

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

*Admiral Insurance Company
Limited ('AICL')*

to

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

**Independent Expert
Report**

22 August 2018

**Strictly Private and
Confidential**

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Purpose and use of this report

This report has been prepared for the Court and is addressed to Admiral Group PLC for the purpose and on the terms agreed in our engagement letter with Admiral Group PLC dated 12 December 2017. This 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 Part VII transfers and paragraph 18.2.34 of the FCA’s Handbook, for the purpose of understanding the impact of the proposed Transfer on affected policyholders. This 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

22 August 2018

Contents

1. Introduction	4
<i>1.1. Purpose and scope</i>	4
<i>1.2. The proposed Transfer</i>	4
<i>1.3. Independent Expert appointment</i>	6
<i>1.4. Scope of report</i>	7
<i>1.5. Materials considered and limitations</i>	7
<i>1.6. Reliances</i>	8
<i>1.7. Compliance with Technical Actuarial Standards</i>	9
<i>1.8. Materiality</i>	9

2. Outline of the Transfers	11
<i>2.1. The Companies involved in the Transfers</i>	11
<i>2.1.1. Admiral Insurance Company Limited (“AICL”)</i>	11
<i>2.1.2. Admiral Insurance (Gibraltar) Limited</i>	12
<i>2.1.3. Admiral Europe Compañía de Seguros, S.A</i>	12
<i>2.1.4. Summary of business written</i>	13
<i>2.2. Description of the AICL Transfer</i>	14
<i>2.2.1. Periodic Payment Orders (“PPOs”)</i>	14
<i>2.2.2. Guarantees</i>	14
<i>2.2.3. Dividends and capital extraction</i>	14
<i>2.2.4. Intra-group equity commitment</i>	15
<i>2.2.5. Claims handling</i>	15
<i>2.2.6. Non-EEA business</i>	15
<i>2.2.7. Purpose of the transfers</i>	15

3. Conclusions	16
<i>3.1. Overall conclusions</i>	16
<i>3.1.1. Policyholder security</i>	17
<i>3.1.2. Policyholder experience</i>	17
<i>3.1.3. Conduct regulation</i>	17
<i>3.2. Independent Expert duty and declaration</i>	18

4. Analysis	19
<i>4.1. Overview of approach</i>	19
<i>4.2. Policyholders affected or potentially affected</i>	19
<i>4.3. Effect of the Transfer on assets and liabilities</i>	21
<i>4.3.1. Expected changes in assets and liabilities to Effective Date</i>	21

4.3.2. <i>Technical provisions - General comments</i>	23
4.3.3. <i>Assessment of the technical provisions of the Companies</i>	23
4.4. <i>Capital extraction</i>	24
4.5. <i>Effect of the Transfer on capital assessment</i>	24
4.5.1. <i>Solvency Assessment processes and information received</i>	25
4.5.2. <i>Approach to review of capital assessments</i>	26
4.5.3. <i>Solvency Assessment results</i>	26
4.5.4. <i>Solvency Assessment conclusion</i>	27
4.6. <i>Security of Transferring policyholders</i>	27
4.6.1. <i>Comments applicable to all Transferring policyholders</i>	27
4.6.2. <i>Longer-tailed policyholders</i>	28
4.7. <i>Security of remaining policyholders</i>	28
4.7.1. <i>Comments applicable to all remaining policyholders</i>	28
4.7.2. <i>Periodic Payment Orders (“PPOs”) claimants and Longer-tailed policyholders</i>	29
4.8. <i>Impact of stress tests on Solvency Capital Requirement Assessment</i>	29
4.8.1. <i>Stress test conclusion</i>	29
4.9. <i>Conduct aspects of the Transfer</i>	30
4.9.1. <i>Notifications and Waivers</i>	30
4.9.2. <i>Administration of the business</i>	30
4.9.3. <i>Future changes in operational arrangements</i>	31
4.9.4. <i>Rights under the Financial Services Compensation Scheme and the Financial Ombudsman Service</i>	31
4.9.5. <i>Governance, systems and controls</i>	31
4.9.6. <i>Conduct regulation</i>	31
4.9.7. <i>Spanish versus Italian policyholders</i>	32
4.9.8. <i>Impact of AIGL transfer</i>	32
4.9.9. <i>Brexit</i>	32
4.9.10. <i>Conclusion on conduct aspects of the Transfer</i>	32
4.10. <i>Other considerations</i>	33
4.10.1. <i>Impact on Reinsurers</i>	33
4.10.2. <i>Cost and tax effects of the Transfers</i>	33
4.10.3. <i>Liquidity</i>	33
4.10.4. <i>French household risk</i>	33
4.10.5. <i>Regulatory regimes</i>	33

