

BASTION INSURANCE COMPANY LIMITED

Annual Report and Financial Statements
31 March 2023

	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	19
Notes to the financial statements	20 – 68

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2023.

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 – Fire and natural forces 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 till December 2021. During 2022, the Company terminated three of its agency agreements and is currently assuming 100% of the risk for the business written by three of its agents while the business written by the other agents is subject to a 70% quota share reinsurance. In addition, another sub-agency was also introduced throughout the year providing cover for key insurance under Miscellaneous Financial Loss in UK, for which the Company is assuming 100% of the risk.

During 2021, the Company started writing Home Insurance policies in Norway falling under classes 8 – Fire and natural forces, 9 – Other Damage to Property, 13 – General Liability and 17 – Legal Expenses, excluding legal business, subject to a 90% quota share reinsurance, which agreements have been terminated as from 31 December 2022. The Company, through its new agency agreements, started selling two additional products - Pet Insurance in the UK, falling under classes 9 – Other Property Damage and 16 – Miscellaneous Financial Loss, subject to a 92.5% quota share reinsurance in February 2021 and SmartCare and GAP falling under classes 3 - Land vehicles (other than railway rolling stock) and 16 - Miscellaneous Financial Loss in July 2021.

The Company has started writing Equine Insurance, falling under classes 9 – Other Property Damage and 16 – Miscellaneous Financial Loss, subject to a 92.5% quota share reinsurance in March 2022. In November 2022, the Company has signed a new sub-agency agreement, to start writing Furniture warranties in UK, falling under class 9 – Other Property Damage.

Review of the business

The Company changed the end of its reporting period from 31 December to 31 March. This has been effective as from the closing financial year end 31 March 2022, resulting in comparative historical financial information period of fifteen months.

During the year ended 31 March 2023, Bastion Insurance Company Limited recorded net earned premium income of £12,763,160 (31 March 2022: £11,720,631). The total profit after tax for the year amounted to £1,668,702 (31 March 2022: £1,695,950).

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 2022, the Company continued to expand its business of insurance by started writing new business; Equine Insurance and Furniture Warranties under previously licensed classes of business, as described in the principal activities section above.

The Company has in place appropriate procedures to monitor the business written and ensures that key functions are properly controlled and monitored. As part of its monitoring activities, the Company exercises oversight over its agency network.

Directors' report - continued

Review of the business- continued

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.

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), net claims experience and levels of cash generated from operations.

Total net premium income for the year ended 31 March 2023 amounted to £15,147,616 (31 March 2022: £15,683,016), of which £1,004,772 (31 March 2022: £1,029,441) relates to additional premium from agency and sub-agency agreements entered into during current reporting period and £14,142,844 (31 March 2022: £14,653,575) relates to premium from agents and sub-agency agreements entered into in prior years. Furthermore, the above is inclusive of an upward revision of premium reserves amounting to £151,314 (after management margin and related costs) for prior years in respect of legal expenses (31 March 2022: £999,543). 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 for the year ended 31 March 2023 amounted to £4,294,893 (31 March 2022: £7,392,455).

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).

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.

Directors' report - continued

Significant risks and uncertainties - continued

Brexit

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 Brexit transition period. It is understood that this will only be possible via the establishment of a (i) branch or (ii) subsidiary in the UK. It is the Company's intention to set up a branch in the UK and has meanwhile availed itself of the Temporary Permissions Regime (TPR). 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 issued confirmation of entry of Bastion to the TPR.

In addition, during 2021 the Company submitted 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. During 2022/23, the PRA followed up on the application, with some queries and documentation requests, which were provided by Bastion accordingly. As at reporting date, the Company is still waiting for the Branch authorisation.

Military conflict in Ukraine and current macroeconomic environment

During the Financial Year End 31 March 2022, the investment portfolio valuation compared with December 2020 has suffered a loss of 10% on debt securities and 4% loss on equities. The military conflict in Ukraine which started in March 2022, continued to affect the investments. As a result, on 31 March 2022, the Board of Directors decided to liquidate 98% of its debt securities and equity investment portfolio.

Following the liquidation of the Debt and Equity Investments portfolio, the Company has reinvested its proceed, into short-term deposits held with NatWest and Barclays. This had a positive impact on the Net Investment return which amounted to £258,593 for the year (31 March 2022: £-307,015), with the main increase resulting from bank interest income on short-term deposits.

To date, there had been no impact on the liquidity position of the Company, and it did not encounter any difficulties in recovering outstanding debts from any of its operating, as a consequence of changes to the macroeconomic environment. The Company is exposed to the effects of rising inflation levels, particularly in relation to the cost of setting claims.

The Company's reserves are calculated using methodologies that implicitly allow for future inflation (based on that implied from historical data) or that require explicit assumptions of expected future inflation. It is possible that actual inflation may defer and that this is a source of uncertainty.

Going Concern

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 the above-mentioned uncertainties with the Company maintaining enough capital to ensure that it is well equipped to maintain operations and continue operating for the foreseeable future. The directors are satisfied that the Company has sufficient financial resources and plans in place for it to operate as a going concern.

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.

Directors' report - continued

Results and dividends

The results for the year are set out in the income statement on pages 16 and 17.

On 11th January 2023, the MFSA has authorised the Company, to declare an interim dividend of £1,616,648 (31 March 2022: £0). In line with Bastion's Dividend Policy, the directors and shareholders, agreed to re-capitalise £756,648 from this dividend distribution, back into Bastion as a Capital Contribution. Furthermore, the shareholders agreed, that once the tax refund of £746,145, related to this dividend distribution, is received, it will also be recapitalised in Bastion in the form of Capital Contribution. However, as at the end of the financial year March 2023, the tax refund was not yet issued by the authorities.

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.

IFRS 17

During the financial period, the Company continued to make progress on the implementation of IFRS 17 project. Key accounting policies have been partly completed and endorsed by the Board of Directors and the audit process has commenced but is still ongoing. The nature of the changes in accounting policies, to the extent that the Company has assessed so far, are summarised in note 1.2 to the 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- (*Deceased 8 May 2023*)
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 year and of the profit or loss for that year.

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 Maltese Companies Act (Cap. 386). 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 March 2023 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.

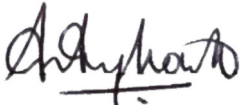
Auditors

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.

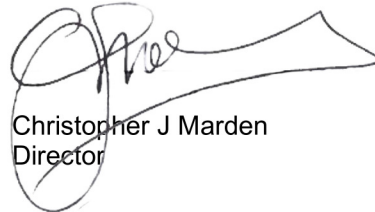
Actuaries

The Company's actuarial function holder 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

7 July 2023



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 March 2023, 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 68, comprise:

- the statement of financial position as at 31 March 2023;
- 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 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 April 2022 to 31 March 2023, are disclosed in note 12 to the financial statements.

Our audit approach

Overview



Overall materiality: £301,325, which represents 1% of the gross written premium (excluding a fully reinsured policy) for the financial year ended 31 March 2023

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>	£301,325
<i>How we determined it</i>	1% of the gross written premium (excluding a fully reinsured policy) for the financial year ended 31 March 2023
<i>Rationale for the materiality benchmark applied</i>	We chose gross written premium as the benchmark because it has been identified as a key financial statement metric used in assessing the performance of the company. 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 £30,130 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
<p>Valuation and accuracy of projected ultimate premium receivable and claims outstanding</p> <p>The estimation of ultimate premium receivables and ultimate claims liabilities required judgement <i>inter alia</i> in the selection of key assumptions and methodologies.</p> <p>As disclosed in notes 1.11, 2.2 and 5 to the financial statements, premium recognition pertaining to the core insurance business (£2.29m) involves a significant degree of estimation. Premium in relation to the core insurance business and 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.</p> <p>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 the future years. The estimates also consider the trail 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>In order to estimate claims outstanding (of the core insurance business), as disclosed in notes 1.11, 2.3 and 9 to the financial statements (£1.29m), the Company uses estimation techniques based on the statistical analysis provided by the Company's underwriting agent.</p>	<p>Our audit procedures addressing the valuation and accuracy of the Company's ultimate premium receivables and ultimate claims outstanding included the following procedures involving our actuarial expert team:</p> <ul style="list-style-type: none">• 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 discussion 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 assumption 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, understanding the variations as compared to the actuarial best estimate reserves;• 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 estimates and understanding the reasons for material variations; and



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Key audit matter

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 reference to the stage of development of the policies. The estimates also consider the tail of each underwriting year which is assessed at each reporting period end on the basis of an anticipated closure of any given underwriting year.

