Admiral Insurance Company Limited

Strategic Report, Directors' Report and Financial Statements

Registered number 04080051

31 December 2018

Contents

Directors and advisors

Directors

J H Armstrong
S D Clarke
D K M James*
C D Prussog
G A Jones

* Non-executive Chairman

Company Secretary

D J Caunt (appointed 11 March 2019)
M R Waters (resigned 11 March 2019)

Registered office

Tŷ Admiral
David Street
Cardiff
CF10 2EH

Auditor

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Strategic Report

Admiral Insurance Company Limited (AICL), "the Company" is a 100% directly owned subsidiary of Admiral Group plc, the "Group", a company listed on the London Stock Exchange.

AICL was authorised to write private motor insurance business in 2003 and commenced trading on 1 July of that year. The Company underwrites a proportion of the overall Admiral Group motor insurance book generated by the Group's intermediary company, and fellow subsidiary, EUI Limited (EUI) in the UK, Spain and Italy.

Post balance sheet events

As a result of the Group's preparations for Brexit, on 1 January 2019, the portfolios of the Spanish branch and Italian businesses of AICL were transferred to a new European underwriting subsidiary, Admiral Europe Compañía de Seguros S.A. (AECS) under Part VII of the Financial Services and Markets Act 2000. Following the transfer, the company continues to underwrite a proportion of the UK motor insurance business generated by EUI Limited.

The operations of the businesses have not been impacted by the transfer and there is no material impact on the Company's reported results in 2018, or as a result of the transition in 2019.

Under IFRS 5, the European businesses to be transferred ("EU insurance") meet the definition of a disposal group. Accordingly, the assets and liabilities of EU insurance are classified as "held for sale" at 31 December 2018, as the carrying amount will be recovered principally through the transfer to AECS, rather than through continuing use. In addition, EU insurance is classified as a discontinued operation and its profit after tax is therefore presented separately on the Income Statement in a single line.

Further disclosures around the transfer and the impact on AICL's income statement and Statement of Financial Position are set out in the notes to the financial statements.

Review of developments and performance during the year

Profit after tax for the year was £29.8m (2017: £25.4m), an increase of 17%, which was driven by improvements in both the UK and European results, as discussed further below.

AICL's results in 2018 were favourably impacted by a change in assumption for the Ogden discount rate.

During December 2018, the Civil Liability Bill, which brings into law changes to the way that the UK personal injury discount rate ('Ogden' discount rate) is set, received Royal Assent and is enacted as the Civil Liability Act.

The Ogden discount rate is used for adjusting the value of lump sum personal injury compensation, according to the amount the victims of serious personal injury can expect to earn by investing it. The principle of the new legislation is one of fair compensation, and the changes will result in the rate being

Strategic report *(continued)*

set with reference to 'low risk' rather than 'very low risk' investments, better reflecting the actual investment risk that claimants are prepared to take.

At the time of the announcement of the proposed legislation in 2017, the Lord Chancellor implied that the new system would result in a rate in the region of 0% to 1%.

The enactment of the legislation marks the start of a process for setting a new rate, with a maximum 230-day timeframe meaning that we will receive a new rate during or before August 2019. As such, the significant majority of relevant open claims at the balance sheet date will be settled under the new rate.

AICL's best estimate assumption for the new rate, applied at the 2018 year-end is 0%. The setting of this assumption reflects a number of factors including current long-term economic forecasts and analysis released by the Government Actuary Department setting out the approach it is expected to take in recommending the new rate to the Lord Chancellor.

Without the Ogden change, reported pre-tax profit for the UK (continuing operations) in 2018 would have been £23.1m, compared to the £34.5m recognised.

Following the change in Ogden rate assumption, the financial statement reserves continue to hold a prudent and significant margin above actuarial best estimates in line with the reserving policy.

2018 was another year of growth for the Company, with gross premium written in the year for continuing operations increasing by 4% from £145.6m to £151.7m, and total gross written premium (including EU insurance operations) increasing by 8% from £254.0m to £274.5m.

Net earned premium rose in line with the growth in gross written premium, in total by 8% to £186.6m (2017: £172.4m). All three businesses contributed to the growth in the period, with growth in the UK business at just under 7% and the combined European business growing by 13% year on year.

The combined ratio improved from 87% to 86%, with an improved UK result combined with an improved European ratio.

The following paragraphs summarise developments and performance during the year for the areas in which the Company wrote business in 2018: UK insurance and European motor.

UK Insurance: UK motor

During 2018, AICL underwrote 7.5% (2017: 7.5%) of the total Admiral UK car insurance book.

Financial performance

The Admiral UK motor insurance business continued to grow in 2018, with a growth in gross written premiums of 4% to £151.7 million (2017: £145.6 million) and total vehicles insured across the Admiral UK car insurance book increased by 3% to 4.09 million from 3.96 million.

Strategic report *(continued)*

Earned premium rose 7% to £147.0 million (2017: £137.6 million), reflecting the growth in written premium during both 2017 and 2018.

The reported loss ratio in the year was 65%, compared to 66% in 2017. The 2018 expense ratio was 18%, the same as 2017.

Europe private motor

In 2018 the Company continued to underwrite a proportion of business generated by two of the Group's direct car insurance operations outside the UK:

- Admiral Seguros (including the Balumba and Qualitas Auto brands), based in Seville and launched in October 2006;
- ConTe, based in Rome and launched in May 2008.

In 2018, AICL wrote a gross share of 100% of the business generated by Admiral Seguros, and ceded 70% (2017: 70%) to Munich Re and Swiss Re under a quota share arrangement (35% each), retaining a net 30% share (2017: 30%). AICL took a 45% gross share of business generated by ConTe (2017: 45%). The remaining shares are taken by co-insurers; fellow subsidiary Admiral Insurance (Gibraltar) Limited, and Great Lakes. AICL then cedes 27.5% of the totals out to Munich Re (15%) and Swiss Re (12.5%) under quota share arrangements, retaining a net 17.5% (2017 17.5%).

Combined gross written premium totalled £122.8 million, up 13% from £108.4 million in 2017. Net earned premium increased by 13% to £39.6 million (2017: £34.9 million). The focus during the year for both Admiral Seguros and ConTe was the continuation of sustainable growth.

Admiral Seguros' customer base grew to 250,000 a 14% increase on 2017.

The Group's Italian business ConTe continued to grow with customers increasing by 17% to 585,000 over the course of the year.

The reported combined ratio for the business written outside the UK in 2018 improved to 94% from 100% in 2017. This resulted in an underwriting profit of £2.6 million compared to the underwriting profit of £0.2 million in 2017.

As stated above, on 1 January the European insurance business was transferred out of AICL into AECS and is therefore treated as a discontinued operation in these financial statements.

Review of position at year-end

The Company held capital resources of £124.2 million at the end of 2018 (2017: £106.4 million). The increase results from retention of profits, offset by movements in the fair value reserve, exchange reserves and dividends paid in the year.

Strategic report *(continued)*

The Company's investment strategy was largely unchanged in 2018, with funds invested in sterling money market liquidity funds, fixed income debt securities, a series of longer term deposits with credit institutions and a smaller investment in an equity fund. There has been no significant change in credit quality and over 90% of the financial assets of the Company are rated A- and above.

From 1 January 2016 the Company's regulatory capital has been based on the Solvency II Standard Formula. The estimated and unaudited Solvency II capital requirement at 31 December 2018 was £91.3 million (2017: £84.7 million). On a similar estimated and unaudited basis, Eligible Own Funds of £152.9 million (2017: £139.0 million) result in a reported solvency ratio of 167% (2017: 164%), and surplus capital of £61.6 million (2017: £54.3 million).

Principal risks and uncertainties

There are a number of risks and uncertainties which could affect the results and financial position of the Company in the foreseeable future, including (but not limited to):

- claims shocks in the UK businesses. These could arise from an event such as a large flood or windstorm event, or an increased cost of claims, in particular from bodily injury claims due to external factors such as changes in Ogden rates and increased levels of Periodic Payment Orders. There are a number of factors which mitigate this risk, including experienced, focused senior management and a data-driven and analytical approach to monitoring of claims. The Company has a conservative reserving policy and continues to hold a significant margin in its financial statements claims reserves above actuarially determined best estimates to cover adverse developments, and for very large claims excess of loss insurance is in place, which mitigates a portion of the loss;
- erosion of the competitive advantage in UK car insurance. This risk is mitigated by the Group's focus on maintaining a low-cost infrastructure and efficient acquisition costs along with its track record of innovation and being able to react quickly to market conditions and developments;
- market value fluctuations in investments. Management's investment strategy focuses on preservation of the amount invested, low volatility of returns and strong liquidity. The majority of the portfolio is invested in high quality fixed income and other debt securities, and money market funds, in order to achieve these objectives;
- operational risks, including those related to processes, systems, legal and regulatory requirements. The Group has a wide range of mitigating factors to address these risks to the Company, including high quality, motivated staff and appropriate internal review and controls.

UK Exit from the European Union ('Brexit')

A prudent approach has been adopted by the Company in relation to Brexit, designed to mitigate the risks to the European businesses of a potential "hard Brexit", which could have prevented those operations from continuing to trade due to reliance on passporting rights.

