ACCREDITED INSURANCE (EUROPE) LIMITED

Annual Report and Financial Statements
31 December 2022

Company Registration Number: C59505

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Directors' Report

The Directors present their report and the audited Financial Statements of Accredited Insurance (Europe) Limited (the "Company"), for the year ended 31 December 2022.

Principal activities

The Company's principal activity is that of carrying on business of insurance and reinsurance in accordance with the Insurance Business Act, 1998 (Chapter 403, Laws of Malta).

Review of the business

The Company, through its licence to write all non-life classes of business in the United Kingdom ('UK') and in all European Union ('EU') member states, is a specialist capacity provider for European program management business. It also provides legacy solutions by purchasing or reinsuring portfolios/companies whose business would have been placed in run-off. During 2022, the Company achieved growth in both of these business streams, concluding a number of new and extended agreements with Managing General Agents ('MGAs') on the program management side, as well as concluding five legacy transactions and an insurance business transfer.

The Company is in the latter stages of a period of significant operational change, driven by a number of different overarching projects, aimed at automating and radically improving the Company's core operational systems and streamlining business processes across the R&Q Group, in order to achieve a wide array of efficiencies to the Company's main workstreams. These projects have progressed in a staggered and risk-based approach, and following significant efforts made in 2022 are on track to be completed by the implementation target date of mid-2023. The Company is also finalising the foundations for the substantial reporting and operational changes that will result from the implementation of the new accounting standard *IFRS 17 – Insurance Contracts*, that came into force on 1 January 2023 (Note 2.5). As anticipated, these separate yet interlinked projects as well as the continued investment in growing the program business, has significantly increased the Company's cost base. The Company's relatively high-cost base, coupled with mainly unrealised investment losses, resulted in a loss before tax for the year under review, despite a promising and improving technical result.

Program business update

New and renewed MGA arrangements continued to expand the Company's program operations across a number of different product lines which include motor, surety, property, liability, professional indemnity, financial lines, title and after-the-event ('ATE') business, written in the UK and EU member states. During the year, the Company onboarded two very large MGAs (super MGAs), which are defined as MGAs that are expected to generate ca. £100 million of premium income annually. These operate as market leaders mainly in the motor and property classes of business and are expected to continue to drive future growth, allowing the Company to achieve a degree of focus in its operations, without jeopardizing the level of diversification of its portfolio. The Company also concluded multi-year arrangements with well performing MGAs, further strengthening the relationship with those MGAs and securing longer-term future income streams.

During the year, gross written premium on program business increased by more than 50% to £595.67m (2021: £387.01m). In spite of inflationary pressures during the year under review, the Company registered a net loss ratio of 74% on the program business (2021: 76%) and an underwriting result before any allocations of £14.68m (2021: £6.96m).

The Company takes a prudent approach and reinsures this book of business extensively through the use of Quota Share, Excess of Loss and Stop Loss reinsurance mainly with reinsurers that do not fall below the A- rating provided by A.M. Best, or equivalent ratings from other reputable credit rating agencies.

Directors' Report - continued

Review of the business - continued

Program business update - continued

The Company continues to operate in the UK through a Branch on a Freedom of Establishment basis, which enables the Company to underwrite in the UK the full range of classes for which the Company is authorised by the Malta Financial Services Authority ('MFSA'). The UK Branch currently writes business under the Prudential Regulation Authority's ('PRA') Temporary Permissions Regime ('TPR') through a "deemed Part 4A permission". The Company has submitted an application to the PRA for approval of its UK Branch and is engaging with PRA and Financial Conduct Authority ('FCA') as part of this process. Due to the experienced growth in the UK business and the scale and complexity of the expected future growth, the Board has analysed the options available with respect to the manner in which the UK business is to be carried out going forward. As a result of the Board's decision, the Group is in pre-application arrangements with the PRA and FCA with respect to establishing a new insurance entity in the UK to underwrite UK risks. The Group has set up a multi-disciplinary committee to drive and oversee this complex process and to analyse the implications on resources, capital as well as on prudential and conduct matters. The Company also operates an Italian Branch with the intention of expanding its program management footprint in Italy.

Legacy business update

The Company concluded two significant loss portfolio transfers for liabilities previously held by other R&Q entities, which increased gross technical reserves by £20.61m and contributed a net income of £6.56m to the technical account. In addition, the Company completed an insurance business transfer, converted from a loss portfolio transferred into the Company last year, with the main impact resulting in an intangible asset of £1.98m as at 31 December 2022 representing the fair value adjustment to the technical provisions within the portfolio transferred.

In addition, the Company also concluded two reinsurance arrangements, namely adverse development covers, on a further two separate books of business in run-off. For the year ending 31 December 2022, these arrangements generated £4.47m in net income without increasing net technical reserves due to being either out of the money or fully reinsured.

Finally, the Company also concluded a legacy transaction which qualified to be reinsured by Gibson Re, a Bermuda-domiciled collateralised reinsurer, which, as announced by the Company's ultimate parent entity, Randall & Quilter Insurance Holdings Ltd, on 6 September 2021, reinsures 80% of the Group's new qualifying legacy transactions. Whilst this transaction only contributed a minimal amount to the Company's technical income for the year, the strategy of the Company in terms of legacy business is to utilise the capacity provided by Gibson Re on qualifying future deals. Whilst this will mean less risk retained at the level of the Company, it will also result in the Company receiving annual recurring fees on the ceded reserves, as well as potential performance fees, thus transforming the Company's legacy operations in the long term into primarily a recurring fee-based business. Existing legacy transactions will not be in any way affected by the formation of Gibson Re.

The Company operates with a rating of A- (Excellent) from A.M. Best.

Result for the year

Total written premium generated during the year increased from £417.54m during 2021 to £649.63m during 2022. Program business generated written premiums of £595.67m (2021: £387.01m) with the remaining premium of £53.96m (2021: £30.53m) being generated from legacy business. In line with the Company's prudent risk strategy, outward reinsurance premium also increased significantly when compared to prior year, resulting in retained written premium of £74.19m compared to £61.55m in 2021. Net claims incurred of £41.68m (2021: £37.04m) represent £28.90m (2021: £16.73m) net incurred claims on program business, as well as £12.78m (2021: £20.31m) net incurred claims on legacy business. The latter was mainly driven by £7.56m in net claims incurred from the new legacy transactions undertaken in 2022.

Directors' Report - continued

Result for the year - continued

The positive technical result for the year of £19.55m (2021: £14.93m) was driven mainly by an increase in over-rider commission in line with the growth in premium volumes on program business, as well as by day-one profits on new legacy transactions entered into during the year.

Due to prevailing conditions in global capital markets, the Company incurred a net investment loss for the year of £4.35m (2021: loss of £2.93m). This result is mainly attributed to realised and unrealised fair value losses on debt securities and other equity investments of £1.23m (2021: £0.32m) and £11.42m (2021: £2.71m) respectively for the year, and a £1.64m (2021: £0.19m) impairment on non-traded equity securities, compensated by interest income of £2.15m (2021: £2.04m) on those same debt securities, unrealised gains on exchange of £6.18m (2021: unrealised loss on exchange of £2.18m) and interest income on group loans of £0.84m (2021: £0.54m).

Net operating and other administrative expenses increased to £37.57m in 2022 from £28.76m in the previous year, driven mainly by an increase in acquisition costs and claims handling expenses in line with the growth in program business, as well as increases in cost recharges from entities under common control and other external consultancy and system implementation costs as a result of the aforementioned projects.

Despite the increase in the operating expenses as a result of the ongoing projects, the Company registered a decreased loss before tax of £3.96m (2021: £5.34m) for the year under consideration, driven by the increase in the technical result. The result for the year is set out in the statement of profit or loss and other comprehensive income on page 8. The loss for the year after tax amounted to £3.32m (2021: £3.68m).

Total assets as at the end of the year stood at £1,451.66m (2021: £961.76m). In 2022, the Company capitalised £2.70m of shareholders' contributions and injected an additional shareholder contribution of £1.49m. The Company also disposed of its investment property during the year, which had a carrying value of £1.35m as at the end of the previous financial year, for a consideration of £1.40m.

The financial position at 31 December 2022, as disclosed in the Statement of Financial Position on page 10 at this date reflects a healthy state of affairs.

Reserves and dividends

The balance of accumulated losses at the end of the financial year amounted to £3.35m (2021: £0.04m). The Directors do not propose the payment of a final dividend.

Shares subject to pledge

The Ordinary 'A' Shareholders have pledged their 42,875,247 shares of £1 each (2021: 40,175,247 shares of £1 each) in favour of the ultimate shareholders' banker.

Principal risks and uncertainty

Management carefully selects and implements underwriting strategies which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. The future development of claims is an aggregation of a large number of contingent events, the financial impact of which cannot be determined in advance. The models that management used in its analysis, in part, rely on the assumption that claims will emerge in the future as they have emerged in the past. While management have attempted to quantify the effects of changes in future claims development from that in the past, actual development may differ from such estimates. These differences may come about for a number of reasons including changes in the social, legal, political or technological environment. Further information on the risks facing the Company can be found in Note 5 - Management of insurance and financial risk.

Directors' Report - continued

Other macroeconomic environment updates

The Company did not experience any significant increase in claims as a result of the COVID-19 pandemic. Following the escalation of the geopolitical tensions in Russia and Ukraine from February 2022, the Company went through a process of assessing any potential exposures, with no material exposure identified. Whilst the Company has no risk exposure to these jurisdictions, management will continue to monitor the situation, particularly in terms of the wider macroeconomic implications.

Whilst the full impact of these events on a global scale remains uncertain, the financial impact to the Company has been mostly limited to the inflationary pressures noted on reserves and claims incurred, as well as the unrealised losses in the Company's investment portfolio arising due to turbulent market conditions. In this regard, the Company continues to monitor and adjust its insurance pricing levels in light of the prevailing competitive environment and continues to cede the vast majority of its exposures to high quality rated reinsurers. Moreover, the Company continues to implement its high quality and short duration investments strategy.

In spite of the risk-mitigation measures in place, the Company continues to face risks as a result of the current environment, reduced economic growth slowing demand for insurance, dislocations in the capital markets, and finally from increased regulatory requirements. However, the Directors believe that the Company is well equipped to face these challenges.

Events after the reporting date

The Company further strengthened its capital base in early 2023 with a shareholders' contribution of £5m.

Furthermore, on 22 March 2023, R&Q Eta Company Limited, of which the Company owns the entire issued share capital through a previous legacy acquisition (Note 28), was granted approval by the PRA to cancel its Part 4A permission, effectively withdrawing R&Q Eta Company Limited's status as an authorised person. This is part of a process underway to liquidate R&Q Eta Company Limited in 2023.

On a separate note, following the collapse of major banks in early 2023 in the United States and Europe, the Board has carried out an internal evaluation to assess the Company's exposure to this, whether direct or indirect, and noted that there is no material exposure within the Company's investment portfolio to these financial institutions.

There were no other material events affecting the Company which occurred after the reporting date.

Future developments

The strategy of acquiring and consolidating run-off portfolios has been very successful for the Company and there is a commitment to continue investing in the program business going forward. The Directors expect that the benefits of this growth strategy will continue to be reflected in the Company's technical income, as evidenced by the fact that the Company's technical result continues to improve on a consistent basis over prior years. Whilst the growth strategy will also result in a higher cost base, the Directors believe that once the current projects are completed, the rate of growth in technical income will outpace the rate of growth in costs. This development will result from a strong business strategy that continues to prove it can leverage market opportunities, as well as from the continued effective management of costs, and the Company reaping the benefits and efficiencies of the successful implementation of the current projects.

Directors' Report - continued

Future developments - continued

Within this context, the following points summarize future developments in the program business:

- The Company continues to work towards a number of strategic partnerships with key reinsurers to support its business growth. The market environment remains attractive to the Company as it continues to see a high volume of opportunities as MGAs and reinsurers seek long-term relationships in this arena.

- The combination of reduced capacity and reinsurer desire to access the direct risk market has led to a strong pipeline of opportunities that will provide a steady renewable stream of income with a risk exposure in line with the Company's Risk Appetite.

- The Company has been able to significantly increase its volume of program business, improving its average over-rider commission rate, justifying expectations of continued strong growth prospects with the increasing number of MGA agreements entered into. The Company will also benefit from the significant growth in premiums already written during 2022 as these become fully "earned" and related commissions are taken to the profit and loss account.

- The Directors have continued to pursue business in this niche area and have actively followed this through with a commitment to support high quality program business. During 2022, the Company continued to secure new MGA business and strengthened existing MGA relationships and expects to continue with this strategy for the foreseeable future.

