BUILDING BLOCK INSURANCE PCC LIMITED

Annual Report and Financial Statements
31 December 2021

Company Registration Number: C63128

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

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 2021 in line with its risk appetite. For the year to 31 December 2021 the Company continues, in conformity with its authorisation by the MFSA, to write the following insurance products from its core – ASU, Breakdown, Excess, Gadget and Pet Insurance. The Company has continued to improve loss ratios whilst increasing business volumes on the existing schemes and has an ongoing strategic plan that will deliver sustainable profitability.

Corporate Governance Statement of Compliance

The Company continues to make endeavours to ensure that it complies with the requirements of the Malta Financial Services Authority guidelines and to exceed these where it deems necessary so as to ensure that high standards are met in this area.

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.

Future outlook

In 2020, the Company built on the 2020 strategy and continued to guide the business in 2021. The core products of Pet Insurance, Vehicle Breakdown Insurance, Gadget Insurance and Excess Insurance are performing in line with expectation. The focus of distribution remains the United Kingdom and the Company continues to work with a handful of trusted third parties who manage distribution and claim handling
The Company is in dialogue with the FCA and the PRA regarding establishing a UK branch to allow continued trading in the UK market. The company is currently in the process of submitting a full Part 4a application within the TPR period to establish a UK branch. A landing slot for the application to be submitted of Q1 2022 has been agreed.

The Company continues to target business which is generally expected to be relatively stable, of low risk and low severity and will continue to use reinsurance where appropriate to support the management of overall risk.

Directors' report – continued

Principal risks and uncertainties

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 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 Insurance risk and 2.2 financial risk management to these financial statements.

COVID-19

The swift action that was taken in 2020 on the schemes that the Company felt were at risk from the impact of Covid 19 has limited the losses on these schemes and the policies have now expired however a small number of claims remain in payment or under investigation, the Company has allocated reserves for these cases.

UK trade post Brexit

At 11pm on the 31st of December 2020 passporting under the Implementation period ceased and the Company entered the Temporary Permissions Regime (TPR), which allows passporting into the UK to take place. In January 2019, BBI notified the Prudential Regulatory Authority (PRA) that it would enter the TPR and the notification was confirmed by the PRA, the Company is currently operating within the TPR.

The regime is scheduled to last a maximum of 3 years, the PRA has allocated the Company an application slot to seek UK Authorisation within the first quarter of 2022 the Company intends to open a UK branch to enable trade in the UK to continue.

Events since the end of the year

On the 7th February 2022, the Insurance Manager changed to Willis Towers Watson Management (Malta) Limited and the Registered address to:-
Development House, St. Anne Street, Floriana, FRN 9010, Malta

There were no further significant events to be reported.

Results and dividends

The profit for the year of £40,023 (2020: £75,998) included net foreign exchange loss of £41,785 (2020: gain of £23,535) which arose mainly on the translation of the Company's Euro denominated assets, into Great Britain Pound (£), for financial reporting purposes.

The Company's solvency position as at 31 December 2021 stands at 137.85% (2020: 133.91%) of the solvency capital requirement.

The directors do not recommend the payment of a dividend.

Directors' report – continued

Actuaries

The actuarial function is outsourced to Numisma Group.

Directors

The directors shown below have held office during the whole of the period from 1 January 2021 to the date of this report.

Joseph Demanuele
Andrew Mirfin
Lawrence Pavia

Other changes in directors holding office are as follows:

John Gibson (appointed 29.01.21)

Joseph Demanuele and Lawrence Pavia are non-executive directors.

Company Secreatry is Ganado Services Ltd

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 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 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.

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 2021 included in the Annual Report and is 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.

Directors' report – continued

The Board of 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 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 management 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, actuarial reports as well as other key performance indicators together with the minutes of the meetings. An Insurance, Risk and Compliance Committee also meets on a quarterly basis to discuss Risk Management, Compliance and Reinsurance, Underwriting and Claims.

Management also meets once a year for a separate and specific meeting to discuss strategy and set strategic direction for the Company which is then discussed with the board

Going Concern

The directors have considered the appropriateness of adopting the going concern basis in preparation of these financial statements.