Strategic report *(continued)*

The European insurers have been restructured so as to fully mitigate a "no deal" outcome. This has been achieved for the European insurers through Admiral receiving approval for an application to establish insurance and intermediary companies in Spain, such that from 1 January 2019, all of the Group's European insurance business is underwritten by a regulated entity in Spain, Admiral Europe Compañía de Seguros S.A. (AECS). All existing liabilities and contracts relating to these businesses have been transferred through portfolio transfer processes, also effective from 1 January 2019.

Brexit continues to bring risks to the Company, which include:

- The potential for market volatility, and the potential for the uncertainty or the emerging terms of exit to trigger or exacerbate less favourable economic conditions in the UK and other countries in which the Company operates (though it is worth noting that car insurance has tended to be resilient to economic downturns).

  As part of the Own Risk and Solvency Assessment ("ORSA") process, the Group has performed a stress testing exercise for its Brexit assessment of the impact of a recession through 2019 on the UK insurance business, including the increase in claims costs following a spike in inflation. This includes negative movement in interest rates, currency, investment yields, inflation, unemployment and GDP, which could be experienced under a 'hard' Brexit scenario (i.e. no deal outcome). Given the results of the stress testing the Company is comfortable that it is able to manage the potential outcomes of such scenarios should they occur.

- Potential for impact on the import of car parts with potential impact on claims costs. A working group is in place to manage and review this risk, with commercial negotiations ongoing to mitigate risks arising from a "no deal" Brexit;

- Modest potential operational difficulties relating to the provision of 'green cards' to customers wishing to drive in Europe. A full communications plan has been developed for customers wishing to drive their vehicles in Europe after the UK's exit from the European Union.

At present, the Company does not foresee a material adverse impact on day-to-day operations (including customers or staff). The Company recognises the potential economic disruption that may arise from a 'hard' Brexit. Whilst the Company is comfortable that it is able to manage potential outcomes following the review of the stress testing noted above, it recognises the uncertainties that exist in relation to Brexit and the potential for adverse impacts to the Company's capital position and future dividend payments.

The Company's financial risk management objectives and policies are disclosed in note 7 to these financial statements.

Strategic report *(continued)*

The Directors are confident that the Company has a robust control environment to mitigate the impact of such risks.

Employees

EUI Limited, a fellow subsidiary company, employs all staff involved in the Company's business. Details of staff costs, staff numbers and employment policies appear in the accounts of that company.

By order of the board,

Geraint Jones
Director

23 April 2019

Directors' Report

The Directors present their report and the financial statements for the year ended 31 December 2018.

The following information has been disclosed in the Strategic Report:
- Information about branches outside the UK
- Post balance sheet events
- Capital structure

Results and dividends proposed

The profit for the year after taxation amounted to £29.8 million (2017: £25.4 million).

An interim dividend of £10.0 million was declared and paid in the year (2017: £15.0 million).

Directors

The Directors who served during the year were:

J H Armstrong
S D Clarke
D K M James (non-executive Chairman)
C D Prussog
G A Jones

Future developments

AICL UK's underwriting arrangement for 2019 for the UK is the same as 2018. Business underwritten by AICL Spain and Italy has been transferred to Admiral Europe Compañía de Seguros S.A. (AECS), the new European insurance underwriter, from 1 January 2019. Details of the assets and liabilities transferred are set out in note 3 to the financial statements.

Going concern

The Directors have considered the appropriateness of the going concern basis of preparation in these financial statements, particularly in regard to the future developments outlined above. As set out in note 1d, the Directors have reviewed the future projections of the Company for the next twelve months and beyond, taking into account expected profitability, capital and solvency projections and liquidity, and relevant stress testing on those projections. Given the result of this assessment, the Directors are satisfied that the going concern basis of preparation is appropriate.

Financial Instruments

The financial risk management objectives and policy of the company and the exposure of the Company to risk in relation to financial instruments including credit and liquidity risk are set out in note 7b to the financial statements.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and will therefore continue in office.

By order of the Board,

Geraint Jones

Geraint Jones
Director
23 April 2019

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADMIRAL INSURANCE COMPANY LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Admiral Insurance Company Limited (the 'company') give a true and fair view of the state of the company's affairs as at 31 December 2018 and of the company's profit for the year then ended;**
- **the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of gross insurance claims reserves. The key audit matter identified is the same as the prior year.
Materiality	The materiality that we used in the current year was £3.4m which was determined on the basis of equity.
Scoping	We have identified three reporting components which we consider are of individual financial significance to the company's reported results and these components were subjected to audits for reporting purposes.

	The components within the scope of our audit procedures account for 100% of the company's profits before tax, 100% of revenue and 100% of the company's net assets.
Significant changes in our approach	The main changes in component scoping since 2018 are to subject the company's underwriting division in Spain to a full scope audit. This is due to the Spanish component contributing a significant portion of the company's European underwriting activity and therefore we have determined that treating it in this way is the most appropriate approach.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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 and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Valuation of gross insurance claims reserves	
Key audit matter description	The company's gross insurance claims reserves total £375.2m (2017 year-end: £352.5m). The judgements which are made by management in determining the total valuation of claims reserves are by far the most significant, in terms of their impact on the company's financial position. Setting these claims reserves is an inherently subjective exercise and small changes in underlying assumptions such as average frequency or average severity may have a material impact on the overall year end result reported. We therefore consider that this account balance contains potential fraud risks. Specifically, our significant areas of focus are management's assumptions

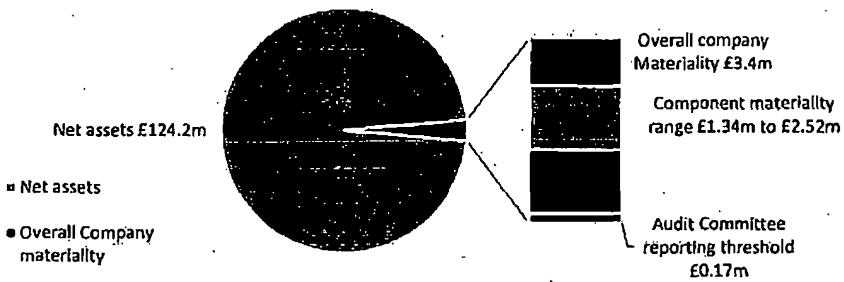
	underpinning the modelled frequency and severity of large bodily injury claims arising in the UK Car Insurance business. These particular claims result in higher individual claims reserves and are more judgmental, in terms of the development of the ultimate losses, due to the longer-term nature of the company's exposure (compared to property damage claims). In line with the company's accounting policy, management adds a margin to the actuarial best estimate to arrive at the booked gross claims reserves. This margin reflects the inherent uncertainty in estimating the ultimate losses on claims, over and above that which can be projected actuarially based on underlying claims development data. This is a significant area of management judgement and, therefore, a focus of our audit. Specifically, the consistency of the level of prudence within the margin for the UK Car Insurance reserves, related to large bodily injury claims, is our key area of focus in respect of the margins included. The uncertainty associated with future changes in the Ogden discount rate is a key area of judgement and effects both the derivation of the best estimate assumptions and the margin required to achieve the desired level of confidence in the booked reserves. The impact of royal assent to the Civil Liability Bill on the estimate of future rate changes is specifically considered by management. Refer to note 2 and note 5b in the financial statements which discusses this matter.
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation and tested the operating effectiveness of relevant controls relating to the key actuarial assumptions identified and the setting of the reserve margin. These controls include those concerning the oversight and challenge of management's external actuarial expert by management and the Audit Committee. We reviewed the reports from management's external expert actuary and involved our own Deloitte actuarial experts to support our challenge of management's assumptions. We performed procedures to assess the objectivity and competence of management's expert. We benchmarked management's frequency assumptions against available industry working party data and considered the comparison in the context of the risk profile of Admiral's portfolio and the year-on-year changes in these assumptions. We undertook a graphical analysis of incurred development patterns to assess and challenge management's severity assumptions. We benchmarked the average cost per claim assumptions against available third party industry data in the context of this incurred development analysis. We gave specific consideration to the Ogden discount rate assumption selected by management, inspected the evidence to support a change in assumption for 2018 and benchmarked the selected rate against that selected by a range of industry peers. We challenged management's qualitative and quantitative justifications for the margin held over the actuarial best estimate reserves through review of management's accounting judgement papers and claims distribution model. We analysed the consistency of prudence within the booked margin against previous reporting periods in the context of the underlying uncertainty in incurred claims development and challenged management's justification for the booked position.
Key observations	Based on the procedures described above, we consider that the booked reserves remain appropriate and in line with the company's prudent accounting policy.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£3.4m (2017: £3.2m)
Basis for determining materiality	3% of equity (2017: 3% of equity)
Rationale for the benchmark applied	We consider equity to be the critical benchmark of the performance of the company, given the importance of capital surplus to the parent entity, which is the sole shareholder, and consider this benchmark to be suitable having compared to other benchmarks. Our materiality equates to 1% of gross earned premium and 10% of profit before tax (2017: 1% of gross earned premium and 10% of PBT).



