

*In the matter of the proposed
transfer of insurance business
from*

*Admiral Insurance Company
Limited*

to

*Admiral Europe Compañía de
Seguros, S.A.*

**Supplementary
Report**

2 December 2018

**Strictly Private and
Confidential**

Contacts

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Purpose and use of this report

This report is supplemental to, and should be read in conjunction with, my original Independent Expert report dated 22 August 2018. This supplementary report has been prepared for the Court and is addressed to the Admiral Group Plc for the purpose and on the terms agreed in our engagement letter with them dated 12 December 2017.

This supplementary report has been prepared under Part VII of the Financial Services and Markets Act 2000. We understand that reliance may be placed on it by policyholders, by others affected by the proposed Transfer and by the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”) (together “the Regulators”), as set out in paragraph 2.31 of the PRA’s policy statement on Insurance Business Transfers and paragraph 18.2.34 of the FCA Handbook, for the purpose of understanding the impact of the proposed Transfer on affected policyholders. This supplementary report is not for the use or benefit of any other party or for any other purpose.

This report must be read in its entirety; reading individual sections in isolation could be misleading. In the event that the English version of this report and a translation of it into a language other than English differ, the English version shall prevail.

Signatory

Please do not hesitate to contact us if you have any queries regarding the contents of this report.



Gregory Overton

For and on behalf of PricewaterhouseCoopers LLP

2 December 2018

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1. Introduction

1.1. Purpose

The proposed transfer of all historical business and unexpired policies relating to Spanish and Italian risks written by Admiral Insurance Company Limited (“AICL”) (the “Transferor”), along with certain assets, to Admiral Europe Compañía de Seguros, S.A. (“AECS”) by an insurance business transfer (the “Transfer”) as defined in Section 105 of the Financial Services and Markets act 2000 (“FSMA”) is described in my original Independent Expert report dated 22 August 2018 (the “Original Report”). My opinion on the effect of the Transfer on policyholders based upon the information available at that time, including audited financial information as at 31 December 2017 is set out in my Original Report.

The purpose of this supplementary report (the “Supplementary Report”) is to consider any new information that has come to light since the time of my Original Report and to determine whether the conclusions set out in my Original Report have changed or remained the same in light of that new information. This Supplementary Report must be read in conjunction with my Original Report. I have not included all the information relevant to my conclusions on the Transfer in this Supplementary Report and reading this in isolation could be misleading. The restrictions and limitations set out in my Original Report apply equally to this Supplementary Report.

I have used the same defined terms that are used in the Transfer document and in my Original Report. A list of terms used in this report is shown in Appendix B of the Original Report.

The terms of reference for our work are as set out in our engagement letter dated 12 December 2017. An excerpt is shown in Appendix A of the Original Report.

1.2. Scope of report

This Supplementary Report describes any significant changes of which I have become aware since the date of my Original Report. In preparing this Supplementary Report, I have sought additional information, where available, and made enquiries or held discussions with the relevant staff of Admiral.

The enquiries and updated information I have sought from Admiral are as follows:

- **Updates on the proposed transfer scheme** – Whether there have been any changes to the business written in AICL and AIGL in 2018, to the business to be transferred from AICL to AECS, to the external and intra-group reinsurance arrangements, or to the proposed timeline for the draft communications plan or for the completion of the Transfer.
- **Reserve requirements** – Details of any internal or external reviews performed on the UK, French, Italian, and Spanish liabilities of AICL and AIGL produced after the date of the Original Report. This includes a general update on claims experience since the provision of the Original Report, including updates regarding whether any further PPO orders have been issued in each territory and any change in the Ogden discount rate used by Admiral.
- **Balance sheets as at 31 December 2018** – Any changes to the projected balance sheets as at 31 December 2018 for AICL and AECS before and after the Transfer since the date of the Original Report.
- **Capital assessments** – Any changes to the Standard Formula calculations, and the one-year and to-ultimate capital assessments on an economic basis as at 31 December 2018 for AICL and AECS before and after the Transfer since the date of the Original Report.
- **Capital extraction** – Details of the proposed plan and timing for the extraction of capital from AICL following the transfer of this capital to AECS.

