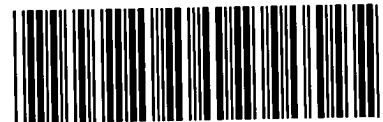


REGISTERED NUMBER: 07672718 (England and Wales)

**GROUP STRATEGIC REPORT, REPORT OF THE DIRECTORS AND**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
**FOR**  
**KEYSTONE HOLDCO LIMITED**

FRIDAY



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28/09/2018  
COMPANIES HOUSE

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**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**KEYSTONE HOLDCO LIMITED**

**COMPANY INFORMATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**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 2017**

The directors present their strategic report of the company and the group for the year ended 31 December 2017.

**REVIEW OF BUSINESS**

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

**PRINCIPAL RISKS AND UNCERTAINTIES**

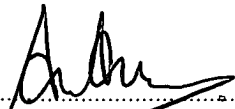
The legal expenses market continues to experience challenges, particularly since the Legal Aid, Sentencing & Punishment of Offenders Act ('LAPSO') in 2013. Keystone Legal Benefits 'customer Law Firms' continue to adjust to the Post-LAPSO regulatory regime with some finding it difficult to make the necessary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

**LIKELY FUTURE DEVELOPMENTS**

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

Keystone will continue to monitor the 'Customer Law Firms' to help mitigate risk. Also Keystone is developing new product lines in other areas of insurance, and licences have been obtained in Other damage to Property and Assistance (Motor and home emergency).

**ON BEHALF OF THE BOARD:**

  
.....  
A D J Mowatt - Director

Date: 25/9/18 .....

**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2017.

**DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2017.

**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 2017 to the date of this report.

A D J Mowatt  
C J Marden

Other changes in directors holding office are as follows:

A J Parker - resigned 30 November 2017

**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.

**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

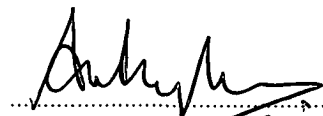
**REPORT OF THE DIRECTORS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**AUDITORS**

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

**ON BEHALF OF THE BOARD:**



.....  
A D J Mowatt - Director

Date: 25/9/18 .....

## **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 2017 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 2017 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 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, 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.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

- the information given in the 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 three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

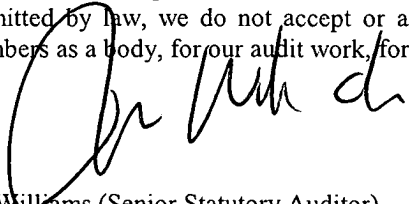
**Auditors' responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://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: 25/9/18



**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £	2016 £
<b>TURNOVER</b>		5,112,572	1,188,544
Cost of sales		2,630,170	721,889
<b>GROSS PROFIT</b>		2,482,402	466,655
Administrative expenses		3,223,037	3,728,374
<b>OPERATING LOSS</b>	4	(740,635)	(3,261,719)
Impairment of loans	6	480,120	410,000
		(1,220,755)	(3,671,719)
Interest receivable and similar income		116,512	384,962
		(1,104,243)	(3,286,757)
Interest payable and similar expenses	7	73,833	127,792
<b>LOSS BEFORE TAXATION</b>		(1,178,076)	(3,414,549)
Tax on loss	8	(581,028)	(272,137)
<b>LOSS FOR THE FINANCIAL YEAR</b>		(597,048)	(3,142,412)
Loss attributable to: Owners of the parent		(597,048)	(3,142,412)

The notes form part of these financial statements

**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

**CONSOLIDATED OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £	2016 £
LOSS FOR THE YEAR		(597,048)	(3,142,412)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(597,048)</u>	<u>(3,142,412)</u>
Total comprehensive income attributable to: Owners of the parent		<u>(597,048)</u>	<u>(3,142,412)</u>

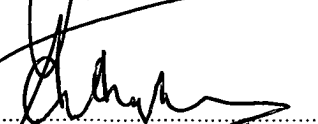
The notes form part of these financial statements

**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)****CONSOLIDATED BALANCE SHEET****31 DECEMBER 2017**

	Notes	2017		2016	
		£	£	£	£
<b>FIXED ASSETS</b>					
Intangible assets	12		8,147,625		9,531,865
Tangible assets	13		26,603		40,359
Investments	14		-		-
			<u>8,174,228</u>		<u>9,572,224</u>
<b>CURRENT ASSETS</b>					
Debtors	15	8,107,349		11,797,648	
Investments	16	7,405,901		5,124,144	
Cash at bank and in hand	17	2,165,784		4,212,860	
		<u>17,679,034</u>		<u>21,134,652</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	18	20,102,649		24,358,645	
		<u>20,102,649</u>		<u>24,358,645</u>	
<b>NET CURRENT LIABILITIES</b>			<u>(2,423,615)</u>		<u>(3,223,993)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>5,750,613</u>		<u>6,348,231</u>
<b>PROVISIONS FOR LIABILITIES</b>	22		<u>(1,878)</u>		<u>(2,447)</u>
<b>NET ASSETS</b>			<u><u>5,748,735</u></u>		<u><u>6,345,784</u></u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	23		225,000		225,000
Retained earnings	24		5,523,732		6,120,780
			<u>5,748,732</u>		<u>6,345,780</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>5,748,732</u>		<u>6,345,780</u>
<b>NON-CONTROLLING INTERESTS</b>			<u>3</u>		<u>4</u>
<b>TOTAL EQUITY</b>			<u><u>5,748,735</u></u>		<u><u>6,345,784</u></u>

