Admiral - IFRS 17 Briefing

An overview of the main impacts of IFRS 17 on Admiral

Geraint Jones
Group Chief Financial Officer

Rachel Lewis
Director of Group Finance & Chief Actuary

Katie Baggott
IFRS 17 Accounting Lead

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Disclaimer

Important cautionary statements concerning preliminary IFRS17 expectations, assessments and illustrations

Admiral's audited financial statements for 2022 under IFRS 4 will be published in March 2023. On 1 January 2023, IFRS4 will be replaced by IFRS17, which is a new accounting standard applicable to insurance and reinsurance contracts that will result in significant accounting changes, with impacts on Admiral's consolidated statement of income and balance sheet.

Admiral's expectations, assessments and illustrations relating to IFRS 17 in this presentation are by their nature preliminary and subject to change in the course of the formal implementation of IFRS 17 in the Group's financial reporting through 2023. This presentation reflects the Group's expectations and illustrative assessments of the impact of the IFRS17 Implementation exclusively as of the date hereof. Undue reliance should not be placed on such expectations and illustrations, which are qualified in their entirety by the forward-looking statements paragraphs below. Moreover, investors should note that no IFRS 17 related information in this presentation has been audited or subjected to a limited review by Admiral's statutory auditors. In addition, the IFRS 17 implementation involves accounting judgment and choices between alternative accounting approaches.

While this presentation reflects Admiral's current assessment and expectations regarding these judgments, it is possible that, as the Group and the industry adapt to IFRS17 reporting, the Group might determine that adjustments to its initial judgments are needed. There can be no assurance that such judgments and, more broadly, the illustrative impacts of the IFRS17 implementation on Admiral's presentation of its business, results of operations or financial condition will not differ materially from the illustrative information contained in this presentation.

For the purposes of this presentation, "on transition" or "at transition" are references to forward looking-statements about the Group's expected opening balance sheet information as of January 1, 2022 as calculated under IFRS 17."Post-transition" or similar words refer to forward-looking statements related to the Group's financial reporting from 1 January 2023 onward, i.e., its ordinary course financial reporting under IFRS 17 following the effective date of IFRS 17 on 1 January 2023. Any information(financial or otherwise) relating to any of the foregoing terms should be understood exclusively as constituting the Group's estimates or assessments as of the date hereof, and, as with the other illustrative information in this presentation, is subject to change and qualified in its entirety by the section below.

Important legal information and cautionary statements concerning forward-looking statements and the use of non-GAAP financial measures

Certain statements contained herein may be forward-looking statements. Such statements are based on current expectations and are subject a number of known and unknown risks and uncertainties that may cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Admiral does not undertake to update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

In addition, this presentation refers to certain non-GAAP financial measures, or alternative performance measures ("APMs"), used by management in analysing Admiral's operating trends, financial performance and financial position and providing investors with additional information that management believes to be useful and relevant regarding Admiral's results. These non-GAAP financial measures generally have no standardized meaning and therefore may not be comparable to similarly labelled measures used by other companies. As a result, none of these non-GAAP financial measures should be considered in isolation from, or as a substitute for, the Group's consolidated financial statements and related notes prepared in accordance with IFRS.

Presentation objectives and content

Objectives of the presentation

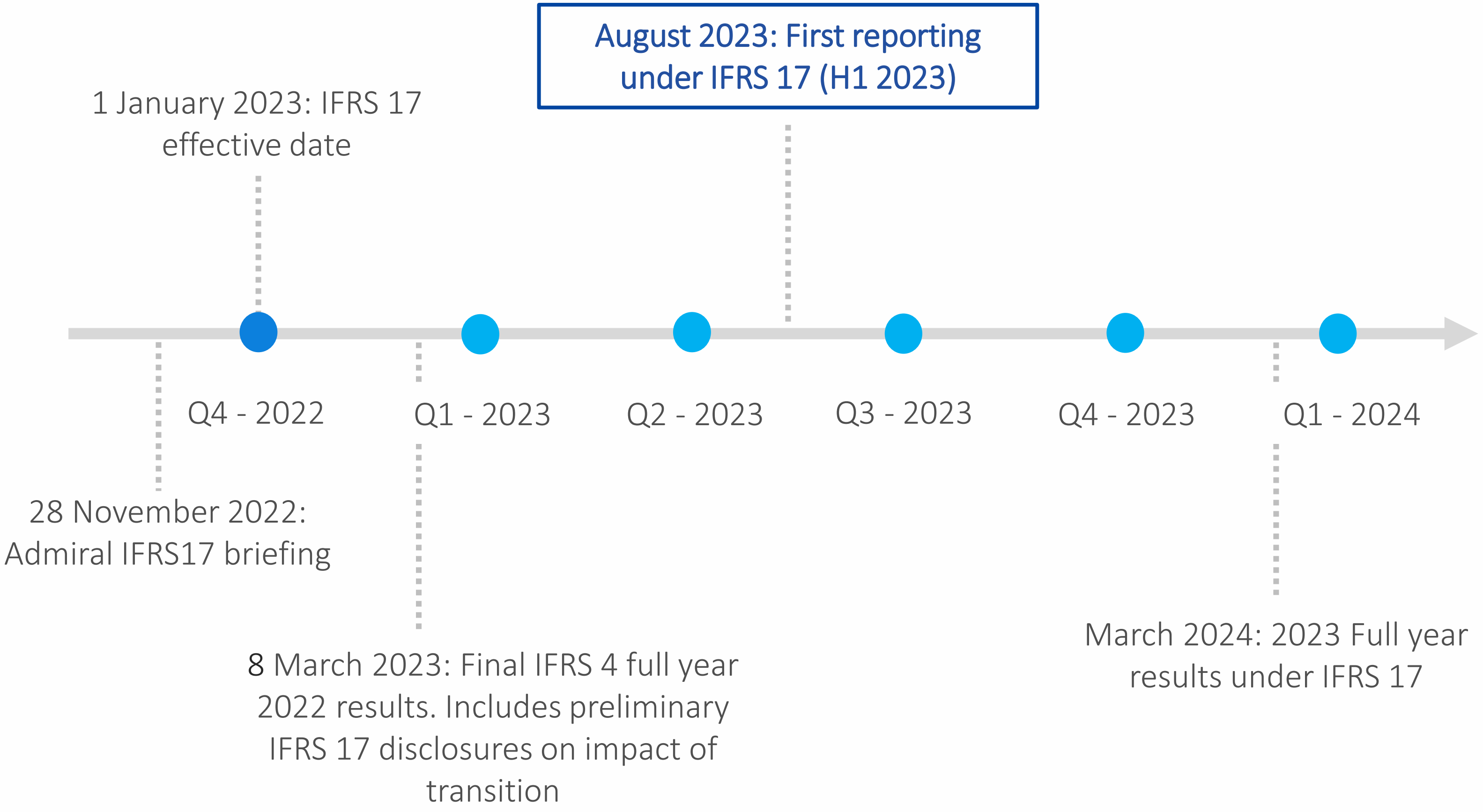
- Provide background to IFRS 17 and expected resulting accounting changes
- Focus on key impacts of IFRS 17 on Admiral Group plc, at transition and beyond

Content

- Timelines and overview
- Main messages for Admiral
- Balance sheet impact at transition
- Earnings profile post transition
- Presentation and reporting

IFRS 17 Timelines and Overview

IFRS 17 Timeline



- IFRS 17 mandatory for Group and insurance subsidiaries in UK and Gibraltar
- Admiral IFRS 17 implementation programme well progressed, IFRS 9 already adopted
- Final reporting under IFRS 4 in March 2023, for year ended 31 December 2022
- IFRS 17 effective from 1 January 2023
- H1 2023 reporting will include:
  - Balance sheets prepared under IFRS 17 as at:
    - 1 January 2022 (transition balance sheet)
    - 30 June 2022
    - 31 December 2022
    - 30 June 2023
  - Income statements prepared under IFRS 17 for the periods:
    - H1 2022 (comparative)
    - FY 2022
    - H1 2023
- No impact on accounting for non-insurance businesses

