

Admiral Insurance Company Limited

Strategic Report, Directors' Report and Financial Statements

Registered number 04080051

31 December 2019



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Directors and advisors

Directors

C D Prussog	
G A Jones	
J H Armstrong	
K Davies	(appointed 17 April 2020)
M Mondini-De-Focatiis	(appointed 25 March 2020)
M Churchlow	(appointed 17 April 2020)
D K M James	(resigned 24 March 2020)
S D Clarke	(resigned 17 April 2020)

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 car insurance book generated by the Group's intermediary company, and fellow subsidiary, EUI Limited (EUI).

On 1 January 2019, the portfolios of the Spanish branch and Italian businesses of AICL were transferred to Admiral Europe Compañía de Seguros S.A. (AECS) under Part VII of the Financial Services and Markets Act 2000 and as such, the 2019 performance of AICL does not include any results from the Spanish and Italian operations. The results from these portfolios were presented as discontinued operations in 2018.

AECS is a 100% directly owned subsidiary of Admiral Group plc.

Review of developments and performance during the year

Profit after tax for the year was £31.1 million (2018: £29.8 million), an increase of 5%. This includes an adverse impact of £5.1 million arising from the change in the Ogden rate to minus 0.25% (0% best estimate assumption at 31 December 2018), offset by significant favourable development in prior year loss ratios. The 2018 result included £2.9 million of profit attributable to discontinued operations in Italy and Spain.

The main factor contributing to the improved result is increased Ogden certainty (following the rate being set for the next five years) which led to increased large bodily injury settlements in the latter part of 2019. In addition, a few unique one-off claims were settled in 2019 which resulted in substantial releases.

Ogden Discount Rate

On 15th July 2019, the Lord Chancellor announced that the new Personal Injury Discount Rate was to be set at minus 0.25%, following a consultation process and as set out within the Civil Liability Act 2018. The change came into effect on 5th August 2019 and the minus 0.25% rate is likely to remain in place for the next five years. The minus 0.25% rate is applicable in England and Wales, whilst the minus 0.75% rate remains in effect in Scotland.

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 lower the rate, the higher the compensation awarded and the greater the cost to compensators.

Following the announcement by the UK Government, the Ogden discount rate which is used in setting personal injury compensation, was changed to minus 0.25% from the existing minus 0.75% rate that had been in place since February 2017.

The minus 0.25% rate is 25 basis points lower than the assumed rate of 0% that was used in setting best estimate claims reserves at 31 December 2018 and the total impact of the new Ogden rate on AICL's profit reported in 2019 is approximately £5.1 million.

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.

Financial performance

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

During 2019, the Admiral UK car insurance business prioritised profitability over growth, by increasing prices as a result of continued claims inflation. Total vehicles insured (across the Admiral UK car insurance book) increased to 4.11 million from 4.09 million during the year, reflecting strong renewals performance.

AICL's gross written premium of £151.3 million (2018: £151.7 million) and earned premium of £145.7 million (2018: £147.0 million) remained broadly stable year on year.

The reported loss ratio in the year was 63%, compared to 65% in 2018, the 2019 expense ratio is 18% (2018: 18%).

Review of position at year-end

The Company held capital resources of £109.6 million at the end of 2019 (2018: £124.2 million). The decrease is primarily due to the payment of dividends in the year totalling £50.0 million, compared to profits generated of £31.1 million and other smaller movements in reserves.

The Company's investment strategy was largely unchanged in 2019, 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 86% 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 2019 was £82.8 million (2018: £91.1 million). On a similar estimated and unaudited basis, Eligible Own Funds of £114.1 million (2018: £155.3 million) result in a reported solvency ratio of 138% (2018: 170%), and surplus capital of £31.1 million (2018: £64.2 million).

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 12. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

The percentage of the issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Section 172(1) Statement

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006. In summary, this sets out how a director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to the likely consequences of any decisions in the long-term, and the interests of the company's employees, communities, stakeholders, external partners and the environment.

Many of the decisions and the strategy of AICL and the AICL Board are taken with regard to the Group's business model, strategy and decisions and the way in which the Group engages with these stakeholders is set out in the Admiral Group plc annual report, on pages 18 – 23.

In order to identify the stakeholders that are of the most critical strategic importance to its operations, the AICL Board has considered the key issues on its agenda which are discussed on a recurring basis, together with any presentations that have been held during the period and any other items of importance that are brought to its attention. As a result, it has concluded that its shareholders, fellow subsidiaries, external partners and regulators are of the most critical strategic importance to its operations.

The main methods that the Board uses to engage with its stakeholders is through regular dialogue, with agendas between the Group Board and the AICL Board being aligned to ensure that all relevant issues are considered.

In considering and approving dividends, this being one of the key decisions taken by the Board in the year, the Board has regard to:

- The Group capital management policy
- AICL's own regulatory solvency requirements, its levels of distributable profit and availability of liquid assets

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.

Coronavirus (COVID-19)

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. The outbreak was declared a Public Health Emergency of International Concern by the World Health Organisation on 30 January 2020. It was subsequently declared a global pandemic on 11 March 2020.

For further information on the implications of COVID-19 on the company, refer to note 1 and note 15 to the financial statements

UK Exit from the European Union ('Brexit')

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 (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 assessment of stressed macroeconomic conditions on the UK insurance business that may result from Brexit, including the potential increase in claims costs following a spike in inflation. This includes negative movement in interest rates, currency, investment yields and inflation which could be experienced post Brexit. 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 changes to the rules relating to the free movement of people between the UK and the remaining EU member states. The Group has followed external advice on planning for the impact of Brexit on the small number of EU citizens working within the UK and UK citizens working in the EU, for the Group;

- 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;
- Potential operational impacts for the provision of Green Cards for UK customers to continue driving in the EU. Procedures have been established to manage the operational impacts and ensure suitable communication to customers.

At present, the Company does not foresee a material adverse impact on day-to-day operations (including customers or staff). 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 post 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 6 to these financial statements.

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

Post Balance Sheet Events

Non-adjusting post balance sheet events have been noted in respect of the COVID-19 pandemic and a premium rebate issued to customers. Further detail on both is provided in note 15 to these financial statements.