The financial statements were approved by the Board of Directors on 25/9/18 and were signed on its behalf by:

  
 .....  
 C J Marden - Director

  
 .....  
 A D J Mowatt - Director

The notes form part of these financial statements


**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

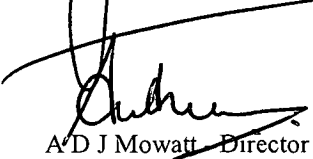
**COMPANY BALANCE SHEET**

**31 DECEMBER 2017**

	Notes	2017		2016	
		£	£	£	£
<b>FIXED ASSETS</b>					
Intangible assets	12		-		-
Tangible assets	13		-		-
Investments	14		17,384,591		35,384,591
			<u>17,384,591</u>		<u>35,384,591</u>
<b>CURRENT ASSETS</b>					
Debtors	15	299		299	
<b>CREDITORS</b>					
Amounts falling due within one year	18	<u>20,798,289</u>		<u>21,727,619</u>	
<b>NET CURRENT LIABILITIES</b>			<u>(20,797,990)</u>		<u>(21,727,320)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>(3,413,399)</u>		<u>13,657,271</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	23		225,000		225,000
Retained earnings	24		<u>(3,638,399)</u>		<u>13,432,271</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>(3,413,399)</u>		<u>13,657,271</u>
Company's loss for the financial year			<u>(17,070,670)</u>		<u>(131,561)</u>

The financial statements were approved by the Board of Directors on 25 September 2018 and were signed on its behalf by:

  
C J Marden - Director

  
A D J Mowatt - Director

The notes form part of these financial statements

**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £	Retained earnings £	Total £	Non-controlling interests £	Total equity £
<b>Balance at 1 January 2016</b>	225,000	9,263,192	9,488,192	4	9,488,196
<b>Changes in equity</b>					
Total comprehensive income	-	(3,142,412)	(3,142,412)	-	(3,142,412)
<b>Balance at 31 December 2016</b>	225,000	6,120,780	6,345,780	4	6,345,784
<b>Changes in equity</b>					
Total comprehensive income	-	(597,048)	(597,048)	-	(597,048)
<b>Balance at 31 December 2017</b>	225,000	5,523,732	5,748,732	4	5,748,736

The notes form part of these financial statements

**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2016	225,000	13,563,832	13,788,832
Changes in equity			
Total comprehensive income	-	(131,561)	(131,561)
Balance at 31 December 2016	225,000	13,432,271	13,657,271
Changes in equity			
Total comprehensive income	-	(17,070,670)	(17,070,670)
Balance at 31 December 2017	225,000	(3,638,399)	(3,413,399)

The notes form part of these financial statements

**KEYSTONE HOLDCO LIMITED (REGISTERED NUMBER: 07672718)**

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £	2016 £
<b>Cash flows from operating activities</b>			
Cash generated from operations	1	1,569,132	1,716,634
Interest paid		(127,181)	(624)
Tax paid		(574,674)	(1,241,683)
Taxation refund		-	519,991
Net cash from operating activities		<u>867,277</u>	<u>994,318</u>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		(3,273)	(21,294)
Purchase of investments		(4,346,097)	(515,183)
Disposal of investments		2,064,340	681,869
Interest received		197,398	192,227
Net cash from investing activities		<u>(2,087,632)</u>	<u>337,619</u>
<b>Cash flows from financing activities</b>			
Loan repayments in year		(826,731)	-
Net cash from financing activities		<u>(826,731)</u>	<u>-</u>
(Decrease)/increase in cash and cash equivalents		<u>(2,047,086)</u>	<u>1,331,937</u>
Cash and cash equivalents at beginning of year	2	4,212,842	2,880,905
Cash and cash equivalents at end of year	2	<u><u>2,165,756</u></u>	<u><u>4,212,842</u></u>

The notes form part of these financial statements

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	2017	2016
	£	£
Loss before taxation	(1,178,076)	(3,414,549)
Depreciation charges	1,391,422	1,397,528
Loss on disposal of fixed assets	9,847	29,407
Impairment of loans	480,120	410,000
Investment return	(195,993)	(272,966)
Finance costs	73,833	127,792
Finance income	(116,512)	(384,962)
	464,641	(2,107,750)
Decrease in trade and other debtors	3,431,537	8,516,089
Decrease in trade and other creditors	(2,327,046)	(4,691,705)
<b>Cash generated from operations</b>	<b>1,569,132</b>	<b>1,716,634</b>

**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 2017**

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

**Year ended 31 December 2016**

	31.12.16	1.1.16
	£	£
Cash and cash equivalents	4,212,860	2,880,967
Bank overdrafts	(18)	(62)
	<u>4,212,842</u>	<u>2,880,905</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**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 account of the investment return on investments supporting the insurance technical provisions.

**2.3 Intangible fixed assets**

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

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

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

**2.4 Tangible fixed assets**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2. ACCOUNTING POLICIES - continued**

**2.4.1 Taxation**

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

Current or deferred taxation assets and liabilities are not discounted.

