

**THIS DOCUMENT COMPRISES THE DIRECTORS' EXPLANATORY REPORT FOR THE PURPOSES OF
REGULATION 6 OF THE EUROPEAN COMMUNITIES (CROSS-BORDER MERGERS) REGULATIONS 2008
(AS AMENDED) OF IRELAND**

DIRECTORS' EXPLANATORY REPORT

of

LIBERTY INSURANCE DESIGNATED ACTIVITY COMPANY

in connection with a proposed cross-border merger of

LIBERTY INSURANCE DESIGNATED ACTIVITY COMPANY

(as transferor company)

- and -

LIBERTY SEGUROS COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A.

(as successor company)

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1 INTRODUCTION

- 1.1 This directors' explanatory report (the **Report**) has been prepared in connection with the proposed cross-border merger of Liberty Insurance Designated Activity Company (as transferor company) (**LIDAC**) into Liberty Seguros Compañía De Seguros Y Reaseguros, S.A. (**Liberty Seguros**) (the **Merger**). The Merger will be implemented in accordance with the relevant provisions of Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 (**Directive (EU) 2017/1132**) as implemented in Ireland by the European Communities (Cross-Border Mergers) Regulations 2008 (as amended) (the **Irish Regulations**) and as implemented in Spain by Spanish Law 3/2009 of 3 April on Structural Modifications of Business Corporations (*Ley 3/2009, de 3 de abril, de Modificaciones Estructurales de las Sociedades Mercantiles*) (the **LME**).
- 1.2 This Report has been prepared for and approved by the board of directors of LIDAC in accordance with regulation 6(1)(a) of the Irish Regulations.
- 1.3 As required by regulation 6(2) of the Irish Regulations, the purpose of this Report is to:
 - 1.3.1 explain the implications of the Merger for members, creditors and employees of LIDAC; and
 - 1.3.2 state the legal and economic grounds for the common draft terms of merger dated on or about the date of this Report, a copy of which has been attached as Schedule 1 to this Report (the **Merger Plan**).
- 1.4 The board of directors of Liberty Seguros have separately prepared a directors' report in accordance with the LME (the **Liberty Seguros Directors' Report**).

2 DEFINITIONS

- 2.1 Unless the context otherwise suggests, capitalised terms used but not otherwise defined in this Report shall have the same meaning as defined terms in the Merger Plan.
- 2.2 Any terms that are defined in the Irish Regulations shall have the same meaning when used herein.

3 THE LEGAL GROUNDS FOR THE MERGER PLAN (regulation 6(2)(b) of the Irish Regulations)

- 3.1 The Merger is being carried out as a cross-border merger in accordance with Chapter II of Title II of Directive (EU) 2017/1132, as implemented by the Irish Regulations and the LME. As Liberty Seguros is the holder of 100% of the issued share capital of LIDAC, the Merger will be implemented by way of a merger by absorption of LIDAC by Liberty Seguros in accordance with the Merger Plan, which has been produced jointly by LIDAC and Liberty Seguros in accordance with regulation 5 of the Irish Regulations and article 30 of the LME.
- 3.2 Completion of the Merger is conditional upon satisfaction of the following requirements specified in the LME and the Irish Regulations:
 - 3.2.1 the shareholders of both Liberty Seguros and LIDAC approving the Merger, as described in more detail in paragraph 2.3.3 of the Merger Plan;
 - 3.2.2 pursuant to regulation 13 of the Irish Regulations, a pre-merger certificate having been issued by the High Court of Ireland confirming that LIDAC has fully and properly completed the pre-merger requirements, being the requirements set out in regulations 5 to 13 of the Irish Regulations; and
 - 3.2.3 pursuant to article 46 of the LME, registration of the Merger with the Spanish Commercial Registry.
- 3.3 In addition, completion of the Merger is conditional upon:

- 3.3.1 the High Court in Ireland making orders sanctioning the Portfolio Transfer;
 - 3.3.2 the Spanish Ministry of Economy and Competitiveness granting the authorization to the extension of the administrative authorization of Liberty Seguros to insurance class 15 (suretyship), in accordance with art. 20.2.a) of Law 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance undertakings and art. 7 of Royal Decree 1060/2015, of 20 November, on the regulation, supervision and solvency of insurance and reinsurance undertakings; and
 - 3.3.3 the publication in the Spanish Official Gazette by the DGS of the authorization to the Merger and the Portfolio Transfer granted by the Central Bank pursuant to the 2015 Regulations.
- 3.4 The Merger will become effective on the Effective Date, being the date on which the Merger public deed, granted before a Spanish notary, is filed with the Commercial Registry of Madrid. The Effective Date is currently proposed as 11.59 p.m. on 31 December 2018.
- 3.5 Upon completion of the Merger and the Portfolio Transfer, LIDAC will be dissolved without going into liquidation upon which all of its assets and liabilities shall be transferred to and acquired by Liberty Seguros, which will continue operating the non-life insurance business of LIDAC in Ireland through the Branch.
- 4 THE ECONOMIC GROUNDS FOR THE MERGER PLAN (regulation 6(2)(b) of the Irish Regulations)**
- 4.1 The Group has carefully examined its operations in Europe with a view to enhancing its efficiency and optimizing its structure, with particular regard to the markets in which it operates, as well as to changes to regulation and efficient capital management.
- 4.2 Having considered a number of proposals, the Group now intends to consolidate its Irish, Portuguese and Spanish insurance underwriting platforms in Europe.
- 4.3 In this context, the Group intends to carry out an intra-group restructuring whereby Liberty Seguros will absorb LIDAC by virtue of the Merger. In addition, and simultaneously with the Merger, Liberty Seguros will absorb Liberty Portugal, by virtue of a cross-border merger (the **Merger by Absorption of Liberty Portugal**, and, together with the Merger, the **Mergers**).
- 4.4 Upon completion of the Mergers and the Portfolio Transfer, LIDAC will be dissolved without going into liquidation upon which all of its assets and liabilities shall be transferred to and acquired by Liberty Seguros, and thereafter the insurance business of LIDAC will be operated by Liberty Seguros on a freedom of establishment basis through the Branch. Likewise, the insurance business of Liberty Portugal will be operated by Liberty Seguros in Portugal on a freedom of establishment basis.
- 4.5 As a consequence, the board of directors of LIDAC, as well as the board of directors of Liberty Seguros (as is indicated in the Liberty Seguros Directors' Report), are of the view that the Merger will imply, among others, the following benefits:
- 4.5.1 the simplified structure will lead to operational synergies and reduced administrative and regulatory complexity for the Group;
 - 4.5.2 it will avoid duplication and will take advantage of the significant infrastructure that the Group has established in Spain to service the needs of its clients;
 - 4.5.3 it will facilitate greater capital efficiency within the Group by rationalizing the number of separate insurance companies in the Group in Europe; and
 - 4.5.4 it will create a larger combined pool of capital available to policyholders to meet claims.

5 IMPLICATIONS OF THE MERGER FOR THE MEMBERS OF LIDAC (regulation 6(2)(a) of the Irish Regulations)

- 5.1 As explained above in section 3.1 of this Report, Liberty Seguros is the holder of 100% of the issued share capital of LIDAC.
- 5.2 Liberty Seguros will be asked to approve the Merger at the LIDAC EGM.
- 5.3 Upon completion of the Merger, LIDAC will be dissolved without going into liquidation and consequently Liberty Seguros will no longer hold shares in LIDAC. The implication of this for Liberty Seguros is that rather than recording its holding of LIDAC's shares on its balance sheet, it will instead directly hold all of LIDAC's assets and liabilities on its balance sheet with effect from the Accounting Date.