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

19 June 2020

Directors' Report

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

The following information has been disclosed in the Strategic Report:

- Post balance sheet events
- Capital structure

Results and dividends proposed

The profit for the year after taxation amounted to £31.1 million (2018: £29.8 million).

An interim dividend of £50.0 million was declared and paid in the year (2018: £10.0 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
M Churchlow*¹
K Davies*¹
D M Jackson*¹

*¹ These directors served during the year, but were not formally appointed as at the balance sheet date.

Future developments

AICL's underwriting arrangements for 2020 for the UK are the same as were in place during 2019.

Going concern

The Directors have made an assessment of going concern, taking into account both current performance and the Company's outlook. This considered in detail the impact of the COVID-19 pandemic, and a review of projections incorporating the impact of the Covid-19 pandemic on the Company's profits and balance sheet position, focussed on the Company's solvency and liquidity position.

In particular, as part of this assessment the Board considered:

- The impact of the pandemic on the company's profit projections. As part of this analysis, the Board considered the impacts arising from:

- A significantly reduced UK motor claims frequency during the lockdown period as customers stayed at home and were driving less
- The premium rebate to customers announced in April 2020 to reflect the lower exposure during the lockdown period
- Implications of potential reductions in premium volumes
- Potential impacts on the cost of settling claims
- A potential increase in ongoing costs arising from the implementation and maintenance of business continuity plans
- The Company's solvency position, which is being closely monitored through the period of market volatility experienced to date. Although impacted by market movements, and in particular widening credit spreads, the company maintains a strong solvency position above target and regulatory levels
- The adequacy of the Company's liquidity position after considering all of the factors noted above
- The results of business plan scenarios and stress tests on the projected profitability, solvency and liquidity positions including the impact of severe downside scenarios that assume prolonged periods of lockdown and the impact of severe economic and trading stresses.
- The operational status of the Group's critical functions, including customer facing departments, that supports the company's continued ability to write insurance policies and pay claims in the future.
- The stability and security aspects of the Group's IT systems
- The regulatory environment, in particular focusing on regulatory guidance issued by the Prudential Regulatory Authority and Financial Conduct Authority and ongoing communications between management and the regulator.
- A review of the Company's principal risks and uncertainties and how the assessment of risk may have changed in light of the pandemic.

Following consideration of the above, the Directors have reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

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 6b 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:

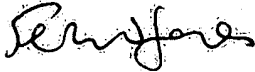
- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's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

Director

19 June 2020

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 judgements 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 2019 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; and**
- **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	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Valuation of gross insurance claims reserves; and • Valuation of projected excess of loss reinsurance recoveries. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year are identified with .</p>
Materiality	<p>The materiality we have used in the current year was £4.3m, which was determined on the basis of 3% of earned premiums, net of reinsurance.</p>
Scoping	<p>We have identified no separate components of the company. Our audit procedures account for 100% of the company's profits before tax, 100% of revenue and 100% of the company's net assets.</p>
Significant changes in our approach	<p>During the current period we have adjusted our basis for the determination of materiality to use 3% of earned premiums, net of reinsurance (2018: 3% of equity). This change is driven by the change in the structure of the entity during the year, following the part VII transfer of the European insurance business, as well as the payment of the dividend of £50.0m (2018: £10.0m) which results in volatility in the equity value used to determine materiality in the prior period</p> <p>The main changes in component scoping since 2018 relate to the Brexit restructuring of Admiral Group, whereby the European insurance business is now underwritten through the Group's Spanish incorporated underwriter Admiral Europe Compañía de Seguros ("AECS").</p> <p>Following the transfer of European insurance business, the Italian and Spanish divisions of AICL were dissolved meaning that we no longer engage component auditors to perform audit procedures as there are no longer any overseas components of the Company audit.</p> <p>During 2019, we have identified an additional key audit matter pertaining to the valuation of projected excess of loss reinsurance recoveries related to the UK car insurance business underwritten by AICL following an enhancement to the methodology applied in calculating such recoveries during the current period.</p>

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.

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.


We have identified one new key audit matter in the 2019 audit pertaining to the valuation of projected excess of loss reinsurance recoveries related to the UK car insurance business underwritten by AICL following an enhancement to the methodology applied in calculating such recoveries during the current period.

Valuation of gross insurance claims reserves 	
Key audit matter description	<p>The company's gross insurance claims reserves total £263.1m (2018 year-end: £375.2m). The judgements which are made by management in determining the 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.</p> <p>Specifically, our significant areas of focus are management's selection of the frequency and severity assumptions for 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).</p> <p>In line with the company's accounting policy, management adds a margin</p>



	<p>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 as a best-estimate 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 is our key area of focus.</p> <p>Refer to note 2 and note 4b in the financial statements which discusses this matter.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We have tested the 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 Group Audit Committee.</p> <p>We inspected the reports from management's external expert actuary and involved our own Deloitte actuarial specialists to support our challenge of management's assumptions, including the frequency and severity assumptions for large bodily injury claims. We performed procedures to assess the objectivity and competence of management's expert.</p> <p>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.</p> <p>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.</p> <p>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 testing the internal controls governing the 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 support for the booked position.</p>
<p>Key observations</p> 	<p>Based on the procedures described above, we consider that the booked reserves remain appropriate and in line with the company's prudent accounting policy.</p>
<p>Valuation of projected excess of loss reinsurance recoveries </p>	
<p>Key audit matter description</p>	<p>The projected excess of loss reinsurance recoveries on large bodily injury claims, related to the UK Car Insurance business underwritten by the company, are inherently uncertain and their calculation is reliant upon the</p>