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2018 audit (2017: 70%).

We agreed with the Board that we would report to them all audit differences in excess of £0.17m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The financially significant components of the company which were identified in our audit planning are the UK, Italian and Spanish divisions of the company. Each of these three components were subjected to a full-scope audit for reporting purposes, completed to individual component materiality levels of £2.52m, £1.85m and £1.34m respectively, reflecting the relative significance of each individual component.

In 2017, we identified two of these as significant reporting components. The changes in component scoping since 2018 are in classifying the underwriting division in Spain as a significant reporting component.

We engaged local component auditors, being Deloitte member firms in Italy and Spain, to perform the audit work in these respective territories on our behalf. We directed and supervised the work of the component auditors, including through visits to the components and component auditors in Spain and Italy, and remote communication and review of their work.

The components within the scope of our audit procedures account for 100% of the company's profit before tax, 100% of revenue and 100% of the company's net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Admiral Group PLC audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area:
  - valuation of gross insurance claims reserves; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act and relevant tax legislation. In addition, compliance with terms of the company's regulatory solvency requirements were fundamental to the assessment of the company's ability to continue as a going concern.

Audit response to risks identified
As a result of performing the above, we identified the valuation of gross insurance claims reserves as a key audit matter. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the Financial Conduct Authority and the Prudential Regulation Authority; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of manual consolidation journals and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by shareholders' approval at the Annual General Meeting on 28 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2016 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

M. McQueen

Mark McQueen (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 April 2019

Income Statement

For the year ended 31 December 2018

TECHNICAL ACCOUNT – GENERAL BUSINESS

		Year ended	
		31 December	31 December
		2018	2017
Continuing Operations	Note	**£000**	£000
Gross premiums written		**151,731**	145,591
Outward reinsurance premiums		**(3,271)**	(3,235)
Net insurance premiums written		**148,460**	142,356
Change in the gross provision for unearned premiums		**(1,437)**	(5,445)
Change in the provision for unearned premiums, reinsurers' share		**(43)**	656
Net change in unearned premium provision		**(1,480)**	(4,789)
Earned premiums, net of reinsurance		**146,980**	137,567
Allocated investment return transferred from the non-technical account	6	**3,807**	2,926
Total technical income		**150,787**	140,493
Gross claims paid		**(87,608)**	(72,295)
Reinsurers' share of claims paid		**805**	317
Net claims paid		**(86,803)**	(71,978)
Gross change in the provision for claims		**(10,235)**	(29,440)
Reinsurers' share of the change in the provision for claims		**1,005**	10,783
Net change in the provision for claims		**(9,230)**	(18,657)
Claims handling costs incurred		**(3,754)**	(3,588)
Claims incurred, net of reinsurance		**(99,787)**	(94,223)
Balance on the technical account before expenses		**51,000**	46,270
Net operating expenses	9	**(22,430)**	(20,587)
Balance on the technical account		**28,570**	25,683

Income Statement *(continued)*

For the year ended 31 December 2018

NON-TECHNICAL ACCOUNT

	Note	Year ended 31 December 2018 £000	31 December 2017 £000
Balance on the technical account		**28,570**	25,683
Investment income	6	**3,807**	2,926
Allocated investment return transferred to the general business technical account	6	**(3,807)**	(2,926)
Other income	8	**5,926**	5,201
Operating profit, being profit on ordinary activities before taxation		**34,496**	30,884
Taxation expense	11	**(7,594)**	(5,975)
Profit for the financial year on continuing operations		**26,902**	24,909
Profit attributable to discontinued operations	3	**2,855**	507
Total profit after tax		**29,757**	25,416

Statement of Comprehensive Income

For the year ended 31 December 2018

		Year ended	
		31 December 2018	31 December 2017
	Note	**£000**	£000
Profit for the financial year		**29,757**	**25,416**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Movements in fair value reserve		**(1,999)**	**(984)**
Corporation tax (charge)/credit on movement in fair value reserve		**341**	**187**
Foreign currency translation differences on foreign operations		**(299)**	**(687)**
Other comprehensive income for the year, net of tax		**(1,957)**	**(1,484)**
Total comprehensive income for the year continuing operations		**27,800**	**23,932**

Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 £000	31 December 2017 £000
Investments			
Investment in subsidiary undertakings	10	75,851	—
Other financial investments	7	326,698	371,826
Total investments		402,549	371,826
Reinsurers' share of technical provisions			
Provision for unearned premiums	5	1,482	36,768
Claims outstanding	5	26,339	84,600
		27,821	121,368
Receivables			
Receivables arising out of direct insurance operations		44,711	49,111
Other receivables	12	9,866	9,738
		54,577	58,849
Other assets			
Deferred tax asset	11	13	—
Cash at bank and in hand	7	11,589	52,292
Prepayments and accrued income: Deferred acquisition costs	12	2,952	5,965
Total other assets		14,554	58,257
Assets associated with disposal group held for sale	3	177,150	—
Total Assets		676,651	610,300

Statement of Financial Position *(continued)*

As at 31 December 2018

		As at	
	Note	**31 December 2018 £000**	31 December 2017 £000
Capital and reserves			
Called up share capital	13	**37,300**	37,300
Fair value reserve		**(263)**	1,395
Foreign currency translation reserve		**(83)**	216
Profit and loss account		**87,270**	67,513
Equity shareholder's funds		**124,224**	106,424
Technical provisions			
Provision for unearned premiums	5	**69,758**	122,092
Claims outstanding	5	**264,627**	352,472
		334,385	474,564
Creditors – amounts falling due within one year			
Creditors arising out of reinsurance operations		**2,189**	11,301
Trade and other payables	12	**24,977**	12,014
Current tax liabilities		**6,960**	5,670
Deferred tax liabilities	11	**–**	327
		34,126	29,312
Liabilities associated with disposal group held for sale	3	**183,916**	–
Total Liabilities		**552,427**	503,876
Total Equity and Liabilities		**676,651**	610,300

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 23 April 2019 and were signed on its behalf by:

Geraint Jones
Director
Company Number: 04080051

Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £000	Fair value reserve £000	Foreign exchange reserve £000	Retained profit and loss £000	Total equity £000
Balance at 1 January 2017	37,300	2,192	903	57,097	97,492
Profit for the period	—	—	—	25,416	25,416
Other comprehensive income					
Movements in fair value reserve	—	(984)	—	—	(984)
Deferred tax (charge)/credit in relation to movement in fair value reserve	—	187	—	—	187
Currency translation differences	—	—	(687)	—	(687)
Total comprehensive income for the period	—	(797)	(687)	25,416	23,932
Transactions with equity holders					
Dividends	—	—	—	(15,000)	(15,000)
Total transactions with equity holders	—	—	—	(15,000)	(15,000)
Balance at 31 December 2017	37,300	1,395	216	67,513	106,424
Balance at 1 January 2018	37,300	1,395	216	67,513	106,424
Profit for the period	—	—	—	29,757	29,757
Other comprehensive income					
Movements in fair value reserve	—	(1,999)	—	—	(1,999)
Deferred tax (charge)/credit in relation to movement in fair value reserve	—	341	—	—	341
Currency translation differences	—	—	(299)	—	(299)
Total comprehensive income for the period	—	(1,658)	(299)	29,757	27,800
Transactions with equity holders					
Dividends	—	—	—	(10,000)	(10,000)
Total transactions with equity holders	—	—	—	(10,000)	(10,000)
Balance at 31 December 2018	37,300	(263)	(83)	87,270	124,224

Notes to the financial statements
For the year ended 31 December 2018

Authorisation of financial statements

The financial statements of Admiral Insurance Company Limited for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 23 April 2019 and the Statement of Financial Position was signed on the Board's behalf by Geraint Jones, Director. Admiral Insurance Company Limited ("the Company") is a limited company incorporated and domiciled in the United Kingdom and registered in England and Wales.

1. Accounting policies
1a. Basis of preparation

These financial statements have been prepared in accordance with the provisions of Section 396 of the Companies Act 2006, including applying the requirements set out in Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies along with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

The Company's ultimate parent undertaking, Admiral Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Admiral Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company Secretary at the registered office – Ty Admiral, David Street, Cardiff, CF10 2EH.

Under the provisions of section 400 of the Companies Act 2006, the Company is exempt from preparing consolidated financial statements as it is included in the results of publicly available consolidated financial statements of the parent company. These financial statements present information about the Company as an individual undertaking and not about its group.

1b. *Adoption of new and revised standards*

The Company has adopted the following IFRS and interpretations during the year, which have been issued and endorsed by the EU:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"

The application of these amendments has not had a material impact on the Company's results, financial position and cash flows. Further information on the impact of the transition to IFRS 9 is provided below. There is no impact of adoption of IFRS 15 given there is no revenue in AICL in the scope of this standard.

IFRS 9

During the year the Company has applied IFRS 9 Financial Instruments with a date of initial application of 1 January 2018, which resulted in changes in accounting policies and the potential for adjustments to the amounts previously recognised in the financial statements in respect of financial instruments.

