BUILDING BLOCK INSURANCE PCC LIMITED

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C63128

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Principal activity

The principal activities of the Company are that of an Insurance Company licensed in terms of section 7 of the Insurance Business Act, (Cap. 403) by the Malta Financial Services Authority to write general business from Malta and in accordance with the Companies Act (Cell Companies carrying on business of insurance) Regulations, 2004.

Review of the business

The company has written business during 2019 in line with its risk appetite and the strategic objectives implemented in 2017. For the year to 31 December 2019 the Company continues, in conformity with its authorisation by the MFSA, to write the following insurance products from its core – ASDT, ASU, Breakdown, Caravan, Car Hire Excess, Excess, Gadget Insurance, Pet, and Rent Guarantee. Following a review in 2018, the number of schemes has been reduced and put into run off in the year to focus on a number of key lines to drive better overall performance. These financial statements continue to reflect the results from these schemes as at year end. 2019 has seen written premiums grow from £6.9m to £15.3m within the targeted markets, which is now allowing the Company to create critical mass to start delivering sustainable profitability.

The Company continues to target business which is generally expected to be low risk with the use of reinsurance where appropriate to support the management of overall risk.

The Company has in place appropriate procedures to monitor the business written and ensures that key functions are properly controlled and monitored. The Board having assessed the nature and volumes of the business to be written is satisfied that there exists with the exception of the COVID-19 situation (see events after the reporting period), no substantial operational risk and determines also that there are no material risks that may result from the risks recorded in its Risk Register and other identified risks such as liquidity, inflation and reputational risks. The main risks of the Company are related to insurance risk, as it is the principal activity of the Company and financial risk. Information pertaining to the insurance and financial risks is included within Notes 2.1 and 2.2 to these financial statements.

Brexit

The implementation period began at 11pm on the 31 January 2020 and will run until 11pm 31 December 2020 – The Implementation Period includes the continuation of passporting which allows the Company to continue to trade in the UK and the rest of the EEA throughout 2020.

At 11pm on the 31st of December 2020 passporting under the Implementation period will cease and the Company will then enter the Temporary Permissions Regime (TPR), which again will allow passporting into the UK to take place. In January 2019, Building Block notified the Prudential Regulatory Authority (PRA) that it would enter the TPR and the notification was confirmed by the PRA.

The regime is scheduled to last a maximum of 3 years, during this time the PRA will allocate application slots for EEA insurers such as BBI to seek UK authorisation. Once allocated, BBI intends to open a UK branch to enable trade in the UK to continue.

Directors' report – continued

Core assets, cellular assets and share capital

The core assets comprise the assets of the Company which are non-cellular assets relating to the core operation. The assets of Building Block Insurance PCC Limited are either core assets or cellular assets. The assets attributable to a cell comprise assets represented by the proceeds of cell share capital, reserves and other assets attributable to the cell.

No cells have been registered during the year under review.

Results and dividends

The financial results for the year have continued to report a loss; however this improved in relation to the prior year. The loss for the year of £643,915 (2018: £940,218) included net foreign exchange loss of £25,820 (2018: £44,896) which arose mainly on the translation of the Company's Euro denominated assets, into Great Britain Pound (£), for financial reporting purposes.

The foreign exchange losses were the result of movements in the Euro, relative to British Pounds, through the year. Excluding foreign exchange losses, the Company's loss for the year was £618,095 (2018: £895,322).

In 2018, the Company introduced the recognition of an IBNR gross provision of £211,660. In line with the growth in premiums written in the year, this has increased to £544,009 as at the 31 December 2019.

The Company's solvency position as at 31 December 2019 stands at 141.9% (2018: 157.7%) of the solvency capital requirement.

The directors do not recommend the payment of a dividend.

Events after the reporting period

The ongoing spread of COVID-19 across the world from the beginning of the financial year 2020 is having a significant impact on the global economy. Whilst the Company considers the consequences of the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event, it has been assessing the risk exposures in relation to its business operations, financial performance and asset values. The Company has taken steps to amend its business approach and as the situation develops it shall continue to keep cognizance of the developing circumstances and take immediate action as necessary.

From an operational and business continuity perspective, the Company has implemented its business continuity plan along with measures to limit the spread of this infectious virus and has taken the necessary assurances that these have also been implemented within the operations of its Managing General Agents and outsourced functions. Whilst these actions ensure the safety of the employees and consumers, they also ensure continuity in the provision of services. The Company continues to monitor the situation so that disruptions to the daily operations are kept to a minimum.

From a business perspective, an impact risk assessment has been undertaken by the Company. The projections for 2020 were reviewed to assess the financial impact on the budgeted profitability of the Company as well as the value of the assets held. In particular, the Company has considered the risks arising from the properties held and the default of counterparties. Although downgrading of the current reinsurers or bankers cannot be excluded, the Company is not anticipating a significant adverse impact in the short term. The Company does not hold any investments in listed debt or equities, and therefore it has not incurred, and is not expected to incur any investment losses as a result of market volatility.

Directors' report – continued

Events after the reporting period – continued

The current economic situation remains fluid and uncertain; however, no direct material impact is expected on the major product lines. The Company has implemented certain business measures to mitigate some of the impact of this pandemic. It is expected that the Company shall continue to have access to sufficient capital and resources to sustain the impact of COVID-19 in this uncertain and unprecedented economic scenario. The Company's own funds are expected to continue to exceed the solvency capital requirements during 2020.

In its assessment, the Company is also taking into account the shareholders' undertaking that they will continue to support the Company should the financial position be such that the capital fall below regulatory solvency levels. The shareholders have indeed demonstrated their support during these past years by their contribution of additional capital as deemed necessary.

