REGISTERED NUMBER: 07672718 (England and Wales)

GROUP STRATEGIC REPORT, REPORT OF THE DIRECTORS AND

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

FOR

KEYSTONE HOLDCO LIMITED

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

KEYSTONE HOLDCO LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS:	A D J Mowatt C J Marden
REGISTERED OFFICE:	Chart House 2 Effingham Road Reigate Surrey RH2 7JN
REGISTERED NUMBER:	07672718 (England and Wales)
AUDITORS:	John Williams and Co Chartered Accountants Statutory Auditors Chart House 2 Effingham Road Reigate Surrey RH2 7JN

GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their strategic report of the company and the group for the year ended 31 December 2018.

REVIEW OF BUSINESS
The results for the period and financial position of the company are as shown in the annexed financial statements.

On 28th September 2018, the Gompany acquired the entire issued share capital of Baker Oldfield Limited who own Michael Baker Solicitors Limited a well-respected and profitable solicitor firm with their head office in Aldershot and operations nationally across the UK.

PRINCIPAL RISKS AND UNCERTAINTIES
The legal expenses market continues to experience challenges, particularly since the Legal Aid, Sentencing & Punishment of Offenders Act ('LAPSO') in 2013. Keystone Legal Benefits 'customer Law Firms' continue to adjust to the Post-LAPSO regulatory regime with some finding it difficult to make the necessary adjustments.

LIKELY FUTURE DEVELOPMENTS
The company's future plan is to ensure it retains its market share on the backdrop of continued legislative change. On 24 February 2017 the government announced that the small claims limit for road traffic accident personal injury claims would be increased to £5000. This is expected to come into force in April 2019. The overall effect of these future changes is not yet known and will be assessed by the company in the near future.

Keystone will continue to monitor the 'Customer Law Firms' to help mitigate risk. Also Keystone has developed new product lines in other areas of insurance and new licences have been obtained in Miscellaneous financial loss - Warranty for GAP, Motor, White Goods, TV/Satellite, and Boilers.

ON BEHALF OF THE BOARD:

A D J Mowatt - Director

19 September 2019

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2018.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2018.

FUTURE DEVELOPMENTS
The likely future developments of the group are referred to in the Group Strategic Report.

EVENTS SINCE THE END OF THE YEAR
Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS
The directors shown below have held office during the whole of the period from 1 January 2018 to the date of this report.

A D J Mowatt
C J Marden

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for preparing the Group Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

AUDITORS
The auditors, John Williams and Co, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

A D J Mowatt - Director

19 September 2019

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KEYSTONE HOLDCO LIMITED

Opinion

We have audited the financial statements of Keystone Holdco Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Consolidated Cash Flow Statement, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group Strategic Report and the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

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

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

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

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

J R Williams (Senior Statutory Auditor)
for and on behalf of John Williams and Co
Chartered Accountants
Statutory Auditors
Chart House
2 Effingham Road
Reigate
Surrey
RH2 7JN

19 September 2019

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
TURNOVER		8,109,045	5,112,572
Cost of sales		5,760,118	2,630,170
GROSS PROFIT		2,348,927	2,482,402
Administrative expenses		3,478,048	3,223,037
		(1,129,121)	(740,635)
Other operating income		126,298	-
OPERATING LOSS	4	(1,002,823)	(740,635)
Impairment of loans	6	(7,813)	(480,120)
Profit/loss on sale of invest	6	(1)	-
		(1,010,637)	(1,220,755)
Interest receivable and similar income		(70,720)	116,512
		(1,081,357)	(1,104,243)
Interest payable and similar expenses	7	128,792	73,833
LOSS BEFORE TAXATION		(1,210,149)	(1,178,076)
Tax on loss	8	157,728	(581,028)
LOSS FOR THE FINANCIAL YEAR		(1,367,877)	(597,048)
Loss attributable to:			
Owners of the parent		(1,367,877)	(597,048)

The notes form part of these financial statements

CONSOLIDATED OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
LOSS FOR THE YEAR		(1,367,877)	(597,048)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,367,877)	(597,048)
Total comprehensive income attributable to:			
Owners of the parent		(1,367,877)	(597,048)

The notes form part of these financial statements

KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)

CONSOLIDATED BALANCE SHEET
31 DECEMBER 2018

	Notes	2018 £	2018 £	2017 £	2017 £
FIXED ASSETS					
Intangible assets	12		7,290,574		8,147,625
Tangible assets	13		51,476		26,603
Investments	14		1		-
			7,342,051		8,174,228
CURRENT ASSETS					
Debtors	15	8,512,592		8,107,349	
Investments	16	5,358,978		7,405,901	
Cash at bank and in hand	17	6,741,134		2,165,784	
		20,612,704		17,679,034	
CREDITORS					
Amounts falling due within one year	18	23,560,626		20,102,649	
NET CURRENT LIABILITIES			(2,947,922)		(2,423,615)
TOTAL ASSETS LESS CURRENT LIABILITIES			4,394,129		5,750,613
PROVISIONS FOR LIABILITIES	22		(13,271)		(1,878)
NET ASSETS			4,380,858		5,748,735
CAPITAL AND RESERVES					
Called up share capital	23		225,000		225,000
Retained earnings	24		4,155,855		5,523,732
SHAREHOLDERS' FUNDS	28		4,380,855		5,748,732
NON-CONTROLLING INTERESTS			3		3
TOTAL EQUITY			4,380,858		5,748,735

The financial statements were approved by the Board of Directors on 19 September 2019 and were signed on its behalf by:

A D J Mowatt - Director

The notes form part of these financial statements

COMPANY BALANCE SHEET
31 DECEMBER 2018

		2018		2017	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	12		-		-
Tangible assets	13		-		-
Investments	14		17,384,590		17,384,591
			17,384,590		17,384,591
CURRENT ASSETS					
Debtors	15	-		299	
CREDITORS					
Amounts falling due within one year	18	20,844,505		20,798,289	
NET CURRENT LIABILITIES			(20,844,505)		(20,797,990)
TOTAL ASSETS LESS CURRENT LIABILITIES			(3,459,915)		(3,413,399)
CAPITAL AND RESERVES					
Called up share capital	23		225,000		225,000
Retained earnings	24		(3,684,915)		(3,638,399)
SHAREHOLDERS' FUNDS	28		(3,459,915)		(3,413,399)
Company's loss for the financial year			(46,516)		(17,070,670)

The financial statements were approved by the Board of Directors on 19 September 2019 and were signed on its behalf by:

A D J Mowatt - Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital £	Retained earnings £	Total £	Non-controlling interests £	Total equity £
Balance at 1 January 2017	225,000	6,120,780	6,345,780	3	6,345,783
Changes in equity					
Total comprehensive income	-	(597,048)	(597,048)	-	(597,048)
Balance at 31 December 2017	225,000	5,523,732	5,748,732	3	5,748,735
Changes in equity					
Total comprehensive income	-	(1,367,877)	(1,367,877)	-	(1,367,877)
Balance at 31 December 2018	225,000	4,155,855	4,380,855	3	4,380,858

The notes form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2017	225,000	13,432,271	13,657,271
Changes in equity			
Total comprehensive income	-	(17,070,670)	(17,070,670)
Balance at 31 December 2017	225,000	(3,638,399)	(3,413,399)
Changes in equity			
Total comprehensive income	-	(46,516)	(46,516)
Balance at 31 December 2018	225,000	(3,684,915)	(3,459,915)

The notes form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	1	2,400,296	1,569,132
Interest paid		(202,612)	(127,181)
Tax paid		(219,247)	(574,674)
Net cash from operating activities		1,978,437	867,277
Cash flows from investing activities			
Purchase of tangible fixed assets		(13,597)	(3,273)
Sale of fixed asset investments		1,537	-
Cash introduced - purchase of subsidiary		921,554	-
Purchase of investments		(1,778,323)	(4,346,097)
Disposal of investments		1,389,533	2,064,340
Maturity of time deposits		2,093,410	-
Interest received		240,281	197,398
Net cash from investing activities		2,854,395	(2,087,632)
Cash flows from financing activities			
New loans in year		4,962	-
Loan repayments in year		(228,388)	(826,731)
Amount withdrawn by directors		107,106	-
Dividends paid		(141,150)	-
Net cash from financing activities		(257,470)	(826,731)
Increase/(decrease) in cash and cash equivalents		4,575,362	(2,047,086)
Cash and cash equivalents at beginning of year	2	2,165,756	4,212,842
Cash and cash equivalents at end of year	2	6,741,118	2,165,756