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IFRS 17 Overview

IFRS 17 Overview

Measurement of insurance assets and liabilities	• Based on discounted best estimate cashflows plus risk adjustment, and contractual service margin ('CSM') (when using general measurement model ('GMM')) equal to deferred profits for unearned business • Premium allocation approach ('PAA') simplification available for short term contracts for measuring deferred profits, similar to IFRS 4 unearned premium
Level of granularity	• Increased granularity based on line of business and profitability • Prevents offset of profitable contracts against groups of loss making ('onerous') contracts
Gross (direct) business and Reinsurance	• Gross (direct) and reinsurance accounted for and presented separately • Greater potential for mis-match in timing of recognition of gross (direct) profit and related reinsurance cost
Acquisition costs	• Accounting option to either expense all acquisition costs immediately, or defer more acquisition costs
Discounting	• Unwind of discounting of claims reserves presented separately in income statement • Accounting option to take income/charges resulting from changes in discount rates through OCI[1]
Presentation	• Significant changes to presentation of income statement • Enhanced disclosures, particularly in respect of risk adjustment[2]

Notes: (1) Other Comprehensive Income; (2) See slide 25 for further detail

Admiral IFRS 17 accounting choices aim to reduce complexity and minimise earnings volatility where possible

	Accounting approach for Admiral	Rationale
Simplified approach (PAA[1])	• All accounting expected to be under simplified approach (PAA[1])	• Lower operational complexity • Simplified reporting
Discount rates / OCI[2] options taken	• Bottom up approach: Risk free rate (same as Solvency II) plus illiquidity premium • Changes in discount rates disaggregated between P&L and OCI[2] to match movement in the fair value of assets	• Minimise earnings volatility
Risk adjustment	• Confidence level approach, corridor around 90th percentile	• Conservative reserving approach aligned to Group risk appetite and current approach
Expensing of acquisition costs	• All acquisition costs will be expensed, no deferral	• Simplified reporting • Reduced risk of onerous losses • Conservative, closer to cash

Notes: (1) Premium Allocation Approach: See glossary in the appendix for further detail; (2) Other Comprehensive Income

Main Messages for Admiral

Main messages for Admiral

	Messages
No impact on ultimate profitability	• IFRS 17 **does not change ultimate profitability** of business written
No wider business impacts	• **No impact on Group strategy, solvency, dividend policy, cash generation**
One off impact on equity	• **Reduction in equity at transition**, no impact on dividend policy during or post transition
Maintaining conservative reserving policy	• Continue to **maintain conservative reserving policy** under IFRS 17
Changes to underlying accounting	• Accounting will be based on **simplified approach (PAA),** limiting impact, although IFRS 17 results in some change in timing of profit recognition
Enhanced disclosures	• Enhanced disclosures in respect of claims reserves

Balance Sheet impact at transition

Balance Sheet[1] – Reduction in equity at transition

Equity waterfall[1]

IFRS 4 - IFRS 17

- Expected reduction in equity on transition
- No adverse impact on dividend capacity
- Main drivers of impact are:
  - Changes in calculation of claims reserves under IFRS 17
  - Differences in the recognition of quota share reinsurance recoveries
  - A write-off of deferred acquisition costs
- Further detail on impacts included in next slides

Notes: (1) Unaudited draft illustration, subject to change; (2) 'Events not in data' that uplift the best estimate to a probability weighted best estimate under IFRS 17; (3) Onerous loss component shown net of reinsurance recoveries; (4) Coinsurer profit commission (5) Excess of loss reinsurance recoveries (6) Quota share reinsurance

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Comparison of IFRS 4 and IFRS 17 Balance Sheet items

IFRS 4 Balance Sheet items

Gross earned claims reserves

Claims outstanding

- Best estimate of claims
- Discounting only applied to potential and settled PPOs[1]
- Management margin

Gross unearned claims reserves

Unearned premium reserve

- Premiums written less earned
- **Plus** any unexpired risk reserve

IFRS 17 Balance Sheet items

Gross earned claims reserves

Liability for incurred claims ('LIC')[2]:

- Probability weighted best estimate of claims
- Discounting of all claims
- Risk adjustment

Gross unearned claims reserves

Liability for remaining coverage[2] ('LRC'):

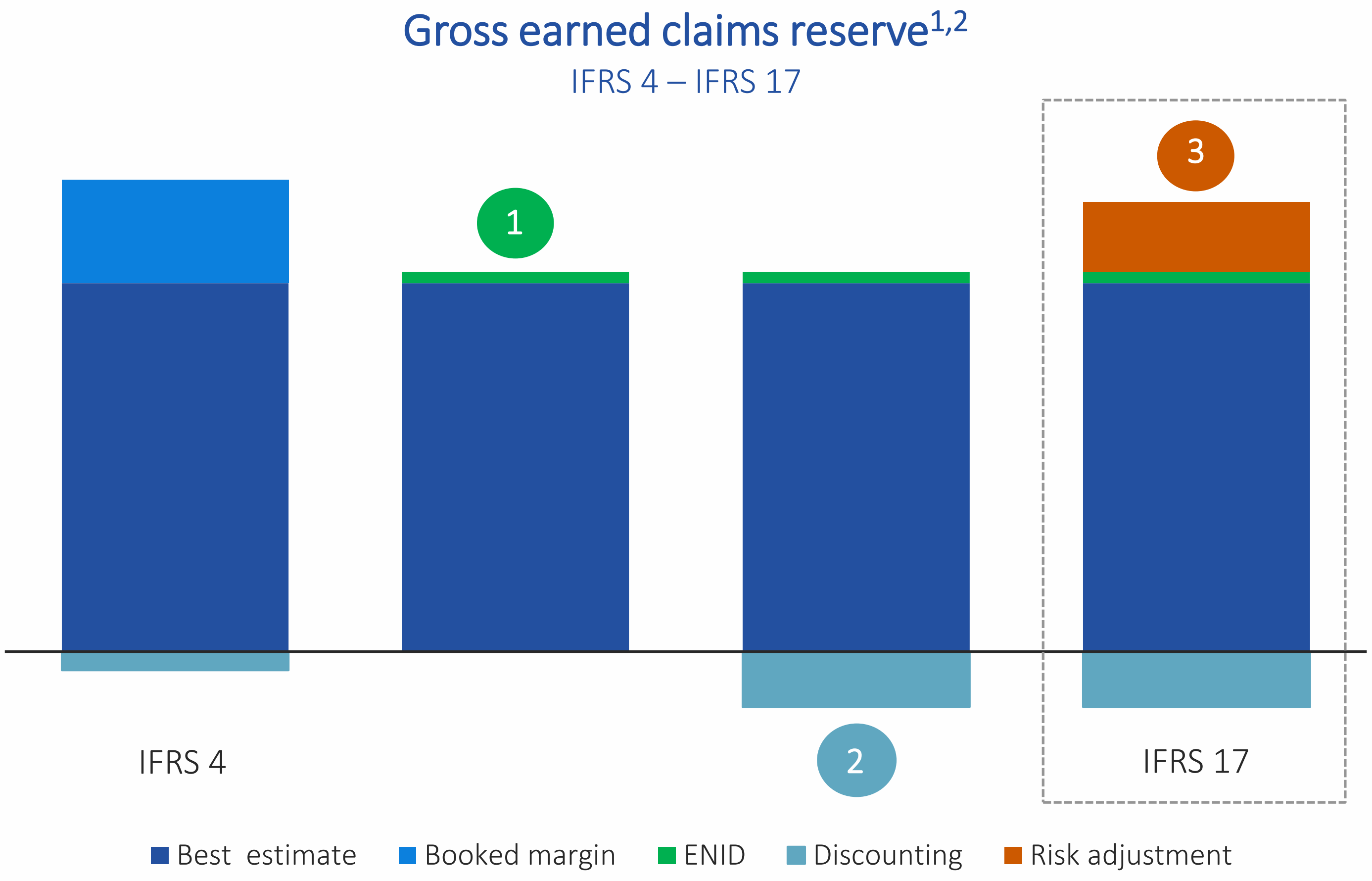
- Premiums written less earned
- **Plus** loss component
- **Minus** policy holder debtors

