

BASTION INSURANCE COMPANY LIMITED

Annual Report and Financial Statements
31 December 2020

	Pages
Directors' report	1 - 5
Independent auditor's report	6 - 14
Statement of financial position	15
Income statement	16 - 17
Statement of comprehensive income	17
Statement of changes in equity	18
Statement of cash flows	29
Notes to the financial statements	20 - 61

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2020.

Principal activities

The Company's main activity in previous years was to underwrite 'After the Event (ATE)' legal expenses insurance. As from 2018, the Company sought to expand its business and obtained authorisation to write business under classes 9, 16 and 18 – Other Property Damage, Miscellaneous Financial Loss and Assistance. During 2019, the Company was also authorised to write business under classes 8 and 13 – Property Damage and General Liability, including passporting rights into a number of EU markets.

Effective from 1 January 2020, the Company started writing GAP, motor warranty, excess protection and rent guarantee business in various EU markets as a result of nine new agency agreements the Company entered into, subject to a 90% quota share reinsurance. In addition another sub-agency was also introduced through the year providing cover for key insurance under Miscellaneous Financial Loss in UK, for which the Company is assuming 100% of the risk.

On 9 September 2020, an application was submitted to the Malta Financial Services Authority ("MFSA") requesting authorisation for two new agencies. One will insure Home Insurance policies in Norway falling under classes 8 – Property Damage, 9 – Other Damage to Property and 13 – General Liability, and which will be subject to a 90% quota reinsurance. The other agency will insure Pet Insurance policies in UK, falling under Classes 8 – Property Damage, 9 – Other Damage to Property, 13 – General Liability, 16 – Miscellaneous Financial Loss, and 17 – Legal Expenses, and which will be subject to a 92.5% quota share reinsurance. No objection was provided by the MFSA on these two new arrangements.

Review of the business

During the year ended 31 December 2020, Bastion Insurance Company Limited recorded net earned premium income of £7,588,284 (2019: £6,162,650). The total profit after tax for the year amounted to £716,748 (2019: £164,176).

Legislative changes brought into effect on 1 April 2013, mainly due to the enactment of LASPO have altered the legal expenses market in England, Wales and Scotland. Following the introduction of the LASPO Act in April 2013, the legal expenses market is evolving. Due to the sudden shift in various legal processes, and with the introduction of new instruments, the ATE insurance industry is in the process of evolving in line with the expectations and demands of the new market.

During 2020, the Company continued to explore prospects in European markets and in fact it further consolidated the carrying on business of insurance in relation to Class 16 through GAP and motor warranties, excess protection and rent guarantee, in various EU markets. The Company continued to provide direct cover in niche insurance products. Furthermore, the Company continued to consolidate its warranty business on home appliances, kitchen appliances, TV and Satellite and GAP, as well as breakdown, gadget, home emergency and assistance cover through its existing agency agreement and its four sub-agents, all of which in the United Kingdom.

The Company has in place appropriate procedures to monitor the business written and ensures that key functions are properly controlled and monitored.

The Company continues to target business which is generally expected to be of moderate to low risk and purchases reinsurance where appropriate, subject to Board approval prior to launch.

The directors continue to have a positive outlook on the future performance of the Company. At the same time, they draw attention to significant uncertainties associated with the business environment as further described below.

Directors' report - continued

Financial key performance indicators

The directors consider the key financial performance indicators of the Company to be the levels of net business written (i.e. net premium), claims experience and levels of cash generated from operations.

Total net premium income amounted to £11,532,267 (2019: £7,668,030), of which £2,513,457 (2019: £1,404,296) relates to additional premium from agency and sub-agency agreements entered into during current reporting period and £9,018,810 (2019: £6,263,734) relates to premium from agents and sub-agency agreements entered into during 2019 and in prior years. Furthermore, the above is inclusive of an upward revision of premium reserves amounting to £972,286 (after management buffer and related costs) for prior years in respect of legal expenses (2019: downward revision of £160,391). Notes 1.11, 2.2 and 5 to the financial statements contain further information in this respect.

The directors also monitor the levels of cash generated from operations, which amounted to £4,723,235 (2019: £2,169,413).

The directors regularly monitor the Company's reserves and ensure their adequacy through monitoring of the loss ratios development.

The directors regularly consider the solvency position of the company, in terms of the level of own funds available to meet the solvency capital requirement (SCR) and minimum capital requirement (MCR).

Non-financial key performance indicators

In terms of non-financial key performance indicators, the directors monitor the number of policies written per annum and the business mix.

Significant risks and uncertainties

The successful management of risk is essential to enable the company to achieve its objectives. The ultimate responsibility for risk management rests with the company's directors, who evaluate the company's risk appetite and formulate policies for identifying and managing such risks. The principal risks and uncertainties facing the company are included below.

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. The period from 1 April 2013 to date has been characterised by low levels of legal expenses business in consequence.

Potential covers in niche areas and the prospects for European markets continue to be explored.

Business risks and uncertainties are further explained in Note 2.1 and Note 3. These notes describe the uncertainty over the amounts at which premium and claims amounts will materialise in the future.

Brexit

The directors are satisfied that the Company has sufficient financial resources and plans in place for it to operate as a going concern. Presently, it is the intention of the Company to retain its UK-based book of business and, in order to do so, recourse would be made to the establishment of a presence in the UK, which is considered to be a "third country" after the end of the transition period. It is understood that this will only be possible via the establishment of a (i) branch or (ii) subsidiary in the UK. In order to take advantage of the TPR, on the 14th January 2019, Bastion notified the Prudential Regulation Authority (PRA), in

Directors' report - continued

Significant risks and uncertainties - continued

Brexit - continued

accordance with the direction made by the PRA under regulation 14(2) of the EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018 (the "TPR Regulations"), that it wishes to be treated in accordance with regulation 8 of the TPR Regulations. The PRA confirmed receipt of the said notification.

Under separate cover, the PRA also issued confirmation of entry of Bastion to the TPR. In addition, it is the Company's intention to submit a full Part 4A application within the TPR period to establish a UK Branch office for Bastion so that Bastion can conduct insurance business in the UK at the end of the TPR. In this regard, the Company has engaged with the PRA in relation to the branch application and to establish the relevant requirements for Bastion in the TPR.

COVID-19

During 2020, the COVID-19 pandemic has had significant impact on business and markets all across the world. In light of the ongoing COVID-19 outbreak, the Company has been informed by its insurance manager that it has successfully triggered its business continuity plan which enables it to continue operations through remote means. The business continuity plan outlines response to an emergency situation and is aimed at ensuring ability to maintain essential operations.

The Company also obtained updates and confirmations from each of its agents regarding their contingency plans and the triggering of their respective business continuity plans to enable them to continue operations, either through remote means or otherwise and this was carried on in accordance with the directions/laws/guidelines issued by their respective governments in their response to the COVID-19 spread. The Company did not encounter disruptions in its distribution performance and the service continuity as a result of the COVID-19 outbreak.

The Company honoured all of its claims in line with the current policy wordings. As a result, there was no impact on current policyholders. No restrictions or exclusions were introduced on current or new policies vis-à-vis claims arising due to the COVID-19 pandemic. In the advent of the ongoing COVID-19 outbreak, the impact on the core business is expected to take the form of processing delays due to reduced legal work and court hearings, increasing the degree of uncertainty on the frequency and severity of eventual claims, as well as, in the estimation of related premiums. The directors believe that the risk margin buffer recognised in the financial statements duly covers such uncertainty.

During 2020, the investment portfolio valuation has recovered from the decrease during the first half of the year. To date, there had been no impact on the liquidity position of the Company and did not encounter any difficulties in recovering outstanding debts from any of its operating agencies.

A comparison was prepared, in respect of the business written by the Company in 2019 and 2020. For the sake of an equitable comparison this was limited to those agencies which have been in operation for the full reporting period in 2019. The Company experienced an increase of 56% in the net written premiums. This increase was made up of an increase of 56% in the core insurance business (Legal ATE business) and an increase of 55% in the other general insurance business. During the same period the Company also experienced a decrease of 14% in the net claim payments, which was as a result of a decrease of 18% in the core insurance business and an increase of 18% in the other general insurance business.

Taking into account the results of the assessment carried out, the Board of Directors is of the opinion that the Company is well equipped for any eventuality which may arise from the ongoing COVID-19 outbreak, with the Company maintaining enough capital to ensure that it is well equipped to maintain operations and continue operating for the foreseeable future. This is also in view of new agencies taken on board during the first part of the year, as well as new agencies commencing in 2021.

Directors' report - continued

Financial risk management

Note 2.3 to the financial statements provides details in connection with the Company's use of financial instruments, its financial risk management objectives and policies and the financial risks to which it is exposed.

Results and dividends

On 11th February 2020, the MFSA authorised a further capital injection amounting to £1,759,587 by way of a capital contribution. The capital contribution of £1,759,587 has meant an improvement in the SCR and MCR solvency buffers. In addition, dividends in 2020 amounting to £272,661 was settled by way of capital contribution.

The results for the year are set out in the income statement on pages 15 and 16. During 2020 the Company declared a dividend of £272,661 (2019: £677,382). The directors do not propose the payment of a dividend.

The directors propose that the balance in the profit and loss account be carried forward to next year.

Events after the reporting date

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

Directors

The directors of the Company who held office during the year were:

Mr. Anthony Donald John Mowatt
Mr. Christopher James Marden
Mr. Hugh Attard Montalto
Mr. Joseph Rizzo

The Company's Articles of Association do not require any directors to retire.

Statement of directors' responsibilities for the financial statements

The directors are required by the Insurance Business Act, 1998 and the Maltese Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of each financial period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act, 1998 and with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

The financial statements of the Company for the year ended 31 December 2020 are included in the Annual Report, which is published in hard-copy printed form and may be made available online. The directors are responsible for the maintenance and integrity of the Annual Report. Access to information published online is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

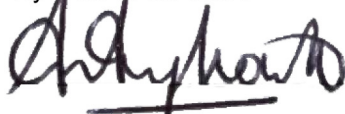
Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the annual general meeting.