Based on the results of the scenario analysis described in Note 1.1 and Note 20 as well as the relationship with the shareholders, the Directors are confident that the going concern assumption is appropriate in the preparation of these financial statements.

There are no other reportable events post 31 December 2019.

Directors

The directors of the Company who held office during the year were:
James Portelli
Joseph Demanuele (appointed on 25.04.18)
Andrew Mirfin (appointed on 16.03.18)
Neil Reynolds (appointed 10.06.19)
Gordon Philip Rann (resigned on 01.01.20)

In accordance with the Articles of Association, the present directors remain in office.

Statement of directors' responsibilities for the financial statements

The directors are required by the Companies Act, (Cap. 386) and the Insurance Business Act, (Cap. 403) 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 year and of the profit or loss for that year.

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

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU as modified by Article 174 of the Maltese Companies Act;
- 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 relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Directors' report – continued

Statement of directors' responsibilities for the financial statements - continued

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.

The financial statements of Building Block Insurance PCC Limited for the year ended 31 December 2019 are included in the Annual Report 2019, 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.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

James Portelli
Director

Joseph Demanuele
Director

Registered office
Vision Exchange Building,
Territorials Street,
Mriehel,
Birkirkara BKR 3000,
Malta

21 April 2020

Independent auditor's report

To the Shareholders of Building Block Insurance PCC Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Building Block Insurance PCC Limited's financial statements, as a standalone, give a true and fair view of the Company's financial position as at 31 December 2019, and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU as modified by Article 174 of the Maltese Companies Act (Cap. 386); and
- The financial statements have been prepared in accordance with the requirements of the said Act.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Building Block Insurance PCC Limited's financial statements, set out on pages 13 to 38, comprise:

- the profit and loss account for the year ended 31 December 2019;
- the balance sheet as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independent auditor's report - *continued*

To the Shareholders of Building Block Insurance PCC Limited

Independence

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 of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

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

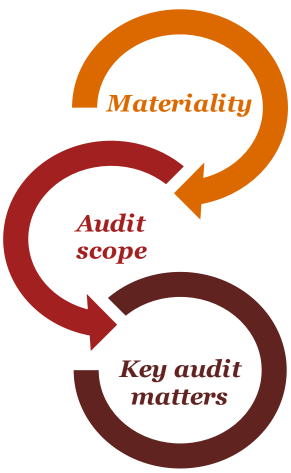
The non-audit services that we have provided to the Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 6 to the financial statements.

Material Uncertainty Relating to Going Concern

We draw attention to Note 1.1 and Note 20 to these financial statements, which describe the directors' assessment of the impact of the COVID-19 outbreak on the business operations of the Company and its financial position. Taking into account the business results achieved to date and the uncertainty in the economic environment as a result of COVID-19, the Company may require the support of its shareholders to continue in operation. This along with other matters as set forth in Note 1.1 and Note 20, indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



Overall materiality: £152,000 which represents 1% of gross premiums written

- *Revenue recognition*
- *Valuation and accuracy of claims outstanding and claims incurred but not reported (IBNR)*

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

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

Materiality

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

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

Overall materiality	£152,000
How we determined it	1% of gross premiums written
Rationale for the materiality benchmark applied	The Company has shown a significant increase in gross premiums written during the year as a result of streamlining its product portfolio. Although the result for the year will ultimately be the key performance measure, at this stage, the generation of revenue is the most critical consideration from the point of view of the Company's management and shareholders. We selected 1% based on our professional judgement, noting that it is also within the range that we would consider to be acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7,600 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Revenue Recognition The Company primarily provides the following insurance products – Pet, Breakdown, Car Hire Excess and Accident Sickness Unemployment (ASU). The Company's business is underwritten through several independent coverholders with delegated binding authority. The Company receives monthly bordereaux from the coverholders and records transactions in its accounting system. There is a risk that premium information recorded in the financial statements is incomplete or inaccurate. We focused on this area due to the business arrangement and the magnitude of business being written by coverholders. Relevant references in the financial statements are included in the significant accounting policies (refer to Note 1.15).	To address the risk, and obtain comfort on revenue recognition, we performed the following procedures: • We chose a sample of premium amounts and obtained a confirmation on the premium written including claims paid and outstanding, commission paid, and receivable outstanding as at year end; • We reviewed the reconciliation carried out by the Company on the differences noted in the confirmation procedures above; • We reviewed the bordereaux subsequent to year-end to obtain comfort on cut-off; and • We substantively tested the calculation of Unearned Premium Reserve. Based on the results of our work, we found that revenue has been appropriately recognised.
Valuation and accuracy of claims outstanding and claims incurred but not reported (IBNR) Valuation of insurance provisions is judgemental and requires a number of assumptions to be made that have estimation uncertainty. There is a time lag between a claim being incurred and being settled resulting in a claims reserve liability at any point in time, including the year-end. There may also be a time lag between the occurrence of a claim and the Company being notified. Further, the full extent of damage may not be known at the point that a claim is lodged.	Based on the nature, scale and complexity of the Company's portfolio, we obtained an understanding of the underlying risk exposures and the Company's reserving process, to consider the level of assurance required. Our audit procedures included the following: • We chose a sample of claims outstanding and obtained external confirmations from claim handlers; • We reviewed the appropriateness of the methodology, assumptions and judgements used in deriving the IBNR provision for each of the portfolio of products;

Key audit matter	How our audit addressed the Key audit matter
The amount of provision will be directly influenced by the underlying data to be used and the methodology of the reserving process. The Company accounts for claims outstanding on the basis of monthly bordereaux received from the independent claim handlers. The Company has supplemented this with an Incurred but Not Reported (IBNR) claims provision based on different reserving methodologies applicable to the relevant policy portfolios. The Company's net claims outstanding and IBNR provisions are disclosed in note 5 at £312k and £122k respectively. The valuation of the provisions is an area of focus due to the magnitude of the arrangement of recognition of the claims reserve liabilities (refer to Note 5).	• We verified the accuracy of the underlying data used and checked mathematical accuracy of the IBNR calculation; • We reviewed the bordereaux subsequent to year end to obtain additional comfort on the appropriateness of the provision; and • We further considered the adequacy of related disclosures to the financial statements. Based on the work performed, we found the recorded claims liabilities to be consistent with the explanations and evidence obtained.