Having considered the risks and uncertainties to which the company is subject, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

Auditors

PKF Assurance (Malta) Limited have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

These financial statements were approved for issue by the board and signed on its behalf on 30 March 2022 by;

Lawrence Pavia
Director

Joseph Demanuele
Director

Registered office

Development House

St. Anne Street

Floriana,

Malta

FRN 9010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Building Block Insurance PCC Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Building Block Insurance PCC Limited (the "Company"), set out on pages 12 to 38, which comprise the statement of financial position as at 31 December 2021, and the statement of profit and loss, 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 2021, 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.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, either individually or in aggregate, could reasonably be expected to influence the economic decisions of users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Building Block Insurance PCC Limited

The application of these key considerations gives rise to the following level of materiality, the quantum and purpose of which is tabulated below.

Materiality Measure	How we determined it	Overall Materiality £
Financial statement materiality	Being 2% of Total Assets	205,000

We agreed with those charged with governance that we would report to the Board of Directors all audit differences in excess of £10,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We reassessed materiality at the end of the audit and did not find it necessary to revise our planning materiality.

As part of designing our audit, 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.

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 and accuracy of claims outstanding and claims incurred but not reported (IBNR)	The Company's net claims outstanding and IBNR provisions as at 31 December 2021 are £221,854 and £111,779 respectively. 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	We evaluated the governance around the overall company's reserving process, including the scrutiny applied by the Company's Insurance, Risk ad Compliance Committee, as well as actuarial reviews. We assessed the outsourced actuaries' competence, capabilities, and objectivity.

Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Building Block Insurance PCC Limited

Refer to Notes 1.15 and 5 to the Company's financial statements for disclosures of related accounting policies and balances	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 also tend to display greater variability between initial estimates and final 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 which include application of management's judgement. The Company accounts for claims outstanding on the basis of monthly bordereaux received from claims handlers. The Company has supplemented this with an Incurred but not Reported (IBNR) provision based on different reserving methodologies applicable to the relevant policy portfolios.	Additionally, we performed the following procedures: ▪ Selected a sample of claims outstanding and obtained external confirmations from claims handlers. ▪ Carried out performance of tests of detail to assess the completeness and integrity of the data used for the purpose of determining the future insurance liabilities. ▪ Involved our own actuarial specialists who reviewed and challenged the methodology, models and assumptions used in arriving at the reserves for claims outstanding and IBNR for each portfolio of products. ▪ Reviewed the Bordereaux subsequent to year end to obtain additional comfort on the appropriateness of the provision. ▪ Tested the calculations used in identifying reinsurers' share of any claims. Based on the procedures we performed, we observed that the value of claims outstanding and IBNR is reasonable and appropriate.
Recognition of Insurance Program Income *Refer to Notes 1.15 and 5 to the Company's financial statements for disclosures of related accounting policies and balances*	The Company primarily provides the following insurance products Pet, Gadget, Breakdown, Car Hire Excess and Accident Sickness Employment (now in run off). The Company's business is written through several independent coverholders with delegated binding agreements. The Company receives monthly bordereaux from the coverholders and records transactions in its accounting system. Total gross written premium generated during the year from program business amounted to £5,991,042.	To address the risk and obtain comfort on revenue recognition, we have: ▪ 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, the document duty and levies, the commission and acquisition costs for the period. ▪ On a sample basis, we obtained a confirmation on the premium written,

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Building Block Insurance PCC Limited

	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. 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.	including claims paid and outstanding claims, commission paid and amount receivable at year end. ▪ Tested the cut off periods from the bordereaux for a sample of managing cover-holders. ▪ 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.

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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Building Block Insurance PCC Limited

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.

- 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. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company business and the overall economy.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with people 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.

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 by those charged with governance to act as statutory auditor by the board of Directors on 28 July 2020 for the financial year ended 31 December 2020. Our appointment has been renewed annually by shareholder resolution representing a total uninterrupted engagement of 2 years. The Company became licensed as an insurance undertaking in terms of the Malta Insurance Business Act (Cap. 403) on 20th December 2013.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Building Block Insurance PCC Limited

- our opinion on our audit of the financial statements is consistent with the additional report to 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).