Key differences to IFRS 4:

- Earned claims reserves
  - Probability weighted best estimate
  - Discounting of all claims
  - Specific risk adjustment to reflect non-financial risk
- Unearned reserves - recognition of loss component more likely relative to unexpired risk reserve:
  - Increased disaggregation e.g. new business and renewals
  - Inclusion of risk adjustment

Notes: (1) Periodic Payment Orders; (2) See glossary in appendix for further detail

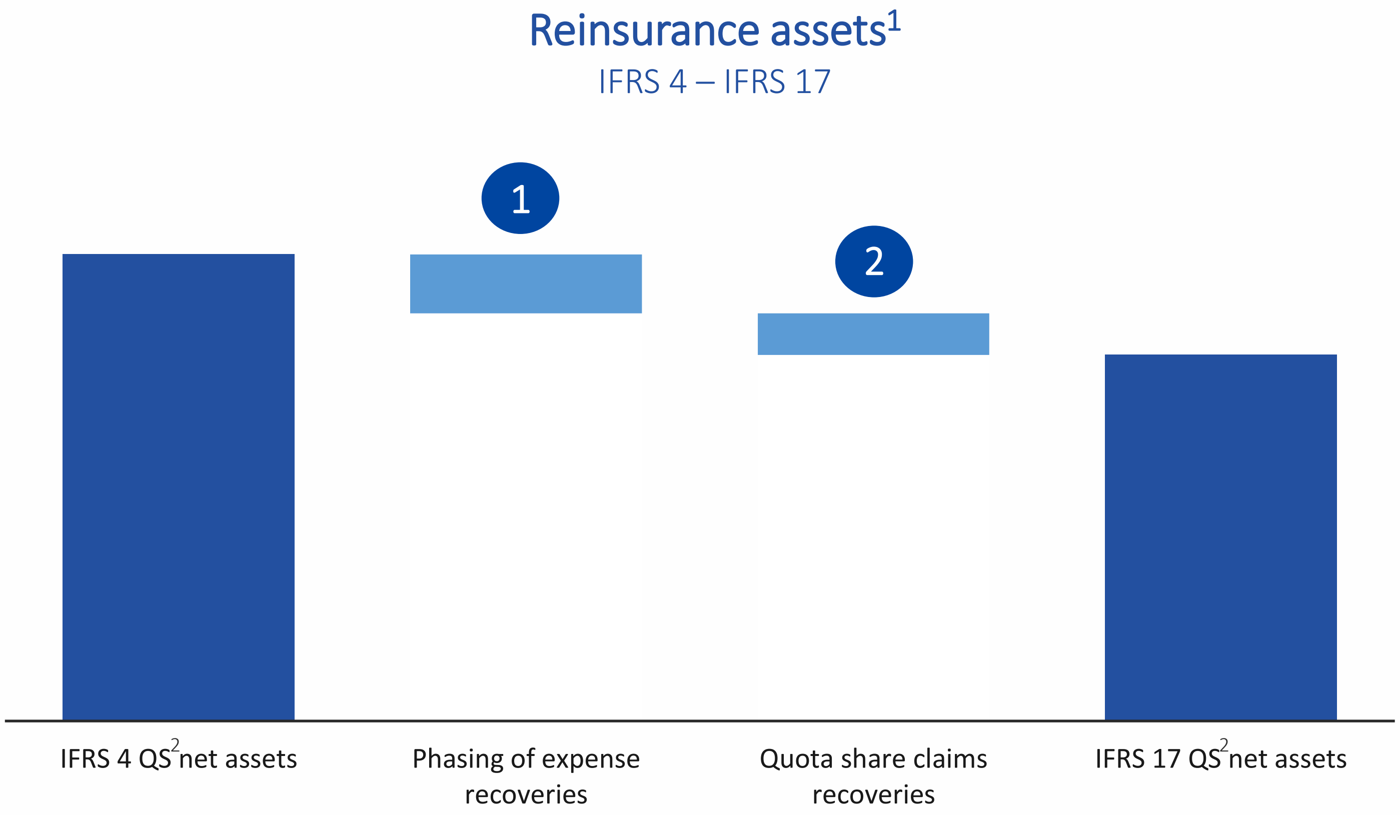
Claims reserves[1] – Lower at transition under IFRS17[2]



1. IFRS 17 best estimate is probability weighted, therefore includes Events Not In Data ('ENID') allowance similar to Solvency II
2. Under IFRS 17, all claims (not just potential and settled PPOs[3]) are discounted, leading to increased discounting of claims reserves
3. Risk adjustment set in range around 90th percentile, in line with conservative reserving approach; anticipate reserve position at upper end of range, but lower than booked margin, at transition date

Notes: (1) Claims reserves net of excess of loss reinsurance recoveries; (2) Unaudited draft illustrations, subject to change; (3) Periodic Payment Orders

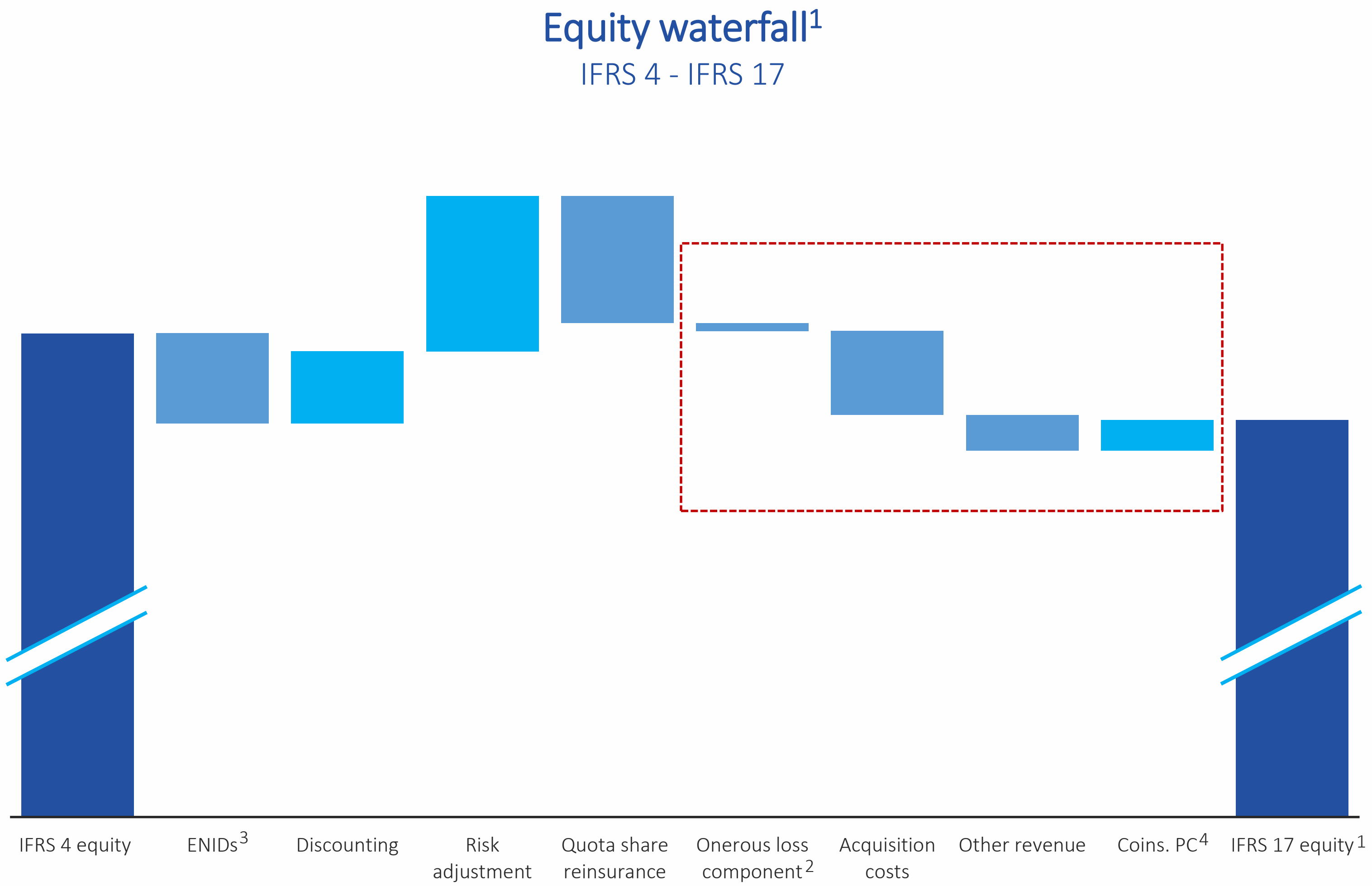
Reinsurance – Reduction in quota share reinsurance assets at transition[1]



