REGISTERED NUMBER: 07672718 (England and Wales)

GROUP STRATEGIC REPORT, REPORT OF THE DIRECTORS AND

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

FOR

KEYSTONE HOLDCO LIMITED

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KEYSTONE HOLDCO LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019

The directors present their strategic report of the company and the group for the year ended 31 December 2019.

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

PRINCIPAL RISKS AND UNCERTAINTIES
Brexit and Covid 19 have both brought certain risks and uncertainties. Brexit risks have been mitigated by dialogue with the PRA and authority for the PRA to continue to transmit business to the UK. The board continues to monitor and plan for Brexit.

LIKELY FUTURE DEVELOPMENTS
The groups future plan is to ensure it retains its current market share in legal expenses insurance and expands into other sectors. On 24th February 2017 the government announced that the small claims limit for road traffic accident personal injury claims would be increased to £5,000. This is now expected to come in to force in 2020/21. The overall effect of these future changes is not yet known and will be assessed by the group in the near future.

Keystone will continue to monitor its cover holder and law firm clients to help mitigate risk. Also Keystone has developed new product lines in other areas of insurance and Bastion Insurance Company Limited now has a number of insurance licences enabling it to write such business as motor warranty and GAP cover, key cover, brown and white goods warranty, policy excess insurance and motor and home emergency breakdown cover, in addition to its core business of ATE legal expenses insurance.

The group is considering acquiring a 10% holding in Monarch Assure SE, a well respected and profitable life assurance company with their head office in Manchester and who were first incorporated in 1965. Negotiations are still ongoing.

ON BEHALF OF THE BOARD:

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A D J Mowatt - Director

Date: 23rd September 2020

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2019.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2019.

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

DIRECTORS
The directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report.

A D J Mowatt
C J Marden

EVENTS AFTER THE REPORTING DATE
Effective from 1st January 2020 the group started writing warranty business in various EU markets as a result of six new agency agreements the group entered into, subject to a 90% quota share reinsurance. Effective from 1st February 2020 and 1st March 2020, the group started writing warranty business in various EU markets as a result of the new agency agreements the group entered into, subject to a 90% quota share reinsurance.

On the 11th February 2020, the MFSA authorised a further capital injection amounting to £1,759,587 by way of a Capital Contribution. The Capital Contribution of £1,759,587 has meant an improvement in the SCR from 128% to 153% and the MCR improved from 409% to 493%. This assuming that all other items remain the same.

During 2020, the COVID-19 pandemic has had a significant impact on business and markets all across the world. In light of the COVID-19 outbreak, the group has been informed by its insurance manager that it has successfully triggered its business continuity plan which enables it to continue operations through remote means. The business continuity plan outlines response to an emergency situation and is aimed at ensuring ability to maintain essential operations. The group is also obtaining updates and confirmation from each of its agents regarding their contingency plans and the triggering of their respective business continuity plans to enable them to continue operations, either through remote means or otherwise and this will be carried on in accordance with the directions/laws/guidelines issued by their respective governments in their response to the COVID-19 spread. At this stage, the group does not have any material reason to anticipate any disruptions in its own or its agents' day-to-day operations. The group does not envisage disruptions in its distribution performance and the service continuity as a result of the COVID-19 outbreak.

The group will honour all of its claims in line with the current policy wordings. As a result, there will be no impact on current policyholders. it is not envisaged that any new restrictions or exclusions will be introduced on new policies vis-à-vis claims arising due to the COVID-19 position on this matter.

The group had already conducted stress analysis during the Own Risk Solvency Assessment (ORSA), considering difference scenarios assuming decreased premium levels, increased claims levels, event of reinsurer default and deterioration in GBP exchange rate.

In addition to the above, during the first quarter of 2020, the group decided to apply further scenario analysis due to the impact of COVID-19 that also takes into account a material fair value loss arising on its equity and bond investments. Since the beginning of 2020, the investment portfolio valuation has decreased by 7.7%.

Taking into account the results of the assessment carried out, the Board of Directors is of the opinion that the group is well equipped for any eventuality which arises from COVID-19, with the group maintaining enough capital to ensure that it is well equipped to maintain operations and continue operating for the foreseeable future.

No other significant events have occurred after the reporting date and up to the date of this report which would require adjustment to or disclosure in these financial statements.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

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:

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A D J Mowatt - Director

Date: 23rd September 2020

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 2019 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 2019 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.

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

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 four, 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

Date: 23/9/20

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
TURNOVER		10,571,621	8,109,045
Cost of sales		(7,672,174)	(5,760,118)
GROSS PROFIT		2,899,447	2,348,927
Administrative expenses		(3,994,546)	(3,478,048)
		(1,095,099)	(1,129,121)
Other operating income		50,962	126,298
OPERATING LOSS	4	(1,044,137)	(1,002,823)
Impairment of loans	6	37,121	(7,813)
Profit/loss on sale of invest	6	-	(1)
		(1,007,016)	(1,010,637)
Interest receivable and similar income		251,501	(70,720)
		(755,515)	(1,081,357)
Interest payable and similar expenses	7	(144,175)	(128,792)
LOSS BEFORE TAXATION		(899,690)	(1,210,149)
Tax on loss	8	(149,828)	(157,728)
LOSS FOR THE FINANCIAL YEAR		(1,049,518)	(1,367,877)
Loss attributable to:			
Owners of the parent		(1,049,518)	(1,367,877)

The notes form part of these financial statements

CONSOLIDATED OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
LOSS FOR THE YEAR		(1,049,518)	(1,367,877)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,049,518)	(1,367,877)
Total comprehensive income attributable to:			
Owners of the parent		(1,049,518)	(1,367,877)

The notes form part of these financial statements

CONSOLIDATED BALANCE SHEET
31 DECEMBER 2019

		2019		2018	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets	12		5,877,855		7,290,574
Tangible assets	13		88,082		51,476
Investments	14		-		-
			5,965,937		7,342,050
CURRENT ASSETS					
Debtors	15	12,028,238		8,512,592	
Investments	16	5,739,409		5,358,978	
Cash at bank and in hand	17	7,846,868		6,741,134	
		25,614,515		20,612,704	
CREDITORS					
Amounts falling due within one year	18	28,236,160		23,560,625	
NET CURRENT LIABILITIES			(2,621,645)		(2,947,921)
TOTAL ASSETS LESS CURRENT LIABILITIES			3,344,292		4,394,129
PROVISIONS FOR LIABILITIES	22		12,952		13,271
NET ASSETS			3,331,340		4,380,858
CAPITAL AND RESERVES					
Called up share capital	23		225,000		225,000
Retained earnings	24		3,106,337		4,155,855
SHAREHOLDERS' FUNDS	27		3,331,337		4,380,855
NON-CONTROLLING INTERESTS			3		3
TOTAL EQUITY			3,331,340		4,380,858