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

**2.5 Current and deferred income tax**

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

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

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

**2.6 Foreign currency translation**

**(a) Functional and presentation currency**

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

**(b) Transaction and balances**

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

**2.7 Pension costs and other post-retirement benefits**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2. ACCOUNTING POLICIES - continued**

**2.8 Financial assets**

**2.8.1 Classification**

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

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

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

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

**(b) Loans and receivables**

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

**2.8.2 Recognition and measurement**

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2. ACCOUNTING POLICIES - continued**

**2.9 Cash and cash equivalents**

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

**2.10 Financial liabilities**

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

**2.11 Offsetting financial instruments**

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

**2.12 Insurance contracts**

**2.12.1 Classification**

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

**2.12.2 Recognition and measurement**

The group distinguishes between policy types designed before 1 April 2013 ('Pre-LASPO') and policy types designed to conform with the changes in the legal environment brought about as from 1 April 2013 ('Post-LASPO')

**(a) Premiums**

Premiums written relate to business inception during the year, together with any differences between the booked premiums for prior years and those previously accrued, and include estimates of premiums due not yet receivable.

As from 2016, due to the collation of another year's empirical data pertaining to post-LASPO type policies, based on the recommendation of the company's actuaries, the group has begun estimating premium pertaining to all policies (pre and post LASPO) using the same methodology - i.e. using the average premium per policy method applied at a development period level. In order to be in a position to determine appropriate development factors, the group grouped different policies with similar characteristics together. Furthermore, a 10% haircut was applied to the actuarial best estimate of ultimate premium receivable to cater for the increased uncertainty relating to the post-LASPO policies.

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

**(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. The liability in relation to pre-LASPO policies is established using statistical projections of the amounts that the group expects the ultimate settlement will cost using the average cost per claim method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2. ACCOUNTING POLICIES - continued**

Up until 2015, the outstanding claims reserve in relation to all post-LASPO policies was determined using the average cost per claim method applied at an aggregate level by policy type, for all policy years. Furthermore, in 2015 an additional claims provision was included for policy year 2015 in order to increase the reserves of these policies and bring the loss ratio consistent with those for policy years 2013 and 2014. The method was applied to determine the ultimate loss over all policy years due to comparatively limited claims experience in each development period.

During 2016, as a result of the development of further empirical data, the method adopted to determine the outstanding claims reserve was aligned with that used for the pre LASPO policies. In order to be in a position to determine appropriate development factors, the group has grouped different policies with similar characteristics together. Furthermore, a further 10% risk margin over and above the actuarial best estimate of claims outstanding was also applied to cater for the increased uncertainty relating to the post- LASPO policies.

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

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

**(c) Commission and other acquisition costs**

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

**(d) Debtors and creditors related to insurance contracts**

Debtors and creditors are recognised when due. These include amounts due from and to insurance policyholders.

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

**(e) Reinsurance contracts held**

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

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

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017****2. ACCOUNTING POLICIES - continued****2.13 Debentures**

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

**2.14 Basis of consolidation**

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

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

**3. EMPLOYEES AND DIRECTORS**

	2017	2016
	£	£
Wages and salaries	839,301	979,368
Social security costs	65,381	99,939
Other pension costs	45,154	96,992
	<u>949,836</u>	<u>1,176,299</u>

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

	2017	2016
Directors	4	5
Administrative	21	29
	<u>25</u>	<u>34</u>

The average number of employees by undertakings that were proportionately consolidated during the year was 25 (2016 - 34).

	2017	2016
	£	£
Directors' remuneration	214,324	280,174
Directors' pension contributions to money purchase schemes	<u>38,864</u>	<u>90,000</u>

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

	2017	2016
Money purchase schemes	<u>1</u>	<u>1</u>

Information regarding the highest paid director is as follows:

	2017	2016
	£	£
Emoluments etc	<u>113,429</u>	<u>105,000</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**4. OPERATING LOSS**

The operating loss is stated after charging:

	2017	2016
	£	£
Depreciation - owned assets	7,182	13,289
Loss on disposal of fixed assets	9,847	29,407
Goodwill amortisation	1,355,975	1,355,975
Computer software amortisation	28,265	28,265
	<u>28,265</u>	<u>28,265</u>

**5. AUDITORS' REMUNERATION**

	2017	2016
	£	£
Fees payable to the company's auditors and their associates for the audit of the company's financial statements	40,253	39,379
Auditors' remuneration for non audit work	4,989	5,229
	<u>4,989</u>	<u>5,229</u>

**6. EXCEPTIONAL ITEMS**

	2017	2016
	£	£
Impairment of loans	(480,120)	(410,000)
	<u>(480,120)</u>	<u>(410,000)</u>

**7. INTEREST PAYABLE AND SIMILAR EXPENSES**

	2017	2016
	£	£
Bank interest	13	-
Loan interest payable	-	624
Interest payable	73,820	127,168
	<u>73,833</u>	<u>127,792</u>

**8. TAXATION**

**Analysis of the tax credit**

The tax credit on the loss for the year was as follows:

	2017	2016
	£	£
Current tax:		
Maltese corporation tax	412,690	(233,368)
Prior year adjustment	(993,149)	(35,440)
Total current tax	(580,459)	(268,808)
Deferred tax	(569)	(3,329)
Tax on loss	<u>(581,028)</u>	<u>(272,137)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**8. TAXATION - continued**

**Reconciliation of total tax credit included in profit and loss**

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

	2017 £	2016 £
Loss before tax	<u>(1,178,076)</u>	<u>(3,414,549)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2016 - 20%)	(223,834)	(682,910)
Effects of:		
Expenses not deductible for tax purposes	91,616	84,267
Capital allowances in excess of depreciation	(698)	-
Depreciation in excess of capital allowances	-	272,678
Prior year adjustment	(993,149)	(35,440)
Effect of Maltese tax rate of 35% companies marginal relief on	412,690	(233,368)
Unutilised tax losses carried forward	132,916	325,965
Deferred tax	<u>(569)</u>	<u>(3,329)</u>
Total tax credit	<u>(581,028)</u>	<u>(272,137)</u>

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**10. MANAGEMENT OF INSURANCE AND FINANCIAL RISK**

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

**10.1 Business risk - significant risks and uncertainties**

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

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

Potential covers in niche areas and that the prospects for European markets continue to be explored. The directors are satisfied that the group has sufficient financial resources for it to operate as a going concern.

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

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

**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 during the year were primarily limited to 'After the Event' (ATE) cover provided under the Legal Expenses class of insurance business. The key feature of ATE insurance is that cover is provided to a policyholder covering the outcome of legal action, in relation to an event (accident, etc.) which has however already taken place. The policy terms and conditions dictate when premiums become due (e.g. on successful conclusion of legal action) and when claims become due (e.g. upon unsuccessful conclusion of legal action). All risks were situated in the UK. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims are significantly different to the amounts included within technical provisions. This could occur because the frequency and severity of claims are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims may vary from year to year from the estimate established by the group. Given the nature of the group's insurance business, and as further described below, estimation uncertainty also attaches to the group's premium receivable.

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 policies (fronted business). Otherwise, it is not the strategy of the group to manage its risks through reinsurance.

**(a) Sources of uncertainty in the estimation of premium receivable and debtors**

Premium recognition involves a significant degree of estimation as disclosed in note 14 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 can take several years to develop and are therefore subject to a greater degree of uncertainty. Premium for all policy types is only payable on successful conclusion of the underlying legal action. Further detail on key assumptions and sensitivity in relation to premium debtors is provided in note 14 to the financial statements.

**Pre-LASPO policies**

Premium and the corresponding amount due on pre-LASPO policies is estimated on the basis of statistical analysis of historical experience. The group has engaged an independent actuary in order to construct triangles based on historical trends since incorporation in 2006 for premium. The assessment of these trends enables the group to establish patterns of development for its business in terms of premiums that are expected to be generated on those policies where the premium receivable varies depending on the stage and outcome of the legal action. Through the triangles, the group estimated the premium that is expected to be received at any given time on policies that are expected to close favourably in future years. The estimates also consider the tail of each underwriting year which is assessed at each period end on the basis of an anticipated closure of any given underwriting year. In establishing these trends and averages the group has also disaggregated its business by type of policy that is being underwritten. Note 14 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. The group has engaged the services of an actuary to advise on the determination of estimated ultimate premium receivable for all pre-LASPO products.

The calculation of estimated premium receivable as at December 2017 and 2016 reflects adjustments to cater for the emerging experience of a subset of pre-LASPO type policies which were not impacted by LASPO and were therefore still offered by the company. As a result of the prospective adjustments to cater for the change in estimates, estimated ultimate premium receivable and claims outstanding (see 2.2 (b)) were adjusted downwards. This has contributed to the negative technical result during the financial year 2016 and positive effect on 2017. The impact of this adjustment, net of claims, but before related adjustments and tax amounted to an improvement of £678,542 (2016: deterioration of £2.6m). The impact of this adjustment, net of claims, and after the related adjustments but before tax effect, amounted to an improvement of £650,577 (2016: £2.6m).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

Post-LASPO policies

As the development period in relation to post-LASPO policies is expected to be shorter than that relating to pre-LASPO policies, the directors feel that the data available provides a reasonable basis to project the future. During 2016, as further described in Note 2.12, in line with advice from the group's actuary, the methodology for projecting ultimate premium receivable was aligned to that used for pre-LASPO business, 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. This methodology continued to be applied during 2017. Further uncertainty arises on these 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.

As from 2015, the group has engaged the services of an actuary to advise on the determination of estimated ultimate premium receivable for all post-LASPO products. Where appropriate, the actuary has applied his subjective judgement to determine the final outstanding premium receivable. The outstanding premium receivable is determined to be equal to the ultimate premium receivable (net of a management margin/haircut) less premium received on open policies.

(b) Frequency and severity of claims

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

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

The group is liable for all insured events that occurred during the term of the contract. The estimation of claims payable for this particular class of business ('ATE') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the group, where information about the claim event is generally already available. The nature of the business of the group is such that claims can take several years to develop and are therefore subject to a greater degree of uncertainty.

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

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

Pre-LASPO policies

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

In relation to pre-LASPO policies the group uses a combination of estimation techniques, based mainly on statistical analysis of historical experience provided by the group's underwriting agent. The group has engaged an independent actuary in order to construct triangles based on historical trends since incorporation in 2006 for claims payments. 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 17 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.