6 IMPLICATIONS OF THE MERGER FOR THE CREDITORS OF LIDAC (regulation 6(2)(a) of the Irish Regulations)

- 6.1 Pursuant to regulation 19 of the Irish Regulations and article 22 of the LME, all and any assets of LIDAC immediately prior to the Effective Date and all and any liabilities of LIDAC immediately prior to the Effective Date will transfer to Liberty Seguros. Persons who were creditors or policyholders of LIDAC before the Effective Date will have the same rights and obligations following the Effective Date, but in relation to Liberty Seguros, not LIDAC. Therefore, creditors and policyholders of LIDAC as of the Effective Date will become creditors and policyholders of Liberty Seguros as of such date.
- 6.2 LIDAC is on the date of this Report, a solvent entity and the directors of LIDAC have no reason to believe that LIDAC will not be a solvent entity immediately prior to the Merger. Both LIDAC and Liberty Seguros are regulated entities under their respective regulatory regimes and under legislation implementing applicable European insurance laws, including the Solvency II Directive (2009/138/EC), and accordingly both companies must comply with the relevant regulatory capital requirements under their respective regulatory regimes.
- 6.3 Therefore, in the opinion of the directors of LIDAC, the interests of the creditors and policyholders of LIDAC will not be prejudiced in any way as a result of the Merger.

7 IMPLICATIONS OF THE MERGER FOR THE EMPLOYEES OF LIDAC (regulation 6(2)(a) of the Irish Regulations)

- 7.1 Upon completion of the Merger, the rights and obligations arising from the contracts of employment of LIDAC will transfer to Liberty Seguros. This means that employees of LIDAC shall automatically become employees of Liberty Seguros on the same terms and conditions as they were employed by LIDAC immediately prior to the Effective Date.
- 7.2 Save as provided in section 7.4 below, the change of employer will be the only implication of the Merger for the employees of LIDAC who will continue to work for the Branch in Ireland in the same role and on the same terms and conditions as they were employed by LIDAC immediately prior to the Merger. The employees of LIDAC will enjoy the same rights, entitlements and benefits following the Merger and shall not be prejudiced in any way by the Merger. Accrued employee entitlements under Irish law shall be preserved and shall be enforceable by the former employees of LIDAC against Liberty Seguros following completion of the Merger.
- 7.3 LIDAC will comply with all information and consultation obligations which arise under applicable employment laws in Ireland. In particular, LIDAC will consult with its employees in relation to the transfer of their employment from LIDAC to Liberty Seguros in line with the consultation procedure set out in S.I. No. 131/2003 - European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003 (as amended).

- 7.4 It is anticipated that the Merger is likely to result in a reduction in the number of employees employed by LIDAC following completion of the Merger. However, the precise impact of the Merger on employee headcount has not yet been ascertained. It is intended that a review of the roles required in the Branch in Ireland will take place in the period following the completion of the Merger once the new structure is operational and it is possible to fully assess the extent of both the efficiencies and opportunities created by the new structure. In addition to the foregoing, approximately seven employees currently occupying pre-approval controlled functions will be redeployed into suitable alternative roles in the Branch in Ireland with effect from the completion of the Merger as a result of the fact that there will no longer be a requirement for pre-approval controlled functions in the Branch in Ireland following the completion of the Merger. In addition, the Merger could potentially impact approximately two or three of LIDAC's employees who currently provide support to the board of directors of LIDAC as part of their role, a function which will no longer be required following completion of the Merger. However, given that this work supporting the board constitutes a minor part of these employees' roles, it is not envisaged that the elimination of this function will result in the redundancy of these roles. LIDAC will engage with any impacted employees at the relevant time to discuss the potential impact of the Merger on them and, if necessary, to consult with them in relation to any measures envisaged as a result of the Merger.
- 7.5 Save as provided in section 7.4 above, the directors of LIDAC do not believe that there will be any adverse effects on any of LIDAC's employees as a consequence of the Merger.
- 7.6 The directors of Liberty Seguros have also confirmed in the Liberty Seguros Directors' Report that they do not believe that there will be any adverse effects on any of Liberty Seguros' employees as a consequence of the Merger.

8 AVAILABILITY OF THIS REPORT (regulations 6(1)(b) and 9 of the Irish Regulations)

Copies of this Report shall, for a period of not less than 1 month prior to the LIDAC EGM, be made available to Liberty Seguros and the representatives of LIDAC's employees, or where there are no representatives, to LIDAC's employees, for inspection, free of charge, at the registered office of LIDAC between the hours of 9am and 5pm on business days.