Other information

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

Our opinion on the financial statements does not cover the other information, including the directors' report.

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

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 and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU as modified by Article 174 of the Maltese Companies Act (Cap. 386) and the requirements for the said Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, 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 charged 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.

Independent auditor's report *- continued*

To the Shareholders of Building Block Insurance PCC Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

Appointment

We were first appointed as auditors of the Company for the financial period ending 31 December 2014. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Simon Flynn
Partner

21 April 2020

Profit and loss account
Technical account – General business
year ended 31 December

	Notes	2019 £	2018 £
Earned premiums, net of reinsurance			
Gross premiums written	4	**15,283,534**	6,906,687
Outward reinsurance premiums		**(12,507,308)**	(4,114,328)
Net premiums written		**2,776,226**	2,792,359
Change in the provision for unearned premiums			
Gross provision for unearned premium	5	**(3,627,894)**	(3,079,649)
Provision for unearned premium reinsurers' share	5	**3,495,021**	2,902,520
		(132,873)	(177,129)
Earned premiums, net of reinsurance		**2,643,353**	2,615,230
Fronting fee		**132,427**	16,738
Total technical income		**2,775,780**	2,631,968
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	5	**5,353,335**	1,685,609
- reinsurers' share	5	**(3,623,770)**	(368,613)
		1,729,565	1,316,996
Change in provision for claims			
- gross amount	5	**868,759**	531,833
- reinsurers' share	5	**(912,969)**	(345,497)
		(44,210)	186,336
Claims incurred, net of reinsurance		**1,685,355**	1,503,332
Commission paid to retailers	6	**5,514,857**	2,754,690
Movement on deferred acquisition costs	6	**(1,127,001)**	(1,103,959)
		4,387,856	1,650,731
Reinsurance commission	6	**(5,360,561)**	(1,523,340)
Movement on deferred reinsurance commission	6	**1,551,614**	1,250,468
Commissions earned, net of reinsurance		**(3,808,947)**	(272,872)
Net operating expenses		**932,896**	468,327
Total technical charges		**3,197,160**	3,349,518
Balance on the technical account for general business (page 14)		**(421,380)**	(717,550)

Profit and loss account
Non-technical account
year ended 31 December

	Notes	**2019** £	2018 £
Balance on technical account – general business (page 13)		**(421,380)**	(717,550)
Investment income	8	**46,229**	63,787
Investment expenses and charges	8	**(74,797)**	(112,412)
Administrative expenses	6	**(193,967)**	(174,043)
Loss before tax		**(643,915)**	(940,218)
Tax expense	9	**-**	-
Loss for the year – total comprehensive income		**(643,915)**	(940,218)

The notes on pages 18 to 38 are an integral part of these financial statements.

Balance sheet

	Notes	As at 31 December 2019 £	2018 £
ASSETS			
Intangible asset	10	**14,887**	20,650
Investment property	11	**350,000**	350,000
Investment in subsidiary	12	**584,672**	584,672
Reinsurers' share of technical provisions	5	**7,904,237**	3,496,247
Deferred acquisition costs	14	**2,956,271**	1,829,270
Receivables:			
- debtors arising out of direct insurance operations	13	**5,915,156**	3,435,712
- receivables from reinsurance	13	**102,342**	17,007
- other debtors	13	**523,508**	665,173
Cash and cash equivalents	15	**2,559,242**	2,819,940
Total assets		**20,910,315**	13,218,671
EQUITY			
Capital and reserves			
Share capital	16	**3,925,957**	3,925,957
Capital contribution	19	**2,784,672**	2,534,672
Profit and loss account		**(3,112,010)**	(2,468,096)
Total equity		**3,598,619**	3,992,533
LIABILITIES			
Technical provisions	5	**10,052,516**	5,555,864
Deferred reinsurance commission	17	**2,815,918**	1,261,613
Payables:			
- balances payables to reinsurers	17	**2,888,591**	1,744,845
- other creditors	17	**177,446**	99,329
- indirect taxation	17	**577,482**	495,189
Accruals and deferred income	17	**799,743**	69,298
Total liabilities		**17,311,696**	9,226,138
Total equity and liabilities		**20,910,315**	13,218,671

The official closing middle rate of exchange applicable between GBP and EUR issued by the European Central Bank as at 31 December 2019 was £0.85080 (2018: £0.89453).