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

1. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2018	2017
	£	£
Loss before taxation	(1,210,149)	(1,178,076)
Depreciation charges	1,437,517	1,391,422
Loss on disposal of fixed assets	652	9,847
Impairment of loans	-	480,120
Investment return	39,677	(195,993)
Finance costs	128,792	73,833
Finance income	70,720	(116,512)
	467,209	464,641
Decrease in trade and other debtors	453,120	3,431,537
Increase/(decrease) in trade and other creditors	1,479,967	(2,327,046)
Cash generated from operations	2,400,296	1,569,132

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 December 2018

	31.12.18	1.1.18
	£	£
Cash and cash equivalents	6,741,134	2,165,784
Bank overdrafts	(16)	(28)
	6,741,118	2,165,756

Year ended 31 December 2017

	31.12.17	1.1.17
	£	£
Cash and cash equivalents	2,165,784	4,212,860
Bank overdrafts	(28)	(18)
	2,165,756	4,212,842

1. STATUTORY INFORMATION

Keystone Holdco Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

2. ACCOUNTING POLICIES

2.1 Basis of preparing the financial statements
These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The Group financial statements reflect the consolidation of the results, assets and liabilities of the parent undertaking, the Company and all of its subsidiaries.The accounts of Bastion Insurance Company Limited are prepared under International Financial Reporting Standards and as such comply with Financial Reporting Standard 103 - Insurance Contracts.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

continued...

2. **ACCOUNTING POLICIES - continued**

2.2 Turnover
Turnover represents fees, commissions and other consideration receivable in the year derived from ordinary activities and stated after discounts. Income is not subject to value added tax.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

(a) Rendering of services

Premium recognition is described in note 2.12 dealing with insurance contracts.

(b) Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit and loss, are recognised within 'investment return' in the profit and loss account using the effective interest rate method.

When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account of the investment return on investments supporting the insurance technical provisions.

2.3 Intangible fixed assets
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of acquisitions prior to the transition date of 1 January 2014, goodwill is included on the basis of its deemed cost, i.e. original cost less accumulated amortisation from the date of acquisition, which represents the amount recorded under UK GAAP. Goodwill is now stated at cost or deemed cost less any accumulated amortisation and impairment losses.

The goodwill, is the amount paid in connection with the acquisition of Keystone (Legal Benefits) Limited and Connect (Medico - Legal) Limited on 21 July 2011, is being amortised evenly over its estimated useful life of 10 years.

The computer software related to development costs which have been capitalised as the project is nearing completion and will produce economic benefits in the future to the group. This asset will be amortised over its estimated useful life of 5 years commencing from when it is available for use in 2013.

2.4 Tangible fixed assets
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Office equipment	- 25% on cost
Fixtures and fittings	- 15% on reducing balance and 25% on cost
Motor vehicles	- 25% on reducing balance
Computer equipment	- 25% on reducing balance and 25% on cost

Investments in subsidiaries
Investments in subsidiary undertakings are recognised at cost.

continued...

2. **ACCOUNTING POLICIES - continued**

2.4.1 Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.5 Current and deferred income tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the functional currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Pound Sterling (GBP), which is the Group's functional presentation currency.

(b) Transaction and balances

Foreign currency transactions are translated into the functional currency using the rates of exchange ruling on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

2.7 Pension costs and other post-retirement benefits

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to the profit and loss account in the period to which they relate.

continued...

2. **ACCOUNTING POLICIES - continued**

2.8 Financial assets
2.8.1 Classification
The group classifies its financial assets at fair value through profit or loss and loans and receivables. The classification is dependent on the purpose for which the assets were acquired. The directors determine the appropriate classification of financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or that it has designated as at fair value through profit or loss. Receivables arising from insurance contracts (note 2.12.2(d)) are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. The group's loans and receivables also include cash and cash equivalents in the balance sheet (note 2.9).

2.8.2 Recognition and measurement
The group recognises a financial asset in its balance sheet when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the group commits to purchase or sell the assets. All investments are initially recognised at fair value.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the group has also transferred substantially all risks and rewards of ownership.

The fair value of quoted investments are based on quoted market prices.

 continued...

2. **ACCOUNTING POLICIES - continued**

2.8.3 Impairment

The group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the group about the following events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improved credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

continued...

2. **ACCOUNTING POLICIES - continued**

2.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at face value. In the cash flow statement, cash and cash equivalents includes deposits held at call with banks.

2.10 Financial liabilities

The group recognises a financial liability in its balance sheet when it becomes a party to the contractual provisions of the instrument. The group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'other liabilities'). Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The group derecognises a financial liability from its balance sheet when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.12 Insurance contracts

2.12.1 Classification

The group issues contracts that transfer insurance risk that are classified as insurance contracts. As a general guideline, the group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

2.12.2 Recognition and measurement

The group distinguishes between policy types designed before 1 April 2013 ('Pre-LASPO') and policy types designed to conform with the changes in the legal environment brought about as from 1 April 2013 ('Post-LASPO') and the policies designed and launched in 2018 (referred to as "new 2018 business/policies").

(a) Premiums

Premiums written relate to business incepted during the year, together with any differences between the booked premiums for prior years and those previously accrued less cancellations (if any) and in the case of pre and post-LASPO policies include estimates of premiums due not yet receivable.

The group estimates premium pertaining to pre and post LASPO policies using the same methodology - i.e. using the average premium per policy method applied at a development period level. In order to be in a position to determine appropriate development factors, the group grouped different policies with similar characteristics together. Furthermore a 10% haircut was applied to the actuarial best estimate of ultimate premium receivable to cater for the increased uncertainty relating to the post - LASPO policies.

Premiums are shown before deduction of commission, but after deduction of premium taxes where relevant.

Unearned premium is provided for all policy types excluding after the event ("ATE") insurance policies. This represents the portion of the premium written in a year that relate to unexpired terms of policies in force at the reporting date, calculated on a time apportioned basis.

(b) Claims incurred

Claims and loss adjustment expenses are charged to income based on the estimated liability for compensation owed to policyholders or third parties. They include direct and indirect claims settlement costs. The group does not discount its liabilities for unpaid claims.

continued...

2. **ACCOUNTING POLICIES - continued**

Liability for unpaid claims is assessed after making full provision for the estimated ultimate cost of all claims, including related expenses, whether reported or not, in respect of premium underwritten as at the end of the reporting period. The liability for the new 2018 policies is based on a target loss ratio. A provision for incurred but not reported is also provided taking into account the claims paid and outstanding.

As for the liability in relation to pre and post-LASPO policies this is established using statistical projections of the amounts that the group expects the ultimate settlement will cost using the average cost per claim method. In order to be in a position to determine appropriate development factors, the company has grouped different policies with similar characteristics together. Furthermore, a further 10% risk margin over and above the actuarial best estimate of claims outstanding was also applied to cater for the increased uncertainty relating to the post-LASPO policies in light of comparatively limited experience.

In all cases, the level of provisioning is based on current facts and circumstances and subjective factors. Whilst the directors consider that the provision for these claims is fairly stated on the basis of information currently available to them, the ultimate liability may vary as a result of subsequent information and events, and may result in significant adjustments to the amounts provided. Adjustments to the amounts provided are reflected in the financial statements in the accounting period in which they arise.

The above method of provisioning satisfies the minimum liability adequacy test.

(c) Commission and other acquisition costs

Commission and other acquisition costs that vary with and are related to securing new contracts and renewing existing ones are recognised as they are incurred for 'After the Event' policies.

For those policies which are not classified as after the event ("ATE") policies, commissions and other acquisition costs are deferred over the year in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

(d) Debtors and creditors related to insurance contracts

Debtors and creditors are recognised when due. These include amounts due from and to insurance policyholders, in the case of pre and post-LASPO policies except for such limited policies which have been treated as due to/from intermediaries. All other items are treated as due to/from intermediaries.

If there is objective evidence that an insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The group gathers objective evidence that an insurance receivable is impaired using the process adopted for financial assets held at amortised cost.

(e) Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within debtors), as well as longer term receivables (classified within reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred and as payable when due.

continued...

2. **ACCOUNTING POLICIES - continued**

The group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The group gathers the objective evidence that a reinsurance asset is impaired using the process adopted for financial assets held at amortised cost described in note 2.8.3.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Ceded insurance agreements do not relieve the group from its obligations to policyholders.

Reinsurance assets and liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

The group had the following reinsurance arrangements in place during the period under review and which agreements remain currently in force:
i. The Extended Warranty insurance scheme which is 90% reinsured with Falcon Insurance PCC Limited (Archipelago Cell);
ii. Assistance, breakdown, gadget, excess, home emergency and "before the event legal expenses" insurance cover which is 90% reinsured with Winward Insurance PCC Limited; and
iii. Limited cover under "after-the event legal expenses" which is reinsured with Alternative ARM Insurance Limited.