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

30th March 2022

Statement of Profit and Loss
Technical account – General business
year ended 31 December

	Notes	2021 £	2020 £
Earned premiums, net of reinsurance			
Gross premiums written	4	**5,991,042**	13,162,673
Outward reinsurance premiums		**(4,851,260)**	(9,700,754)
Net premiums written		**1,139,782**	3,461,919
Change in the provision for unearned premiums			
Gross provision for unearned premium	5	**3,919,291**	684,356
Provision for unearned premium reinsurers' share	5	**(2,643,221)**	(1,044,617)
		1,276,070	(360,261)
Earned premiums, net of reinsurance		**2,415,852**	3,101,658
Fronting fee		**321,750**	312,280
Total technical income		**2,737,602**	3,413,938
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	5	**6,277,221**	8,660,144
- reinsurers' share	5	**(4,585,635)**	(6,818,791)
		1,691,586	1,841,353
Change in provision for claims			
- gross amount	5	**(473,312)**	(453,807)
- reinsurers' share	5	**339,556**	488,510
		(133,756)	34,703
Claims incurred, net of reinsurance		**1,557,830**	1,876,056
Commission paid to retailers	6	**1,588,422**	4,020,223
Movement on deferred acquisition costs	6	**1,273,575**	680,796
		2,861,997	4,701,019
Reinsurance commission	6	**(1,618,931)**	(3,281,544)
Movement on deferred reinsurance commission	6	**(1,007,706)**	(928,159)
Commissions earned, net of reinsurance		**(2,626,637)**	(4,209,703)
Net operating expenses	6	**775,262**	758,137
Total technical charges		**2,097,732**	3,125,509
Balance on the technical account for general business		**169,150**	288,429

Statement of Profit and Loss
Non-technical account
year ended 31 December

	Notes	**2021** **£**	2020 £
Balance on technical account – general business		**169,150**	288,429
Investment income	8	**-**	57,792
Investment expenses and charges	8	**(42,428)**	(35,011)
Administrative expenses	6	**(86,699)**	(235,212)
Profit before tax		**40,023**	75,998
Tax credit	9	**402,500**	-
Profit for the year		**442,523**	75,998

The notes on pages 17 to 38 are an integral part of these financial statements.

Statement of Financial Position

	Notes	As at 31 December 2021 £	2020 £
ASSETS			
Intangible asset	10	**6,664**	16,962
Investment property	11	**350,000**	350,000
Investment in subsidiary	12	**584,672**	584,672
Reinsurers' share of technical provisions	5	**3,441,806**	6,485,182
Deferred acquisition costs	14	**1,001,900**	2,275,475
Receivables:			
- receivables arising out of direct insurance operations	13	**1,183,508**	7,055,080
- receivables from reinsurance		**38,448**	25,595
- other receivables	13	**228,804**	328,065
Deferred tax asset		**402,500**	-
Cash and cash equivalents	15	**3,082,653**	2,191,018
Total assets		**10,320,955**	19,312,049
EQUITY			
Capital and reserves			
Share capital	16	**3,925,957**	3,925,957
Capital contribution		**2,784,672**	2,784,672
Profit and loss account	17	**(2,593,489)**	(3,036,012)
Total equity		**4,117,140**	3,674,617
LIABILITIES			
Technical provisions	5	**4,609,190**	9,082,725
Deferred reinsurance commission	18	**880,053**	1,887,759
Payables:			
- payables arising out of direct insurance operations	18	**221,518**	1,829,704
- payables to reinsurers	18	**-**	1,718,858
- other payables	18	**33,206**	46,231
- indirect taxation	18	**248,016**	855,222
Accruals and deferred income	18	**211,832**	216,933
Total liabilities		**6,203,815**	15,637,432
Total equity and liabilities		**10,320,955**	19,312,049

The official closing middle rate of exchange applicable between GBP and EUR issued by the European Central Bank as at 31 December 2021 was £0.84026 (2020: £0.89903).

