Profile and to varying levels of strain, with Scenario 3 (two back-to-back 1 in 30 AEP flood loss years) aligning to a near-reverse stress test and the kind of multi-year scenario where Levy 2 action would be increasingly expected.

- **Scenario 1** – Acceleration in Growth of Gross Exposure (increase in policy volumes and/or claims inflation above base case forecasts)
- **Scenario 2** – Single Year Major Flood Loss (1 in 30 AEP) in Year 10 (2025/26) and subsequent Exposure Growth (material increase in future ceded volumes)
- **Scenario 3** – Multi Year Major Flood Losses (1 in 30 AEP) in Years 10 & 11 (2025/26 and 2026/27) and subsequent Exposure Growth (material increase in future ceded volumes)

The results of the scenarios highlight that with timely management action across both Flood Re's inwards premium levels and wider risk transfer management actions, the Scheme would remain within its solvency risk appetite thresholds over the next three years under the new reinsurance structure.

In addition to these ORSA Stress and Scenario Tests, Flood Re has also used Scenario Testing across a range of areas of the business, from using varying stresses and scenarios to aid with setting the Operational Capital Requirement, to performing Operational Resilience Scenario Testing to assess our ability to recover our Important Business Services following a major cyber driven outage.

Any other information

A feature of 2024/25 has been the considerable effort that has gone into the successful placement of the 2025 to 2028 Reinsurance Programme, alongside the issuance of Flood Re's first Catastrophe Bond, "Vision 2039".

The Flood Re Scheme continues to be financially resilient, with further strengthening of the Scheme's solvency and its ability to manage within the limits of the Scheme despite the large flood events in the year.

D. Valuation for Solvency Purposes

The statutory financial statements of Flood Re Limited are prepared in accordance with IFRS. For Solvency UK valuation purposes, assets and liabilities are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction (Article 75 the Solvency II and Insurance (Amendment, etc.) (EU Exit) Regulations 2019).

The table below shows a reconciliation between excess assets and liabilities valued on an IFRS GAAP basis and a Solvency II basis as at 31 March 2025.

		IFRS17	SII	Difference
		£000s	£000s	£000s
Assets				
Intangible assets	D.1c	4,393	-	4,393
Property, Plant & Equipment	D.1b	2,731	-	2,731
Investments	D.1a	985,542	996,364	(10,822)
Cash and short-term deposits	D.1d	25,575	25,575	-
Reinsurance assets outward contracts	D.1c	247,535	185,107	62,428
Receivables (non-insurance)		22,862	12,143	10,719
Total Assets		1,288,638	1,219,189	69,449
				-
Liabilities				-
Reinsurance liabilities inward contracts	D.3a	580,655	387,442	193,213
Deferred tax	D.3a	330	29,772	(29,442)
Payables (non-insurance)	D.3b	35,643	41,639	(5,996)
Total Liabilities		616,628	458,853	157,775
				-
Excess assets over liabilities		672,010	760,336	(88,326)
				-
Analysis of movement				-
Decrease in other assets	D.1			(7,021)
Decrease in net technical provisions	D.2			137,583
Decrease in other liabilities	D.3			(42,236)
Total				88,326

Flood Re is engaged in the provision of reinsurance cover for a single risk (property), a single peril (flood), single currency (pounds sterling) within a single territory (United Kingdom).

Under Solvency UK, all underwriting transactions are classified and recorded under the Proportional Reinsurance – Fire and other damage to property line of business.

The bases, key methods and approach for setting assumptions for all assets and liabilities on a SUK basis have been in place throughout the year and are not materially different at 31 March 2025 compared to those used at 31 March 2024.

See section C for the impact of the PIM in assessing the risk components of the SCR and section E.3 for differences between the standard formula and the Internal Model used.

D.1 Assets

The material differences between the bases, methods and main assumptions used to value assets for solvency purposes compared to the IFRS statutory financial statements are outlined below:

a. Gilts and Treasury Bills

Short term investment holdings predominately comprise of UK gilts and treasury bills as part of the wider investment portfolio that were purchased during the current financial period. The UK Gilts and treasury bills were purchased in the period alongside holdings with the DMO.

For Solvency UK valuation purposes, short-term investments are valued in accordance with IFRS and are measured at fair value through other comprehensive income (“FVOCI”).

b. Property Plant Equipment

Property, plant and equipment comprise leased buildings, leased IT infrastructure and IT hardware. Leased Buildings and IT infrastructure is stated at present value of future lease payments and IT hardware is stated at depreciated cost for IFRS reporting.

c. Intangible assets

Intangible assets acquired separately and developed internally are measured at cost on initial recognition. The cost of intangible assets acquired is their fair value at the date of acquisition. The direct cost incurred to develop IT software application is fair value 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.