The financial statements were approved by the Board of Directors and authorised for issue on ....23/9/20.......... 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 2019

	Notes	2019 £	2019 £	2018 £	2018 £
FIXED ASSETS					
Intangible assets	12		-		-
Tangible assets	13		-		-
Investments	14		17,384,590		17,384,590
			17,384,590		17,384,590
CREDITORS					
Amounts falling due within one year	18	20,195,411		20,844,505	
NET CURRENT LIABILITIES			(20,195,411)		(20,844,505)
TOTAL ASSETS LESS CURRENT LIABILITIES			(2,810,821)		(3,459,915)
CAPITAL AND RESERVES					
Called up share capital	23		225,000		225,000
Retained earnings	24		(3,035,821)		(3,684,915)
SHAREHOLDERS' FUNDS	27		(2,810,821)		(3,459,915)
Company's profit/(loss) for the financial year			649,094		(46,516)

The financial statements were approved by the Board of Directors and authorised for issue on 23/9/20 and were signed on its behalf by:

A D J Mowatt - Director

The notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital £	Retained earnings £	Total £	Non-controlling interests £	Total equity £
Balance at 1 January 2018	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
Changes in equity					
Total comprehensive income	-	(1,049,518)	(1,049,518)	-	(1,049,518)
Balance at 31 December 2019	225,000	3,106,337	3,331,337	3	3,331,340

The notes form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2018	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)
Changes in equity			
Total comprehensive income	-	649,094	649,094
Balance at 31 December 2019	225,000	(3,035,821)	(2,810,821)

The notes form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	1	2,400,195	2,400,295
Interest paid		(144,175)	(202,612)
Tax paid		(347,688)	(219,247)
Net cash from operating activities		1,908,332	1,978,436
Cash flows from investing activities			
Purchase of tangible fixed assets		(65,049)	(13,597)
Purchase of fixed asset investments		-	1
Sale of tangible fixed assets		107	-
Sale of fixed asset investments		-	1,537
Cash introduced - purchase of subsidiary		-	921,554
Purchase of investments		(2,055,258)	(1,778,323)
Disposal of investments		1,954,932	1,389,533
Maturity of time deposits		-	2,093,410
Interest received		256,451	240,281
Net cash from investing activities		91,183	2,854,396
Cash flows from financing activities			
New loans in year		-	4,962
Loan repayments in year		(800,000)	(228,388)
Amount withdrawn by directors		(93,773)	107,106
Dividends paid		-	(141,150)
Net cash from financing activities		(893,773)	(257,470)
Increase in cash and cash equivalents		1,105,742	4,575,362
Cash and cash equivalents at beginning of year	2	6,741,118	2,165,756
Cash and cash equivalents at end of year	2	7,846,860	6,741,118

The notes form part of these financial statements

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019	2018
	£	£
Loss before taxation	(899,690)	(1,210,149)
Depreciation charges	1,435,489	1,437,517
Loss on disposal of fixed assets	5,566	652
Investment return	(296,461)	39,677
Finance costs	144,175	128,792
Finance income	(251,501)	70,720
	137,578	467,209
(Increase)/decrease in trade and other debtors	(3,505,294)	453,120
Increase in trade and other creditors	5,767,911	1,479,966
Cash generated from operations	2,400,195	2,400,295

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 2019

	31.12.19	1.1.19
	£	£
Cash and cash equivalents	7,846,868	6,741,134
Bank overdrafts	(8)	(16)
	7,846,860	6,741,118

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

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

3. ANALYSIS OF CHANGES IN NET DEBT

	At 1.1.19	Cash flow	At 31.12.19
	£	£	£
Net cash			
Cash at bank and in hand	6,741,134	1,105,734	7,846,868
Bank overdrafts	(16)	8	(8)
	6,741,118	1,105,742	7,846,860
Liquid resources			
Current asset investments	5,358,978	380,431	5,739,409
	5,358,978	380,431	5,739,409
Debt			
Debts falling due within 1 year	(13,417,058)	800,000	(12,617,058)
	(13,417,058)	800,000	(12,617,058)
Total	(1,316,962)	2,286,173	969,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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. These asset were amortised over their estimated useful life of 5 years commencing from when they were 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
Computer equipment	- 25% on reducing balance and 25% on cost

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.

continued...

2. **ACCOUNTING POLICIES - continued**

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 reinsurance 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:

- its predominant insurance business, which essentially relates to the legal expense insurance for 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')(collectively referred to as the 'core' insurance business); and

- the policies designed and launched during the years 2018 and 2019 (collectively referred to as the 'other general insurance business'). Although the latter includes legal expense insurance policies, no distinction is made between pre and post LASPO policies. Other general insurance business policies are distributed through agents, and sub-agents of the related party agent (Keystone Legal Benefits).

The group also acts as a fronting insurance company in relation to certain general insurance business policies and a minimal amount of core post-LASPO policies. The group benefits from reinsurance in relation to these policies (Note 10.2).

(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 core policies include estimates of premiums due not yet receivable.

The group estimates premium pertaining to core policies 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 20% haircut was applied to the actuarial best estimate of ultimate premium receivable to cater for the increased uncertainty relating to the core post - LASPO policies.

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

continued...

2. **ACCOUNTING POLICIES - continued**

Unearned premium is provided for all policy types excluding for the core insurance policies and a portion of the after the event ("ATE") policies included within the other general insurance business. 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.

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.

Core insurance business

As for the liability in relation to pre and post-LASPO policies, the claims incurred are established by 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 group has grouped different policies with similar characteristics together. Furthermore, an additional 20% (2018: 10%) risk margin is applied over and above the actuarial best estimate of claims outstanding to cater for the increased uncertainty relating to the post-LASPO policies in light of comparatively limited experience. No allowance is being made in respect of the pre LASPO policies, where the exposure is reducing as more policies close over time without being replaced with new business.

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.