- **Intra group equity agreement** – Details of the wording of the draft agreement, and legal opinions confirming that the intra group equity agreement will be enforceable under both UK and Spanish law once finalised and approved by the Admiral board.
- **Regulator correspondence** – Details of any relevant correspondence with the Regulators over the period following the provision of the Original Report.
- **Policyholder security and experience** – Whether there have been any other changes to AICL and AECS which could have an impact on either the security of the policyholders or their policyholder experience. This includes updates regarding the readiness of AECS to commence operations as at 1 January 2019 from an operational perspective.
- **Queries from policyholders** – Whether there have been any policyholder objections or other relevant correspondence to date.

The Management of Admiral has confirmed that there have been no material changes to the financial position of the Companies since 31 December 2017 and that no material issues have arisen between the date of these audited accounts and the date of this Supplementary Report.

My analysis in each of the areas above are set out in Section 3 of this Supplementary Report.

Where I use the terms “I” or “my” in this report in describing the work that I have performed, this should be interpreted to mean me or the team working under my direct supervision. Where “I” or “my” is used in the context of an opinion, the opinion is mine.

I have not considered any alternative arrangement to the proposed Transfer because I have been able to conclude that the proposed arrangement is appropriate, and because no alternative arrangement has been proposed.

I understand that the process with the Gibraltar regulator is on track to reach a decision on the parallel AIGL transfer in time for the 1 January 2019 Effective Date but may not have concluded ahead of the Court hearing to approve the AICL Transfer. As at the date of this report, Admiral has confirmed that the approval process for the AIGL transfer is progressing well and is expected to complete as required for the success of the AICL Transfer. I understand that, for operational reasons, the Italian business must transfer from AICL and AIGL or not at all. Admiral has provided me with a copy of the final draft court order which confirms that, if sanctioned, the Transfer will take effect conditional upon the AIGL scheme also being approved. As such, this report has been prepared on the basis that the UK and Gibraltar transfers will either both succeed or both fail.

1.3. *Materials considered and limitations*

My work has been based on the data and other information made available to me by the Companies. A list of data and other information that I have considered is shown in Appendix A. I have also held discussions with relevant management and staff of the Companies.

The conclusions in my Supplementary Report and my Original Report take no account of any information that I have not received, nor of any inaccuracies in the information provided to me.

I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- I understand that the witness statements to be submitted to the Court by individuals on behalf of the Companies will state that all information provided to me by the Companies has been correct and complete in all material aspects, and that there have been no material adverse changes to the financial position of the Companies since that information has been provided to me.
- I note that I have also conducted checks on the data provided to me for internal consistency and reasonableness (including a review of the processes used in the actuarial reserve assessments and the capital assessments for the Companies).

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- My checks of the data for internal consistency and my review of the processes used in the actuarial reserve assessments and the capital assessments have not revealed any cause for me to doubt that it is appropriate for me to rely on the integrity of the information provided for the purpose of this report.

On the above basis, I do not expect there to be any items of information not provided to me or any inaccuracies in the information that has been provided to me that will have been sufficient to invalidate the conclusions in my report.

1.4. *Reliances*

I have obtained reports documenting the findings of independent reviews performed by external consultancies on the reserves of UK, Spanish, Italian and French risks within AICL and AIGL. Where I have used these reports, I have performed sufficient work of my own to confirm that it is appropriate for me to use the information for the purposes of forming my opinion on the Transfer.

I note the following for the reports received:

Lane Clark & Peacock LLP (“LCP”) reserve reports (“The LCP Reports”)

- The LCP Reports were prepared on an agreed basis to meet the specific purposes of Admiral Group Plc and were not prepared by LCP on the basis that they would be used by PwC or any other person for the purposes of this Supplementary Report, or for any other purpose and, accordingly, LCP accepts no liability to any party other than its client, Admiral Group Plc, in relation to the LCP Reports.

We have also received reserve reports from KPMG Asesores S.L (“KPMG Spain”), Crenca and Associati (“C&A”) and SIA in relation to the Spanish, Italian and French motor business respectively, and Admiral has produced its own internal reserve assessments for the UK and Overseas business, and comparisons to the external reserve assessments

I have relied upon legal advice provided by Admiral’s legal advisors to assist in forming my opinion in respect of the enforceability of the intra group equity agreement, which remains in draft format and subject to board approval at the time of the preparation of this Supplementary Report. I am informed that this agreement will be finalised and signed prior to the sanction hearing and that this will be confirmed in the witness statements submitted to Court at that time.