For Solvency UK valuation purposes, these assets are valued at nil.

d. Cash and short-term deposits

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

For Solvency UK valuation purposes, cash and short-term deposits are valued in conformity with IFRS and are inclusive of accrued interest. As highlighted in the previous section, Flood Re’s investment management approach focuses on capital preservation and Liquidity Risk management over investment return, hence the material level of Flood Re’s invested assets held in cash and short-term deposits.

e. Insurance and reinsurance receivables

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

For Solvency UK valuation purposes, reinsurance and commission receivables are valued in conformity with IFRS. Amounts due but not yet received are included in the SUK balance sheet as receivables. Amounts not yet due are included in the cash flows used to calculate Technical Provisions (see D2).

D.2 Technical Provisions

The material differences between the bases, methods and main assumptions used to value Technical Provisions for solvency purposes compared to the IFRS statutory financial statements are outlined below. All items are shown net of reinsurance:

	2025 £000	2024 £000
IFRS17 technical provisions	(377,164)	(261,048)
Less: Additional future business	137,932	74,907
Less: Quota share on written unearned	10,015	6,313
Less: Un-incepted reinsurance	9,370	3,295
Add: Written business not yet received	(28,905)	(19,770)
Less: Maintenance expenses	4,009	3,920
Less: Change in claims expenses	16,528	10,514
Less: Bad debt	11	97
Less: Risk Adjustment	13,654	10,816
Less: Cashflow adjustments	9,368	3,740
Less: Discounting	9,504	6,006
Add: Risk Margin	(6,796)	(5,335)
Total adjustments	174,690	94,503
Total SII Technical Provisions	(202,474)	(166,545)
Best estimate claims provision	(159,363)	(126,957)
Best estimate premium provision	(36,315)	(34,253)
Risk Margin	(6,796)	(5,335)
Total	(202,474)	(166,545)

Additional Future Business

This comprises both the loss component for inwards business and the loss recovery component for outwards business. Also included are the future expected commission cashflows within this additional future business based on applying the sliding scale commission rates to a best estimate of the loss ratio. All policies underwritten by Flood Re under its insurance inwards treaties are classified as onerous contracts under IFRS17. As a result, we are required to hold a loss component that allows for 12 months' worth of future written business ceded to Flood Re (as we expect to be earning this business for the following two years). We recognise a loss recovery component reflecting our reinsurance cover to offset this.

Quota Share on Written Unearned

Under IFRS17 the fixed component of the unearned quota share (QS) business is not recognised.

Un-incepted Reinsurance

Under Solvency UK, where we expect to earn claims in a year for which a reinsurance contract has not yet been incepted, we are allowed to take credit for the future recoveries on those reinsurance contracts, provided we also recognise the cost of writing those reinsurance contracts. The cost of reinsurance contracts that have not yet incepted is described as the unincepted premium. This is applicable to our Aggregate excess of loss (XL) and Risk excess of loss (XL) contracts as these are on a losses occurring basis. Under IFRS17 we do not take credit for reinsurance recoveries (or the premium) for months where contracts have not incepted. As a result, this unincepted premium is removed for Solvency UK purposes.

Written business not yet received

Under Solvency UK we allow for true-ups which represent the difference between true cash received and the values in the bordereau. These are not required under IFRS17 as instead we adjust to align with accounting records.

Maintenance expenses

IFRS17 requires that we additionally recognise the costs for activities directly attributable to policy administration and maintenance of inwards and outwards reinsurance contracts. This particularly recognises Flood Re operations and legal teams.

Claims expenses

Under IFRS17 the claims handling expenses also recognise the contributions of Legal, Operations, and Finance colleagues in addition to external (contracted) support staff to the claims handling process which results in a change in claims expenses.

Bad Debt

Movement on bad debt owing to adjustment to treatment of reinsurance.

Risk Adjustment

IFRS17 requires that an entity holds a risk adjustment. Our approach for this includes an LFIC Risk Adjustment (for earned business) that is calculated in the same way as the prudential margin (which must be within the 75th-85th percentile of the reserve risk distribution), but no LFRC Risk Adjustment (for unearned business and future business not yet written).

Cashflow adjustments

Under Solvency UK we allow for true-ups which represent the difference between true cash received and the values in the bordereau. These are not required under IFRS17 as instead we adjust to align with the ledger.

Discounting

Adjustment made to discounting on SUK basis compared to a GAAP basis. Additionally, SUK uses spot rates whereas IFRS17 uses forward rates.

Risk Margin

An explicit risk margin is added to Technical Provisions. The risk margin is based on a market consistent cost of capital approach of transferring the liabilities to a third party. The current cost of capital rate is 4%, with the future solvency capital requirement now based on the Partial Internal Model.

a. Unearned premium

Solvency UK dispenses with the concept of unearned premium and instead requires reinsurers to hold reserves based on best estimate cash flows (premiums, claims and expenses) in respect of the unearned element of all business written or legally obligated to be written at the valuation date.

b. Best estimate provisions

Solvency II Technical Provisions are calculated applying a probability-weighted average of future cash flows, taking account of the time value of money using the relevant risk-free interest rate term structure. Exposure relating to legal obligations is included.