(f) Deferred expenses

Those direct and indirect costs incurred during the financial year arising from the writing or renewing of insurance business contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC are amortised over the year in which the related income is earned.

Changes in the expected useful life or the expected pattern of construction of future economic benefits embodied in the asset are recognised for by changing the amortisation year and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impariment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting year. DAC are derecognised when the related contracts are either settled or disposed of.

(g) Reinsurance commissions

Commisions' receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums earned.

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2. ACCOUNTING POLICIES - continued

2.13 Debentures

In accordance with Financial Reporting Standard 102, Section 11.19, debentures subject to a variable rate of interest are initially recognised at the amount equal to the principal payable at maturity and re-estimating the future interest payments is unlikely to have a significant effect on the carrying amount of the liability.

2.14 Basis of consolidation

The financial statements contain consolidated financial information about Keystone Holdco Limited as the parent of a group as required by the Companies Act 2006. The following subsidiaries are contained within the consolidated financial statements by full consolidation;

Keystone (Legal Benefits) Limited
Bastion Insurance Company Limited (incorporated in Malta)
Connect (Medico - Legal) Limited
Claimant Support Limited
Baker Oldfield Limited
Michael Baker Solicitors Limited

3. EMPLOYEES AND DIRECTORS

	2018	2017
	£	£
Wages and salaries	1,295,186	839,301
Social security costs	125,468	65,381
Other pension costs	26,499	45,154
	1,447,153	949,836

The average number of employees during the year was as follows:

	2018	2017
Directors	2	4
Administrative	44	21
	46	25

	2018	2017
	£	£
Directors' remuneration	156,077	214,324
Directors' pension contributions to money purchase schemes	1,477	38,864

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	-	1

continued...

4. OPERATING LOSS

The operating loss is stated after charging:

	2018	2017
	£	£
Depreciation - owned assets	13,020	7,182
Loss on disposal of fixed assets	652	9,847
Goodwill amortisation	1,412,720	1,355,975
Computer software amortisation	11,777	28,265

5. AUDITORS' REMUNERATION

	2018	2017
	£	£
Fees payable to the company's auditors and their associates for the audit of the company's financial statements	53,086	40,253
Auditors' remuneration for non audit work	5,504	4,989

continued...

6. EXCEPTIONAL ITEMS

The exceptional items relate to Claimant Support Limited, a subsidiary dissolved during the period on the 23/01/2018. It reflects both the intercompany loan balance and the disposal of the investment in Claimant Support Limited in the year.

Impairment of loans

The impairment of loans shown on the profit and loss account for the current and previous year are in respect of the following:

(a) A reduction in the loan balance due to the company from Asyst Call Centre Limited by £5,262 in 2017 and £10,000 in 2016 to £nil. In view of the losses sustained by Asyst Call Centre Limited in the period from 1st January 2016 to date, in the opinion of the directors it is unlikely that any amount could be recovered in settlement of this debt. The directors of the company between them own 60% of TAC Holdco Limited the ultimate parent company of Asyst Call Centre Limited.

(b) A reduction in the loan balance due to the company from TAC Marketing Limited by £36,869 in 2017 and £100,000 in 2016 to £nil. In view of the losses sustained by TAC Marketing Limited in the period from 1st January 2016 to date, in the opinion of the directors it is unlikely that any amount could be recovered in settlement of this debt. The directors of the company between them own 60% of TAC Holdco Limited the ultimate parent company of TAC Marketing Limited.

(c) A reduction in the loan balance due to the company from TAC Holdco Limited by £89,611 in 2017 and £300,000 in 2016 to £nil. In view of the losses sustained by TAC Holdco Limited in the period from 1st January 2016 to date, in the opinion of the directors it is unlikely that any amount could be recovered in settlement of this debt. The directors of the company between them own 60% of TAC Holdco Limited.

(d) A reduction in the loan balance due to the company from The Accident Claimline Limited by £189,803 in 2017 to £nil. In view of the losses sustained by TAC Holdco Limited in the period from 1st January 2017 to date, in the opinion of the directors it is unlikely that any amount could be recovered in settlement of this debt. The directors of the company between them own 65% of The Accident Claimline Limited.

(e) A reduction in the loan balance due to the company from Claimant Support Limited by £786 in 2017 to £nil. In view of the losses sustained by Claimant Support Limited in the period from 1st January 2016 to date, in the opinion of the directors it is unlikely that any amount could be recovered in settlement of this debt. Claimant Support Limited is a wholly owned subsidiary within the group.

(f) A reduction in the loan balance due to the company from KL Insurance Limited by £68,575 in 2017 to £nil. In 2018 there were additional loan transactions with KL Insurance Limited. The loan was reduced in 2018 by £7,813 to £nil. In the opinion of the directors it is unlikely that any amount could be recovered in settlement of this debt.

(g) A reduction in the loan balance due to the company from Intello by £90,000 in 2017 to £15,181. In the opinion of the directors it is unlikely that an amount in excess of £15,181 could be recovered in settlement of this debt.

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2018	2017
	£	£
Bank interest	-	13
No description	2	-
Interest payable	128,790	73,820
	128,792	73,833

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8. TAXATION

Analysis of the tax charge/(credit)

The tax charge/(credit) on the loss for the year was as follows:

	2018	2017
	£	£
Current tax:		
UK corporation tax	144,773	-
Maltese corporation tax	12,498	412,690
Prior year adjustment	-	(993,149)
Total current tax	157,271	(580,459)
Deferred tax	457	(569)
Tax on loss	157,728	(581,028)

Reconciliation of total tax charge/(credit) included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018	2017
	£	£
Loss before tax	(1,210,149)	(1,178,076)
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19%)	(229,928)	(223,834)
Effects of:		
Expenses not deductible for tax purposes	26,176	91,616
Capital allowances in excess of depreciation	-	(698)
Depreciation in excess of capital allowances	266,073	-
Prior year adjustment	-	(993,149)
Effect of Maltese tax rate of 35%	5,713	412,690
companies marginal relief on		
Unutilised tax losses carried forward	89,241	132,916
Deferred tax	453	(569)
Total tax charge/(credit)	157,728	(581,028)

9. INDIVIDUAL INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

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10. MANAGEMENT OF RISK

The group is a party to contracts that transfer insurance and/or financial risks. This section summarises these risks and the way that the group manages them.

10.1 Business risk - significant risks and uncertainties

Legislative changes brought into effect on 1 April 2013, mainly due to the enactment of the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO), have altered the Legal Expenses market in England, Wales and Scotland. Following the introduction of the LASPO Act in April 2013, the legal expenses market is evolving. Due to the sudden shift in various legal processes, and with the introduction of new instruments, the After-the-Event (ATE) insurance industry is in the process of evolving in line with the expectations and demands of the new market. For that reason, the period from 1 April 2013 has been characterised by lower levels of business.

Whilst acknowledging that uncertainties still surround the new legal environment, the directors feel that the 'post-LASPO' regime has meant that a change of emphasis is required going forward, where this emphasis will be 'self-generated' policies at the agent level, i.e. the agent offering the group's products to the customer directly as opposed to the present reliance on sourcing business through firms of solicitors. As a result, the directors are aware of the view that the pipeline of profitable new business whether reduced in volume, substantial or otherwise can be secured. The impact of LASPO is now affecting current introducers of work (i.e. firms of solicitors) making the need to 'self-generate' more relevant than in previous years.

Business written prior to 1 April 2013 differs from later business due to the legal reform resulting from the LASPO Act. It is likely that future development for business written after 1 April 2013 may be different to that for business written prior to April 2013. For this reason, and due to the fact that there is limited history, as further described in notes 2.12 and 10.2, management have booked a management margin and haircut in relation to post-LASPO claims outstanding and premium receivable, respectively, to cover for this additional uncertainty. These notes describe the estimation uncertainty and their financial impact for products underwritten pre and post LASPO.

The group's main objective in previous years was to underwrite 'After the Event (ATE)' legal expenses insurance. During 2018, the group's Board of Directors diversified its portfolio of insurance cover. During 2018, the group was granted an extension of its authorisation to carry on business of insurance in relation to Class 9 (Other Property Damage) and Class 18 (Assistance). The group concluded two agreements with two agents.
Potential covers in niche areas and that the prospects for European markets continue to be explored.

The directors are satisfied that the group has sufficient financial resources and plans in place for it to operate as a going concern.