1. Timing difference on recovery of quota share reinsurer ceded expenses. Under IFRS 17, expense recoveries earned in line with earning of ceded premium, compared to expense recoveries earned in line with gross incurred expenses under IFRS 4.
2. Lower quota share reinsurance claims recoveries due to lower gross (net of XoL[3]) claims reserves and application of discounting

Notes: (1) Unaudited draft illustrations, subject to change; (2) QS = quota share (or proportional) reinsurance contracts. Admiral enters into both quota share and excess of loss (XoL) reinsurance contracts. The above impact is limited to quota share reinsurance contracts; (3) Excess of loss reinsurance recoveries

Other drivers of transition impact [1]



- Onerous loss component[2] arises due to:
  - Inclusion of risk adjustment – Admiral's conservative reserving approach with cautious risk adjustment driving small onerous loss component
  - Increased disaggregation e.g. new business and renewals
- Write-off of deferred acquisition cost asset is large driver of transition impact
- Change in timing of recognition of other revenue: All underwritten ancillary income (including intermediary commissions) recognised as premium and earned
- Favourable impact on cumulative coinsurance profit commission recognised, driven by reduction in claims reserves at transition

Notes: (1) Unaudited draft illustrations, subject to change; (2) Onerous loss component shown net of reinsurance recoveries; (3) Events Not In Data; (4) Coinsurer profit commission

Earnings profile post transition

Illustrative examples

Illustrative example under IFRS 4 and IFRS 17

Illustrative[1] Ultimate Result for individual underwriting year

IFRS 4	Gross	RI[2,3] (60%)	Net of RI
Premiums	2,000	(1,200)	800
Expenses	(400)	240	(160)
Claims cost	(1,300)	780	(520)
Underwriting result	300	(180)	120
Profit commission	-	156	156
Profit / (Loss)	300	(24)	276

IFRS 17	
Premiums (gross)	2,000
Expenses (gross)	(400)
Claims cost (gross)	(1,245)
Insurance result	355
Reinsurance result	(24)
Finance expense	(55)
Profit / (Loss)	276

- IFRS 4 RI[2] % share of gross premiums, expenses and claims recognised and presented separately
- UWY[4] combined ratio < 98%: Profit commission recognised separately
- If UWY[4] combined ratio > 100% (ultimate): Recognise RI[2] share of investment income

IFRS 17 Reinsurance result:

- Expected ceded premium cost
- Expected cash claims recoveries, including profit commission, RI[2] share of investment income
- Claims cost: Split presentation

- No change to ultimate result: Gross profits and reinsurance costs are the same under IFRS 4 and IFRS 17
- Illustrative example of underwriting year assumptions:
  - £2,000 written premium
  - 20% expense ratio
  - 65% ultimate loss ratio
  - All claims settled after 5 years
- Reinsurance assumption:
  - 60% quota share funds withheld contract
  - Profit commission: 100% of RI[2] profit net of RI[2] margin of 2% of RI[2] premium (£1,200)
- This example will be used as the starting point for later illustrative examples

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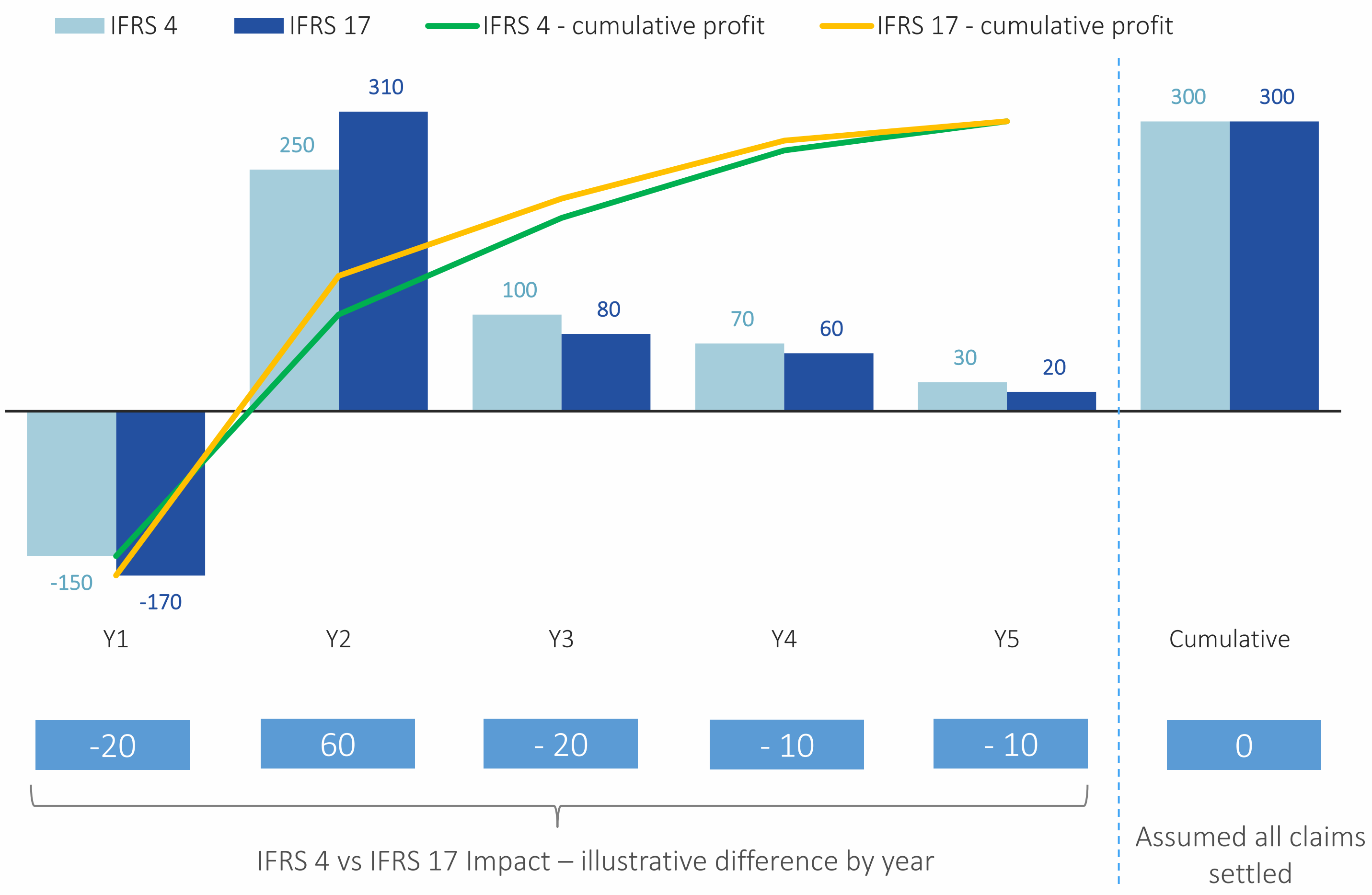
Notes: (1) Example based on gross illustrative example 1 in the appendix; (2) Quota share reinsurance example assumes 60% quota share funds withheld contract with 2% margin; (3) For simplicity, illustrative example assumes no excess of loss reinsurance; (4) Underwriting year