Appendix A. Excerpt from Engagement Letter	35
Appendix B. List of terms defined within this report	37
Appendix C. Curriculum Vitae – Gregory Overton	41
Appendix D. Data and other information considered	43

1. Introduction

1.1. Purpose and scope

This report has been commissioned by Admiral Group PLC (“Admiral”) and is provided to the Court for the purpose of understanding the impact on policyholders of the proposed Transfer of Spanish and Italian risks from Admiral Insurance Company Limited (“AICL”). All historical business and unexpired policies relating to Spanish and Italian risks written by AICL (the “Transferor”), along with certain assets, are to be transferred to Admiral Europe Compañía de Seguros, S.A. (“AECS”) by an insurance business transfer (the “Transfer”). This transfer will be under Part VII of the Financial Services and Markets Act (‘FSMA’) (the “Transfer”).

There will be a simultaneous transfer of non-UK risks from Admiral Insurance (Gibraltar) Limited (“AIGL”) under a parallel Gibraltar transfer process with the same Effective Date.

This Transfer report focuses on the effect of the Part VII transfer from AICL as the AIGL transfer is governed by a separate review process in Gibraltar. It will however be relevant to consider the impact of the business transferring from AIGL into AECS on the transferring AICL policyholders.

The UK and Gibraltar transfers will succeed or fail together. The Transfer report will not consider the impact on any AIGL policyholders, whether transferring or not, as their interests will be considered in the parallel Gibraltar transfer process.

AICL, AIGL and AECS (collectively the “Companies”) are 100% directly or indirectly owned subsidiaries of Admiral. Figure 1 below illustrates this Group structure.

Section 109 of FSMA requires that an application to the Court for an order sanctioning an insurance business transfer must be accompanied by a report on the terms of the Transfer (a “Transfer Report”) by an independent person (the “Independent Expert”) having the skills necessary to make the report who is nominated or approved by the PRA in consultation with the FCA. The report is required in order that the Court may properly assess the effect of the proposed Transfer, including the effect of the Transfer on the security of policyholders and the levels of service provided to policyholders (and third parties who rely on their policies) of the insurance companies in question. Admiral has appointed me to act as an Independent Expert to provide this Transfer Report and the PRA, in consultation with the FCA, has approved this appointment.

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

There are restrictions on the use that may be made of this report. These restrictions are set out inside the front cover of this report.

The terms of reference for our work are as set out in our engagement letter dated 12th December 2017, an excerpt from which can be found in Appendix A.

This report supersedes any information or advice provided during the course of this assignment.

1.2. The proposed Transfer

Under the proposed Transfer, Spanish and Italian risks (“Transferring risks”) within AICL, along with all existing external reinsurance policies that protect these risks, will be transferred to AECS on the Effective Date of the Transfer (“Effective Date”), which is targeted to be 1 January 2019.

A simultaneous transfer of non-UK risks and reinsurance arrangements will occur from AIGL and hence the transferring AICL risks will be exposed to additional risks, which were previously in AIGL.

AICL, AIGL and AECS are subsidiaries within the UK group known as Admiral Group PLC. This structure is illustrated in Figure 1 and the target structure is shown in Figure 2.