In terms of legacy business, the Company continued to absorb significant transactions during the year and expects to keep growing this area of business. The Directors are of the belief that the market will continue to provide opportunities for the Company in terms of companies looking for capital relief by disposing of liabilities and captive insurance companies looking to release capital or improve capital efficiency.

Statement of Directors' responsibilities for the Financial Statements

The Directors are required by the Maltese Insurance Business Act, 1998 and the Maltese Companies Act (Cap. 386) 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 reporting period and of the profit or loss for that period. In addition, the Directors are required to ensure that the Company has, at all times, complied with and observed the various requirements of the Insurance Business Act (Cap. 403 of the Laws of Malta).

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 Accredited Insurance (Europe) Limited for the year ended 31 December 2022 are included in the Annual Report, which is published in hard-copy printed form and may be made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website 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.

Solvency II

The Solvency II regulatory requirements ascertain the level of the required regulatory capital requirement on the basis of the risks the Company is currently undertaking, in terms of the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) and the applicable Insurance Rules issued under the Insurance Business Act by the MFSA. Solvency II outlines how the own funds shall be derived by converting the Statement of Financial Position from an International Financial Reporting Standards (IFRS) perspective to one where assets and liabilities are measured in line with their underlying economic value. Regular monitoring of the Solvency Capital Requirement (SCR) and Minimum Capital Requirements (MCR) is considered crucial, and a Capital Management Policy is in place to address the procedures and controls in this regard.

The Company monitors its capital level on a regular basis and further strengthened its capital base in 2022 through a shareholder contribution of £1.49m (2021: £6.66m). The Company complied with the capital requirements during the years ended 2021 and 2022. No changes were made in the Company's approach to capital management during the year ended 31 December 2022. At 31 December 2022, the Company's audited eligible own funds adequately covered the Solvency Capital Requirement (SCR), resulting in a ratio of eligible own funds to SCR of 146% (2021: 207%).

Actuarial Function

The Company engages the services of a Group company, R&Q Central Services Limited, as the internal actuarial function holder.

Corporate Governance

The Company continues to make endeavours to ensure that it complies with the requirements of the MFSA guidelines as well as those of the R&Q Group as a whole, and to exceed these where it deems necessary to ensure that high standards are met in this area.

Directors

The Board meets regularly, at least on a quarterly basis, to review the performance to date and to assess the position of the Company at that time. The members are a mix of appointees of the shareholders, together with independent members who bring with them international experience in various areas of the business. During the quarterly meetings, senior officials of the Company make detailed presentations to the Board members for their evaluation and assessment of performance and progress. All members of the Board are circulated with the same level of management information including detailed quarterly financial performance reports, investments reports, actuarial reports, compliance reports as well as other key performance indicators together with the minutes of the meetings.

Directors' Report - continued

Directors - continued

The Directors of the Company who served during the year were:

Mr. Alan Quilter
Mr. Colin Johnson
Mr. Paul Corver
Mr. Martin Scicluna
Mr. Paul Mercieca
Mr. Pierpaolo Marano
Mr. Leonard Sammut - appointed on 10 January 2022
Mr. Magnus Heimann - appointed on 9 March 2023

Company Secretary – Willis Towers Watson Services (Malta) Limited (C 47728)

In accordance with the Company's memorandum and articles of association, the Directors remain in office.

Going Concern

The Directors are satisfied, after considering the financial position of the Company as at year end, the Company's operational performance as well as future business plans, most notably the transformation in the Company's legacy business strategy as a result of the Gibson Re transition, and the operational impact throughout the Company expected as a result of various improvements to the Company's internal processes, that they have reasonable expectation that the Company has adequate resources and a strong business strategy to continue its operations for the foreseeable future. The Directors have therefore adopted this position as a basis for the preparation of these financial statements.

Auditors

PKF Assurance (Malta) Limited were appointed as the auditors of the Company on 12 November 2018 in accordance with Article 151 of the Companies Act, 1995 (Chapter 386, Laws of Malta). The auditors, PKF Assurance (Malta) Limited, have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

These financial statements were approved for issue by the Board and signed on its behalf on 05 April 2023 by:

Magnus Heimann
Director

Leonard Sammut
Director

Registered office

3rd Floor, Development House,
St. Anne Street
Floriana FRN9010
Malta

Statement of Profit or Loss and other Comprehensive Income

Technical Account
For the year ended 31 December

	Notes	2022 £'000	2021 £'000
Earned premiums, net of reinsurance			
Gross premiums written	7	**649,634**	417,538
Outward reinsurance premiums		**(575,441)**	(355,987)
Net premiums written		**74,193**	61,551
Changes in gross provision for unearned premiums	24	**(195,992)**	(108,770)
Changes in gross provision for unearned premiums reinsurers' share	24	**182,176**	100,233
Earned premiums, net of reinsurance		**60,377**	53,014
Allocated investment return transferred from the non-technical account	9	**(2,722)**	(1,222)
Other technical income		**20,813**	11,877
Total technical income		**78,468**	63,669
Claims incurred, net of reinsurance			
Claims paid			
– gross amount	24	**167,661**	110,276
– reinsurers' share	24	**(137,553)**	(88,003)
		30,108	22,273
Change in the provision for claims			
– gross amount	24	**120,671**	77,673
– reinsurers' share	24	**(109,102)**	(62,911)
		11,569	14,762
Claims incurred, net of reinsurance		**41,677**	37,035
Net operating expenses	8	**17,245**	11,706
Total technical charges		**58,922**	48,741
Balance on the technical account for general business (page 9)		**19,546**	14,928

Statement of Profit or Loss and other Comprehensive Income

Non-Technical Account
For the year ended 31 December

	Notes	2022 £'000	2021 £'000
Balance on the technical account for general business (page 8)		**19,546**	14,928
Investment income	9	**10,222**	2,929
Other income		**54**	5
Investment expenses and charges	9	**(14,577)**	(5,860)
Allocated investment return transferred to the technical account	9	**2,722**	1,222
Interest expense on subordinated bonds		**(1,611)**	(1,512)
Administrative expenses	8	**(20,320)**	(17,051)
Loss before tax	10	**(3,964)**	(5,339)
Income tax credit	12	**648**	1,656
Loss for the financial year		**(3,316)**	(3,683)
Total comprehensive expense for the year		**(3,316)**	(3,683)

There were no components of other comprehensive income in the current period.

The accompanying notes are an integral part of the Financial Statements.

Statement of Financial Position

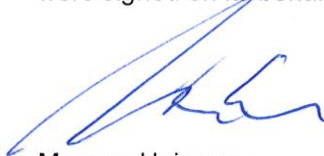
As at 31 December

	Notes	**2022 £'000**	2021 £'000
Assets			
Intangible assets	13	**6,807**	3,797
Investment property	14	**-**	1,350
Property, plant and equipment	15	**67**	92
Investments	16	**247,951**	171,154
Deferred tax assets	17	**2,437**	2,844
Reinsurers' share of technical provisions	24	**743,969**	453,127
Deferred acquisition costs	25	**92,310**	58,034
Insurance and other receivables	18	**320,293**	261,164
Cash and cash equivalents	27	**37,830**	10,194
Total Assets		**1,451,664**	961,756
Equity and Liabilities			
Capital and Reserves			
Share capital	20	**42,875**	40,175
Accumulated losses	21	**(3,353)**	(37)
Shareholders' contribution	22	**49,631**	50,845
Total Equity		**89,153**	90,983
Liabilities			
Subordinated debt	23	**21,903**	20,683
Technical provisions	24	**856,905**	540,664
Provisions for other risks and charges	16	**1,599**	335
Insurance and other payables	19	**482,077**	307,451
Income tax payable		**27**	1,640
Total Liabilities		**1,362,511**	870,773
Total Equity and Liabilities		**1,451,664**	961,756

The accompanying notes are an integral part of these Financial Statements.

The official rate of exchange between the Great British Pound and Euro issued by the European Central Bank at 31 December 2022 was 0.88693.

The Financial Statements on pages 8 to 56 were authorised for issue by the Board on 05 April 2023 and were signed on its behalf by:



Magnus Heimann
Director

Leonard Sammut
Director

Statement of Changes in Equity

	Share capital £'000	Shareholders' contribution £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2021	33,700	44,185	2,269	80,154
Retained earnings absorbed upon merger	-	-	1,377	1,377
Total comprehensive expense for the year				
Loss for the year	-	-	(3,683)	(3,683)
Total comprehensive expense for the year	-	-	(3,683)	(3,683)
Transactions with owners				
Contributions during the year (Note 22)	-	6,660	-	6,660
Issue of share capital (Note 20)	6,475	-	-	6,475
Total transactions with owners	6,475	6,660	-	13,135
Balance as at 31 December 2021	**40,175**	**50,845**	**(37)**	**90,983**
Balance as at 1 January 2022	40,175	50,845	(37)	90,983
Total comprehensive expense for the year				
Loss for the year	-	-	(3,316)	(3,316)
Total comprehensive expense for the year	-	-	(3,316)	(3,316)
Transactions with owners				
Contributions during the year (Note 22)	-	1,486	-	1,486
Shareholder contribution capitalisation (Note 20)	2,700	(2,700)	-	-
Total transactions with owners	2,700	(1,214)	-	1,486
Balance as at 31 December 2022	**42,875**	**49,631**	**(3,353)**	**89,153**

There were no components of other comprehensive income in the current period.

The accompanying notes are an integral part of the Financial Statements.

Statement of Cash Flows
For the year ended 31 December

	Notes	**2022 £'000**	2021 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	26	**110,926**	(1,183)
Interest received	9	**2,808**	2,074
Dividends received	9	**350**	1
Taxation paid		**(620)**	(42)
Cash generated from operating activities		**113,464**	850
Cash flows from investing activities			
Purchase of fixed assets	15	**(16)**	(3)
Purchase of financial investments	16	**(148,032)**	(112,046)
Disposal of financial investments	16	**61,631**	68,585
Disposal of investment property	14	**1,400**	-
Deposits with credit institutions	16	**(2,297)**	29,617
Cash used in investing activities		**(87,314)**	(13,847)
Cash flows from financing activities			
Shareholders' contribution	22	**1,486**	6,660
Issue of share capital	20	**-**	6,475
Cash generated from financing activities		**1,486**	13,135
Net movement in cash and cash equivalents		**27,636**	138
Cash and cash equivalents at the beginning of the year		**10,194**	10,056
Cash and cash equivalents at the end of the year	27	**37,830**	10,194

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Reporting entity

Accredited Insurance (Europe) Limited (the "Company") is a limited liability company domiciled and registered in Malta. The Company is licenced to write Class 1 to Class 18 of the Insurance Business Act (Chapter 403, Laws of Malta).

The registered office of the Company is 3rd Floor, Development House, St. Anne Street, Floriana, FRN 9010, Malta.

2 Basis of preparation

2.1 Statement of compliance

The Financial Statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ("the applicable framework") as modified by Article 174 of the Maltese Companies Act (Cap. 386). All references in these Financial Statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. These Financial Statements have also been drawn up in accordance with the provisions of the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) and the said Companies Act (Cap. 386).

The Statement of Financial Position is organised in increasing order of liquidity, with additional disclosures on the current or non-current nature of the Company statements.

2.2 Basis of measurement

Historical cost convention

The Financial Statements have been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies, namely investment property and financial instruments at 'fair value through profit or loss'.

Fair value measurement

For financial reporting purposes, 'fair value' is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants (under current market conditions) at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. When estimating the fair value of an asset or liability, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to valuation techniques used to measure fair value are categorised into three levels according to the extent to which the inputs are observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

2.3 Functional and presentation currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's functional and presentation currency is Great British Pounds (GBP, £).

2 Basis of preparation - continued

2.4 Use of estimates and judgements

The preparation of Financial Statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected, as defined further in Note 4.

2.5 Standards, interpretations and amendments to published standards

Standards, interpretations and amendments to published standards endorsed by the EU effective in the current year

In 2022, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 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 as adopted by the EU that are not yet effective

Up to date of approval of these Financial Statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Company plans to adopt upon their effective date.

The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's Directors are of the opinion that, with the exception of IFRS 9, 'Financial instruments', and IFRS 17, 'Insurance contracts', there are no requirements that will have a possible significant impact on the Company's Financial Statements in the period of initial application.