	<p>judgmental actuarial methodology applied in their projection. The total reinsurers' share of claims outstanding in the company's financial statements is £27.1m as at 31 December 2019 (2018 year-end: £93.9m).</p> <p>The value of the excess of loss reinsurance recoveries depends on the number of claims that ultimately settle above the reinsurance retention and the placements in each layer which vary between individual underwriting years. Small changes in the frequency assumptions for excess of loss reinsurance recoveries can have a material impact on the final booked reserves and consequently represent a significant area of judgment and complexity.</p> <p>Management's external expert actuary enhanced their methodology for calculating excess of loss reinsurance recoveries during the first-half of 2019, as part of regular enhancements in the reserving methodologies used in projecting both the large bodily injury claims in the gross analysis and the excess of loss recoveries arising on these projected claims.</p> <p>The methodologies which are applied in determining the valuation of the excess of loss reinsurance recoveries are significant in terms of their impact on the company's financial performance and therefore represent a key audit matter for the company. Projecting such recoveries is an inherently subjective exercise and changes in methodologies may have a material impact on the reported year-end result for the company.</p> <p>Refer to note 2 and note 4b in the financial statements which refer to this matter.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We have tested the relevant controls relating to the projection of the excess of loss reinsurance recoveries. These controls include those concerning the oversight and challenge of management's external expert actuary by management and the Group Audit Committee.</p> <p>We inspected the reports from management's external expert actuary and involved our own Deloitte actuarial specialists to support our challenge of management's assumptions and methodologies applied in projecting the excess of loss reinsurance recoveries. We performed procedures to assess the objectivity and competence of management's expert. Furthermore, with the involvement of our actuarial specialists, we performed additional diagnostics and reviewed the results to assess whether the methodology had been implemented as described.</p> <p>We compared management's frequency assumptions for excess of loss reinsurance recoveries against the frequency assumptions for large bodily injury claims to assess the consistency in the underlying assumptions applied to derive the gross and net insurance claims reserves.</p>

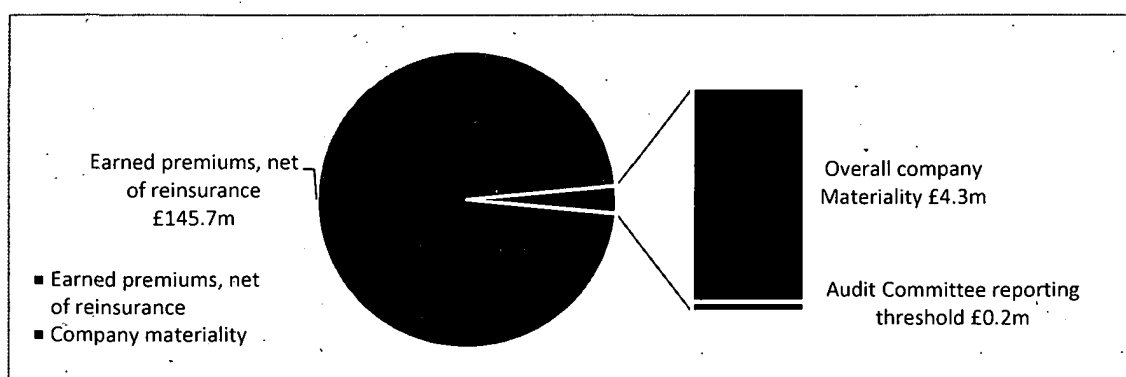
Key observations 	Based on the procedures described above, we consider that the methodology used to project the excess of loss reinsurance recoveries within the net best estimate reserves is appropriate.
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Our application of materiality

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	£4.3m (2018: £3.4m)
Basis for determining materiality	3% of earned premiums, net of reinsurance (2018: 3% of equity)
Rationale for the benchmark applied	<p>We consider earned premiums, net of reinsurance to be the critical benchmark of the performance of the company, as it is the growth in this metric which drives the profitability of the company, and thus its ability to pay dividends to the parent, which is the sole shareholder.</p> <p>The adjustment in the basis for determination of materiality reflects the change in the structure of the entity during the year, following the part VII transfer of the European insurance business, as well as the payment of the dividend of £50.0m (2018: £10.0m) which results in volatility in the equity value used to determine materiality in the prior period.</p> <p>We consider this benchmark to be suitable having compared to other benchmarks.</p> <p>Our materiality equates to 4% of equity and 11% of profit before tax (2018: 3% of equity and 10% of profit before tax).</p>



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 2019 audit (2018: 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.

We agreed with the Board that we would report to them all audit differences in excess of £0.2m, 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

Following the transfer of European insurance business, the Italian and Spanish divisions of AICL were dissolved meaning that we no longer engage component auditors to perform audit procedures as there are no longer any overseas components of the company audit.

Our audit procedures account for 100% of the company's profits 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 and non-compliance with laws and regulations 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;
 - valuation of projected excess of loss reinsurance recoveries for UK Car Insurance.
- 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 and valuation of projected excess of loss reinsurance recoveries as key audit matters. 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

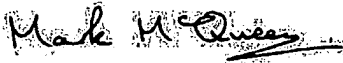
Following the recommendation of the audit committee, we were appointed by shareholders' approval at the Annual General Meeting on 28 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2016 to 31 December 2019.

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.



Mark McQueen (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

19th June 2020

Income Statement

For the year ended 31 December 2019

TECHNICAL ACCOUNT – GENERAL BUSINESS

	Note	Year ended	
		31 December	31 December
		2019	2018
		£000	£000
Gross premiums written		151,266	151,731
Outward reinsurance premiums		(3,164)	(3,271)
Net insurance premiums written		148,102	148,460
Change in the gross provision for unearned premiums		(2,463)	(1,437)
Change in the provision for unearned premiums, reinsurers' share		22	(43)
Net change in unearned premium provision		(2,441)	(1,480)
Earned premiums, net of reinsurance		145,661	146,980
Allocated investment return transferred from the non-technical account	5	4,896	3,807
Total technical income		150,557	150,787
Gross claims paid		(90,639)	(87,608)
Reinsurers' share of claims paid		241	805
Net claims paid		(90,398)	(86,803)
Gross change in the provision for claims		1,616	(10,235)
Reinsurers' share of the change in the provision for claims		757	1,005
Net change in the provision for claims		2,373	(9,230)
Claims handling costs incurred	4	(3,771)	(3,754)
Claims incurred, net of reinsurance		(91,796)	(99,787)
Balance on the technical account before expenses		58,761	51,000
Net operating expenses	8	(26,635)	(22,430)
Balance on the technical account		32,126	28,570