The notes on pages 18 to 38 are an integral part of these financial statements. The financial statements on pages 13 to 38 were authorised for issue by the board on 21 April 2020 and were signed on its behalf by:

James Portelli
Director

Joseph Demanuele
Director

Statement of changes in equity

	Notes	Share capital £	Capital contribution £	Retained earnings £	Total equity £
Balance as at 1 January 2018		3,925,957	1,500,000	(1,527,877)	3,898,080
Transactions with owners					
Issue of capital contribution	19	-	1,034,672	-	1,034,672
Comprehensive income					
Loss for the year		-	-	(940,218)	(940,218)
Balance at 31 December 2018		3,925,957	2,534,672	(2,468,095)	3,992,534
Balance as at 1 January 2019		3,925,957	2,534,672	(2,468,095)	3,992,534
Transactions with owners					
Issue of capital contribution	19	-	250,000	-	250,000
Comprehensive income					
Loss for the year		-	-	(643,915)	(643,915)
Balance at 31 December 2019		**3,925,957**	**2,784,672**	**(3,112,010)**	**3,598,619**

The notes on pages 18 to 38 are an integral part of these financial statements.

Statement of cash flows

	Notes	As at 31 December 2019 £	2018 £
Cash flows from operating activities			
Cash used in operations	18	**(469,190)**	(764,571)
Interest received		**276**	172
Interest paid		**(3,024)**	(3,901)
Net cash used in operating activities		**(471,937)**	(768,300)
Cash flows from investing activities			
Purchase of intangible assets	10	**(12,941)**	(18,780)
Net cash used in investing activities		**(12,941)**	(18,780)
Cash flow from financing activities			
Proceeds from capital contribution	19	**250,000**	100,000
Net cash generated from financing activities		**250,000**	100,000
Net movement in cash and cash equivalents		**(234,878)**	(687,080)
Cash and cash equivalents at beginning of year		**2,819,940**	3,615,530
Exchange losses on cash and cash equivalents		**(25,820)**	(44,896)
Cash and cash equivalents at end of year	15	**2,559,242**	2,819,940

The notes on pages 18 to 38 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU as modified by Article 174 of the Maltese Companies Act (Cap.386) and in accordance with the requirements of the said Act and the requirements of the Maltese Insurance Business Act (Cap. 403). The financial statements have been prepared under the historical cost convention, except for investment properties, which is measured on a fair value basis. The ultimate parent company, Lattice Trading Limited (Note 21) prepares consolidated financial statements in a manner equivalent to that required by the Maltese Companies Act (Cap. 386) and these are delivered to the Registrar of Companies in Malta in terms of Article 174. Accordingly, Building Block Insurance PCC Limited is exempt from the preparation of consolidated financial statements for the Company and its subsidiary undertaking by virtue of Article 174 of the Maltese Companies Act.

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

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

Going Concern

During 2020, the world has been negatively impacted by the COVID-19. As described in Note 20, the Company has been assessing the risk exposures in relation to its business operations, financial performance and asset values that may arise during this unprecedented and unpredictable time. As at 31 December 2019, the excess of own funds over the solvency capital requirement amounted to around £1m. Any adverse consequence resulting from the current economic environment in the short term could have a significant impact on the Company's ability to continue as a going concern.

Notwithstanding this, the Company is still expected to improve its result in 2020. The Company has implemented a number of measures to address the negative underwriting results that were recorded in 2019. In addition, as a result of the pandemic, the Company stopped renewing certain classes of business that exposed the Company to a high risk. The projections carried out by the Company estimate that the Company's remedial measures should be successful even taking into account the current uncertain economic environment and the Company will be able to meet its solvency requirements. In addition, the shareholders have provided assurances that they will continue to support the Company, so that it can maintain an adequate solvency level.

Based on the results of the scenario analysis described in Note 20 and the relationship with the shareholders, the Directors are confident that the going concern assumption is appropriate in the preparation of these financial statements.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation

Standards, interpretations and amendments to published standards effective in this reporting period

In 2019, the Company adopted all existing standards, interpretations and amendments to existing standards applicable for periods beginning on or after 1 January 2019.

There were no changes that had any impact on the amounts recognised in prior periods or that are not expected to significantly affect the current or future periods.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. The Company is considering the implications of the below standards on the Company's financial results and position, and the timing of their adoption.

IFRS 9, 'Financial Instruments', became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39. IFRS 9 addresses a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9, the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. IFRS 9 also introduces a substantially reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

IFRS 4 (Amendments), 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' provides two options for entities that issue insurance contracts within the scope of IFRS 4 i.e. an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach") or a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach"). The application of both approaches is optional, and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The activities of the Company are predominantly connected with insurance. In this regard, the directors have assessed the following:

(a) The Company has not previously applied any version of IFRS9.

(b) The total carrying amount of liabilities arising from contracts within the scope of IFRS 4 for the year ended 31 December 2019 represents over 90% of total liabilities, which is considered significant.

There has been no change in the Company's activities that warrants a reassessment of the above information.

IFRS 17 was issued in May 2017 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2023.

IFRS 17 together with IFRS 9 will result in a profound change to the accounting in IFRS financial statements for insurance companies. Management is considering the implications of these standards and their impact on the Company's financial results and position.

1. Summary of significant accounting policies – continued

1.2 Revenue recognition

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

(a) Rendering of services

Premium recognition is described in accounting policy 1.15 dealing with insurance contracts.

(b) Interest income

Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method.

1.3 Financial assets

1.3.1 Classification

The Company classifies its financial assets into loans and receivables. The classification is dependent on the purpose for which the financial assets were acquired. The directors determine the appropriate classification of financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise deposits with banks and credit institutions, cash and cash equivalents and insurance and other receivables in the statement of financial position (Notes 1.9 and 1.10).

1.3.2 Recognition and measurement

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, which is the date on which the Company commits to purchase or sell the assets.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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

1. Summary of significant accounting policies – continued

1.3 Financial assets – continued

1.3.3 Impairment of financial assets at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or debtors;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.4 Investment return

Investment return comprises investment income including fair value movements and interest income, and is net of investment expenses, charges and interest. Interest and expenses are accounted for on an accruals basis.