Actuaries

The Company's approved actuary is Clair Le Poidevin FIA, BWCI Limited.

By order of the board



Anthony D J Mowatt
Director



Christopher J Marden
Director

Registered office
4th Floor
Development House
St. Anne Street
Floriana, Malta

22 April 2021



Independent auditor's report

To the Shareholders of Bastion Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of Bastion Insurance Company Limited (the Company) as at 31 December 2020, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Board of Directors.

What we have audited

Bastion Insurance Company Limited's financial statements, set out on pages 15 to 61, comprise:

- the statement of financial position as at 31 December 2020;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Independence

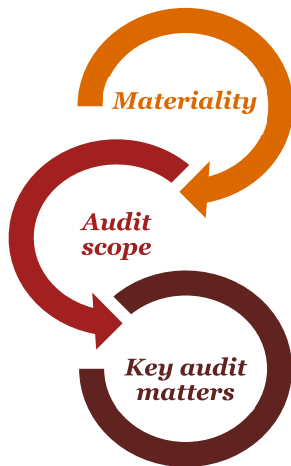
We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 12 to the financial statements.

Our audit approach

Overview



- Overall materiality: £116,400, which represents approximately 1% of net assets for the financial year ended 31 December 2020.

- Valuation and accuracy of projected ultimate premium receivable and claims outstanding.
-



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	£116,400
<i>How we determined it</i>	Approximately 1% of net assets for the year ended 31 December 2020
<i>Rationale for the materiality benchmark applied</i>	We chose net assets as reflected in the statement of financial position as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the insurance company, and considering that profit and gross written premium tends to fluctuate year on year. We chose 1% which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £11,640 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Valuation and accuracy of projected ultimate premium receivable and claims outstanding

The estimation of ultimate insurance premium receivables and ultimate claims liabilities required judgement *inter alia* in the selection of key assumptions and methodologies.

As disclosed in notes 1.11, 2.2, and 5 to the financial statements, premium recognition pertaining to the core insurance business (£5.48m) involves a significant degree of estimation. Premium in relation to the core insurance business and the corresponding amount due on the Company's open policies is estimated on the basis of statistical analysis of historical experience. The assessment of these historical trends enables the Company to establish patterns of development for its business in terms of premium that is expected to be generated on policies where the premium receivables varies depending on the stage and outcome of legal action.

Through the development triangles, the Company estimates the premium that is expected to be received at any given time on policies that are expected to close favourably in future years. The estimates also consider the tail of each underwriting year which is assessed at each period end on the basis of an anticipated closure of any given underwriting year.

In order to estimate claims outstanding (of the core insurance business), as disclosed in note 1.11, 2.2 and 9 to the financial statements (£3.58m), the Company uses estimation techniques based on the statistical analysis provided by the Company's underwriting agent.

The assessment of these trends enables the Company to establish patterns of development for its business in terms of claims. The Company uses the triangles and the patterns arising to establish key estimates of the

Our audit procedures addressing the valuation of the Company's premium receivable and claims outstanding included the following procedures involving our actuarial expert team:

- we tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source on a sample basis;
- we read the actuarial report on claims reserves and premium receivable and held discussions with the independent actuary and with management, in the process understanding whether the estimation methodology is consistent with the past;
- we applied our industry knowledge and experience in understanding and assessing the reasonableness of the methodology, models and assumptions used;
- we tested the mathematical accuracy of the Company's ultimate premium receivable and claims outstanding calculation for the core insurance business on a sample basis and compared the results to management's estimates;
- we recalculated the IBNR provision for the other general insurance business on a sample basis based on the target loss ratios approved by the directors;
- we considered the quality of historical ultimate premium and claims estimates for the core and other general insurance business respectively by reviewing variations arising from prior year



Independent auditor's report - continued
To the Shareholders of Bastion Insurance Company Limited

Key audit matter	How our audit addressed the Key audit matter
<p>average claim costs payable for policies that are expected to close with reference to the stage of development of the policies. 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.</p> <p>Furthermore, as disclosed in notes 1.11 and 9 to the financial statements, the Company arrives at the liability for the other general insurance business (£1.69m) through the use of a target loss ratio. Hence, in order to estimate the incurred but not reported (IBNR) reserve on the other general insurance business, the Company makes use of target loss ratios which are based on information provided by the intermediaries as well as emerging claims development of policies launched since 2018, which ratios are at all times subject to approval by the directors.</p> <p>The Company has engaged an independent actuary in order to <i>inter alia</i>: construct development triangles based on historical trends since incorporation; and advise on ultimate premium receivable and claims outstanding for the core insurance business. In establishing the trends and averages mentioned above, the Company has disaggregated data by type of policy that is being underwritten, grouping similar policies together for projection purposes. The fact that no one underwriting year is fully closed contributes to further uncertainty. Given the lack of empirical data, the Company's actuaries were not in a position to apply any statistical method to project the future claims development to challenge the ultimate loss ratios for the other general insurance business.</p> <p>Notes 5 and 9 contain further information on the development of premium and claims estimates during the period.</p> <p>We focused on this area due to its inherent subjectivity and complexity (refer to note 3 to the financial statements).</p>	<p>estimates, understanding the reasons for material variations; and</p> <ul style="list-style-type: none">• we considered the extent of related disclosures to the financial statements. <p><i>Based on the work performed, we found the recognised amounts to be consistent with the explanations and evidence obtained.</i></p> <p><i>The estimates remain sensitive to changes in selected assumptions particularly as a result of limited empirical data. There is a risk that premiums and claims on open policies do not emerge in line with experience so far, and hence that future premiums and claims are over or under estimated. This matter is considered to be of fundamental importance to the users' understanding of the financial statements due to the material uncertainty around the projected ultimate premium receivable and claims outstanding.</i></p>



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2020* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the Annual Report and Financial Statements 2020 and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report (on pages 1 to 5)</p> <p>The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p>	<p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).
	<p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Area of the Annual Report and Financial Statements 2020 and the related Directors' responsibilities	Our responsibilities	Our reporting
	<p>Other matters on which we are required to report by exception</p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:</p> <ul style="list-style-type: none">• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.• the financial statements are not in agreement with the accounting records and returns.• we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	<p>We have nothing to report to you in respect of these responsibilities.</p>

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Appointment

We were first appointed as auditors of the Company on 31 December 2005. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 16 years.

PricewaterhouseCoopers

78, Mill Street
Zone 5, Central Business District
Qormi
Malta

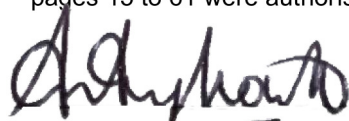
Lucienne Pace Ross
Partner
22 April 2021

Statement of financial position

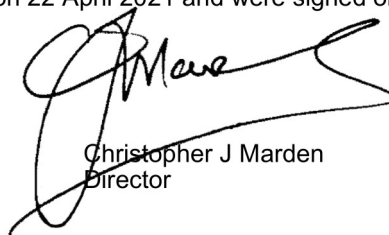
	Notes	As at 31 December	
		2020 £	2019 £
ASSETS			
Investments	4	6,323,910	5,739,409
Deferred acquisition costs	10	2,346,633	1,041,068
Reinsurer's share of technical provisions	9	7,332,700	4,259,323
Receivables			
Debtors arising out of direct insurance operations	5	8,936,269	5,578,675
Other debtors	5	1,603,544	-
prepayments and accrued income	5	74,666	71,072
Cash at bank	6	10,346,322	6,099,902
Total assets		36,964,044	22,789,449
EQUITY			
Capital and reserves			
Called up issued share capital	7	8,000,000	8,000,000
Capital contribution	7	2,032,248	-
Profit and loss account		1,608,354	1,164,267
Total equity		11,640,602	9,164,267
LIABILITIES			
Technical provisions	9	17,243,881	9,073,540
Creditors			
Creditors arising out of direct insurance and reinsurance operations	11	6,862,008	2,855,993
Other creditors	2	38,577	1,160,334
Taxation	2	474,184	101,271
Deferred reinsurance commission	10	413,724	273,521
Accruals and deferred income		291,068	160,523
Total liabilities		25,323,442	13,625,182
Total equity and liabilities		36,964,044	22,789,449

The official rate of exchange between GBP and Euro issued by the European Central Bank as at 31 December 2020 was 0.8990 (2019: 0. 8508).

The notes on pages 20 to 61 are an integral part of these financial statements. The financial statements on pages 15 to 61 were authorised for issue by the Board on 22 April 2021 and were signed on its behalf by:



Anthony D J Mowatt
Director



Christopher J Marden
Director

Income statement

Technical account - General Business

		Year ended 31 December	
		2020	2019
		£	£
	Notes		
Earned premiums, net of reinsurance			
Gross premiums written		25,514,919	18,470,946
Outward reinsurance premium		(13,982,652)	(10,802,916)
Net premiums written		11,532,267	7,668,030
Change in the gross provision for unearned premiums	9	(6,025,729)	(5,306,431)
Change in the provision for unearned premiums, reinsurance share	9	2,081,747	3,801,051
Earned premiums, net of reinsurance		7,588,285	6,162,650
Net operating income	12	881,242	528,302
Allocated investment return transferred from the non-technical account	13	158,738	212,753
Total technical income		8,628,265	6,903,705
Claims incurred, net of reinsurance			
Claims paid			
– gross amount	9	3,255,554	1,682,466
– reinsurers' share	9	(1,618,016)	(280,323)
		1,637,538	1,402,143
Change in the provision for claims			
– gross amount	9	2,144,612	192,889
– reinsurers' share	9	(991,630)	(13,531)
Net change in the provision for claims		1,152,982	179,358
Claims incurred, net of reinsurance		2,790,520	1,581,450
Net operating expenses	12	4,074,760	4,841,657
Total technical charges		6,865,280	6,423,158
Balance on the technical account for general business (page 16)		1,762,985	480,547

The notes on pages 20 to 61 are an integral part of these financial statements.