In relying upon this legal advice, I have considered whether to seek additional advice from lawyers otherwise unconnected with this transaction. In the light of my knowledge of the Transfer, my wider experience of Part VII transfers and of the non-life insurance market, and the assistance of my specialist colleagues, the advice I have reviewed has made sense to me and has not raised any questions or concerns. In light of this, and the professionalism and integrity of Admiral’s legal advisers, I have not felt a second independent legal opinion is warranted.

1.5. *Compliance with Technical Actuarial Standards*

The Financial Reporting Council (“FRC”) oversees the use of Technical Actuarial Standards (“TAS”) by actuaries. The FRC requires actuaries to comply with the TASs for technical actuarial work. We also believe that it is normally appropriate to apply the requirements of the TASs to other work conducted by actuaries. The work covered in this report therefore complies with the TASs.

My comments on materiality below indicate the judgements that I have made in reporting my work in accordance with the communications provisions of the TASs. I explained in section 3.1.1 of my Original Report my approach to materiality in assessing the impact of the Transfer.

1.6. *Materiality*

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by the user of the related actuarial information. It accepts that assessing materiality is a matter of

reasonable judgement which requires consideration of the user and the context in which the work is performed and reported.

I have applied this concept of materiality in planning, performing and reporting the work described in this report. In particular, I have applied this concept of materiality when using my professional judgment to determine the risks of material misstatement or omission and to determine the nature and extent of my procedures.

In complying with the communications provisions of the TAs, I have made judgements with regard to the level of information that it is appropriate to include in this report. In view of the objectives and nature of this report, and in order to communicate my findings in an effective manner, I have not considered it material or proportionate to include all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments. You will need to consider the impact of this limitation on your own interpretation of the Transfer that is the subject of this report.

I have noted some matters in this Supplementary Report that, although not material, may be to the benefit of the reader.

2. Conclusions

2.1. Overall conclusions

In my Original Report, I considered the proposed Transfer and the likely effect on both the UK and Transferring policyholders of AICL. I concluded that policyholders (and third parties who rely on their policies) will not be materially adversely affected by the proposed Transfer. Based on the additional information received as part of this Supplementary Report, nothing has arisen that would lead me to believe that this conclusion is no longer valid.

For the transferring policyholders the updated capital positions suggest a marginally stronger position as a result of the transfer than presented in my Original Report. I have therefore restated and, where appropriate, updated my conclusions below.

I consider Admiral is adopting a prudent approach to the Transfer to ensure that:

- adequate levels of policyholder protection are maintained for both AICL and AECS over the period of transition caused by the Transfer, and
- European policies can continue to be serviced no matter what form Brexit takes.

The position for each policyholder group is as follows:

- The UK policyholders of AICL are not adversely affected by the proposed Transfer because:
 - the company will reduce in size only marginally;
 - there is an increase in the level of surplus capital for both short and long tail claimants immediately as a result of the Transfer; and
 - in the medium-term the security provided is likely to be consistent with pre-Transfer levels.
- The Transferring policyholders of AICL are not materially adversely affected by the proposed Transfer because, whilst they are moving to a smaller entity with more volatile claims reserves, additional capital support is being provided to ensure a **slightly higher** Capital Cover Ratio for short-tailed policyholders and **an equivalent** Capital Cover Ratio for longer-tailed policyholders.

I have concluded, based on the analysis conducted and described in this report and in my Original Report, that policyholders (and third parties who rely on their policies) will not be materially adversely affected by the proposed Transfer.

In forming the view expressed above I note the influence of the measures being implemented by Admiral to ensure policyholder security following the Transfer as follows:

- The capital levels within AICL increase immediately as a result of the Transfer because the capital that was supporting the Transferring business is not being transferred out with the Transferring business. Management intends to reconsider the capital position after the Transfer and release the surplus arising above existing target capital levels if it is appropriate to do so.
- On a regulatory basis the Capital Cover Ratio for Transferring policyholders **increases** despite the fact that this basis does not reflect the £50 million intra group equity commitment, which is being put in place to support the new Spanish entity, as it has not been agreed with the regulator.

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- With the intra group equity commitment in place, on a short-term economic basis, the Capital Cover Ratio **increases** as a result of the Transfer. On a long-term basis the Capital Cover Ratio **remains the same** and there continues to be a reasonable margin above 100% to ensure cover is adequate in the event of fluctuations in experience or underlying assumptions.
 - The reinsurance applying to the European business does not currently provide full protection at the level at which capital must be held. This makes the business more volatile and makes the economic capital requirement for AECS greater than for AICL after the Transfer despite AECS being the smaller company. I understand that some of these reinsurance contracts have maturity dates through 2019 and 2020 and that management will be seeking to ensure more comprehensive protection under the renegotiated contracts, with a view to reducing the volatility and hence the economic capital requirements for this entity.