IFRS 17 – Insurance Contracts

IFRS 17 - Insurance Contracts, published in May of 2017, addresses recognition, measurement, presentation and disclosure for insurance contracts. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfils the contract; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognized in net earnings as the insurer fulfils its performance obligations under the contract). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The standard is effective for annual periods beginning on or after 1 January 2023. This new standard introduces significant changes to the statutory reporting of insurance entities that prepare financial statements according to IFRS, changing the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts.

The Company intends to apply the General Measurement Model to all its insurance contracts. Groups of contracts of up to 12-month underwriting periods will be identified on the basis of a number of different elements, such as line of business and country of risk. Reinsurance contracts will fall into their own groups, and the cohort periods applied to those groups will not necessarily be aligned to the cohort periods used for the underlying inwards business. The measurement of a group of insurance contracts will include all of the expected cash flows within the boundary of each contract

2 Basis of preparation - continued

2.5 Standards, interpretations and amendments to published standards - continued

IFRS 17 – Insurance Contracts - continued

within the group. The contract boundary distinguishes the expected cash flows that relate to existing insurance contracts from those that relate to future insurance contracts. Payments such as sliding scales and profit commission are based on the performance of the binder as a whole and thus partly based on the results from future business (outside the contract boundary). In these cases, these payments will be estimated on the basis of the full duration of the contract and then allocated in a systematic way between existing business (in scope) and future business (out of scope).

IFRS 17 introduces the concept of the Contractual Service Margin ("CSM"), a provision that prevents the present value of future expected profits from being taken at initial contract recognition. Instead, the profits are released by amortising the CSM as the insurance service is provided over the coverage period. The proportion of the CSM released into profits in each reporting period is based on "coverage units". For program business, the coverage units provided by insurance contracts will be determined by premiums that are allocated based on days of cover provided in each period. For reinsurance contracts, coverage units shall be calculated as the sum of reinsurance premiums allocated in proportion to the underlying inwards coverage units being protected by the outwards. For most of legacy business, it is not possible to allocate premium over a coverage period, as underlying coverage period has typically expired before business acquisition. In this case, coverage units will be calculated as the sum of premiums allocated in proportion to the expected pattern of claim pay-out, at the point of initial recognition.

Discount rates will be used under IFRS 17 for the following purposes:

- to adjust the valuation of insurance contract liabilities for the time value of money using current discount rates, and
- to accrete interest on the CSM as well as to adjust the CSM for changes in fulfilment cashflows, in both case using the locked in rates i.e. rates prevailing at the time when the group of contracts is initially recognised.

Discount rates will be determined using the bottom-up approach.

IFRS 17 requires an entity to adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. This is achieved by the application of the risk adjustment. The Company will calibrate the risk adjustment at a confidence level selected by management based on risk appetite, taking account of market practices and the desirability of keeping the confidence level stable over time.

With regards to the transition approach to IFRS 17, the default approach to transition is to apply the Full Retrospective Approach ("FRA"), i.e. perform the transitional valuation as if IFRS 17 had always applied, and derecognise any existing balances that would not exist if IFRS 17 had always applied. The FRA must be used unless it can be shown that it is impracticable. If it is impracticable to apply the FRA for a particular group of contracts, the entity has a free choice between two other approaches: the Modified Retrospective Approach ("MRA"), or the Fair Value Approach ("FVA"). Different methods can be applied for different groups of contracts. The Company considers the FRA to be impracticable and intends to perform transitional calculations using the FVA and to apply, where available, the option to classify as liabilities for incurred claims the reserves for settlement of claims that were incurred prior to the acquisition of the group of contracts.

2 Basis of preparation - continued

2.5 Standards, interpretations and amendments to published standards - continued

IFRS 17 – Insurance Contracts - continued

The effect of changes required to the Company's accounting policies as a result of implementing the new standard is currently being considered but these changes can be expected to, among other things, alter the timing of IFRS profit recognition, costs and distributable reserves and impact the Company's reported results of operations and financial position. One of the main effects expected relates to the treatment of legacy business under IFRS 17 as day 1 gains that are currently booked on new transactions upon recognition will instead be apportioned on a systematic basis over the lifetime of the transaction.

The Company has also prepared a transitional impact assessment on its 31 December 2021 financial statements, comparing the financial results under the present accounting framework with the financial results should IFRS 17 have been effective. This process also achieved the completion of the Company's opening balance sheet position for the first reporting date to be prepared under this new standard. A review by the external auditors of the Company's opening balance sheet position was also carried out as part of this process. The transitional impact assessment resulted in a reduction in net asset value, before any allowance for tax credits, with balance sheet items associated with the legacy business accounting for most of this change, driven by the increase in the value of technical provisions under the new standard. In 2021 the Company provided technical training on the main interpretations of the standard to all directors and relevant internal stakeholders, as well as progressing with the development of an IFRS 17 sub-ledger system in conjunction with an external service provider and consultancy firm. The development of the IFRS 17 sub-ledger system was given a significant push during 2022 and is expected to be fully functional in time for first reporting under this new standard. This is in line with the Company's strategy of being fully prepared for the transition impact following the implementation of the new standard from 1 January 2023.

IFRS 9 – Financial Instruments

IFRS 9 - Financial Instruments published in July 2014 introduces new requirements for the classification and measurement of financial assets and financial liabilities. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Under IFRS 9, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost unless the entity applies the fair value option. All other financial assets, including equity investments are measured at their fair values at the end of subsequent accounting periods. Under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company, having its activities predominantly connected with insurance has applied the temporary exemption from IFRS 9 for annual reporting periods beginning before 1 January 2023, and has deferred its application to be concurrent with the effective date of IFRS 17 - Insurance Contracts being 1 January 2023. The Company does not expect any significant impact resulting from the introduction of IFRS 9. The Company's insurance receivables and payables fall outside the scope of IFRS 9. Moreover, given the entity's business model, the investments will continue to be recognized at fair value through profit and loss.

3 Significant accounting policies

3.1 Foreign currency transactions

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GBP at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss account.

All foreign exchange gains and losses are presented in the profit or loss account within 'investment income' or 'investment expense'. Translation differences on financial assets and liabilities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

3.2 Intangible assets

IFRS 3 – *Business Combinations* covers business combinations arising from acquisitions but also from novations/transfers. In both cases, the Group believes that the substance of the transaction is the same. In other words, the Group has assumed both the liabilities, including insurance creditors and technical provisions, and the assets, including insurance debtors, of the seller. The Company anticipates, through its own active management, the release of significant reserves over the life of the run-off as a result of successful commutations, early settlement of claims and identification of redundant reserves, allowing the release of capital no longer required. In the opinion of the Directors, the acquisition of run-off business, whether by novation, portfolio transfer or share capital, therefore meets the definition of a business under IFRS 3. Assets and liabilities for portfolios acquired are included in the Company's Statement of Financial Position in accordance with the Company's accounting policies for claims provisions and related reinsurance recoveries. Any material difference that arises between the amounts included in the Company's Financial Statements and the fair value of those assets and liabilities is regarded as an intangible asset and accounted for in accordance with IFRS 3.

IFRS 3 requires that acquisitions are measured under the fair value method, using discounted reserves to calculate fair value of insurance technical provisions. It is however accepted to apply undiscounted basis and if so, it is necessary to calculate a liability measured in accordance with the insurer's accounting policies (undiscounted) for insurance contracts that it issues; and an intangible asset, representing the difference between:

- the fair value of the contractual insurance rights acquired and insurance obligations assumed under IFRS (discounted basis); and
- the calculated amount using Company polices (undiscounted).

These intangible assets are amortised over the years in which the claims liabilities are expected to run-off. The discount rate used to calculate the discounted liabilities should be reasonable and consistent with market practices. This discount rate should not be linked to implied investment returns but instead correlate to the risk profile of the liabilities being discounted. In 2022, the Company applied a discount rate of 3% (2021: 3%), in line with these requirements.

The Company's intangible assets also include computer software, which is measured at historical cost less accumulated amortisation less impairment losses. Costs that are included in the value of the intangible asset include external direct costs of materials and services incurred in developing or obtaining the software and payroll and payroll related costs for employees who are directly involved with and who devote time to developing the software, to the extent the time is spent directly on the project's development activities. External direct costs include, amongst others, fees paid to develop the software and travel expenses incurred by employees in their duties directly associated with developing the system. Amortisation of software is calculated using the straight-line method to allocate the cost of computer software over its estimated useful life of 5 years.

3 Significant accounting policies - continued

3.3 Combinations of entities or businesses under common control

A combination of entities or businesses under common control is a combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Combinations of entities or businesses under common control are not included in the scope of IFRS 3, 'Business Combinations', and, as such and in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the Company has opted to use the 'carry-over' ('predecessor accounting') method to account for combinations of entities or businesses under common control.

The values that the transferee ascribes to the assets and liabilities transferred are determined based on the carrying values of those assets and liabilities in the financial statements of the transferor immediately prior to the combination, amended where applicable to comply with the transferee's accounting policies.

3.4 Investment property

Property held for long-term rental yields is classified as investment property. Freehold and leasehold properties treated as investment property principally comprise office buildings that are held for long term rental yields. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit and loss. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

3.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated, with effect from the year following purchase, using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Computer equipment	4 years
Office furniture	5 years

The assets' residual values and useful lives are reviewed at each financial year-end and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the statement of comprehensive income.

3 Significant accounting policies - continued

3.6 Financial assets

3.6.1 Classification

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification is dependent on the purpose for which the investments were acquired. The Directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation at every reporting date.

Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Company's Board in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance liabilities are also designated at inception as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them on different bases.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company has designated at fair value through profit or loss. They include, inter alia, loans to group companies, insurance and other receivables, cash and cash equivalents in the Statement of Financial Position as well as other financial investments (comprising deposits with credit institutions) classified as loans and receivables within Note 16.

3.6.2 Recognition and measurement

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets. All investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are de-recognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently re-measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access to at that date.

Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

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

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing on information an ongoing basis. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

3 Significant accounting policies - continued

3.7 Impairment of financial assets and non-financial assets

3.7.1 Impairment of financial assets at amortised cost

The Company assesses at the end of each 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.

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:

(i) significant financial difficulty of the issuer or debtors;
(ii) a breach of contract, such as a default or delinquency in payments;
(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or
(iv) 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.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on receivables 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

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 improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss and other comprehensive income.

3.7.2 Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to amortisation and/or assets not yet available for use are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable and independent cash flows (cash-generating units).

3 Significant accounting policies - continued

3.8 Financial liabilities

The Company initially recognises its financial liabilities on the date that they are originated. The Company does not recognise a financial liability when its contractual obligations are discharged or cancelled or expired. All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using effective interest method. The Company's financial liabilities include insurance and other payables.

3.9 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 offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise deposits held at call with banks or financial institutions.

3.11 Share capital

3.11.1 Ordinary shares

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

3.11.2 Dividend distribution

Dividends on ordinary shares are recognised as a liability in the period in which they are declared by the directors or approved by the shareholders.

3.11.3 Shareholders' contribution

Contributions made by the Company's shareholders for which settlement is neither planned nor likely to occur in the foreseeable future, for which no interest is levied by the shareholders and that are not subject to any restrictions or the fulfilment of any conditions or requirements on the part of the Company are treated as equity rather than liabilities.

3.12 Insurance contracts

The Company issues contracts that transfer significant insurance risk and 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.

Insurance/Reinsurance contracts – General business

The results for general business are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

i. Premiums written relates to program business, in addition to premium charged by the Company for the purchase or reinsurance of a legacy portfolio.

3 Significant accounting policies - continued

3.12 Insurance contracts - continued

Insurance/Reinsurance contracts – General business - continued

ii. Given the nature of the business, unearned premiums represent the proportion of program premium written in the year, that relate to unexpired terms of policies in force at the statement of financial position date, calculated on a time apportionment basis. For after-the-event (ATE) policies, premiums remain unearned until the point the claims exposures relating to these policies become crystallised or in some cases once the underlying legal case is settled and successful. For title insurance policies, premiums written are recognised as fully earned on the date the policy is issued. Premiums written relating to the purchase or reinsurance of a legacy portfolio are considered to be fully earned at inception.

iii. Commissions and other acquisition costs that vary with and are related to securing new contracts are expensed when incurred, in line with the premium recognition.

iv. Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) or not enough reported (IBNER) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for recoveries or subrogation.

v. Provision is made at the period-end for the estimated cost of claims incurred but not settled at the end of each reporting period, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company together with statistical analysis for estimating the claims incurred but not reported and the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Due to the timing of the receipt of borderaux from MGAs and the tight regulatory deadlines within which the Company's statutory financial statements and regulatory reports are required to be submitted, program borderaux data is booked one month in arrears, with pipeline premiums for the month of December based on the Company's own estimates rather than figures submitted by the MGAs. The estimates are based on past data, adjusted for Company expectations where applicable, after taking into account all reasonably available internal information through, for instance, discussions with account managers and executive management. Earned premiums, commissions and levies payable, ceded premiums and claims incurred for the month of December 2021 are all derived from the estimates made for pipeline premiums, in line with historical data, discussions with the relevant internal departments (including the Actuarial Function) and the expectations of the Company.