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 (£8.97m) through the use of target loss ratios. These ratios are based on information provided by the intermediaries as well as emerging claims development policies launched since 2018, which ratios are at all times subject to approval by the directors.

The Company has engaged an independent actuary in order to *inter alia*: 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, for post-LASPO policies, no one underwriting year is fully closed contributes to further uncertainty. In relation to the other general insurance business, as from this reporting period, for those lines where there are sufficient volumes of data, the actuarial function has been able to carry out a more thorough analysis of the loss ratios, albeit the booked reserves continue to exceed the best estimate calculated by the actuarial function. The fact that there is limited historical development data contributes to uncertainty.

Notes 5 and 9 contain further information on the development of premium and claims estimates during the period.

We focused on this area due to its inherent subjectivity and complexity (refer to note 3 to the financial statements).

How our audit addressed the Key audit matter

- we considered the extent of related disclosures to the financial statements.

Based on the work performed, we found the recognised amounts to be consistent with the explanations and evidence obtained.

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 receivables and ultimate claims outstanding.



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.

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.



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

- 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, future events or conditions may cause the Company to cease to continue as a going concern.
- 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.

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.



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2023* 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 2023 and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report (on pages 1 to 5) 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 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>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>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>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p> <p>We have nothing to report to you in respect of these responsibilities.</p>



Independent auditor's report - continued

To the Shareholders of Bastion Insurance Company Limited

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 18 years.

PricewaterhouseCoopers

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

A handwritten signature in black ink, appearing to read 'Cardona', written in a cursive style.

Christopher Cardona
Partner

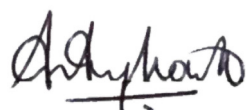
7 July 2023

Statement of financial position

		As at 31 March	
		2023	2022
		£	£
ASSETS	Notes		
Investments	4	21,644,322	5,771,819
Deferred acquisition costs	10	5,551,216	4,815,398
Reinsurer's share of technical provisions	9	18,580,658	13,957,155
Receivables			
Debtors arising out of direct insurance and reinsurance operations	5	6,548,982	7,178,905
Other debtors	5	1,268,491	1,182,930
Prepayments and accrued income	5	255,048	68,397
Cash and cash equivalents	6	6,244,317	18,857,588
Total assets		60,093,034	51,832,192
EQUITY			
Capital and reserves			
Called up issued share capital	7	8,000,000	8,000,000
Capital contribution	7	3,788,896	3,032,248
Retained earnings		3,356,358	3,304,304
Total equity		15,145,254	14,336,552
LIABILITIES			
Technical provisions	9	34,666,973	27,302,735
Creditors			
Creditors arising out of direct insurance and reinsurance operations	11	6,306,192	6,735,774
Other creditors		217,923	127,951
Taxation		1,816,256	1,298,380
Deferred reinsurance commission	10	1,617,158	1,709,762
Accruals and deferred income		323,278	321,038
Total liabilities		44,947,780	37,495,640
Total equity and liabilities		60,093,034	51,832,192

The official rate of exchange between GBP and Euro issued by the European Central Bank as at 31 March 2023 was 0.8792 (2022: 0.84595).

The notes on pages 20 to 68 are an integral part of these financial statements. The financial statements on pages 15 to 68 were authorised for issue by the Board on 30 June 2023 and were signed on its behalf by:



Anthony D J Mowatt
Director



Christopher J Marden
Director

Income statement

Technical account - General Business

		12 months to 31 March	15 months to 31 March
		2023	2022
	Notes	£	£
Earned premiums, net of reinsurance			
Gross premiums written		44,900,040	41,863,416
Outward reinsurance premium		(29,752,424)	(26,180,400)
Net premiums written		15,147,616	15,683,016
Change in the gross provision for unearned premiums and unexpired risk	9	(4,194,734)	(8,230,322)
Change in the provision for unearned premiums and unexpired risk, reinsurance share	9	1,810,278	4,267,937
Earned premiums, net of reinsurance		12,763,160	11,720,631
Net operating income	12(a)	4,197,214	2,510,831
Allocated investment gain/(loss) transferred from the non-technical account	13	166,273	(187,321)
Total technical income		17,126,647	14,044,141
Claims incurred, net of reinsurance			
Claims paid			
– gross amount	9	28,220,141	13,326,631
– reinsurers' share	9	(22,097,519)	(8,793,695)
		6,122,622	4,532,936
Change in the provision for claims			
– gross amount	9	3,169,505	1,828,532
– reinsurers' share	9	(2,813,225)	(2,356,518)
Net change in the provision for claims		356,280	(527,986)
Claims incurred, net of reinsurance		6,478,901	4,004,950
Net operating expenses	12(b)	7,216,934	6,202,588
Total technical charges		13,695,835	10,207,538
Balance on the technical account for general business (page 17)		3,430,812	3,836,604

The notes on pages 20 to 68 are an integral part of these financial statements.

Income statement - continued

Non-technical account

		12 months to 31 March	15 months to 31 March
		2023	2022
	Notes	£	£
Balance on the technical account for general business (page 16)		3,430,812	3,836,604
Investment income/ (expenses and charges)	13	258,593	(307,015)
Allocated investment (gain)/loss transferred to the general business technical account	13	(166,273)	187,321
Administrative expenses	12(b)	(950,386)	(1,107,198)
Profit before tax		2,572,746	2,609,712
Tax expense	14	(904,044)	(913,762)
Profit for the financial year/period		1,668,702	1,695,950

Statement of comprehensive income

		12 months to March	15 months to March
		2023	2022
		£	£
Profit for the year/period		1,668,702	1,695,950
Total comprehensive income for the year/period		1,668,702	1,695,950

The notes on pages 20 to 68 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital £	Retained earnings £	Capital contribution £	Total £
Balance at 1 January 2021		8,000,000	1,608,354	2,032,248	11,640,602
Transactions with owners					
Capital contribution	7	-	-	1,000,000	1,000,000
Total comprehensive income					
Profit for the period – total comprehensive income		-	1,695,950	-	1,695,950
Balance at 31 March 2022		8,000,000	3,304,304	3,032,248	14,336,552
Balance at 1 April 2022		8,000,000	3,304,304	3,032,248	14,336,552
Transactions with owners					
Capital contribution	7	-	-	756,648	756,648
Dividend paid	8,15	-	(1,616,648)	-	(1,616,648)
Total transactions with owners		-	(1,616,648)	756,648	(860,000)
Total comprehensive income					
Profit for the year – total comprehensive income		-	1,668,702	-	1,668,702
Balance at 31 March 2023		8,000,000	3,356,358	3,788,896	15,145,254

The notes on pages 20 to 68 are an integral part of these financial statements.

Statement of cash flows

		12 months to 31 March	15 months to 31 March
	Notes	2023 £	2022 £
Operating activities			
Cash generated from operations	16	4,515,882	7,284,604
Interest received		160,267	184,471
Dividends received		4,912	12,946
Taxation paid		(386,168)	(89,566)
Net cash generated from operating activities		4,294,893	7,392,455
Investing activities			
Purchase of investments		(10,363)	(1,665,509)
Proceeds from disposal of investments		5,162,199	1,784,320
Placement of deposits with banks		(21,200,000)	-
Net cash (used in) / generated from investing activities		(16,048,164)	118,811
Financing activities			
Capital contribution		-	1,000,000
Dividend paid		(860,000)	-
Net cash (used in) / generated from financing activities		(860,000)	1,000,000
Net movement in cash and cash equivalents		(12,613,271)	8,511,266
Cash and cash equivalents at beginning of year		18,857,588	10,346,322
Cash and cash equivalents at end of year	6	6,244,317	18,857,588

The notes on pages 20 to 68 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 till December 2021. During 2022, the Company terminated three of its agency agreements and is currently assuming 100% of the risk for the business written by three of its agents while the business written by the other agents is subject to a 70% quota share reinsurance. In addition, another sub-agency was also introduced throughout the year providing cover for key insurance under Miscellaneous Financial Loss in UK, for which the Company is assuming 100% of the risk.