Based upon my review of the regulatory capital requirements, I can confirm that both entities will have enough capital to meet their regulatory capital requirements after the Transfer, and a surplus above that level that is at least equivalent to existing target capital levels

In the broader context of the security of policyholders the following points also support my conclusion:

- AICL and the new AECS entity are part of a larger insurance group that may be able to provide additional capital support if required, although no formal arrangements (beyond the intra group equity commitment described above) are in place.
- AICL is a member of the Financial Services Compensation Scheme and, in the unlikely event of failure of this company, policyholders may seek compensation from this Scheme. The FSCS will cover up to 90% of claims or 100% for motor third party claims.
- Whilst Transferring policyholders will lose protection from the Financial Services Compensation Scheme and they will no longer have access to the Financial Ombudsman Service in the event of complaint where it may have applied, they will have access to compensation and ombudsman services provided by the Spanish authorities after the Transfer.
- If the Transfer were not to proceed then policyholders in Italy and Spain may find their policies cannot be serviced and their claims cannot be paid legally by the company in the event that the UK leaves the EU without a suitable trade agreement in place.

2.2. *Independent Expert duty and declaration*

My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I confirm that I understand my duty to the Court and I have complied with that duty.

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

3. Analysis

3.1. Overview of approach

My approach in updating my assessment of the likely effects of the Transfer on policyholders set out in my Original Report has been to revisit each area in turn where there may have been changes. This has included the areas flagged in my Original Report as needing consideration in this Supplementary Report. My approach has focused on assessing:

- Changes, if any, in the reserve requirements of the Companies following updated actuarial analyses or internal reviews.
- The effect of changes, if any, on the projected balance sheets as at 31 December 2018 for AICL and AECS before and after the Transfer since the date of the Original Report.
- Significant changes, if any, in the Standard Formula calculations, and the one-year and to-ultimate capital assessments on an economic basis as at 31 December 2018 for AICL and AECS before and after the Transfer since the date of the Original Report.
- Significant changes or updates, if any, to other aspects of the Transfer including the business to be transferred, AICL capital extraction plan, intra group equity agreement, obtaining consent from reinsurers, regulator correspondence, the success of the communications strategy/any objections received to date, and other operational considerations.

In performing my work, I have requested that various information be provided to me including reserve assessment reports and Solvency II and other capital analyses. I have received all of the information that I have requested.

I have reviewed the material that I have received and raised questions with the management of the Companies to confirm my understanding. I have received satisfactory and consistent answers to the questions that I have raised.

A detailed breakdown of the material that I have received and reviewed is contained in Appendix A.

I have concluded that it is reasonable for me to use the information and explanations that I have received in forming my opinion on the Transfer.

3.2. Assessment of the reserves of the Companies

In my Original Report, I commented on reserve assessments performed by internal and external actuaries. Since then, updated reserve assessments have been conducted by the following external parties.

- External actuarial consultants, LCP, performed a review of the UK motor reserves based on data as at 30 June 2018.
- External actuarial consultants C&A, SIA and KPMG Spain performed reviews of the Italian, French and Spanish motor reserves respectively based on data as at 30 June 2018.

Please see Section 1.4 above regarding the basis upon which I have used the work performed by external parties.

Further, Admiral has produced its own internal reserve assessments for the UK and Overseas business, and comparisons to the external reserve assessments, as at 30 June 2018.

Overall the reserve reviews have highlighted some favourable experience over the period in the European business, which has resulted in a small reduction in the estimate of gross ultimate claims of between 1% and 2%. Compounded with some offsetting differences in the actual payments made during the year, compared to expectations, this results in a reduction of £8m in the gross technical provisions being transferred from AICL to AECS and an increase of £5m in the gross technical provisions being transferred from AIGL to AICL.

The relative changes are small in the context of the size of the reserves held and the uncertain nature of projected claims reserves and they do not alter my view of the reserve estimates.

Admiral has confirmed that there are two new Periodical Payment Orders (“PPOs”) relating to UK motor policies, however these will remain in AICL after the Transfer. There have been no new similar structured settlements in relation to the transferring business since the Original Report.