EXECUTED

For and on behalf of the Board of Directors of

LIBERTY INSURANCE DESIGNATED ACTIVITY COMPANY



Signature

Print Name: SHARON O'BRIEN

Title: CEO

Dated: 30/5/2018

**SCHEDULE 1
MERGER PLAN**

DISBURSEMENT PAYMENT SLIP

Filed With

Matter No. 01-423853

Date 060718

Value 280 00

File note Description SWEARING FEE

Client Liberty Insurance DAC

Method of Payment Cash Cheque Draft

Cheque No.

Payee Mark Ronayne

Signature Sean Mulheeny

I.H.D No.

PROCESSED

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1 INTRODUCTION

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- 1.3 As required by regulation 6(2) of the Irish Regulations, the purpose of this Report is to:
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- 3.2 Completion of the Merger is conditional upon satisfaction of the following requirements specified in the LME and the Irish Regulations:
 - 3.2.1 the shareholders of both Liberty Seguros and LIDAC approving the Merger, as described in more detail in paragraph 2.3.3 of the Merger Plan;
 - 3.2.2 pursuant to regulation 13 of the Irish Regulations, a pre-merger certificate having been issued by the High Court of Ireland confirming that LIDAC has fully and properly completed the pre-merger requirements, being the requirements set out in regulations 5 to 13 of the Irish Regulations; and
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- 3.3 In addition, completion of the Merger is conditional upon:

- 3.3.1 the High Court in Ireland making orders sanctioning the Portfolio Transfer;
 - 3.3.2 the Spanish Ministry of Economy and Competitiveness granting the authorization to the extension of the administrative authorization of Liberty Seguros to insurance class 15 (suretyship), in accordance with art. 20.2.a) of Law 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance undertakings and art. 7 of Royal Decree 1060/2015, of 20 November, on the regulation, supervision and solvency of insurance and reinsurance undertakings; and
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- 4.3 In this context, the Group intends to carry out an intra-group restructuring whereby Liberty Seguros will absorb LIDAC by virtue of the Merger. In addition, and simultaneously with the Merger, Liberty Seguros will absorb Liberty Portugal, by virtue of a cross-border merger (the **Merger by Absorption of Liberty Portugal**, and, together with the Merger, the **Mergers**).
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- 4.5 As a consequence, the board of directors of LIDAC, as well as the board of directors of Liberty Seguros (as is indicated in the Liberty Seguros Directors' Report), are of the view that the Merger will imply, among others, the following benefits:
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- 6.2 LIDAC is on the date of this Report, a solvent entity and the directors of LIDAC have no reason to believe that LIDAC will not be a solvent entity immediately prior to the Merger. Both LIDAC and Liberty Seguros are regulated entities under their respective regulatory regimes and under legislation implementing applicable European insurance laws, including the Solvency II Directive (2009/138/EC), and accordingly both companies must comply with the relevant regulatory capital requirements under their respective regulatory regimes.
- 6.3 Therefore, in the opinion of the directors of LIDAC, the interests of the creditors and policyholders of LIDAC will not be prejudiced in any way as a result of the Merger.

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- 7.5 Save as provided in section 7.4 above, the directors of LIDAC do not believe that there will be any adverse effects on any of LIDAC's employees as a consequence of the Merger.
- 7.6 The directors of Liberty Seguros have also confirmed in the Liberty Seguros Directors' Report that they do not believe that there will be any adverse effects on any of Liberty Seguros' employees as a consequence of the Merger.

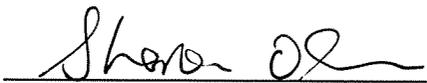
8 AVAILABILITY OF THIS REPORT (regulations 6(1)(b) and 9 of the Irish Regulations)

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EXECUTED

For and on behalf of the Board of Directors of

LIBERTY INSURANCE DESIGNATED ACTIVITY COMPANY



Signature

Print Name: SHARON O'BRIEN

Title: CEO

Dated: 30/5/2018

**SCHEDULE 1
MERGER PLAN**