Illustrative example[1]: IFRS 17 implies change in the phasing of profit recognition – gross result[3]

Illustrative[1] phasing of gross profit recognition IFRS 4 vs IFRS 17 for individual UW year[2]



- Loss in year 1 driven by immediate recognition of majority of costs; offset by higher profits in year 2
- Profits in years 3 to 5 driven by release of claims reserves
- Change in phasing of profit recognition in IFRS 17 driven by:
  - Treatment of acquisition costs
  - Impact of discounting and risk adjustment

Notes: (1) Example based on gross illustrative example 1 in the appendix; (2) Underwriting year; (3) Illustrative example assumes no excess of loss reinsurance, for simplicity

Illustration of Quota Share (QS) reinsurance[1] earnings profile: IFRS 4 and IFRS 17

QS earnings profile: Example 1[2]

Individual UWY[4]	Year 1	Year 2	Cum.(Yr 2)
Gross result	(150)	250	100
RI[1] result IFRS 4	90	(114)	(24)
RI[1] result IFRS 17	(12)	(12)	(24)

QS earnings profile: Example 2[3]

Individual UWY[4]	Year 1	Year 2	Year 3	Cum.
Gross result	(220)	180	60	100
RI[1] result IFRS 4	132	(108)	(48)	(24)
RI[1] result IFRS 17	3	(27)	-	(24)

Example 2: IFRS 4 Income Statement after 24 months

IFRS 4	Gross	RI[1]	Net of RI
Premiums	2,000	(1,200)	800
Expenses	(400)	240	(160)
Claims	(1,640)	984	(656)
Profit/(loss)	(40)	24	(16)

After 24 months under IFRS 4:

- IFRS 4 Asset on balance sheet = RI[1]% gross loss
- Year 3 loss in commutation = £48 being difference between asset and cost of reinsurer margin

Example 2: IFRS 17 Income Statement after 24 months

IFRS 17	Gross
Premiums	2,000
Expenses	(400)
Claims[5]	(1,640)
Underwriting result	(40)
Reinsurance result	(24)
Profit / (Loss)	(64)

After 24 months under IFRS 17:

- Cost of margin recognised
- No further recoveries recognised

- IFRS 4 recoveries = reinsurance share of gross result, plus profit commission
- Contracts commuted after 24 months if no further recoveries expected: Potential loss on commutation IFRS 4
- IFRS 17 recoveries = expected recoveries over full underwriting year
- Cost of reinsurance contract ultimately the same - but timing differs
- Loss on commutation not expected under IFRS 17 due to:
  - Discounting of any potential recoveries
  - Lower gross claims reserves

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Notes: (1) Quota share reinsurance example assumes 60% quota share funds withheld contract with 2% margin; no excess of loss reinsurance for simplicity; (2) Based on illustrative example 1 in the appendix; (3) Based on illustrative example 2 in the appendix; (4) Underwriting year; (5) Gross claims cost assumed equal to IFRS 4, for simplicity

IFRS 17 gives rise to a change in the phasing of earnings: Quota share reinsurance

IFRS 4: Illustrative phasing of quota share reinsurance[1] earnings profile

IFRS 4	Year 1	Year 2	Year 3	Year 4	Cumulative
UWY[4] 1	90	(114)	-	-	(24)
UWY[4] 2		132	(108)	(48)	(24)
UWY[4] 3			90	(114)	(24)
UWY[4] 4				90	-
		18	(18)	(72)	

UWY[4] profile
Illustrative example 1[2]
Illustrative example 2[3]
Illustrative example 1[2]
Illustrative example 1[2]

IFRS 17: Illustrative phasing of quota share reinsurance earnings profile

IFRS 17	Year 1	Year 2	Year 3	Year 4	Cumulative
UWY[4] 1	(12)	(12)	-	-	(24)
UWY[4] 2		3	(27)	-	(24)
UWY[4] 3			(12)	(12)	(24)
UWY[4] 4				(12)	-
		(9)	(39)	(24)	
Difference (vs. IFRS 4)		(27)	(21)	48	-

UWY[4] profile
Illustrative example 1[2]
Illustrative example 2[3]
Illustrative example 1[2]
Illustrative example 1[2]

- Example shows all UWYs[4] perform consistently other than UWY[4] 2. Reinsurance cost recognition based on gross illustrative examples 1 and 2 in appendix
- Impact: Timing of reinsurance cost in financial years 2-4 is different between IFRS 4 and IFRS 17
- Greater inconsistency between gross performance of underwriting years = greater difference in timing of recognition of reinsurance costs
- IFRS 17 accelerates recognition of reinsurance costs relative to IFRS 4

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Notes: (1) Reinsurance, example assumes at 60% of gross, Funds withheld contract with 2% margin; (2) Based on illustrative gross example 1 in appendix; (3) Based on illustrative gross example 2 in the appendix; (4) Underwriting year

Presentation and reporting

Expect significant changes to the way results are presented

Condensed income statement

IFRS 4	
Revenue	Net earned premium
	Other revenue
	Profit commission
	Net investment result
Expenses	Net insurance claims
	Net insurance expenses
	Other expenses
Result	Profit before tax

IFRS 17	
Insurance service result	Insurance revenue
	Insurance service expenses
	Reinsurance result
	-
Net investment result	Net investment income
	Insurance finance expenses
	-
Other income & expenses	Profit commission from coinsurance
	Other net revenue
Result	Profit before tax

- Insurance revenue gross of reinsurance; includes some IFRS 4 "other income"
- Insurance services expenses include discounted claims costs plus insurance expense
- Reinsurance result includes all reinsurance premiums, discounted claims and expense recoveries, profit commission
- Net investment result includes cost of unwinding discounting of claims reserves at locked-in rate
- Other income and expenses lower than IFRS 4 - comprised of:
  - Fees and income from products not underwritten by the Group
  - Profit commission from coinsurance arrangements