Income statement - continued

Non-technical account

		Year ended 31 December	
		2020	2019
		£	£
Notes			
	Balance on the technical account for general business (page 15)	1,762,985	480,547
	Investment gain	301,800	542,789
	Investment expenses and charges	(51,070)	(83,832)
	Allocated investment (loss) transferred to the general business technical account	(158,738)	(212,753)
	Administrative expenses	(752,492)	(472,748)
	Profit before tax	1,102,485	254,003
	Tax expense	(385,737)	(89,827)
	Profit for the financial year	716,748	164,176

Statement of comprehensive income

		Year ended 31 December	
		2020	2019
		£	£
	Profit for the year	716,748	164,176
	Total comprehensive income for the year	716,748	164,176

The notes on pages 20 to 61 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital £	Profit and loss account £	Capital contribution £	Total £
Year ended 31 December 2019					
Balance at 1 January 2019	7	8,000,000	1,677,473	-	9,677,473
Transactions with owners					
Dividends paid	8,15	-	(677,382)	-	(677,382)
Total comprehensive income					
Profit for the year – total comprehensive income		-	164,176	-	164,176
Balance at 31 December 2019		8,000,000	1,164,267	-	9,164,267
Year ended 31 December 2020					
Balance at 1 January 2020	7	8,000,000	1,164,267	-	9,164,267
Transactions with owners					
Capital contribution	7	-	-	2,032,248	2,032,248
Dividends paid	8,15	-	(272,661)	-	(272,661)
Total comprehensive income					
Profit for the year – total comprehensive income		-	716,748	-	716,748
Balance at 31 December 2020		8,000,000	1,608,354	2,032,248	11,640,602

The notes on pages 20 to 61 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December	
	Notes	2020	2019
		£	£
Operating activities			
Cash generated from operations	16	4,543,043	2,121,195
Interest received		189,493	241,938
Dividends received		3,523	9,216
Taxation paid		(12,824)	(202,936)
Net cash generated from operating activities		4,723,235	2,169,413
Investing activities			
Purchase of investments		(3,477,716)	(2,055,258)
Disposal of investments		3,000,901	1,954,932
Net cash used in investing activities		(476,815)	(100,326)
Financing activities			
Dividends paid	15	-	(677,382)
Net cash used in financing activities		-	(677,382)
Net movement in cash and cash equivalents		4,246,420	1,391,705
Cash and cash equivalents at beginning of year		6,099,902	4,708,197
Cash and cash equivalents at end of year	6	10,346,322	6,099,902

During the year there had been a capital contribution amounting to £2,032,248 that the Company's immediate shareholder invested in the Company as a non-cash transaction being made up of £1,759,587 of inter-company balance capitalised and capitalisation of current year dividend. During the year, there was also a non-cash transaction in relation to the dividend amounting to £272,661.

The notes on pages 20 to 61 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 General information

The Company in previous years underwrote 'After the Event (ATE)' legal expenses insurance. As from 2018, the Company sought to expand its business and obtained authorisation to write business under classes 9, 16 and 18 – Other Property Damage, Miscellaneous Financial Loss and Assistance. During 2019, the Company was also authorised to write business under classes 8 and 13 – Property Damage and General Liability, including passporting rights into a number of EU markets.

Effective from 1 January 2020, the Company started writing GAP, motor warranty, excess protection and rent guarantee business in various EU markets as a result of nine new agency agreements the Company entered into, subject to a 90% quota share reinsurance. In addition another sub-agency was also introduced through the year providing cover for key insurance under Miscellaneous Financial Loss in the UK, for which the Company is assuming 100% of the risk.

On 9 September 2020, an application was submitted to the Malta Financial Services Authority ("MFSA") requesting authorisation for two new agencies. One will insure Home Insurance policies in Norway falling under classes 8 – Property Damage, 9 – Other Damage to Property and 13 – General Liability, and which will be subject to a 90% quota reinsurance. The other agency will insure Pet Insurance policies in UK, falling under Classes 8 – Property Damage, 9 – Other Damage to Property, 13 – General Liability, 16 – Miscellaneous Financial Loss, and 17 – Legal Expenses, and which will be subject to a 92.5% quota share reinsurance. No objection was provided by the MFSA on these two new arrangements.

1.2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and the Maltese Companies Act, 1995. They have been prepared under the historical cost convention as modified by the fair valuation of investments as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies (see Note 3 – Critical accounting estimates and judgements in applying accounting policies).

As described in Note 2.1 to the financial statements, notwithstanding the uncertainties surrounding the legal and business environment, the directors are satisfied that the going concern basis of preparation remains relevant after considering existing business and financial resources as well as prospects for new revenue streams.

The balance sheet is organised in increasing order of liquidity with additional disclosures on the current or non-current nature of the Company's assets and liabilities provided within the notes to the financial statements.

IFRS 9, 'Financial Instruments', became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

IFRS 9 addresses a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9, the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

In 2018, the Company opted for the temporary exemption from applying IFRS 9 and postponed the implementation of IFRS 9 to the earlier effective date of IFRS 17, 'Insurance Contracts', which is expected to be on annual periods beginning 1 January 2023. The Company qualified for the temporary exemption based on the assessment performed on the annual reporting date that immediately precedes 1 April 2016 (i.e., 31 December 2015). IFRS 4 (Amendments), 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' provides two options for entities that issue insurance contracts within the scope of IFRS 4 i.e. an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach") or a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

There has been no change in the Company's activities that warrants a reassessment of the above information. On this basis, the Company continues to qualify for the temporary exemption from IFRS 9, and has therefore continued to defer its application to be concurrent with the effective date of IFRS 17.

The amendment of IFRS 4 Insurance Contracts requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interest ("SPPI") and other financial assets separately. Such disclosure is not required since the Company invests in debt instruments held at FVTPL and are of a trading nature, not recognised as SPPI.

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies and financial statements.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Standards, interpretations and amendments to published standards that are not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of IFRS 17, 'Insurance contracts', there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

IFRS 17, 'Insurance Contracts' was issued in May 2017 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 had an effective date of 1 January 2021, delayed to 1 January 2022 on 14 November 2018. On 17 March 2020, the IASB took the decision to defer IFRS 17 implementation by a year, with a new effective date of 1 January 2023.

IFRS 17 addresses recognition, measurement, presentation and disclosure for insurance contracts. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfils the contract; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognised in net earnings as the insurer fulfils its performance obligations under the contract). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less.

The Company is considering the implications of the above standard and the impact on the Company's financial results and the position, and the timing of the adoption, taking cognisance of the endorsement process by the European Commission.

During the financial year, the Company began carrying out a gap analysis to determine the tasks necessary to ensure a smooth implementation of IFRS 17. Also, pursuant to an industry-wide thematic review carried out by the Malta Financial Services Authority, the Company has prepared an impact assessment on its 31 December 2019 financial statements. The Company compared the financial results under the present accounting framework with the financial results should IFRS 17 have been effective. The impact assessment also considered the effect that IFRS 17 will have on current business practices, such as risk management, pricing and purchase of reinsurance. The impact assessment has not been audited by the external auditors of the Company. The Company expects to continue its IFRS 17 implementation in the coming financial periods.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the 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 Company’s functional and presentation currency.

(b) Transactions 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.

1.4 Financial assets

1.4.1 Classification

The Company 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 Company intends to sell in the short term or that it has designated as at fair value through profit or loss. Receivables arising from re/insurance contracts (Note 1.11) are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. The Company’s loans and receivables also include cash and cash equivalents in the statement of financial position (Note 1.5).

1. Summary of significant accounting policies - continued

1.4 Financial assets - continued

1.4.2 Recognition and measurement - continued

(b) Loans and receivables - continued

The Company recognises a financial asset in its statement of financial position 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 Company commits to purchase or sell the assets.

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 Company 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 Company has also transferred substantially all risks and rewards of ownership.

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

1.4.3 Impairment

The Company 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 Company 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 Company 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.

1. Summary of significant accounting policies - continued

1.4 Financial assets - continued

1.4.3 Impairment - continued

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.

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include deposits held at call with banks.

1.5 Cash and cash equivalents

Cash and cash equivalents are carried in the statements of financial position at face value. In the statement of cash flows, cash and cash equivalents include deposits held at call with banks.

1.6 Financial liabilities

The Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. 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 Company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

1.8 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

1. Summary of significant accounting policies – continued

1.8 Current and deferred income tax– continued

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

1.10 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities and is recognised as follows:

(a) Rendering of services

Premium recognition is described in Note 1.11 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 Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

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

1.11 Insurance contracts

Classification

The Company issues contracts that transfer insurance risk that are classified as insurance contracts. As a general guideline, the Company 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.

1. Summary of significant accounting policies – continued

1.11 Insurance contracts - continued

Recognition and measurement

The company distinguishes between:

- its predominant insurance business, which essentially relates to the legal expense insurance for policy types designed before 1 April 2013 ('pre-LASPO') and policy types designed to conform with the changes in the legal environment brought about as from 1 April 2013 ('post-LASPO') (collectively referred to as the 'core' insurance business); and
- the policies designed and launched during the years 2018 to 2020 (collectively referred to as the 'other general insurance business'). Although the latter includes legal expense insurance policies, no distinction is made between pre and post LASPO policies. Other general insurance business policies are distributed through agents, and sub-agents of the related party agent (Keystone Legal Benefits).

The Company also acts as a fronting insurance company in relation to certain general insurance business policies and a minimal amount of core post-LASPO policies. The Company benefits from reinsurance in relation to these policies (Note 2.2).

(a) Premiums

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

The Company estimates premium pertaining to core policies using the average premium per policy method applied at a development period level. In order to be in a position to determine appropriate development factors, the Company grouped different policies with similar characteristics together. Furthermore, a 20% haircut (2019: 20% haircut) was applied to the actuarial best estimate of ultimate premium receivable to cater for the increased uncertainty relating to the core post-LASPO policies. The estimated premium receivable for pre-LASPO includes a risk margin element of £150,000 (2019: £150,000) due to the increased uncertainty.

The Premiums written by the Company are in line with the agency agreements in place with each agent. All premiums are shown after the deduction of premium taxes where relevant.

Unearned premium is provided for all policy types excluding for the core insurance policies and a portion of After the Event ('ATE') policies included within the other general insurance business. This represents the portion of the premium written in a year that relate to unexpired terms of policies in force at the reporting date, calculated on a time apportionment basis.