Other General insurance business

The liability for all the other general insurance business policies is based on a target loss ratio. The target loss ratios are annually reviewed based on the historical performance of each agency or sub-agency classified by class of business or policy classification. In this manner, a provision for incurred but not reported claims is recognised as the difference between the target estimated ultimate loss and the amount of claims paid and claims outstanding up to the period end.

The above method of provisioning satisfies the minimum liability adequacy test. Notes 11 and 18 contain further information in relation to these claims

(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 ATE policies. For those policies which are not classified as 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 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.

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 impairment 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.

continued...

2. **ACCOUNTING POLICIES - continued**

(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 the core insurance policies. 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. Reinsurance premium ceded is expensed proportionally over the period of cover, resulting in reinsurance share of unearned premium as at the end of the reporting period.

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 and expensed over the period of cover.

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. Ceded insurance arrangements do not relieve the group from its obligations to policyholders and Note 10.3 contains further information pertaining to the credit quality of reinsurers.

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:

Core business
i. Limited cover under ATE legal expenses which is reinsured with Alternative ARM Insurance Limited.

Other general insurance business
ii. The warranty business insurance scheme which is 90% reinsured with Falcon Insurance PCC Limited (Archipelago Cell);
iii. Assistance, breakdown, gadget, excess, home emergency and BTE legal expenses insurance cover which is 90% reinsured with Winward Insurance PCC Limited;
iv. The property damage, office contents, onshore terrorism and business interruption of oil drilling companies covering property damage and miscellaneous financial loss insurance cover is 100% reinsured with VET Insurance Services Limited. The latter further cedes its risk to a Lloyds' panel (the retrocessionare). The retrocessionaire is A-rated.

(f) Reinsurance commissions

Commisions' receivable on outwards reinsurance contracts are earned on a basis that is consistent with the manner in which the related reinsurance premium ceded is expensed.

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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
Baker Oldfield Limited
Michael Baker Solicitors Limited

3. **EMPLOYEES AND DIRECTORS**

	2019	2018
	£	£
Wages and salaries	1,540,331	1,295,186
Social security costs	135,424	125,468
Other pension costs	39,209	26,499
	1,714,964	1,447,153

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

	2019	2018
Directors	2	2
Administrative	42	44
	44	46

	2019	2018
	£	£
Directors' remuneration	342,393	156,077
Directors' pension contributions to money purchase schemes	7,935	1,477

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

Money purchase schemes	2	2

Information regarding the highest paid director for the year ended 31 December 2019 is as follows:

	2019
	£
Emoluments etc	99,046
Pension contributions to money purchase schemes	3,473

continued...

4. OPERATING LOSS

The operating loss is stated after charging:

	2019	2018
	£	£
Depreciation - owned assets	22,770	13,020
Loss on disposal of fixed assets	5,566	652
Goodwill amortisation	1,412,719	1,412,720
Computer software amortisation	-	11,777

5. AUDITORS' REMUNERATION

	2019	2018
	£	£
Fees payable to the company's auditors and their associates for the audit of the company's financial statements	80,116	53,086
Auditors' remuneration for non audit work	6,289	5,504

6. EXCEPTIONAL ITEMS

	2019	2018
	£	£
Exceptional items	-	(299)
Impairment of loans	37,121	(7,813)
Profit/loss on sale of invest	-	(1)
	37,121	(8,113)

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019	2018
	£	£
Bank interest	2	2
Interest payable	144,173	128,790
	144,175	128,792

8. TAXATION

Analysis of the tax charge
The tax charge on the loss for the year was as follows:

	2019	2018
	£	£
Current tax:		
UK corporation tax	60,320	144,773
Maltese corporation tax	89,827	12,498
Total current tax	150,147	157,271
Deferred tax	(319)	457
Tax on loss	149,828	157,728

continued...

8. **TAXATION - continued**

Reconciliation of total tax charge 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:

	2019	2018
	£	£
Loss before tax	(899,690)	(1,210,149)
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	(170,941)	(229,928)
Effects of:		
Expenses not deductible for tax purposes	27,070	26,176
Capital allowances in excess of depreciation	(8,913)	-
Depreciation in excess of capital allowances	-	266,073
Effect of Maltese tax rate of 35%	41,567	5,713
companies marginal relief on		
Unutilised tax losses carried forward	-	89,241
Deferred tax	(319)	453
Impairment on loans	(7,053)	-
Amortisation on consolidation	268,417	-
Total tax charge	149,828	157,728

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.

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

Core insurance business

Legislative changes brought into effect on 1 April 2013, mainly due to the enactment of 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 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 legal expenses business.

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.

Other General Insurance Business

The group's main objective in previous years was to underwrite ATE legal expenses insurance. During 2018, the group's Board of Directors diversified its portfolio of insurance cover. In the same year, 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). In 2018, the group concluded two agreements with two agents. During 2019, the group continued to explore prospects for European markets and in fact was granted an extension of its authorisation to carry on business of insurance in relation to Class 8 (Property Damage) and Class 13 (General Liability). Consequently, potential covers in niche areas and the prospects for European markets continue to be explored.

COVID-19

During 2020, the COVID-19 pandemic has had a significant impact on business and markets all across the world. In light of the COVID-19 outbreak, the group has been informed by its insurance manager that it has successfully triggered its business continuity plan which enables it to continue operations through remote means. As further described in Note 28, the group does not envisage disruptions in its distribution performance and the service continuity as a result of the COVID-19 outbreak.

10.2 Insurance risk

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 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.

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As explained in note 10.1, during the prior year the group launched a number of new policies, which are promoted through three agency relationships. During 2019, the group continued to develop and launched new policies independent of agency relationships. Conjointly, the group has also entered into four new sub-agency relationships during 2019. The contracts of insurance currently being written cover warranty business, legal expenses (Before The Event ("BTE") and ATE), breakdown, excess, home emergency, and gadget insurance, property insurance, terrorism and business interruption. The group manages these risks through an effective underwriting strategy (which also considers the extent to which reinsurance protection will be sought), the terms and conditions of the insurance contracts sold and an effective claims management.

The underwriting strategy of the group seeks to diversify the portfolio in terms of the risks written to mitigate the probability of a single insurable event affecting its entire 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 sustainable 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 receivables of the core insurance business.

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. Following the launch of other general insurance business policies, the group, entered into two new reinsurance agreements with two different reinsurers whereby it transfers a substantial amount of the new risk pertaining to the new insurance business sold.