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. 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 receivables), 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.

3 Significant accounting policies - continued

3.12 Insurance contracts - continued

Reinsurance contracts held - continued

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 due.

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 statement of profit or loss and other comprehensive income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets in Note 3.7.

Receivables and payables related to insurance/reinsurance contracts

Receivables and payables are recognised when due. These include amounts due to and from insurance contract holders, brokers and reinsurers. 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 the statement of profit or loss and other comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets in Note 3.7.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related Deferred Acquisition Costs (DAC) assets. In performing these tests, current best estimates of future contractual cash flows as well as claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision as described above). Any DAC written off as a result of this test cannot subsequently be reinstated.

Unexpired risk provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return. These methods generally involve projecting the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard to variations in business accepted and the underlying terms and conditions.

3 **Significant accounting policies** – continued

3.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.14 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in other comprehensive income. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country where the Company generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provision where appropriate.

Deferred tax is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax 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, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by 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 future taxable profit will be available such that realisation of the related tax benefit is probable. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

3.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

3.16 Leases

Under *IFRS 16 – Leases*, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date of virtually all lease contracts, IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset; an optional exemption is available for certain short-term leases and leases of low-value assets. Lessors continue to classify leases as operating or finance. Right-of use assets are initially measured at cost, which in many cases will equal the amount recognised as a lease liability. However, adjustments are required for any lease payments made at or before the commencement date of the lease and any initial direct costs incurred. Subsequent to initial recognition, a right-of-use asset is measured at cost less accumulated depreciation and impairment losses. A right-of-use asset is subsequently also adjusted for certain remeasurements of the related lease liability.

3 Significant accounting policies – continued

3.16 Leases - continued

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Right-of-use assets are reviewed regularly and at least annually to identify whether there is an indication of impairment. If an impairment indicator exists, the asset's recoverable amount is estimated. See Note 3.7.2 for further details about impairment testing of non-financial assets.

3.17 Revenue recognition

Revenue comprises the fair value for services and is recognised as follows:

(a) *Rendering of services*

Premium recognition is described in Note 3.12 dealing with insurance contracts.

(b) *Interest income*

Interest income from financial assets is recognised on a time-apportioned basis using the effective interest 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.

(c) *Dividend Income*

Dividend income is recognised in the statement of profit or loss and other comprehensive income as part of investment income when the right to receive payment is established.

(d) *Other net fair value gains/(losses) from financial assets at fair value through profit or loss*

Other gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the statement of profit or loss and other comprehensive income in the period in which they arise.

(e) *Rental income*

Rental income from investment property is accounted for on an accruals basis in accordance with the substance of the relevant lease agreements.

3.18 Investment return

Investment return includes dividend income, interest income from financial assets, net fair value movements on financial assets at fair value through profit or loss and rental income. It is presented net of investment expenses and charges. 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.

3 Significant accounting policies – continued

3.19 Operating segments

An operating segment is a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. In identifying these operating segments, management divides the separable operations carried out by the Malta Head Office, the UK Branch and the Italian Branch (see Note 6 – Segmental information). Unallocated items comprise mainly head office expenses and tax assets and liabilities. All inter-segment transfers are carried out on an arm's length basis.

4 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience 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 *Presentation of Financial Statements* are the estimates of the ultimate liability arising from claims made under insurance/reinsurance contracts and the subsequent recoveries from reinsurers as defined below:

Claims Reserves

The provision for claims outstanding and IBNR is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of the Company's insurance liabilities and reinsurance recoveries. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities, related reinsurance assets and reported Shareholders' equity funds disclosed in the Financial Statements. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. Potential adjustments arising in the future could, if adverse, exceed the amount of Shareholders' funds. The Company contracts with independent external actuaries to provide a range of acceptable estimates for the reserves of the Company and the Company sets its reserves to lie within this acceptable range.

The business written by the Company consists in part of long tail liabilities, including asbestos, pollution, health hazard and other liability insurance. The claims for this type of business are typically not settled until several years after policies have been written.

Furthermore, a portion of the business is written by the Company on a re-insurance or retrocession basis, which lengthens the settlement period. Significant delays occur in the notification and settlement of certain claims and a substantial measure of experience and judgement is involved in making the assumptions necessary for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the Statement of Financial Position date. The gross provisions for claims outstanding and related reinsurance recoveries are estimated on the basis of information currently available. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

4 Critical accounting estimates and judgements in applying accounting policies - continued

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR and IBNER claims for long tail liabilities. The settlement of most of these claims is not expected to occur for many years, and there is significant uncertainty as to the timing of such settlements and the amounts at which they will be settled. A number of the claims are subject to significant disputes, for example over the terms of a policy and the amount of the claim. The provisions for disputed claims are based on the view of the Directors as to the expected outcomes of such disputes. If the outcome differs substantially from expectation there could be a material impact on the Company's liabilities. Claim types impacted by such disputes include asbestos, pollution and certain health hazards and retrocessional reinsurance claims.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Reinsurance recoveries

Reinsurance recoveries are included in respect of claims outstanding (including IBNR claims) and claims paid after making provision for irrecoverable amounts. The reinsurance recoveries on IBNR claims are estimated based on the recovery rate experienced on notified and paid claims for each class of business. The Company is exposed to disputes on contracts with its reinsurers and the possibility of default by reinsurers. In establishing the provision for non-recovery of reinsurance balances, the Directors of the Company consider the financial strength of each reinsurer, its ability to settle liabilities as they fall due, the history of past settlements with the reinsurer, and the Company's own reserving standards and having regard to legal advice regarding the merits of any dispute.

5 Management of insurance and financial 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.

5.1 Insurance risk

The very nature of insurance business is that insurers are exposed to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract. The main insurance risks which affect the Company are:

- Underwriting risk – on the program side, the risk that there is inappropriate or substandard underwriting activity.
- Pricing risk – the risk that the risk premium charged by the Company is inadequately priced, resulting in underwriting losses which in turn could lead to capital impairment.
- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of.
- Reinsurance risk – the risk that the reinsurers will dispute the coverage of losses and/or inadequate or inappropriate reinsurance cover.
- Legal risk – changes in statute or legal precedent.
- Reserving risk – the risk that the provisions established by the Company prove to be inadequate.

The Company manages these risks in the following manner:

<u>Underwriting risk</u>

The Company's program strategy is to underwrite live business, on a fronting basis, with selective exposure to underwriting risk. This is achieved through the purchase of significant quota share insurance on a back-to-back basis from reinsurers who have at least an A- credit rating.

5 Management of insurance and financial risk - continued

5.1 Insurance risk - continued

Underwriting risk - continued

If an insurer does not have this rating level or suffers a downgrade, it will be required to provide the Company with collateral that is at least equivalent to the projected level of Technical Provisions. The arrangement will only proceed if the Company has sufficient capacity to underwrite the business and the business being underwritten meets strict underwriting guidelines in line with the Company being ultimately on risk. The Company's exposure is further mitigated by the purchase of additional reinsurance including stop loss or Adverse Development Cover ('ADC') contracts.

The Company derives 78% (2021: 78%) of its program business premium from risks written in the UK, with another 7% (2021: 11%) written in Ireland and the remainder in other EU countries. When including legacy business, the Company assesses geographical concentration risk on the basis of gross claims reserves. As at 31 December 2022, 82% (2021: 79%) of gross claims reserves related to risks written in the UK, 14% (2021: 12%) in the EU, 1% (2021: 2%) in the United States of America and 2% (2021: 5%) in Australia, with the remainder in other countries across the globe. The motor class of business accounted for 58% (2021: 54%) of gross claims reserves, with property risk exposures of 10% (2021: 16%) and general liability exposures of 18% (2021: 15%) being the other more material classes of business. In the Company's portfolio there is no undue concentration of risk or of policy holders or business sectors, with any exposures further mitigated via the Company's substantial reinsurance strategy.

Pricing risk

For legacy business, detailed due diligence is performed at the underwriting stage by experienced in house or outsourced providers on each portfolio under consideration. The due diligence will include a review of notified claims outstanding, inuring reinsurance treaties in place and recoverability thereof, legal cases against the Company, policy information and asset values (if assets other than cash are to be taken over as part of the portfolio transfer). The Company also uses market information available to it on the classes of business being considered, in addition to any direct experience that the Company might have had on similar exposures. An actuarial valuation of the business being taken over is performed, in order to assess the adequacy of the IBNR and the risk premium to be charged, if any.

For program business, a detailed due diligence is performed by experienced in house due diligence team for each MGA under consideration. The due diligence includes an assessment of the MGA's underwriting approach, rating structure and supporting back-office systems. The Program Management team includes experienced underwriters across a range of classes of business who participate in the due diligence process ahead of on boarding a new MGA, as well as participating in the auditing and on-going reviews of live programs, utilising their expertise in the assessment of product and pricing suitability. An actuarial evaluation is conducted during due diligence, assessing the business plan's projections and forecasts, which also includes testing the adequacy of projected IBNRs.

Claims risk

For legacy business, the Company has outsourced the claims handling to a specialised service provider (an entity under common control) which is contracted to investigate and adjust all claims. Claims are reviewed individually on a regular basis. The Company actively manages and pursues early settlement for claims to reduce its exposure to unpredictable developments. On the program side, claims are managed by the MGA through a claims handling agreement in most cases. In addition, the Company provides claims oversight through claims audits and regular claims meetings with the MGAs. Large losses and referral trigger points (such as conflict of interest or reputational threats) are referred to the Company for approval; attritional losses and claims payments are

5 Management of insurance and financial risk - continued

5.1 Insurance risk - continued

Claims risk - continued

monitored through the submitted monthly claims bordereaux. Regular spot checks are also carried out to ascertain accuracy of data and adequacy of reserves. In addition, the Company continues to diversify further its business both in terms of additional portfolios taken over and in terms of the different classes of business entered into.

Reinsurance risk

For legacy business, the Company has inherited reinsurance protection in place for certain portfolios of business. The type of reinsurance cover, and the level of retention, is based on the Company's internal risk management assessment which takes into account the risk being covered and the sums assured. The Board will approve the reinsurance taken over at the time a portfolio of business is written. In addition, the Board could decide to purchase additional reinsurance. The reinsurance arrangements currently in place are a mix of proportional and non-proportional cover. The Board could also decide to commute certain treaties should it be considered beneficial.

On the program side, the Company requires at the very least a quota share arrangement that complies with the risk appetite of the Company. Additionally, it seeks downgrade termination provisions and protections against MGA errors and omissions. Moreover, on liability exposures offering high limits, such as under the motor class of business or risks with high accumulations such as those under the property class of business, excess of loss cover is purchased to protect the Company's retained risk (if any) and the quota share reinsurer's portfolio.

Reserving risk

In addition to the reserving methodology in place at the Company on the known claims outstanding, the Company uses the services of internal and external professional actuaries to assist in the determination of the reserves that the Company holds.

5.2 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 and equity risk), currency risk, credit risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below.

5.2.1 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 carrying variable rates expose the Company to cash flow interest rate risk. Assets carrying fixed rates expose the Company to fair value interest rate risk. The Company manages this risk through the Board, and by implementing detailed investment guidelines. Investment performance is regularly monitored against market-based benchmarks. Assets and liabilities exposed to interest rate risk and their maturities are analysed below:

5 Management of insurance and financial risk - continued

5.2 Financial risk - continued

5.2.1 Interest rate risk - continued

2022

	Less than 1 year £'000	1 - 2 years £'000	2 - 5 years £'000	Over 5 years £'000	Total £'000
Variable Interest Rates					
Loans to group companies	38,064	-	-	-	38,064
Cash and cash equivalents	37,830	-	-	-	37,830
Deposits with credit institutions	-	-	-	3,708	3,708
Debt securities	31,177	38,436	32,441	33,425	135,479
Subordinated debt	-	-	(21,903)	-	(21,903)
	107,071	38,436	10,538	37,133	193,178

2021

	Less than 1 year £'000	1 - 2 years £'000	2 - 5 years £'000	Over 5 years £'000	Total £'000
Variable Interest Rates					
Loans to group companies	38,060	-	-	-	38,060
Cash and cash equivalents	10,194	-	-	-	10,194
Deposits with credit institutions	-	-	-	1,846	1,846
Debt securities	14,943	19,859	40,717	29,020	104,539
Subordinated debt	-	-	(16,562)	(4,121)	(20,683)
	63,197	19,859	24,155	26,745	133,956

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

Sensitivity analysis - interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. As at 31 December 2022, given the prevailing market conditions and the investments held by the Company at the end of the year, an increase or decrease of 25 basis points in interest rates would have a positive/negative impact of £1,117,957 (2021: £1,214,661) on the results of the Company for the year.