The calculation of estimated claims outstanding as at 2016, reflects an adjustment to cater for the emerging experience of a subset of pre-LASPO type policies which were not impacted by LASPO and were therefore still offered by the group. As a result of the prospective adjustment to cater for the change in estimates, estimated ultimate premium receivable and claims outstanding (see 10.2a) were adjusted downwards. This has contributed to the negative technical result during the financial year 2016. Adjustments made during 2017 were not as significant as those made in 2016. The impact of these adjustments is disclosed in Note 10.2a.

**Post-LASPO policies**

As the development period in relation to post-LASPO policies is expected to be shorter than that relating to pre-LASPO policies, the directors feel that the data available provides a reasonable basis to project the future. During 2016 and 2017, as further described in Note 2.12, in line with advice from the group's actuary, the methodology for projecting claims outstanding was aligned to that used for pre-LASPO business, i.e. using the 'average cost per claim method' (based on a number of policies closed with payment and paid claims) applied at a development period level. Further uncertainty arises on these 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.

As from 2015, the group engaged the services of an actuary to advise on the determination of outstanding claims reserves for all post-LASPO products. Where appropriate, the actuary has applied his subjective judgement to determine the final outstanding claims reserves, which have been adjusted upwards by management to include a management margin.

**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.

Notes 15 and 16 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.

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Liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest bearing.

(ii) Currency risk

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

(iii) Other price risk

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

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

	2017 £	2016 £
<b>At 31 December</b>		
Assets subject to equity price risk consisting of		
- equity securities	315,285	188,775

(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 14);
- Investments and cash and cash equivalents (notes 15 and 16); and
- Reinsurer's share of technical provisions (note 17)

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

As at the end of the year approximately 2% (2016 - 2%) of premium debtors receivable fell due for payment. The directors do not consider credit risk on the premium receivable to be significant since structures are in place to ensure that the premium is payable to the group prior to the release of compensation money to the policyholder. The group's exposure to intermediaries is not considered to be significant as this is due from the immediate parent company.

The group is also exposed to credit risk in respect of its cash and cash equivalents and investments. The group's cash and cash equivalents and investments are placed with quality financial institutions and consequently credit risk in respect of investments is not considered to be significant by the directors.

The group's reinsurer is unrated however management obtain financial statements periodically in order to assess the reinsurer's financial health. There are no indicators that the reinsurer will be unable to honour its obligations to the group.

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

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**31 December 2017**

S&P/Fitch Ratings	Credit Rating					
	AAA £'000	AA- £'000	A+ £'000	A £'000	A- £'000	
Financial assets at fair value through profit and loss	267	205	325	528	224	
Loans and receivables						
- Investments	-	-	-	-	-	
- Cash and cash equivalents	-	-	-	-	-	
- Debtors	-	-	-	-	-	
- Prepayments and accrued income	-	-	-	-	-	
- Reinsurer's share of technical provision	-	-	-	-	-	
Total loans and receivables						
S&P/Fitch Ratings	BBB £'000	BBB+ £'000	BBB- £'000	BB+ £'000	Not rated £'000	Carrying value in the balance sheet £'000
Financial assets at fair value through profit and loss	202	422	301	309	2,208	4,991
Loans and receivables						
- Investments	-	-	-	-	2,100	2,100
- Cash and cash equivalents	-	-	-	-	1,547	1,547
- Debtors	-	-	-	-	7,314	7,314
- Prepayments and accrued income	-	-	-	-	83	83
- Reinsurer's share of technical provision	-	-	-	-	17	17
Total loans and receivables						11,061
						16,052



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**31 December 2016**

S&P/Fitch Ratings	Credit Rating				
	AAA £'000	AA- £'000	A+ £'000	A £'000	A- £'000
Financial assets at fair value through profit and loss	-	427	213	638	163
Loans and receivables					
- Cash and cash equivalents	-	-	-	-	-
- Debtors	-	-	-	-	-
- Prepayments and accrued income	-	4	1	1	2
- Reinsurers share of technical provision	-	-	-	-	-
Total loans and receivables					

S&P/Fitch Ratings	BBB £'000	BBB+ £'000	BBB- £'000	BB+ £'000	Not Rated £'000	Carrying value in the balance sheet £'000
Financial assets at fair value through profit and loss	-	707	487	216	2,084	<u>4,935</u>
Loans and receivables						
- Cash and cash equivalents	-	-	-	-	2,869	<u>2,869</u>
- Debtors	-	-	-	-	11,608	<u>11,608</u>
- Prepayments and accrued income- Reinsurer's share of technical provision	--	5-	8-	3-	20105	<u>44105</u>
Total loans and receivables						<u>14,626</u>
						<u>19,561</u>

At 31 December 2017 and 2016, 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 5 banking institutions (2016: 6). 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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The following table indicates the expected timing of the net cash outflows arising from the group's liabilities:

31 December 2017	Expected cash flows (undiscounted)				Carrying amount £
	0 - 1 year £	1 - 2 years £	3 - 5 years £	> 5 years £	
Claims outstanding	213,974	234,331	719,436	1,171,162	<b>2,338,903</b>
Other creditors	37,759	-	-	-	<b>37,759</b>

31 December 2016	Expected cash flows (undiscounted)				Carrying amount £
	0 - 1 year £	1 - 2 years £	3 - 5 years £	> 5 years £	
Claims outstanding	352,102	390,068	1,286,905	1,500,328	<b>3,529,403</b>
Other creditors	58,830	-	-	-	<b>58,830</b>

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.