During the current year, the group entered into an additional reinsurance arrangement covering additional policies launched in 2019 limited to property damage, offshore terrorism and business interruption covering various EU jurisdictions. In this latter agreement, the group transfers 100% of the risk written through the respective insurance business.

(a) Sources of uncertainty in the estimation of premium receivable and debtors on the core insurance business

Core insurance business

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. Pre and post-LASPO premium for 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.

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 review the ultimate receivables by inter alia constructing triangles based on historical trends using the average premium per policy method based on 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 a 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 estimates 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 2019 and 2018 reflects actuarial adjustments to cater for the emerging experience of pre and post-LASPO policies.

As a result of the prospective adjustment to cater for changes in estimates, estimated ultimate premium receivable for pre-LASPO were adjusted downwards, whilst that of post-LASPO was adjusted upwards. The impact of this adjustment before related expense adjustments and tax, amounted to a deterioration of £78,995 (2018: improvement of £2,776,642). The impact of this adjustment after the related expense adjustments but before tax effect, amounted to an improvement of £213,645 (2018: improvement of £2,005,397). The estimated premium receivable for pre-LASPO includes a risk margin element of £150,000 (2018: £nil) due to the increased uncertainty, whilst that of the post-LASPO includes a risk margin buffer of 20% (2018: 10%) due to the increased volatility.

(b) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors.

Core insurance business

The group considers adverse development in respect of case proceedings to be the most significant risk factor with respect to the core business.

Other general insurance business

The claims for other general business (other than fronted business) are generally high in terms of frequency and low in their severity due to the nature of the business written. The group considers that the most significant risk in this respect is a higher frequency of claims than expected. In terms of the fronted business, given the high sums insured, the most significant risk arises from the possibility of low frequency high severity claims.

In order to manage the risks above, the group has an underwriting strategy that is set by the Board. The group accepts its risk through an underwriting agent and another sub agent that has operated in the respective sectors of business in the UK, Ireland and Channel Islands for a number of years. The agents employ a team of skilled and experiences underwriters guided by delegated underwriting authorities and procedures, including continuous review of case developments as they proceed, for appropriate premium adjustment (in the case of the core insurance business) or any other required action. The group further engages the services of an insurance manager to assist in its managing operations. The group carries out periodic visits to the agents (and sub-agents) in order manage the risks arising from the European fronted business (which is not written through an agent), the Board has sought to reinsure the risks in full.

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(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 the core insurance 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 core business is such that claims can take several years to develop and are therefore subject to a greater degree of uncertainty. The other general insurance policies 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 the core insurance business and the other general insurance business. Further detail on key assumptions and sensitivity in relation to claims outstanding is provided in note 18 of the financial statements.

Core insurance business

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 review the ultimate claims cost by inter alia constructing 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.

Other general insurance business

As further explained in Note 2.12(b), the group uses a target loss ratio which vary by product type based mainly on an analysis of historical experience provided by the group's underwriting agents. The main source of uncertainty is due to the fact that this is new business introduced during 2018 and 2019 and therefore there is limited company-specific empirical data. However, claims are reported regularly and the payment of such claims are expected to be short term in nature. To address the delay between claims incurrence and reporting, the group adopted an IBNR policy based on projected loss ratios in relation to the earned premium portion.

Internal data is analysed by underwriting year and triangulations are also used to assess the development of each open year. Note 18 provides the detail of the development of prior years' claims estimates and the impact on the income statement. Claims outstanding data is based on actual claims outstanding received from each of the agents or sub-agents, whilst the IBNR is based on projected loss ratios. At each period end an assessment of the actual loss ratios as compared to the projected loss ratio is made. The group has engaged the services of an actuary to assess the technical provisions.

REINSURANCE

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

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During the prior year, the group entered into new reinsurance arrangements covering the other general business insurance policies, excluding any post LASPO business. For the latter insurance business introduced in the prior year, the group reinsures on a 90% quota share basis of the risks underwritten through the respective agency agreement and another sub-agency agreement. On the other hand, the group retains 100% of the risks underwritten for another sub-agency agreement.

During 2019 the group entered into a new reinsurance arrangement (fronting) covering additional cover on property damage, offshore terrorism and business interruption. In this respect, the group reinsures on a 100% quota share basis of the risks underwritten. On the other hand, the group retains 100% of the risks underwritten for another four sub-agency agreements.

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 warranty business insurance scheme which is 90% reinsured with Falcon Insurance PCC Limited (Archipelago Cell);
ii. Assistance breakdown, gadget, excess, home emergency and BTE legal expenses insurance cover which is 90% reinsured with Winward Insurance PCC Limited; and
iii. The property damage, office contents, onshore terrorism and business interruption of oil drilling companies covering property damage and miscellaneous financial loss insurance cover is 100% reinsured with VET Insurance Services Limited, which further cedes its risk with a Lloyds' panel (the retrocessionaire); and
iv. Limited cover under the ATE 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.

Note 16 and 17 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

continued...

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:

	2019 £	2018 £
At 31 December		
Assets subject to equity price risk consisting of		
- equity securities (Note 16)	556,657	410,955

The investments that are subject to equity price risk, were assessed for the likely impact of a 10% increase or decrease in the market price. Should this occur, assuming exchange rates remain the same, the impact would be +/- £55,666.

(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 for the core insurance business. As at the end of the year approximately 13% (2018: 6%) 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 reinsurers with two unrated reinsurers and one rated reinsurer. The group obtains financial statements periodically in order to assess the reinsurers' financial health. There are no indications that the reinsurers will be unable to honour their obligations to the company. An annual stress testing is also carried out by the group to assess the impact on the group's solvency, should any of its reinsurer's fail to honour its obligation. The group's assessment is that it would remain solvent should this arise. The following table provides information regarding the group's aggregated credit risk exposure with external credit ratings.

The contractual agreement between the group and the reinsurer, VET Insurance Services Limited, and the separate contractual agreement between VET Insurance Services Limited and the retrocessionaire stipulate that the reinsurer shall pay directly to the named insured that proportion of any claim which represents the liability of the reinsurer to the reinsured, and that if required the retrocessionaires of the reinsurer shall pay directly to the reinsured, covered through the cut-through clause. As described in note 2.12e the retrocessionaire is A-rated.

31 December 2019

Credit Rating

continued...