5 Management of insurance and financial risk – continued

5.2 Financial risk - continued

5.2.2 Equity price risk

The Company's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities because of equity investments held and classified on the Statement of Financial Position as fair value through profit or loss. The Directors manage this risk of price volatility by entering into a diverse range of investments including equities and collective investment schemes. In addition, the Company's investments are spread geographically in a diverse number of different "Zone A and EEA countries". The Group has an active Investment Committee that has established a set of investment guidelines that are also approved by the Board. These guidelines provide parameters for investment management, including contracts with external portfolio managers. They include, inter alia, reference to an optimal spread of the investment portfolio and setting of maximum exposures to any one issuer and its connected parties. These parameters also consider solvency restrictions imposed by the Regulator.

Management structures are in place to monitor all the Company's overall market positions on a frequent basis. Reports are prepared at portfolio level as well as asset and liability class level and are regularly circulated to the Company's relevant key management personnel. These are also reviewed on a quarterly basis by the Board.

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

	2022	2021
	£'000	£'000
Equities	**15,878**	7,683
Collective Investment Schemes	**49,100**	15,400
	64,978	23,083

Sensitivity analysis – equity price risk

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market.

Given the investment strategy of the Company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase/ decrease of 10% in equity prices, with all other variables held constant, would result in a positive/negative impact of £4,223,563 (2021: £1,500,394) on the Company's post-tax results and on equity.

5.2.3 Currency risk

The Company has assets and liabilities denominated in major international currencies other than GBP. The Company is therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. In line with its guidelines for investing in foreign currency, the Company tries to match its currency exposure on the assets and liabilities in order to minimise the exposure as far as possible.

In doing so, the Company also takes into consideration currency exposure on a Solvency II Balance Sheet basis. The Company is willing to tolerate an additional level of currency risk on an IFRS basis if it results in increased capital efficiency.

5 Management of insurance and financial risk - continued

5.2 Financial risk - continued

5.2.3 Currency risk - continued

The table below summarises the Company's exposure to foreign currencies other than GBP.

	£'000					
	Assets in foreign currency		**Liabilities in foreign currency**		**Net Exposure**	
	2022	2021	**2022**	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Currency of exposure:						
USD	**61,137**	44,005	**(65,565)**	(40,157)	**(4,428)**	3,847
EUR	**222,754**	144,631	**(188,111)**	(143,343)	**34,643**	1,288
AUD	**23,134**	5,834	**(36,432)**	(6,108)	**(13,298)**	(275)
CAD	**170**	123	**(189)**	(123)	**(19)**	-
DKK	**(1,144)**	46	**2,300**	(90)	**1,156**	(43)
NOK	**1,427**	1,377	**(1,220)**	(1,409)	**207**	(32)

Sensitivity Analysis – currency risk

The sensitivity for currency risk illustrates how the assets and liabilities will fluctuate because of changes in exchange rates.

A 10% positive or negative movement in currencies is considered to be an appropriate benchmark for sensitivity purposes. An increase/ decrease of 10% in exchange rates, with all other variables held constant, would result in a positive/negative impact of £1,384,820 (2021: £38,436) on the Company's post-tax results and on equity.

5.2.4 Credit risk

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when a change in their credit status takes place. Key areas where the Company is exposed to credit risk are:

- Investments, including debt securities
- Cash and cash equivalents
- Reinsurers' share of technical provisions
- Amounts due from reinsurers/retrocessionaires in respect of claims already paid
- Amounts due from MGAs, intermediaries and other insurers in respect of premium written
- Loans to group companies.

The Company places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy of the Company considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.

5 Management of insurance and financial risk - continued

5.2 Financial risk - continued

5.2.4 Credit risk - continued

The Company structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparties, except for exposures with related group companies. The Company has in place internal control structures to assess and monitor credit exposures and risk thresholds.

The Company's cash is placed with quality financial institutions, thereby reducing the concentration of counterparty credit risk to an acceptable level.

Reinsurance/retrocessional transfer is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer/reinsurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder/reinsured. The creditworthiness of reinsurers is monitored annually by reviewing credit grades provided by rating agencies and other publicly available financial information, thereby ensuring the continuous financial strength of the reinsurer. For legacy business, at the same time as the Board approves a portfolio transfer, it assesses the reinsurers' credit rating (either Standard & Poor's or equivalent) of any inuring treaties and ensures that adequate provisions are put in place for those that fall outside ratings acceptable to the Company. In respect of the reinsurers of the live program business, the Company monitors the reinsurers' credit ratings and that the level of any collateral remains sufficient to cover the projected size of the reserves and IBNR.

The exposure to individual counterparties is also managed by other controls, such as the right to offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and on reinsurers' share of technical provisions and subsequent write-offs.

The total assets bearing credit risk are the following:

	2022	2021
	£'000	£'000
Amounts due from group companies, including accrued interest	**39,685**	38,668
Other financial assets (including deposits with banks and credit institutions)	**9,429**	5,472
Debt securities	**135,479**	104,539
Reinsurers share of technical provisions (net)	**305,328**	196,662
Insurance and other receivables	**307,004**	255,459
Cash and cash equivalents	**37,830**	10,194
	834,755	610,994

The carrying amounts disclosed above represent the maximum exposure to credit risk. These assets are analysed in the table below (expressed in millions) which includes the A.M. Best Credit Rating composite rating (or equivalent), when available. Unrated financial assets principally comprise insurance and reinsurance receivables for which no recognised rating is available.

5 Management of insurance and financial risk - continued

5.2 Financial risk - continued

5.2.4 Credit risk - continued

2022

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	NR £m	Total £m
Amounts due from group companies	-	-	39.68	-	-	-	-	39.68
Debt securities	16.07	24.13	46.84	38.73	3.93	5.78	-	135.48
Other financial assets	-	-	5.12	1.76	-	-	2.54	9.43
Reinsurers' share of technical provisions (net of provisions)	-	-	291.76	1.73	-	6.65	5.18	305.33
Insurance and other receivables (net of provisions)	-	5.25	103.88	-	-	-	198.09	307.22
Cash and cash equivalents	-	0.69	37.05	0.09	-	-	-	37.83

2021

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	NR £m	Total £m
Amounts due from group companies	-	-	-	38.67	-	-	-	39.67
Debt securities	8.51	10.28	30.94	50.1	4.71	-	-	104.54
Other financial assets	-	-	3.9	1.57	-	-	-	5.47
Reinsurers' share of technical provisions (net of provisions)	-	61.95	128.17	2.74	-	-	3.80	196.66
Insurance and other receivables (net of provisions)	5.25	8.66	68.49	-	-	-	173.06	255.46
Cash and cash equivalents	-	-	9.57	0.63	-	-	-	10.19

The Company holds £70,575,096 (2021: £69,475,096) of collateral as security to its credit risk on certain balances due from reinsurers.

Financial assets that are impaired

Within reinsurers' share of technical provisions and insurance and other receivables are amounts of £3,526,804 (2021: £1,681,475) that are classified as impaired as these have been overdue from MGAs for more than 12 months or relate to sliding scale commission receivable balances which may not be fully recoverable. Provisions have been created against these balances, which are at higher levels compared to prior year due to the significant growth in program business.

A decision to impair an asset is based on the following information that comes to the attention of the Company:

- Significant financial difficulty of the reinsurer, including a long-term downgrade of the reinsurer;
- It becoming probable that the reinsurer will enter bankruptcy or other financial reorganisation; or
- The amount being requested of the reinsurer is being contested and a provision for impairment is taken until such time as the dispute is resolved.

5 Management of insurance and financial risk - continued

5.2 Financial risk - continued

5.2.5 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 cash flows arising from the Company's liabilities:

	Expected cash flows 2022 (undiscounted) (£ millions)						
	0-1 yr	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**>5yrs**	**Total**
Technical provisions – claims outstanding	136.91	68.98	45.96	32.10	20.60	80.97	385.52
Insurance and other payables (contractual)	482.29	-	-	-	-	-	482.29
Subordinated debt	-	-	17.54	-	4.36	-	21.90

	Expected cash flows 2021 (undiscounted) (£ millions)						
	0-1 yr	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**>5yrs**	**Total**
Technical provisions – claims outstanding	99.80	52.88	32.96	22.47	14.72	43.20	266.03
Insurance and other payables (contractual)	307.45	-	-	-	-	-	307.45
Subordinated debt	-	-	-	16.56	-	4.12	20.68

6 Segmental information

The Company's reportable segments relate to the separable operations carried out by the Malta Head Office, the UK Branch and the Italian Branch. Program business is the main revenue generating activity for the Branches, whilst the Malta Head Office operations include both program and legacy business.

This segment information covers the twelve-month period from 1 January 2022 to 31 December 2022. As at the end of the financial year, the Italian Branch did not meet the applicable reportable thresholds in line with IFRS 8 – Operating Segments, and as such, is not a reportable segment during 2022.

6 Segmental information - continued

	2022		
	Malta Head Office	UK Branch	Total Company
	£'000	£'000	£'000
Key financial results for the year			
Gross premiums written	160,653	487,257	649,634
Earned premiums, net of reinsurance	27,134	33,110	60,377
Claims incurred, net of reinsurance	(16,271)	(25,379)	(41,677)
Profit/(loss) before tax	(5,614)	1,874	(3,965)
Statement of financial position extract			
Total assets	526,242	924,339	1,451,664
Total liabilities	(514,157)	(846,819)	(1,362,511)
Total equity	(12,085)	(77,520)	(89,153)

	2021		
	Malta Head Office	UK Branch	Total Company
	£'000	£'000	£'000
Key financial results for the year			
Gross premiums written	123,461	293,711	417,538
Earned premiums, net of reinsurance	36,044	16,962	53,014
Claims incurred, net of reinsurance	(23,070)	(13,963)	(37,035)
Profit/(loss) before tax	537	(5,613)	(5,339)
Statement of financial position extract			
Total assets	443,632	517,718	961,756
Total liabilities	(380,242)	(489,824)	(870,773)
Total equity	(62,173)	(29,092)	(90,983)

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3.

7 Gross premiums written

Premiums written relate to program business, in addition to premium charged by the Company for the purchase or reinsurance of a legacy portfolio. Total gross written premium generated during the year from program business amounted to £595,665,339 (2021: £387,003,570) with the remaining premium of £53,968,973 (2021: £30,534,314) being generated from legacy transactions.

8 Net operating and other administrative expenses

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Acquisition costs	**102,511**	96,098
Movement in deferred acquisition costs (Note 25)	**(34,276)**	(34,056)
Claims management expenses	**4,798**	2,066
Administrative and other expenses	**22,874**	17,779
Reinsurance commissions and profit participation	**(58,341)**	(53,130)
	37,565	28,757
Allocated as follows:		
Technical account	**17,245**	11,706
Non-technical account	**20,320**	17,051
	37,565	28,757

Total commissions for business written, accounted for in the financial year, amounted to £99,626,858 (2021: £94,032,637) in the Company's technical result.

Non-technical account

Administrative expenses in the non-technical profit or loss account represent expenditure after appropriate apportionments are made to the general business technical accounts. Administrative expenses mainly comprise recharges from entities under common control (Note 31), legal and professional fees, management fees, salaries, Directors' fees, auditors' remuneration and other general office expenditure. Further detail relating to administrative expenses is included in Note 10.

9 Investment return and other income

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Investment income		
Interest received from loans and receivables		
- Loans to group companies	**848**	540
- Other receivables	**54**	25
Income from financial assets at fair value through profit or loss		
- Dividend income	**349**	1
- Interest received	**2,432**	2,035
- Other fair value gains	**16**	165
Rental income	**852**	163
Net exchange differences	**5,671**	-
	10,222	2,929
Investment expense		
Fair value losses on investments at fair value through profit or loss	**14,295**	3,370
Net exchange differences	**-**	2,255
Other investment expenses	**282**	235
	14,577	5,860
Total investment return	**(4,355)**	(2,931)
Allocated as follows:		
Technical account	**(2,722)**	(1,222)
Non-technical account	**(1,633)**	(1,709)
	(4,355)	(2,931)

Prior to the sale of the investment property during the year (Note 14), the Company received £0.83m in advanced rental payments from the tenant as compensation for the early termination of the long-term lease agreement held.