As permitted by the transitional provisions of IFRS 9 the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition would be recognised in the opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes to the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

a) Classification and measurement of financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are as follows:

	IAS 39		IFRS 9	
Financial Assets	Measurement Category	Carrying Amount (£m)	Measurement Category (£m)	Carrying Amount (£m)
Debt securities	Available for sale (FVOCI)	104.9	FVOCI	104.9
Deposits with credit institutions	Loans and receivables (Amortised cost)	25.0	Amortised cost	25.0
Money-market funds	FVTPL	239.4	FVTPL (mandatory)	239.4
Equity instruments	FVTPL	2.6	FVOCI (designated)	2.6
Cash and cash equivalents	Loans and receivables (Amortised cost)	52.3	Amortised cost	52.3
Trade and other receivables	Loans and receivables (Amortised cost)	9.7	Amortised cost	9.7

It can be seen from the above that there is no difference in the carrying amount of financial instruments under IAS 39 and IFRS 9. The classification of all financial assets has also remained consistent other than equity investments which have been elected to be treated as FVOCI as permitted under IFRS 9. There is no impact to the income statement as a result.

There were no changes to the classification and measurement of financial liabilities. These are measured at amortised cost under IAS 39 and this has not changed under IFRS 9.

No reconciliation of the change from IAS 39 to IFRS 9 has been presented as there is no impact on the Income Statement or reserves on transition.

1c. Disclosure exemptions applied under FRS 101

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements* to produce a cash flow statement, a third balance sheet and to make an explicit and unreserved statement of compliance with IFRSs
- FRS 101.8 (h): the requirements of IAS 7 *Statements of Cash Flows* to produce a cash flow statement
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to include a list of new IFRSs that have been issued but that have yet to be applied
- FRS 101.8 (k): the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to transaction is wholly owned by such a member
- FRS 101.8 (l): the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets* to disclose details of valuation techniques and assumptions used for assets held at fair value less cost to sell categorised as Level 2 and Level 3 in accordance with the IFRS 13 fair value hierarchy (where equivalent disclosures are made in the group's consolidated financial statements)

1d. Going concern

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board have reviewed the Company's projections for the next twelve months and beyond.

In particular in reviewing these projections, the Board has considered the impact of the transfer out of the trade and assets of the European insurance businesses on the future expected profitability, capital and solvency projections, and liquidity of the Company, which are based on the UK car insurance underwriting arrangements only going forward. Stress and sensitivity testing performed as part of the ORSA process confirmed that the Company can withstand significant operational and solvency stresses. In addition, the Company has a strong liquidity position with over £300m of financial assets, over £100m of which is readily convertible into cash, and no debt. The Board is therefore confident that the Company has appropriate resources to withstand the impact of the risks to the business as outlined in the Strategic Report.

Given the above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Directors' Report on pages 10 and 11. In addition notes 7 and 13 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

1e. Foreign currency translation

Items included in the financial statements of each of the Company's branches are measured using the currency of the primary economic environment in which the branch operates ("the functional currency"). The financial statements are presented in thousands of pounds sterling, which is the Company's presentation currency.

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The financial statements of foreign operations whose functional currency is not pounds sterling are translated into the company presentation currency (sterling) as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction).
- All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity.

2. Critical accounting judgements and key sources of estimation uncertainty

In applying the Company's accounting policies as described in the notes to the financial statements, management has primarily applied judgement in the following area:

- Classification of the Company's contracts with reinsurers as reinsurance contracts:

A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of each such contract, and if necessary, obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement. All reinsurance contracts (both excess of loss and quota share contracts) held by the Company have been assessed and it has been concluded that all contracts transfer significant insurance risk and have therefore been classified and accounted for as reinsurance contracts within these financial statements.

In addition, the following accounting estimate within the financial statements also requires management to apply judgement:

- *Calculation of insurance claims reserves:*

The Company's reserving policy requires management to set insurance claims reserves for the purpose of the financial statements, above the projected best estimate outcome, to allow for unforeseen adverse claims development. Management applies judgement in determining where, above the projected best estimate outcome, the insurance claims reserves should sit, in line with the reserving methodology. Refer to the section on estimation techniques below, and the analysis of Insurance risk in note 5 to the financial statements for further detail on the development of the Company's reserving methodology applied during the period and the calculation of the projected best estimate outcome.

Estimation techniques used in calculation of claims provisions

Estimation techniques are used in the calculation of the provisions for claims outstanding, which represent a projection of the ultimate estimated total cost of settling claims that have been incurred prior to the balance sheet date and remain unsettled at the balance sheet date.

The Group's reserving policy requires management to reserve above the projected best estimate, or ultimate, outcome, to allow for unforeseen adverse claims development. There are two key areas of estimation uncertainty: the actuarial best estimate and the margin held above this best estimate.

Best estimate

The key area where estimation techniques are used is in the ultimate projected cost of reported claims. A secondary area relates to the emergence of claims that occurred prior to the balance sheet date, but had not been reported at that date.

The Group's independent actuarial advisors project the best estimate claims reserves using a variety of different recognised actuarial projection techniques (for example incurred and paid chain ladder and an average cost of claim approach) to allow an actuarial assessment of their potential outcome. This includes an allowance for unreported claims.

The most significant sensitivity in the use of the projection techniques arises from any future step change in claims costs, which would cause future claim cost inflation to deviate from historic trends. This is most likely to arise from a change in the regulatory or judicial regime that leads to an increase in awards or legal costs for bodily injury claims that is significantly above or below the historical trend.

The Group's reserving methodology which determines the basis for setting this reserve estimate has been developed and enhanced in the period in line with new information that has become available in relation to both the projected best estimate reserve and the reserve uncertainty through the Group's development of its internal capital model.

Margin

A wide range of factors inform management's recommendation in setting the margin held above actuarial best estimates, which is subject to approval from the Group's Reserving and Audit Committees, including:

- Reserve KPIs such as the level of margin as a percentage of the ultimate reserve.
- Results of stress testing of key assumptions underpinning key actuarial assumptions within best estimate reserves.
- A review of a number of individual and aggregated reserve scenarios which may result in future adverse variance to the ultimate best estimate reserve.
- Qualitative assessment of the level of uncertainty and volatility within the reserves and the change in that assessment compared to previous periods.

In addition, the internal reserve risk distribution is used to determine the approximate confidence level of the recommended booked reserve position which enables comparison of the reserve strength to previous periods and demonstration of the compliance with IFRS 4.

For further detail on objectives, policies and procedures for managing insurance risk, refer to note 5 of the financial statements.

Future changes in claims reserves also impact profit commission income, as the measurement of this income is dependent on the loss ratio booked in the financial statements, and cash receivable is dependent on actuarial projections of ultimate loss ratios.

3. Discontinued Operations

On the 1 January 2019 under a Part VII agreement AICL's Spanish branch and Italian business transferred to a newly created company in Spain, Admiral Europe Compañía de Seguros S.A. (AECS), in line with the Group's prudent approach to mitigate the risk of a potential "hard Brexit" which could have prevented those operations from continuing to trade due to reliance on passporting rights.

AECS underwrites all of the Admiral Group's policies in continental Europe from 1 January 2019. As a result of the transfer of the Italian and Spanish businesses from 1 January 2019, the 2019 results and beyond will show only the UK insurance result. In 2018, £2.9m of profit after tax from the European result (arising from the Spanish branch and Italian business of AICL) is shown as a discontinued operation, as follows:

Technical account – discontinued operations	31 December 2018 £000	31 December 2017 £000
Gross premiums written	**122,806**	108,369
Outward reinsurance premiums	**(80,543)**	(71,005)
Net insurance premiums written	**42,263**	37,364
Change in the gross provision for unearned premiums	**(7,772)**	(6,992)
Change in the provision for unearned premiums, reinsurers' share	**5,129**	4,486
Net change in unearned premium provision	**(2,643)**	(2,506)
Earned premiums, net of reinsurance	**39,620**	34,858
Allocated investment return transferred from the non-technical account	**29**	–
Total technical income	**39,649**	34,858
Gross claims paid	**(75,037)**	(66,965)
Reinsurers' share of claims paid	**49,110**	43,836
Net claims paid	**(25,927)**	(23,129)
Gross change in the provision for claims	**(9,523)**	(9,078)
Reinsurers' share of the change in the provision for claims	**7,473**	6,745
Net change in the provision for claims	**(2,050)**	(2,333)
Claims handling costs incurred	**–**	–
Claims incurred, net of reinsurance	**(27,977)**	(25,462)
Balance on the technical account before expenses	**11,672**	9,396
Net operating expenses	**(9,368)**	(9,490)
Balance on the technical account	**2,304**	(94)
Investment income	**29**	–
Allocated investment return transferred to the general business technical account	**(29)**	–
Other income	**287**	248
Operating profit, being profit on ordinary activities before taxation	**2,591**	154
Taxation expense	**264**	353
Profit for the financial year	**2,855**	507

The assets and liabilities in relation to the disposal group held for sale, which is comprised of the assets and liabilities of the Spanish branch and Italian business held within AICL at 31 December 2018, are disclosed below:

Assets:	31 December 2018 £000
Investments	
Other financial investments	42,032
Reinsurers' share of technical provisions	
Provision for unearned premiums	40,881
Claims outstanding	69,216
	110,097
Receivables	
Receivables arising out of direct insurance operations	9,651
Other receivables	1,208
	10,859
Other assets	
Cash at bank and in hand	11,018
Deferred acquisition costs	3,144
Total assets associated with disposal group held for sale	177,150

Liabilities	31 December 2018 £000
Technical provisions	
Provision for unearned premiums	62,308
Claims outstanding	110,578
	172,886
Creditors – amounts falling due within one year	
Creditors arising out of reinsurance operations	9,474
Trade and other payables	1,556
Current tax liabilities	–
Deferred tax liabilities	–
	11,030
Total Liabilities associated with disposal group held for sale	183,916

4. Geographical analysis

All insurance business written during the period is direct private motor insurance plus commercial vehicle. The primary location is the UK, where the Company is registered and has been writing direct private motor business since 2003. However, as described in the Strategic Report, the Company also wrote business in two European countries during 2018 and 2017; Spain and Italy.