(b) Claims incurred

Claims and loss adjustment expenses are charged to income based on the estimated liability for compensation owed to policyholders or third parties. They include direct and indirect claims settlement costs. The Company 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.

1. Summary of significant accounting policies - continued

1.11 Insurance contracts - continued

(b) Claims incurred - continued

Core insurance business

As for the liability in relation pre and post LASPO policies, the claims incurred are established by using statistical projections of the amounts that the Company expects the ultimate settlement will cost using the average cost per claim method. In order to be in a position to determine appropriate development factors, the Company has grouped different policies with similar characteristics together. Furthermore, an additional 20% (2019: 20%) risk margin is applied over and above the actuarial best estimate of claims outstanding to cater for the increased uncertainty relating to the post LASPO policies in light of comparatively limited experience. No allowance is being made in respect of the pre LASPO policies, where the exposure is reducing as more policies close over time without being replaced with new business.

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

Other General insurance business

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

The above method of provisioning satisfies the minimum liability adequacy test as required by IFRS 4. Notes 3 and 9 contain further information in relation to claims.

(c) Commission and other acquisition costs

Commission and other acquisition costs that vary with and are related to securing new contracts and renewing existing ones are recognised as they are incurred for ATE policies. For those policies which are not classified as ATE policies, commissions and other acquisition costs are deferred over the year in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the statement of financial position to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, DAC are amortised over the year in which the related income is earned.

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

1. Summary of significant accounting policies - continued

1.11 Insurance contracts - continued

(d) Debtors and creditors related to insurance contracts

Debtors and creditors are recognised when due. These include amounts due from and to insurance policyholders, in the case of the core insurance policies. All other items are treated as due to/from intermediaries. If there is objective evidence that an insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers objective evidence that an insurance receivable is impaired using the process adopted for financial assets held at amortised cost (see Note 1.4.3).

(e) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Reinsurance premium ceded is expensed proportionally over the period of cover, resulting in reinsurance share of unearned premium as at the end of the reporting period.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within debtors), as well as longer term receivables (classified within reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred and as payable when due and expensed over the period of cover.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Company gathers the objective evidence that a reinsurance asset is impaired using the process adopted for financial assets held at amortised cost described in Note 1.4.3. Ceded insurance arrangements do not relieve the Company from its obligations to policyholders and Note 2.3 contains further information pertaining to the credit quality of reinsurers.

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

The Company had the following reinsurance arrangements in place during the period:

Core business

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

Other general insurance business

- ii. The warranty business insurance scheme which is 90% reinsured with Falcon Insurance PCC Limited (Archipelago Cell);
- iii. Assistance, breakdown, gadget, excess, home emergency and BTE legal expenses insurance cover which is 90% reinsured with Winward Insurance PCC Limited;

1. Summary of significant accounting policies - continued

1.11 Insurance contracts - continued

(e) Reinsurance contracts held (continued)

- iv. Excess protection, GAP, motor warranty and rent guarantee insurance cover which is 90% reinsured with Ocean International Reinsurance Company Limited, a company that is A-rated;
- v. The property damage, office contents, onshore terrorism and business interruption of oil drilling companies covering property damage and miscellaneous financial loss insurance cover is 100% reinsured with VET Insurance Services Limited. The latter further cedes its risk to a Lloyds' panel (the retrocessionaire). The retrocessionaire is A+ rated.

(f) Reinsurance commissions

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

1.12 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which an obligation to pay a dividend is established.

2. Management of risk

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

2.1 Business risk - significant risks and uncertainties

Core insurance business

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

Business written prior to 1 April 2013 differs from the 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 1.11 and 2.2, 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.

2. Management of risk - continued

2.1 Business risk - significant risks and uncertainties - continued

Other General Insurance Business

The Company's main objective up to 2017 was to underwrite ATE legal expenses insurance. During 2018, the Company's Board of Directors diversified its portfolio of insurance cover. In the same year, the Company was granted an extension of its authorisation to carry on business of insurance in relation to Class 9 (Other Property Damage) and Class 18 (Assistance). In 2018, the Company concluded two agreements with two agents, through Keystone Legal Benefits, as well as another agency agreement independent of Keystone Legal Benefits. During 2019, the Company continued to explore prospects for European markets and in fact was granted an extension of its authorisation to carry on business of insurance in relation to Class 8 (Property Damage) and Class 13 (General Liability). To this effect, the Company provided direct cover outside Keystone Legal Benefits or other agreements that it had in place in 2018. At the same time, the Company continued to widen its warranty business by concluding three agreements with four sub-agents, through Keystone Legal Benefits. Early in 2020, the Company finalised nine agency agreements outside of Keystone Legal Benefits, covering GAP, excess protection, motor warranty and rent guarantee business, all of which fall under Class 16 (Miscellaneous Financial Loss), in various European markets. During 2020, the Company also entered into one additional sub-agency agreement in the UK covering key insurance cover. In September 2020, the Company placed two further agency application outside Keystone Legal Benefits with the MFSA requesting authorisation to carry on the business of Home insurance in Norway and Pet insurance in UK, falling under a number of classes, namely Class 8 (Property Damage), Class 9 (Other Property Damage), Class 13 (General Liability), Class 16 (Miscellaneous Financial Loss) and Class 17 (Legal Expenses). No objection to these new agencies were given by the MFSA.

Potential covers in niche areas and the prospects for European markets continue to be explored by the Company's directors.

Brexit

The directors are satisfied that the Company has sufficient financial resources and plans in place for it to operate as a going concern. Presently, it is the intention of the Company to retain its UK-based book of business and, in order to do so, recourse would be made to the establishment of a presence in the UK, which is considered to be a "third country" after the end of the transition period. It is understood that this will only be possible via the establishment of a (i) branch or (ii) subsidiary in the UK. In order to take advantage of the TPR, on the 14th January 2019, Bastion notified the Prudential Regulation Authority (PRA), in accordance with the direction made by the PRA under regulation 14(2) of the EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018 (the "TPR Regulations"), that it wishes to be treated in accordance with regulation 8 of the TPR Regulations. The PRA confirmed receipt of the said notification. Under separate cover, the PRA also issued confirmation of entry of Bastion to the TPR. In addition, it is the Company's intention to submit a full Part 4A application within the TPR period to establish a UK Branch office for Bastion so that Bastion can conduct insurance business in the UK at the end of the TPR. In this regard, the Company has engaged with the PRA in relation to the branch application and to establish the relevant requirements for Bastion in the TPR.

COVID-19

During 2020, the COVID-19 pandemic has had significant impact on business and markets all across the world. In light of the ongoing COVID-19 outbreak, the Company has been informed by its insurance manager that it has successfully triggered its business continuity plan which enables it to continue operations through remote means. The business continuity plan outlines response to an emergency situation and is aimed at ensuring ability to maintain essential operations.

2. Management of risk - continued

2.1 Business risk - significant risks and uncertainties - continued

COVID-19 - continued

The Company also obtained updates and confirmations from each of its agents regarding their contingency plans and the triggering of their respective business continuity plans to enable them to continue operations, either through remote means or otherwise and this was carried on in accordance with the directions/laws/guidelines issued by their respective governments in their response to the COVID-19 spread. The Company did not encounter disruptions in its distribution performance and the service continuity as a result of the COVID-19 outbreak.

The Company had honoured all of its claims in line with the current policy wordings. As a result, there was no impact on current policyholders. No restrictions or exclusions were introduced on current or new policies vis-à-vis claims arising due to the COVID-19 position on this matter.

Since the beginning of 2020, the investment portfolio valuation has recovered from the decrease during the first half of the year. To date, there had been no impact on the liquidity position of the Company and did not encounter any difficulties in recovering outstanding debts from any of its operating agencies.

A comparison was prepared, in respect of the business written by the Company in 2019 and 2020. For the sake of an equitable comparison this was limited to those agencies which have been in operation for the full reporting period in 2019. The Company experienced an increase of 56% in the net written premiums. This increase was made up of an increase of 56% in the core insurance business (Legal ATE business) and an increase of 55% in the other general insurance business. During the same period the Company also experienced a decrease of 14% in the net claim payments, which was as a result of a decrease of 18% in the core insurance business and an increase of 18% in the other general insurance business.

Taking into account the results of the assessment carried out, the Board of Directors is of the opinion that the Company is well equipped for any eventuality which may arise from the ongoing COVID-19 outbreak, with the Company maintaining enough capital to ensure that it is well equipped to maintain operations and continue operating for the foreseeable future. This is in view of new agencies taken on board during the first part of the year, as well as new agencies commencing in 2021.

2.2 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 Company's liability should the insured event occur. The risks underwritten by the Company up to 2017 were primarily limited to ATE cover provided under the legal expenses class of insurance business. The key feature of ATE insurance is that cover is provided to a policyholder covering the outcome of legal action, in relation to an event (accident, etc.) which has however already taken place. The policy terms and conditions dictate when premiums become due (e.g. on successful conclusion of legal action) and when claims become due (e.g. upon unsuccessful conclusion of legal action). Contracts of insurance issued by the Company provide cover against risk of loss by insured persons attributable to their incurring legal expenses, including costs of litigation.

As explained in Note 2.1, during 2018 the Company launched a number of policies, promoted through three agency relationships. During 2019, the Company continued to develop and launched new policies independent of agency relationships. Conjointly, the Company has also entered into nine direct agency agreement out of Keystone Legal Benefits during 2020, together with three new sub-agency relationships during 2019 and another one in 2020.

2. Management of risk - continued

2.2 Insurance risk - continued

The contracts of insurance currently being written cover warranty business, legal expenses (Before The Event (“BTE”) and After The Event (“ATE”)), breakdown, GAP, excess, home emergency, and gadget insurance, property insurance, key insurance, terrorism and business interruption, and rent guarantee. The Company manages these risks through an effective underwriting strategy (which also considers the extent to which reinsurance protection will be sought), the terms and conditions of the insurance contracts sold and an effective claims management.