Figure 1 – Structure of AICL and AIGL prior to the Transfer

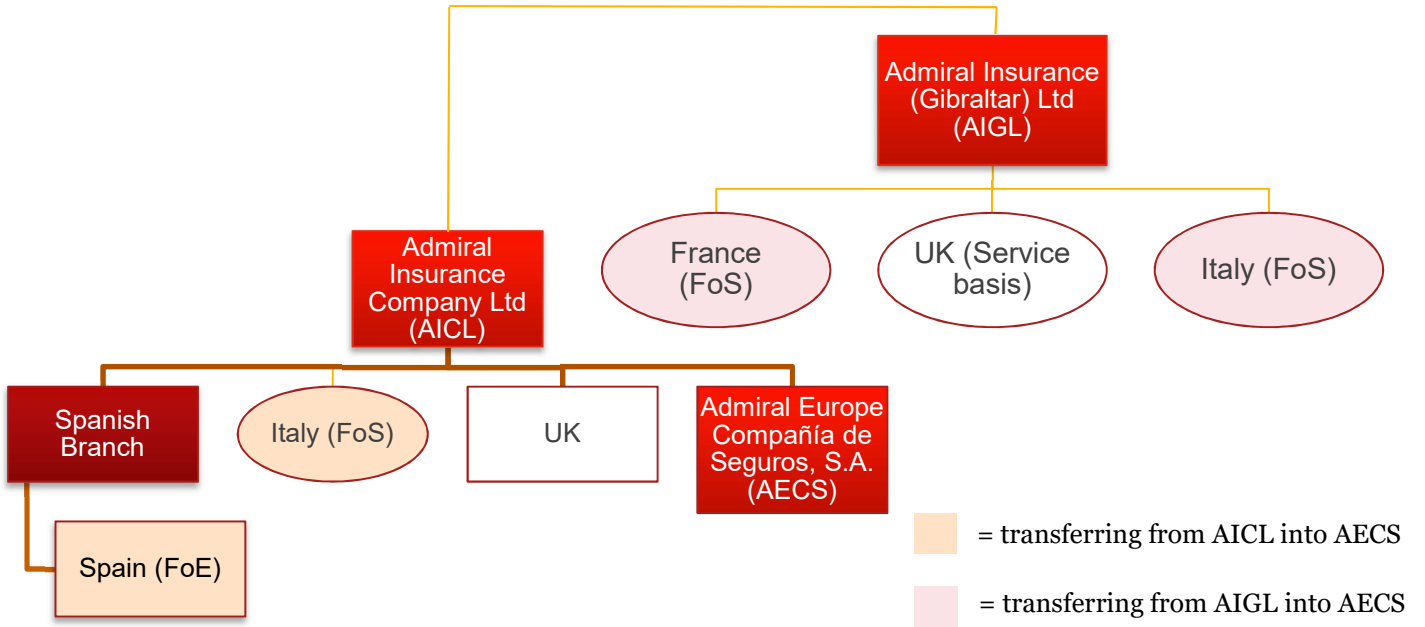
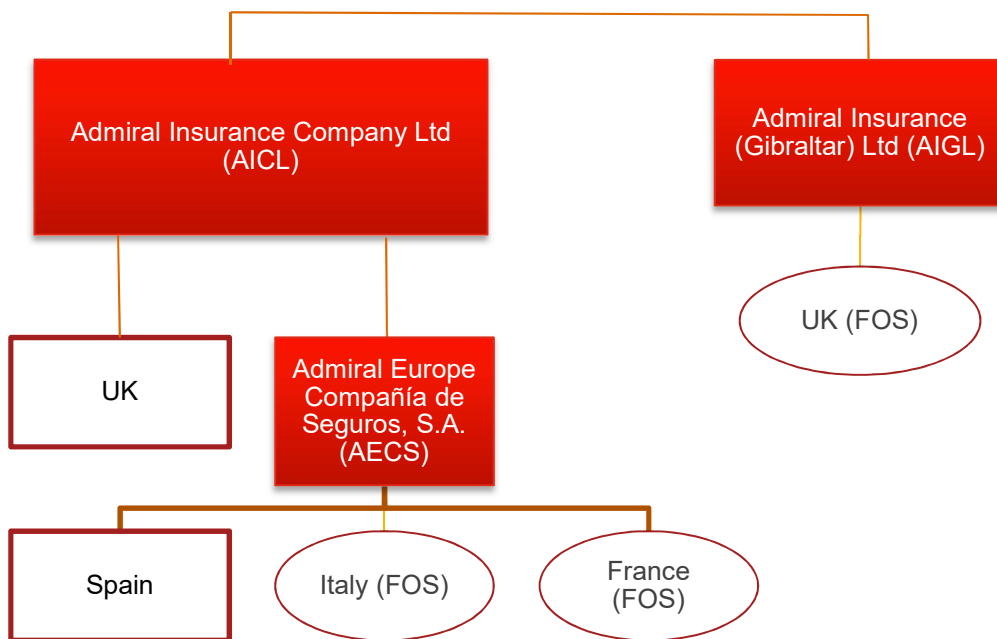


Figure 2 – Structure of AICL and AIGL after the Transfer



AECS was set up in the context of the UK's pending exit of the European Union and single market. The aim is to continue the European insurance business activities established by both AICL and AIGL in the event of a "Hard Brexit". AECS intends to start its operation on 1 January 2019.

At the time of the Transfer AECS is a subsidiary of AICL. After the Transfer I understand that AECS may be moved up within the group structure to sit under the Admiral group holding company as a sister company to AICL. I have not considered this potential change in Group structure in this report. If it occurs it will be subject to regulatory scrutiny through a separate change of control process and I do not consider it to have a significant bearing on the impact of the Transfer on policyholders.