Disclosures for gross written premium, profit before tax and net assets are analysed by geographical area below.

	31 December 2018		
	UK £000	**Europe £000**	**Total £000**
Gross written premium	**151,731**	**122,806**	**274,537**
Profit/ (loss) before tax	**34,496**	**2,591**	**37,087**
Net assets/ (liabilities)	**130,990**	**(6,766)**	**124,224**

	31 December 2017		
	UK £000	Europe £000	Total £000
Gross written premium	145,591	108,369	253,960
Profit/ (loss) before tax	30,884	154	31,038
Net assets	106,424	—	106,424

5. Premium and claims

5a. Accounting policies

(i) Revenue – premiums

Premiums relating to insurance contracts are recognised as revenue, net of insurance premium tax, proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the Statement of Financial Position as deferred revenue.

(ii) Insurance contracts and reinsurance assets

Premiums

General business written premiums comprise the premiums on contracts entered into during the year which incept during the current financial year. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

For general business accounted for on the annual basis, the provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the period together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related claims handling expenses. Anticipated reinsurance recoveries are disclosed separately as assets. Refer to note 2 for details of techniques used in the calculation of claims outstanding.

Reinsurance assets

The Company cedes reinsurance under two distinct types of contract – quota share and excess of loss protection. A contract is deemed to be a reinsurance contract where there is significant insurance risk transfer between the insured and reinsurer. Outwards reinsurance premiums are accounted for in the same accounting period as the gross written premiums to which they are related.

Amounts recoverable from reinsurers in respect to claims and expenses are held as assets in the balance sheet. These assets are regularly reviewed with reference to quoted financial strength ratings in order to determine whether impairment in the carrying value is necessary.

5b. Reinsurance assets and insurance contract liabilities

(i) Objectives, policies and procedures for the management of insurance risk

Insurance risk involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued.

Reserving risk is the risk that the value of insurance liabilities established is insufficient to cover the ultimate cost of claims incurred at the balance sheet date, whether reported or unreported. Other risks include inadequate pricing and reinsurance policies, and inappropriate claims management processes and controls.

These risks are consistent with those experienced by the Admiral Group plc, of which AICL is a subsidiary. The AICL Board of Directors has delegated the task of supervising risk management and internal control to the Group Risk Committee.

The Group also has a Reserving Committee which comprises senior managers within the finance, claims, pricing and actuarial functions. The Reserving Committee primarily recommends the approach for UK car insurance reserving but also reviews the systems and controls in place to support accurate reserving and material reserving issues such as Periodic Payment Order (PPO) and claims inflation, which represent the key uncertainties in the amount or timing of claims settlements.

The Board implements certain policies in order to mitigate and control the level of insurance risk accepted by the Group. These are detailed in full in note 5 of the financial statements for Admiral Group plc.

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk because the risks are spread across a large number of people and a wide regional base.

(ii) Sensitivity of recognised amounts to changes in assumptions

Ogden discount rate

As noted earlier in this report, the UK car insurance liabilities in these financial statements are prepared on the basis of an Ogden discount rate of 0% (2017: minus 0.75%).

The sensitivity of a change in this assumption by 50 basis points (both an increase and a decrease) is shown in the table below. This is disclosed as Management consider it to be the most material assumption in the projection of the best estimate reserve outcomes. The impact presented is the total impact of the change on the Company's pre-tax profit on an ultimate basis. It should be noted that not all of the ultimate impact would necessarily be recognised immediately.

	2018 Net £000	**2017 Net £000**
Impact of increase in assumed Ogden discount rate of 50 basis points (to 0.5%) (2017: 0% compared to minus 0.75%)	**6,009**	7,207
Impact of decrease in assumed Ogden discount rate of 50 basis points (to minus 0.5%) (2017: minus 1.5% compared to minus 0.75%)	**(7,733)**	(12,081)

Underwriting year loss ratios – UK car insurance

In addition to the sensitivity above, the following table sets out the impact on equity and post-tax profit or loss at 31 December 2018 that would result from a 1% movement (both increase and decrease) in the UK private motor insurance loss ratios used for each underwriting year for which material amounts remain outstanding. The figures are stated net of tax at the current rate.

		Underwriting year		
	2015	**2016**	**2017**	**2018**
Booked loss ratio	77%	77%	83%	92%
Impact of 1% change (£000)	904	1,066	1,149	637

(iii) Analysis of recognised amounts

The maturity profile of gross insurance liabilities at the end of 2018 is as follows:

	< 1 year £000	1 – 3 years £000	>3 years £000
Claims outstanding	71,979	36,783	155,865
Unearned premium provision	69,758	—	—
Total gross insurance liabilities	**141,737**	**36,783**	**155,865**

The maturity profile of gross insurance liabilities at the end of 2017 was as follows:

	< 1 year £000	1 – 3 years £000	> 3 years £000
Claims outstanding	124,423	102,217	125,832
Unearned premium provision	122,092	—	—
Total gross insurance liabilities	246,515	102,217	125,832

(iv) Analysis of claims incurred

The following tables illustrate the development of gross and net UK and European claims incurred for the past ten financial periods, including the impact of re-estimation of claims provisions at the end of each financial year. The first table shows actual gross claims incurred and the second shows actual net claims incurred. Figures are presented on an underwriting year basis.

	Financial year ended 31 December										
Analysis of claims incurred (gross amounts)	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Underwriting year (UK insurance)											
2009 and prior	(88,184)	(14,606)	756	(894)	637	1,305	(689)	(52)	(427)	884	
2010	—	(35,514)	(35,047)	1,332	5,007	2,664	1,838	565	781	(11)	(58,385)
2011	—	—	(55,541)	(41,212)	5,411	6,429	5,983	(115)	3,353	2,622	(73,070)
2012	—	—	—	(57,362)	(41,885)	6,281	8,625	1,078	7,484	3,788	(71,991)
2013	—	—	—	—	(54,645)	(43,541)	6,242	5,658	4,336	4,177	(77,773)
2014	—	—	—	—	—	(56,257)	(45,710)	3,152	2,007	6,441	(90,367)
2015	—	—	—	—	—	—	(51,482)	(49,076)	2,704	5,853	(92,001)
2016	—	—	—	—	—	—	—	(61,502)	(54,359)	9,890	(105,971)
2017	—	—	—	—	—	—	—	—	(67,613)	(57,220)	(124,833)
2018	—	—	—	—	—	—	—	—	—	(74,267)	(74,267)
UK insurance gross claims incurred	(88,814)	(50,120)	(89,832)	(98,136)	(85,475)	(83,119)	(75,193)	(100,292)	(101;734)	(97,843)	

Underwriting year (European insurance)											
2009 and prior	(59,368)	(12,676)	(2,093)	(2,642)	(307)	826	168	54	50	403	
2010	—	(15,896)	(17,280)	(4,100)	150	1,768	570	325	187	484	(33,792)
2011	—	—	(21,685)	(24,284)	950	3,090	878	1,991	577	732	(37,751)
2012	—	—	—	(26,248)	(26,021)	1,516	1,850	3,746	1,219	1,118	(42,820)
2013	—	—	—	—	(28,256)	(26,926)	2,407	2,993	2,051	1,562	(46,169)
2014	—	—	—	—	—	(32,409)	(25,785)	2,667	3,126	2,825	(49,576)
2015	—	—	—	—	—	—	(28,321)	(29,322)	3,680	2,108	(51,855)
2016	—	—	—	—	—	—	—	(39,538)	(36,394)	7,051	(68,881)
2017	—	—	—	—	—	—	—	—	(50,539)	(43,740)	(94,279)
2018	—	—	—	—	—	—	—	—	—	(57,103)	(57,103)
International Insurance gross claims incurred	(59,368)	(28,572)	(41,058)	(57,274)	(53,484)	(52,135)	(48,233)	(57,084)	(76,043)	(84,560)	
Claims handling costs	(3,577)	(2,321)	(3,243)	(3,246)	(2,862)	(2,676)	(2,828)	(3,286)	(3,588)	(3,754)	
Total gross claims incurred	(151,129)	(81,013)	(134,133)	(158,656)	(141,821)	(137,930)	(126,254)	(160,662)	(181,365)	(186,157)	