The notes on pages 17 to 38 are an integral part of these financial statements. The financial statements on pages 12 to 38 were authorised for issue by the board on 30 March 2022 and were signed on its behalf by:

Lawrence Pavia
Director

Joseph Demanuele
Director

Statement of changes in equity

	Notes	Share capital	Capital contribution	Retained Losses	Total equity
		£	£	£	£
Balance as at 1 January 2020		3,925,957	2,534,672	(3,112,010)	3,598,619
Comprehensive income					
Profit for the year		-	-	75,998	75,998
Balance at 31 December 2020		**3,925,957**	**2,784,672**	**(3,036,012)**	**3,674,617**
Balance as at 1 January 2021	16	3,925,957	2,784,672	(3,036,012)	3,674,617
Comprehensive income					
Profit for the year		-	-	442,523	442,523
Balance at 31 December 2021	**16**	**3,925,957**	**2,784,672**	**(2,593,489)**	**4,117,140**

The notes on pages 17 to 38 are an integral part of these financial statements.

Statement of cash flows

	Notes	As at 31 December 2021 £	2020 £
Cash flows from operating activities			
Cash used in operations	19	**934,063**	(375,351)
Interest received		**-**	-
Interest paid		**(643)**	(753)
Net cash used in operating activities		**933,420**	(376,104)
Cash flows from investing activities			
Purchase of intangible assets	10	**-**	(15,655)
Net cash used in investing activities		**-**	(15,655)
Net movement in cash and cash equivalents		**933,420**	(391,759)
Cash and cash equivalents at beginning of year		**2,191,018**	2,559,242
Exchange (gains)/losses on cash and cash equivalents		**(41,785)**	23,535
Cash and cash equivalents at end of year	15	**3,082,653**	2,191,018

The notes on pages 17 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, the Maltese Companies Act, (Cap. 386) and the 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.

Historical cost convention

The financial report has 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.

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.

Preparation of financial statements

The ultimate parent company, Lattice Trading Limited (Note 21. Statutory information) 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 (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.

Covid-19

The Company has implemented measures to limit the spread of this infectious virus and has adapting well to remote working. The Company continues to review the impact of Covid 19 on its business model and will take any steps necessary to protect the ongoing sustainability of the business

Going concern

Having assessed the risks and uncertainties to which the company is subject, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

1. Summary of significant accounting policies – continued

1.1 **Basis of preparation** – continued

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

In 2021, the Company adopted all existing standards, interpretations and amendments to existing standards applicable for periods beginning on or after 1 January 2021.

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 as adopted by the EU which are not yet effective

A number of new standards and amendments to standards and interpretations have been published by the date of issue of these financial statements but have not been applied in preparing these financial statements.

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition 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.

On 25 June 2020, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) thereby deferring the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 to 1 January 2023. The Company has taken advantage of this extension and has deferred the application of IFRS 9 to align the implementation with that of IFRS17.

IFRS 17, 'Insurance Contracts' will replace IFRS 4 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.

Standards, interpretations and amendments that are not yet endorsed by the European Union

On 9 December 2021 amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information were issued. The Company is still assessing the impact that these new standards will have on the financial statements.

1.2 Revenue recognition

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

(a) Rendering of services

Premium recognition, dealing with insurance contracts is described in accounting policy 1.14 Insurance Contracts Classification.

(b) Interest income

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

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

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 receivables 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.

1.3.3 Impairment of financial assets at amortised cost

(a) 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 receivables;
ii) a breach of contract, such as a default or delinquency in payments;
iii) its becoming probable that the issuer or receivable will enter bankruptcy or other financial reorganisation; and
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.

1. Summary of significant accounting policies – continued

1.3 Financial assets – continued

In addition to the above loss events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered and/or a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. For financial assets at amortised cost, 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 loss. 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 loans and 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 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 profit and loss account.

Impairment losses recognised in profit or loss for an available-for-sale investment in an equity instrument are not reversed through profit or loss. Impairment losses recognised in profit or loss for an available-for-sale investment in a debt instrument are reversed through profit or loss if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(c) Impairment of other financial assets

At the end of each reporting period, the carrying amount of other financial assets is reviewed to determine whether there is an indication of impairment and if any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is the amount by which the amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment losses and reversals are 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.

The investment return is allocated between the insurance technical account and the non-technical account on the basis of the investment return.

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.

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Nonmonetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

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

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company, is classified as investment property. Investment property is initially measured at cost including related transaction costs. Investment property is subsequently carried at fair value, representing open market value determined annually by external valuers or by virtue of a directors’ valuation. It is the Company’s policy to engage the services of an external expert valuer every 3 years at a minimum. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Subsequent expenditure is charged to the asset’s carrying amount 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.