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 actual investment return on investments supporting the insurance technical provisions.

1.5 Foreign currency translation

(a) 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 Great Britain Pound (£) is the Company's functional and presentation currency.

1. Summary of significant accounting policies – continued

1.5 Foreign currency translation - continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. All foreign exchange gains and losses are presented in the profit and loss account within 'investment expenses and charges.

1.6 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

1.7 Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.

Investment properties are recognised initially at cost. Subsequent to initial recognition investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise.

No depreciation is provided in respect of investment properties.

1.8 Investment in subsidiary

Investment in subsidiary is accounted for at cost less impairment. The results of the subsidiary undertakings are reflected in the Company's financial statements only to the extent of dividends receivable. The Company is to conduct impairment tests where there is an indication of impairment of an investment, otherwise on disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

1.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the 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 income statement. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

1. Summary of significant accounting policies – continued

1.10 Cash and cash equivalents

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

1.11 Share capital

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.

1.12 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.13 Current and deferred tax

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

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

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

1.14 Capital contribution

Amounts advanced by the shareholders by way of contribution which do not include a contractual obligation to settle in cash or another financial asset, are classified within equity. Balances which contain an obligation to transfer resources are classified as liabilities.

1. Summary of significant accounting policies - continued

1.15 Insurance contracts – classification

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 contracts – General business

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

(i) Premiums earned relate to business incepted during the year together with any differences between the booked premiums for prior years and thus previously accrued, less cancellations.

(ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

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. 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 a liability when due and expensed over the period of cover.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Company gathers the objective evidence that a reinsurance asset is impaired using the 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.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders.

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 profit and loss account. 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.

2. Management of insurance and financial risk

2.1 Insurance risk

The Company issues contracts that transfer the insurance risk of the Company's clients. This section summarises these risks and how the Company manages them.

The risk under any one insurance contract is the uncertainty of whether the insured will sustain the contingency insured against. If that happens, then further uncertainty lies in the frequency and severity of resultant claims.

During the period under review the Company progressed its efforts to continue establishing itself in its target markets by developing new insurance products and distribution channels in line with its underwriting and risk appetite. The Company has launched new consumer class products with a focus on existing product lines. As at 31 December 2019, the Company has, in conformity with its authorisation by the MFSA, written the following insurance products from its core across various classes of business:

Product	*Classes of Business*
ASDT	16. Miscellaneous Financial Loss
ASU	16. Miscellaneous Financial Loss
Breakdown	18. Assistance
Caravan	8. & 9. Fire & Natural Forces
Cover My Bills	16. Miscellaneous Financial Loss
Gadget	16. Miscellaneous Financial Loss
Excess	16. Miscellaneous Financial Loss
Pet	16. Miscellaneous Financial Loss
Rent Guarantee	16. Miscellaneous Financial Loss

The Company considers the insurance risk relating to the above insurance products to be straightforward in nature, of a low risk profile with unlikely catastrophe risk exposure and which does not present any undue threat to the Company's core capital.

Frequency and severity of claims

The Company manages its risk exposures via a combination of its:

(a) underwriting strategy,
(b) adequate reinsurance arrangements, and
(c) proactive claims handling

(a) Underwriting strategy

The Company follows strict risk acceptance selection processes and only accepts risks that possess characteristics which the Company feels will lead to low or average frequency and severity of losses. Furthermore, all new business proposals are presented to and reviewed and approved by the Underwriting Committee prior to notification to the Board and the MFSA.

2. Management of insurance and financial risk – continued

2.1 Insurance risk - continued

Since business is outsourced, the Company has in place appropriate procedures to monitor the business written by its regulated intermediaries to ensure that the outsourced functions are properly controlled. The authority to bind is delegated in a controlled manner with the Company providing underwriting guidelines with limits on the overall retention of the risks to be written besides also carrying out periodical audits of its Coverholders. The Company also inserts certain exclusions in its contracts to enforce underwriting criteria.

The Company's Underwriting Committee monitors the performance of the insurance products written in order that timely and appropriate remedial action may be taken to ensure adequate pricing levels for the actual insurance risk.

(b) Reinsurance

The Company assesses and decides the type and level of reinsurance protection deemed necessary for its book of business including also any new business proposals. In line with the Company's policy, the Company takes into consideration the reinsurer creditworthiness and rating for security and Solvency II capital charges purposes.

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

(i) All products excluding pet policies were under a Quota Share treaty split 40% with Building Block and 60% with Reinsurers being 60% in total, which ceased 31 October 2019;
(ii) Pet is under a Quota Share treaty split 20% with Building Block and 80% with Reinsurers, which ceased 31 October 2019;
(iii) A new 12-month Quota Share agreement has been entered into from 1 November 2019 for 12 months for all products split 32.25% with Building Block and 67.75% with Reinsurers in total.
(iv) The 2Gether insurance scheme is fully reinsured with Windward Insurance PCC Limited – Crystal Underwriting Cell in Guernsey.
(v) Pet Insurance Liability Class 13 is 100% Reinsured with Swiss RE.

The Company has assessed all its other insurance schemes and has determined that reinsurance is not deemed necessary since the limited extent of the individual loss size, the satisfactory loss history and the geographical risk result in negligible event and single risk exposures.

(c) Claims techniques

The Company ensures that claims are handled by dedicated and experienced claims personnel with appropriate authority limits in place for the effective handling and negotiation of claims. The Company or its delegated authorities also employ external loss adjusters and technical experts.