	Financial year ended 31 December										
Analysis of claims incurred (net amounts)	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Underwriting year (UK insurance)											
2009 and prior	(85,761)	(14,606)	756	(894)	637	1,305	(689)	816	529	981	
2010	—	(35,514)	(35,047)	1,332	5,007	2,664	1,838	1,199	822	(276)	(57,975)
2011	—	—	(55,541)	(41,212)	5,411	6,429	5,983	1,049	3,280	2,037	(72,564)
2012	—	—	—	(57,362)	(41,885)	6,281	8,625	2,421	7,389	3,822	(70,709)
2013	—	—	—	—	(54,645)	(43,541)	6,242	6,299	4,613	4,115	(76,917)
2014	—	—	—	—	—	(56,257)	(45,710)	5,312	3,320	4,731	(88,604)
2015	—	—	—	—	—	—	(51,482)	(46,557)	4,020	5,595	(88,424)
2016	—	—	—	—	—	—	—	(59,835)	(50,902)	8,821	(101,916)
2017	—	—	—	—	—	—	—	—	(63,705)	(53,868)	(117,573)
2018	—	—	—	—	—	—	—	—	—	(71,991)	(71,991)
UK insurance net claims incurred	(85,761)	(50,120)	(89,832)	(98,136)	(85,475)	(83,119)	(75,193)	(89,296)	(90,634)	(96,033)	
***Underwriting year* (European insurance)**											
2009 and prior	(21,490)	(4,888)	(994)	(1,272)	(116)	413	73	18	37	177	
2010	—	(6,199)	(7,237)	(1,997)	40	882	259	138	97	226	(13,791)
2011	—	—	(8,494)	(10,446)	335	1,521	412	981	281	344	(15,066)
2012	—	—	—	(11,279)	(11,237)	719	908	1,838	597	535	(17,919)
2013	—	—	—	—	(11,315)	(10,631)	1,120	1,350	998	717	(17,761)
2014	—	—	—	—	—	(11,214)	(8,633)	1,206	1,291	1,082	(16,268)
2015	—	—	—	—	—	—	(9,808)	(10,730)	1,895	958	(17,685)
2016	—	—	—	—	—	—	—	(13,794)	(12,962)	3,303	(23,453)
2017	—	—	—	—	—	—	—	—	(17,696)	(15,391)	(33,087)
2018	—	—	—	—	—	—	—	—	—	(19,928)	(19,928)
European Insurance net claims incurred	(21,490)	(11,087)	(16,725)	(24,994)	(22,293)	(18,310)	(15,669)	(18,993)	(25,462)	(27,977)	
Claims handling costs	(3,577)	(2,321)	(3,243)	(3,246)	(2,862)	(2,676)	(2,828)	(3,286)	(3,588)	(3,754)	
Total net claims incurred	(110,828)	(63,528)	(109,800)	(126,376)	(110,630)	(104,105)	(93,690)	(111,575)	(119,684)	(127,764)	

The table below shows the development of UK Car Insurance loss ratios for the past five financial periods, presented on an underwriting year basis.

	Financial year ended 31 December				
UK loss ratio development	2014	2015	2016	2017	**2018**
Underwriting year (UK only)					
2014	92%	89%	84%	81%	**76%**
2015	—	87%	87%	83%	**77%**
2016	—	—	88%	84%	**77%**
2017	—	—	—	87%	**83%**
2018	—	—	—	—	**92%**

(v) Analysis of claims reserve releases

The following table analyses the impact of movements in prior year claims provisions on a gross and net basis. Figures are presented on an underwriting year basis.

	Financial year ended 31 December				
	2014	2015	2016	2017	**2018**
Gross	£000	£000	£000	£000	**£000**
Underwriting year					
2014 and prior	18,974	24,827	16,975	19,699	**15,902**
2015	—	—	231	4,018	**6,362**
2016	—	—	—	2,958	**8,822**
2017	—	—	—	—	**2,720**
Total gross release (UK Insurance)	18,974	24,827	17,206	26,675	**33,806**
Total gross release (European Insurance)	6,291	6,978	10,522	13,314	**17,344**
Total gross release	25,265	31,805	27,728	39,989	**51,150**

	Financial year ended 31 December				
	2014	2015	2016	2017	**2018**
Net	£000	£000	£000	£000	**£000**
Underwriting year					
2014 and prior	18,974	24,827	16,984	19,837	**15,698**
2015	—	—	231	4,018	**6,362**
2016	—	—	—	2,958	**8,821**
2017	—	—	—	—	**2,721**
Total net release (UK Insurance)	18,974	24,827	17,215	26,813	**33,602**
Total net release (European Insurance)	3,145	3,259	4,971	5,308	**6,680**
Total net release	22,119	28,086	22,186	32,121	**40,282**

(vi) Reconciliation of movement in claims provision

	31 December 2018		
	Gross £000	**Reinsurance £000**	**Net £000**
Claims provision at start of period	**352,472**	**(84,600)**	**267,872**
Claims incurred (excluding releases)	**233,554**	**(69,259)**	**164,295**
Reserve releases	**(51,150)**	**10,868**	**(40,282)**
Claims paid and other movements	**(159,671)**	**47,436**	**(112,235)**
Transferred to discontinued operations	**(110,578)**	**69,216**	**(41,362)**
Claims provision at end of period	**264,627**	**(26,339)**	**238,288**

	31 December 2017		
	Gross £000	Reinsurance £000	Net £000
Claims provision at start of period	310,155	(65,151)	245,004
Claims incurred (excluding releases)	217,766	(69,549)	148,217
Reserve releases	(39,989)	7,868	(32,121)
Claims paid and other movements	(135,460)	42,232	(93,228)
Claims provision at end of period	352,472	(84,600)	267,872

(vii) Reconciliation of movement in unearned premium provision

	31 December 2018		
	Gross £000	**Reinsurance £000**	**Net £000**
Unearned premium provision at start of period	**122,092**	**(36,768)**	**85,324**
Written in the period	**274,537**	**(83,813)**	**190,724**
Earned in the period	**(264,563)**	**78,218**	**(186,345)**
Transferred to discontinued operations	**(62,308)**	**40,881**	**(21,427)**
Unearned premium provision at end of period	**69,758**	**(1,482)**	**68,276**

	31 December 2017		
	Gross £000	Reinsurance £000	Net £000
Unearned premium provision at start of period	107,893	(30,464)	77,429
Written in the period	253,960	(74,240)	179,720
Earned in the period	(239,761)	67,936	(171,825)
Unearned premium provision at end of period	122,092	(36,768)	85,324

6. Investment Income and costs

6a. Accounting policies

Investment return from financial assets comprises distributions as well as net realised and unrealised gains on financial assets classified as 'fair value through profit or loss' (FVTPL), interest income and net realised gains, net of impairment losses, from financial assets classified as "fair value through other comprehensive income" (FVOCI), and interest income on holdings in deposits with credit institutions (held at amortised cost).

6b. Investment return

	31 December 2018 £000	31 December 2017 £000
Investment return		
On assets classified as FVTPL	**1,408**	509
On debt securities classified as FVOCI	**1,865**	1,690
On deposits with credit institutions (held at amortised cost)	**498**	707
Interest receivable on cash and cash equivalents	**36**	20
Total investment and interest income	**3,807**	2,926

7. Financial Assets and Financial Liabilities

7a. Accounting policies

i) Financial assets

Classification and measurement

The classification and subsequent measurement of the financial asset under IFRS 9 depends on:

(a) the Group's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

Based on these factors, the financial asset is classified into one of the following categories:

- Amortised cost – assets which are held in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding (SPPI), where the asset is not designated as FVTPL.

  The carrying amount is adjusted by the expected credit loss allowance. Interest income from these assets is included in 'Interest return' using the effective interest rate method. For the Company these include deposits with credit institutions, cash and cash equivalents, insurance receivables, trade and other receivables and loans and advances to customers.

- Fair value through other comprehensive income (FVOCI) – assets which are held both to collect contractual cash flows and to sell the asset, where the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding (SPPI), where the asset is not designated as FVTPL.

  Movements in the carrying amount are taken through OCI, with the exception of recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses which are recognised in profit or loss. For the Company these assets include debt securities. In addition, IFRS 9 allows an irrevocable election at initial recognition to designate equity investments at FVOCI that otherwise would be held at FVTPL, provided these are not held for trading. The Company has made this election for certain equity investments.

- Fair value through profit or loss (FVTPL) – assets which do not meet the criteria for amortised cost or FVOCI, or which are designated as FVTPL. For the Company these assets include investment liquidity funds investing in short duration assets .

Impairment

IFRS 9 outlines an expected credit loss (ECL) model for impairments, which replaces the incurred loss model under IAS 39. Under IFRS 9 an expected credit loss is calculated for all assets measured at amortised cost, as well as debt instruments measured at FVOCI. All investments held by AICL at amortised cost and FVOCI are of investment grade. The ECL calculated for AICL is immaterial.

De-recognition

A financial asset is derecognised when the rights to receive cash flows from that asset have expired, or when the Company transfers the asset and all the attached substantial risks and rewards relating to the asset to a third party.

ii) Financial Liabilities

Classification and subsequent measurement

Subsequent measurement of financial liabilities is at amortised cost using the effective interest method. Movements in the amortised cost are recognised through the income statement.