Table 1 shows the split of gross reserves and policyholder numbers for AICL by territory and for non-UK risks within AIGL.

Table 1 - Split of Gross Reserves and Policyholder Numbers by Entity and territory as at 31 December 2017

Legal Entity	Gross Booked Reserves (£000's)	Number of new policies written across all years	Number of in-force policies	Number of current outstanding claims
AICL Spain only	29,957	638,177	223,636	14,591
AICL Italy only	68,126	1,134,529	499,872	17,531
AICL transferring total	98,083	1,772,706	723,508	32,122
AICL UK only	224,092	17,041,586	3,841,718	184,631
AICL Germany only*	2,259	79,226	0	15
Total AICL	324,434	18,866,518	4,565,266	216,768
AIGL Italy only	69,821	1,134,529	499,872	17,531
AIGL France only	33,587	251,231	129,616	10,393
AIGL transferring Total	103,408	1,385,760	629,488	27,924

1.3. Independent Expert appointment

I have been appointed by Admiral to act as the Independent Expert for the Transfer of Spanish and Italian business from AICL to AECS and my appointment has been approved by the PRA, in consultation with the FCA. The Admiral Group will bear the costs associated with the production of this report.

I am an experienced actuary, having practised in general insurance for twenty five years. I am a Fellow of the Institute of Actuaries and was a member of the Institute of Actuaries Working Party on Schemes and Part VII transfers. More details of my experience are attached in Appendix C.

I have no direct or indirect interest in, or connection with, the Admiral group of companies. I have not performed any other work for the Admiral group of companies.

I am a Director in the Actuarial Services practice of PricewaterhouseCoopers LLP ("PwC"). PwC has performed and continues to perform other work for AICL, AIGL and other businesses within the Admiral Group. PwC does not, however, audit any of the Admiral businesses and the amount of other work performed is not material in the context of PwC's UK revenue.

I have not been involved in any work that PwC has performed or is performing for any of Admiral's businesses. In approving my appointment, the PRA and FCA were provided with details of work performed by PwC for the Admiral group of companies and raised no concerns regarding my role as Independent Expert.

1.4. *Scope of report*

My report describes the proposed Transfer and its likely effects on the policyholders of AICL, including effects on security and levels of service. I have complied with the requirements of FSMA and I have addressed the areas indicated in the guidance for Transfer Reports set out by the Regulators in the PRA policy statement on Part VII transfers (Appendix 2.4 to PS7/15) and SUP 18 of the FCA Handbook.

My work has required consideration of the liabilities of the Companies, to the extent necessary for me to describe the effect of the Transfer and for me to present simplified balance sheets for each company. My assessments have been based on the audited accounts and regulatory returns of each company as at 31 December 2017 and on other information provided by the staff of the Companies, as detailed in Appendix D.

I have also assessed the appropriateness in nature and amount of the assets to be transferred as part of both the AICL and AIGL Transfers, to the extent necessary to describe the effects of the AICL Transfer.

In preparing this report, I have gained an understanding of other issues that are relevant to the effect of the Transfer on policyholders (and third parties who rely on their policies), including those relating to (i) the financial strength of the Companies, based on capital assessments they have conducted; (ii) the effect on the security of the policyholders of each of the Companies; (iii) the effect on levels of service for the policyholders; (iv) the reinsurance protection provided to the transferring policies.

I have relied on documents described later in this report and discussions with the relevant staff of the Companies.

Where I use the terms “I” or “my” in this report in describing 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 Gibraltar regulator will reach a decision on the parallel AIGL transfer ahead of the Court hearing to approve the AICL Transfer. I anticipate producing a supplementary report closer to the date of the Court hearing indicating whether any material changes have occurred which would impact my conclusions and will consider any changes to the approach for AIGL policyholders within this report if the planned timings or structure of the AIGL transfer changes. I understand that, for operational reasons, the Italian business must transfer from AICL and AIGL or not at all. As such, this report has been prepared on the basis that the UK and Gibraltar transfers will either both succeed or both fail.

1.5. *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 D. I have also held discussions with relevant management and staff of the Companies.

The conclusions in my 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).
- 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.

1.6. *Reliances*

I have obtained reports documenting the findings of independent reviews performed by external consultancies on the reserves and Solvency II models 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 each of the reports received:

Deloitte LLP audit papers:

- Deloitte LLP (“Deloitte”), the auditor to the Admiral Group has, on certain conditions, provided to PricewaterhouseCoopers LLP confidential reports prepared by Deloitte for the Companies (“the Deloitte Reports”).
- Deloitte does not accept or assume responsibility to anyone other than the Group and the Group’s members as a body, for its audit work, for the Deloitte Report(s) or for the opinions it has formed.
- The Financial Statement audit is undertaken in order that Deloitte might report to the Group’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.
- The Deloitte Reports were not created for, and should not be treated as suitable for, any other purpose.