S&P/Fitch Ratings	AA- £'000	AA £'000	A+ £'000	A £'000	A- £'000	BBB + £'000
Financial assets at fair value through profit and loss	249	365	209	40	523	952
Loans and receivables						
- Cash and cash equivalents	-	-	-	-	-	-
- Debtors	-	-	-	-	-	-
- Prepayments and accruedincome	1	4	1	-	4	11
- Deferred acquisition costs	-	-	-	-	-	-
- Reinsurer's share oftechnical provision	-	-	-	3,504	-	-
Total loans and receivables						

S&P/Fitch Ratings	BBB £'000	BBB- £'000	B+- £'000	B £'000	B- £'000	Not rated	Carrying value in the balance sheet £'000
Financial assets at fair value though profit and loss	1,309	902	183	396	55	-	**5,183**
Loans and receivables							
- Cash and cash equivalents	221	-	-	-	-	5,879	**6,100**
- Debtors	-	-	-	-	6,678	5,579	**5,579**
- Prepayments and accruedincome	13	14	3	6	1	13	**71**
- Deferred acquisition costs	-	-	-		341	1,041	**1,041**
- Reinsurer's share oftechnical provision	-	-	-	-	445	755	**4,259**
Total loans and receivables							**17,050**
							22,233

31 December 2018

S&P/Fitch Ratings			Credit Rating			
	AAA £'000	AA- £'000	AA £'000	A+ £'000	A £'000	A- £'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 accrued income	-	1	-	2	4	2

continued...

- Deferred acquisition costs	-	-	-	-	-	-
- Reinsurer's share oftechnical provision	-	-	-	-	-	-
Total loans and receivables						

S&P/Fitch Ratings	BBB+	BBB-	BB+	B	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 accrued income	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

At 31 December 2019 and 2018, 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 3 banking institutions (2018: 2). 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 2019	**Expected cash flows (undiscounted)**				
	0 - 1 year	1 - 2 years	3 - 5 years	> 5 years	Carrying amount
	£	£	£	£	£
Technical Provisions	4,694,565	326,340	1,976,103	2,076,532	**9,073,540**
Other creditors	1,160,334	-	-	-	**1,160,334**
Income tax payable	12,498	88,773	-	-	**101,271**

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

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 2019 and 2018 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:

	2019 Level 1 £	2018 Level 1 £
At 31 December		
Financial assets at fair value through profit or loss		
- Debt securities (Note 16)	**5,182,752**	4,948,023
- Equities (Note 16)	**556,657**	410,955
	5,739,409	5,358,978

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.

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

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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 2019 and 2018, the group's eligible own funds adequately covered the required SCR and amounted to £8.9m (unaudited) and £9.2m (audited) respectively.

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11. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING ACCOUNTING POLICIES

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Establishing useful economic lives for depreciation and amortisation purposes of fixtures and fittings, and computer software.
Changes in asset useful lives can have a significant impact on depreciation and amortisation charges for the period. Detail of the useful economic lives are included in the accounting policies.

(b) Associated company loans recoverability
Loans with associated companies have been impaired to their recoverable amounts, due to the trading losses of those companies. The impaired value has been calculated by assessing the future profitability of the associated companies.

Estimates and judgements are continually evaluated and are based on historical experience provided by the group's underwriting agents, sub-agents and intermediary 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 the core insurance policies. In determining claims and premium estimates, the group distinguishes between the core insurance policies and other general business insurance policies. The group's estimates relating to the core insurance business and other general insurance business 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 core insurance business 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 core insurance 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 other general insurance business policies is calculated on a target loss ratio on the earned premium, after taking into consideration the actual claims paid and the claims outstanding reserves. In 2018, given that these other general insurance business policies were still in their infancy, the target loss ratios used were 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. During 2019, the target loss ratios for those other general insurance policies introduced during 2018 were updated to be aligned to more recent performance based on the now more recent historical performance. In addition, the target loss ratios for those policies introduced during 2019, were based either on the market experience provided by the retrospective agents and sub-agents or benchmarked to the same policy types if the same policies were already covered by the group.

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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.

12. **INTANGIBLE FIXED ASSETS**

Group

	Goodwill	Computer software	Totals
	£	£	£
COST			
At 1 January 2019	16,019,547	141,324	16,160,871
Disposals	-	(141,324)	(141,324)
At 31 December 2019	16,019,547	-	16,019,547
AMORTISATION			
At 1 January 2019	8,728,973	141,324	8,870,297
Amortisation for year	1,412,719	-	1,412,719
Eliminated on disposal	-	(141,324)	(141,324)
At 31 December 2019	10,141,692	-	10,141,692
NET BOOK VALUE			
At 31 December 2019	5,877,855	-	5,877,855
At 31 December 2018	7,290,574	-	7,290,574

13. **TANGIBLE FIXED ASSETS**

Group

	Office equipment	Fixtures and fittings	Computer equipment	Totals
	£	£	£	£
COST				
At 1 January 2019	31,616	50,290	63,809	145,715
Additions	3,072	17,080	44,897	65,049
Disposals	(3,167)	(19,111)	(11,157)	(33,435)
At 31 December 2019	31,521	48,259	97,549	177,329
DEPRECIATION				
At 1 January 2019	19,947	30,765	43,527	94,239
Charge for year	4,623	6,056	12,091	22,770
Eliminated on disposal	(3,167)	(13,438)	(11,157)	(27,762)
At 31 December 2019	21,403	23,383	44,461	89,247
NET BOOK VALUE				
At 31 December 2019	10,118	24,876	53,088	88,082
At 31 December 2018	11,669	19,525	20,282	51,476

continued...

14. **FIXED ASSET INVESTMENTS**

Company

	Shares in group undertakings £
COST	
At 1 January 2019	17,384,590
Impairments	
At 31 December 2019	17,384,590
NET BOOK VALUE	
At 31 December 2019	17,384,590
At 31 December 2018	17,384,590

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%

	2019 £	2018 £
Aggregate capital and reserves	16,244,376	16,072,025
Profit for the year	972,351	1,451,057

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

	2019 £	2018 £
Aggregate capital and reserves	193,318	296,306
Profit/(loss) for the year	(102,988)	(160,905)

Bastion Insurance Company Limited
Registered Office: 4th Floor Development House, St Anne Street, Floriana, Malta
Nature of business: Insurance
Shareholding: 100%

	2019 £	2018 £
Aggregate capital and reserves	9,164,267	9,677,473
Profit/(loss) for the year	164,176	23,211

Baker Oldfield Limited
Registered Office: UK
Nature of business: Solicitors

continued...