The directors have assessed the impact of Brexit and from the analysis there may arise three main scenarios in relation to the withdrawal of the UK from the EU, (i) the UK does not withdraw from the EU, (ii) the UK withdraws from the EU but the passporting regime remains in place, (iii) the UK withdraws from the EU and the passporting regime is revoked.

Presently, it is the intention of the group to retain its UK-based book of business and, in order to do so, recourse would be made to the establishment of a presence in the UK, which will be considered to be a "third country" after Brexit. It is understood that this will only be possible via the establishment of a (i) branch or (ii) subsidiary in the UK. The group's Board of Directors approved the setting up of a UK branch, for which an application was prepared and discussed with the PRA and they agree that the application will again be submitted to the PRA after entering into the Temporary Permissions Regime.

10.2 Insurance risk

continued...

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The terms and conditions of the contracts set out the bases for the determination of the group's liability should the insured event occur. The risks underwritten by the group up to 2017 were primarily limited to 'After the Event' (ATE) cover provided under the Legal Expenses class of insurance business. The key feature of ATE insurance is that cover is provided to a policyholder covering the outcome of legal action, in relation to an event (accident, etc.) which has however already taken place. The policy terms and conditions dictate when premiums become due (e.g. on successful conclusion of legal action) and when claims become due (e.g. upon unsuccessful conclusion of legal action). Contracts of insurance issued by the group provide cover against risk of loss by insured persons attributable to their incurring legal expenses, including costs of litigation.

As explained in note 2.1, during 2018 the group launched a number of new policies, which are promoted through risk pertaining to the three new agency relationships. These contracts of insurance cover extended warranties, legal expenses (before the event and after the event), breakdown, excess, home emergency, and gadget insurance. The group manages these risks through an effective underwriting strategy, the terms and conditions of the insurance contracts sold and an effective claims management.

The underwriting strategy diversified the portfolio in terms of the risks written to mitigate the probability of an insured loss affecting a segment of its portfolio. The underwriting strategy will therefore also be directed to achieve a larger portfolio of similar risks and insurance contracts through an effective pricing policy that will achieve substantial long-term growth. This is further supported by a series of underwriting and the reinsurance board policies used to determine the premium and risk that the group takes in line with its business strategy and established risk appetite and risk tolerance levels.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims are significantly different to the amounts included within technical provisions. This could occur because the frequency and severity of claims are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims may vary from year to year from the estimate established by the group.

Given the nature of the group's insurance business, and as further described below, estimation uncertainty also attaches to the group's premium receivable for pre and post-LASPO policies.

Experience shows the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Factors that also aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The number of policies issued by the group represents a number of homogeneous risks.

In 2013 the group entered into a reinsurance agreement whereby it transfers all risks related to a minimal number of post-LASPO policies (fronted business).

During 2018, the group, following the launch of new policies, entered into two new reinsurance agreements with two difference reinsurers whereby it transfers a substantial amount of the new risk pertaining to the new business.

(a) Sources of uncertainty in the estimation of premium receivable and debtors on pre and post-LASPO policies

Premium recognition involves a significant degree of estimation as disclosed in note 15 to the financial statements. The group takes all reasonable steps to ensure that it has appropriate information regarding its policies. However, given the uncertainty in establishing ultimate premium receivable, it is possible that the final outcome will prove to be different from the original amount established. In determining premiums written and receivable the group distinguishes between pre-LASPO policies and post-LASPO policies.

The nature of the business of the group is such that premiums for pre and post-LASPO can take several years to develop and are therefore subject to a greater degree of uncertainty. Premium for all policy types is only payable on successful conclusion of the underlying legal action. Further detail on key assumptions and sensitivity in relation to premium debtors is provided in note 15 to the financial statements.

Pre and post-LASPO policies

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Premium and the corresponding amount due on these policies is estimated on the basis of statistical analysis of historical experience. The group has engaged an independent actuary in order to construct triangles based on historical trends using the average premium per policy method based on a number of policies i.e. using the 'average premium per policy method' (based on number of policies closed with premium receipts on closed policies) applied at the development period level.

The assessment of these trends enables the group to establish patterns of development for its business in terms of premiums that are expected to be generated on those policies where the premium receivable varies depending on the stage and outcome of the legal action. Through the triangles, the group estimated the premium that is expected to be received at any given time on policies that are expected to close favourably in future years. The estimates also consider the tail of each underwriting year which is assessed at each period end on the basis of an anticipated closure of any given underwriting year. In establishing these trends and averages the group has also disaggregated its business by type of policy that is being underwritten. Note 15 provides further detail on the development of premium estimates established in prior years, and the impact on the income statement.

Further uncertainty arises as a result of the fact that no one underwriting year is fully closed to date albeit projected premium receivable on the earlier underwriting year is less significant. Therefore, at each period end an assessment of the anticipated tail is made. The tail will only be fully known once all policies in each underwriting year are fully closed.

Further uncertainty arises on post-LASPO policies because of the relatively limited empirical information available. No one underwriting year is fully closed to date and as explained in Note 10.1, there has been uncertainty in the business environment following the LASPO reforms.

The calculation of estimated premium receivable as at December 2018 and 2017 reflects adjustments to cater for the emerging experience of pre and post-LASPO type policies. As a result of the prospective adjustments to cater for the change in estimates, estimated ultimate premium receivable were adjusted upwards. This has contributed to the positive technical result during the financial year. The impact of this adjustment before related expense adjustments and tax, amounted to an improvement of £2,776,642 (2017: improvement of £1,761,084). The impact of this adjustment after the related expense adjustments but before tax effect, amounted to an improvement of £2,005,397 (2017: improvement of £1,510,844).

(b) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The group considers adverse development in respect of case proceedings to be the most significant risk factor. The group's underwriting strategy is set by the Board. The group accepts risk through an underwriting agent that has operated in this sector of business in the UK for a number of years. This agent employs a team of skilled and experienced underwriters guided by delegated underwriting authorities and procedures, including continuous review of case developments as they proceed for appropriate premium adjustment or any other required action. The group further engages the services of an insurance manager to assist in managing its operations.

(c) Sources of uncertainty in the estimation of future claims payments

The group is liable for all insured events that occurred during the term of the contract. The estimation of claims payable for this pre and post-LASPO business is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the group, where information about the claim event is generally already available. The nature of the business is such that claims can take several years to develop and are therefore subject to a greater degree of uncertainty. Policies introduced in 2018 are not expected to have such a long tail.

The estimated cost of claims includes direct expenses to be incurred in settling claims. The group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

In determining the estimated cost of unpaid claims, the group distinguishes between pre-LASPO and post-LASPO policies as well as the new 2018 business. Further detail on key assumptions and sensitivity in relation to claims outstanding is provided in note 17 of the financial statements.

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Pre and post-LASPO policies

In relation to these policies the group uses a combination of estimation techniques, based mainly on statistical analysis of historical experience provided by the group's underwriting agent. The group has engaged an independent actuary in order to construct triangles based on historical trends i.e using the 'average cost per claim method' (based on a number of policies closed with payment and paid claims) applied at the development period level. The assessment of these trends enables the group to establish patterns of development for its business in terms of claims. The group uses the triangles and the patterns arising to establish key estimates of the average claim costs payable for policies that are expected to close with a claim. The group's estimates consider the stage of development of the policies that are underwritten for the target frequency or the target amount to reflect the impact of the period of time it will take for a policy to close. The estimates also consider the tail of each underwriting year which is assessed at each period end on the basis of an anticipated closure of any given underwriting year. In establishing these trends and averages the group has also disaggregated its business by type of policy that is being underwritten. Note 18 provides the detail of the development of prior years' claims estimates and the impact on the income statement. Further uncertainty arises as a result of the fact that no one underwriting year is fully closed to date albeit projected claims outstanding on the earlier underwriting years is less significant. Therefore at each period end an assessment of the anticipated tail is made. The group has engaged the services of an actuary to advise on the determination of technical provisions.

REINSURANCE

In 2013, the group entered into reinsurance arrangements in order to transfer the risk of limited policies on post LASPO business.

During 2018, the group entered into new reinsurance arrangements covering the new 2018 business, excluding post LASPO business. The group reinsured on a quota share basis 90% of the risks underwritten through a new agency agreement and another sub-agency agreement, whilst retaining 100% of the risks underwritten for another sub-agency agreement. The group's strategy is to assume risk of at least 10% on new agency agreements, depending on its materiality of the overall business, to control exposure to losses, to reduce volatility and to protect capital.