IFRS premium deficiency provisions and loss reserve margins are excluded from the best estimate under Solvency UK.

The cash flow in respect of the component of the technical provisions related to the earned element is termed “claim provisions” and the unearned element is termed “premium provisions” and includes reinsurance receivable and payable cash flows not yet due (see section D.1 and D.3).

The Solvency UK best estimate includes cash flows from expenses incurred servicing existing policies during their lifetime and are allocated between premium and claim provisions.

All future cash flows are discounted using market consistent risk-free rates of interest.

Future cash flows are adjusted to allow for expected default, whether from insolvency, dispute or other reason. This requires a consideration of the probability of default and the average loss following default over the whole run-off period. This approach is applied to premium and claims provisions.

c. Risk margin

An explicit risk margin is added to Technical Provisions. The risk margin is based on a market consistent cost of capital approach of transferring the liabilities to a third party. The current cost of capital rate is 4%, with the future solvency capital requirement now based on the Internal Model.

d. Provisions recoverable

Technical Provisions are calculated applying a probability-weighted average of future cash-flows, taking account of the time value of money using the relevant risk-free interest rate term structure and based on the reinsurance programme in place. Cash flows include reinsurance receivables and payables not yet due (see section D.1 and D.3).

e. Events not in data (ENID)

In order to establish the best estimate Solvency UK Technical Provisions a full distribution of outcomes is considered, thereby including a provision for ENIDs within both claim and premium provisions.

Material cash flow assumptions used in the calculation of Technical Provisions**Lines of business**

The Company provides reinsurance protection for a single risk (property damage) and a single peril (flood) within the United Kingdom. All transactions are in Pounds Sterling.

Premiums

Insurance companies select the policies they wish to cede to Flood Re and report these via the submission of a monthly bordereaux. Settlement is due 30 days after submission. Insurance companies have up to 120 days from the inception date of the policy to notify Flood Re.

Claims

Flood Re is only required to pay a claim when the underlying claim has been settled by the direct insurer. Insurance companies submit claims bordereaux on a monthly basis. Flood Re has up to one month to pay a claim from receipt of the claims bordereaux. Flood Re's Investment Policy sets out an Asset Liability Management approach which aligns to this Interest Rate Risk profile (short term, low risk investments). The maximum loss payable by Flood Re is limited to the sum insured less a £250 policy deductible, or end consumer policy deductible, if larger.

Levy I Income

Levy I Income is payable quarterly in advance commencing on 1 April of each year. The Levy is not considered to be insurance income. However, as the cost of the subsidy provided through the Premium Thresholds is met through the current £135m annual market Levy, the outwards reinsurance pricing references the Levy I income for the purposes of calculating an estimated fair risk premium.

Ceded reinsurance

For Excess of Loss contracts, a minimum and deposit premium is payable quarterly in arrears with a final adjustment premium due 120 days after the contract end date.

For Quota Share contracts, Flood Re is required to prepare a bordereaux 60 days after the quarter end with settlement due 30 days thereafter. The Company receives a sliding scale profit commission. Commission income is received via net settlement in the quarterly bordereaux.

Reinsurance recoveries

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

The Company does not have any reinsurance contracts with or recoveries due from Special Purpose Vehicles.

Changes in assumptions

The above cash flow assumptions have been in place throughout the years ended 31 March 2025 and 31 March 2024. They are reviewed on at least a quarterly basis.

Assumptions and uncertainty

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 for different kind of events, claim handling costs, claim inflation factors and claim numbers for each accident year. The Company only commenced underwriting in April 2016 and is therefore partly reliant on historical industry claims data rather than the Company's specific claims data.

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
- Split of business by Council Tax band
- Type of policy (covering buildings only, contents only or combined cover)
- Variability in the actual claims pay-out patterns
- Delays in notification of claims to the Company
- Assessment of the level of claims costs, including aspects such as additional living expenses
- Recoverability of amounts due under the outwards reinsurance programme.

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

In setting claims provisions, the Company considers 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 required to provide the necessary confidence in the provision's adequacy is 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 be in surplus.

The Company estimates cash flow payment patterns for premiums, claims and recoveries based on data gathered from a range of sources (e.g., cedants, reinsurers and the Association of British Insurers).

The pipeline premium assessment will be informed by the latest reforecast plan.

Flood Re pays its claims only once the underlying claim has settled and therefore has a longer claims payment pattern compared to cedants. There is uncertainty as to the extent to which cedants might accelerate claim settlements in order to trigger a payment from Flood Re. Payment patterns may vary between attritional and flood event losses and between different flood events.