Shareholding: 100% (Subsidiary purchased on 28 September 2018)

	2019	2018
	£	£
Aggregate capital and reserves	3,189,956	3,184,719
Profit/(loss) for the year	446,737	304,300

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

	2019	2018
	£	£
Aggregate capital and reserves	1,154,022	1,001,310
Profit/(loss) for the year	594,212	620,895

15. DEBTORS

	Group	
	2019	2018
	£	£
Amounts falling due within one year:		
Trade debtors	6,054,030	7,192,851
Reinsurers' share of technical provisions	4,259,324	444,741
Deferred acquisition costs	1,041,068	298,197
Other debtors	197,215	101,797
Tax	1,972	1,972
Prepayments and accrued income	474,629	430,665
	12,028,238	8,470,223
Amounts falling due after more than one year:		
Other debtors	-	42,369
Aggregate amounts	12,028,238	8,512,592

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 in relation to the core insurance business. The outstanding premium receivable is undiscounted and therefore, in addition to the haircut described below, includes a small prudential margin compared to the Solvency II best estimate reserves which are discounted.

Core Insurance Debtors pre-LASPO
At 31 December 2019, amounts due from policyholders include estimated premium income receivable on these policies amounting to £717,659 (2018 - £2,642,566). As explained in notes 2.12 and 10.2 a haircut of £150,000 (2018 £nil) was deducted from the statistically projected receivables to cater for the increased uncertainty resulting from the smaller number of open pre-LASPO policies. During 2019, these premium estimates developed unfavourably resulting in an overall negative variance of 944,403 (2018: favourable variance of £588,887), after also considering the impact of related costs.

Sensitivity of estimated debtors on core insurance 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 £137,229 (2018: increase of £305,387) or decrease by £137,224 (2018: decrease of £305,281). 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.

Core Insurance Debtors post-LASPO
At 31 December 2019, premium receivable on post-LASPO policies amounted to £3,744,793 (2018: £3,641,779). As explained in notes 2.12 and 10.2 a haircut of 20% (2018: 10%) is deducted from the statistically projected receivables to cater for the uncertainty as a result of the relatively limited data available. During 2019, these premium estimates developed favourably in respect of underwriting years 2013 to 2019 resulting in a positive variance of £1,159,375 (2018: positive variance of £1,416,510), after also considering the impact of related costs.

Sensitivity of estimated debtors on core insurance 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 £484,923 (2018: £428,301) or decrease by £484,503 (2018: £428,295). 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.

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16. CURRENT ASSET INVESTMENTS

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

	2019	2018
	£	£
At 31 December		
Financial assets at fair value through profit or loss	5,739,409	5,358,978
	5,739,409	5,358,978

Analysed by type of investment as follows:

	2019	2018
	£	£
At 31 December		
Financial assets at fair value through profit or loss		
- listed, fixed interest rate debt securities(Level 1)	5,182,752	4,948,023
- equities (Level 1)	556,657	410,955
	5,739,409	5,358,978

The maturity of fixed income debt securities is detailed below:

	2018	2018
	£	£
Between 1 and 2 years	1,014,414	1,364,920
Between 2 and 5 years	2,376,922	2366,421
Over 5 years	1,791,416	1,216,682
	5,182,752	4,948,022

17. CASH AT BANK AND IN HAND

	2019	2018
	£	£
Cash at bank	7,846,860	6,741,118

	2019	2018
	£	£
At floating rates	5,710,449	4,604,699
At fixed rates	1,026,755	1,026,755
Non-interest bearing	1,109,656	1,109,664
	7,846,860	6,741,118

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

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18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Loan notes (see note 19)	12,617,058	13,417,058	12,617,058	13,417,058
Bank loans and overdrafts (see note 19)	8	16	-	-
Trade creditors	2,899,309	2,821,778	-	-
Technical provisions	9,073,539	3,574,220	-	-
Deferred reinsurance commission	273,521	89,336	-	-
Amounts owed to group undertakings	-	-	6,345,461	6,339,448
Tax	161,591	360,186	-	-
Social security and other taxes	43,875	36,063	-	-
VAT	84,455	178,387	-	-
Other creditors	1,164,248	1,019,119	4,920	4,200
Amounts held on behalf of clients	100,487	236,016	-	-
Directors' current accounts	13,333	107,106	-	-
Accruals and deferred income	1,732,247	1,611,287	1,227,972	1,083,799
Accrued expenses	72,489	110,053	-	-
	28,236,160	23,560,625	20,195,411	20,844,505

continued...

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

Technical provisions

	Year ended 31 December	
	2019	2018
Gross - Insurance liabilities	**£**	£
Claims outstanding - Core business	**2,964,997**	2,896,380
Claims outstanding - Other general insurance business	**13,871**	9,683
Claims incurred but not reported - Other general insurance business	**141,229**	21,145
Provision for unearned premium - Other general insurance business	**5,953,442**	647,012
Total technical provisions, gross	**9,073,539**	3,574,220
Recoverable from reinsurer		
Claims outstanding - Core business	**(74,699)**	(120,001)
Claims outstanding - Other general insurance business	**(7,557)**	(4,044)
Claims incurred but not reported - Other general insurance business	**(74,287)**	(18,967)
Provision for unearned premium - Other general insurance business	**(4,102,781)**	(301,729)
Total reinsurer's share of technical provisions	**(4,259,324)**	(444,741)
Net - Insurance liabilities		
Claims outstanding - Core business	**2,890,298**	2,776,379
Claims outstanding - Other general insurance business	**6,314**	5,639
Claims incurred but not reported - Other general insurance business	**66,942**	2,178
Provision for unearned premium - Other general insurance business	**1,850,661**	345,283
At end of the reporting year	**4,814,215**	3,129,479

a) Claims outstanding and incurred but not reported

Other General Insurance Business
The claims outstanding included under the other general insurance business, which although they include legal expenses insurance policies exclude those policies classified under the core insurance business, comprise amounts as provided by the insurance intermediaries under the various portfolios in relation to claims notified to them that are pending settlement. The reserve for claims incurred but not reported ('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 general insurance business policies introduced during 2018 were still in their infancy, the target loss ratios used in 2018 were based on the group's projections. These were revised based on actual loss ratio performance experienced during 2019. Similarly, the same methodology was adopted for those new policies introduced during 2019, whereby the loss ratios assumed by the group were those used in the financial projections. These ratios were provided by the respective intermediaries and are based on their market experience.