Unrealised gains and losses arising from changes in fair value (net of deferred taxation) are initially recognised in profit or loss.

1. Summary of significant accounting policies – continued

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 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.

1.10 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.

1.11 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.

1.12 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 for 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.

1.13 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.

1.14 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.

1. **Summary of significant accounting policies** – continued

1.14 Insurance contracts – classification

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.

Deferred Acquisition costs

Commission costs that related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and are shown as deferred acquisition costs (“DAC”) in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

IBNR

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

Unexpired risk provision

Provision in the form of an unexpired risk provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

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.

1. Summary of significant accounting policies - continued

1.14 Insurance contracts – classification - continued

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.

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.

1.15 Employee Benefits

The Company contributes towards the state pension in accordance with local legislation. The only obligation is to make the required contributions. Costs are expensed in the period in which they are incurred.

1.16 Other 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 of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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 2021, the Company has, in conformity with its authorisation by the MFSA, written the following insurance products from its core across various classes of business:

2. Management of insurance and financial risk - continued

2.1 Insurance risk- continued

Product	*Classes of Business*
ASU	16. Miscellaneous Financial Loss
Breakdown	18. Assistance
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 Product Oversight and Governance Committee prior to notification to the Board and the MFSA.

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 Product Oversight and Governance 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.

2. Management of insurance and financial risk – continued

2.1 Insurance risk - continued

(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 were under a Quota share treaty split 32.25% with BBI and 67.75% with reinsurers, which ceased 31 October 2020.
(ii) A new 14-month Quota Share agreement has been entered into from 1 November 2020 all products split 40% with BBI and 60% with Reinsurers in total.
(iii) The 2Gether insurance scheme is fully reinsured with Windward Insurance PCC Limited – Crystal Underwriting Cell in Guernsey.
(iv) 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.

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. Management of insurance and financial risk – continued

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:

	2021	**2020**
	£	**£**
Cash and cash equivalents	**266,313**	**668,958**

If the EURO strengthens or weakens against the GBP by 5% (2020: 5%), with all other variables held constant, pre-tax loss for the year would have been lower by £28,413 (2020: £24,024) or higher by £12,562 (2020: £35,562).

(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.

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

The Company is exposed to credit risk, the risk of loss due to a counterparty being unable to pay amounts in full when due. 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 2021,9% (2020: 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 2021 are held with a foreign financial institution with a long-term credit rating of 'A'.

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.

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-.

2. Management of insurance and financial risk – continued

2.2 Financial risk management – continued

(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.

(d) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company does not have borrowings issued at fixed rates, and as result is not exposed to fair value interest rate risk.

(e) *Equity price risk*

The Company is exposed to market price risk on its investment in subsidiary. The value in subsidiary can decline in response to adverse political, market or economic developments. The subsidiary has invested in a portfolio of properties which it deems to be low risk in order to mitigate this risk.

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.

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 2021, the company's eligible own funds of £3,791,861 (2020: £3,599,593) sufficient to cover the minimum capital requirement.

The Company's SCR as at 31 December 2021 was 137.85% (2020: 133.91%)

2. Management of insurance and financial risk – continued

2.4 Fair value estimation

At 31 December 2021 and 2020, the carrying amounts of cash and cash equivalents, receivables and payables 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.

The Directors have identified the following key sources of estimation uncertainty which impacts on the financial statements of the company.

(a) Technical provisions

The Company's technical provisions at year end are determined in accordance with accounting policy 1.14. Details of key assumptions and sensitivities to the valuation are disclosed in Note 5 to the financial statements.

(b) Fair valuation of investment property

The determination of the fair value of investment property at the year-end requires the use of significant management estimates. Details of key assumptions are disclosed in Note 11 to the financial statements and determined in accordance with accounting policy 1.7.

The Company believes that the liability arising from claims under insurance contracts is adequately

4. Premium

Total gross written premium generated during the year amounted to £5,991,042 (2020: £13,162,673).
reserved as at the financial year end.