Admiral is continuing to calculate reserves using the -0.75% p.a. Ogden discount rate. Whilst the Civil Liability Bill, which may change this rate, has made good progress through the various stages of parliamentary review without substantial amendment, the Bill has not yet passed into law and we have no better information upon which to base a discount rate assumption. I therefore maintain my conclusion that this assumption is reasonable.

Admiral has confirmed that there have been no other significant movements in relation to the ultimate claim liabilities of the Companies.

I have considered the movements in ultimate claims and projected technical provisions from 31 December 2017 to 30 June 2018 and raised any queries arising with management. From our review of the external and internal reserve reviews and these discussions, I am satisfied that the changes are reasonable.

I remain of the opinion that the technical provisions for both the remaining and the transferring portfolios are reasonable for the purpose of describing the effect of the Transfer and for the purposes of showing simplified balance sheets. The updated reserve reviews do not give me reason to alter the conclusions made in my Original Report.

3.3. Changes to the Companies’ projected balance sheets

In my Original Report, I showed projected balance sheets before and after to indicate the effects of the proposed Transfer. Admiral has updated these projected balance sheets to show the effects based on the updated technical provisions and business plan data of AICL, AIGL and AECS as at 30 June 2018, which is the latest information at the time of writing this Supplementary Report.

As a result of the AICL Transfer, gross technical provisions in AECS will increase by £171m, which is the total of gross technical provisions for the Transferring risks within AICL. Since the external reinsurance contracts protecting the Transferring Policies will also form part of the Transfer, reinsurers’ share of technical provisions will increase by £109m, which is the total of reinsurers’ share of technical provisions for the Transferring business.

At the same time the Gibraltar transfer will move £184m of gross technical provisions and £116m reinsurers’ share of technical provisions into AECS.

As noted in my original report, the Transfer will move other assets and liabilities of AICL to AECS. The value of assets transferring to AECS is equal to the value of transferring liabilities. Shareholders’ funds of £75m will have been injected from Admiral into AECS in advance of the Transfer in order to support the transferring business and new underwriting from 1 January 2019.

When comparing the projected balance sheet to that in the Original Report, I have identified a reduction of £13.5m (3%) in the projected gross technical provisions of which £7.5m relates to the business transferring from AICL. There is a corresponding decrease of £7.6m (5%) in the projected reinsurers’ share of technical provisions, of which £5.8m relates to the business transferring from AICL.

The reduction in the projected technical provisions is as described in Section 3.2. I have considered these movements in the projected balance sheets and raised any queries arising with management. On the basis of this review and discussion, I am satisfied that the changes are reasonable.

Consistent with my Original Report, for ease of explanation, I have shown the balance sheets in a summarised format. The numbers in the tables below have been rounded to the nearest multiple of £1m.

Table 1 - Effect on IFRS balance sheets projected to the Effective Date 31 December 2018

£m's	Pre-Transfer		Transferring		Post Transfer	
	AICL	AECS	AICL Transferring risks	AIGL Transferring risks	AECS	AICL
Assets						
Investments	427.2	75.0	54.1	54.3	183.3	373.1
Reinsurers' share of technical provisions	134.3	0.0	109.2	115.6	224.8	25.1
Debtors	48.4	0.0	11.0	22.3	33.4	37.4
Investments in subsidiaries	75.0	0.0	0.0	0.0	0.0	75.0
Other	6.0	0.0	3.0	1.9	5.0	2.9
Total	691.0	75.0	177.4	194.2	446.5	513.5
Liabilities						
Shareholders' funds	100.8	75.0	0.0	0.0	75.0	100.8
Technical provisions	493.7	0.0	171.2	184.4	355.6	322.5
Other	96.5	0.0	6.2	9.8	15.9	90.3
Total	691.0	75.0	177.4	194.2	446.9	513.5
Solvency measures:						
Ratio of shareholder funds to:						
- Net Insurance liabilities	28%				57%	34%
- Gross Insurance liabilities	20%				21%	31%

These changes to the balance sheet are such that I have no reason to alter the conclusions made in my Original Report.

3.3.1. Reinsurance ratios

I did not highlight in my Original Report that the movements in technical provisions and reinsurance shown in table 1 have an effect on the proportion of the business that is protected by reinsurance. Before the transfer 27% of the gross liabilities are recoverable against reinsurance. After the transfer the remaining business in AICL recovers 8% and the transferring business recovers 63%.

A large part of the reinsurance asset of £224.8m for AECS after the transfer is split between two reinsurance companies. These companies are, however, two of the largest European reinsurers in the market and are both AA rated.