If the loss ratio of the claims reserve is increased upwards or decreased downwards by 5%, the liability for claims reserve would increase by £73,013 or decrease by £73,015 respectively before considering the impact of related costs. The sensitivity analysis is based on a change in assumption for the estimated loss ratio on the claims reserves while holding other assumptions constant.

Core Insurance Business
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.

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

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
The gross and net provision for claims outstanding on these policies excluding claims handling costs amounts to £145,080 (2018: £826,790). 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 £14,510 (2018: £82,679) or decrease by £14,505 (2018: £82,679) respectively before considering the impact of related costs.This 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 £2,678,726 (2018: £1,931,667). If the liability for claims outstanding had to increase or decrease by 10%, the liability for claims outstanding would increase by £223,228 (2018: £175,611) or decrease by £223,220 (2018: £175,611) 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 balance sheet. 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 favourable run-off on pre-LASPO and adverse run-off on the post-LASPO claims outstanding amounting to a net adverse run off of £9,988 (2018: £1,558,896) before considering claims handling costs.

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	**2012**	**2013**	**2014**	**2015**	**2016**
	£	£	£	£	£
Year ended 31 December					
Estimate of the ultimate claims costs:					
At end of accident year	3,316,327	5,607,446	966,502	1,150,805	789,631
One year later	2,502,073	4,464,387	1,178,878	740,727	1,041,272
Two years later	2,502,075	3,085,672	790,969	831,916	1,254,199
Three years later	2,550,427	3,172,311	964,039	922,174	1,408,633
Four years later	2,439,928	2,975,065	1,047,537	955,208	
Five years later	2,246,816	3,897,329	991,119		
Six years later	2,420,469	3,474,256			
Seven years later	2,330,252				

continued...

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

Current estimate of					
Gross cumulative claims	2,330,252	3,474,256	991,119	955,208	1,408,633
Gross cumulative payments	(2,276,351)	(3,360,933)	(869,669)	(848,681)	(1,090,912)
Gross liability recognised in balance sheet	53,901	113,323	121,450	106,527	317,721

	2017 £	2018 £	2019 £	**Total £**
Year ended 31 December				
Estimate of the ultimate claims costs:				
At end of accident year	630,956	898,053	1,684,739	
One year later	742,875	1,384,611		
Two years later	911,831			
Three years later				
Four years later				
Five years later				
Six years later				
Current estimate of:				
Gross cumulative claims	911,831	1,384,611	1,684,739	13,140,649
Gross cumulative payments	(589,813)	(654,703)	(350,969)	(10,042,031)
Gross liability recognised in balance sheet	322,018	729,908	1,333,770	3,098,618
Gross liability in respect of prior periods				21,479
Gross liability recognised in the balance sheet 2019				3,120,097

Net	**2012** £	**2013** £	**2014** £	**2015** £	**2016** £
Year ended 31 December					
Estimate of the ultimate claims costs:					
At end of accident year	3,316,327	5,584,946	896,782	1,080,208	763,547
One year later	2,502,073	4,430,980	1,123,998	703,650	1,036,073
Two years later	2,502,075	3,067,682	752,334	827,401	1,235,978
Three years later	2,550,427	3,168,705	962,788	892,998	1,385,779
Four years later	2,439,928	2,973,656	1,015,139	939,557	
Five years later	2,246,816	3,887,137	985,228		
Six years later	2,420,469	3,473,524			
Seven years later	2,330,252				
Current estimate of					
Net cumulative claims	2,330,252	3,473,524	985,228	939,557	1,385,779

continued...

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

Net cumulative payments	(2,276,351)	(3,360,933)	(869,669)	(848,681)	(1,090,912)
Net liability recognised in balance sheet	53,901	112,591	115,559	90,876	294,867

	2017 £	2018 £	2019 £	**Total £**
Year ended 31 December				
Estimate of the ultimate claims costs:				
At end of accident year	625,882	834,030	1,473,399	
One year later	727,305	1,195,685		
Two years later	893,787			
Three years later				
Four years later				
Five years later				
Six years later				
Current estimate of: Net cumulative claims	893,787	1,195,685	1,473,399	12,677,211
Net cumulative payments	(589,814)	(477,761)	(221,015)	(9,735,136)
Net liability recognised in balance sheet	303,973	717,924	1,252,384	2,942,075
Net liability in respect of prior periods				21,479
Net Total liability recognised in the balance sheet 2019				2,963,554

The movements for the year are summarised as follows:

	Year ended 31 December	
	2019 £	2018 £
Gross		
At beginning of the reporting year	**2,927,208**	2,338,903
Claims settled during the year	**(1,682,466)**	(1,947,038)
Increase in liabilities		
- arising from current year claims	**1,684,739**	898,053
- arising from prior year claims	**190,616**	1,637,290
At end of the reporting year	**3,120,097**	2,927,208
Reinsurance		
At beginning of the reporting year	**143,012**	17,450
Claims settled during the year	**(280,323)**	(26,573)
Decrease/(increase) in liabilities		
- arising from current year claims	**211,341**	64,022
- arising from prior year claims	**82,513**	88,113

continued...

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

At end of the reporting year	**156,543**	143,012
Net		
At beginning of the reporting year	**2,784,196**	2,321,453
Claims settled during the year	**(1,402,143)**	(1,920,465)
Increase in liabilities		
- arising from current year claims	**1,473,398**	834,031
- arising from prior year claims	**108,103**	1,549,177
At end of the reporting year	**2,963,554**	2,784,196

b) Provision for unearned premiums

The movements for the year are summarised as follows:

	Year ended 31 December	
	2019	2018
Gross	**£**	£
At beginning of the reporting year	**647,012**	-
Net charge to profit and loss for the year	**5,306,431**	647,012
At end of the reporting year	**5,953,443**	647,012
Reinsurance		
At beginning of the reporting year	**(301,729)**	-
Net credit to profit and loss for the year	**(3,801,051)**	(301,729)
At end of the reporting year	**(4,102,780)**	(301,729)
Net		
At beginning of the reporting year	**345,283**	-
Net charge to profit and loss for the year	**1,505,380**	345,283
At end of the reporting year	**1,850,663**	345,283

18.1 Deferred acquisition costs

	Year ended 31 December	
	2019	2018
	£	£
At beginning of the reporting year	**340,566**	-
Net amount credited to profit and loss	**700,502**	340,566
Gross deferred acquisition costs at end of reporting year	**1,041,068**	340,566
At beginning of the reporting year	**(89,336)**	-
Net charge to profit and loss	**(184,185)**	(89,336)
Deferred reinsurance commissions at end of reporting year	**(273,521)**	(89,336)

continued...