During 2021, the Company started writing Home Insurance policies in Norway falling under classes 8 – Fire and natural forces, 9 – Other Damage to Property, 13 – General Liability and 17 – Legal Expenses, excluding legal business, subject to a 90% quota share reinsurance, which agreements have been terminated as from 31 December 2022. The Company, through its new agency agreements, started selling two additional products - Pet Insurance in the UK, falling under classes 9 – Other Property Damage and 16 – Miscellaneous Financial Loss, subject to a 92.5% quota share reinsurance in February 2021 and SmartCare and GAP falling under classes 3 - Land vehicles (other than railway rolling stock) and 16 - Miscellaneous Financial Loss in July 2021.

The Company has started writing Equine Insurance, falling under classes 9 – Other Property Damage and 16 – Miscellaneous Financial Loss, subject to a 92.5% quota share reinsurance in March 2022. In November 2022, the Company has signed a new sub-agency agreement, to start writing Furniture warranties in UK, falling under class 9 – Other Property Damage.

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 Company changed the end of its reporting period from 31 December to 31 March. The amounts presented for 2023 reporting year are for a 12-month period. Comparative figures are for a 15-month period. Consequently, comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation – continued

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.

Standards, interpretations and amendments to published standards effective for the financial period beginning 1st April 2022

The Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 April 2022. 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.

Standards, interpretations and amendments to published standards that are not yet effective for the financial year beginning 1st April 2022

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2022, and have not been applied in preparing these financial statements. The Company is considering the implications of the below standard on the Company's financial results and position, and the timing of its adoption.

IFRS 17

IFRS 17 'Insurance Contracts' is an International Financial Reporting Standard (IFRS) that was issued by the International Accounting Standards Board (IASB) in May 2017 and amended in June 2020 and is applicable for annual periods beginning on or after 1 January 2023, with early adoption permitted. IFRS 17 was adopted by the European Union ('EU') on 19 November 2021, with an optional exemption regarding the annual cohort requirement. Furthermore, on 9 December 2021, the IASB issued 'Initial Application of IFRS 17 and IFRS 9 - Comparative Information', as an amendment to IFRS 17 and this was endorsed by the European Commission on 9 September, 2022. IFRS 17 will replace IFRS 4. It establishes the principles for the recognition, measurement, presentation and disclosure of contracts within the scope of the standard. IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies and is applicable for financial periods beginning on or after 1 January 2023. The Company has not early adopted IFRS 17 and will apply IFRS 17 for the first time on 1 April 2023.

During the financial period, the Company has continued to make progress on the implementation of IFRS 17 project. The nature of the changes in accounting policies, to the extent that the Company has assessed so far, are summarised below.

Scope, Combination and Separation

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance and re-insurance contracts. The standard defines an insurance contract as, "a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."

When identifying contracts in the scope of IFRS 17, the Company will have to assess whether a set or series of contracts need to be treated as a single contract, and whether embedded derivatives, investment components and goods and services components have to be separated and accounted for under another standard. The Company herein has assessed the impact of the scope changes arising from the application of these requirements as compared to IFRS 4.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation – continued

As part of the Policy Paper 'Scope, Combination and Separation of insurance contracts', management has assessed its contracts based on the standard's respective criteria. It is expected that from all the insurance and reinsurance contracts in place, only two contracts can be grouped as a single contract. These are Vermillion (Insurance Contract) and VET (Re-Insurance Contract). Herein, it is to be noted that the said contracts, (the insurance contracts issued and reinsurance contract held) were entered into with a related counterparty following the definition of related parties in IAS 24, Related Parties Disclosure. However, certain judgements are still under consideration.

It is also expected that the existing insurance contracts in place and the cashflows arising from these contracts, do not relate to embedded derivatives, direct investments, or carry obligation to transfer distinct goods or services. Hence, all the existing insurance contracts fall under the scope of IFRS 17, and that there is no need for separation of non-insurance components.

Furthermore, the Company has considered the assessment of separation of insurance components of a single legal contract. Management expects that the coverage included in most of the insurance contracts does not represent multiple perils, and for the exception of some contracts where there were instances of multiple perils, the Company is unable to measure these separately as these cannot be priced and sold separately. Hence, for the scope of separation of insurance components of a single legal contract, it is expected that the Company would not need to further split the insurance contracts, provided that the lowest unit of account is indeed the insurance product presented in the insurance contract. However, certain judgements are still under consideration.

Contract Boundary for Insurance and Re-Insurance Contracts

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage). A substantive obligation to provide services ends when the Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or the Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks or has a substantive right to terminate the coverage.

Under IFRS 17, cash flows arising from underlying contracts expected to be issued and ceded after the measurement date, in addition to those arising from underlying contracts already ceded, may be within the boundaries of the reinsurance contracts and may have to be considered and estimated in their measurement.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation – continued

Measurement Approach

IFRS 17 introduces a default measurement model based on the estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin (CSM). Within IFRS 17 there are three possible measurement models: the General Measurement Model (GMM), the Premium Allocation Approach (PAA) and the Variable Fee Approach (VFA). The GMM is the “default” measurement model for insurance contracts. Groups of insurance contracts are automatically eligible for the premium allocation approach (‘PAA’) measurement model, if every contract within the group has a coverage period of 12 months or less. For contracts having a coverage period of more than 12 months, prior to opting for the PAA, IFRS 17 requires the company to consider whether or not it reasonably expects that the liability for remaining coverage under the PAA would produce a result that does not differ materially from the general measurement model (‘GMM’).

The Company is currently assessing whether its contracts are PAA eligible. For contracts having a coverage period of more than 12 months, the Company is currently testing if the resulting measurement of the asset for remaining coverage would differ materially from the result of applying the accounting policies described above. The measurement principles of the PAA differ from the ‘earned premium approach’ used by the Company under current IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows plus any adjustment to a financing component (if any), minus any investment component paid or transferred to the liability for incurred claims (if any) and decreased by amounts recognised in revenue for insurance services provided. The word ‘received’ is interpreted literally, rather than interpreted to mean amounts due. Under IFRS 4, the unearned premium provision would have often been set up based on premiums receivable, with a separate asset recorded for the premium receivable in the balance sheet.
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision however not directly comparable)
- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not-reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company’s obligation to pay other directly attributable incurred insurance expenses.
- In the statement of financial position, deferred acquisition cost (DAC) and insurance-related receivables (in so far as premium receivables due from policyholders) will no longer be presented separately, but as part of the insurance liabilities. This change in isolation will lead to a reduction in total assets, offset by a reduction in total liabilities.

Level of Aggregation

Under IFRS 17, insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines and managed by different agents are expected to be in different portfolios. Portfolios should be further disaggregated into groups of insurance contracts that are, on initial recognition:

- onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation – continued

Level of Aggregation - continued

A group can only include contracts that have been issued within one year of each other. When a contract is recognised, it is added to an existing group of contracts or forms a new group to which future contracts may be added (subject to being issued within one year of each other). A group could consist of one contract.

The Company is in a process of conducting a profitability assessment to determine and identify portfolios of contracts in line with the above methodology.

Expenses and Acquisition Costs

Under IFRS 17, it is expected that differentiation is made between directly attributable and non-directly attributable expenses as it allows insurers to accurately measure the profitability of their homogenous insurance contracts and to allocate expenses to the appropriate cohorts. This is particularly important for long-term insurance contracts, where expenses may be incurred upfront, but premiums are received over a longer period. In this regard, the Company analysed all expense accounts to distinguish whether these are attributable related to acquisition, attributable related to fulfilment and non-attributable.