10 Loss before taxation

The loss before tax is stated after charging:

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Amortisation of subordinated debt (Note 23)	**70**	64
Employee benefits (Note 11)	**4,602**	3,520
Directors' emoluments	**1,016**	869
Lease liability costs	**5**	4
Insurance cover purchased for Directors and Officers	**5**	5
Auditor's remuneration, exclusive of VAT	**142**	129
Movement in provision on program bad debts	**1,309**	93

These amounts are included in the non-technical account. Auditor's remuneration is in relation to the statutory and Solvency and Financial Condition Report ('SFCR') audits for the Company. The auditor has not provided any other assurance or tax advisory services during the year.

Directors' emoluments include bonuses payable in line with contractual obligations by the Company.

The Company is currently only exposed to one low value lease contract as a lessee, which was renewed during 2021. The right of use asset recognised in the Statement of Financial Position at 31 December 2022 is £48k (2021: £78k). This asset has given rise to a depreciation charge of £33k (2021: £38k) for the year ending 31 December 2022. The lease liability as at 31 December 2022 amounts to £52k (2021: £80k) and the unwinding of the liability for the year ending 31 December 2022 has created an interest cost of £5k (2021: £4k) as disclosed above.

11 Employee benefits

	Year ended 31 December 2022	Year ended 31 December 2021
	£'000	£'000
Salaries	**4,071**	3,120
Social security costs	**531**	400
	4,602	3,520
Employee benefit costs are allocated as follows:		
Key management personnel	**1,385**	1,461
Administrative staff	**3,217**	2,058
	4,602	3,520

11 Employee benefits - continued

	Year ended 31 December 2022	Year ended 31 December 2021
Average number of employees (annualised)		
Malta Head Office	**9**	9
UK Branch	**38**	35
Italy Branch	**2**	2
	49	46

12 Income taxation

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Current tax charge	**4**	22
Consideration for group losses surrendered	**(1,059)**	-
Deferred tax charge/(credit) (Note 17)	**407**	(1,678)
Tax credit for the year	**(648)**	(1,656)

The Company's tax charge differs from its theoretical tax charge compiled at a rate of 35% as follows:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Loss before taxation	**(3,964)**	(5,339)
Branch losses surrendered through group loss relief	**(5,571)**	-
Loss subject to taxation	**(9,536)**	(5,339)
Tax credit at 35%	**(3,338)**	(1,869)
Adjusted for tax effect of:		
Net exempt income and disallowed expenses	**646**	964
Compensation on Branch losses surrendered through group loss relief	**1,059**	-
Temporary differences on provisions (Note 17)	**(94)**	(8)
Tax rate differences applied on Branches	**616**	927
Unutilised tax losses on Branches carried forward (Note 17)	**123**	(1,670)
Adjustment for over provision of prior year tax	**340**	-
	(648)	(1,656)

13 Intangible assets

	Arising on acquisition	Computer software	Total
	£'000	£'000	£'000
At 1 January 2021			
Cost	4,900	-	4,900
Accumulated amortisation	(2,016)	-	(2,016)
Net book amount	2,884	-	2,884
Year ended 31 December 2021			
Opening net book amount	2,884	-	2,884
Additions	1,337	-	1,337
Amortisation charge	(425)	-	(425)
Closing net book amount	3,796	-	3,796
At 31 December 2021			
Cost	6,237	-	6,237
Accumulated amortisation	(2,441)	-	(2,441)
Net book amount	**3,796**	**-**	**3,796**
Year ended 31 December 2022			
Opening net book amount	3,796	-	3,796
Additions	1,976	1,511	3,487
Amortisation charge	(476)	-	(476)
Closing net book amount	5,296	1,511	6,807
At 31 December 2022			
Cost	8,213	1,511	9,724
Accumulated amortisation	(2,917)	-	(2,917)
Net book amount	**5,296**	**1,511**	**6,807**

Intangible assets classified as arising on acquisition represent the fair value adjustment to the technical provisions that arise on the purchase of insurance portfolios (Note 3.2). Computer software relates to the capitalisation of allowable costs in relation to the development of the Company's new IFRS 17 accounting software package, as determined by *IAS 38 – Intangible Assets* for such arrangements. Amortisation of software is calculated using the straight-line method to allocate the cost of computer software over its estimated useful life of 5 years. Full year amortisation will take effect from 2023, with no amortisation calculated in the year of capitalisation.

14 Investment property

The movements for the year are summarised as follows:

	2022	2021
	£'000	£'000
Opening net book amount	**1,350**	-
Transferred as part of merger	-	1,350
Disposal of asset	**(1,350)**	-
Closing net book amount	-	1,350

The fair value of the investment property was initially determined by reference to the consideration paid to acquire the investment property, having regard to any significant fluctuations noted in property prices experienced in the area. After this was determined, the Company engaged external, independent and qualified valuers to determine the fair value of the investment property on an annual basis. The investment property was sold during the year ended 31 December 2022 for a consideration of £1.40m. Any fair value movements are accounted within profit and loss and are presented with 'investment expenses'.

Valuation techniques

For level 3 fair value of the property the valuation was determined by adopting the comparable and investment method of valuation whereby the passing rent and market rent for the subject property was analysed and an appropriate yield to each was applied in order to establish the fair value. In establishing the fair value, rental and sales comparables were analysed in terms of the property's specification, condition, location, size and transaction type, in order to arrive at the value for the property. In establishing the appropriate yield consideration was given to the actual location, size and quality of the properties, taking into consideration market data at the valuation date.

15 Property, plant and equipment

	Right of use assets	Office furniture and equipment	Total
	£'000	£'000	£'000
Year ended 31 December 2021			
Opening net book amount	15	22	37
Additions	93	3	96
Depreciation	(30)	(11)	(41)
Closing net book amount	78	14	92
At 31 December 2021			
Cost	177	48	225
Accumulated depreciation	(99)	(34)	(133)
Net book amount	**78**	**14**	**92**
Year ended 31 December 2022			
Opening net book amount	78	14	92
Additions	4	16	20
Depreciation	(33)	(12)	(45)
Closing net book amount	49	18	67
At 31 December 2022			
Cost	181	64	245
Accumulated depreciation	(132)	(46)	(178)
Net book amount	**49**	**18**	**67**

16 Investments

The investments are summarised by measurement category in the table below.

	2022 £'000	2021 £'000
Fair value through profit or loss	**202,118**	127,622
Loans and receivables	**45,833**	43,532
	247,951	171,154

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	2022 £'000	2021 £'000
Equity securities and units in unit trusts	**64,978**	23,083
Debt Securities	**135,479**	104,539
Other investments	**1,661**	-
	202,118	127,622

At 31 December 2022, the Company had no financial commitments in respect to uncalled capital.

Equity securities and units in unit trusts are substantially non-current assets in nature. Corporate bonds of £1.63m (2021: £1.49m) are held as collateral against various guarantees. During 2021, a capital extraction of £6.00m from the Company's non-traded equity security was made (Note 28).

At 31 December 2021, the above amounts included £7.14m pledged as part of the Funds at Lloyd's in support of the Group's underwriting activities. Lloyd's has the right to apply these monies in the event the corporate member fails to meet its obligations. These monies are not available to meet the Company's own working capital requirements and can only be released with Lloyd's permission. During 2022, the Company disposed of these assets and there were no pledged investments held by the end of the financial year.

During the year, the Company subscribed to an unsecured convertible loan note issued by one of its MGAs, attracting a coupon rate of 6% p.a., for a principal amount of £1.66m.

The movements for the year are summarised as follows:

	2022 £'000	2021 £'000
Opening net book amount	**127,622**	85,766
Additions	**148,028**	112,046
Disposals	**(61,631)**	(68,585)
Fair value losses	**(14,295)**	(3,219)
Foreign exchange gains	**2,394**	1,614
Closing net book amount	**202,118**	127,622

16 Investments - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	2022 £'000	2021 £'000
Deposits with banks or credit institutions	**7,769**	5,472
Loans to group companies	**38,064**	38,060
	45,833	43,532

The deposits with banks or credit institutions are held as collateral for various guarantees and a letter of credit issued by the Company. The letter of credit is reported separately in the Statement of Financial Position as a provision amounting to £334,544 (2021: £334,544).

The interest rates and maturities are disclosed in Note 5.2.1. The loans to group companies are unsecured and repayable within one year and attract a fixed interest rate of 2.432% (2021: 1.107%).

The movements for the year are summarised as follows:

	2022 £'000	2021 £'000
Opening net book amount	**43,532**	65,610
Transferred upon merger	**-**	7,659
Additions	**1,822**	4,245
Transferred to debt securities	**-**	(31,212)
Repayments	**(18)**	(2,624)
Revaluation on exchange	**497**	(148)
Closing net book amount	**45,833**	43,532

17 Deferred tax assets

	2022 £'000	2021 £'000
Opening net book amount	**2,844**	1,166
Movements during the year		
Recognised in statement of profit or loss and other comprehensive income (Note 12)	**(407)**	1,678
Closing net book amount	**2,437**	2,844

A portion of the deferred tax asset, amounting to £0.52m (2021: £2.37m), relates to unutilised tax losses from the Company's Branches, of which £0.38m (2021: £2.28m) relates to the UK Branch (Note 6) and £0.14m (2021: £0.09m) to the Italian Branch.

17 Deferred tax assets - continued

The rest of the deferred tax asset amounting to £1.92m (2021: £0.47m) relates to the Malta Head Office derived from a combination of unutilised tax losses and temporary differences on provisions. The Company did not have unrecognised deferred income tax assets that could be carried forward against future taxable income as at 31 December 2022 and 2021 respectively.

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2021: 35%). In the case of the Branches, deferred income taxes are calculated using the corporate tax rates of the relevant tax jurisdiction, and the absorption of deferred tax assets recognised by the Branches will be made solely against the future taxable profits of the Branches, in line with the corporate tax regulations of the Branches' tax jurisdictions.

This balance is substantially non-current in nature.

18 Insurance and other receivables

	2022	2021
	£'000	£'000
Receivables arising from insurance operations	**270,498**	198,049
Provision for impairment on insurance operations	**(2,905)**	(475)
Receivables arising from inwards reinsurance business	**953**	774
Receivables arising from outwards reinsurance	**28,076**	49,582
Provision for impairment on outwards reinsurance	**(847)**	(732)
Deposits with ceding undertakings	**11,229**	8,261
Other loans and receivables		
Prepayments and other accrued interest	**3,190**	2,687
Amounts due from ultimate parent company (Note 31)	**6,461**	2,423
Amounts due from entities under common control (Note 31)	**3,638**	595
	320,293	261,164

Amounts due from group companies are unsecured, interest free and repayable on demand.

19 Insurance and other payables

	2022	2021
	£'000	£'000
Payables arising from insurance operations	**35,777**	19,897
Payables arising from inwards reinsurance business	**2,465**	11,595
Payables arising from outwards reinsurance	**310,462**	209,580
Accruals	**5,341**	1,137
Amounts due to entities under common control (Note 31)	**33,471**	3,323
Amounts due to ultimate parent company (Note 31)	**1**	1
Trade and other payables	**1,198**	1,528
Deferred income	**93,362**	60,390
	482,077	307,451

Amounts due to group companies are unsecured, interest free and repayable on demand.

20 Share capital

	2022	2021
	£	£
Authorised share capital		
49,999,997 Ordinary 'A' shares of £1 each	**49,999,997**	49,999,997
3 Ordinary 'B' shares of £1 each	**3**	3
	50,000,000	50,000,000
Issued fully paid up		
42,875,247 Ordinary 'A' shares of £1 each	**42,875,247**	40,175,247
3 Ordinary 'B' shares of £1 each	**3**	3
	42,875,250	40,175,250

The Ordinary 'A' Shareholders have pledged their shares (42,875,247 shares of £1 each) in favour of the ultimate shareholders' banker. On 30 March 2021, as a result of the domestic mergers of R&Q Alpha Insurance SE and R&Q Beta Insurance SE (Note 29), the Company issued 6,475,428 new Ordinary 'A' shares of £1 each and 2 new Ordinary 'B' shares of £1 each. In 2022, the Company capitalised £2.70m of shareholders' contribution.