5. Technical provisions and reinsurance assets

	Gross		Reinsurance		Net	
	2021	2020	2021	2020	2021	2020
Insurance Contracts	£	£	£	£	£	£
- claims outstanding	552,729	860,366	330,876	542,104	221,854	318,262
- claims incurred but not reported	279,447	445,319	167,668	295,105	111,779	150,213
- unexpired risk provision	87,637	168,372	52,582	114,072	35,055	54,300
- provision for unearned premiums	3,689,376	7,608,668	2,890,680	5,533,901	798,697	2,074,768
Total technical provisions	**4,609,190**	**9,082,725**	**3,441,806**	**6,485,182**	**1,167,385**	**2,597,543**

	Gross	Reinsurance	Net
	£	£	£
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**
Increase in Liabilities:			
- arising from current year claims	9,919,253	7,634,727	2,284,527
- arising from prior year claims	(1,712,916)	(1,304,444)	(408,471)
Claims Settled during the year	(8,660,144)	(6,818,791)	(1,841,353)
Total as at 31 December 2020	**1,305,685**	**837,210**	**468,475**
Notified claims still outstanding	860,366	542,104	318,262
Incurred but not reported	445,319	295,105	150,213
Total as at 31 December 2020	**1,305,685**	**837,210**	**468,475**
Increase in Liabilities:			
- arising from current year claims	7,045,282	5,053,630	1,991,652
- arising from prior year claims	(1,241,570)	(806,661)	(434,909)
Claims Settled during the year	(6,277,221)	(4,585,635)	(1,691,586)
Total as at 31 December 2021	**832,176**	**498,544**	**333,632**
Notified claims still outstanding	552,729	330,876	221,853
Incurred but not reported	279,447	167,668	111,779
Total as at 31 December 2021	**832,176**	**498,544**	**333,632**

6. Expenses by nature

	2021 £	2020 £
Payroll recharge from associate	**436,592**	365,648
Insurance management fees	**91,304**	121,090
Professional fees	**234,674**	326,638
Other expenses	**99,391**	179,973
Acquisition costs	**1,588,422**	4,020,223
Change in deferred acquisition costs	**1,273,575**	680,796
Reinsurance commission	**(1,618,931)**	(3,281,544)
Change in deferred reinsurance commissions	**(1,007,706)**	(928,159)
Total operating and administrative expenses	**1,097,321**	**1,484,664**
Allocated to:		
Technical account	**1,010,622**	1,249,452
Non-technical account	**86,699**	235,212
Non-technical account	**1,097,321**	**1,484,664**

Auditor's fees

Fees charged by the auditor for services rendered during the financial year ended 31 December 2021 and 2020 relate to the following:

	2021 £	2020 £
Annual statutory audit	**21,385**	41,256
Other assurance services	**15,682**	29,469
Tax advisory	**2,227**	1,434
	39,294	**72,159**

7. Directors' emoluments

	2021 £	2020 £
Directors' fees	**216,642**	**95,246**

8. Investment income, expenses and charges

	2021 £	2020 £
Investment income		
Foreign exchange gains	**-**	57,795
	-	57,795
Investment expenses and charges		
Interest expense and charges	**(643)**	(753)
Foreign exchange losses	**(41,785)**	(34,258)
	(42,428)	(35,011)
Net total investment income	**(42,428)**	22,781

9. Tax expense

	2021 £	2020 £
Current tax	-	-
Deferred tax	402,500	-
Tax	**402,500**	-

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

	2021 £	2020 £
Profit before tax	**40,043**	75,998
Tax at 35%	**(14,008)**	(26,599)
Temporary differences	**416,508**	26,599
Tax	**402,500**	-

A deferred tax asset is recognised in these financial statements in relation to tax losses amounting to £1,150,000. The company has trading losses of £2,892,268 (2020: £2,892,268) in view of the uncertainty relating to the realisation of such benefits in the short term the company has not recognised the losses in full. The Company also has unabsorbed capital allowances of £60,055 (2020: £98,533).