De-recognition

A financial liability is derecognised when the obligation under that liability is discharged, cancelled or expires.

7b. Financial assets and liabilities

The Company's financial assets and liabilities can be analysed as follows:

	31 December 2018 £000	31 December 2017 £m
Financial investments mandatorily measured at FVTPL		
Money market funds	**193,645**	239,378
	193,645	239,378
Financial investments classified as FVOCI		
Debt securities	**105,609**	104,859
Equity investments	**2,444**	2,589
	108,053	107,448
Financial assets measured at amortised cost		
Deposits with credit institutions	**25,000**	25,000
	25,000	25,000
Total financial investments	**326,698**	371,826
Other financial assets measured at amortised cost		
Trade and other receivables	**9,866**	58,849
Insurance and other receivables	**9,866**	58,849
Cash and cash equivalents	**11,589**	52,292
Total financial assets	**348,153**	482,967
Financial liabilities		
Trade and other payables (including creditors arising out of reinsurance arrangements)	**27,166**	23,315
Total financial liabilities	**27,166**	23,315

Classification

At initial recognition, the Company measures financial investments at fair value plus or minus, in the case of financial instruments not measured at fair value through profit and loss, directly attributable transaction costs. Transaction costs of financial instruments measured at fair value through profit and loss are expensed to the profit and loss when incurred.

Money market funds are measured at FVTPL. These assets are used to invest regulatory capital within the Company, and surplus liquidity which may be held. Buying and selling activity occurs depending on timing of different cashflows.

Government gilts and debt securities are measured at FVOCI and as such fall under the scope of the ECL model. These assets are held to match policyholder liabilities or interest on debt liabilities. Selling of these assets has occurred and is likely to occur in future.

Private Equity investments have been designated as being reported through FVOCI. These investments are long term, strategic investments. Dividends are recognised in the Income Statement whilst a change in fair values will be reflected in OCI. Given the immaterial amount (£2.4 million) of these investments, detailed levelling disclosures have not been provided.

Impairment

All financial assets held at FVOCI and at amortised cost have been assessed for impairment using the expected credit loss model under IFRS 9. The assessment has been made based on the credit ratings of the entities, and externally available credit loss ratios.

The fair value of the gilts and debt securities is calculated with reference to quoted market valuations and as such take into account future expected credit losses. As a result, no material impairment provision is required. The calculated impairment loss within the fair value is recognised through the Income Statement whilst fair value movements are recognised in other comprehensive income.

All assets that are purchased, which require a calculation of impairment, are of considered investment grade or above (i.e. BBB rated or higher), as defined by an external credit rating agency or an assessment from Admiral's external asset managers. The credit rating of all assets is regularly monitored. As at the year end reporting date all financial assets are of investment grade and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12 month expected loss is used to calculate the impairment provision required.

If any assets were to be downgraded below BBB the Group would consider these to be have significantly increased in credit risk since inception, therefore enter stage 2 under IFRS9.

On transition from IAS39 to IFRS9 no additional impairment provision was required. Given there is no material change in the credit quality or type of financial assets in the year and no movement in provision, no further disclosure has been made.

Deposits are held with well rated institutions; as such no impairment provision is required.

Fair value measurement

The measurement of investments at the end of the period for investment funds held at FVTPL is based on active quoted market values (level one) for money market funds.

The measurement of debt securities and government gilts is based on active quoted market values (level one).

Deposits are held with well rated institutions; as such the approximate fair value is the book value of the investment as impairment of the capital is not expected. There is no quoted market for these holdings and as such a level two valuation is used. The book value of these deposits is £25.0 million (2017: £25.0 million).

Equity investments held at fair value are measured at level three of the fair value hierarchy. No further information is provided due to the immateriality of the balance as 31 December 2018.

The maturity profile of financial assets and liabilities at 31 December 2018 is as follows:

	On demand £000	< 1 year £000	Between 1 and 2 years £000	> 2 years £000
Financial investments				
Investments held at FVPL	—	193,645	—	—
Debt securities at FVOCI	—	29,171	32,825	43,613
Deposits with credit institutions at amortised cost	—	15,000	10,000	—
Total financial investments *	—	237,816	42,825	43,613
Receivables	—	9,866	—	—
Cash and cash equivalents	11,589	—	—	—
Total financial assets	11,589	247,682	42,825	43,613
Financial liabilities				
Trade and other payables (including creditors arising out of reinsurance arrangements)	—	27,166	—	—
Total financial liabilities	—	27,166	—	—

*Equity investments totalling £2.4 million do not have a maturity date and are not included in the total above.

The maturity profile of financial assets and liabilities at 31 December 2017 was as follows:

	On demand £000	< 1 year £000	Between 1 and 2 years £000	> 2 years £000
Financial assets				
Investments held at FVPL	—	239,378	—	—
Debt securities at FVOCI	—	22,350	26,985	55,524
Deposits with credit institutions at amortised cost	—	10,000	15,000	—
Total financial investments	—	271,728	41,985	55,524
Receivables	—	9,738	—	—
Cash and cash equivalents	52,292	—	—	—
Total financial assets	52,292	281,466	41,985	55,524
Financial liabilities				
Trade and other payables (including creditors arising out of reinsurance arrangements)	—	23,315	—	—
Total financial liabilities	—	23,315	—	—

*Equity investments totalling £2.6 million do not have a maturity date and are not included in the total above.

Objectives, policies and procedures for managing financial assets and liabilities

The Company's activities expose it primarily to the significant financial risks of credit risk, liquidity risk, interest rate risk and foreign exchange risk. These risks are consistent with those experienced by the Admiral Group plc, of which AICL is a subsidiary. The AICL Board of Directors has delegated the task of supervising risk management and internal control to the Group Risk Committee. There is also an Investment Committee that makes recommendations to the AICL Board on the Group's investment strategy.

There are several key elements to the risk management environment throughout the Company. These are detailed in full in the Corporate Governance statement in the annual report of Admiral Group plc. Specific considerations for the risks arising from financial assets and liabilities are detailed below.

Credit risk

The Company defines credit risk as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. The significant areas of exposure to credit risk for the Company are through its reinsurance arrangements, investments and bank deposits. The Company is not directly exposed to policyholder receivables as it collects premium cash amounts from fellow subsidiary and Group intermediary EUI Limited.

Economic and financial market conditions have led the Directors to consider counterparty exposure more frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Company's risk appetite, and no material credit losses have been experienced by the Company.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds which invest in a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions.

To mitigate the risk arising from exposure to reinsurers in the form of reinsurance recoveries, the Company only conducts business with companies of appropriate financial strength ratings.

The Company's maximum exposure to credit risk at 31 December 2018 is £605,108k of which £414,137k is continuing operations (2017: £545,486k) being the carrying value of financial investments and cash, and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements. The Company does not use credit derivatives or similar instruments to mitigate exposure.

There were no significant financial assets that were past due at the close of either 2018 or 2017.

The Company's credit risk exposure to assets with external ratings is as follows:

	Rating	31 December 2018 £000	31 December 2017 £000
Financial institutions – Credit institutions	AAA	**5,138**	4,012
Financial institutions – Credit institutions	AA	**131,681**	58,730
Financial institutions – Credit institutions	A	**177,677**	348,548
Financial institutions – Credit institutions	BBB and below	**20,781**	12,822
Reinsurers	AA	**-**	84,626
Reinsurers	A	**27,951**	26,875

Interest rate risk

The Company considers interest rate risk to be the risk that unfavourable movements in interest rates could adversely impact on the capital values of financial assets and liabilities. This relates primarily to investments held at fair value.

As noted above, the Company invests the following asset types:

- Investment funds (all material amounts being money market liquidity funds) which in turn invest in a mixture of very short dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial papers. The funds are not permitted to have an average maturity greater than 60 days and hence are not subject to large movements in yield and value resulting from changes in market interest rates (as longer duration fixed income portfolios can experience). Returns are likely to closely track the LIBID benchmark and hence while the Company's investment return will vary according to market interest rates, the capital value of these investment funds will not be impacted by rate movements. The interest rate risk arising is therefore considered to be minimal.
- Debt securities held at FVOCI. The guidelines of the investments retain a similar credit quality of the money market funds (all holdings are investment grade). The duration of the securities is relatively short and similar to the duration of the on book claims liabilities (the average duration is three years).
- Deposits with well rated institutions are short in duration (one to five years). These are held at amortised cost. Therefore neither the carrying value of the asset, nor the interest return will be impacted by fluctuations in interest rates.

No sensitivity analysis to interest rates has been presented on the grounds of materiality.

Foreign exchange risks

Foreign exchange risks arise from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets.

The Company acts to minimise foreign exchange risk by as far as possible matching the assets of foreign operations with its liabilities, with regulatory surpluses held in sterling.

Liquidity risk

Liquidity risk is defined as the risk that the Company does not have sufficient, available, financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.

The Company's UK underwriting business has historically been cash generative, and retention of profits has ensured that the cash has remained in the Company. Development of the European businesses has been funded by surplus cash generated by the UK business and through share capital injections from the Company's parent company Admiral Group plc.