Management actions

For the purposes of calculating the Solvency UK best estimate and risk margin, Flood Re only recognises obligations within the boundary of the assumed or ceded reinsurance contracts.

Flood Re can cancel Inwards Reinsurance Treaties with 30 days' notice. Per Solvency UK requirements, for underlying policies that are inception before the termination date, one month of policies are treated as obligated contracts at any balance sheet date.

All outwards reinsurance contracts include a clause giving Flood Re the option to either continue or terminate the contract. The Company is required to provide one month's advance notice if it wishes to terminate its outwards reinsurance contracts mid-term in the event of ceasing trading.

The assumed management action would be to terminate the contracts and invoke the notice period.

A further management action aims to protect the remaining exposure over the run-off period through the purchase of equivalent outwards reinsurance. These revised cash flows are included on an estimated pro rata cost basis.

D.3 Other liabilities

The material differences between the bases, methods and main assumptions used to value other liabilities for solvency purposes compared to the IFRS statutory financial statements are outlined below:

a. Insurance and Reinsurance payables

Reinsurance payables consist primarily of claims payable to insurers, premiums payable for ceded reinsurance contracts and deferred commission income.

For Solvency UK valuation purposes, claims and premiums payable are valued in line with International Accounting Standards. Amounts due but not yet paid are included in the Solvency UK balance sheet as payables. Amounts not yet payable are included in the cash flows used to calculate Solvency UK Technical Provisions (see D2).

For Solvency UK valuation purposes, deferred commission income is non-admitted. Future commission income cash flows are included in the calculation of the Solvency UK Technical Provisions (see D2).

b. Trade and other payables

Trade and other payables consist primarily of Levy I receipts in advance, corporation tax liability, accrued expenses and staff costs.

For Solvency UK valuation purposes, Levy I receipts in advance, accrued expenses and staff costs are valued in conformity with IFRS. Current and deferred IFRS tax assets and liabilities are adjusted by applying a corporation tax rate of 25% (2024: 25%) to the SII asset and liability valuation adjustments.

c. Timing and uncertainty

For Insurance and Reinsurance payables and Levy I receipts see section D.2 above. 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.

d. Contractual commitments excluding operating leases

	2025	2024
	£000	£000
Service contracts	2,222	1,232
Staff contractual commitments	2,775	3,083
Other financial commitments	1,651	1,021
Total commitments	6,648	5,336
Due within one year	6,648	5,336
Due later than one year but not later than five years	-	-
Total commitments	6,648	5,336

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

D.4 Alternative methods for valuation

Not applicable.

D.5 Any other information

During the past year we have seen macro-economic pressures, specifically the inflationary environment, the resulting impact on cost of living and development in the reinsurance markets reacting to natural catastrophe events globally. The Flood Re Scheme continues to be financially resilient, despite a series of events during the year, and facing a more expensive three year Reinsurance Programme.

Matching adjustment

The Company does not make use of any matching adjustment (Article 77b), volatility adjustment (Article 77d), transitional risk-free interest rate term structures (Article 308b) or transitional deductions (Article 308d) referred to in the Solvency UK and Insurance (Amendment, etc.) (EU Exit) Regulations 2019.

E. Capital Management

E.1 Own Funds

Capital objectives

The principal objectives of the Flood Re capital management framework are:

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

Capital Modelling

The Company models its economic capital requirements over a three-year business-planning horizon utilising risk and economic capital modelling software to produce an Internal Model. The Internal Model, in addition to assessing the SCR, informs decision making around the optimisation of the reinsurance strategy, premium threshold levels, Levy I income, the Levy II mechanism, the Liability Limit and risk appetite statements and financial business planning. In addition, the model forms a key part of the QQR-related decision-making process.

Capital management balances the need to build up adequate reserves, largely through the annual Levy process, against the overall cost to the industry of funding the Scheme. Flood Re's objective is to enable the continued availability of affordable flood cover for households at risk of flooding and manage a transition to a market with risk-reflective pricing over a 25-year period. The Company published its first transition plan in February 2016, with an update, "The Flood Re Transition Vision" published in July 2018, and the third transition plan titled "Our Call to Action" launched in July 2023.

Sources of capital

Flood Re is a Company limited by guarantee and has no issued share capital. For the purpose of the Company's capital management, capital includes

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

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

Uncalled Levy II income - Ancillary own funds

Flood Re has the ability to issue a compulsory call for additional funding from the industry through a Levy II top up mechanism.

- Levy II contributions received from the Ordinary Members of Flood Re are recognised in a mutual member account (“MMA”) within equity.
- Levy II contributions received from non-members are treated as income in accordance with Levy I.