The underwriting strategy of the Company seeks to diversify the portfolio in terms of the risks written to mitigate the probability of a single insurable event affecting its entire portfolio. The underwriting strategy will therefore also be directed to achieve a portfolio of similar risks and insurance contracts through an effective pricing policy that will achieve sustainable long-term growth. This is further supported by a series of underwriting and the reinsurance board policies used to determine the premium and risk that the Company takes in line with its business strategy and established risk appetite and risk tolerance levels.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company 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 Company.

Given the nature of the Company's insurance business, and as further described below, estimation uncertainty also attaches to the Company's premium receivables of the core insurance business.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of 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 Company represents a number of homogenous risks.

In 2013, the Company entered into a reinsurance agreement whereby it transfers all risks related to a minimal number of post-LASPO policies. Following the launch of other general insurance business policies, the Company entered into two new reinsurance agreements with two different reinsurers whereby it transfers a substantial amount of the new risk pertaining to the new insurance business sold.

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

During the current year, the Company entered into an additional reinsurance arrangement covering additional policies launched in 2020 limited excess protection, GAP, motor warranty and rent guarantee covering various EU jurisdictions. In this latter agreement, the Company transfers 90% of the risk written through the respective insurance business.

2. Management of risk - continued

2.2 Insurance risk - continued

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

Core insurance business

Premium recognition involves a significant degree of estimation as disclosed in Note 5 to the financial statements. The Company 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 Company distinguishes between pre-LASPO policies and post-LASPO policies.

The nature of the business of the Company is such that premiums for pre and post-LASPO can take several years to develop and are therefore subject to a greater degree of uncertainty. Pre and post-LASPO premium for policy types is only payable on successful conclusion of the underlying legal action. Further detail on key assumptions and sensitivity in relation to premium debtors is provided in Note 5 to the financial statements.

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

The assessment of these trends enables the Company 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 Company estimates the premium that is expected to be received at any given time on policies that are expected to close favourably in future years. The estimates also consider the tail of each underwriting year which is assessed at each period end on the basis of an anticipated closure of any given underwriting year. In establishing these trends and averages the Company has also disaggregated its business by type of policy that is being underwritten. Note 5 provides further detail on the development of premium estimates established in prior years, and the impact on the income statement.

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

Further uncertainty arises on post-LASPO policies because of the relatively limited empirical information available. No one underwriting year is fully closed to date and as explained in Note 2.1, there has been uncertainty in the business environment following the LASPO reforms. The calculation of estimated premium receivable as at December 2020 and 2019 reflects actuarial adjustments to cater for the emerging experience of pre- and post-LASPO policies.

In the advent of the ongoing COVID-19 outbreak, the impact on the Core business is expected to take the form of processing delays due to reduced legal work and court hearings, increasing the degree of uncertainty on the estimation of premiums receivable. The directors believe that the risk margin buffer recognised in the financial statements duly covers such uncertainty.

2. Management of risk - continued

2.2 Insurance risk – continued

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

As a result of the prospective adjustment to cater for changes in estimates, estimated ultimate premium receivable for both the pre-LASPO and post-LASPO were adjusted upwards. The impact of this adjustment before related expense adjustments and tax, amounted to an improvement of £1.8 million (2019: deterioration of £97,541). The impact of this adjustment after the related expense adjustments but before tax effect, amounted to a favourable of £972,286 (2019: deterioration of £160,391).

The estimated premium receivable for pre-LASPO is net of a risk margin element of £150,000 (2019: £150,000) due to the increased uncertainty, whilst that of the post-LASPO is net of a risk margin of 20% (2019: 20%) due to the increased volatility.

(b) Frequency and severity of claims

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

Core insurance business

The Company considers adverse development in respect of case proceedings to be the most significant risk factor with respect to the core business. In the advent of the ongoing COVID-19 outbreak, the impact on the Core business is expected to take the form of processing delays due to reduced legal work and court hearings, increasing the degree of uncertainty on the frequency and severity of eventual claims. The directors believe that the risk margin buffer recognised in the financial statements duly covers such uncertainty.

Other general insurance business

The claims for other general business (other than fronted business) are generally high in terms of frequency and low in their severity due to the nature of the business written. The Company considers that the most significant risk in this respect is a higher frequency of claims than expected. In terms of the fronted business, given the high sums insured, the most significant risk arises from the possibility of low frequency high severity claims. Given the nature of insurance covers issued by the Company relating to its other general insurance business, the quantum of claims is not being directly impacted by the ongoing COVID-19 outbreak.

In order to manage the risks above, the Company has an underwriting strategy that is set by the Board. The Company accepts its risks through five sub-agents in the UK and an agent that has operated in the respective sectors of business in the UK, Ireland and Channel Islands for a number of years. As from 2020, the Company is also accepting its risks through nine underwriting agents (seven of which are collectively managed through a Managing Agent) that have operated in the respective sectors of business in France, Germany, and Spain for a number of years. The agents employ teams 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 (in the case of the core insurance business) or any other required action. The Company further engages the services of an insurance manager to assist in managing its operations. The Company carries out periodic visits to the agents (and sub-agents) in order to assess controls in place. In order to manage the risks arising from the European fronted business (which is not written through an agent), the Board has sought to reinsure the risks in full. The Company also has reinsurance programs in place for the non-fronting business so as to ensure that it can meet any calls.

2. Management of risk - continued

2.2 Insurance risk – continued

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

Core insurance business

The Company is liable for all insured events that occurred during the term of the contract. The estimation of claims payable for the core insurance business is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is generally already available. The nature of core business is such that claims can take several years to develop and are therefore subject to a greater degree of uncertainty. The other general insurance policies are not expected to have such a long tail. The estimated cost of claims includes direct expenses to be incurred in settling claims. The Company 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 Company distinguishes between the core insurance business and the other general insurance business. Further detail on key assumptions and sensitivity in relation to claims outstanding is provided in Note 9 to the financial statements.

In relation to these policies the Company uses a combination of estimation techniques, based mainly on statistical analysis of historical experience provided by the Company's underwriting agent. The Company has engaged an independent actuary in order to review the ultimate claims cost by *inter alia* constructing triangles based on historical trends i.e. using the 'average cost per claim method' (based on a number of policies closed with payment and paid claims) applied at a development period level. The assessment of these trends enables the Company to establish patterns of development for its business in terms of claims. The Company 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 Company'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 Company has also disaggregated its business by type of policy that is being underwritten. Note 9 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 Company has engaged the services of an actuary to advise on the determination of technical provisions.

Other general insurance business

As further explained in Note 1.11(b), the Company uses a target loss ratio which varies by product type based mainly on an analysis of historical experience provided by the Company's underwriting agents. The main source of uncertainty is due to the fact that this is new business introduced during 2018, 2019 and 2020 and therefore there is limited company-specific empirical data. However, claims are reported regularly and the payment of such claims are expected to be short term in nature. To address the delay between claims incurrence and reporting, the Company adopted an IBNR policy based on projected loss ratios in relation to the earned premium portion.

2. Management of risk - continued

2.2 Insurance risk – continued

Other general insurance business

Internal data is analysed by underwriting year and triangulations are also used to assess the development of each open year. Note 9 provides the detail of the development of prior years' claims estimates and the impact on the income statement. Claims outstanding data is based on actual claims outhandling received from each of the agents or sub-agents, whilst the IBNR is based on projected loss ratios. At each period end an assessment of the actual loss ratios as compared to the projected loss ratio is made. The Company has engaged the services of an actuary to assess the technical provisions.

Reinsurance

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

In 2018, the Company entered into two new reinsurance arrangements covering the other general business insurance policies, excluding any post LASPO business. For the latter insurance business introduced in 2018, the Company reinsures on a 90% quota share basis of the risks underwritten through the respective agency agreement and another sub-agency agreement. On the other hand, the Company retains 100% of the risks underwritten through the other sub-agency agreement.

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

During 2020, new business was introduced which the Company reinsures on a 90% quota share basis of the risks underwritten through the respective agency agreements. On the other hand, the Company retains 100% of the risks underwritten for another sub-agency agreement.

The Company's strategy is to primarily assume risk of at least 10% on new agency agreements, depending on its materiality to the overall business, in order to control exposure to losses, reduce volatility and protect capital. However, some lines have lower net retention.

The Company had the following reinsurance arrangements in place during the period under review and which agreements remain currently in force:

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

2. Management of risk - continued

2.3 Financial risk

The Company 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 Company to manage these risks are discussed below.

(a) Market risk

(i) Interest rate risk

In general, the Company 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 Company to cash flow interest rate risk. Assets issued at fixed rates expose the Company to fair value interest rate risk. The Company 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 4 and 6 incorporate interest rate and maturity information with respect to the Company's assets. The directors consider the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. Liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest bearing.

(ii) Currency risk

Currency risk arises on recognised assets and liabilities that are denominated in a foreign currency, that is in a currency other than the functional currency in which they are measured. The Company manages currency risk by matching the currency of its assets to the denomination of its liabilities. The Company maintains a minimal amount of exposure in foreign currency and therefore the directors considers 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 Company. Due to the nature of investments held, the Company was not exposed to significant price risk. Nonetheless, the Company 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 Company to any one issuer or its connected parties. These parameters also consider solvency requirements imposed by the Regulator as explained in note 2.5.

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

	2020	2019
	£	£
At 31 December		
Assets subject to equity price risk consisting of:		
- equity securities (Note 4)	830,094	556,657

2. Management of risk - continued

2.3 Financial risk – continued

The investments that are subject to equity price risk, were assessed for the likely impact of a 10% increase or decrease in the market price. Should this occur, assuming exchange rates remain the same, the impact would be +/- £83,003 (2019: +/- £55,666).

(b) Credit risk

The Company 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 Company is exposed to credit risk are:

- amounts due from policyholders, intermediaries and parent company (Note 5);
- investments and cash and cash equivalents (Notes 4 and 6); and
- reinsurer's share of technical provisions (Note 9).

The Company is exposed to policyholders for insurance premium due. Premium is established once cover is agreed with the policyholder. The premium falls due from the policyholder on successful conclusion of the underlying legal action for the core insurance business. As at the end of the year approximately 24% (2019: 13%) 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 Company prior to the release of compensation money to the policyholder.