Income Statement *(continued)*

For the year ended 31 December 2019

NON-TECHNICAL ACCOUNT

	Note	Year ended	
		31 December 2019 £000	31 December 2018 £000
Balance on the technical account		32,126	28,570
Investment income	5	4,896	3,807
Allocated investment return transferred to the general business technical account	5	(4,896)	(3,807)
Other income	7	6,294	5,926
Operating profit, being profit on ordinary activities before taxation		38,420	34,496
Taxation expense	10	(7,299)	(7,594)
Profit for the financial year on continuing operations		31,121	26,902
Profit attributable to discontinued operations		—	2,855
Total profit after tax		31,121	29,757

Statement of Comprehensive Income

For the year ended 31 December 2019

	Year ended	
	31 December	31 December
	2019	2018
Note	£000	£000
Profit for the financial year	31,121	29,757
Other comprehensive income		
Items that are or may be reclassified to profit or loss:		
Movements in fair value reserve	4,178	(1,999)
Corporation tax (charge)/credit on movement in fair value reserve	(755)	341
Foreign currency translation differences on foreign operations	824	(299)
Other comprehensive income/(expense) for the year, net of tax	4,247	(1,957)
Total comprehensive income for the year	35,368	27,800

Statement of Financial Position

As at 31 December 2019

	Note	As at	
		31 December	31 December
		2019	2018
		£000	£000
Investments			
Investment in subsidiary undertakings	9	—	75,851
Other financial investments	6	309,644	326,698
Total investments		309,644	402,549
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	1,506	1,482
Claims outstanding	4	27,103	26,339
		28,609	27,821
Receivables			
Receivables arising out of direct insurance operations		29,798	44,711
Other receivables	11	96,420	9,866
		126,218	54,577
Other assets			
Deferred tax asset	10	—	13
Cash at bank and in hand	6	10,215	11,589
Prepayments and accrued income: Deferred acquisition costs	11	2,761	2,952
Total other assets		12,976	14,554
Assets associated with disposal group held for sale		—	177,150
Total Assets		477,447	676,651

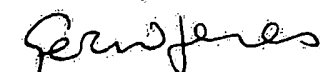
Statement of Financial Position *(continued)*

As at 31 December 2019

	Note	As at	
		31 December 2019 £000	31 December 2018 £000
Capital and reserves			
Called up share capital	12	37,300	37,300
Fair value reserve		3,160	(263)
Foreign currency translation reserve		741	(83)
Profit and loss account		68,391	87,270
Equity shareholder's funds		109,592	124,224
Technical provisions			
Provision for unearned premiums	4	72,221	69,758
Claims outstanding	4	263,167	264,627
		335,388	334,385
Creditors – amounts falling due within one year			
Creditors arising out of reinsurance operations		2,120	2,189
Trade and other payables	11	22,307	24,977
Current tax liabilities		7,299	6,960
Deferred tax liabilities	10	741	—
		32,467	34,126
Liabilities associated with disposal group held for sale	3	—	183,916
Total Liabilities		367,855	552,427
Total Equity and Liabilities		477,447	676,651

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 19 June 2020 and were signed on its behalf by:



Geraint Jones

Director

Company Number: 04080051

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £000	Fair value reserve £000	Foreign exchange reserve £000	Retained profit and loss £000	Total equity £000
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
Balance at 1 January 2019	37,300	(263)	(83)	87,270	124,224
Profit for the period	—	—	—	31,121	31,121
Other comprehensive income					
Movements in fair value reserve	—	4,178	—	—	4,178
Deferred tax (charge)/credit in relation to movement in fair value reserve	—	(755)	—	—	(755)
Currency translation differences	—	—	824	—	824
Total comprehensive income for the period	—	3,423	824	31,121	35,368
Transactions with equity holders					
Dividends	—	—	—	(50,000)	(50,000)
Total transactions with equity holders	—	—	—	(50,000)	(50,000)
Balance at 31 December 2019	37,300	3,160	741	68,391	109,592

Notes to the financial statements
For the year ended 31 December 2019

Authorisation of financial statements

The financial statements of Admiral Insurance Company Limited for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 19 June 2020 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 – Tŷ 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. 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)

1c. Going concern

The Directors have made an assessment of going concern, taking into account both current performance and the Company's outlook. This considered in detail the impact of the COVID-19 pandemic, and a review of projections incorporating the impact of the Covid-19 pandemic on the Company's profits and balance sheet position, focussed on the Company's solvency and liquidity position.

In particular, as part of this assessment the Board considered:

- The impact of the pandemic on the Company's profit projections. As part of this analysis, the Board considered the impacts arising from:
 - A significantly reduced UK motor claims frequency during the lockdown period as customers stayed at home and were driving less
 - The premium rebate to customers announced in April 2020 to reflect the lower exposure during the lockdown period
 - Implications of potential reductions in premium volumes
 - Potential impacts on the cost of settling claims
 - A potential increase in ongoing costs arising from the implementation and maintenance of business continuity plans
- The Company's solvency position, which is being closely monitored through the period of market volatility experienced to date. Although impacted by market volatility, and in particular widening credit spreads, the company maintains a strong solvency position above target and regulatory levels
- The adequacy of the Company's liquidity position after considering all of the factors noted above
- The results of business plan scenarios and stress tests on the projected profitability, solvency and liquidity positions including the impact of severe downside scenarios that assume prolonged periods of lockdown and the impact of severe economic and trading stresses.

- The operational status of the Group's critical functions, including customer facing departments, that supports the company's continued ability to write insurance policies and pay claims in the future.
- The stability and security aspects of the Group's IT systems
- The regulatory environment, in particular focusing on regulatory guidance issued by the Prudential Regulatory Authority and Financial Conduct Authority and ongoing communications between management and the regulator.
- A review of the Company's principal risks and uncertainties and how the assessment of risk may have changed in light of the pandemic.

Following consideration of the above, the Directors have reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report and Directors' Report. In addition notes 6 and 12 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.