The group had the following reinsurance arrangements in place during the period under review and which agreements remain currently in force:
i. The Extended Warranty insurance scheme which is 90% reinsured with Falcon Insurance PCC Limited (Archipelago Cell);
ii. Assistance breakdown, gadget, excess, home emergency and "before the event legal expenses" insurance cover which is 90% reinsured with Winward Insurance PCC Limited; and
iii. Limited cover under "after-the event legal expenses" which is reinsured with Alternative ARM Insurance Limited.

10.3 Financial risk

The group is exposed to financial risk through its financial assets, financial liabilities and insurance assets and liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance risk. The most important components of this financial risk are market risk (including interest rate risk, currency risk and price risk), credit risk and liquidity risk. The risk management policies employed by the group to manage these risks are discussed below.

(a) Market risk

(i) Interest rate risk

In general, the group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets issued at variable rates expose the group to cash flow interest rate risk. Assets issued at fixed rates expose the group to fair value interest rate risk. The group manages this risk through the investment committee, and by implementing detailed investment guidelines restricting the level of investment in any one instrument. Investment performance is regularly monitored against market-based benchmarks. This risk is further managed through investment in debt securities or deposits having a range of maturity dates.

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Notes 17 and 18 incorporate interest rate and maturity information with respect to the group's assets. The directors consider the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. Liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest bearing.

(ii) Currency risk

Currency risk arises on recognised assets and liabilities that are denominated in a foreign currency, that is in a currency other than the functional currency in which they are measured. The group manages currency risk by matching the currency of its assets to the denomination of its liabilities. The group maintains a minimal amount of exposure in foreign currency and therefore the directors consider currency risk to be insignificant.

(iii) Other price risk

Price risk arises from uncertainty about future prices of financial instruments, namely equity, held by the group. Due to the nature of investments held, the group was not exposed to significant price risk. Nonetheless, the group has an active Investment Committee that has established investment guidelines that are also approved by the Board of Directors. These guidelines provide parameters for investment management, including contracts with outsourced investment managers. They include, inter alia, reference to an optimal spread of the investment portfolio, minimum security ratings, assessment of equity issuers and maximum exposure by the group to any one issuer or its connected parties. These parameters also consider solvency requirements imposed by the Regulator as explained in note 10.5.

The total assets subject to equity price risk are the following:

	2018	2017
	£	£
At 31 December		
Assets subject to equity price risk consisting of		
- equity securities	410,995	315,285

(b) Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- Amounts due from policyholders and intermediaries (note 15);
- Investments and cash and cash equivalents (notes 16 and 17); and
- Reinsurer's share of technical provisions (note 18)

The group is exposed to policyholders for insurance premium due. Premium is established once cover is agreed with the policyholder. The premium falls due from the policyholder on successful conclusion of the underlying legal action.

As at the end of the year approximately 6% (2017: 2%) of premium debtors receivable fell due for payment. The directors do not consider credit risk on the premium receivable to be significant since structures are in place to ensure that the premium is payable to the group prior to the release of compensation money to the policyholder. The group's exposure to intermediaries is mainly due from a related entity (directly or indirectly through sub-agency agreements), as well as another intermediary.

The group is also exposed to credit risk in respect of its cash and cash equivalents and investments. The group's cash and cash equivalents and investments are placed with quality financial institutions and consequently credit risk in respect of investments is not considered to be significant by the directors. The group's reinsurer is unrated however management obtain financial statements periodically in order to assess the reinsurer's financial health. There are no indicators that the reinsurer will be unable to honour its obligations to the group. An annual stress is also carried out by the group to assess the impact should any of its reinsurer's fail to honour its obligation. The group's assessment is that it would remain solvent should this arise.

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The following table provides information regarding the group's aggregated credit risk exposure with external credit ratings.

31 December 2018

	Credit Rating					
S&P/Fitch Ratings	**AAA**	**AA-**	**AA**	**A+**	**A**	**A-**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit and loss	209	204	201	316	409	214
Loans and receivables						
- Cash and cash equivalents	-	-	-	-	-	-
- Debtors	-	-	-	-	-	-
- Prepayments and accruedincome	-	1	-	2	4	2
- Reinsurer's share oftechnical provision	-	-	-	-	-	-
Total loans and receivables						

S&P/Fitch Ratings	**BBB**	**BBB+**	**BBB-**	**BB+**	**Not rated**	**Carrying value in the balance sheet**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value though profit and loss	371	289	209	229	2,297	**4,948**
Loans and receivables						
- Cash and cash equivalents	227	-	-	-	4,481	**4,708**
- Debtors	-	-	-	-	6,678	**6,678**
- Prepayments and accruedincome	5	4	3	4	28	**54**
- Deferred acquisition costs	-	-	-		341	**341**
- Reinsurer's share oftechnical provision	-	-	-	-	445	**445**
Total loans and receivables						**12,225**
						17,174

31 December 2017

	Credit Rating				
S&P/Fitch Ratings	**AAA**	**AA-**	**A+**	**A**	**A-**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit and loss	267	205	325	528	224

continued...

Loans and receivables					
- Investments	-	-	-	-	-
- Cash and cash equivalents	-	-	-	-	-
- Debtors	-	-	-	-	-
- Prepayments and accruedincome	-	-	-	-	-
- Reinsurer's share oftechnical provision	-	-	-	-	-
Total loans and receivables					

S&P/Fitch Ratings	BBB £'000	BBB+ £'000	BBB- £'000	BB+ £'000	Not rated £'000	Carrying value in the balance sheet £'000
Financial assets at fair value though profit and loss	202	422	301	309	2,208	**4,991**
Loans and receivables						
- Investments	-	-	-	-	2,100	**2,100**
- Cash and cash equivalents	-	-	-	-	1,547	**1,547**
- Debtors	-	-	-	-	7,314	**7,314**
- Prepayments and accruedincome	-	-	-	-	83	**83**
- Reinsurer's share oftechnical provision	-	-	-	-	17	**17**
Total loans and receivables						**11,061**
						16,052

At 31 December 2018 and 2017, the group's debtors that were due were considered to be fully recoverable.

As at the end of the reporting period cash and cash equivalents were held with 2 banking institutions (2017: 5). The exposure to cash and cash equivalents, and investments in the loans and receivables category that are not rated is not considered to be significant after considering the relevant counterparty and its financial status in the current market conditions. The group banks only with local financial institutions.

(c) Liquidity risk

The group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The group manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls.

The following table indicates the expected timing of the net cash outflows arising from the group's liabilities:

31 December 2018	Expected cash flows (undiscounted)				Carrying amount
	0 - 1 year	1 - 2 years	3 - 5 years	> 5 years	
	£	£	£	£	£

continued...

Technical Provisions	889,072	367,019	869,900	1,448,229	**3,574,220**
Other creditors	1,096,168	-	-	-	**1,096,168**
Income tax payable	202,936	12,498	-	-	**215,434**

31 December 2017	Expected cash flows (undiscounted)				Carrying amount
	0 - 1 year	1 - 2 years	3 - 5 years	> 5 years	
	£	£	£	£	£
Technical Provisions	213,971	234,331	719,436	1,171,162	**2,338,900**
Other creditors	37,759	-	-	-	**37,759**
Income tax payable	-	202,936	-	-	**202,936**

The estimated timing of cash flows in relation to claims outstanding is based on past statistical data in so far as this is available. The pattern of final claims settlements may differ from the directors' expectations given the nature of the risks underwritten and the group's experience to date.

Note 18.2 incorporates liquidity risk information with respect to the group's other liabilities.

10.4 Fair values of financial instruments
At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The fair value of publicly traded investments is based on quoted market prices at the end of the reporting period. The following table includes assets measured at fair value by level of the:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); or

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets that are measured at fair value at the end of the reporting period:

	2018	2017
	Level 1	Level 1
	£	£
At 31 December		
Financial assets at fair value through profit or loss		
- Debt securities & equities (Note 16)	**4,023**	5,305,904

10.5 Capital management
The group's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Maltese insurance regulator ('MFSA');
- to safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and,
- to provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk.

continued...

In order to maintain or adjust the capital structure, the group may issue new shares or capitalise contributions received from its shareholders.

The group is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Malta Financial Services Authority (MFSA). The group is also subject to insurance solvency requirements as established by the Regulator from time to time. The regulatory capital requirement must be maintained at all times throughout the period. The group monitors its capital level on a regular basis. Any transactions that may potentially affect the group's solvency position are immediately reported to the directors and shareholders for resolution prior to notifying the MFSA.