The Company's exposure to intermediaries is mainly due from a related entity (directly or indirectly through sub-agency agreements), as well as from the ten intermediaries.

The Company is also exposed to credit risk in respect of its cash and cash equivalents and investments. The Company'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 Company's reinsurers include two unrated reinsurers and two rated reinsurers. The Company obtains financial statements periodically and monitors their credit rating in order to assess the reinsurers' financial health. There are no indications that the reinsurers will be unable to honour their obligations to the Company.

The contractual agreement between the Company and the reinsurer, VET Insurance Services Limited, and the separate contractual agreement between VET Insurance Services Limited and the retrocessionaire stipulate that the reinsurer shall pay directly to the named insured that proportion of any claim which represents the liability of the reinsurer to the reinsured, and that if required the retrocessionaires of the reinsurer shall pay directly to the reinsured, covered through the cut-through clause. As described in note 1.11(e) above, the retrocessionaire is rated A+. Another independent reinsurer, Ocean International Reinsurance Company Limited, is rated A-.

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

2. **Management of risk** - continued

2.3 **Financial risk** - continued

(b) Credit risk – continued

31 December 2020

Credit Rating

S&P/Fitch Ratings	AA	A+	A	A-	BBB+	BBB	BBB-	BB+	B+-	B	B-	Not rated £'000	Carryin value in the statement of financie positio £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Financial assets at fair value through profit and loss	161	156	210	744	2,014	1,207	361	159	154	181	147	-	5,49
Loans and receivables													
Cash and cash equivalents	-	-	8,700	-	-	-	246	-	-	-	-	1,400	10,34
Debtors	-	-	-	-	-	-	-	-	-	-	-	10,540	10,54
Prepayments and accrued income	1	-	2	6	19	11	4	6	2	3	3	5	5
Reinsurer's share of technical provisions	-	2,298	-	3,778	-	-	-	-	-	-	-	1,257	7,33
Total loans and receivables													28,27
													33,77

2. **Management of risk** - continued

2.3 **Financial risk** - continued

(b) Credit risk – continued

31 December 2019

Credit Rating

S&P/Fitch Ratings	AA-	AA	A+	A	A-	BBB+	BBB	BBB-	B+	B	B-	Not rated £'000	Carrying value in the statement of financial position £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Financial assets at fair value through profit and loss	249	365	209	40	523	952	1,309	902	183	396	55	-	5,183
Loans and receivables													
Cash and cash equivalents	-	-	-	-	-	-	221	-	-	-	-	5,879	6,100
Debtors	-	-	-	-	-	-	-	-	-	-	-	5,579	5,579
Prepayments and accrued income	1	4	1	-	4	11	13	14	3	6	-	-	57
Reinsurer's share of technical provisions	-	-	-	3,504	-	-	-	-	-	-	-	755	4,259
Total loans and receivables													15,995
													21,178

2. Management of risk - continued

2.3 Financial risk - continued

(b) Credit risk - continued

At 31 December 2020 and 2019, the Company's debtors that were due were considered to be fully recoverable.

At the end of the reporting period cash and cash equivalents were held with 4 banking institutions (2019: 3). The exposure to cash and cash equivalents and investments in the loans and receivables category, including due from reinsurers, 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 Company banks with local and foreign financial institutions.

(c) Liquidity risk

The Company 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 Company manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls.

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

	Expected cash flows (undiscounted)				Carrying amount
	0 – 1 year	1 – 2 years	3 - 5 years	> 5 years	
31 December 2020	£	£	£	£	£
Technical Provisions	6,960,010	1,877,428	6,132,677	2,273,761	17,243,881
Other creditors	38,577	-	-	-	38,577
Income tax payable	88,773	385,411	-	-	474,184

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

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 Company's experience to date.

The £1,160,334 that was due as at 31 December 2019, under other creditors is partly made up of dividend payable to the parent. There was no such payable to parent as at 31 December 2020.

Note 11 incorporates liquidity risk information with respect to the Company's other liabilities.

2. Management of risk - continued

2.4 Fair values of financial instruments

At 31 December 2020 and 2019 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 Company's assets that are measured at fair value at the end of the reporting period:

	2020	2019
	Level 1	Level 1
	£	£
At 31 December		
Financial assets at fair value through profit or loss		
Listed debt securities (Note 4)	5,493,816	5,182,752
Listed equities (Note 4)	239,436	259,967
Listed exchange traded funds (Note 4)	255,736	296,690
	6,323,910	5,739,409

The Company's investment in non-listed equity securities as at 31 December 2020 amounting to £334,922 (2019: Nil) were recently acquired by the Company in December 2020. These investments are valued as at year-end based on their acquisition price. The directors believe that the assets' acquisition price represents their arm's length transaction price between market participants as at the reporting period. As such, these investments are categorised as Level 2.

2.5 Capital management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Maltese insurance regulator ("MFSA");
- to safeguard the Company'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 Company may issue new shares or capitalise contributions received from its shareholders.

The Company 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 Company 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 Company monitors its capital level on a regular basis. Any transactions that may potentially affect the Company's solvency position are immediately reported to the directors and shareholders for resolution prior to notifying the MFSA.

2. Management of risk - continued

2.5 Capital management - continued

The Company is 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 Company must hold eligible own funds to cover the solvency capital requirement (SCR) and 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 Company 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 Company 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 Company's risk profile. At 31 December 2020 and 2019, the Company's eligible own funds adequately covered the required SCR and amounted to £11.6m (audited) and £8.94m (audited) respectively.

3. Critical accounting estimates and judgements in applying accounting policies

Estimates and judgments are continually evaluated and are based on historical experience provided by the Company's underwriting agents, sub-agents and intermediary and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements which are difficult, subjective or complex to a degree that would warrant their description as critical in terms of IAS 1 are the estimation of claims outstanding and IBNR for all policies and ultimate premium receivable on the core insurance policies. In determining claims and premium estimates, the Company distinguishes between the core insurance policies and other general business insurance policies. The Company's estimates relating to the core insurance business and other general insurance business policies consider the professional advice provided by the Company's independent actuaries.

Notes 1.11, 2.2, 5 and 9 provide further information pertaining to premium receivable and claims outstanding. The estimation methodology/process is explained in further detail in the above notes.

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

The estimation of IBNR on the other general insurance business policies is calculated on target loss ratios on the earned premium, after taking into consideration the amount of actual claims paid and claims outstanding reserves. The target loss ratios for those other general insurance policies introduced in 2018 and 2019 were updated to be aligned to recent performance based on the currently available information and latest historical performance. In addition, the target loss ratios for those policies introduced during 2020, were based either on the market experience as provided by the respective agents and sub-agents or benchmarked to the same policy types if the same policies were already covered by the Company. Given the relatively short history available to the company, there is a risk that actual claims experience may differ to the selected target loss ratios.

Further detail in relation to premium and claims estimates, including their sensitivity analysis is provided in Notes 5 and 9 to the financial statements. The directors believe that the premium receivable and claims outstanding and IBNR are adequately estimated as at the financial year-end.

4. Investments

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

	2020 £	2019 £
At 31 December		
Financial assets at fair value through profit or loss	6,323,910	5,739,409
	6,323,910	5,739,409

Analysed by type of investment as follows:

	2020 £	2019 £
At 31 December		
Financial assets at fair value through profit or loss		
– listed, fixed interest rate debt securities (Level 1)	5,493,816	5,182,752
– listed equities (Level 1)	239,436	259,967
– listed exchange traded funds (Level 1)	255,736	296,690
– non-listed equities (Level 2)	334,922	-
	6,323,910	5,739,409

The maturity of fixed income debt securities and term deposits are detailed below:

	2020 £	2019 £
Between 1 and 2 years	303,049	1,014,414
Between 2 and 5 years	1,438,581	2,376,922
Over 5 years	3,752,186	1,791,416
	5,493,816	5,182,752

5. Receivables

	2020 £	2019 £
Debtors arising out of direct insurance operations		
Due from policyholders	5,480,054	4,462,453
Due from intermediaries	3,456,215	1,116,222
	8,936,269	5,578,675
Other debtors	1,603,544	-
Prepayments and accrued income		
Accrued interest	57,928	56,830
Other prepayments	16,738	14,242
	74,666	71,072
Total receivables	10,614,479	5,649,747

5. Receivables - continued

Debtors arising out of direct insurance operations are considered to be substantially current in nature. The nature of the business underwritten is such that premium receivable from policyholders will only be receivable if the underlying legal case is won in relation to the core insurance business. The outstanding premium receivable is undiscounted and therefore, in addition to the haircut described below, includes a small prudential margin compared to the Solvency II best estimate reserves which are discounted.

Amounts due from intermediaries arising out of direct insurance operations represent amounts owed by the Company's parent undertaking under the agency agreement or sub-agency agreements, as well as other balances due from the various independent intermediaries in terms of an agency agreements. These amounts are unsecured, interest free and repayable on demand.

Other debtors represent amounts advanced to the immediate parent company and other balances collected by the immediate parent company from its sub-agencies on behalf of the company and not yet advanced. These amounts are secured by a letter of undertaking issued by the parent company's shareholders and are interest free and repayable on demand.

Core Insurance Debtors pre-LASPO

At 31 December 2020, amounts due from policyholders include estimated premium income receivable on these policies amounting to £769,591 (2019: £717,659). As explained in Notes 1.11 and 2.2 a haircut of £150,000 (2019: £150,000) was deducted from the statistically projected receivables to cater for the increased uncertainty resulting from the smaller number of open pre-LASPO policies. During 2020, these premium estimates developed favourably resulting in an overall positive variance of £184,189 (2019: unfavourable variance of £964,276), after also considering the impact of related cost.