**10.4 Fair values of financial instruments**

At 31 December 2017 and 2016 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:

	2017 Level 1 £	2016 Level 1 £
<b>At 31 December</b>		
Financial assets at fair value through profit or loss		
- Debt securities & equities (Note 15)	<b>5,305,904</b>	5,124,144

**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');

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

- 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.

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 2016 and 2017, the group's eligible own funds adequately covered the required SCR and amounted to £10.9m and £11.8 (unaudited) respectively.

**11. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

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

Notes 2.12, 10.2, 14 and 17 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 inherently assumes that current open policies will settle, on average, for amounts consistent with closed policies. There is a risk that premiums and claims on open policies do not emerge at the same rate as on closed policies, and hence future premiums and claims are over or under estimated. However, given the information available for both pre and post-LASPO policies, the actuary believes that the projected outstanding premiums receivable and claims outstanding are appropriate at this time. The directors have also booked a management haircut/margin on post-LASPO premium receivable and claims outstanding to cater for the increased uncertainty on this business.

Further detail in relation to premium and claims estimates, including their sensitivity analysis is provided in notes 14 and 17 to the financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**12. INTANGIBLE FIXED ASSETS**

**Group**

	Goodwill £	Computer software £	Totals £
<b>COST</b>			
At 1 January 2017 and 31 December 2017	15,452,101	141,324	15,593,425
<b>AMORTISATION</b>			
At 1 January 2017	5,960,278	101,282	6,061,560
Amortisation for year	1,355,975	28,265	1,384,240
At 31 December 2017	7,316,253	129,547	7,445,800
<b>NET BOOK VALUE</b>			
At 31 December 2017	8,135,848	11,777	8,147,625
At 31 December 2016	9,491,823	40,042	9,531,865

**13. TANGIBLE FIXED ASSETS**

**Group**

	Fixtures and fittings £	Computer equipment £	Totals £
<b>COST</b>			
At 1 January 2017	60,859	15,888	76,747
Additions	3,129	144	3,273
Disposals	(17,321)	-	(17,321)
At 31 December 2017	46,667	16,032	62,699
<b>DEPRECIATION</b>			
At 1 January 2017	26,727	9,661	36,388
Charge for year	5,589	1,593	7,182
Eliminated on disposal	(7,474)	-	(7,474)
At 31 December 2017	24,842	11,254	36,096
<b>NET BOOK VALUE</b>			
At 31 December 2017	21,825	4,778	26,603
At 31 December 2016	34,132	6,227	40,359

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2017****14. FIXED ASSET INVESTMENTS****Company**

	Shares in group undertakings £
<b>COST</b>	
At 1 January 2017	35,384,591
Impairments	(18,000,000)
At 31 December 2017	17,384,591
<b>NET BOOK VALUE</b>	
At 31 December 2017	17,384,591
At 31 December 2016	35,384,591

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

**Subsidiaries****Keystone (Legal Benefits) Limited****Registered Office: UK**

Nature of business: Insurance claims assessors and legal expenses insurance brokers

Shareholding: 100%

	2017 £	2016 £
Aggregate capital and reserves	14,708,106	13,874,723
Profit for the year	1,841,207	409,124

**Connect ( Medico - Legal ) Limited****Registered Office: UK**

Nature of business: Medical legal reporting

Shareholding: 100%

	2017 £	2016 £
Aggregate capital and reserves	457,211	627,055
Profit/(loss) for the year	(169,844)	(271,698)

**Claimant Support Limited****Registered Office: UK**

Nature of business: Provision of loans

Shareholding: 100%

	2017 £	2016 £
Aggregate capital and reserves	(1,535)	(1,062)
Profit/(loss) for the year	(473)	(763)

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

Nature of business: Insurance

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
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Shareholding: 100%

	2017	2016
	£	£
Aggregate capital and reserves	11,246,210	12,080,566
Profit/(loss) for the year	842,570	(433,399)

**15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade debtors	7,144,283	10,013,119	-	-
Reinsurers' share of technical provisions	17,450	105,401	-	-
Amounts owed by group undertakings	-	-	299	299
Other debtors	831,357	1,325,824	-	-
Tax	1,972	259,343	-	-
Prepayments and accrued income	112,287	93,961	-	-
	<u>8,107,349</u>	<u>11,797,648</u>	<u>299</u>	<u>299</u>

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

**14.1 Debtors pre LASPO**

At 31 December amounts due from policyholders include estimated premium income receivable on these policies amounting to £2,927,634 (2016 - £5,757,528). During 2017, these premium estimates developed unfavourably resulting in an overall negative variance of £28,027 (2016: unfavourable variance of £3,003,418), after also considering the impact of related costs.