Both methods result in an increase in Tier 1 basic own funds.

Ordinary Members of Flood Re are potentially eligible for their Levy II contributions to be returned, subject to Board and Prudential Regulation Authority approval.

The PRA has re-approved Flood Re to use 50% of the SCR, capped at a monetary amount of £75m, as a method by which uncalled Levy II may be recognised as an ancillary own-fund item for the period 1 April 2024 to 31 March 2027 (prior approval was effective for the period from 29 March 2019 to 31 March 2023). The minimum frequency of recalculation of the amount of ancillary own funds item using this method is every three months.

Capital Adequacy

The table below shows the Company's available capital for the year ending 31 March 2024 and 2023. The Company has complied at all times with the regulatory Minimum Capital Requirements and the Solvency Capital Requirements.

Solvency Capital Ratios		2025 £000's	2024 £000's	Change £000's
Basic Own Funds (Tier 1 Unrestricted)	A	760,336	711,384	48,952
Deferred tax assets (Tier 3)		-	-	
Total basic own funds		760,336	711,384	48,952
Ancillary own funds (Tier 2) – 50% of SCR	B	75,000	33,024	41,976
Available own funds	C	835,336	744,408	90,928
Eligible own funds to support SCR	A+B	835,336	744,408	90,928
SCR (Approved model)		74,744	66,047	8,697
Capital Add-on		280,000	-	280,000
Solvency Capital Requirement (SCR) including Capital Add-on	E	354,744	66,047	288,697
Minimum Capital Requirement (MCR)	F	88,686	16,512	72,174
Ratio of eligible own funds to meet the SCR	(A+B)/E	235%	1,127%	(892)%
Ratio of basic own funds to meet the MCR	A/F	857%	4,308%	(3,451)%

Reconciliation of equity to available own funds		2025 £000's	2024 £000's
Total equity on an IFRS basis		672,010	661,328
Adjustment in respect of:			
- Decrease in valuation of assets	D.1	(7,021)	(7,186)
- Increase in valuation of technical provisions	D.2	137,583	74,934
- Decrease in the valuation of other liabilities	D.3	(42,236)	(17,692)
Basic Own Funds		760,336	711,384

Reconciliation reserve		2025 £000's	2024 £000's
Basic Own Funds - Excess of assets over liabilities		760,336	711,384
Foreseeable dividends		-	-
Other basic own fund items			
Deferred tax assets		-	-
Reconciliation reserve (Tier 1 Unrestricted)		760,336	711,384

The movement in available own funds is due to:

- Basic own funds: an IFRS17 after tax profit for the year ended 31 March 2025 of £10.1m (2024: £16.6m) (see section “A.2 Underwriting performance”, “A.3 Investment performance” and “A.4 Performance of other activities” for a discussion of the items contributing to the increase in retained earnings), coupled with the movement between IFRS and Solvency II Technical Provisions (see D.2).
- Ancillary own funds: Calculated as 50% of the SCR (capped at a monetary amount of £75m), this increased due primarily to the Voluntary Capital Add on of £280m approved in April 2025. (see E.2).
- Deferred tax liability: The Solvency II deferred tax liability is calculated by applying the corporation tax rate to the valuation differences between Solvency II and IFRS. This results in a £29.4m charge as at 31 March 2025 (2024: £16.7m charge). See section D for a discussion of the material differences between shareholders equity on an IFRS basis and excess of assets over liabilities on a Solvency UK basis.

Tier 1 own funds consist of the reconciliation reserve (see section A.2 – A.4 for the potential volatility of the reconciliation reserve).

As at 31 March 2025 and 2024, there are no restrictions impacting on the availability and transferability of own funds. In March 2025, deferred tax assets of £nil have been deducted from own funds (2024: £nil).

No basic own fund items are subject to transitional arrangements.

See section D for a discussion of the material differences between shareholders equity on an IFRS basis and excess of assets over liabilities on a Solvency II basis.

Operational Capital Requirement (OCR)

Flood Re assess the Solvency Ratio using an Operational Capital Requirement (OCR) as an early warning indicator to monitor its solvency risk appetite. This alternative measure reflects longer-term expectations for the SCR and smooths the SCR’s cyclicalities throughout the year.

The Board has approved an update of the measure to £430m for year end 31 March 2025 (2024 - £330m). This is to reflect the expected increase in future Solvency Capital Requirement (SCR) over the year (2025-26) given the impact from the Flood Re’s new outwards reinsurance placement. The new programme costs materially more and has a higher retention on the non-proportional element which will mean that Flood Re will retain more loss on a net basis. The CFO monitors the continuing appropriateness of the measure as the evolution of the risk profile of the Scheme changes.

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

Ancillary Own Funds are not eligible to meet the MCR.

As at 31 March 2025 and 2024, 100% of the SCR and MCR requirements are met with unrestricted Tier 1 own funds.