Sensitivity of estimated debtors on core insurance pre-LASPO policies

Based on the actuary's triangles, if the average premium were to differ by 10% from the current estimate and the estimated policies that close with premium were to vary by 10%, the amount due from policyholders would increase by £91,959 (2019: increase of £137,229) or decrease by £91,959 (2019: decrease of £137,224). This sensitivity analysis is based on a change in assumption for estimated premium written while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

Core Insurance Debtors post-LASPO

As at 31 December 2020, premium receivable on post-LASPO policies amounted to £4,710,460 (2019: £3,744,793). As explained in Notes 1.11 and 2.2 a haircut of 20% (2019: 20%) is deducted from the statistically projected receivables to cater for the uncertainty as a result of the relatively limited data available. During 2020, these premium estimates developed favourably in respect of underwriting years 2013 to 2019 resulting in a positive variance of £788,097 (2019: positive variance of £803,885), after also considering the impact of related costs.

Sensitivity of estimated debtors on core insurance post-LASPO policies

Based on the actuary's review of reserves, if the average premium were to differ by 10% from the current estimate and the estimated policies that close with premium were to vary by 10%, the amount due from policyholders would increase by £588,808 (2019: £484,923) or decrease by £588,808 (2019: £484,503). 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.

6. Cash and cash equivalents

	2020	2019
	£	£
Cash at bank	10,346,322	6,099,902
At floating rates	5,675,755	3,934,959
At fixed rates	-	29,919
Non-interest bearing	4,670,567	2,135,024
	10,346,322	6,099,902

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

7. Share capital and reserves

7.1 Share capital

	2020	2019
	£	£
Authorised and issued share capital		
Balance at 1 January and 31 December	8,000,000	8,000,000

All shares were issued at par value of £1 each. Shares are fully paid up.

7.2 Capital contribution

	2020	2019
	£	£
Capital contribution		
Balance at 31 December	2,032,248	-

The parties in the capital contribution agreed that it is not a loan but an unconditional transfer of funds, whereby the Company shall have no obligation to repay the contribution including in the event of a winding-up of the Company, nor shall KLB offer any incentive for repayment. The contribution is not being made in consideration of the grant of any rights or entitlements whatsoever, including any voting rights, profit participation rights or rights to participate in the distribution of the surplus assets of the Company.

8. Proposed dividend

During 2020, a net dividend of £272,661 (2019: £677,382) was declared. The dividend declared in 2020 was settled by way of capital contribution. The directors do not expect to propose any further dividend to the date of these financial statements.

9. Technical provisions

	2020 £	2019 £
Gross – Insurance liabilities		
Claims outstanding – Core business	3,576,694	2,964,997
Claims outstanding – Other general insurance business	494,208	13,871
Claims incurred but not reported - Other general insurance business	1,193,807	141,229
Provision for unearned premium - Other general insurance business	11,979,172	5,953,443
Total technical provisions, gross	17,243,881	9,073,540
Recoverable from reinsurers		
Claims outstanding – Core business	(30,862)	(74,699)
Claims outstanding – Other general insurance business	(355,953)	(7,557)
Claims incurred but not reported - Other general insurance business	(761,358)	(74,287)
Provision for unearned premium - Other general insurance business	(6,184,527)	(4,102,780)
Total reinsurer's share of technical provisions	(7,332,700)	(4,259,323)
Net – Insurance liabilities		
Claims outstanding – Core business	3,545,832	2,890,298
Claims outstanding – Other general insurance business	138,255	6,314
Claims incurred but not reported - Other general insurance business	432,449	66,942
Provision for unearned premium - Other general insurance business	5,794,645	1,850,663
At end of the reporting year	9,911,181	4,814,217

(a) Claims outstanding and incurred but not reported

Other General Insurance Business

The claims outstanding included under the other general insurance business, which include legal expenses insurance policies yet exclude those policies classified under the core insurance business, comprise amounts as provided to the Company by the insurance intermediaries under the various portfolios in relation to claims notified to them that are pending settlement. The reserve for claims incurred but not reported ('IBNR') is being calculated on the basis of target loss ratios on the earned premium, after taking into consideration the actual claims paid and the claims outstanding reserves.

Given that the general insurance business policies were still in their infancy, the target loss ratios were based on the Company's projections and adjusted based on actual loss ratio performance experienced. Similarly, the same methodology was adopted for those new policies introduced during 2020, whereby the loss ratios assumed by the Company were those used in the financial projections. These ratios were provided by the respective intermediaries and are based on their market experience or benchmarked to the same policy types if the same policies were already covered by the Company.

If the loss ratio used to compute the claims reserve is increased upwards or decreased downwards by 5%, the liability for claims reserve would increase by £334,112 (2019: £73,013) or decrease by £334,112 (2019: £73,013) respectively before considering the impact of related costs but after reinsurance. This sensitivity analysis is based on a change in assumption for the estimated loss ratio on the claims reserves while holding other assumptions constant.

9. Technical provisions - continued

(a) Claims outstanding and incurred but not reported - continued

Core insurance business

The occurrence of an insured event under ATE legal expenses insurance is only known on conclusion of the policy, and is therefore subject to a greater degree of uncertainty.

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, in addition to the margins described in Note 2.1, includes a small prudential margin compared to the Solvency II best estimate reserves which are discounted.

Claims outstanding and sensitivity on pre-LASPO policies

The gross and net provision for claims outstanding on these policies excluding claims handling costs amounts to £264,183 (2019: £145,080). 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 £26,418 (2019: £14,510) or decrease by £26,418 (2019: £14,505) respectively before considering the impact of related costs. This sensitivity analysis is based on a change in assumption for estimated claims outstanding while holding other assumptions constant. In practice, this is unlikely to occur, and changes in other assumptions within these financial statements may be correlated.

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

Claims outstanding and sensitivity on post-LASPO policies

The gross provision for claims outstanding on these policies excluding claims handling costs amounts to £3,142,188 (2019: £2,678,726). If the liability for claims outstanding had to increase or decrease by 10%, the liability for claims outstanding would increase by £261,849 (2019: £223,228) or decrease by £261,849 (2019: £223,220) 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.

Claims development

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the tables below illustrate how the Company's estimate of total claims incurred for each accident/underwriting year has changed at successive year-ends. The bottom half of the tables below reconcile 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 pre and post-LASPO business written by the company, whereas the underwriting-year basis is considered to be the most appropriate for other general insurance business. The company internally aggregates claims information for the other general insurance business by reference to the underwriting year of the policy and this basis necessitates an estimate to be made of the expected losses on the portion of business that is still unearned at 31 December 2020. This estimate is then removed from the estimate of ultimate claims cost in order to reconcile to the liabilities in the statement of financial position. The tables are presented gross and net of reinsurance.

During the year, there was adverse run-off on both the pre LASPO and post LASPO claims outstanding totalling £315,292 (2019: net adverse run-off of £9,988) before considering claims handling costs. Whereas for the other general insurance business, there was an favourable run-off amounting to £18,850 (2019: £12,523).

9. Technical provisions - continued

(a) Claims outstanding and incurred but not reported - continued

Claims development - continued

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

The Company 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.

9. Technical provisions - continued

(a) Core business - Claims outstanding and incurred but not reported - continued

Gross	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£	£	£	£	£	£	£	£	£
Estimate of the ultimate claims costs									
At end of accident year	5,607,446	966,502	1,150,805	789,631	630,956	821,957	1,266,442	1,228,055	
One year later	4,464,387	1,178,878	740,727	1,041,272	742,875	794,123	1,539,404		
Two years later	3,085,672	790,969	831,916	1,254,199	911,831	802,407			
Three years later	3,172,311	964,039	922,174	1,408,633	674,088				
Four years later	2,975,065	1,047,537	955,208	1,043,201					
Five years later	3,897,329	991,119	803,821						
Six years later	3,474,256	952,446							
Seven years later	3,468,411								
Current estimate of:									
Gross cumulative claims	3,468,411	952,446	803,821	1,043,201	674,088	802,407	1,539,404	1,228,055	10,511,833
Gross cumulative payments	(3,305,164)	(843,811)	(735,150)	(877,263)	(499,630)	(313,096)	(420,415)	(96,053)	(7,090,582)
Gross liability recognised in the statement of financial position									
Gross liability in respect of prior periods	163,247	108,635	68,671	165,938	174,458	489,310	1,118,989	1,132,002	3,421,253
Total gross liability recognised in the statement of financial position									155,443
									3,576,690

9. Technical provisions - continued

(a) Core business - Claims outstanding and incurred but not reported - continued

Net	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£	£	£	£	£	£	£	£	£
Estimate of the ultimate claims costs									
At end of accident year	5,584,946	896,782	1,080,208	763,548	625,882	807,518	1,262,741	1,223,418	
One year later	4,430,980	1,123,998	703,650	1,036,073	727,305	1,120,562	1,537,651		
Two years later	3,067,682	752,334	827,401	1,235,978	893,787	1,131,430			
Three years later	3,168,705	962,788	892,998	1,385,779	900,052				
Four years later	2,973,656	1,015,139	939,557	1,361,900					
Five years later	3,887,137	985,228	923,776						
Six years later	3,473,526	977,404							
Seven years later	3,526,656								
Current estimate of:									
Net cumulative claims	3,526,656	977,404	923,776	1,361,900	900,052	1,131,430	1,537,651	1,223,418	11,582,286
Net cumulative payments	(3,364,024)	(869,674)	(857,703)	(1,201,626)	(735,042)	(647,361)	(420,415)	(96,053)	(8,191,897)
Net liability recognised in the statement of financial position									
Net liability in respect of prior periods	162,632	107,729	66,073	160,274	165,010	484,069	1,117,236	1,127,366	3,390,385
Total net liability recognised in the statement of financial position									155,443
									3,545,833

9. Technical provisions - continued

(a) Other general insurance business - Claims outstanding and incurred but not reported - continued

Gross	2018 £	2019 £	2020 £	Total £
Estimate of the ultimate claims costs				
At end of accident year	304,676	1,667,376	7,597,883	
One year later	286,203	1,480,393		
Two years later	283,524			
Current estimate of:				
Gross cumulative claims	283,524	1,480,393	7,597,883	9,361,801
Claims on unearned premium	(12,829)	(450,154)	(4,383,247)	(4,846,231)
Gross cumulative payments	(265,898)	(794,126)	(1,767,531)	(2,827,555)
Gross liability recognised in the statement of financial position	4,797	236,113	1,447,105	1,688,015