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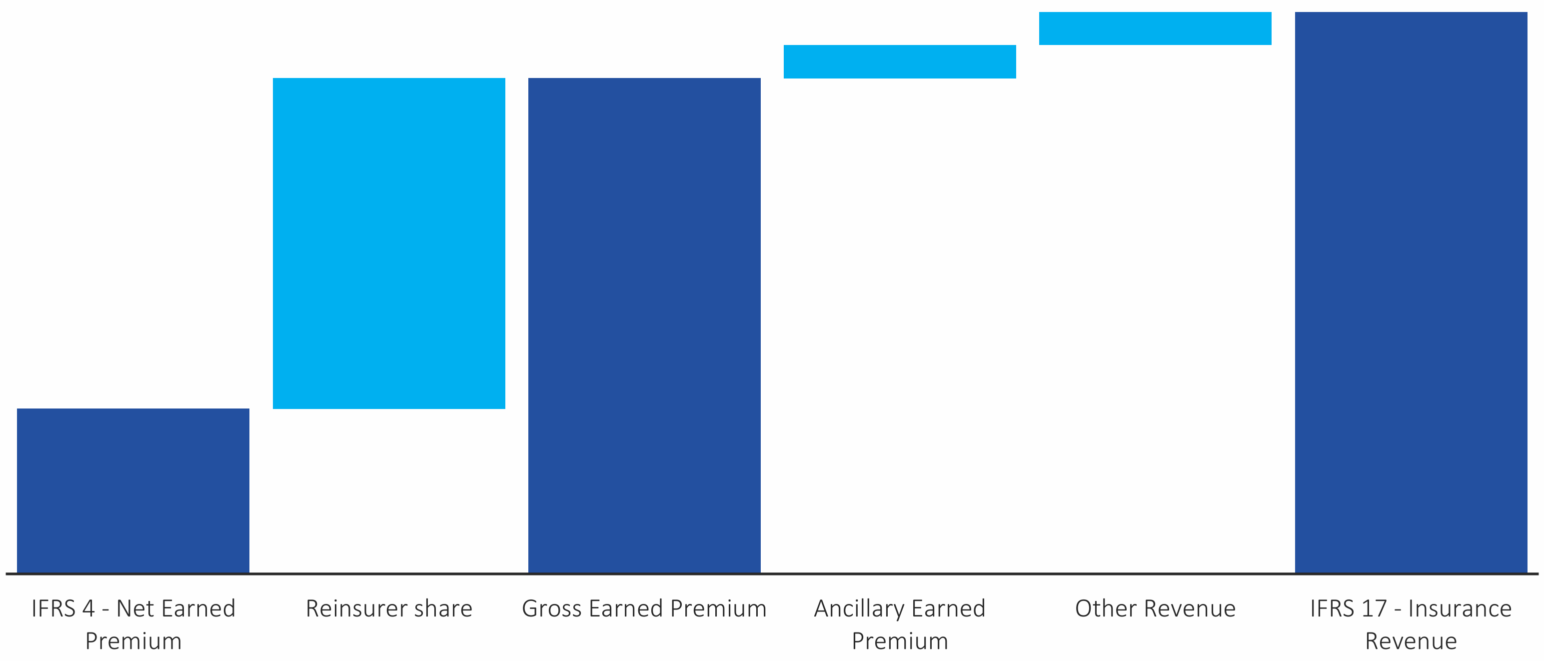
Insurance revenue under IFRS 17

Insurance revenue[1]

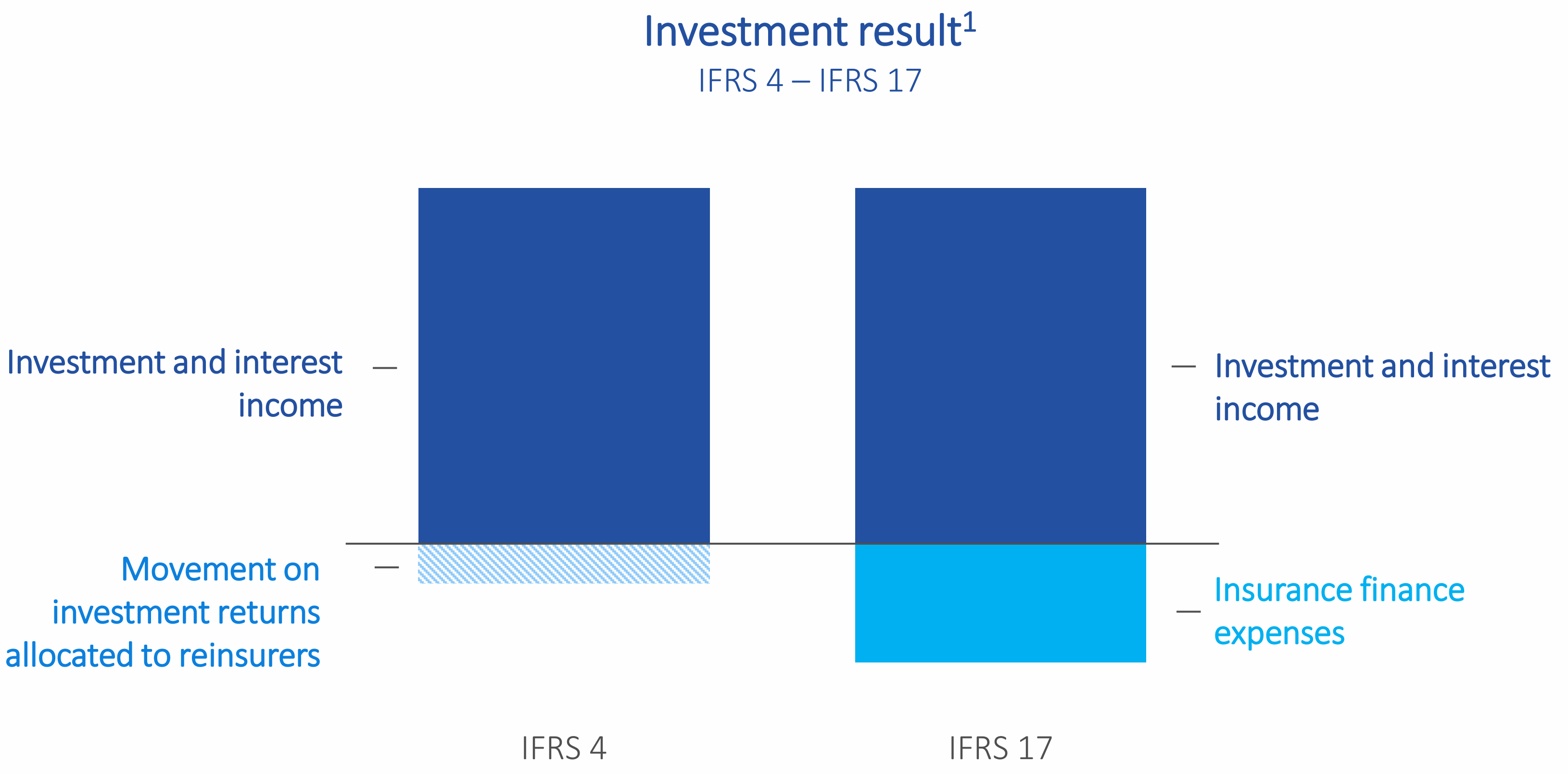
IFRS 4 – IFRS 17



- Net earned premium will no longer be presented
- Insurance revenue will be higher than gross earned premium due to:
  - The inclusion of all underwritten ancillaries as premium (this will lead to a corresponding reduction in other commissions and fees)
  - Some instalment fees and administration fees will be presented as part of insurance revenue (again leading to a reduction in other commissions and fees)

Notes: (1) Illustrative impact

Net investment result components under IFRS 17



- Investment and interest income on assets unaffected by IFRS 17
- Movement on investment return allocated to reinsurers included within reinsurance result under IFRS 17
- Introduction of 'Insurance finance expenses' under IFRS 17 representing unwind of the discounting of insurance liabilities at locked-in rate
- IFRS 17 net investment result includes both asset return and unwind of insurance liability discount which effectively reflects the investment margin
- Difference between results from applying locked-in rates and current rates for claims liabilities recognised in Other Comprehensive Income