As from 1 January 2016, the group was subject to the requirements of the EU Solvency II directive. The Solvency II regime establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The group must hold eligible own funds to cover the solvency capital requirement (SCR) and the eligible basic own funds to cover the minimum capital requirement (MCR). The SCR shall be calculated either in accordance with the standard formula or using a full or partial internal model (PIM) as approved by the regulator. The group must immediately inform the regulator where it observes that its SCR or MCR are no longer complied with or where there is risk of non-compliance in the following six months for SCR and three months for MCR.

The group opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the group's risk profile. At 31 December 2018 and 2017, the group's eligible own funds adequately covered the required SCR and amounted to £9.2m and £10.9m respectively.

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING ACCOUNTING POLICIES

Estimates and judgements are continually evaluated and are based on historical experience provided by the group's underwriting agent and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements which are difficult, subjective or complex to a degree that would warrant their description as critical are the estimation of claims outstanding and IBNR for all policies and ultimate premium receivable on pre and post-LASPO policies. In determining claims and premium estimates, the group distinguishes between pre-LASPO policies, post-LASPO policies and the new 2018 policies. The group's estimates relating to pre-LASPO and post-LASPO policies consider the professional advice provided by the group's independent actuaries.

Notes 2.12, 10.2, 15 and 18 provide further information pertaining to premium receivable and claims outstanding. The estimation methodology/process is explained in further detail in the above notes.

The approach adopted for pre and post-LASPO policies inherently assumes that current open policies will settle, on average, for amounts consistent with closed policies. There is a risk that premiums and claims on open policies do not emerge at the same rate as on closed policies, and hence future premiums and claims are over or under estimated. However, given the information available for both pre and post-LASPO policies, the actuary believes that the projected outstanding premiums receivable and claims outstanding are appropriate at this time. The directors have also booked a management haircut/margin on post-LASPO premium receivable and claims outstanding to cater for the increased uncertainty on this business.

The estimation of IBNR on the new 2018 policies is being calculated on a target loss ratio on the earned premium, after taking into consideration the actual claims paid and the claims outstanding reserves. Given that the new 2018 policies are still in their infancy, the target loss ratios used are in line with those used in the group's projections. These ratios were provided by the respective intermediaries and are based on their market experience.

Further detail in relation to premium and claims estimates, including their sensitivity analysis is provided in notes 15 and 18 to the financial statements. The directors believe that the premium receivable and claims outstanding and IBNR are adequately estimated as at the financial year-end.

continued...

12. INTANGIBLE FIXED ASSETS

Group

	Goodwill £	Computer software £	Totals £
COST			
At 1 January 2018	15,452,101	141,324	15,593,425
Additions	567,446	-	567,446
At 31 December 2018	16,019,547	141,324	16,160,871
AMORTISATION			
At 1 January 2018	7,316,253	129,547	7,445,800
Amortisation for year	1,412,720	11,777	1,424,497
At 31 December 2018	8,728,973	141,324	8,870,297
NET BOOK VALUE			
At 31 December 2018	7,290,574	-	7,290,574
At 31 December 2017	8,135,848	11,777	8,147,625

13. TANGIBLE FIXED ASSETS

Group

	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
COST				
At 1 January 2018	-	46,667	16,032	62,699
Additions	12,138	1,459	-	13,597
Disposals	-	(2,744)	(10,824)	(13,568)
Reclassification/transfer	19,478	4,908	58,601	82,987
At 31 December 2018	31,616	50,290	63,809	145,715
DEPRECIATION				
At 1 January 2018	-	24,842	11,254	36,096
Charge for year	2,222	3,917	6,881	13,020
Eliminated on disposal	-	(1,304)	(10,075)	(11,379)
Reclassification/transfer	17,725	3,310	35,467	56,502
At 31 December 2018	19,947	30,765	43,527	94,239
NET BOOK VALUE				
At 31 December 2018	11,669	19,525	20,282	51,476
At 31 December 2017	-	21,825	4,778	26,603

continued...

14. FIXED ASSET INVESTMENTS

Company

	Shares in group undertakings £
COST	
At 1 January 2018	17,384,591
Impairments	
At 31 December 2018	17,384,591
NET BOOK VALUE	
At 31 December 2018	17,384,591
At 31 December 2017	17,384,591

The group or company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiaries

Keystone (Legal Benefits) Limited
Registered Office: UK
Nature of business: Insurance claims assessors and legal expenses insurance brokers
Shareholding: 100%

	2018 £	2017 £
Aggregate capital and reserves	16,072,025	14,708,206
Profit for the year	1,451,057	1,841,207

Connect (Medico - Legal) Limited
Registered Office: UK
Nature of business: Medical legal reporting
Shareholding: 100%

	2018 £	2017 £
Aggregate capital and reserves	296,306	457,211
Profit/(loss) for the year	(160,905)	(169,844)

Claimant Support Limited
Registered Office: UK
Nature of business: Provision of loans
Shareholding: 100% (Company dissolved on 23 January 2018)

	2018 £	2017 £
Aggregate capital and reserves	-	(1,535)
Profit/(loss) for the year	-	(473)

Bastion Insurance Company Limited
Registered Office: 4th Floor Development House, St Anne Street, Floriana, Malta
Nature of business: Insurance

continued...

Shareholding: 100%

	2018	2017
	£	£
Aggregate capital and reserves	9,677,473	11,246,210
Profit/(loss) for the year	23,211	842,570

Baker Oldfield Limited
Registered Office: UK
Nature of business: Solicitors
Shareholding: 100% (Subsidiary purchased on 28 September 2018)

	2018	2017
	£	£
Aggregate capital and reserves	3,184,719	-
Profit/(loss) for the year	304,300	-

Michael Baker Solicitors Limited
Registered Office: UK
Nature of business: Solicitors
Shareholding: 100% (Subsidiary purchased on 28 September 2018)

	2018	2017
	£	£
Aggregate capital and reserves	1,001,310	-
Profit/(loss) for the year	620,895	-

15. DEBTORS

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	7,192,851	7,144,283	-	-
Reinsurers' share of technical provisions	444,741	17,450	-	-
Deferred acquisition costs	298,197	-	-	-
Amounts owed by group undertakings	-	-	-	299
Other debtors	101,797	831,357	-	-
Tax	1,972	1,972	-	-
Prepayments and accrued income	430,665	112,287	-	-
	8,470,223	8,107,349	-	299
Amounts falling due after more than one year:				
Other debtors	42,369	-	-	-
Aggregate amounts	8,512,592	8,107,349	-	299

continued...

15. DEBTORS - continued

Debtors arising out of direct insurance operations are considered to be current in nature. The nature of the business underwritten is such that premium receivable from policyholders will only be receivable if the underlying legal case is won.

14.1 Debtors pre LASPO
At 31 December 2018 amounts due from policyholders include estimated premium income receivable on these policies amounting to £2,642,566 (2017 - £2,927,634). During 2018, these premium estimates developed favourably resulting in an overall positive variance of £588,887 (2017: unfavourable variance of £28,027), after also considering the impact of related costs.

14.2 Sensitivity of estimated debtors pre-LASPO policies
Based on the actuary's triangles, if the average premium were to differ by 10% from the current estimate and the estimated policies that close with premium were to vary by 10%, the amount due from policyholders would increase by £305,381 (2017: increase of £298,141) or decrease by £305,381 (2017: decrease of £322,895). This sensitivity analysis is based on a change in assumption for estimated premium written while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

14.3 Debtors on post-LASPO policies
At 31 December 2018, premium receivable on post-LASPO policies amounted to £3,641,779 (2017: £3,452,965). As explained in notes 2.12 and 10.2 a haircut of 10% is deducted to cater for the uncertainty as a result of the relatively limited data available. During 2018, these premium estimates developed favourably in respect of underwriting years 2013 to 2017 resulting in a positive variance of £1,416,510 (2017: positive variance of £1,538,871), after also considering the impact of related costs.

14.4 Sensitivity of estimated debtors on post-LASPO policies
Based on the actuary's review of reserves, if the average premium were to differ by 10% from the current estimate and the estimated policies that close with premium were to vary by 10%, the amount due from policy holders would increase by £364,117 (2017: £402,509) or decrease by £364,117 (2017: £402,504). This sensitivity analysis is based on a change in assumption for estimated premium written while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

continued...