**14.2 Sensitivity of estimated debtors pre-LASPO policies**

Based on the actuary's triangles, if the average premium were to differ by 10% from the current estimate and the estimated policies that close with premium were to vary by 10%, the amount due from policyholders would increase by £298,141 (2016: increase of £600,092) or decrease by £322,895 (2016: decrease of £570,796). This sensitivity analysis is based on a change in assumption for estimated premium written while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

**14.3 Debtors on post-LASPO policies**

At 31 December 2017, premium receivable on post-LASPO policies amounted to £3,452,965 (2016: £3,071,802). As explained in notes 2.12 and 10.2 the methodology was refined in 2016 and a haircut of 10% was deducted to cater for the uncertainty as a result of the relatively limited data available. During 2017, these premium estimates developed favourably in respect of underwriting years 2013 to 2016 resulting in a positive variance of £1,538,871 (2016: positive variance of £1,154,408), after also considering the impact of related costs.

**14.4 Sensitivity of estimated debtors on post-LASPO policies**

Based on the actuary's review of reserves, if the average premium were to differ by 10% from the current estimate and the estimated policies that close with premium were to vary by 10%, the amount due from policyholders would increase by £402,509 (2016: £362,074) or decrease by £402,504 (2016: £344,407). 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**16. CURRENT ASSET INVESTMENTS**

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

	2017 £	2016 £
<b>At 31 December</b>		
Financial assets at fair value through profit or loss	5,305,901	5,124,144
Loans and receivables	2,100,000	-
	<u>7,405,901</u>	<u>5,124,144</u>

Analysed by type of investment as follows:

	2017 £	2016 £
<b>At 31 December</b>		
Financial assets at fair value through profit or loss		
- listed, fixed interest rate debt securities(Level 1)	4,990,619	4,935,369
- equities (Level 1)	315,282	188,775
Loans and receivables - term deposits	2,100,000	
	<u>7,405,901</u>	<u>5,124,144</u>

Financial assets at fair value through profit or loss

The maturity of fixed income debt securities is detailed below:

	2017 £	2016 £
Between 1 and 2 years	3,157,135	1,015,566
Between 2 and 5 years	2,638,667	2,137,546
Over 5 years	1,294,817	1,782,257
	<u>7,090,619</u>	<u>4,935,369</u>

**17. CASH AT BANK AND IN HAND**

	2017 £	2016 £
Cash at bank	<u>2,165,784</u>	<u>4,212,860</u>
	2017 £	2016 £
At floating rates	935,495	3,330,712
At fixed rates	741,624	837,415
Non-interest bearing	488,665	44,733
	<u>2,165,784</u>	<u>4,212,860</u>

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**

	<b>Group</b>		<b>Company</b>	
	2017	2016	2017	2016
	£	£	£	£
Loan notes (see note 19)	13,504,296	14,960,949	13,504,296	14,960,949
Bank loans and overdrafts (see note 19)	28	18	-	-
Trade creditors	2,434,616	3,363,031	-	-
Technical provisions	2,338,903	3,529,403	-	-
Amounts owed to group undertakings	-	-	6,334,785	5,881,282
Tax	202,936	1,039,454	-	-
Social security and other taxes	13,576	45,092	-	-
VAT	49,301	39,134	-	-
Other creditors	142,111	157,756	4,200	4,200
Accruals and deferred income	1,416,882	1,223,808	955,008	881,188
	<u>20,102,649</u>	<u>24,358,645</u>	<u>20,798,289</u>	<u>21,727,619</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued**

**Technical provisions**

		2017	
	Gross	Reinsurer's share	Net
	£	£	£
<b>Gross and net</b>			
- claims outstanding	2,338,903	(17,450)	2,321,453
	<u>2,338,903</u>	<u>(17,450)</u>	<u>2,321,453</u>
		2016	
	Gross	Reinsurer's share	Net
	£	£	£
- claims outstanding	3,529,403	(105,401)	3,424,002
	<u>3,529,403</u>	<u>(105,401)</u>	<u>3,424,002</u>

Technical provisions are considered to be current in nature (see note 10.3(c)). The occurrence of an insured event under 'ATE' Legal Expenses insurance is only known on conclusion of the policy, and is therefore subject to a greater degree of uncertainty.

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

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.

**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 £626,844 (2016: £2,116,407). 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 £62,684 (2016: £218,740) or decrease by £68,405 (2016: £215,253) respectively before considering the impact of related costs. The sensitivity analysis is based on a change in assumption for estimated claims outstanding while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions in the financial statements may be correlated.

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

**Claims outstanding and sensitivity on post-LASPO policies**

The gross provision for claims outstanding on these policies excluding claims handling costs amounts to £1,600,683 (2016: £1,243,667). If the liability for claims outstanding had to increase or decrease by 10%, the liability for claims outstanding would amount to £160,068 (2016: £124,366) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued**  
**Movements in claims outstanding**

	Year ended 2017		
	Gross £	Reinsurer's share £	Net £
Total at beginning of year	3,529,403	(105,401)	3,424,002
Claims settled during the year	(1,669,321)	-	(1,669,321)
Increase/(decrease) in liabilities			
- arising from current year claims	630,956	(5,074)	625,882
- arising from prior year claims	(152,135)	93,025	(59,110)
At year end	2,338,903	(17,450)	2,321,453