Notes: (1) Illustrative only; (2) Reflects investment income from cash retained by Admiral related to ceded quota share reinsurance

Disclosures under IFRS 17

	Disclosures under IFRS 17
Risk adjustment	• Confidence level (e.g. xx percentile) disclosed at each reporting period, with explanations of movements between period • Reconciliation of opening to closing risk adjustment, with additions and releases in period, separately for UK and international
Best estimate	• Reconciliation of opening to closing position including incurred claims and releases on best estimate, separately for UK and international
Claims triangles	• Claims triangles reconciling undiscounted gross cumulative claims by underwriting year, after each accident year, separately for UK and international businesses
Discount rates	• Discount rates applied at time intervals e.g. 1 year, 5 years, 10 years, for UK and international businesses separately
Undiscounted liability for incurred claims	• Undiscounted claims reserves split into claims due in tranches e.g. < 1 year; 1-5 years; > 5 years
Additional sensitivities[1]	• Changes in ultimate loss ratio • Changes in risk adjustment • Changes in discount rates

Notes: (1) Examples provided of additional sensitivities that may be provided. These will be in addition to sensitivities already disclosed such as those around Solvency II

Key performance indicators across our operations[1]

Metric	IFRS 4	IFRS 17	Commentary
Group	• Earnings per share • Return on Equity • Solvency ratio	• Earnings per share • Return on Equity • Solvency Ratio	• Measures still relevant under IFRS 17
Revenue	• Turnover	• Turnover	• No overall change to Turnover composition
Profitability	• Profit before tax • Reported loss ratio • Reported expense ratio • Reported combined ratio	• Profit before tax • Reported loss ratio • Reported expense ratio • Reported combined ratio • Insurance service margin[2]	• Reported loss, expense and combined ratios no longer reported net of all reinsurance • Insurance service margin[2] reported to incorporate impact of reinsurance result

Notes: (1) See appendix for detail of other reported metrics under IFRS 17 (2) Further detail on following slide

Illustrative impact on key ratios

IFRS 4 Income Statement

	Gross net of XoL[2]	QS RI[3]	Net
Premiums earned	1,000	(600)	400
Claims incurred	(700)	420	(280)
Expenses incurred	(200)	120	(80)
Underwriting result	100	(60)	40
Profit commission[1]	-	30	30
Underwriting result inc. profit commission	100	(30)	70

Loss ratio	70%	70%	70%
Expense ratio	20%	20%	20%
Combined ratio (excluding profit commission)	90%	90%	90%

- IFRS 4 Loss and expense ratios reported net of all reinsurance
- Combined ratio is sum of loss and expense ratio
- Profit commission reported as separate metric under IFRS 4

IFRS 17 Income Statement

	Gross net of XoL[2]	QS RI[3]	Net
Premiums earned	1,000		
Claims incurred	(700)		
Expenses incurred	(200)		
QS reinsurance result	-	(30)	
Insurance service result	100	(30)	70

Loss ratio[4]	70%		
Expense ratio[4]	20%		
Combined ratio[4]	90%		
Insurance service margin		70 / 1000	7%

- IFRS 17 Loss and expense ratios expected to be reported net of excess of loss reinsurance
- Expect reported loss and expense ratios to align to IFRS 4 reported ratios
- Insurance service margin includes reinsurance result, so includes RI profit commission; denominator being gross premiums earned

Notes: (1) Profit commission from reinsurers reported separately under IFRS 4, included in reinsurance result in IFRS 17; (2) Simplified example assumes no excess of loss reinsurance in place; (3) Quota share reinsurance; (4) Loss, expense and combined ratios under IFRS 17 expected to be reported net of the impact of excess of loss reinsurance.

Wrap up

Main messages for Admiral

	Messages
No impact on ultimate profitability	• IFRS 17 **does not change ultimate profitability** of business written
No wider business impacts	• **No impact on Group strategy, solvency, dividend policy, cash generation**
One off impact on equity	• **Reduction in equity at transition**, no impact on dividend policy during or post transition
Maintaining conservative reserving policy	• Continue to **maintain conservative reserving policy** under IFRS 17
Changes to underlying accounting	• Accounting will be based on **simplified approach (PAA),** limiting impact, although IFRS 17 results in some change in timing of profit recognition
Enhanced disclosures	• Enhanced disclosures in respect of claims reserves

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Appendix

Glossary

TERM	DEFINITION
Annual Cohorts	All contracts within a group originated from the same 12 month period
Coverage period	The period during which the entity provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract
Financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract
Fulfilment cash flows	An explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk
General measurement model ('GMM')	Also known as the building block approach ('BBA') is the IFRS 17 measurement approach that comprises the following: (a) the fulfilment cash flows, which comprise: (i) the best estimates of future cash flows; (ii) an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and (iii) a risk adjustment for non-financial risk. (b) the contractual service margin, which represents the estimated unearned profit the entity will recognise as and when it provides insurance contract services to the policyholder in the future
Group of insurance contracts	A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts written within a period of no longer than one year and that, at initial recognition: (a) are onerous, if any; (b) have no significant possibility of becoming onerous subsequently, if any; or (c) do not fall into either (a) or (b), if any
Insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio
Insurance contract	A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder

Glossary

TERM	DEFINITION
Liability for incurred claims ('LIC')	An entity's obligation to (a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and (b) pay amounts that are not included in (a) and that relate to insurance contract services that have already been provided
Liability for remaining coverage ('LRC')	An entity's obligation to (a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the coverage period) and (b) pay amounts under existing insurance contracts that are not included in (a) and that relate to insurance contract services not yet provided (ie the obligations that relate to future provision of insurance contract services)
Portfolio of insurance contracts	Insurance contracts subject to similar risks and managed together
Premium Allocation Approach ('PAA')	Under the PAA, the general measurement model may be simplified for certain contracts to measure the liability for remaining coverage. Generally the PAA measures the liability for remaining coverage as the amount of premiums received net of acquisition cash flows paid, less the amount of premiums and acquisition cash flows that have been recognised in the profit and loss over the expired portion of the coverage period based on the passage of time
Reinsurance contract	An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts)
Retrospective approach (full)	An approach at transition whereby as at the transition date the entity will identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied
Risk adjustment for non-financial risk	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts

Illustrative example 1

Key assumptions and inputs – illustrative only

ASSUMPTIONS		Earned - Y1	Earned - Y2
Written premiums	2,000	50%	50%
Expense ratio	20%	88%	13%

ASSUMPTIONS	Ultimate Loss Ratio		Ultimate Combined Ratio	
	IFRS 4[2]	IFRS 17[2,3]	IFRS 4[2]	IFRS 17[2,3]
Year 1	70%	68%	90%	88%
Year 2	68%	66%	88%	86%
Year 3	66%	64%	86%	84%
Year 4	65%	62%	85%	82%
Year 5	65%	62%	85%	82%

ASSUMPTIONS	Booked[1] Loss Ratio		Booked[1] Combined Ratio	
	IFRS 4[2]	IFRS 17[2,3]	IFRS 4[2]	IFRS 17[2,3]
Year 1	80%	77%	100%	97%
Year 2	75%	72%	95%	92%
Year 3	70%	67%	90%	87%
Year 4	67%	63%	87%	83%
Year 5	65%	62%	85%	82%

IFRS 4	Year 1	Year 2	Year 3	Year 4	Year 5
Premiums	1,000	1,000			
Expenses	(350)	(50)			
Claims incurred/releases	(800)	(700)	100	70	30
Result	(150)	250	100	70	30
IFRS 4 Cumulative result	(150)	100	200	270	300