Dividend distributions

The company can only distribute dividends from its Mutual Members' Account (MMA) which is derived from funds raised by means of Levy II. The company has not raised any Levy II contributions in its operations to date and hence the accumulated MMA at As at 31 March 2025 is £nil (2023: £nil) and there are no possible dividend distributions at this time.

In the event of raising Levy II funding, there is no requirement for the Company to redistribute, to its Ordinary Members, the accumulated surplus held in the MMA. The Company may repay mutual members balances that relate to previous Levy II calls from the industry provided that:

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

E.2 Solvency Capital Requirement and Minimum Capital Requirements

Solvency Capital Requirement

Flood Re's Solvency Capital Requirements is calculated using an approved Partial Internal Model. The Partial Internal Model was approved by the PRA for regulatory capital assessment purposes from 1st April 2020 onwards. Prior to that date Flood Re assessed its regulatory capital using the Standard Formula.

Please note that the standalone capital positions in the below table are on Flood Re's approved Partial Internal Model. The Partial Internal Model is currently in the process of being updated through a MMC to reflect the new outwards reinsurance structure and scheme parameters (currently this is designated as "Proposed"). Where the Approved Standalone capital charges do not capture the latest risk profile of the Scheme these are noted in Section E. Currently the CAO manages the period where Flood Re's MMC is being delivered and approved by the PRA.

The table below shows the Solvency Capital Requirements from the approved Partial Internal Model as at 31 March 2025 and 31 March 2024. A comparison of the Partial Internal Model and Standard Formula results is shown in section E.3.

SCR	2025		2024		Change
	£000s		£000s		£000s
Premium Risk	32,229		28,842		3,387
Reserve Risk	26,903		18,222		8,681
Diversification Benefit	(14,371)		(10,842)		(3,529)
Insurance Risk	44,761		36,222		8,539
RI Credit Risk	11,924		10,877		1,047
Other Credit Risk	4,598		4,429		169
Diversification Benefit	(3,312)		(3,445)		133
Counterparty Default Risk	13,211		11,861		1,350
Interest Rate Risk	3,062		4,859		(1,797)
Market Risk	3,062		4,859		(1,797)
Operational Risk	21,195		21,072		123
Undiversified SCR	82,229		74,014		8,215
Diversification benefit	(7,484)		(7,967)		483
SCR	74,745		66,047		8,698

The Company does not use any undertaking specific parameters or simplified calculations when calculating the elements of its SCR using the Standard Formula.

Movements in the SCR

The changes in the SCR above are driven largely by changes in the risk profile of Flood Re over the year including:

- An increase in Premium Risk driven primarily by the higher number of policies ceded to Flood Re, which impacts the net earned premiums & retained losses, as well as an increase in the assumed operating expenses.
- Increase in Reserve Risk due to higher best gross estimate reserves as well as a lower assumed ceded recoveries on the gross reserve risk.
- Increase in Counterparty Default Risk, due to the a higher level of future expected claims as a result of the higher number of policies ceded to Flood Re.
- Decrease in Market Risk due to a reduction in the net asset value of investments that are subject to Market Risk over the year.
- The increase in SCR is also caused by a small reduction in the diversification benefit between the individual risk categories. This decrease in diversification benefit is driven by the lower stand-alone Market Risk capital charge which is assumed not to be strongly correlated with Insurance Risk, the main driver of the SCR.

Further details of these changes are covered in section E.3

Note as outlined previously the approved SCR does not capture the impact from the new RI programme and scheme parameters which have gone live in 2025/26. The updated view of the SCR that delivers this ("Proposed model and Proposed SCR") is subject to regulatory review and approval through a MMC. To manage the period whilst this is still outstanding, Flood Re have calculated and agreed a Solvency UK Voluntary CAO with the PRA to add to the approved SCR during the period. Note this CAO is not shown in the table above.

Minimum Capital Requirement

The table below shows the calculation of the Minimum Capital Requirement As at 31 March 2025 and 2024.

Minimum Capital Requirement calculation	2025		2024	Change
	£000		£000	£000
Linear MCR	18,380		15,328	3,052
MCR Cap (45% of the SCR)	159,635		29,721	129,914
MCR Floor (25% of the SCR)	88,686		16,512	72,174
Combined MCR	88,686		16,512	72,174
Absolute floor of the MCR	3,500		3,407	93
Minimum Capital Requirement	88,686		16,512	277,407

The linear SCR is calculated by applying an EIOPA prescribed, UK adopted, line of business loading of 9.4% to the net of reinsurance best estimate and Technical Provision value of £195.5m (2024: £166.6m).

The Combined MCR is the minimum of the MCR Cap compared to the maximum of the Linear SCR and the MCR Floor.