	Year ended 2016		
	Gross £	Reinsurer's share £	Net £
Total at beginning of year	5,682,095	(40)	5,682,055
Claims settled during the year	(2,012,689)	-	(2,012,689)
Increase/(decrease) in liabilities			
- arising from current year claims	742,595	(26,083)	716,512
- arising from prior year claims	(882,598)	(79,278)	(961,876)
At year end	3,529,403	(105,401)	3,424,002

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

	2010 £	2011 £	2012 £	2013 £	2014 £
<b>Year ended 31 December</b>					
Estimate of the ultimate claims costs:					
At end of accident year	4,612,261	3,126,398	3,316,327	5,607,446	966,502
One year later	3,333,834	2,319,178	2,502,073	4,464,387	1,178,878
Two years later	3,115,578	2,222,615	2,502,075	3,085,572	790,969
Three years later	3,033,256	2,252,571	2,550,427	3,172,311	964,040
Four years later	2,035,500	2,084,398	2,439,928	2,975,064	
Five years later	2,833,591	1,964,216	2,246,816		
Six years later	2,840,785	1,735,331			
Seven years later	2,793,283				

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

Current estimate of cumulative claims	2,793,238	1,735,331	2,246,816	2,975,064	964,040
Cumulative payments to date	(2,782,115)	(1,702,380)	(2,076,502)	(2,557,803)	(747,938)
Liability recognised in balance sheet	11,123	32,951	170,314	417,261	216,102

	2015 £	2016 £	2017 £	Total £
<b>Year ended 31 December</b>				
Estimate of the ultimate claims costs:				
At end of accident year	1,150,805	789,631	630,956	
One year later	740,727	1,041,272		
Two years later	831,916			
Three years later				
Four years later				
Five years later				
Six years later				
Current estimate of cumulative claims	831,916	1,041,272	630,596	13,218,633
Cumulative payments to date	(536,698)	(404,634)	(74,579)	(10,882,649)
Liability recognised in balance sheet	295,218	636,638	556,377	2,335,984
Liability in respect of prior periods				2,919
Total liability recognised in the balance sheet 2017				2,338,903

**19. LOANS**

An analysis of the maturity of loans is given below:

	Group		Company	
	2017 £	2016 £	2017 £	2016 £
Amounts falling due within one year or on demand:				
Loan notes	13,504,296	14,960,949	13,504,296	14,960,949
Bank overdrafts	28	18	-	-
	13,504,324	14,960,967	13,504,296	14,960,949

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**20. LEASING AGREEMENTS**

Minimum lease payments fall due as follows:

**Group**

	Non-cancellable operating leases	
	2017	2016
	£	£
Within one year	129,486	129,486
Between one and five years	258,972	388,458
	<u>388,458</u>	<u>517,944</u>

**21. SECURED DEBTS**

The following secured debts are included within creditors:

	<b>Group</b>	
	2017	2016
	£	£
Bank overdrafts	28	18
Debentures	13,504,296	14,960,949
	<u>13,504,324</u>	<u>14,960,967</u>

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

**22. PROVISIONS FOR LIABILITIES**

	<b>Group</b>	
	2017	2016
	£	£
Deferred tax	<u>1,878</u>	<u>2,447</u>
<b>Group</b>		
		Deferred tax
		£
Balance at 1 January 2017		2,447
Accelerated capital allowances		(569)
		<u>1,878</u>
Balance at 31 December 2017		

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2017****23. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:		Nominal value:	2017	2016
Number:	Class:		£	£
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
			<u>225,000</u>	<u>225,000</u>

**24. RESERVES****Group**

	Retained earnings £
At 1 January 2017	6,120,780
Deficit for the year	(597,048)
At 31 December 2017	<u>5,523,732</u>

**Company**

	Retained earnings £
At 1 January 2017	13,432,271
Deficit for the year	(17,070,670)
At 31 December 2017	<u>(3,638,399)</u>

**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 £17,075 (2016 - £nil) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2017	2016
	£	£
Amount due from related party at the balance sheet date	<u>700,000</u>	<u>700,000</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**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 £128,400 (2016 - £nil) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2017	2016
	£	£
Amount due from related party at the balance sheet date	-	235,665

**Mowatt Properties Limited**

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

Rent to the value of £120,711 (2016 - £122,035) was payable in the year. These charges were at arms length in the ordinary course of business.

**Law Media Limited**

A company in which Mr A D J Mowatt is a director

Commissions and fees payable to Law Media Limited of £2,052 (2016 - £66,261) is included in cost of sales. These charges were at arms length in the ordinary course of business.

**TAC Holdco Limited**

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

Commissions and fees payable to TAC Holdco Limited of £61,530 (2016 - £nil) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2017	2016
	£	£
Amount due from related party at the balance sheet date	-	7,144

**The Accident Claimline Marketing Limited**

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

	2017	2016
	£	£
Amount due from related party at the balance sheet date	-	36,869

**Asyst Call Centre Limited**

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

Commission and fees payable to Asyst Call Centre Limited of £nil (2016 - £327,825) are included in cost of sales. These charges were at arms length in the ordinary course of business.

	2017	2016
	£	£
Amount due from related party at the balance sheet date	-	406

During the year, a total of key management personnel compensation of £221,929 (2016 - £355,112) was paid.

**26. ULTIMATE CONTROLLING PARTY**

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