IFRS 17	Year 1	Year 2	Year 3	Year 4	Year 5
Premiums	1,000	1,000			
Expenses	(400)				
Claims incurred/releases	(770)	(675)	104	72	24
Insurance result	(170)	325	104	72	24
Unwind of discounting[3]		(15)	(24)	(12)	(4)
Result	(170)	310	80	60	20
IFRS 17 Cumulative result	(170)	140	220	280	300

Notes: (1) Booked loss and combined ratio include management margin under IFRS 4, risk adjustment under IFRS 17; (2) Ratios rounded to nearest whole number; (3) Finance expenses (unwind of discounting) presented separately under IFRS 17

Illustrative example 2

Key assumptions and inputs – illustrative only

ASSUMPTIONS		Earned - Y1	Earned - Y2
Written premiums	2,000	50%	50%
Expense ratio	20%	88%	13%

ASSUMPTIONS	Ultimate Loss Ratio		Ultimate Combined Ratio	
	IFRS 4[2]	IFRS 17[2,3]	IFRS 4[2]	IFRS 17[2,3]
Year 1	77%	74%	97%	94%
Year 2	75%	72%	95%	92%
Year 3	73%	70%	93%	90%
Year 4	72%	69%	92%	89%
Year 5	72%	69%	92%	89%

ASSUMPTIONS	Booked[1] Loss Ratio		Booked[1] Combined Ratio	
	IFRS 4[2]	IFRS 17[2,3]	IFRS 4[2]	IFRS 17[2,3]
Year 1	87%	84%	107%	104%
Year 2	82%	79%	102%	99%
Year 3	77%	74%	97%	94%
Year 4	74%	70%	94%	90%
Year 5	72%	69%	92%	89%

IFRS 4	Year 1	Year 2	Year 3	Year 4	Year 5
Premiums	1,000	1,000			
Expenses	(350)	(50)			
Claims incurred/releases	(870)	(770)	100	70	30
Result	(220)	180	100	70	30
IFRS 4 Cumulative result	(220)	(40)	60	130	160

IFRS 17	Year 1	Year 2	Year 3	Year 4	Year 5
Premiums	1,000	1,000			
Expenses	(400)				
Claims incurred/releases	(840)	(735)	104	66	30
Insurance result	(240)	265	104	66	30
Unwind of discounting[3]		(15)	(24)	(16)	(10)
Result	(240)	250	80	50	20
IFRS 17 Cumulative result	(240)	10	90	140	160

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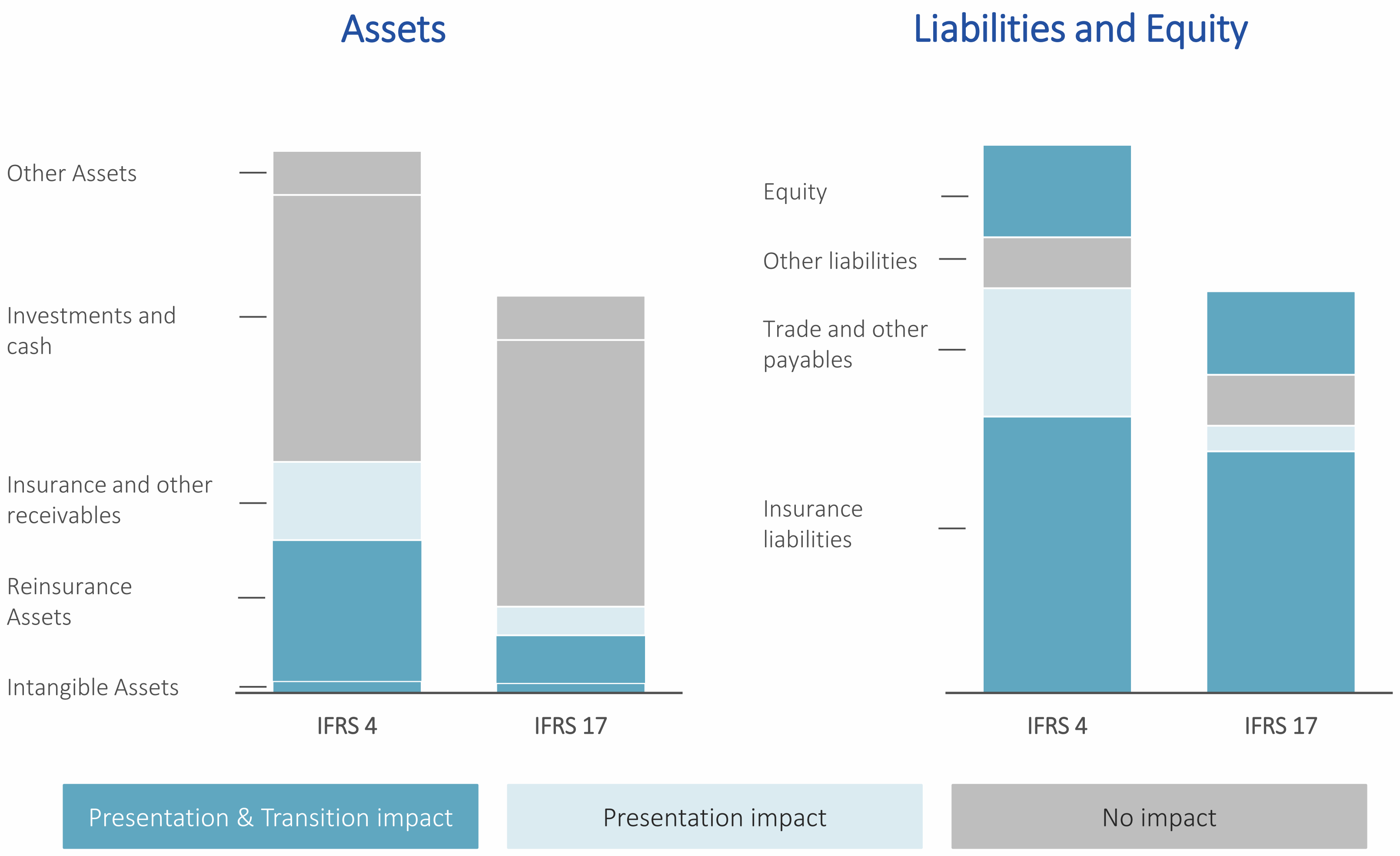
Notes: (1) Booked loss and combined ratio include management margin under IFRS 4, risk adjustment under IFRS 17; (2) Ratios rounded to nearest whole number; (3) Finance expenses (unwind of discounting) presented separately under IFRS 17

Further metrics reported across our operations

Metric	IFRS 4	IFRS 17	Commentary
Other insurance financial metrics	• Other revenue and instalment income • Other revenue per vehicle • Written basis expense ratio • Reported loss ratio before releases • Claims releases – original net share • Claims releases – commuted share	• Other revenue and instalment Income • Other revenue per vehicle • Written basis expense ratio • Reported loss ratio before releases • Claims releases	• Information on other revenue and instalment income will continue to be presented separately to enable calculations of other revenue per vehicle • Written basis expense ratio provided • Claims releases no longer reported net of quota share reinsurance

Balance sheet under IFRS 4 and IFRS 17[1]



- Removal of DAC[2] from intangibles
- Lower reinsurance assets:
  - Timing of recovery of ceded expenses, and lower recoveries arising from lower gross claims costs
  - Presentation changes as reinsurance asset is shown net of amounts owed to the reinsurer
- Reduced insurance and other receivables: Premium debtors presented within insurance liabilities ('LRC')[3] under IFRS 17
- Lower insurance liabilities due to:
  - Transition impacts (discounting, risk adjustment)
  - Presentational changes
    - LRC is unearned premium net of premium debtors
    - Other insurance liabilities presented as part of LIC (previously in trade payables)

Notes: (1) Illustrative impacts; (2) Deferred Acquisition Costs; (3) See glossary in appendix for definition