The absolute floor for 31 March 2025 is £3.5m sterling (2024: €3.9m converted at a closing rate of €1/£0.87366).

Analysis of changes in the Solvency Capital Requirement and Minimum Capital Requirement

For a discussion and analysis of the Solvency Capital Requirement by risk module and sub-module, see section C - Risk Profile.

E.3 Differences between the standard formula and any internal model used

The Partial Internal Model was approved by the PRA for use from 1 April 2020. It has been tailored to capture Flood Re's risk profile and provides the entity's economic view of capital.

Solvency Position

The table below sets out Flood Re's Solvency position against the Standard Formula and Partial Internal Model (Figures in £m):

	31 March 2025	
	Partial Internal Model	Standard Formula
SCR	74.7	128.7
Voluntary Capital Add On	280.0	-
Eligible Own Funds	835.3	835.0
Solvency Ratio	235%	649%

As shown, Flood Re remains sufficiently capitalised, with the current and forecast Solvency Ratios, Own Funds and SCR, being above the Company's Risk Appetite.

Risk modules

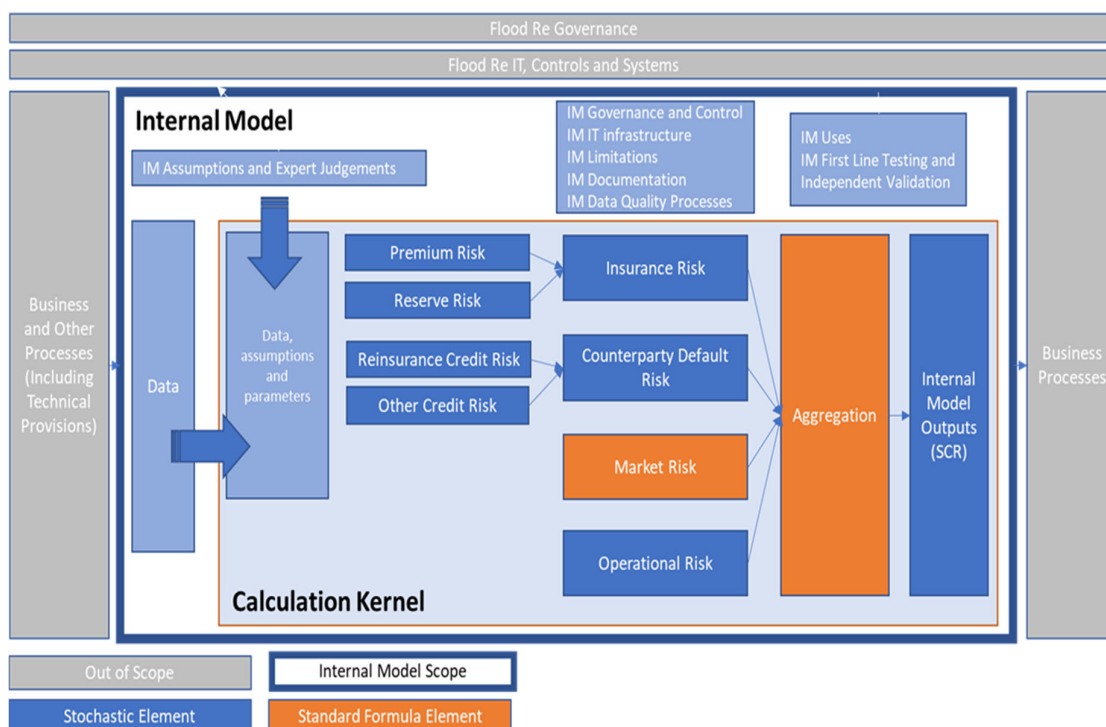
The following table sets out the assessment of each risk module and shows the combined SCR after allowing for both “intra-risk” and “inter-risk” diversification (Figures in £).

SCR Risk Components £		31-Mar-25	
		Partial Internal Model	Standard Formula
Premium and reserve risk		32,228,914	36,688,406
Catastrophe risk		26,902,988	99,720,774
Intra- Insurance Risk Diversification		(14,371,080)	(21,868,488)
Insurance Risk	C.1	44,760,822	114,540,692
Reinsurance Credit Risk		11,924,404	3,633,724
Other Credit risk		4,598,117	138,275
Intra- Counterparty Risk Diversification		(3,311,947)	-33,450
Counterparty default risk	C.3	13,210,574	3,738,549
Market risk	C.2	3,061,972	3,061,972
Operational risk	C.5	21,195,480	11,419,323
Diversification		(7,484,365)	(4,071,343)
SCR on the approved model		74,744,483	128,689,192
Capital Add on (approved)	C.6	280,000,000	-
SCR including capital add-on		354,744,483	128,689,192

Further details of the assessment of each risk module under the Partial Internal Model is given in Section C.