Whilst these changes in the level of reinsurance are substantial, the impact on the risks of each entity, including the potential concentration risk, are reflected in the economic capital assessments discussed in section 3.4 and in my Original Report and have been considered in my conclusions.

3.4. Changes to the capital positions

The conclusions in my Original Report are based on the one-year Standard Formula SCR and the one-year and to-ultimate economic capital assessments projected forward to 31 December 2018. Admiral has updated the calculations using data as at 30 June 2018, however the parameters used within the model have not been

updated since my Original Report. Given the small change in the projected balance sheets since my Original Report, I consider this approach to be reasonable.

As noted in my Original Report, a company with sufficient capital will have a Capital Cover Ratio greater than 100%. I refer to capital levels with a ratio greater than 120% as 'good' or 'well capitalised', greater than 150% as 'strong', and greater than 200% as 'very strong'.

3.4.1. Standard Formula

The Capital Cover Ratio for AICL on the regulatory basis before the Transfer is publicly available as at 31 December 2017 but the equivalent ratios for AICL and AECS post-Transfer are not. Admiral has consented for me to show the results in the following table. I show the Available Capital, the Required Capital as calculated using the Standard Formula SCR and the resulting Capital Cover Ratio for AICL before and for both AICL and AECS after the Transfer projected to be as at 31 December 2018.

Table 2 – Standard Formula results (£m) projected to 31 December 2018

Regulatory Basis	Capital Cover Ratios (Original Report)			Revised capital cover ratios		
	AICL pre-Transfer	AICL post-Transfer	AECS post-Transfer	AICL pre-Transfer	AICL post-Transfer	AECS post-Transfer
Available Capital	120	124	65	122	122	69
Required Capital under Standard Formula	91	74	52	90	73	49
Capital Cover Ratio	133%	167%	124%	135%	167%	140%

Available capital has been broadly maintained across the Companies with a slight increase in the AECS post-transfer position. This increase is primarily owing to a reduction in the net technical provisions for the Spanish business.

Required capital under the Standard Formula is similar across the Companies with a slight reduction for AECS post-Transfer. We understand that this is owing to a change in the mix of assets held by AECS.

These movements have resulted in an increase in the Capital Cover ratio for AECS after the transfer from 124% in our Original report to 140% in this Supplementary Report.

3.4.2. One-year and to-ultimate on an economic basis

Admiral has updated the capital assessments on an economic basis using data as at 30 June 2018. I have performed a walkthrough of the updated calculations with Admiral and its approach appears reasonable. The movements in the required capital for AICL (before and after the transfer) and AECS (after the transfer) on an economic basis are relatively small although they suggest a marginally stronger security position for transferring policyholders as a result of the transfer than presented in my Original Report.

My conclusions for policyholders remaining in AICL, as detailed in full in Section 2.1, are unchanged since my Original Report. My conclusions for the transferring policyholders are marginally more positive as a result of the transfer as follows: -

- The Transferring policyholders of AICL are not materially adversely affected by the proposed Transfer because, whilst they are moving to a smaller entity with more volatile claims reserves, additional capital

support is being provided to ensure a **slightly higher** Capital Cover Ratio for short-tailed policyholders and an **equivalent** Capital Cover Ratio for longer-tailed policyholders.

In my Original Report, I investigated the impact of using alternative assumptions in a series of stress tests. I have not deemed it necessary or useful to repeat this stress test analysis for this Supplementary Report given that the movement in the base Capital Cover Ratios is minimal and the changes that have occurred, for policyholders transferring to AECS, indicate a marginally stronger security position as a result of the transfer than presented in my Original Report.

I have presented my updated conclusions following the updated capital positions in Section 2.1.

3.5. Other considerations

3.5.1. Capital extraction from AICL

In my Original Report, I noted that Admiral is considering extracting surplus capital arising in AICL after the Transfer. The capital extracted would be retained within the Admiral Group and would go towards reimbursing the Group for the investment of capital injected into AECS before the Transfer. Admiral has confirmed that there has been no change in this plan.

I do not know the extent or timing of this proposed capital extraction and I have not allowed for it in the figures that I have used to compare security of policyholders before and after the Transfer. I understand that the Board will approve the capital release only if it is happy that AICL exceeds its target capital after the Transfer.