16. CURRENT ASSET INVESTMENTS

The group's investments are summarised by measurement category as follows:

	2018	2017
	£	£
At 31 December		
Financial assets at fair value through profit or loss	5,358,978	5,305,904
Loans and receivables	-	2,100,000
	5,358,978	7,405,904

Analysed by type of investment as follows:

	2018	2017
	£	£
At 31 December		
Financial assets at fair value through profit or loss		
- listed, fixed interest rate debt securities(Level 1)	4,948,023	4,990,619
- equities (Level 1)	410,955	315,285
Loans and receivables - term deposits	-	2,100,000
	5,358,978	7,405,904

The maturity of fixed income debt securities is detailed below:

	2018	2017
	£	£
Between 1 and 2 years	1,364,920	3,157,135
Between 2 and 5 years	2,366,421	2,638,667
Over 5 years	1,216,682	1,294,817
	4,948,022	7,090,619

17. CASH AT BANK AND IN HAND

	2018	2017
	£	£
Cash at bank	6,741,118	2,165,784

	2018	2017
	£	£
At floating rates	4,604,699	316,396
At fixed rates	1,026,755	741,624
Non-interest bearing	1,109,664	488,665
	6,741,118	2,165,874

Cash at bank comprises deposits held at call and term deposits with a maturity of less than three months.

continued...

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Loan notes (see note 19)	13,417,058	13,504,296	13,417,058	13,504,296
Bank loans and overdrafts (see note 19)	16	28	-	-
Trade creditors	2,821,779	2,434,616	-	-
Technical provisions	3,574,220	2,338,903	-	-
Deferred reinsurance commissio n	89,336	-	-	-
Amounts owed to group undertakings	-	-	6,339,448	6,334,785
Tax	360,186	202,936	-	-
Social security and other taxes	36,063	13,576	-	-
VAT	178,387	49,301	-	-
Other creditors	1,019,119	142,111	4,200	4,200
Amounts held on behalf of clie nts	236,016	-	-	-
Directors' current accounts	107,106	-	-	-
Accruals and deferred income	1,611,287	1,416,882	1,083,799	955,008
Accrued expenses	110,053	-	-	-
	23,560,626	20,102,649	20,844,505	20,798,289

continued...

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued

Technical provisions

	Year ended 31 December	
	2018	2017
Gross - Insurance liabilities	**£**	£
Claims outstanding - pre and post-LASPO	**2,896,380**	2,338,903
Claims outstanding - New 2018 policies	**9,683**	-
Claims incurred but not reported - New 2018 policies	**21,145**	-
Provision for unearned premium - New 2018 policies	**647,012**	-
Total technical provisions, gross	**3,574,220**	2,338,903
Recoverable from reinsurer		
Claims outstanding - pre and post-LASPO	**(120,001)**	(17,450)
Claims outstanding - New 2018 policies	**(4,044)**	-
Claims incurred but not reported - New 2018 policies	**(18,967)**	-
Provision for unearned premium - New 2018 policies	**(301,729)**	-
Total reinsurer's share of technical provisions	**(444,741)**	(17,450)
Net - Insurance liabilities		
Claims outstanding - pre and post-LASPO	**2,776,379**	2,321,453
Claims outstanding - New 2018 policies	**5,639**	-
Claims incurred but not reported - New 2018 policies	**2,178**	-
Provision for unearned premium - New 2018 policies	**345,283**	-
At end of the reporting year	**3,129,479**	2,321,453

Technical provisions are considered to be current in nature (see note 10.3(c)).

a) Claims outstanding and incurred but not reported

New 2018 policies
The claims outstanding incurred under the new 2018 policies comprise amounts as provided by the insurance intermediaries under the various portfolios in relation to claims notified to them that are pending settlement. IBNR is being calculated on the basis of target loss ratios on the earned premium, after taking into consideration the actual claims paid and the claims outstanding reserves.

Given that the new 2018 policies are still in their infancy, the target loss ratios used are in line with those used in the group's projections. These ratios were provided by the respective intermediaries and are based on their market experience.

Pre and post-LASPO
The occurrence of an insured event under 'ATE' Legal Expenses insurance is only known on conclusion of the policy, and is therefore subject to a greater degree of uncertainty.

The provision for claims outstanding is based on a statistical analysis of historical experience in respect of the average cost per claim and claims frequency over the past years. The outstanding claims reserve is undiscounted and therefore, includes a small prudential margin compared to the Solvency II best estimate reserves which are discounted.

Claims outstanding and sensitivity on pre-LASPO policies

continued...

18. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued**

The gross and net provision for claims outstanding on these policies excluding claims handling costs amounts to £826,790 (2017: £626,844). If the estimated average cost per claim were to be increased or decreased by 10% whilst the claims frequency is increased or decreased by 10%, the liability for claims outstanding would increase by £82,679 (2017: £62,684) or decrease by £82,679 (2017: £68,405) respectively before considering the impact of related costs.The sensitivity analysis is based on a change in assumption for estimated claims outstanding while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

The directors consider the overall reserving policy to be adequate. However this is not necessarily representative of future run-off patterns as the long tail claims are eventually settled.

Claims outstanding and sensitivity on post-LASPO policies

The gross provision for claims outstanding on these policies excluding claims handling costs amounts to £1,931,667 (2017: £1,600,683). If the liability for claims outstanding had to increase or decrease by 10%, the liability for claims outstanding would amount to £193,667 (2017: £160,068) before considering the impact of related costs. This sensitivity analysis is based on a change in assumptions for estimated claims outstanding while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

The development of insurance liabilities provides a measure of the group's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the group's estimate of total claims incurred for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position. The accident-year basis is considered to be the most appropriate for the business written by the group. The table is presented gross and net of reinsurance.

During the year, there was adverse run-off on pre and post-LASPO claims outstanding amounting to £1,558,896 before considering claims handling costs, excluding the new 2018 business.

The directors believe that the liability for claims outstanding as at the financial year end is adequate, after also considering professional advice from the group's independent actuaries. However, the assumptions used to determine this liability require judgement and are subject to uncertainty.

The group monitors closely the development of insurance liabilities in order to ascertain the adequacy of its claim reserves. Movements in reserves in respect of claims occurring in previous years arise when the claims are actually settled and/or when the reserves are revised to reflect more current trends.

Gross	**2011**	**2012**	**2013**	**2014**	**2015**
	£	£	£	£	£
Year ended 31 December					
Estimate of the ultimate claims costs:					
At end of accident year	3,126,398	3,316,327	5,607,446	966,502	1,150,805
One year later	2,319,178	2,502,073	4,464,387	1,178,878	740,727
Two years later	2,222,615	2,502,075	3,085,672	790,969	861,916
Three years later	2,252,571	2,550,427	3,172,311	964,039	922,178
Four years later	2,084,398	2,439,928	2,975,065	1,047,537	
Five years later	1,964,612	2,246,816	3,897,329		
Six years later	1,735,331	2,420,469			
Seven years later	1,772,522				
Current estimate of Gross cumulative claims	1,772,552	2,420,469	3,897,329	1,047,537	922,178
Gross cumulative payments	(1,704,828)	(2,232,294)	(3,302,073)	(843,805)	(726,128)
Gross liability recognised in balance sheet	67,724	188,175	595,256	203,732	196,050

continued...

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued

	2016	2017	2018	**Total**
	£	£	£	**£**
Year ended 31 December				
Estimate of the ultimate claims costs:				
At end of accident year	789,630	630,956	898,053	
One year later	1,041,272	742,875		
Two years later	1,254,199			
Three years later				
Four years later				
Five years later				
Six years later				
Current estimate of:				
Gross cumulative claims	1,254,199	742,875	898,053	**12,955,192**
Gross cumulative payments	(766,550)	(354,401)	(115,900)	**(10,045,979)**
Gross liability recognised in balance sheet	487,649	388,473	782,154	**2909,213**
Gross liability in respect of prior periods				**17,995**
Gross liability recognised in the balance sheet 2018				**2,927,208**

Net	**2011**	**2012**	**2013**	**2014**	**2015**
	£	£	£	£	£
Year ended 31 December					
Estimate of the ultimate claims costs:					
At end of accident year	3,126,398	3,316,327	5,584,946	896,782	1,080,208
One year later	2,319,178	2,502,073	4,430,980	1,123,998	703,650
Two years later	2,222,615	2,502,075	3,067,682	752,334	827,401
Three years later	2,252,571	2,550,427	3,168,705	962,788	892,998
Four years later	2,084,398	2,439,928	2,973,656	1,015,139	
Five years later	1,964,612	2,246,816	3,887,137		
Six years later	1,735,331	2,420,469			
Seven years later	1,772,522				
Current estimate of Net cumulative claims	1,772,552	2,420,469	3,887,137	1,015,138	892,997
Net cumulative payments	(1,704,828)	(2,232,294)	(3,302,073)	(843,805)	(726,128)
Net liability recognised in balance sheet	67,724	188,175	585,064	171,334	166,870

	2016	2017	2018	**Total**
	£	£	£	**£**

continued...