The Company maintains a proactive system that ensures that timely action is taken on all claims and reviews are carried out when required.

Reserving risk is low on the basis that claims are expected to be settled rapidly. Most costs will be identified quickly and ultimately the cap on claim payments results in very limited scope for possible variations and increases in reserves.

2. Management of insurance and financial risk – continued

2.1 Insurance risk - continued

Sources of uncertainty in estimation of future claims payments

When estimating the cost due to be paid in future the Company looks at:

(i) the monetary provision necessary for pending non-liability claims based on the latest available facts and estimates, and

(ii) to the above provision for known reported claims, the Company adds an additional IBNR provision;

Uncertainty on the estimation of claim payments in general is reduced by ensuring a thorough knowledge of the circumstances and extent of losses reported; and through the use of sector specific loss assessors and adjusters to ensure correct reserving.

The analysis of insurance risk indicates that in view of the nature of the cover offered the scope for adverse results is limited. In particular, the maximum loss or claim size and the exposure to single events are very limited.

2.2 Financial risk management

The Company's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the Company's functional currency. The carrying amount of assets denominated in a currency other than Great Britain Pound as at end of reporting period were as follows:

	2018	2018
	£	£
Cash and cash equivalents	**480,303**	660,245

If the EURO strengthens or weakens against the GBP by 5% (2018: 5%), with all other variables held constant, pre-tax loss for the year would have been lower by £29,795 (2018: £142,728) or higher by £32,931 (2018: £129,135).

(ii) Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Financial assets issued at variable rates, comprising cash and cash equivalents, expose the Company to cash flow interest rate risk. During the period, the Company was not exposed to fair value interest rate risk.

2. Management of insurance and financial risk – continued

2.2 Financial risk management – continued

(a) *Market risk - continued*

As at the reporting date, the Company did not have any hedging policy with respect to interest rate risk, as exposure to such risk has not been deemed to be significant by the directors. Based on the above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Credit risk

Credit risk arises from cash and cash equivalents, receivables and reinsurer's share of technical provisions. The Company's cash and cash equivalents are placed with quality local and foreign institutions. The Company's credit risk in respect of cash and cash equivalents is considered by the directors to be relatively insignificant. In 2019, 19% (2018: 31%) of cash and cash equivalents are held with an unrated local subsidiary of a foreign financial institution group with a credit rating of 'A+'. The other cash and cash equivalents in 2019 are held with a foreign financial institution with a long-term credit rating of 'BBB'.

The Company's receivables relate primarily to future premiums owed by policyholders paying monthly. Most of the year-end balance resides with Reach Financial Services which is a related Company, which operates as a broker and an MGA. Given that the receivables are primarily from policyholders future premiums, we believe that the Company has no significant concentration of credit risk.

While reinsurance is used to manage insurance risk, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by the directors on an ongoing basis by reviewing their financial strength within the terms of their credit ratings and is currently between as stated A to AA-.

(c) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which principally comprise trade payables.

All the Company's liabilities fall due within one year from the reporting date.

2.3 Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Maltese insurance regulator ("MFSA");
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and,
- to provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk.

In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders. The Company is required to hold regulatory capital for its general insurance business in compliance with Maltese insurance legislation and the rules issued by the Malta Financial Services Authority (MFSA). The minimum capital requirement must be maintained at all times throughout the year. The Company monitors its capital level on a regular basis, by ensuring that sufficient assets are maintained to match insurance liabilities and to provide solvency cover.

2. Management of insurance and financial risk – continued

2.3 Capital risk management – continued

As from 1 January 2016, the Company was subject to the requirements of the EU Solvency II directive. The Solvency II regime establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Company must hold eligible own funds to cover the solvency capital requirement (SCR) and eligible basic own funds to cover the minimum capital requirement (MCR). The SCR shall be calculated either in accordance with the standard formula or using a full or partial internal model (PIM) as approved by the Regulator.

The Company must immediately inform the Regulator where it observes that its SCR or MCR are no longer complied with or where there is risk of non-compliance in the following six months for SCR and three months for MCR.

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2019, the Company's eligible own funds of £3,473,942 (unaudited) (2018: £3,734,384) sufficient to cover the minimum capital requirement.

During 2019, additional capital investment was made to support the Company's regulatory capital position. The Company's SCR for 2019 was 141.9% (unaudited). The solvency ratio for 2018 based on MCR was 112.7%.

2.4 Fair value estimation

At 31 December 2019 and 2018, the carrying amounts of cash and cash equivalents, debtors and creditors approximated their fair value mainly due to the short-term maturity of these assets and liabilities.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and 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 are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Premium

Gross premiums written and earned in 2019 emanate from insurance products as disclosed in Note 2.1.

5. Technical provisions and reinsurance assets

	Gross		Reinsurance		Net	
	2019	2018	**2019**	2018	**2019**	2018
	£	£	**£**	£	**£**	£
Insurance Contracts						
- claims outstanding	1,215,483	679,073	903,976	294,951	311,507	384,122
- claims incurred but not reported	544,009	211,660	421,743	117,799	122,266	93,861
- provision for unearned premiums	8,293,024	4,665,131	6,578,518	3,083,497	1,714,506	1,581,634
Total technical provisions	**10,052,516**	5,555,864	**7,904,237**	3,496,247	**2,148,279**	2,059,617