In that case, the Group will be able to adjust for any unexpected issues that arise immediately after the Transfer has become effective before calculating the extent of surplus that exists. On this basis I consider the proposed extraction to be part of the normal operation of the business and should not be treated as directly connected with the Transfer. I have reviewed the Group's approach to capital management and consider the target capital levels to provide a good level of security to policyholders.

3.5.2. Intra group equity agreement

As noted in the Original Report, in addition to the initial capital injection by Admiral Group into AECS described above, the Group will legally commit a further €56m of group funds for AECS to access in the event of future financial strain. Whilst this capital will not sit within AECS, it will be available to be injected if required. As at the date of the Original Report, this arrangement had not yet been formally agreed.

I have now been provided with the final draft wording of the agreement which I can confirm is substantially similar to that shown to me during the preparation of the Original Report. I have discussed the operation of the agreement with Admiral and with Admiral's UK legal advisors. I understand that the agreement provides that: -

- As and when requested by AECS, Admiral Group PLC will inject €56m of additional share capital into AECS;
- This facility will be available initially for a period of two years and will then automatically renew on a rolling basis on each renewal date thereafter for a further twelve months;
- Termination of the agreement at any time requires the mutual agreement of both parties, which I assume would not be forthcoming from AECS if the facility is still required;
- Either party may terminate the agreement at a relevant renewal date, but only if AECS Capital Coverage Ratios at such date exceed 105% on both (i) a Regulatory basis and (ii) both a 1 year and ultimate economic basis, calculated without the benefit of the agreement;
- The agreement will be subject to English law. Based on current understanding of the legal position once the UK has left the European Union and any transition period has expired, the agreement will remain enforceable by AECS against Admiral Group PLC, whether or not a trade deal is agreed, and will operate to protect AECS in the event of an erosion of its capital position.

I have held discussions with Admiral's legal advisors who have confirmed that my understanding of the agreement as set out above is correct. As such I am happy to conclude that the agreement provides appropriate protection for the transferring policyholders and supports the economic capital cover ratios which I have used to form my conclusions on the Transfer.

At the time of producing this Supplementary Report, the approval of this agreement remains outstanding with the Admiral Board. I am informed that this agreement will be finalised and signed prior to the sanction hearing and that this will be confirmed in the witness statements submitted to Court at that time.

3.5.3. Obtaining reinsurer consent

In order to mitigate any risks that specific reinsurers will not recognise the transfers, Admiral is in the process of obtaining consent from its reinsurers.

Admiral has provided each quota share reinsurer with a novation agreement which has been reviewed and approved. These agreements are not yet signed, although Admiral expects all agreements to be signed and returned by 6 December 2018.

For the XoL reinsurers, a novation agreement has been drafted and is due to be sent to all reinsurers by 31 October 2018. Admiral expects signed agreements to be returned by 6 December 2018.

I consider this approach to be reasonable and the progress to date helpful in seeking to mitigate what I consider to be a small risk of non-recognition of the transfers by outwards reinsurers.

3.5.4. Correspondence with the Regulators

I was provided with details of correspondence with the Regulators during the process of finalising the Original Report and therefore addressed any matters arising in the final version of the Original Report.

Admiral has confirmed that it received a set of queries from EEA regulators in October 2018, primarily in relation to pursuing insurance business in countries not relevant to this Transfer. Admiral responded to these queries in full and has provided a copy of these responses for my reference.

I confirm that there is nothing in this correspondence with the Regulators that would give me reason to alter the conclusions made in my Original Report.

3.5.5. Communication strategy and objections received

I have requested that Admiral keeps me informed of the communications process and if there are any policyholder objections. Admiral has confirmed to me that the communications process has been carried out as planned and that there have been no changes to the planned timeline. The vast majority of communications have been delivered to their intended recipients. There was a high delivery failure rate when contacting Italian policyholders which Admiral has now resolved by successfully re-sending the email communications or sending the communications by post.

I have been advised that there have been nine policyholder objections received as at 30 November 2018, the majority of which come from Spanish policyholders. There is a further policyholder who has not objected but has expressed an intention to attend the court hearing. The main reasons for the objections are (i) concern relating to the transfer of data and insurance to a third party; and (ii) a general opposition to Brexit. Admiral has provided the Regulators and me with a copy of the relevant correspondence including the responses provided to the policyholders. Admiral are taking steps to address the policyholders' concerns and I do not consider any of these objections to raise matters of concern for the Transfer. I have also reviewed a high level description of the complaints received to ensure that there is nothing within these complaints which I consider constitutes a valid objection. I note that Admiral has performed the categorisation between objections and complaints with assistance from its legal advisors.