9. Technical provisions - continued

(a) Other general insurance business - Claims outstanding and incurred but not reported - continued

Net	2018 £	2019 £	2020 £	Total £
Estimate of the ultimate claims costs				
At end of accident year	35,864	1,137,654	2,813,152	
One year later	78,063	866,035		
Two years later	281,116			
Current estimate of:				
Net cumulative claims	281,116	866,035	2,813,152	3,960,303
Claims on unearned premium	(5,916)	(373,559)	(2,107,481)	(2,486,956)
Net cumulative payments	(82,863)	(386,746)	(433,035)	(902,643)
Net liability recognised in the statement of financial position	192,338	105,730	272,636	570,704

9. Technical provisions - continued

Movements in insurance liabilities

a) *Claims outstanding and incurred but not reported*

The movements for the year are summarised as follows:

	2020 £	2019 £
Gross		
At beginning of the reporting year	3,120,097	2,927,208
Claims settled during the year	(3,255,554)	(1,682,466)
Increase in liabilities		
- arising from current year claims	5,101,260	1,877,889
- arising from prior year claims	296,442	(2,535)
- effect of movements in foreign exchange	2,464	-
At end of the reporting year	5,264,709	3,120,097
Reinsurance		
At beginning of the reporting year	(156,543)	(143,012)
Claims settled during the year	1,618,016	280,323
Increase in assets		
- arising from current year claims	(2,606,113)	(297,290)
- arising from prior year claims	(1,315)	3,436
- effect of movements in foreign exchange	(2,218)	-
At end of the reporting year	(1,148,173)	(156,543)
Net		
At beginning of the reporting year	2,963,554	2,784,196
Claims settled during the year	(1,637,538)	(1,402,143)
Increase in liabilities		
- arising from current year claims	2,495,147	1,580,599
- arising from prior year claims	295,127	902
- effect of movements in foreign exchange	247	-
At end of the reporting year	4,116,537	2,963,554

9. **Technical provisions** - continued

Movements in insurance liabilities - continued

b) *Provision for unearned premiums*

The movements for the year are summarised as follows:

	2020 £	2019 £
Gross		
At beginning of the reporting year	5,953,443	647,012
Net charge to profit and loss for the year	6,185,579	5,306,431
Effect of movements in foreign exchange	(159,850)	-
At end of the reporting year	11,979,172	5,953,443
Reinsurance		
At beginning of the reporting year	(4,102,780)	(301,729)
Net credit to profit and loss for the year	(2,248,030)	(3,801,051)
Effect of movements in foreign exchange	166,283	-
At end of the reporting year	(6,184,527)	(4,102,780)
Net		
At beginning of the reporting year	1,850,663	345,283
Net charge to profit and loss for the year	3,937,549	1,505,380
Effect of movements in foreign exchange	6,433	-
At end of the reporting year	5,794,645	1,850,663

10. **Deferred acquisition costs**

	2020 £	2019 £
At beginning of the reporting year	1,041,068	340,566
Net amount credited to profit and loss (Note 12)	1,301,682	700,502
Effect of movements in foreign exchange (Note 12)	3,883	-
Gross deferred acquisition costs at end of reporting year	2,346,633	1,041,068
At beginning of the reporting year	(273,521)	(89,336)
Net charge to profit and loss (Note 12)	134,587	(184,185)
Effect of movements in foreign exchange (Note 12)	5,616	-
Deferred reinsurance commissions at end of reporting year	(413,724)	(273,521)
At beginning of the reporting year	767,547	251,230
Net amount credited to profit and loss (Note 12)	1,167,095	516,317
Effect of movements in foreign exchange (Note 12)	(1,733)	-
Net deferred acquisition costs at end of reporting year	1,932,909	767,547

10. Deferred acquisition costs - continued

Deferred acquisition costs are classified as follows:

	2020 £	2019 £
Current	791,734	519,543
Non-Current	1,554,899	521,525
Gross deferred acquisition costs at end of reporting year	2,346,633	1,041,068
Current	(333,722)	(273,444)
Non-Current	(80,002)	(77)
Deferred reinsurance commissions at end of reporting year	(413,724)	(273,521)
Current	458,012	246,099
Non-Current	1,474,897	521,448
Net deferred acquisition costs at end of reporting year	1,932,909	767,547

11. Creditors arising out of direct insurance operations

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

	Expected cash flows (undiscounted)				Carrying amount
	0 – 1 year	1 – 2 years	3 - 5 years	> 5 years	
	£	£	£	£	£
31 December 2020					
Insurance Creditors due to parent	911,747	569,728	561,570	188,585	2,231,630
Insurance Creditors due to intermediaries	3,217,750	-	-	-	3,217,753
Reinsurance Creditors	1,412,625	-	-	-	1,412,625
	5,542,119	569,728	561,570	188,585	6,862,008
31 December 2019					
Insurance Creditors due to parent	759,052	393,456	379,469	107,960	1,639,937
Insurance Creditors due to intermediaries	980,689	-	-	-	980,689
Reinsurance Creditors	235,367	-	-	-	235,367
	1,975,108	399,456	379,469	107,960	2,855,993

12. Net operating expenses

a. Net operating income

	2020 £	2019 £
Reinsurance commissions receivable	1,021,445	712,487
Change in deferred reinsurance commissions (Note 10)	(134,587)	(184,185)
Effect of movements in foreign exchange (Note 10)	(5,616)	-
	881,242	528,302

The above was allocated to the technical account.

b. Net operating expenses

	2020 £	2019 £
Acquisition costs	4,691,958	5,452,193
Change in deferred acquisition costs (Note 10)	(1,301,682)	(700,502)
Effect of movements in foreign exchange (Note 10)	(3,883)	-
Administration fees	688,367	89,966
Directors' fees	53,381	47,205
Other expenses	699,111	425,543
	4,827,252	5,314,405
Allocated to the technical account	4,074,760	4,841,65
Allocated to the non-technical account	752,492	472,74
	4,827,252	5,314,40

Total commissions for direct business accounted for in the financial year amounted to £4,430,516 (2019: £5,236,595).

Fees charged by the auditor (net of VAT and out-of-pocket expenses) for services rendered during the financial periods ended 31 December 2020 and 2019 related to the following:

	2020 £	2019 £
Annual statutory audit	57,000	47,000
Tax advisory and compliance services	2,708	1,658
Other assurance services	17,100	16,200
	76,808	64,858

13. Investment return

	2020 £	2019 £
Investment income		
Net gains from financial assets at fair value through profit or loss	107,686	280,106
Interest receivable from loans and receivables	190,591	253,467
Dividends from equity	3,523	9,216
	301,800	542,789
Investment expenses and charges		
Exchange differences (losses)	(15,526)	(58,939)
Transaction charges	(35,544)	(24,893)
	(51,070)	(83,832)
Net investment return	250,730	458,957
Allocated to the technical account	158,738	212,753
Allocated to the non-technical account	91,992	246,204
	250,730	458,957

14. Taxation

The tax expense for the year comprises:

	2020 £	2019 £
Current tax	385,737	89,827
Tax expense	385,737	89,827

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2020 £	2019 £
Profit before tax	1,102,485	254,003
Tax at 35%	385,870	88,901
Disallowed expenses / (non-taxable income)	(133)	926
Tax expense	385,737	89,827

15. Dividends

	2020 £	2019 £
Net dividends to ordinary shareholders	272,661	677,382
Dividends per share	0.03	0.08

16. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2020 £	2019 £
Profit before tax	1,102,485	254,003
Adjustment for:		
Investment return	(301,800)	(542,664)
Movements in:		
Debtors and prepayments	(4,933,632)	1,093,184
Deferred acquisition costs	(1,305,565)	(700,502)
Reinsurance share of technical provisions	(3,073,377)	(3,814,582)
Creditors and accruals	4,774,388	148,252
Deferred reinsurance commissions	140,203	184,185
Technical provisions	8,170,341	5,499,319
Cash generated from operations	4,543,043	2,121,195

The movement in creditors and accruals are net of non-cash transaction amounting to £1,759,587 being the inter-company balance with the Company's immediate shareholder as at year-ended 2019 and which was capitalised during the current year in the form of a capital contribution.

17. Related parties

Keystone Legal Benefits Limited, the Company's parent (Note 18), is considered by the directors to be a related party. Keystone Legal Benefits Limited is one of the main underwriting agents of the Company in the UK.

The following expense transactions were carried out by the Company with its parent undertaking:

	2020 £	2019 £
Acquisition costs	3,487,888	2,347,809
Administration fees	688,283	89,966
Claims handling fees	84,148	60,806

17. Related parties - continued

Year-end balances owed by and to the immediate parent undertaking, arising principally from the above transactions and cash advances are unsecured, interest-free and repayable upon the terms of the agency and sub-agency agreements in force. The following are the balances with the immediate parent undertaking:

	2020	2019
	£	£
Insurance Debtors	2,430,643	856,184
Non-Insurance Debtors	1,621,887	-
Insurance Creditors	(22,487)	(11,212)
Non-Insurance Creditors	-	(1,086,767)
	<hr/>	<hr/>

The above £2,430,643 (2019: £856,184) includes amounts due from sub-agents of the related party, Keystone Benefits Limited. The above £22,487 (2019: £11,212) includes amounts due to sub-agents of the related party, Keystone Benefits Limited.

During the year, the immediate parent company's reinvested £2,032,248 (2019: Nil) into the Company by way of capital contribution, out of which £1,759,587 involved the capitalisation of balance included within non-insurance creditors above.

Directors' fees are disclosed in Note 12 to the financial statements.

18. Statutory information

Bastion Insurance Company Limited is a limited liability Company and is incorporated in Malta. The immediate parent company of Bastion Insurance Company Limited is Keystone (Legal Benefits) Limited, a company registered in England and Wales, with its registered address at Chart House, 2 Effingham Road, Reigate, Surrey, RH2 7JN. The ultimate parent company of Bastion Insurance Company Limited is Keystone Holdco Limited, a company registered in England and Wales, with its registered address at Beaumont House, Auchinleck Way, Aldershot, Surrey, GU11 1WT.