Save as per the provisions below, the different classes of shares shall rank *pari passu* for all intents and purposes of law.

The holders of Ordinary 'A' shares in the Company shall have a right to one vote per share. The holders of the Ordinary 'B' shares shall not have a right to vote at any meetings of the members of the Company.

The holders of Ordinary 'A' shares shall have the right to receive dividends and to participate in the profits of the Company. The holder of the Ordinary 'B' share shall not have the right to receive any dividend or to participate in any other manner in the profits of the Company.

If in a winding up, the assets available for distribution among the Shareholders shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the holder of the Ordinary 'B' share shall nevertheless be entitled to receive no more than the amount which at the commencement of the winding up has been paid up on the Ordinary 'B' share held in the Company.

Capital management objectives

The Company's objectives when managing capital are to:

- Comply with the insurance capital requirements to hold Eligible Own Funds to cover the Solvency Capital Requirement and Minimum Capital Requirement in terms of the Insurance Business Act, 1998, (Chapter 403, Laws of Malta) and the applicable Insurance Rules issued under the Insurance Business Act ('Insurance Rules') by the MFSA;
- Safeguard the Company's ability to continue as a going concern and provide returns for Shareholders and benefits for other stakeholders;
- Maintain financial strength to support new business growth and to provide for the capital requirements of the Company; and
- Provide an adequate return to Shareholders by pricing insurance contracts commensurately with the level of risk.

20 Share capital - continued

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

The Solvency II Directive (2009/138/EC) utilises a risk-based approach that ascertains the level of the required regulatory capital to be held on the basis of the risks that the Company is or can be exposed to. Solvency II also sets out the approach to be undertaken in order to establish the amount of Solvency II own funds, namely by converting the Statement of Financial Position from an IFRS perspective to one where assets and liabilities are measured in line with their underlying economic value.

The Solvency II regulations are highly embedded in the Company's operations and regular monitoring of the Solvency Capital Requirement ('SCR') and the Minimum Capital Requirement ('MCR') is considered crucial. To this effect, a Capital Management Policy, outlining the main drivers of the SCR, was put in place to address the procedures and controls in this regard. In the case of any identified breaches with the SCR and MCR, the Directors have put in place a capital plan aimed at ensuring that the Company will restore its level of own funds to one which covers both the SCR and MCR.

Under Solvency II, the Company is required to hold regulatory capital for its general business in compliance with the Insurance Rules issued by the MFSA. The Company's Minimum Capital Requirement Absolute Floor stands at €4,000,000 as per paragraph 5.6.4 of Chapter 5 ('Valuation of assets and liabilities, technical provisions, own funds, SCR, MCR and investment rules') of Part B of the Insurance Rules.

The Company is sufficiently capitalised and was fully compliant with the regulatory capital requirements throughout the financial year under review. These regulatory capital requirements are as stipulated by the MFSA and are in line with the Solvency II requirements.

At 31 December 2022, the Company's audited eligible own funds adequately covered the required SCR, resulting in a ratio of eligible own funds to SCR of 146% (2021: 207%).

The Company monitors its capital level on a regular basis. Any transactions that may potentially affect the Company's solvency position under Solvency II are immediately reported to the Directors and Shareholders for resolution prior to notifying the MFSA. No changes were made to the Company's approach to capital management during the year ended 31 December 2022.

21 Retained earnings

The retained earnings balance represents the amount available for dividend distribution to the ordinary shareholders except for any amount that is not distributable in terms of the solvency capital requirements which the Company is required to adhere to in terms of the Insurance Business Act (Cap. 403) and any amount that is not distributable under the Maltese Companies Act (Cap. 386), to the extent that it represents unrealised profits.

22 Shareholders' contribution

	2022	2021
	£'000	£'000
Opening net book amount	**50,845**	44,185
Capitalisation to share capital	**(2,700)**	-
Contributions during the year	**1,486**	6,660
Closing net book amount	**49,631**	50,845

22 Shareholders' contribution - continued

The Shareholders' contribution may only be distributed upon approval from the Malta Financial Services Authority, should such distribution not negatively impinge on the solvency requirements of the Company.

23 Subordinated debt

	2022 **£'000**	2021 £'000
Opening net book amount	**20,683**	22,063
Amortisation	**70**	64
Revaluation on exchange	**1,150**	(1,444)
	21,903	20,683

The subordinated debt was subscribed to in two tranches. The €20,000,000 subscribed to in 2015 is due on 5 October 2025, whilst the €5,000,000 subscribed to in 2017 is due on 5 July 2027. Both tranches are considered to be Tier II Capital.

24 Technical provisions

	2022 **£'000**	2021 £'000
Gross		
Short-term insurance contracts		
Claims outstanding		
- Notified claims	**277,286**	200,565
- Incurred but not reported	**108,229**	65,460
- Unexpired risk reserve	**760**	-
Unearned premium reserve	**470,630**	274,639
Total technical provisions, gross	**856,905**	540,664

	2022 **£'000**	2021 £'000
Recoverable from reinsurance		
Short-term insurance contracts		
Claims outstanding		
- Notified claims	**196,930**	133,592
- Incurred but not reported	**108,030**	63,448
- Unexpired risk reserve	**760**	-
- Provision for impairment	**(392)**	(378)
Unearned premium reserve	**438,641**	256,465
Total recoverable from reinsurance	**743,969**	453,127

24 Technical provisions – continued

	2022 £'000	2021 £'000
Net		
Short-term insurance contracts		
Claims outstanding		
- Notified claims	**80,356**	66,974
- Incurred but not reported	**199**	2,012
- Unexpired risk reserve	**-**	-
- Provision for impairment	**392**	378
Unearned premium reserve	**31,989**	18,173
Total technical provisions, net	**112,936**	87,537

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. Table 1 below illustrates how the Company's estimate of total claims incurred for its 'legacy' business, for each underwriting year has changed at successive year-ends on a gross basis. The underwriting-year basis is considered to be the most appropriate for the business written by the Company.

Table 1

	2013 £'000	**2014 £'000**	**2015 £'000**	**2016 £'000**	**2017 £'000**	**2018 £'000**	**2019 £'000**	**2020 £'000**	**2021 £'000**	**2022 £'000**	**Total £'000**
Estimate of the ultimate claims costs:											
at end of u/w year	18,775	10,879	12,058	11,470	6,373	8,762	2,154	22,799	32,547	34,155	159,972
- one year later	18,900	9,226	13,869	10,651	6,290	7,702	2,134	21,335	32,711		122,818
- two years later	20,091	10,632	13,614	3,897	6,116	7,657	1,712	22,646			86,364
- three years later	24,545	10,920	13,571	3,856	631	8,039	2,005				63,566
- four years later	21,876	11,899	12,667	3,815	631	8,154					59,041
- five years later	18,598	11,378	13,262	3,885	631						47,754
- six years later	18,426	11,368	11,944	4,040							45,779
- seven years later	18,986	12,504	11,920								43,411
- eight years later	19,577	13,665									33,241
- nine years later	19,942										19,942
Current estimates of cumulative claims	19,942	13,665	11,920	4,040	631	8,154	2,005	22,646	32,711	34,155	149,869
Cumulative payments to date	(7,229)	(8,591)	(5,134)	(2,630)	(631)	(4,865)	(2,005)	(11,981)	(12,374)	(218)	(55,658)
Gross liability	12,713	5,073	6,786	1,410	-	3,289	-	10,665	20,337	33,938	94,210
Reinsurers' share of technical provisions	(6,397)	-	(1,363)	-	-	(2,684)	-	-	(4,981)	(26,420)	(41,845)
Net liability recognised in the Statement of Financial Position	6,316	5,073	5,423	1,410	-	605	-	10,665	15,355	7,518	**52,365**

24 Technical provisions - continued

Table 2 below illustrates how the Company's estimate of total claims incurred for its 'program' business, for each underwriting year has changed at successive year-ends on a net basis. The policy underwriting-year basis is considered to be the most appropriate for the business written by the Company. A net basis for 'program' business is considered to be the most appropriate due to the extensive reinsurance arrangements.

Table 2

	2017 £'000	**2018 £'000**	**2019 £'000**	**2020 £'000**	**2021 £'000**	**2022 £'000**	**Total £'000**
Estimate of the ultimate claims costs:							
- at end of underwriting year	29	1,040	4,193	6,684	10,044	15,153	37,143
- one year later	181	1,765	7,248	15,156	24,132		48,483
- two years later	395	2,043	11,365	17,513			31,316
- three years later	413	2,546	9,905				12,864
- four years later	937	1,128					2,065
- five years later	1,118						1,118
Current estimates of cumulative claims (net)	1,118	1,128	9,905	17,513	24,132	15,153	68,949
Cumulative payments to date (net)	(1,118)	(1,128)	(8,055)	(11,070)	(12,477)	(6,520)	(40,368)
Net liability recognised in the Statement of Financial Position	-	-	1,850	6,644	11,655	8,632	**28,581**

Movements in insurance liabilities and reinsurance assets:

	Year ended 2022		
	Gross £'000	Reinsurance £'000	Net £'000
Total at beginning of year	266,025	(196,661)	69,364
Claims settled during the year	(167,661)	137,553	(30,107)
Increase/(decrease) in liabilities			
-arising from current year claims	225,419	(190,335)	35,084
-arising from prior year claims	62,491	(55,885)	6,606
Total at year end	**386,275**	**(305,328)**	**80,947**

	Year ended 2021		
	Gross £'000	Reinsurance £'000	Net £'000
Total at beginning of year	176,936	(124,464)	52,472
Claims settled during the year	(110,276)	88,003	(22,273)
Increase/(decrease) in liabilities			
-arising from current year claims	164,334	(125,033)	39,301
-arising from prior year claims	35,031	(35,167)	(136)
Total at year end	**266,025**	**(196,661)**	**69,364**

24 Technical provisions - continued

Net reserves have increased by £11.58m (2021: £16.89m) over the previous year, for the following reasons:

- The Company completed three external portfolio transfers during 2022 as well as finalising two reinsurance arrangements, thereby increasing gross reserves by £33.94m on which reinsurance of £26.42m was in place as at year end, and for which net claims settlements of £0.05m were made during the year. On an overall basis, net claims payments of £13.46m (2021: £14.31m) were made during the year in relation to legacy business.

- Legacy net technical reserves decreased by £0.67m (2021: increase of £9.05m) compared to last year, driven mainly by net claims payments of £13.41m made during 2022 on legacy portfolios taken over in prior years, compensated by the new legacy transactions taken on during the year, themselves significantly reinsured, as well as a £2.20m increase on technical reserves as a result of the Company strengthening its total technical reserves on portfolios taken over in prior years.

- An increase in program net reserves of £12.25m (2021: £7.84m), net of cumulative claims paid, mainly as a result of the increase in the number of live programs and premium volumes during the year.

Reserves for claims which are incurred but not reported are established based on an actuarial valuation that takes into consideration a number of factors including industry trends, current legal environment and geographical considerations. There were no major developments to such estimates during 2022.

The Company's functional and reporting currency is the Pound Sterling, however given the global nature of the underlying business, particularly the reinsurance business, the Company carries technical reserves in the following major currencies: Euro, US Dollar and Australian Dollar.

Provision for unearned premiums

	Year ended 2022		
	Gross £'000	Reinsurance £'000	Net £'000
Total at beginning of year	274,639	(256,465)	18,174
Net charge to profit and loss	195,991	(182,176)	13,815
Total at year end	**470,630**	**(438,641)**	**31,989**

	Year ended 2021		
	Gross £'000	Reinsurance £'000	Net £'000
Total at beginning of year	165,891	(156,233)	9,658
Net charge to profit and loss	108,748	(100,233)	8,515
Total at year end	**274,639**	**(256,465)**	**18,173**

25 Deferred acquisition costs

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening net book amount	**58,034**	23,978
Net charge to the profit and loss	**34,276**	34,056
Closing net book amount	**92,310**	58,034

The reinsurers' share of deferred acquisition costs is reported as deferred income and included within insurance and other payables (Note 19).