The Company has a mixture of products of both short and long duration (i.e., over 12 months) and expects to measure its group of insurance contracts / reinsurance contracts using the PAA and GMM models accordingly. The 'default' method of calculating the Liability for Remaining Coverage (LRC) is to use the GMM method which consists of a discounted best-estimate of future cash flows (BEL), a risk adjustment (RA), and a contractual service margin (CSM) representing the unearned profit.

On measuring the CSM at initial recognition, paragraph 38 of IFRS 17 states:

The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (*on onerous contracts*) applies, results in no income or expenses arising from:

- a) the initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs 32–37,
- b) the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 27; and
- c) any cash flows arising from the contracts in the group at that date.”

Based on the above analysis, all the insurance acquisitions cash flows together with the fulfilment expenses identified will be factored into the calculation of the CSM and eventually in the LRC in the Company's balance sheet. The only exception is that insurance acquisitions cash flows which relate to 12-month contracts, and henceforth where the Company will opt for the PAA measurement model, will be expensed as incurred, following the standard's accounting policy choice. For the PAA eligible contracts which have a coverage period exceeding one year, it is expected that the insurance acquisition cash flows will be recognised in LRC and recognised over the coverage period.

Discount Rates

The bottom-up approach has been recommended by the Company's actuarial function and is being explored, wherein the Euro Risk-Free Rate (RFR) as published monthly by EIOPA are likely to be applied.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation – continued

Risk Adjustment

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Company would require for bearing non-financial risk and its degree of risk aversion. The Company is considering using the Cost of Capital approach to derive the risk adjustment for its business. The Cost of Capital approach is more readily integrated into the Company's existing risk management framework provided by the ORSA and thus aligned to its risk appetite. In the future, the financial statements will disclose the entity's confidence level.

Estimated impact of the adoption of IFRS 17

Management has considered the implications, interpretations and industry practice of the standard and its impact on the Company's financial results and position. The Company's IFRS 17 implementation project is ongoing. The assessment of the impact on the Company's financial statements for the year ended 31 March 2024 is in progress, however, at the time of approval of these financial statements, given that certain judgements are still under consideration, a reasonable estimate of the financial impact cannot be provided at this stage. Nonetheless, the Company has the above mentioned expectations as to the impact compared with its current accounting policy for insurance.

Presentation and disclosure

IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies, including in so far as the presentation of the financial statements are concerned.

The components of the income statement and statement of financial position will change as compared to current practice under IFRS 4.

- Under IFRS 17, portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on an aggregate basis; therefore, balances such as insurance receivables and payables in scope of IFRS 17 will no longer be presented separately.
- Under IFRS 17, amounts recognised in the income statement are disaggregated into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. Amounts from reinsurance contracts will be presented separately.

There will also be additional notes to the financial statements, including detailed reconciliations.

IFRS 9

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.

2. Summary of significant accounting policies - continued

1.2 Basis of preparation – continued

IFRS 9 - 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 align to the effective date of IFRS 17, 'Insurance Contracts', which is applicable to on annual periods beginning on or after 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).

Change in Classification under IFRS 9

Financial assets will initially be recognised at fair value including transaction costs. The subsequent measurement will depend on the nature of the Financial Asset.

For Investments, currently being accounted for through fair value through profit and loss (FVTPL), classification will remain the same under IFRS 9, meaning that any remeasurement gain or loss, will be reported through profit and loss.

For trade receivables and term deposits previously classified as 'loans and receivables' under IAS 39, these will be classified under financial assets measured at amortised cost under IFRS 9.

Financial Liabilities will initially be recognised at fair value net of transaction costs, subsequently these will be measured depending in the nature of the liability. For those financial liabilities that will be held within the business with the objective of collecting contractual cashflows and their terms give rise to payments of principal and interest, the amortised cost model will be used, such as for trade payables.

Estimated impact of the adoption of IFRS 9

The Company is not in a position to disclose known or reasonably estimable information relevant to assessing the possible financial impact that the application of IFRS 9 will have on its financial statements for the year ended 31 March 2023, provided that as at year end this is still under review.

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's main investment is in short term deposits.

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 period-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. Translation differences on technical provisions (Note 9) are reported as part of the movement in technical provisions in profit 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 the time of purchase and re-evaluate such designation at every reporting date.

(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.

1. Summary of significant accounting policies - continued

1.4 Financial assets - continued

1.4.1 Classification - continued

(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).

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.

1.4.2 Recognition and measurement

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. Summary of significant accounting policies - continued

1.4 Financial assets - continued

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.

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.

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. Summary of significant accounting policies - continued

1.8 Current and deferred income tax

The tax expense for the period 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.

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 (loss)/gain' 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. Summary of significant accounting policies – continued

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.

Recognition and measurement

The company distinguishes between:

- policies related to the legal expense insurance 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 period January 2018 to March 2023 (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. 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 (2022: 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 had its risk margin element of £150,000 (2022: £150,000) removed, provided that most of the CFA Pre-Laspo policies were closed off, the estimated closing receivables now falls below this margin.

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.

Unexpired risk is also provided for those agents and sub-agents that have an ultimate combined loss ratio of greater than 100%. This reserve covers the expected claims and expenses arising from active portfolios after the reporting date.

1. Summary of significant accounting policies – continued

1.11 Insurance contracts - continued

(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.

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% (2022: 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.

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.

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.

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 period 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 year:

Core business

- i. Limited cover under ATE legal expenses was being re-insured with Alternative ARM Insurance Limited. This agreement has been terminated on 30th April 2022, and all this risk is now being borne by Bastion.

1. Summary of significant accounting policies - continued

1.11 Insurance contracts - continued

(e) Reinsurance contracts held (continued)

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, pet insurance and BTE legal expenses insurance cover which is 90% reinsured with Winward Insurance PCC Limited;
- 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) up till December 2021. From January 2022, the quota share was amended to 70% of the risks underwritten by five agents. The Company decided to retain 100% of the risks underwritten by the other four agents. However, on 31 December 2022, the Company terminated two agency agreements as well as the reinsurance agreement with Ocean Re.
- v. From January 2023, the Company entered into another reinsurance agreement with DEVK RE (a company that is A+ rated) to cede 70% of the premium written by three specific portfolios selling GAP, motor warranty and employer's liability.
- vi. 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;
- vii. Both the pet and equine insurance are 92.5% reinsured with Allianz Se, a company that is AA rated;
- viii. Home insurance, excluding the legal portion, is 90% reinsured till 31 December 2022 with Builders Reinsurance S.A, a company that 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.

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 2021, the Company concluded three further agency agreements outside Keystone Legal Benefits to carry on the business of Home insurance in Norway, Pet insurance in UK and SmartCare and GAP in Ireland, falling under a number of classes, namely Class 3 (Land Vehicles), Class 8 (Fire and Natural Forces), Class 9 (Other Property Damage), Class 13 (General Liability), Class 16 (Miscellaneous Financial Loss) and Class 17 (Legal Expenses). Although, in 2022, the Company terminated three of its existing agency agreements, it also concluded another sub-agency and agency agreement in the UK.

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

2. Management of risk - continued

2.1 Business risk - significant risks and uncertainties - continued

Brexit

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 Brexit 'transition period'. It is understood that this will only be possible via the establishment of a (i) branch or (ii) subsidiary in the UK. It is the Company's intention to set up a branch in the UK and has meanwhile availed itself of the Temporary Permissions Regime (TPR). 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 issued confirmation of entry of Bastion to the TPR.

In addition, during the year 2021 the Company submitted 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. During 2022/23, the PRA followed up on the application, with some queries and documentation requests, which were provided by Bastion accordingly. As at reporting date, the Company is still waiting for the branch authorisation.

Military conflict in Ukraine and current macroeconomic environment

During the Financial Year End 31 March 2022, the investment portfolio valuation compared with December 2020, has suffered a loss of 10% on debt securities and 4% loss on equities. The military conflict in Ukraine which started in March 2022, continued to affect the investments. As a result, on 31 March 2022, the Board of Directors decided to liquidate 98% of its debt securities and equity investment portfolio.