1d. 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

Critical accounting judgements

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 held by the Company during 2019 are excess of loss reinsurance contracts. These 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 provisions:

The Company's reserving policy requires management to set provisions for outstanding claims for the purpose of the financial statements, above the projected best estimate outcome to allow for unforeseen adverse claims development. In the application of this policy, Management applies judgement in:

- calculating the best estimate of the gross ultimate total cost of settling claims that have been incurred prior to the balance sheet date,
- calculating the best estimate of the non-proportional excess of loss reinsurance recoveries relating to outstanding claims
- and determining where, above the projected best estimate outcomes of gross outstanding claims and reinsurance recoveries, the insurance claims provisions should sit in line with the Group's reserving methodology

Refer to the section on estimation techniques below, and the analysis of Insurance risk in note 4 to the financial statements for further detail on the development of the Group's reserving methodology applied during the period and the calculation of the projected best estimate outcome.

Key sources of estimation uncertainty

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, along with a margin to allow for unforeseen adverse claims development.

The primary areas of estimation uncertainty are as follows:

Calculation of gross best estimate claims provisions

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

The Company'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.

Claims are segmented into groups with similar characteristics and which are expected to develop and behave similarly, for example bodily injury (attritional and large) and damage claims, with specific projection methods selected for each head of damage. Key sources of estimation uncertainty arise from both the selection of the projection methods and the assumptions made in setting claims provisions through the review of historical development of underlying case reserve estimates, overlaid with emerging market trends.

Allowance is made for changes or uncertainties which may result in future claim cost inflation to deviate from historic trends. These uncertainties include:

- Changes in frequency of bodily injury claims
- The effect of inflation on the average cost of bodily injury and damage claims
- The likelihood of bodily injury claims settling as Periodic Payment Orders
- Changes in the regulatory or legal environment that lead to changes in awards for bodily injury claims and associated legal costs
- Changes to underlying process and methodologies employed in setting case reserve estimates

Implicit assumptions in the actuarial projections include average cost per claim and average claim numbers by accident year, future rates of claims inflation and loss ratios by accident year and underwriting year. These metrics are reviewed and challenged as part of the process for making allowance for the uncertainties noted.

Calculation of excess of loss reinsurance recoveries

The Company uses excess of loss reinsurance in order to mitigate the impact of large claims. The reinsurance is non-proportional and recoveries are made on individual claims above the relevant thresholds.

Independent actuarial advisors project the best estimate excess of loss reinsurance recoveries using a variety of actuarial projection techniques that focus on both the ultimate frequency of reported recoveries and the average size of the recovery.

Key sources of estimation uncertainty arise from both the selection of the projection methods and the assumptions made in calculating the recoveries through the review of historical development of underlying case reserve estimates, overlaid with emerging market trends.

The most significant element of the estimation relates to large bodily injury claims that are settled on a lump sum basis. The key assumption in the calculation of excess of loss recoveries relates to the numbers of large claims in the UK car insurance business that will attract recoveries, where the high retention means that a small number of additional large claims would potentially result in a material increase in the excess of loss recoveries.

Calculation of the margin held for adverse development

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 4 of the financial statements.

3. 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; Spain and Italy.

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

31 December 2019			
	UK £000	Europe £000	Total £000
Gross written premium	151,266	—	151,266
Profit/ (loss) before tax	38,420	—	38,420
Net assets/ (liabilities)	109,592	—	109,592

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)	127,979	(3,755)	124,224

4. Premium and claims

4a. Accounting policies

(i) Revenue – premiums

Premiums relating to insurance contracts are recognised as revenue, net of expected cancellations and 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 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 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.

4b. 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 Admiral Group plc's financial statements.

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

Underwriting year loss ratios – UK car insurance

The following table sets out the impact on equity and post-tax profit or loss at 31 December 2019 that would result from a 1% movement (both increase and decrease) in the UK car 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			
	2016	2017	2018	2019
Booked loss ratio	73%	75%	81%	92%
Impact of 1% change (£000)	1,066	1,149	1,198	624

(iii) Analysis of recognised amounts

The maturity profile of gross insurance liabilities at the end of 2019 is as follows:

	< 1 year £000	1 – 3 years £000	>3 years £000
Claims outstanding	73,950	45,002	144,215
Unearned premium provision	72,221	—	—
Total gross insurance liabilities	146,171	45,002	144,215

The maturity profile of gross insurance liabilities at the end of 2018 was 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

(iv) Analysis of claims incurred

The following tables illustrate the development of gross and net UK 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.

Analysis of claims incurred (gross amounts)	Financial year ended 31 December										Total £000
	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	
Underwriting year (UK insurance)											
2010 and prior	(50,120)	(34,291)	438	5,644	3,969	1,149	513	354	873	2,432	
2011	—	(55,541)	(41,212)	5,411	6,429	5,983	(115)	3,353	2,622	95	(72,975)
2012	—	—	(57,362)	(41,885)	6,281	8,625	1,078	7,484	3,788	1,065	(70,926)
2013	—	—	—	(54,645)	(43,541)	6,242	5,658	4,336	4,177	1,211	(76,562)
2014	—	—	—	—	(56,257)	(45,710)	3,152	2,007	6,441	1,935	(88,432)
2015	—	—	—	—	—	(51,482)	(49,076)	2,704	5,853	7,846	(84,155)
2016	—	—	—	—	—	—	(61,502)	(54,359)	9,890	6,749	(99,222)
2017	—	—	—	—	—	—	—	(67,613)	(57,220)	11,679	(113,154)
2018	—	—	—	—	—	—	—	—	(74,267)	(49,667)	(123,934)
2019	—	—	—	—	—	—	—	—	—	(72,368)	(72,368)
UK insurance gross claims incurred	(50,120)	(89,832)	(98,136)	(85,475)	(83,119)	(75,193)	(100,292)	(101,734)	(97,843)	(89,023)	
Claims handling costs	(2,321)	(3,243)	(3,246)	(2,862)	(2,676)	(2,828)	(3,286)	(3,588)	(3,754)	(3,771)	
Total gross claims incurred	(52,441)	(93,075)	(101,382)	(88,337)	(85,795)	(78,021)	(103,578)	(105,322)	(101,597)	(92,794)	