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued

Year ended 31 December				
Estimate of the ultimate claims costs:				
At end of accident year	763,547	625,882	834,031	
One year later	1,036,073	727,304		
Two years later	1,235,978			
Three years later				
Four years later				
Five years later				
Six years later				
Current estimate of:				
Net cumulative claims	1,235,979	727,304	834,031	**12,785,608**
Net cumulative payments	(766,550)	(354,401)	(89,327)	**(10,019,406)**
Net liability recognised in balance sheet	469,428	372,903	744,704	**2,766,202**
Net liability in respect of prior periods				**17,995**
Net Total liability recognised in the balance sheet 2018				**2,784,197**

The movement s for the year are summarised as follows:

	Year ended 31 December	
	2018	2017
Gross	**£**	£
At beginning of the reporting year	**2,338,903**	3,529,403
Claims settled during the year	**(1,947,038)**	(1,669,321)
Increase/(decrease) in liabilities		
- arising from current year claims	**898,053**	630,956
- arising from prior year claims	**1,637,290**	(152,135)
At end of the reporting year	**2,927,208**	2,338,903
Reinsurance		
At beginning of the reporting year	**17,450**	105,401
Claims settled during the year	**(26,573)**	-
Increase/(decrease) in liabilities		
- arising from current year claims	**64,022**	5,074
- arising from prior year claims	**88,113**	(93,025)
At end of the reporting year	**143,012**	17,450
Net		
At beginning of the reporting year	**2,321,453**	3,424,002
Claims settled during the year	**(1,920,465)**	(1,669,321)
Increase/(decrease) in liabilities		
- arising from current year claims	**834,031**	625,882
- arising from prior year claims	**1,549,177**	(59,110)

continued...

18. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued**

At end of the reporting year	**2,784,196**	2,321,453

b) Provision for unearned premiums

The movements for the year are summarised as follows:

	Year ended 31 December	
	2018	2017
Gross	£	£
At beginning of reporting year	-	-
Net charge to profit and loss for the year	647,012	-
At end of the reporting year	**647,012**	-
Reinsurance		
At beginning of reporting year	-	-
Net credit to profit and loss for the year	301,729	-
At end of the reporting year	**301,729**	-
Net		
At beginning of reporting year	-	-
Net amount credited to profit and loss	345,283	-
At end of the reporting year	**345,283**	-

18.1 Deferred acquisition costs

	Year ended 31 December	
	2018	2017
	£	£
At beginning of the reporting year	-	-
Net amount credited to profit and loss (Note 12)	340,566	-
Gross deferred acquisition costs at end of reporting year	**340,566**	-
At beginning of the reporting year	-	-
Net charge to profit and loss (Note 12)	(89,336)	-
Deferred reinsurance commissions at end of reporting year	**(89,336)**	-
At beginning of the reporting year	-	-
Net amount credited to profit and loss (Note 12)	251,230	-
Net deferred acquisition costs at end of reporting year	**251,230**	-

continued...

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued

Deferred acquisition costs are classified as follows:

	Year ended 31 December	
	2018	2017
	£	£
Current	**298,197**	-
Non-Current	**42,369**	-
Gross deferred acquisition costs at end of reporting year	**340,566**	-
Current	**89,336**	-
Non-Current		-
Deferred reinsurance commissions at end of reporting year	**89,336**	-
Current	**208,861**	-
Non-Current	**42,369**	-
Net deferred acquisition costs at end of reporting year	**251,230**	-

18.2 Creditors rising out of direct insurance operations

Creditors arising out of direct insurance operations represent liabilities that are repayable under the terms of the Agency Agreements in force, which stipulate that the liability falls due once the respective premium is received in the case of pre and post-LASPO policies whilst in the case of other insurance business this falls due on policy inception.

19. LOANS

An analysis of the maturity of loans is given below:

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Amounts falling due within one year or on demand:				
Loan notes	13,417,058	13,504,296	13,417,058	13,504,296
Bank overdrafts	16	28	-	-
	13,417,074	13,504,324	13,417,058	13,504,296

The loan notes are repayable in quarterly instalments of £826,730 for Series A loan notes and £100,750 for Series B loan notes. Interest is charged, at 0.35% above the published base rate of the Bank of England, on the principal amount outstanding and is not payable until the final payment date.

20. LEASING AGREEMENTS

Minimum lease payments fall due as follows:

continued...

Group

	Non-cancellable operating leases	
	2018	2017
	£	£
Within one year	176,113	129,486
Between one and five years	230,511	258,972
	406,624	388,458

21. SECURED DEBTS

The following secured debts are included within creditors:

	Group	
	2018	2017
	£	£
Loan notes	13,417,058	-
Bank overdrafts	16	28
Debentures	-	13,504,296
	13,417,074	13,504,324

The debenture and the bank overdraft is secured by a charge over the assets of the company.

22. PROVISIONS FOR LIABILITIES

	Group	
	2018	2017
	£	£
Deferred tax	13,271	1,878

Group

	Deferred tax
	£
Balance at 1 January 2018	1,878
Accelerated capital allowances	11,393
Balance at 31 December 2018	13,271

The provision above arises due to short term timing differences in the tax treatment of fixed assets held by the company. Fixed assets are purchased or sold by the company according to the needs of the business and therefore the timing of any transfer of economic benefit is uncertain.

continued...

23. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2018 £	2017 £
62,500	Ordinary A	£1	62,500	62,500
150,000	Ordinary B	£1	150,000	150,000
12,500	Ordinary C	£1	12,500	12,500
			225,000	225,000

24. RESERVES

Group

	Retained earnings £
At 1 January 2018	5,523,732
Deficit for the year	(1,367,877)
At 31 December 2018	4,155,855

Company

	Retained earnings £
At 1 January 2018	(3,638,399)
Deficit for the year	(46,516)
At 31 December 2018	(3,684,915)

25. RELATED PARTY DISCLOSURES

BOE Publishing Limited
A company in which Messrs A D J Mowatt and C J Marden are directors

Commission and fees payable to BOE Publishing Limited of £14,242 (2017 - £17,075) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2018 £	2017 £
Amount due from related party at the balance sheet date	700,000	700,000

continued...

25. RELATED PARTY DISCLOSURES - continued

The Accident Claimline Limited
A company where A D J Mowatt, C J Marden and A J Parker are directors

Commission and fees payable to The Accident Claimline Limited of £21,433 (2017 - £128,400) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2018	2017
	£	£
Amount due from related party at the balance sheet date	26,456	-

Mowatt Properties Limited
A company in which Mr A D J Mowatt holds a controlling interest

Rent to the value of £149,574 (2017 - £120,711) was payable in the year. These charges were at arms length in the ordinary course of business.

Law Media Limited
A company in which Mr A D J Mowatt is a director

Commissions and fees payable to Law Media Limited of £nil (2017 - £2,052) is included in cost of sales. These charges were at arms length in the ordinary course of business.

TAC Holdco Limited
A company where A D J Mowatt, C J Marden and A J Parker are directors

Commissions and fees payable to TAC Holdco Limited of £54,420 (2017 - £61,530) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2018	2017
	£	£
Amount due from related party at the balance sheet date	12,000	-

Mr M Baker
Director and shareholder of Baker Oldfield Limited until 28/09/2018

Included in creditors falling due within one year and falling due after one year are loan notes of £nil (March 2018 £1,632,339 payable to Mr M Baker.

No compensation was paid to key management personnel during the year. However during the year ended 31 December 2017 a total of key management personnel compensation of £221,929 was paid.

26. EVENTS AFTER THE REPORTING DATE

On 1st February 2019, the group submitted an application to the Malta Financial Services Authority ("MFSA") to extend its classes of insurance to Class 8 and 13 - Property damage and General Liability.

On 11th March 2019, the group informed the MFSA, of its intension to extend Class 16 (Miscellaneous Financial Loss) into a number of EU countries by mean of passporting rights.

27. ULTIMATE CONTROLLING PARTY

The group is under the control of the directors of Keystone Holdco Limited.

continued...

28. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	2018	2017
	£	£
Loss for the financial year	(1,367,877)	(597,048)
Net reduction of shareholders' funds	(1,367,877)	(597,048)
Opening shareholders' funds	5,748,732	6,345,780
Closing shareholders' funds	4,380,855	5,748,732

Company

	2018	2017
	£	£
Loss for the financial year	(46,516)	(17,070,670)
Called up share capital		
Net reduction of shareholders' funds	(46,516)	(17,070,670)
Opening shareholders' funds	(3,413,399)	13,657,271
Closing shareholders' funds	(3,459,915)	(3,413,399)