Following the liquidation of the Debt and Equity Investments portfolio, the Company has reinvested its proceeds into short-term deposits held with NatWest and Barclays. This had a positive impact on the Net Investment return amounting to £258,593 (31 March 2022: £-307,015), with the main increase resulting from bank interest income on short-term deposits.

To date, there had been no impact on the liquidity position of the Company, and it did not encounter any difficulties in recovering outstanding debts from any of its operating, as a consequence of changes to the macroeconomic environment. The Company is exposed to the effects of rising inflation levels, particularly in relation to the cost of setting claims.

The Company's reserves are calculated using methodologies that implicitly allow for future inflation (based on that implied from historical data) or that require explicit assumptions of expected future inflation. It is possible that actual inflation may defer and that this is a source of uncertainty.

Going Concern

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

2. Management of risk - continued

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. In 2021, the Company has also entered into an additional three direct agency agreements out of Keystone Legal Benefits. In 2022, the Company has terminated three of its agreement and entered into an additional sub-agency and direct agency agreements.

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, key insurance, terrorism and business interruption, rent guarantee, home insurance, pet insurance, equine insurance and furniture warranty. 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 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.

2. Management of risk - continued

2.2 Insurance risk - continued

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. This agreement however was terminated in April 2022.

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.

In 2020, 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 up till December 2022. After which, the Company decided to transfer only 70% of the risk written through specific insurance business.

During 2021, the Company entered into an additional two reinsurance arrangements covering additional policies launched in 2021: Home Insurance and Pet Insurance. The Company transferred 90% on Home Insurance up till 31 December 2022. With respect to Pet Insurance, the Company transfers 92.5% of the written risk. The latter also applies to the new product; Equine Insurance, which is reinsured with the same reinsurer during the year 2022.

(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 the 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 the 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.

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

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 on post-LASPO policies 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. Up to 2020, at each period end an assessment of the anticipated tail was made. During these last two financial periods, the methodology was updated slightly such that the tail is now estimated by extending “run off patterns” to remove the reliance on “ultimate factors” used in previous years. The impact of this change was not significant. 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 March 2023 and March 2022 reflects actuarial adjustments to cater for the emerging experience of pre- and post-LASPO policies.

As a result of the prospective adjustment to cater for changes in estimates, estimated ultimate premium receivable for 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 £1.4 million (31 March 2022: £1.7 million). The impact of this adjustment after the related expense adjustments but before tax effect, amounted to a favourable of £151,314 (31 March 2022: £999,543).

The estimated premium receivable for pre-LASPO is net of a risk margin element of £0 (31 March 2022: £150,000), whilst that of the post-LASPO is net of a risk margin of 20% (31 March 2022: 20%) to cater for the increased level of uncertainty.

(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. As a result of 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 recognised in the financial statements duly covers such uncertainty.

2. Management of risk - continued

2.2 Insurance risk – continued

(b) Frequency and severity of claims - continued

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 was not directly impacted by the 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 seven sub-agents in the UK, three agents that have operated in the respective sectors of business in the UK for a number of years, and agents operating in Poland and Ireland. The Company is also accepting its risks through seven underwriting agents (five of which are collectively managed through a Managing Agent) that have operated in the respective sectors of business in France 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 understand their underwriting and claims management processes as well as assess the 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 mitigate its net risk exposure. The Company actively monitors the financial soundness of its reinsurers and Note 2.3 contains further information pertaining to credit risk.

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

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 and experience to date has shown this to be the case. 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.

2. Management of risk - continued

2.2 Insurance risk – continued

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

Core insurance business

In relation to these policies, the Company uses a combination of estimation techniques, based mainly on a 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, in relation to Post LASPO, 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 supplemented by benchmarking to internal statistics maintained by the Company. The main source of uncertainty is due to the fact that this is new business introduced during the years 2018 to 2023 and therefore there is limited company-specific empirical data. However, claims are reported regularly and the payment of such claims has been, and is expected to remain 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.

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 outstanding received from each of the agents or sub-agents, whilst the IBNR is based on projected loss ratios. At each period end an assessment of the actual loss ratios as compared to the projected loss ratio is made. The Company has engaged the services of an actuary to assess the technical provisions.

Reinsurance

The Company's strategy is to primarily assume risk of at least 10% on 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 / higher net retention.

The Company had a number of reinsurance arrangements in place during the year under review and most of the agreements remain currently in force (Note 1.11 (e))

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 year to be immaterial.

Liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and are 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. Given the minimal amount of exposures in foreign currency, the directors do not consider currency risk to be significant.

(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.

2. Management of risk - continued

2.3 Financial risk – continued

(iii) Other price risk - continued

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

	2023	2022
	£	£
Assets subject to equity price risk consist of:		
- equity securities (Note 4)	363,434	823,337

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 +/- £36,343 (2022: +/- £82,334).

(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 56% (March 2022: 44%) of premium debtors receivable fell due for payment.

The directors do not consider credit risk on the premium receivable from the core insurance business 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 due from a related entity (directly or indirectly through sub-agency agreements), as well as from the seventeen (2022: nineteen) intermediaries. The Company actively monitors the ageing of its receivables from intermediaries to ensure that all balances are well performing. At 31 March 2023, most of the balances fell within credit terms as agreed with the respective intermediaries. Those balances which fell outside credit terms are being monitored by management. For this financial year, a bad debt was recognised and a provision for bad debt was accounted for in respect to another agent, whose amount is long outstanding.

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 three rated reinsurers (Note 1.11 (e)). 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.

2. Management of risk - continued

2.3 Financial risk – continued

(b) Credit risk – continued

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+.

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 March 2023
Credit Rating

S&P/Fitch Ratings	AA £'000	A+	A	A- £'000	BBB+	BBB £'000	BBB-	BB+ £'000	BB- £'000	B+	B £'000	Not rated £'000	Carrying value in statement of position £'000
Financial assets at fair value through profit and loss- Debt Securities	-	-	-	-	41	40	-	-	-	-	-	-	81
Loans and receivables													
Cash and cash equivalents	-	-	-	6,112	-	-	5	-	-	-	-	127	6,244
Short term deposits	-	-	-	21,200	-	-	-	-	-	-	-	-	21,200
Debtors	-	-	-	-	-	-	-	-	-	-	-	7,817	7,817
Prepayments and accrued income	-	-	-	234	1	-	-	-	-	-	-	20	255
Reinsurer's share of technical provisions	7,583	346	-	6,435	-	-	-	-	1,748	-	-	2,469	18,581
Total loans and receivables													<u>54,097</u>
													<u>54,178</u>

2. Management of risk - continued
2.3 Financial risk - continued
(b) Credit risk – continued

31 March 2022
Credit Rating

S&P/Fitch Ratings	AA	A+	A	A-	BBB	BBB	BBB	BBB-	BB+	BB-	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	£'000		
Financial assets at fair value through profit and loss – debt securities	-	-	528	335	1,741	1,028	389	150	93	312	-	-	372	4,948
Loans and receivables														
Cash and cash equivalents	-	18,116	-	-	-	-	280	-	-	-	-	-	462	18,858
Debtors	-	-	-	-	-	-	-	-	-	-	-	-	8,362	8,362
Prepayments and accrued income	-	-	2	4	28	12	4	-	2	4	-	-	12	68
Reinsurer's share of technical provisions	4,431	795	40	6,630	-	-	-	-	-	-	-	-	2,061	13,957
Total loans and receivables														41,245
														46,193

2. Management of risk - continued

2.3 Financial risk - continued

(b) Credit risk - continued

At 31 March 2023, the carrying value of the Company's debtors represents the maximum amount of exposure to credit risks.