Analysis of claims incurred (net amounts)	Financial year ended 31 December										Total £000
	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	
Underwriting year (UK insurance)											
2010 and prior	(50,120)	(34,291)	438	5,644	3,969	1,149	2,015	1,351	705	2,346	
2011	—	(55,541)	(41,212)	5,411	6,429	5,983	1,049	3,280	2,037	209	(72,355)
2012	—	—	(57,362)	(41,885)	6,281	8,625	2,421	7,389	3,822	637	(70,072)
2013	—	—	—	(54,645)	(43,541)	6,242	6,299	4,613	4,115	738	(76,179)
2014	—	—	—	—	(56,257)	(45,710)	5,312	3,320	4,731	2,119	(86,485)
2015	—	—	—	—	—	(51,482)	(46,557)	4,020	5,595	6,654	(81,770)
2016	—	—	—	—	—	—	(59,835)	(50,902)	8,821	6,319	(95,597)
2017	—	—	—	—	—	—	—	(63,705)	(53,868)	11,067	(106,506)
2018	—	—	—	—	—	—	—	—	(71,991)	(47,790)	(119,781)
2019	—	—	—	—	—	—	—	—	—	(70,324)	(70,324)
UK insurance net claims incurred	(50,120)	(89,832)	(98,136)	(85,475)	(83,119)	(75,193)	(89,296)	(90,634)	(96,033)	(88,025)	
Claims handling costs	(2,321)	(3,243)	(3,246)	(2,862)	(2,676)	(2,828)	(3,286)	(3,588)	(3,754)	(3,771)	
Total net claims incurred	(52,441)	(93,075)	(101,382)	(88,337)	(85,795)	(78,021)	(92,582)	(94,222)	(99,787)	(91,796)	

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

UK loss ratio development	Financial year ended 31 December				
	2015	2016	2017	2018	2019
Underwriting year (UK only)					
2015	87%	87%	83%	77%	72%
2016	—	88%	84%	77%	73%
2017	—	—	87%	83%	75%
2018	—	—	—	92%	81%
2019	—	—	—	—	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.

Gross	Financial year ended 31 December				
	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000
Underwriting year					
2015 and prior	24,827	17,206	23,717	22,264	11,814
2016	—	—	2,958	8,821	6,319
2017	—	—	—	2,721	11,067
2018	—	—	—	—	8,261
Total gross release	24,827	17,206	26,675	33,806	37,461

Net	Financial year ended 31 December				
	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000
Underwriting year					
2015 and prior	24,827	17,215	23,855	22,060	11,814
2016	—	—	2,958	8,821	6,319
2017	—	—	—	2,721	11,067
2018	—	—	—	—	8,261
Total net release	24,827	17,215	26,813	33,602	37,461

(vi) Reconciliation of movement in claims provision

	31 December 2019		
	Gross £000	Reinsurance £000	Net £000
Claims provision at start of period	264,627	(26,339)	238,288
Claims incurred (excluding releases)	126,484	(998)	125,486
Reserve releases	(37,461)	—	(37,461)
Claims paid and other movements	(90,482)	234	(90,248)
Claims provision at end of period	263,167	(27,103)	236,065

	31 December 2018		
	Gross £000	Reinsurance £000	Net £000
Claims provision at start of period	254,389	(23,695)	230,694
Claims incurred (excluding releases)	131,652	(2,953)	128,699
Reserve releases	(33,806)	204	(33,602)
Claims paid and other movements	(87,608)	105	(87,503)
Claims provision at end of period	264,627	(26,339)	238,288

(vii) Reconciliation of movement in unearned premium provision

	31 December 2019		
	Gross £000	Reinsurance £000	Net £000
Unearned premium provision at start of period	69,758	(1,482)	68,276
Written in the period	151,266	(3,164)	148,102
Earned in the period	(148,803)	3,140	(145,663)
Unearned premium provision at end of period	72,221	(1,506)	70,715

	31 December 2018		
	Gross £000	Reinsurance £000	Net £000
Unearned premium provision at start of period	68,321	(1,526)	66,795
Written in the period	151,731	(3,270)	148,461
Earned in the period	(150,294)	3,314	(146,980)
Unearned premium provision at end of period	69,758	(1,482)	68,276

5. Investment Income and costs

5a. 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).

5b. Investment return

	31 December 2019 £000	31 December 2018 £000
Investment return		
On assets classified as FVTPL	785	1,408
On debt securities classified as FVOCI	3,655	1,865
On deposits with credit institutions (held at amortised cost)	429	498
Interest receivable on cash and cash equivalents	27	36
Total investment and interest income	4,896	3,807

6. Financial Assets and Financial Liabilities

6a. Accounting policies

i) Financial assets

Classification and measurement

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

- the Company's business model for managing the financial assets and
- 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.

For the Company, these include deposits with credit institutions, cash and cash equivalents, insurance receivables and trade and other receivables.

The interest income generated from these assets is included in 'Investment return'. An expected credit loss allowance is calculated to ensure that the carrying amount on assets represents the fair value.

- 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.

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. 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.

- 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.

A gain or loss on a debt instrument measured at FVTPL which is not part of a hedging relationship is recognised in profit or loss and presented within 'Investment return' in the period in which it arises.

Impairment

IFRS 9 outlines an expected credit loss (ECL) model for impairments. 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.

6b. Financial assets and liabilities

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

	31 December 2019 £000	31 December 2018 £m
Financial investments mandatorily measured at FVTPL		
Money market funds	65,392	193,645
	65,392	193,645
Financial investments classified as FVOCI		
Debt securities	210,383	105,609
Equity investments	3,869	2,444
	279,644	108,053
Financial assets measured at amortised cost		
Deposits with credit institutions* ¹	30,000	25,000
	30,000	25,000
Total financial investments	309,644	326,698
Other financial assets measured at amortised cost		
Trade and other receivables	8,476	9,866
Insurance and other receivables	8,476	9,866
Cash and cash equivalents	10,215	11,589
Total financial assets	328,335	348,153
Financial liabilities		
Trade and other payables (including creditors arising out of reinsurance arrangements)* ²	24,427	27,166
Total financial liabilities	24,427	27,166

*¹ A deposit for £15 million matured during the year and no gain or loss was recognised on disposal.