These objections do not give me reason to alter the conclusions made in my Original Report.

3.5.6. Other operational considerations

The proposed operational structure of the new entity is unchanged from that detailed in our Original Report. In particular, the claims administration for both the Spanish and Italian Policies is currently the responsibility of EUJ Limited, an Admiral Group company, via separate Spanish and Italian branches. Following the Transfer, the responsibility for claims handling will change as follows: -

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- For Spanish policyholders, claims handling will be brought in-house from the Spanish branch of EUI Limited to AECS;
 - For Italian policyholders, claims handling will be transferred from the Italian branch of EUI Limited to an Italian branch of Admiral Intermediary Services, S.A (AIS), another Admiral Group company.

In both cases I understand that there will be no changes to the claims handling personnel or processes as a result of the Transfer.

I have sought to understand the operational readiness of the new European insurance company and Admiral has provided me an update, confirming that:

- The Companies will be located in the same offices using the same infrastructure, the IT systems are in place and it is expected that there is not a significant risk to the successful operation of these systems as a result of the Transfer.
- Current contracts with third parties are being transferred to AECS to avoid any impact on customers and business.
- The registration process of the new entities to the relevant external associations is on track.
- An additional layer of governance has been set up for AECS to comply with financial and regulatory requirements, including a Board, Audit Committee and European Risk Management Committee. AECS will leverage the existing system of governance at the Group level and have different representatives in Group management committees as appropriate.
- A team is being recruited primarily to cover Solvency II functions within AECS and reinforce governance in continental Europe. Most senior positions are in place or in an advanced stage in the recruitment process, through a combination of internal and external recruitment
- Admiral has confirmed it is awaiting the Solvency Certificate from the Spanish Regulator, but that both the PRA and Admiral are engaging with the Spanish Regulator to receive this in advance of the Transfer.
- AECS management are confident that operational readiness work is on track to accept business on 1 January 2019.

Admiral has provided a status update on the German business within AICL for which there are currently 10 outstanding claims. Admiral has confirmed that it aims to complete the process of settling these claims before the Brexit date of 29 March 2019 rather than by the end of 2018 as originally planned. Should Admiral not achieve its aim of closing these remaining claims before 29 March 2019 then there may be ramifications for the ongoing management of these claims depending upon the form that Brexit takes but these ramifications will be the same with or without the Transfer.

The other considerations above do not give me reason to alter the conclusions made in my Original Report.

Appendices

Appendix A. Data and other information considered

Data provided:

I have used the following documents, reports, data and other information provided by Admiral:

- Reports documenting the findings of the external reviews performed on the UK, French, Italian and Spanish motor liabilities of AICL and AIGL as at 30 June 2018.
- Reports documenting the internal actuarial assessments performed on the UK, French, Italian and Spanish motor liabilities of AICL and AIGL as at 30 June 2018; including comparison against results of the external reviews.
- Projected balance sheets as at 31 December 2018 for AICL and AECS both before and after the Transfer; which allow for the business written and dividends which are expected to be paid by AICL during 2018 under the normal course of business, updated using data as at 30 June 2018.
- Projected Standard Formula calculations as at 31 December 2018 for AICL before and AICL and AECS after the Transfer, updated using data as at 30 June 2018.
- One-year and to-ultimate capital assessments on an economic basis as at 31 December 2018 for AICL before and AICL and AECS after the Transfer, updated using data as at 30 June 2018.
- Details of the draft proposed intra-group equity commitment. Further, I discussed the operation of the agreement with Admiral and with Admiral's UK legal advisors who have confirmed that my understanding of the agreement as set out in the report above is correct.
- Admiral's log of policyholder queries and objections received by them up to 12 October 2018.
- Responses to queries raised by me in respect of the data items received above.

I have relied on the documents described above and discussions held with relevant staff within Admiral.

Data consistency checks:

I have not audited or performed other assurance procedures on the data provided to me. I have checked the data and the documents received for consistency with each other.

Data integrity

I have not made any adjustments to the data provided to me by Admiral.

I am not aware of any inaccuracies or limitations in the available data that would materially impact the uncertainty surrounding the results of my work.

I have relied on the integrity of the data provided to me without any form of further verification. My work has taken no account of any information not received by me, or of any inaccuracies in the information provided to me.