Structure of the Partial Internal Model (PIM)

The Partial Internal Model includes the governance and systems around the model, as well as the Calculation Kernel which is where the actual modelling is performed. The Calculation Kernel is formed from a number of sub-models which are connected together; broadly speaking, each sub-model equates to a particular risk area with inputs from other sub-models or business processes. The overall SCR is calculated by aggregating the outputs of the different risk areas, taking into account any dependencies that may exist between them.



Aggregation methodologies and diversification effects

Flood Re could be exposed to more than one source of risk at the same time, either because a number of events happen at the same time by chance or because one event affects more than one risk area.

To ensure our SCR reflects our true potential financial losses, we therefore need to capture in our model:

- Which risk areas or risk types are related to each other; and
- The strength of these relationships.

Flood Re uses the Standard Formula correlation approach to aggregate the different risk modules/areas together within the PIM. We consider this approach as appropriate to the nature

and drivers of the individual risk elements. The table highlights that on average Flood Re gains around a 10% inter-risk diversification benefit on a PIM basis, which is assessed as reasonable given the unique nature of Flood Re (single peril, single geography) and recognise that this is significantly lower than typically seen in the market.

Flood Re management recognise there is the risk of “model drift” over longer periods of time that reduce the capital requirements in less easily observed ways. Ongoing long-term monitoring of the PIM SCR against the standard formula provides an independent view of risk which the Flood Re Internal Model can be assessed against over future years. This is further supported by the tracking the capital requirements against defined metrics linked to Flood Re’s underlying exposure to ensure that model has moved appropriately relative to its risk profile.

Risks not covered by the standard formula but covered by the internal model.

A number of elements of the Standard Formula SCR are limited in their reflection of Flood Re’s risk profile. In particular, we do not believe the Standard Formula to be appropriate for Flood Re’s Premium Risk assessment. Flood Re has identified four areas where the Standard Formula was inappropriate, given its risk profile:

a. Non-life Premium and Catastrophe Risk

With the Standard Formula being structured and calibrated to reflect an average European reinsurer, it does not appropriately reflect Flood Re’s single peril Premium/Catastrophe Risk profile. The calibration for UK Flood in the Standard Formula is based on a broad, diversified portfolio which will not appropriately reflect the higher-risk portfolio of business that is expected to be written through Flood Re; the overall capital charge under the standard Formula is set at roughly 0.1% of the total insured value of the portfolio.

The Standard Formula catastrophe risk module does not adequately assess the prospective benefit from the non-proportional reinsurance protection Flood Re has purchased as the risk scenarios are not severe enough to reach the Flood Re retentions.

The Standard Formula does not recognise underlying economic profits generated by undertakings over a 12-month period. For Flood Re, the contribution from Levy I income means that the underlying probability of a financial loss is substantially lower than suggested by the Standard Formula.

b. Reserve Risk

Following a year of relatively benign experience, Reserve Risk will typically be a smaller component of the total SCR due to:

- The short-tail nature of flood claims meaning claims from prior year will be relatively mature in the path to ultimate development;
- Reinsurance limiting the potential deterioration of reserves;
- The relatively small size of the claims provision in the recent year; and
- The diversification across different prior claim periods and events.

However, under stressed conditions (in particular where there are material claims arising from large very recent flood events where the information available is immature) it is highly sensitive to where the aggregate claim amounts lie relative to the retention on the reinsurance. For loss amounts under the reinsurance retention, there will be Settlement Risk but for loss amounts in excess of the reinsurance retention, the net Reserve Risk will be zero. As such, this unique relationship between reserves and their potential volatility is not appropriately reflected in the flat factor used by the Standard Formula.

c. Counterparty Credit Risk

The Standard Formula does not adequately assess the credit risk associated with the prospective benefit from non-proportional risk mitigation.

d. Operational Risk

The Standard Formula uses premium and technical provision volume measures to calculate the Operational Risk charge. This is deemed inappropriate to Flood Re due to the blunt nature of the calculation and the specific operational risks Flood Re is exposed to (e.g. inappropriate cedant behaviour, material outsourcer dependency).

E.4 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

For the years ending 31 March 2025 and 2024, the Company has complied at all times with the regulatory Minimum Capital Requirement and Solvency Capital Requirement.

There is no reasonably foreseeable risk of non-compliance with the Minimum Capital Requirement or Solvency Capital Requirement.

E.5 Any other information

Flood Re recognises and actively monitors uncertainty in the economic environment such as potential second order implications of global trade uncertainties and changing tariff structures (supply side inflationary pressures) alongside the potential for large scale global catastrophe events impacting on future reinsurance market capacity and cost. Flood Re has no investment exposure beyond Debt Management Office (DMO) deposits and short-dated UK Gilts, Treasury Bills and sterling supranational bonds.

F. Appendices – PUBLIC QRTs