	Year ended 31 December		
	Gross	**Reinsurance**	**Net**
Notified claims still outstanding	358,900	67,254	291,646
Incurred but not reported	-	-	-
Total as at 31 December 2017	358,900	67,254	291,646
Increase in liabilities:			
- arising from current year claims	2,265,880	720,017	1,545,863
- arising from prior year claims	(48,438)	(5,908)	(42,530)
Claims settled during the year	(1,685,609)	(368,613)	(1,316,996)
Total as at 31 December 2018	890,733	412,750	477,983
Notified claims still outstanding	679,073	294,951	384,122
Incurred but not reported	211,660	177,799	93,861
Total as at 1 January 2019	890,733	412,750	477,983
Increase in liabilities:			
- arising from current year claims	7,099,930	4,941,971	2,157,959
- arising from prior year claims	(877,836)	(405,232)	(472,604)
Claims settled during the year	(5,353,335)	(3,623,770)	(1,729,565)
Total as at 31 December 2019	**1,759,492**	**1,325,719**	**433,773**
Notified claims still outstanding	1,215,483	903,976	311,507
Incurred but not reported	544,009	421,743	122,266
Total as at 31 December 2019	**1,759,492**	**1,325,719**	**433,773**

6. Expenses by nature

	2019	2018
	£	£
Payroll recharge from related party	**73,239**	118,000
Insurance management fees	**118,909**	84,277
Professional fees	**222,936**	123,300
Other expenses	**711,778**	316,793
Acquisition costs	**5,514,857**	2,754,690
Change in deferred acquisition costs	**(1,127,001)**	(1,103,959)
Reinsurance commission	**(5,360,561)**	(1,523,340)
Change in deferred reinsurance commissions	**1,551,614**	1,250,468
Total operating and administrative expenses	**1,705,771**	2,020,229

	2019	2018
Allocated to:	**£**	£
Technical account	**1,511,804**	1,846,186
Non-technical account	**193,967**	174,043
	1,705,771	2,020,229

Auditor's fees

Fees charged by the auditor for services rendered during the financial year ended 31 December 2019 and 2018 relate to the following:

	2019	2018
	£	£
Annual statutory audit	**17,867**	17,220
Other assurance services	**13,400**	12,971
Tax advisory	**1,531**	1,533
	32,798	31,724

7. Directors' emoluments

	2019	2018
	£	£
Directors' fees	**102,815**	79,994

8. Investment income, expenses and charges

	2019	2018
	£	£
Investment income		
Interest income	**276**	172
Foreign exchange gains	**45,953**	63,615
	46,229	63,787
Investment expenses and charges		
Interest expense and charges	**(3,024)**	(3,901)
Foreign exchange losses	**(71,773)**	(108,511)
	(74,797)	(112,412)
Net total investment income	**(28,568)**	(48,625)

9. Tax expense

	2019	2018
	£	£
Current tax	**-**	-

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

	2019	2018
	£	£
Loss before tax	**(643,915)**	(940,218)
Tax at 35%	**225,370**	329,076
Unrecognised temporary differences	**(225,370)**	(329,076)
Current tax	**-**	-

No deferred tax asset is recognised in these financial statements in relation to tax losses amounting to £2,981,846 (2018: £2,407,316) in view of the uncertainty relating to the realisation of such benefits in the short term.

10. Intangible assets

	Computer software £
Year ended 31 December 2018	
Opening net book amount	32,677
Additions	18,780
Amortisation charge	(30,807)
Closing net book amount	20,650
At 31 December 2018	
Cost	92,845
Accumulated amortisation	(72,195)
Net book amount	20,650
Year ended 31 December 2019	
Opening net book amount	20,650
Additions	12,941
Amortisation charge	(18,704)
Closing net book amount	**14,887**
At 31 December 2019	
Cost	105,786
Accumulated amortisation	(90,899)
Net book amount	**14,887**

11. Land and buildings - investment property

	2019	2018
	£	£
Year ended 31 December		
At beginning of year	**350,000**	**-**
Additions	**-**	350,000
At end of year	**350,000**	350,000
At 31 December		
Carrying amount	**350,000**	350,000

The valuation process and techniques are included under Note 1.7. The fair value was assessed on the basis of reviewing movements in property prices both at a local and county level to ensure that the recorded amount of investment approximates its fair value.

12. Investment in subsidiary

	2019	2018
	£	£
Year ended 31 December		
At beginning and end of year	**584,672**	-
Acquisition of TIPI	**-**	584,672
	584,672	584,672

The subsidiaries as at 31 December 2019 and 2018 are shown below:

Name of subsidiary	**Registered office**	**Class of shares**	**Percentage of shares held**	
			2019	2018
Totemic International Properties Inc (TIPI)	C/O PKF LLP 665 Fifth Avenue, New York, NY 10022	Ordinary ‘A’ shares	**100%**	100%

During 2019, no further acquisitions were undertaken.

13. Debtors and prepayments

	2019	2018
	£	£
Debtors arising out of direct insurance operations		
- Due from agents, brokers and intermediaries	**6,058,830**	3,494,051
- Provision for doubtful debts	**(41,332)**	(41,332)
Other debtors	**523,508**	665,173
Current portion	**6,541,006**	4,117,892

Debtors are stated net of impairment loss which totals £41,332 as at 31 December 2019.

Amounts due from agents, brokers and intermediaries include an amount of £5,030,604 (2018: £3,058,914) receivable from a related party.