A significant portion of insurance funds are invested in money market liquidity funds with same day liquidity features, meaning that the vast majority of the Company cash and investments are immediately available. The current uncertainty in credit markets is not likely to impact this. Liquidity risk is therefore considered to be insignificant.

Fair value

For cash at bank and cash deposits and other receivables, the fair value approximates to the book value due to their short maturity. For assets held at fair value through profit and loss, their value equates to level one (quoted prices in active markets) and level three (unobservable inputs) of the fair value hierarchy.

7c. Cash and cash equivalents

	31 December 2018 £000	31 December 2017 £000
Cash at bank and in hand	**11,589**	52,292
Total cash and cash equivalents	**11,589**	52,292

Cash and cash equivalents include immediately available cash balances and deposits held at call with banks. All cash and cash equivalents are measured at amortised cost.

An assessment has been completed for impairment purposes. Given the short-term duration of these assets and low risk of these assets, no impairment provision has been recognised. This will be regularly tracked and monitored.

For cash at bank and cash deposits and other receivables, the fair value approximates to the book value due to their short maturity. All assets are of investment grade or above (e.g. BBB rated or higher). The credit rating of all assets is regularly monitored. As at the year end reporting date all financial assets are of investment grade and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12 month expected loss is used to calculate the impairment provision required.

8. Other revenue

8a. Accounting policy

Other revenue is revenue from policies paid by instalments and is credited to the profit and loss account over the period matching the Company's obligations to provide services. Where the Company has no remaining contractual obligations, the revenue is recognised immediately.

8b. Other revenue

	31 December 2018 £000	31 December 2017 £000
Other revenue	5,926	5,201
Total other revenue	5,926	5,201

9. Expenses

9a. Accounting policies

(i) Acquisition costs and operating expenses

Acquisition costs incurred in obtaining new business are charged to the profit and loss account over the period in which those premiums are earned. All other operating expenses are charged to the profit and loss account in the period that they are incurred.

9b. Operating expenses

Continuing operations	31 December 2018		
	Gross £000	**Recoverable from reinsurers £000**	**Net £000**
Acquisition of insurance contracts	7,009	–	7,009
Administration and other marketing costs (insurance contracts)	15,421	–	15,421
Total insurance contract expenses	22,430	–	22,430

Continuing operations	31 December 2017		
	Gross £000	Recoverable from reinsurers £000	Net £000
Acquisition of insurance contracts	6,676	–	6,676
Administration and other marketing costs (insurance contracts)	13,911	–	13,911
Total insurance contract expenses	20,587	–	20,587

9c. Operating profit

The operating profit is stated after charging:

	31 December 2018 £000	31 December 2017 £000
Amortisation:		
– Deferred acquisition costs	**6,902**	6,676
Auditor's remuneration (excluding VAT):		
– Fees payable for the audit of the Company's annual accounts	**79**	43

9d. Staff numbers (including Directors) and costs

No employees or Directors are directly employed by the Company. Staff involved in the business of the Company are employed by a sister company, EUI Limited. Employee costs (and Directors' remuneration) are disclosed in the accounts of that company and the Admiral Group plc Annual Report and Accounts.

The allocated cost of Directors remunerated in relation to their appointment to the AICL Board is £78k (2017: £60k).

10. Investments in Group undertakings

10a. Accounting policy

Shares in Group undertakings are valued at cost less any provision for impairment in value.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the company's investments in subsidiaries. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

During 2018 the Company made a capital investment in its subsidiary Admiral Europe Compañía de Seguros, S.A. ("AECS") of €84,507,500, including 100% of the ordinary share capital of 9,015 shares.

	31 December 2018 £000	31 December 2017 £000
Investment in group undertakings:		
At 1 January 2018	**—**	—
Additions	**75,851**	—
At 31 December 2018	**75,851**	—

The subsidiaries of the Company as at 31 December 2018 are therefore as follows:

Subsidiary	Class of shares held	% Ownership	Principal Activity
Incorporated in Spain			
Registered office: Paseo Castellana 163 4 Izq, 28046 Madrid			
Admiral Europe Compañía de Seguros, S.A.	Ordinary	100	Insurance company

The aggregate of the share capital and reserves as at 31 December 2018 of AECS was €84,416k, and its result for the year was a loss of €84k.

11. Taxation

11a. Accounting policy

Income tax on the profit or loss for the periods presented comprises current tax. Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Current tax related to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the profit and loss account.

11b. Taxation

	31 December 2018 £000	31 December 2017 £000
Current tax		
Corporation tax on profits for the year	**7,221**	5,975
Adjustments in respect of prior periods	**373**	—
Total tax charge for continuing operations, as per Income Statement	**7,594**	**5,975**
Foreign tax		
Foreign group relief surrendered in the year	**(266)**	**(290)**
Adjustments in respect of prior periods	**2**	**(63)**
	(264)	**(353)**
Total current tax charge for the period	**7,330**	**5,622**

Reconciliation of effective tax rate:

	31 December 2018 £000	31 December 2017 £000
Profit before tax	**37,088**	31,038
Tax using effective UK corporation tax rate of 19% (2017: 19.25%)	**7,047**	5,975
Expenses not deductible for tax purposes	**172**	—
Foreign group relief surrendered to group entities	**(264)**	(353)
Adjustments in respect of prior periods	**375**	—
Total tax charge for the period as above	**7,330**	5,622

11c. Deferred tax

	£000
Balance brought forward	**(514)**
Deferred tax credit in relation to prior year movement in fair value reserve	**187**
Balance carried forward at 31 December 2017	**(327)**
Deferred tax credit in relation to movement in fair value reserve	**340**
Balance carried forward at 31 December 2018	**13**

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017. The average effective rate of tax for 2018 is 19% (2017: 19.25%). A further reduction to the main rate of corporation tax to 17% (effective from 1 April 2020) was enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly.

The deferred tax asset at 31 December 2018 has been calculated based on the rate at which each timing difference is most likely to reverse.

12. Other assets and other liabilities

12a. Accounting policy

Deferred acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that correspond to the unearned premiums provision at the balance sheet date. This balance is held as an intangible asset. It is amortised over the term of the contract as premium is earned.

12b. Deferred acquisition costs

	Deferred acquisition costs £000
At 1 January 2018	5,965
Transferred to discontinued operations	(3,173)
Additions	7,062
Amortisation charge	(6,902)
At 31 December 2018	**2,952**

12c. Other receivables

	31 December 2018 £000	31 December 2017 £000
Trade and other receivables*1	9,866	9,738
Prepayments and accrued income	—	—
Total other receivables	**9,866**	9,738

*1 Trade and other receivables at 31 December 2018 includes £6,722k (2016: £5,112k) in respect of salvage and subrogation recoveries.

12d. Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

	31 December 2018 £000	31 December 2017 £000
Other taxation and social security liabilities	3,712	4,046
Other payables	5,160	4,043
Accruals and deferred income (see below)	16,105	3,925
Total trade and other payables	**24,977**	12,014

Analysis of accruals and deferred income:

	31 December 2018 £000	31 December 2017 £000
Deferred instalment income	3,159	2,884
Premium received in advance of policy inception	11,790	—
Other	1,156	1,041
Total accruals and deferred income as above	**16,105**	**3,925**

13. Share capital

13a. Accounting policies

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets.

Dividends
Dividends are recorded in the period in which they are declared and paid.

Fair value reserve
The movement on the fair value reserve relates to unrealised gains/(losses) on investments.

Foreign exchange reserve
Foreign currency reserves arise as a result of translation of the financial statements of foreign operations whose functional currency is not pounds sterling in line with the accounting policy disclosed in note 1.

13b. Dividends

Dividends were declared and paid as follows:

	31 December 2018 £000	31 December 2017 £000
Dividends paid on equity capital (26.81 pence per share; 2017: 40.21 pence per share)	10,000	15,000

13c. Share capital

	31 December 2018 £000	31 December 2017 £000
Authorised		
37,300,000 ordinary shares of £1 each	37,300	37,300
Issued, called up and fully paid		
37,300,000 ordinary shares of £1 each	37,300	37,300

13d. Objectives, policies and procedures for managing capital

The Company manages its capital to ensure that it is able to continue as a going concern and to meet regulatory requirements with an appropriate margin. The Directors of the Company plan that in future periods, excess capital above this level will be paid up to the Group holding company in the form of dividends.

14. Other financial commitments and contingent liabilities

The Company had £nil (2017: £nil) commitments under operating leases or rental contracts. There were also no contingent liabilities at 31 December 2018 or 2017, other than those arising out of insurance contracts, and other agreements entered into in the normal course of business. The Company does not hold fixed assets, and hence there were no capital commitments.

15. Parent undertaking

The Company's immediate and ultimate parent undertaking is Admiral Group plc, a Company registered in England and Wales. The consolidated accounts of Admiral Group plc are the only group accounts in which the results of the Company are included.

Copies of the financial statements of Admiral Group plc can be obtained from the Company Secretary at the registered office – Tŷ Admiral, David Street, Cardiff, CF10 2EH.