10. Intangible assets

	Computer Software £
Year ended 31 December 2020	
Opening net book amount	14,887
Additions	15,655
Amortisation charge	(13,580)
Closing net book amount	**16,962**
At 31 December 2020	
Cost	121,442
Accumulated amortisation	(104,479)
Net book amount	**16,963**
Year ended 31 December 2021	
Opening net book amount	16,963
Additions	-
Amortisation charge	(10,299)
Closing net book amount	**6,664**
At 31 December 2021	
Cost	121,442
Accumulated amortisation	(114,778)
Net book amount	**6,664**

11. Investment property

	2021 £	2020 £
Year ended 31 December		
At beginning of year	**350,000**	350000
Additions	**-**	-
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 of the investment property as at 31 December 2021 is based on a valuation carried out by an independent architect on 29 September 2021. The architect is qualified and has experience in the valuation of properties. The current use of the property equates to the highest and best use. The Company has no restrictions on the realisability of its investment property and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. The Company's property has been determined to fall within Level 3 of the fair valuation hierarchy.

12. Investment in subsidiary

	2021 £	2020 £
Year ended 31 December		
At beginning and end of year	**584,672**	584,672
	584,672	584,672

The subsidiaries as at 31 December 2021 and 2020 are shown below:

Name of subsidiary	Registered office	Class of shares	Percentage of shares held 2021	2020
Totemic International Properties Inc (TIPI)	C/O PKF LLP 665 Fifth Avenue, New York, NY 10022	Ordinary 'A' shares	**100%**	100%

The principal activity of the Company is rental of residential properties.

13. Receivables and prepayments

	2021	2020
	£	£
Receivables arising out of direct insurance operations		
- Due from agents, brokers and intermediaries	**1,183,508**	7,055,080
Other receivables	**228,804**	328,065
Current portion	**1,412,312**	7,383,145

Related party transactions are disclosed in Note 20 Related party transactions.

14. Deferred acquisition costs

	2021	2020
	£	£
At beginning of year	**2,275,475**	2,953,271
Net amount credited to profit and loss account (Note 6)	**(1,273,575)**	(680,796)
At end of year	**1,001,900**	2,275,475

15. Cash and cash equivalents

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

	2021	2020
	£	£
Cash at bank and in hand	**3,082,653**	2,191,018

16. Share capital

	2021	2020
	£	£
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. 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.

18. Payables, accruals and deferred income

	2021	2020
	£	£
Creditors arising out of direct insurance operations		
Payable to intermediaries	**221,518**	1,829,704
Payable to reinsurers	**-**	1,718,858
Deferred reinsurance commission	**880,053**	1,887,759
Other creditors		
Indirect taxation	**248,016**	855,222
Other creditors	**33,206**	46,231
Accruals and deferred income	**211,832**	216,933
Total payables and accruals and deferred income	**1,594,625**	6,554,706

Related party transactions are disclosed in Note 20 Related party transactions.

19. Cash used in operations

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

	2021 £	2020 £
Profit for the year	**442,523**	75,998
Adjustments for:		
Interest received	**-**	-
Interest paid	**643**	753
Deferred Tax	**(402,500)**	-
Amortisation charge	**10,299**	13,580
Exchange losses / (gains)	**41,784**	(23,535)
Changes in working capital:		
Trade and other receivables	**5,957,980**	(867,734)
Technical provisions (net)	**(1,325,687)**	201,900
Trade and other payables	**(3,790,979)**	223,686
Cash generated from operations	**934,063**	**(375,352)**

20. Related party transactions

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 are considered as related parties.

The Company was recharged amounts in relation to the running expenses as follows;

	2021 £	2020 £
Salary costs	248,966	365,648
Professional fees	10,382	11,257
Directors' fees	187,625	60,710
Other costs	1,743	15,363
	448,717	452,978

During the year, the company carried out a number of transactions with a related party that acts as a licenced insurance intermediary. During the year gross written premiums written through the related party amounted to £2,709,995 (2020: £9,301,441). The fees earned by the related party for such services amounted to £718,162 (2020: £597,646).

	2021 £	2020 £
Amounts due to associated companies	4,113	7,622
Amounts due from associated companies	940,922	5,188,908

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

21. Statutory information

Building Block Insurance PCC Limited is a limited liability company incorporated in Malta with its registered address at Development House, St. Anne Street, Floriana, Malta, FRN 9010.

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 2 Sir Augustus Bartolo Street, Ta' xbiex xbx 1091, 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.

Lattice Trading Limited is the smallest and largest group in which the results of the company are consolidated

22. Events after the reporting period

The directors have considered the potential impact that the current Ukraine war could have on the investments and overall business performance and have agreed that there will be no significant impact to the business performance of the Company at the current time.