14. Deferred acquisition costs

	2019	2018
	£	£
At beginning of year	**1,829,270**	725,311
Net amount credited to profit and loss account (Note 6)	**1,127,001**	1,103,959
At end of year	**2,956,271**	1,829,270

15. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019	2018
	£	£
Cash at bank and in hand	**2,559,242**	2,819,940

16. Share capital

	2019	2018
	£	£
Authorised		
9,999,999 Ordinary A shares of £1 each	**9,999,999**	9,999,999
1 Ordinary B share of £1 each	**1**	1
560,228 Ordinary C shares of £0.01 each	**5,602**	5,602
	10,005,602	10,005,602
Issued and fully paid		
3,921,599 Ordinary A shares of £1 each	**3,921,599**	3,921,599
1 Ordinary B share of £1 each	**1**	1
435,733 Ordinary C shares of £0.01 each	**4,357**	4,357
	3,925,957	3,925,957

"A" and "B" ordinary shares rank *pari passu* for all intents and purposes of law, except as disclosed below.

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

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

17. Creditors, accruals and deferred income

	2019	2018
	£	£
Creditors arising out of direct insurance operations		
Payable to reinsurers	**2,888,591**	1,744,845
Deferred reinsurance commission	**2,815,918**	1,261,613
Other creditors		
Indirect taxation	**577,482**	495,189
Other creditors	**177,446**	99,329
Accruals and deferred income	**799,743**	69,298
Total creditors and accruals and deferred income	**7,259,180**	3,670,274

18. Cash used in operations

Reconciliation of loss for the year to cash used in operations:

	2019	2018
	£	£
Loss for the year	**(643,915)**	(940,218)
Adjustments for:		
Interest received	**(276)**	(172)
Interest expense	**3,024**	(3,901)
Amortisation charge	**18,704**	30,807
Exchange losses	**25,820**	44,896
Changes in working capital:		
Trade and other receivables	**(2,423,114)**	(2,642,507)
Technical provisions (net)	**515,966**	509,974
Trade and other payables	**2,034,601**	2,165,133
Cash generated from operations	**(469,190)**	(764,571)

19. Related party transaction

All companies forming part of the Lattice Group are considered by the directors to be related parties since these companies are ultimately owned and controlled by the same shareholders. Related parties also comprise other entities that have common shareholders with the Company as well as the key management personnel who has the ability to control or exercise a significant influence in financial and operating decisions. Companies that are owned and controlled by key management personnel are also considered as related parties.

During 2019, related parties recharged an amount of £591,898 (2018: £232,861) in relation to running expenses as follows:

	2019	2018
	£	£
Salary costs	**358,297**	119,654
Professional fees	**139,837**	43,069
Directors' fees	**62,366**	43,333
Other costs	**31,398**	26,805
	591,898	232,861

During the year, the Company carried out a number of transactions with a related party that acts as a licensed insurance intermediary. During the year, gross premiums written through the related party amounted to £11,948,783 (2018: £4,739,010). The related party also settles claims on behalf of the Company. The fees earned by the related party for such services amounted to £293,096 (2018: £271,164). Related party balances are disclosed in Note 13.

Key management personnel compensation, consisting of directors' fees has been disclosed in Note 7 to these financial statements.

During the year the immediate parent Company contributed £250,000 in the form of cash (2018: £1,034,672 in the form of cash and shares).

20. Events after the reporting period

Note 1.1 refers to the ongoing spread of COVID-19 across the world from the beginning of the financial year 2020, which is having a significant impact on the global economy. Whilst the Company considers the consequences of the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event, it has been assessing the risk exposures in relation to its business operations, financial performance and asset values. The Company has taken steps to amend its business approach and as the situation develops it shall continue to keep cognizance of the developing circumstances and take immediate action as necessary.

From an operational and business continuity perspective, the Company has implemented its business continuity plan along with measures to limit the spread of this infectious virus and has taken the necessary assurances that these have also been implemented within the operations of its Managing General Agents and outsourced functions. Whilst these actions ensure the safety of the employees and consumers, they also ensure continuity in the provision of services. The Company continues to monitor the situation so that disruptions to the daily operations are kept to a minimum.

From a business perspective, an impact risk assessment has been undertaken by the Company. The projections for 2020 were reviewed to assess the financial impact on the budgeted profitability of the Company as well as the value of the assets held. In particular, the Company has considered the risks arising from the properties held and the default of counterparties. Although downgrading of the current reinsurers or bankers cannot be excluded, the Company is not anticipating a significant adverse impact in the short term. The Company does not hold any investments in listed debt or equities, and therefore it has not incurred, and is not expected to incur any investment losses as a result of market volatility.

The current economic situation remains fluid and uncertain; however, no direct material impact is expected on the major product lines. The Company has implemented certain business measures to mitigate some of the impact of this pandemic. It is expected that the Company shall continue to have access to sufficient capital and resources to sustain the impact of COVID-19 in this uncertain and unprecedented economic scenario. The Company's own funds are expected to continue to exceed the solvency capital requirements during 2020.

In its assessment, the Company is also taking into account the shareholders' undertaking that they will continue to support the Company should the financial position be such that the capital fall below regulatory solvency levels. The shareholders have indeed demonstrated their support during these past years by their contribution of additional capital as deemed necessary.

21. Statutory information

Building Block Insurance PCC Limited is a limited liability company incorporated in Malta with its registered address at Vision Exchange Building, Triq it-Territorjals, Zone 1, Central Business District, Birkirkara, CBD1070, Malta.

The immediate parent company of Building Block Insurance PCC Limited is Lattice Group Holdings Limited, a privately-owned limited liability company registered in Malta (company registration number C51960) and having its registered office situated at 171, Old Bakery Street, Valletta, VLT1455 Malta.

The ultimate parent company is Lattice Trading Limited, a company registered in the United Kingdom (company registration number 08512981), and having its registered office at PO Box 9562, Kempton House, Dysart Road, Grantham, Lincolnshire, NG31 0EA, United Kingdom.