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

At beginning of the reporting year	**251,230**	-
Net amount credited to profit and loss	**516,317**	251,230
Net deferred acquisition costs at end of reporting year	**767,547**	251,230

Deferred acquisition costs are classified as follows:

	Year ended 31 December	
	2019	2018
	£	£
Current	**519,543**	298,197
Non-Current	**521,525**	42,369
Gross deferred acquisition costs at end of reporting year	**1,041,068**	340,566
Current	**(273,444)**	(89,336)
Non-Current	**(77)**	-
Deferred reinsurance commissions at end of reporting year	**(273,521)**	(89,336)
Current	**246,099**	208,861
Non-Current	**521,448**	42,369
Net deferred acquisition costs at end of reporting year	**767,547**	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**	
	2019	2018	2019	2018
	£	£	£	£
Amounts falling due within one year or on demand:				
Loan notes	12,617,058	13,417,058	12,617,058	13,417,058
Bank overdrafts	8	16	-	-
	12,617,066	13,417,074	12,617,058	13,417,058

20. **LEASING AGREEMENTS**

Minimum lease payments fall due as follows:

continued...

Group

	Non-cancellable operating leases	
	2019	2018
	£	£
Within one year	176,113	176,113
Between one and five years	54,398	230,511
	230,511	406,624

21. **SECURED DEBTS**

The following secured debts are included within creditors:

	Group	
	2019	2018
	£	£
Loan notes	12,617,058	13,417,058
Bank overdrafts	8	16
Other Creditors - Loan	494,300	935,800
	13,111,366	14,352,874

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

22. **PROVISIONS FOR LIABILITIES**

	Group	
	2019	2018
	£	£
Deferred tax	12,952	13,271

Group

	Deferred tax
	£
Balance at 1 January 2019	13,271
Accelerated capital allowances	(319)
Balance at 31 December 2019	12,952

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:	2019 £	2018 £
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 2019	4,155,855
Deficit for the year	(1,049,518)
At 31 December 2019	3,106,337

Company

	Retained earnings £
At 1 January 2019	(3,684,915)
Profit for the year	649,094
At 31 December 2019	(3,035,821)

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 £4,481 (2018 - £14,242) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2019 £	2018 £
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 £nil (2018 - £21,433) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2019	2018
	£	£
Amount due from related party at the balance sheet date	23,000	26,456

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

Rent to the value of £156,922 (2018 - £149,574) was payable in the year. 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 £47,415 (2018 - £54,420) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2019	2018
	£	£
Amount due from related party at the balance sheet date	-	12,000

During the year, a total of key management personnel compensation of £109,644 (2018 - £7,408) was paid.

26. ULTIMATE CONTROLLING PARTY

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

27. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	2019	2018
	£	£
Loss for the financial year	(1,049,518)	(1,367,877)
Net reduction of shareholders' funds	(1,049,518)	(1,367,877)
Opening shareholders' funds	4,380,855	5,748,732
Closing shareholders' funds	3,331,337	4,380,855

continued...

27. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS - *continued*

Company

	2019	2018
	£	£
Profit/(loss) for the financial year	649,094	(46,516)
Called up share capital		
Net addition/(reduction) to shareholders' funds	649,094	(46,516)
Opening shareholders' funds	(3,459,915)	(3,413,399)
Closing shareholders' funds	(2,810,821)	(3,459,915)

continued...

28. EVENTS AFTER THE REPORTING DATE

Effective from 1st January 2020 the group started writing excess protect, motor warranty and GAP in various EU markets as a result of the nine new agency agreements the group entered into, subject to a 90% quota share reinsurance.

On 11th February 2020, the MFSA authorised a further capital injection amounting to £1,759,587 by way of a Capital Contribution representing an additional investment by the group's shareholder to the group's equity. There is no entitlement to receive any dividend on this investment, and the amount is considered as non-distributable.

The capital contribution of £1,759,587 has meant an improvement in the SCR from 128% to 153% and the MCR improved from 409% to 493%. This is assuming all other items remain the same.

Brexit

The United Kingdom has exited from the European Union on 31st January 2020. The group had already decided to retain its UK-based book of business.

COVID-19

During 2020, the COVID-19 pandemic has had a significant impact on business and markets all across the world. In light of the COVID-19 outbreak, the group has been informed by its insurance manager that it has successfully triggered its business continuity plan which enables it to continue operations through remote means. The business continuity plan outlines response to an emergency situation and is aimed at ensuring ability to maintain essential operations. The group is also obtaining updates and confirmation from each of its agents regarding their contingency plans and the triggering of their respective business continuity plans to enable them to continue operations, either through remote means or otherwise and this will be carried on in accordance with the directions/laws/guidelines issued by their respective governments in their response to the COVID-19 spread. At this stage, the group does not have any material reason to anticipate any disruptions in its own or its agents' day-to-day operations. The group does not envisage disruptions in its distribution performance and the service continuity as a result of the COVID-19 outbreak.

The group will honour all of its claims in line with the current policy wordings. As a result, there will be no impact on current policyholders. it is not envisaged that any new restrictions or exclusions will be introduced on new policies vis-à-vis claims arising due to the COVID-19 position on this matter.

The group had already conducted stress analysis during the Own Risk Solvency Assessment (ORSA), considering difference scenarios assuming decreased premium levels, increased claims levels, event of reinsurer default and deterioration in GBP exchange rate.

In addition to the above, during the first quarter of 2020, the group decided to apply further scenario analysis due to the impact of COVID-19 that also takes into account a material fair value loss arising on its equity and bond investments. Since the beginning of 2020, the investment portfolio valuation has decreased by 7.7%.

Taking into account the results of the assessment carried out, the Board of Directors is of the opinion that the group is well equipped for any eventuality which arises from COVID-19, with the group maintaining enough capital to ensure that it is well equipped to maintain operations and continue operating for the foreseeable future.

No other significant events have occurred after the reporting date and up to the date of this report which would require adjustment to of disclosure in these financial statements.