*² Trade and other payables total balance of £24.4 million (2018: £ 27.2 million) above includes £17.5 million (2018: £17.7 million) in relation to tax and social security, premium received in advance of policy inception and reinsurer balances that are outside the scope of IFRS 9.

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.

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. 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 (£3.9 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 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 under IFRS 9.

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

No impairment provision has been recognised as at 31 December 2019 (£nil at 31 December 2018). Given there is no material change in the credit quality or type of financial assets in the year and the movement in provision is immaterial, no further disclosure has been made.

Deposits are held with investment grade institutions; as such no impairment provision is required.

Fair value measurement

IFRS 13 requires assets and liabilities that are held at fair value to be classified according to a hierarchy which reflects the observability of significant market inputs, based on three levels

The table below shows how the financial assets held at fair value have been measured using the fair value hierarchy:

	31 December 2019		31 December 2018	
	FVTPL £000	FVOCI £000	FVTPL £000	FVOCI £000
Level One (quoted prices in active markets)	65,392	210,383	193,645	105,609
Level Two (use of observable inputs)	—	—	—	—
Level Three (use of significant unobservable inputs)*	—	3,869	—	2,444
Total	65,392	214,252	193,645	108,053

* No further information is provided due to the immateriality of the balance.

Deposits are held with investment grade 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 £30.0 million (2018: £25.0 million).

The maturity profile of financial assets and liabilities at 31 December 2019 is as follows:

	On demand £000	< 1 year £000	Between 1 and 2 years £000	> 2 years £000
Financial investments				
Investments held at FVPL	—	65,392	—	—
Debt securities at FVOCI	—	65,807	4,472	140,104
Deposits with credit institutions at amortised cost	—	10,000	20,000	—
Total financial investments *1	—	141,199	24,472	140,104
Receivables	—	8,476	—	—
Cash and cash equivalents	10,215	—	—	—
Total financial assets	10,215	149,675	24,472	140,104
Financial liabilities				
Trade and other payables (including creditors arising out of reinsurance arrangements)*2	—	20,567	—	—
Total financial liabilities	—	20,567	—	—

*1 Equity investments totalling £3.9 million do not have a maturity date and are not included in the total above.

*2 Of the £20.6 million shown within trade and other payables, £13.7 million do not meet the definition of a financial liability under IFRS 9 but fall within the scope of IFRS 4 hence are included in the above maturity profile.

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 * ¹	—	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)* ²	—	23,503	—	—
Total financial liabilities	—	23,503	—	—

*¹ Equity investments totalling £2.4 million do not have a maturity date and are not included in the total above.

*² Of the £23.5 million shown within trade and other payables above, £14.0 million do not meet the definition of a financial liability but fall within the scope of IFRS 4 hence are included in the above maturity profile.

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 also exposed to credit risk from policyholder receivables as it collects premium cash amounts from fellow subsidiary and Group intermediary EUI Limited. While EUI Limited retains the policyholder receivable on the balance sheet, AICL ultimately retains the risk of the policyholder defaulting as premiums passed to the Company will be reduced. The impact of this is mitigated by the large customer base and low average level of balance recoverable. There is also mitigation by the operation of numerous high- and low-level controls in this area, including payment on policy acceptance as opposed to inception and automated cancellation procedures for policies in default.

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, during 2019 and historically, 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 2019 is £348.5 million (2018: £605.2 million of which £414.1 million relates to continuing operations) 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 2019 or 2018.

The impact on equity of a 100 basis point increase in credit spreads at the relevant valuation date is as follows:

	31 December 2019 £m	31 December 2018 £m
Equity	7.4	3.7

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

		31 December 2019 £000	31 December 2018 £000
Financial institutions – Credit institutions	AAA	2,157	5,138
Financial institutions – Credit institutions	AA	119,276	131,681
Financial institutions – Credit institutions	A	147,937	177,677
Financial institutions – Credit institutions	BBB and below	50,489	20,781
Reinsurers	AA	21,075	19,286
Reinsurers	A	7,696	8,665

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 investment grade 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.

The impact of a 50 basis point increase in interest rates at the relevant valuation date is as follows:

	31 December 2019 £m	31 December 2018 £m
Equity	3.7	2.0

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.

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.

6c. Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Cash at bank and in hand	10,215	11,589
Total cash and cash equivalents	10,215	11,589

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.

7. Other revenue

7a. 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.

7b. Other revenue

	31 December 2019 £000	31 December 2018 £000
Other revenue	6,294	5,926
Total other revenue	6,294	5,926

8. Expenses

8a. 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.

8b. Operating expenses

31 December 2019			
	Gross £000	Recoverable from reinsurers £000	Net £000
Acquisition of insurance contracts	6,408	—	6,408
Administration and other marketing costs (insurance contracts)	20,227	—	20,227
Total insurance contract expenses	26,635	—	26,635

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

8c. Operating profit

The operating profit is stated after charging:

	31 December 2019 £000	31 December 2018 £000
Amortisation:		
– Deferred acquisition costs	6,408	6,902
Auditor's remuneration (excluding VAT):		
– Fees payable for the audit of the Company's annual accounts	51	79

8d. 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 involvement in the AICL Board is £127k (2018: £78k).

9. Investments in Group undertakings

9a. 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.

9b. Investments in Group undertakings

At 31 December 2018 investments in group undertakings related solely to the Company's investment in its subsidiary Admiral Europe Compañía de Seguros, S.A. ("AECS") of €84,507,500. The Company held 100% of the ordinary share capital of 9,015 shares.

The additions in the period relate to €3,921,454 share premium generated on 1 January 2019 through the transfer of the Spanish and Italian businesses from the Company to AECS in return for one additional share and an additional capital contribution of €11,100,000 on 22 October 2019 in return for no additional shares.

The disposals of investment in the period relates to the sale of 100% of the share capital and related share premium of AECS from the Company to Admiral Group plc. The sale occurred on 31 December 2019 and no profit or loss was recognised against consideration received of €99,528,954.

	31 December 2019 £000	31 December 2018 £000
Investment in group undertakings:		
At 1 January	75,851	—
Additions	13,009	75,851
Disposals	(88,860)	—
At 31 December	—	75,851

10. Taxation

10a. 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.