At the end of the reporting year cash and cash equivalents and short term deposits, were held with 4 banking institutions (2022: 5). 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:

31 March 2023	Expected cash flows (undiscounted)				Carrying amount
	0 – 1 year	1 – 2 years	3 - 5 years	> 5 years	
	£	£	£	£	£
Technical provisions	6,571,277	2,055,411	711,339	920,222	10,258,250
Other creditors	217,923	-	-	-	217,923
Income tax payable	912,528	903,728	-	-	1,816,256

31 March 2022	Expected cash flows (undiscounted)				Carrying amount
	0 – 1 year	1 – 2 years	3 - 5 years	> 5 years	
	£	£	£	£	£
Technical provisions	3,686,118	1,224,051	868,166	1,314,906	7,093,241
Other creditors	127,951	-	-	-	127,951
Income tax payable	385,852	912,528	-	-	1,298,380

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 table above excludes the provision for unexpired risk as these claims have not yet been incurred and it is difficult to estimate the expected settlement (Note 9).

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 March 2023 and 31 March 2022 the carrying amounts of cash at bank, loans and 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 year. 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 year:

	2023 £	2022 £
Financial assets at fair value through profit or loss		
Listed debt securities (Level 1)	80,888	4,948,483
Listed equities (Level 1)	-	257,593
Listed exchange traded funds (Level 1)	-	274,263
Non-listed equities (Level 3)	363,434	291,480
	444,322	5,771,819

The Company's investment in non-listed equity securities as at 31 March 2023 amounting to £363,434 (2022: £291,480). These investments were originally valued based on the 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. The investment has subsequently been revalued by reference to the Company's share of the net asset value of the Company and this is the sole movement in value during the reporting period. As such, these investments are categorised as Level 3 (2022: Level 3).

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 March 2023 and 31 March 2022, the Company's eligible own funds adequately covered the required SCR and amounted to £16.5m (unaudited) and £14.8m (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 intermediaries 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 IBNR for all policies and claims outstanding 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 intimated to the Company by the respective intermediaries. The target loss ratios for those other general insurance policies introduced in prior years 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 2022 and 2023, were based on the market experience as provided by the respective agents and sub-agents. The independent actuaries have carried out a review of these loss ratios. 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 IBNR are adequately estimated as at the financial year-end.

4. Investments

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

	2023 £	2022 £
Financial assets at fair value through profit or loss	444,322	5,771,819
Loans and receivables	21,200,000	-
	21,644,322	5,771,819
Financial assets at fair value through profit or loss:		
	2023 £	2022 £
Listed, fixed interest rate debt securities (Level 1)	80,888	4,948,482
Listed equities (Level 1)	-	257,593
Listed exchange traded funds (Level 1)	-	274,263
Non-listed equities (Level 3)	363,434	291,481
	444,322	5,771,819

The maturity of fixed income debt securities from reporting date are detailed below:

	2023 £	2022 £
Between 1 and 2 years	39,840	277,083
Between 2 and 5 years	3	2,998,708
Over 5 years	41,045	1,672,691
	80,888	4,948,482

Loans and receivables:

	2023 £	2022 £
Deposits with banks	21,200,000	-
	21,200,000	-

The maturity of loans and receivables from reporting date are detailed below:

	2023 £	2022 £
Between 0 to 3 months	6,600,000	-
Between 3 months and 12 months	14,600,000	-
	21,200,000	-

The £21.2m (2022: £0m) short term deposit investments, made by the Company, were held with A- rated international banks. These fixed term deposits have an annual gross interest rate varying from 1.14% to 4.42%, and fixed maturity ranging between 3 months to 12 months.

5. Receivables

	2023 £	2022 £
Debtors arising out of direct insurance operations		
Due from policyholders	2,292,291	3,526,827
Due from intermediaries	3,771,821	3,443,161
Due from reinsurers	484,870	208,917
	6,548,982	7,178,905
Other debtors	1,268,491	1,182,930
Prepayments and accrued income		
Accrued interest	235,466	63,901
Other prepayments	19,582	4,496
	255,048	68,397
Total receivables	8,072,521	8,430,232

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 remitted to the company. 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 March 2023, amounts due from policyholders include estimated premium income receivable on these policies amounting to £141,131 (2022: £372,353). As explained in Notes 1.11 and 2.2 no haircut (2022: £150,000) was deducted from the statistically projected receivables due to the small number of open policies and low value of receivables. During this financial year, these premium estimates developed unfavourably resulting in an overall negative variance of £127,881 (2022: negative variance of £108,141), after also considering the impact of related cost.

Sensitivity of estimated debtors on core insurance pre-LASPO policies

Based on the actuarial triangulations, 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 £14,113 (2022: increase of £52,235) or decrease by £14,113 (2022: decrease of £52,235). 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 March 2023, premium receivable on post-LASPO policies amounted to £2,151,164 (2022: £3,154,474). As explained in Notes 1.11 and 2.2 a haircut of 20% (2022: 20%) is deducted from the statistically projected receivables to cater for the uncertainty as a result of the relatively limited data available. During the period April 2022 to March 2023, these premium estimates developed favourably in respect of underwriting years 2013 to 2022 resulting in a positive variance of £513,790 (2022: positive variance of £183,181), after also considering the impact of related costs.

Sensitivity of estimated debtors on core insurance post-LASPO policies

Based on the actuarial calculations, 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 £268,896 (2022: £394,310) or decrease by £268,896 (2022: £394,310). 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.

Bad Debts and Provision for Bad Debts

The Company has taken a specific provision for bad debts amounting to £37,547 (2022: £Nil) in relation to an amount receivable from one of the intermediaries which no longer sells business for the Company, and also recognised a bad debt amounting to £7,533 (2022: £Nil) in relation to another intermediary.

6. Cash and cash equivalents

	2023 £	2022 £
Cash at bank	6,244,317	18,857,588
At floating rates	1,916,858	13,356,238
Non-interest bearing	4,327,459	5,501,350
	6,244,317	18,857,588

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

7. Share capital and reserves

7.1 Share capital

	2023 £	2022 £
Authorised and issued share capital	8,000,000	8,000,000

All shares were issued at par value of £1 each. Shares are fully paid up. The rights associated with the ordinary shares rank at pari passu.

7.2 Capital contribution

	2023 £	2022 £
Opening balance	3,032,248	2,032,248
Increase in capital contribution	756,648	1,000,000
Closing balance	3,788,896	3,032,248

The parties in the capital contribution agreed that this 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.

During this financial period the Company's shareholders invested an additional £756,648 (2022: £1,000,000) as capital contribution in the Company.

8. Dividend

During the period from April 2022 to March 2023, an interim dividend of £1,616,648 was declared and paid (2022: £0). The directors do not expect to propose any further dividend up to the date of approval of these financial statements.

9. Technical provisions

	2023 £	2022 £
Gross – Insurance liabilities		
Claims outstanding – Core business	1,290,090	2,028,187
Claims outstanding – Other general insurance business	2,360,873	1,329,283
Claims incurred but not reported - Other general insurance business	6,611,783	3,735,770
Provision for unearned premium - Other general insurance business	23,358,791	20,209,494
Provision for unexpired risk reserve - Other general insurance business	1,045,436	-
	34,666,973	27,302,735
Recoverable from reinsurers		
Claims outstanding – Core business	-	(11,063)
Claims outstanding – Other general insurance business	(1,742,504)	(1,057,045)
Claims incurred but not reported - Other general insurance business	(4,575,412)	(2,436,583)
Provision for unearned premium - Other general insurance business	(11,326,777)	(10,452,464)
Provision for unexpired risk reserve - Other general insurance business	(935,965)	-
	(18,580,658)	(13,957,155)
Net – Insurance liabilities		
Claims outstanding – Core business	1,290,090	2,017,125
Claims outstanding – Other general insurance business	618,369	272,238
Claims incurred but not reported - Other general insurance business	2,036,371	1,299,187
Provision for unearned premium - Other general insurance business	12,032,014	9,757,030
Provision for unexpired risk reserve - Other general insurance business	109,471	-
	16,086,315	13,345,580

(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 Company is still in the process of building historical data for its general insurance business policies, the target loss ratios were set by reference to limited actual experience and the expectations of the directors. Similarly, the same methodology was adopted for those new policies introduced during 2022, 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. In those instances where more than one agent writes similar lines of business, the Company has benchmarked loss ratios. As from this reporting period, for those lines where there are sufficient volumes of data, the actuarial function has been able to carry out a more thorough analysis of the loss ratios. Given the uncertainties arising from inter alia limited experienced data and the longer coverage period of certain lines of business, the directors have booked reserves at an amount exceeding the actuarial best estimate.