26 Cash generated from operations

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
(Loss)/profit before tax	**(3,964)**	(5,339)
Adjusted for:		
Investment return	**8,333**	(973)
Release in provision for impairment	**-**	-
Amortisation of intangible assets	**477**	425
Movement in intangible assets	**(3,487)**	(1,337)
Amortisation of subordinated debt	**70**	64
Depreciation of fixed assets	**45**	41
Profit on disposal of investment property	**(50)**	-
Right of use assets recognised	**(4)**	(93)
Investment property transferred upon merger	-	(1,350)
Income tax payable transferred upon merger	-	127
Retained earnings absorbed upon merger	-	1,377
Movements in:		
Technical provisions	**316,241**	197,837
Provisions for other risks and charges	**1,264**	-
Reinsurers share of technical provisions	**(290,842)**	(172,430)
Insurance and other receivables	**(57,507)**	(118,347)
Insurance and other payables	**174,627**	140,410
Loans to group companies	**-**	(7,539)
Deferred acquisition costs	**(34,276)**	(34,056)
Cash generated from/(used in) operations	**110,926**	(1,183)

27 Cash and cash equivalents

Cash and cash equivalents included in the Statement of Cash Flows comprise the following amounts in the Statement of Financial Position:

	2022 **£'000**	2021 £'000
Cash at bank or other financial institutions	**37,830**	10,194
At floating rates	**37,830**	10,194

The Company earns interest at regular market rates. Cash held by financial institutions on behalf of the Company's investment managers amounted to £0.68m (2021: £3.62m).

28 Fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

- 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);
- 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 assets measured in the Statement of Financial Position at fair value by level at 31 December:

	Level 1 **2022** **£'000**	Level 1 2021 £'000
Investments at fair value through profit or loss		
Equity securities and units in unit trusts	**58,937**	15,400
Debt securities	**45,158**	33,606
	Level 2 **2022** **£'000**	Level 2 2021 £'000
Investments at fair value through profit or loss		
Debt securities	**90,321**	70,933
	Level 3 **2022** **£'000**	Level 3 2021 £'000
Investment property	-	1,350
Other investments	**1,661**	-
Non-traded equity securities	**6,041**	7,683

28 Fair values - continued

At 31 December 2022 and 31 December 2021, the carrying amount of the Company's other financial assets and liabilities not measured at fair value approximated their fair values.

Fair value measurements classified as Level 1 include government debt securities, units in unit trusts and collective investments schemes and foreign listed equities. Corporate debt securities as well as asset backed securities are classified as Level 2 in view of their trading characteristics.

The Level 3 investment in non-traded equity securities relates to a legacy acquisition comprising of the purchase of the entire issued share capital of R&Q Eta Company Limited, formerly known as MPS Risk Solutions Limited ('MPSRS'), from its owners The Medical Protection Society Limited ('MPS'). MPSRS was formed in January 2004 as a UK authorised insurer subsidiary of MPS. It ceased active underwriting in October 2012. During 2021, a capital extraction of £6.00m was effected by the Company. An impairment of £1.64m (2021: £0.19m) on this investment was recognised during the year. The intention is to liquidate R&Q Eta Company Limited in 2023 (Note 32).

Other Level 3 investments relate to the subscription of an unsecured convertible loan note issued by one of the Company's MGAs, attracting a coupon rate of 6% p.a., for a principal amount of £1.66m.

29 Domestic mergers

On 30 March 2021, the domestic mergers of R&Q Alpha Insurance SE (SE 11) and R&Q Beta Insurance SE (SE 12) into the Company were completed, which were both entities under common control. On 30 December 2021, the domestic merger of R&Q Insurance (Europe) Limited ('RQIE') was also completed, in line with the provisions of Maltese law. RQIE's shares were transferred to the Company from R&Q Malta Holdings Limited, the immediate parent company of both the Company and RQIE, prior to the merger taking place, funded via a shareholder's contribution of £6.66m and the settlement of the immediate parent company loan balance due to the Company.

As a result of the mergers, the merging companies acquired by the Company have ceased to exist and the Company has succeeded in acquiring all the assets, rights, liabilities and obligations of the merging companies. The transactions of the acquired companies have been accounted for in the Company with an effective date of 1 January 2021. In line with accounting policy note 3.3, in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the Company has opted to use the 'carry-over' ('predecessor accounting') method to account for the amalgamations. The assets acquired and liabilities assumed were recognised at their carrying amounts, as of the date of the legal mergers, and in combination amounted to £22.94m in total assets, £5.82m in total liabilities and £17.12m in total equity. No goodwill was recorded following the transfer of assets and liabilities at their carrying value, and comparative periods have not been restated.

30 Statutory information

Accredited Insurance (Europe) Limited is a limited liability company and is incorporated in Malta. The parent company of Accredited Insurance (Europe) Limited is R&Q Malta Holdings Limited, a company registered in Malta with its registered address at 3rd Floor, Development House, St. Anne Street, Floriana, FRN 9010. The intermediate parent undertaking Randall & Quilter II Holdings Limited is the company in which the results and financial position of the Company are consolidated. Group Financial Statements can be obtained from 71 Fenchurch Street, London, EC3M 4BS.

The ultimate parent company of Accredited Insurance (Europe) Limited is R&Q Insurance Holdings Ltd (formerly known as Randall & Quilter Investment Holdings Ltd.), a company registered in Bermuda with its registered address at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

31 Related party activities

Amounts due to and from related parties are disclosed in Notes 9, 16, 18, 19 and 22.

In addition the following transactions were effected during the year:

	2022	2021
	£'000	£'000
Income		
Interest received on loan to immediate parent company	**-**	27
Interest received on loan to entities under common control	**1,146**	513
Reinsurance premiums from entities under common control	**31,239**	-
Salary recharges to entities under common control	**856**	285
Compensation for losses surrendered via group loss relief from entities under common control	**1,059**	-
Expenses		
Acquisition costs from entity under common control	**2,884**	2,066
Claims handling and other group function costs	**13,750**	12,362
Reinsurance premiums to entities under common control	**47,818**	-

All related party transactions are made on an arm's length basis. Key management personnel compensation consists of Directors' emoluments and bonuses as disclosed in Note 10 as well as key management personnel salaries and other benefits as disclosed in Note 11.

Costs incurred from entities under common control in relation to claims handling and other related functions increased in line with the growth in premium volume on the 'program' side, the continued investment in growing this business stream, as well as due to project work currently being undertaken for the implementation of the IFRS 17 sub-ledger, and other process and systems improvements projects.

32 Subsequent events

The Company further strengthened its capital base in early 2023 with a shareholders' contribution of £5m.

Furthermore, on 22 March 2023, R&Q Eta Company Limited, of which the Company owns the entire issued share capital through a previous legacy acquisition (Note 28), was granted approval by the PRA to cancel its Part 4A permission, effectively withdrawing R&Q Eta Company Limited's status as an authorised person. This is part of a process underway to liquidate R&Q Eta Company Limited in 2023.

On a separate note, following the collapse of major banks in early 2023 in the United States and Europe, the Board has carried out an internal evaluation to assess the Company's exposure to this, whether direct or indirect, and noted that there is no material exposure within the Company's investment portfolio to these financial institutions.

There were no other material events affecting the Company which occurred after the reporting date.

PKF Assurance (Malta) Limited

PKF

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Accredited Insurance (Europe) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Accredited Insurance (Europe) Limited (the "Company"), set out on pages 8 to 56, which comprise the statement of financial position as at 31 December 2022, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been prepared in accordance with the requirements of the Companies Act, 1995 (Cap. 386, Laws of Malta) (the "Act") and the Insurance Business Act, 1998 (Cap. 403, Laws of Malta) (the "Insurance Business Act").

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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Area	Reason	Audit Response
Valuation of insurance contract provisions *Refer to Notes 3.12 and 24 to the Company's financial statements for disclosures of related accounting policies and balances*	Total net insurance contract provisions for the year end 31 December 2022 are £112.9m (2021: £87.5m). The methodologies and assumptions utilised to develop insurance contract provisions involve a significant degree of judgement. The liabilities are based on the estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not. In addition, classes of business where there is a greater length of time between initial claim event and settlement (such as historic asbestosis and noise induced hearing losses) also tend to display greater variability between initial estimates and final	We have applied our industry knowledge and experience to understand and evaluate the claims outstanding and IBNR reserving methodology, models and assumptions used. We also evaluated the governance around the overall company's reserving process, including the scrutiny applied by the Company's audit and risk committee, as well as actuarial reviews. We assessed the appointed actuaries' competence, capabilities and objectivity. Additionally, we performed the following procedures; ▪ On a sample basis, carried out performance of tests of detail to assess the completeness and integrity of the data provided to the appointed actuary for the purpose of determining the future insurance liabilities;

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	settlements. A range of methods may be used to determine these provisions. We focused on this area as the underlying methods include a number of explicit and implicit assumptions relating to the expected settlement amounts and settlement patterns of claims and are subject to complex calculations including application of management's judgement which can give rise to materially different values.	▪ Involved our own actuarial specialists who assessed the work of the external actuaries engaged by the Company, specifically to challenge the Company's internal actuaries' calculations of the amounts reserved for claims outstanding and IBNR, by arriving at a 'best estimate' of those calculations. In considering the 'best estimate', an assessment of the appropriateness of the Company's external actuaries' analysis in relation to the actuarial reserving methods, the key assumptions and the underlying uncertainties (particularly as they relate to claims that carry a long settlement period 'longer tailed claims'). ▪ Reviewed any significant prior year reserve movements by reference to any significant adverse market development. ▪ Performed independent re-projections and sensitivity analyses on selected classes of business and compared our re-projected claims reserves to those booked by management and challenged management to understand any significant differences. ▪ Tested the calculations used in identifying reinsurers' share of any claims. Based on the procedures we performed, we observed that the value of the insurance contract provisions was reasonable and appropriate.
Recognition of Insurance Program Income *Refer to Notes 3.12 and 7 to the Company's financial statements for disclosures of related accounting policies and balances*	The Company has entered into a number of programs in the year. Total gross written premium generated during the year from program business amounted to £595.7m (2021: £387.0m). In accordance with IFRS, the income arising from these insurance programs should only be recognised as income within the income statement when the performance conditions associated with it have been met. The determination of the performance conditions associated with such income gives rise to significant judgements to be exercised by management. There is a risk that such judgements are not made in accordance with IFRS and thus the accounting for such income might be materially misstated in the financial statements.	We have obtained an understanding and evaluating the design and implementation of controls that the Company has established in relation to the recognition of the new program income. We have also: ▪ Read on a sample basis the underlying program agreements supporting the bordereaux. ▪ Tested, on a sample basis, whether amounts recognised were accurate and recorded in the correct accounting period based on policy documentation and bordereaux received per month and per cover-holder, reflecting the policies written. ▪ Tested, on a sample basis, the cut off periods from the bordereaux. ▪ Recalculated the unearned portion of revenue by selecting a sample of managing cover-holders written premium. Based on the procedures we performed, we observed that the recognition of the new program income was reasonable and appropriate based on the requirements of IFRS and the nature of the underlying agreements.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Accredited Insurance (Europe) Limited

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report. Our opinion on the financial statements does not cover this information, including the Directors' Report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386). Based on the work we have performed, in our opinion:

- 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).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' Report. We have nothing to report in this regard.

Responsibilities of the Directors and Those Charged with Governance

The directors are responsible for the preparation of the financial statements that (i) give a true and fair view in accordance with IFRS as adopted by the EU, (ii) are properly prepared in accordance with the provisions of the Act and the Insurance Business Act, and (iii) 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 has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Accredited Insurance (Europe) Limited

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 those charges with governance 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 those charged with governance 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, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public interest entities

Pursuant to article 179B(1) of the Act, we report under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed to act as statutory auditor by the board of directors on 12 November 2018 for the financial year ended 31 December 2018. Our appointment has been renewed annually by shareholder resolution representing a total uninterrupted engagement of 5 years. The Company became licensed as an insurance undertaking in terms of the Malta Insurance Business Act (Cap. 403) on 12th June 2013.

- our opinion on our audit of the financial statements is consistent with the additional report to the those charged with governance required to be issued by the Audit Regulation (as referred to in the Act); and

- we have not provided any of the prohibited services as set out in the Accountancy Profession Act (Cap. 281).

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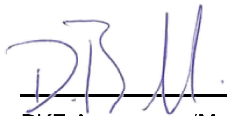
Report on Other Legal and Regulatory Requirements (continued)

Matters on which we are required to report by exception under the Companies Act

Pursuant to articles 179(10) and 179(11) of the Maltese Companies Act (Cap. 386) Act, we have nothing to report to you with respect to the following matters:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

The principal in charge of the audit resulting in this independent auditor’s report is Ms. Donna Greaves for and on behalf of



PKF Assurance (Malta) Limited
Registered Auditors
15, Level 3, Mannarino Road, Birkirkara BKR 9080, Malta
5th April 2023

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