10b. Taxation

	31 December 2019 £000	31 December 2018 £000
Current tax		
Corporation tax on profits for the year	7,299	7,221
Adjustments in respect of prior periods	—	373
Total tax charge for continuing operations, as per Income Statement	7,299	7,594
Foreign tax		
Foreign group relief surrendered in the year	—	(266)
Adjustments in respect of prior periods	—	2
	—	(264)
Total current tax charge for the period	7,299	7,330

Reconciliation of effective tax rate:

	31 December 2019 £000	31 December 2018 £000
Profit before tax	38,420	37,088
Tax using effective UK corporation tax rate of 19% (2018: 19%)	7,299	7,047
Expenses not deductible for tax purposes	—	172
Foreign group relief surrendered to group entities	—	(264)
Adjustments in respect of prior periods	—	375
Total tax charge for the period as above	7,299	7,330

10c. Deferred tax

	£000
Balance brought forward At 1 January 2018	(327)
Deferred tax credit in relation to prior year movement in fair value reserve	340
Balance carried forward at 31 December 2018	13
Deferred tax charge in relation to movement in fair value reserve	(754)
Balance carried forward at 31 December 2019	(741)

The average effective rate of tax for 2019 is 19% (2018: 19%).

The deferred tax asset at 31 December 2019 has been calculated based on the rate at which each timing difference is most likely to reverse.

11. Other assets and other liabilities

11a. 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.

11b. Deferred acquisition costs

	31 December 2019		
	Gross £000	Reinsurance £000	Net £000
Deferred acquisition costs at start of period	2,952	—	2,952
Additions	6,217	—	6,217
Amortisation charge	(6,408)	—	(6,408)
Deferred acquisition costs at end of period	2,761	—	2,761

	31 December 2018		
	Gross £000	Reinsurance £000	Net £000
Deferred acquisition costs at start of period	2,918	—	2,918
Additions	6,971	—	6,971
Amortisation charge	(6,937)	—	(6,937)
Deferred acquisition costs at end of period	2,952	—	2,952

11c. Other receivables

	31 December 2019 £000	31 December 2018 £000
Amounts receivable from parent group	87,943	–
Trade and other receivables* ¹	8,477	9,866
Other receivables	96,420	9,866

*1 Trade and other receivables at 31 December 2019 includes £7,982k (2018: £6,722k) in respect of salvage and subrogation recoveries.

11d. 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 2019 £000	31 December 2018 £000
Other taxation and social security liabilities	3,860	3,712
Other payables	2,382	5,160
Accruals and deferred income (see below)	16,065	16,105
Total trade and other payables	22,307	24,977

Analysis of accruals and deferred income:

	31 December 2019 £000	31 December 2018 £000
Deferred instalment income	3,369	3,159
Premium received in advance of policy inception	11,556	11,790
Other	1,140	1,156
Total accruals and deferred income as above	16,065	16,105

12. Share capital

12a. 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, at the point that they are no longer at the discretion of the entity.

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.

12b. Dividends

Dividends were declared and paid as follows:

	31 December 2019 £000	31 December 2018 £000
Dividends paid on equity capital (134.05 pence per share; 2018: 26.81 pence per share)	50,000	10,000

12c. Share capital

	31 December 2019 £000	31 December 2018 £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

12d. 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.

13. Other financial commitments and contingent liabilities

The Company had £nil (2018: £nil) commitments under operating leases or rental contracts. There were also no contingent liabilities at 31 December 2019 or 2018, 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.

14. 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.

15. Post Balance Sheet Events

In line with IAS 10, two non-adjusting events occurring after the balance sheet date are disclosed:

COVID-19

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. The outbreak was declared a Public Health Emergency of International Concern by the World Health Organisation on 30 January 2020. It was subsequently declared a global pandemic on 11 March 2020.

In response to the pandemic, Governments across the world have imposed lockdown measures in order to contain the spread of the outbreak – these measures include travel restrictions, business closures, cancellations of events and mass gatherings and the introduction of ‘stay at home’ regulations. At the date of this report, different countries are at varying stages of relaxation of lockdown restrictions, however it is expected that some element of restriction will be required for some time, with no imminent prospect of a vaccine.

The economic impacts of COVID-19 are expected to be severe, with economic downturns experienced by many countries, including those in which the Group has operations. Volatility in financial markets is expected to be heightened for a pro-longed period.

The Admiral Group has implemented business continuity plans during this period to ensure that it can continue to serve its customers whilst focusing on the safety and welfare of its employees and compliance with lockdown regulations.

As the pandemic continues to evolve, the company continues to closely monitor the impacts on, amongst other areas, operations, underwriting, risk profile, and solvency and liquidity positions. Ongoing assessments on a range of potential scenarios are being performed, including the impact of severe downside scenarios that assume prolonged periods of lockdown and the impact of severe economic and trading stresses.

Whilst the company has to date experienced some impacts from the pandemic and associated market volatility, it maintains a strong solvency and liquidity position that is able to withstand a range of severe but plausible stresses. Note 4 to the financial statements sets out sensitivities to market movements and management consider these to be a reasonable guide for assessing the impact of market volatility to date.

The lockdown restrictions in the UK have led to a reduction in the frequency of road accidents and claims. In the UK, in April 2020, the Group announced a premium rebate of £25 to all customers to reflect the period where customers were asked to stay at home and were therefore driving less. The rebate total was £110m, and AICL will incur its proportional cost of the rebate alongside its co-insurers. Further detail is set out below.

Other impacts include reductions in premium volumes during the lockdown period. Future premium volumes may also be impacted by the economic downturn, as well as the average settlement cost of claims.

The Board has considered an in-depth assessment of the impact of COVID-19 on the company's going concern statement. The relevant disclosures are set out in note 1.

Premium Rebate to Customers

On 21 April 2020, Admiral announced that it will return £110 million to its Car and Van insurance customers in recognition of the fact that its customers are staying at home and driving less during the UK-wide COVID-19 lockdown. A £25 refund for each car and van covered with Admiral as at 20th April 2020 will be paid to all customers before the end of June 2020, a total of 4.4 million vehicles. AICL's share of the rebate will be £6.8 million.