9. Technical provisions - continued

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

Other General Insurance Business - continued

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 £1,144,849 (2022: £833,867) or decrease by £1,144,849 (2022: £833,867) 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.

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 £37,898 (2022: £125,132). 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 £3,790 (2022: £12,513) or decrease by £3,790 (2022: £12,513) 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 £1,190,759 (2022: £1,806,475). If the liability for claims outstanding had to increase or decrease by 10%, the liability for claims outstanding would increase by £99,230 (2022: £150,540) or decrease by £99,230 (2022: £150,540) 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.

9. Technical provisions - continued

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

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 and given the nature of this business (i.e. after the event insurance), the accident and underwriting years are the same. 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 March 2023. 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. The Company changes its year end as from 31 March 2022 and the footnotes to the table below contain further information in this respect.

During the period ended 31 March 2023, there was a favourable run-off on the pre LASPO and an unfavourable run-off on post LASPO claims outstanding totalling a net unfavourable run-off of £289,333 (31 March 2022: net favourable run-off of £722,071) before considering claims handling costs. Whereas for the other general insurance business, there was a unfavourable run-off amounting to £251,655 (31 March 2022: £167,032) although these figures exclude run-off on policies incepting between 1 January 2022 and 31 March 2022 (2022: Not applicable) as a result of the underwriting year not being aligned to the financial year. Given the low proportion of premium earned for that period as at 31 March 2022 this development is not material.

The directors believe that the liability for claims outstanding at the financial period 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	2016	2017	2018	2019	2020	2021	2022	2023	Total
	£	£	£	£	£	£	£	£	£
Estimate of the ultimate claims costs At accounting period end									
One year later	789,631	630,956	898,053	1,684,739	1,228,055	565,002	85,830	78,146	
Two years later	1,041,272	742,875	1,384,611	1,809,018	1,201,715	567,065	411,039		
Three years later	1,254,199	911,831	1,386,478	1,575,676	1,302,228				
Four years later	1,408,633	909,499	1,269,232	1,221,736					
Five years later	1,367,563	873,712	730,197						
Six years later	1,292,909	666,017							
Seven years later	969,239								
Current estimate of:									
Gross cumulative claims	969,239	666,017	730,197	1,221,736	1,302,228	567,065	411,039	78,146	5,945,667
Gross cumulative payments	(950,175)	(642,062)	(674,087)	(1,119,542)	(957,576)	(306,204)	(61,871)	(689)	(4,712,207)
Gross liability recognised in the statement of financial position									
Gross liability in respect of prior periods	19,064	23,955	56,110	102,194	344,652	260,860	349,167	77,457	1,233,460
Total gross liability recognised in the statement of financial position									56,630
									1,290,090

9. Technical provisions - continued

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

Net	2016 £	2017 £	2018 £	2019 £	2020 £	2021 £	2022 £	2023 £	Total £
Estimate of the ultimate claims costs									
At accounting period end									
One year later	763,548	625,882	807,518	1,262,741	1,223,418	561,527	85,830	77,822	
Two years later	1,036,073	727,305	1,120,562	1,537,651	1,198,265	567,065	411,364		
Three years later	1,235,978	893,787	1,131,430	1,442,812	1,302,228				
Four years later	1,385,779	900,052	1,091,504	1,221,736					
Five years later	1,361,900	873,271	1,064,462						
Six years later	1,292,908	901,428							
Seven years later	1,293,601								
Current estimate of:									
Net cumulative claims	1,293,601	901,428	1,064,462	1,221,736	1,302,228	567,065	411,364	77,822	6,839,705
Net cumulative payments	(1,274,537)	(877,473)	(1,008,352)	(1,119,542)	(957,577)	(306,204)	(62,196)	(364)	(5,606,246)
Net liability recognised in the statement of financial position	19,064	23,955	56,110	102,194	344,652	260,860	349,167	77,457	1,233,459
Net liability in respect of prior periods									56,631
Total net liability recognised in the statement of financial position									1,290,090

9. **Technical provisions** - continued

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

Gross	2018	2019	2020	2021	2022	2023	Total
	£	£	£	£	£	£	£
Estimate of the ultimate claims costs							
At accounting period end	304,676	1,667,376	7,597,883	17,651,535	N/A ¹	N/A ¹	
One year later	286,203	1,480,393	7,668,338	18,073,865	34,344,297		
Two years later	283,524	1,370,671	7,618,682				
Three years later	294,145	1,256,982					
Four years later	286,815						
Current estimate of:							
Gross cumulative claims	286,815	1,256,982	7,618,682	18,073,865	34,344,297	5,131,920 ¹	66,712,561
Claims on unearned premium	(514)	(42,808)	(360,464)	(1,968,959)	(8,822,007)	(4,537,147)	(15,731,899)
Gross cumulative payments	(287,151)	(1,139,775)	(6,078,219)	(13,970,477)	(20,164,572)	(173,254)	(41,813,447)
Gross liability recognised in the statement of financial position	(0)	85,081	1,156,759	2,007,460	5,298,117	425,240	8,972,656

¹ The Company internally aggregates claims information by calendar year. Given that its financial period ends in March (as from 2022), the estimate of the ultimate claims cost for any given calendar year is only available after the lapse of 9 months from the end of the financial year. Consequently as from 2022, the above triangulations present claims development from 'one year later' onwards. A very low proportion of exposure is earned in the first quarter of a given underwriting year and claims estimate on that portion is presented in the table above (but not in the triangulation) such that the table reconciles.

9. Technical provisions - continued

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

Net	2018 £	2019 £	2020 £	2021 £	2022 £	2023 £	Total £
Estimate of the ultimate claims costs							
At accounting period end	35,864	1,137,654	2,813,152	4,879,179	N/A ¹	N/A ¹	
One year later	78,063	866,035	2,610,869	5,242,958	8,525,696		
Two years later	281,116	835,866	2,619,736				
Three years later	94,941	752,836					
Four years later	89,221						
Current estimate of: Net cumulative claims	89,221	752,836	2,619,736	5,242,958	8,525,696	2,175,484 ¹	19,405,932
Claims on unearned premium	(51)	(35,732)	(247,281)	(1,233,567)	(4,193,087)	(1,973,400)	(7,683,119)
Net cumulative payments	(89,606)	(662,754)	(1,923,425)	(3,247,169)	(3,015,654)	(58,713)	(8,997,321)
Net liability recognised in the statement of financial position	-	80,402	442,523	781,975	1,208,249	141,591	2,654,740

¹ The Company internally aggregates claims information by calendar year. Given that its financial period ends in March (as from 2022), the estimate of the ultimate claims cost for any given calendar year is only available after the lapse of 9 months from the end of the financial year. Consequently as from 2022, the above triangulations present claims development from 'one year later' onwards. A very low proportion of exposure is earned in the first quarter of a given underwriting year and claims estimate on that portion is presented in the table above (but not in the triangulation) such that the table reconciles.

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:

	2023 £	2022 £
Gross		
At beginning of the reporting period	7,093,241	5,264,709
Claims settled during the period	(28,220,141)	(13,326,631)
Movement in liabilities		
- arising from current period claims	32,324,870	16,092,228
- arising from prior period claims	(825,995)	(889,103)
- effect of movements in foreign exchange	(109,230)	(47,962)
At end of the reporting period	10,262,746	7,093,241
Reinsurance		
At beginning of the reporting period	(3,504,691)	(1,148,173)
Claims settled during the period	22,097,519	8,793,695
Movement in assets		
- arising from current period claims	(25,513,069)	(11,256,254)
- arising from prior period claims	602,325	106,040
- effect of movements in foreign exchange	-	-
At end of the reporting period	(6,317,916)	(3,504,691)
Net		
At beginning of the reporting period	3,588,550	4,116,537
Claims settled during the period	(6,122,622)	(4,532,936)
Increase/(decrease) in liabilities		
- arising from current period claims	6,811,801	4,835,974
- arising from prior period claims	(223,670)	(783,063)
- effect of movements in foreign exchange	(109,230)	(47,962)
At end of the reporting period	3,944,830	3,588,550

9. **Technical provisions** – continued

Movements in insurance liabilities – continued

b) Provision for unearned premiums

The movements for the period are summarised as follows:

	2023 £	2022 £
At beginning of the reporting period	20,209,493	11,979,171
Net charge to profit and loss for the period	2,870,498	8,187,414
Effect of movements in foreign exchange taken to profit and loss	278,800	42,908
At end of the reporting period	23,358,791	20,209,493
Reinsurance		
At beginning of the reporting period	(10,452,463)	(6,184,526)
Net credit to profit and loss for the period	(641,516)	(4,204,679)
Effect of movements in foreign exchange taken to profit and loss	(232,798)	(63,258)
At end of the reporting period	(11,326,777)	(10,452,463)
Net		
At beginning of the reporting period	9,757,030	5,794,645
Net charge to profit and loss for the period	2,228,982	3,982,735
Effect of movements in foreign exchange taken to profit and loss	46,002	(20,350)
At end of the reporting period	12,032,014	9,757,030

c) Provision for unexpired risk reserve

The movements for the period are summarised as follows:

	2023 £	2022 £
At beginning of the reporting period	-	-
Net charge to profit and loss for the period	1,045,721	-
Effect of movements in foreign exchange taken to profit and loss	(285)	-
At end of the reporting period	1,045,436	-
Reinsurance		
At beginning of the reporting period	-	-
Net credit to profit and loss for the period	(935,965)	-
Effect of movements in foreign exchange taken to profit and loss	-	-
At end of the reporting period	(935,965)	-
Net		
At beginning of the reporting period	-	-
Net charge to profit and loss for the period	109,756	-
Effect of movements in foreign exchange taken to profit and loss	(285)	-
At end of the reporting period	109,471	-

10. Deferred acquisition costs

	2023 £	2022 £
At beginning of the reporting period	4,815,398	2,346,633
Net amount credited to profit and loss (Note 12)	716,699	2,478,126
Effect of movements in foreign exchange (Note 12)	19,119	(9,361)
Gross deferred acquisition costs at end of reporting period	5,551,216	4,815,398
At beginning of the reporting period	(1,709,762)	(413,724)
Net amount credited/(charged) to profit and loss (Note 12)	94,238	(1,310,137)
Effect of movements in foreign exchange (Note 12)	(1,634)	14,099
Deferred reinsurance commissions at end of reporting period	(1,617,158)	(1,709,762)
At beginning of the reporting period	3,105,636	1,932,909
Net amount credited to profit and loss (Note 12)	810,937	1,167,989
Effect of movements in foreign exchange (Note 12)	17,485	4,738
Net deferred acquisition costs at end of reporting period	3,934,058	3,105,636
Deferred acquisition costs are classified as follows:		
	2023 £	2022 £
Current	1,278,270	1,147,361
Non-Current	4,272,946	3,668,037
Gross deferred acquisition costs at end of reporting period	5,551,216	4,815,398
Current	(895,776)	(824,777)
Non-Current	(721,382)	(884,985)
Deferred reinsurance commissions at end of reporting period	(1,617,158)	(1,709,762)
Current	382,494	322,584
Non-Current	3,551,564	2,783,052
Net deferred acquisition costs at end of reporting period	3,934,058	3,105,636

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 March 2023					
Insurance creditors due to parent	46,409	182,300	703,931	298,253	1,230,893
Insurance creditors due to intermediaries and insurance premium tax	3,799,675	-	-	-	3,799,675
Reinsurance creditors	1,275,623	-	-	-	1,275,623
	5,121,707	182,300	703,931	298,253	6,306,192
31 March 2022					
Insurance creditors due to parent	44,242	280,035	914,376	303,843	1,542,496
Insurance creditors due to intermediaries and insurance premium tax	3,891,890	-	-	-	3,891,890
Reinsurance creditors	1,301,388	-	-	-	1,301,388
	5,237,520	280,035	914,376	303,843	6,735,774

12. Net operating income and expenses

a. Net operating income

	12 months to March 2023 £	15 months to March 2022 £
Reinsurance commissions receivable	4,104,610	3,806,869
Change in deferred reinsurance commissions (Note 10)	94,238	(1,310,137)
Effect of movements in foreign exchange (Note 10)	(1,634)	14,099
	4,197,214	2,510,831

The above was allocated to the technical account.

12. Net operating income and expenses - continued

b. Net operating expenses

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Acquisition costs	7,252,819	7,608,042
Change in deferred acquisition costs (Note 10)	(716,699)	(2,478,126)
Effect of movements in foreign exchange (Note 10)	(19,119)	9,361
Administration fees	699,933	1,063,312
Directors' fees	53,650	66,143
Other expenses	896,736	1,041,054
	8,167,320	7,309,786
Allocated to the technical account	7,216,934	6,202,588
Allocated to the non-technical account	950,386	1,107,198
	8,167,320	7,309,786

Total commissions for direct business accounted for during the financial year amounted to £6,716,754 (2022: £6,845,486).

Fees charged by the auditor (net of VAT and out-of-pocket expenses) for services rendered during the financial periods ended 31 March 2023 and 31 March 2022 respectively related to the following:

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Annual statutory audit	78,899	70,000
Tax advisory and compliance services	2,588	1,500
Other assurance services	19,342	20,000
	100,829	91,500

13. Investment return

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Investment income / (loss)		
Net losses from financial assets at fair value through profit or loss	(175,661)	(433,280)
Interest receivable from loans and receivables	331,832	190,442
Dividends from equity	4,912	12,946
Exchange differences income / (losses)	97,709	(76,363)
Transaction charges	(199)	(760)
Net investment return	258,593	(307,015)
Allocated to the technical account	166,273	(187,321)
Allocated to the non-technical account	92,320	(119,694)
	258,593	(307,015)

14. Taxation

The tax expense for the period comprises:

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Current tax	904,044	913,762
Tax expense	904,044	913,762

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

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Profit before tax	2,572,746	2,609,712
Tax at 35%	900,461	913,399
Disallowed expenses	3,583	363
Tax expense	904,044	913,762

15. Dividends

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Net dividends to ordinary shareholders	1,616,648	-
Dividends per share	0.20	-

16. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	12 months to 31 March 2023 £	15 months to 31 March 2022 £
Profit before tax	2,572,746	2,609,712
Adjustment for:		
Investment (gain)/ loss	(161,083)	229,892
Bad debts	7,533	-
Provision for bad debts	37,547	-
Movements in:		
Debtors and prepayments	484,196	2,190,218
Deferred acquisition costs	(735,818)	(2,468,765)
Reinsurance share of technical provisions	(4,623,503)	(6,624,455)
Creditors and accruals	(337,370)	(6,890)
Deferred reinsurance commissions	(92,604)	1,296,038
Technical provisions	7,364,238	10,058,855
Cash generated from operations	4,515,882	7,284,604

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:

	12 months to 31 March 2023	15 months to 31 March 2022
	£	£
Acquisition costs	2,917,126	2,892,060
Administration fees	526,515	856,824
Claims handling fees	233,093	176,744

Year-end balances owed by and to the immediate parent undertaking, arising principally from the above transactions 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:

	2023	2022
	£	£
Insurance debtors	2,312,314	1,949,587
Non-Insurance debtors	1,341,379	1,249,670
Insurance creditors	(80,232)	(72,805)

The above £2,312,314 (2022: £1,949,587) includes amounts due from sub-agents of the related party, Keystone Legal Benefits Limited. The above £80,232 (2022: £72,805) includes amounts due to sub-agents of the related party, Keystone Legal Benefits Limited.

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.