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 the PwC Independent Expert 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.

Ernst & Young, S.L (“EY Spain”) reserve reports (“The EY Reports”)

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

KPMG LLP, (“KPMG”) Brexit Restructuring Report

- The KPMG Report was prepared on an agreed basis to meet the specific purposes of Admiral Group Plc and was not prepared by KPMG on the basis that it would be used by PwC or any other person for the purposes of the PwC Independent Expert Report, or for any other purpose and, accordingly, KPMG accepts no liability to any party other than its client, Admiral Group Plc, in relation to the KPMG Report.'

We have also received reserve reports from Crenca and Associti (“C&A”) and SIA in relation to the Italian and French motor business.

Where I have felt it necessary I have used legal advice to assist in forming my opinion on the Transfers. This legal advice has been commissioned by and is addressed to Admiral and has been provided by Admiral’s legal advisers. I have formed my own opinion, in light of the information I have been presented with, my own experience, and the knowledge of specialists within my own organisation, regarding the extent to which it is appropriate for me to use the advice received for the purposes of my work on the Transfer.

Throughout this report I have indicated where I have used legal advice. I have set out my understanding of the key points of the advice and my opinion in the light of that advice. The legal opinions that have been provided to me are:

1. Legal opinion from UK legal counsel regarding the implications for AICL of the UK’s decision to leave the European Union;
2. Legal opinion from Spanish legal counsel regarding changes in the arrangements for complaints and compensation for transferring policyholders.

Wherever I have used 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, there have been no instances where I have felt a second independent legal opinion is warranted.

Finally, I discuss in section 2.2.4 the Intra-Group Equity Commitment that is proposed to form part of the capital support of AECS after the Transfer. This commitment has not yet been formally agreed. My conclusion on the Transfer is dependent upon the Intra-Group Equity Commitment being agreed and operating in a manner substantially similar to that which has been explained to me.

1.7. 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 explain separately in section 3.1.1 my approach to materiality in assessing the impact of the Transfer.

1.8. 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 TASs, 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 report that, although not material, may be to the benefit of the reader.

2. Outline of the Transfers

2.1. The Companies involved in the Transfers

Admiral is a UK based insurance group, set up in 1993 with a specialism in motor insurance. Whilst motor insurance is the largest insurance product, it also offers household insurance, travel insurance and van insurance. Admiral utilises both coinsurance and quota share arrangements to manage and reduce the level of risk it retains.

Admiral initially underwrote UK motor risks through participation in a Lloyd's of London Syndicate. It started underwriting UK motor risks directly in 2003 through AICL and AIGL and has since expanded into other territories and products.

European (including UK) risks are shared between AIGL and AICL. AIGL is the larger of the two companies – taking a greater share of the large UK motor account and underwriting 100% of the non-motor risks.

The Group's operations include related services such as price comparison websites, a commercial vehicle insurance broker and legal services.

2.1.1. Admiral Insurance Company Limited (“AICL”)

AICL underwrites a share of the Group's UK, Spanish and Italian motor risks and historically underwrote a share of the Group's smaller German motor portfolio.

AICL also contains outstanding liabilities relating to Admiral's share of historical claims on UK motor and UK van portfolios written on Admiral's behalf by a Lloyd's of London Syndicate and through a coinsurance agreement with Service Insurance Limited respectively. These portfolios are both in run-off and are not material in the context of the overall liabilities of AICL. Whilst the Admiral Group has expanded its presence in the van insurance market in recent years, these more recent van risks are underwritten by AIGL.

UK motor

Admiral writes private and commercial motor insurance in the UK through both AICL and AIGL on a coinsurance basis with AICL taking a 7.5% share. The business has been written since the Admiral brand was established in 1993 and includes business written under the Bell, Diamond and Elephant brands. In 2017 AICL wrote £143m of premium and had 3.8m vehicles on cover

Spanish motor

Admiral currently writes private motor insurance in Spain through AICL on a Freedom of Establishment basis via a Spanish Branch. The Spanish business was established in 2006 and trades under three brands: Balumba, Qualitas Auto and WiYou Seguros. In 2017, the Spanish branch wrote approximately €54m of premium and had 224k customers on cover at the end of the year, with these projected to grow to €62m of premium and 263k customers for 2018. The Spanish branch uses quota share reinsurance arrangements and currently retains a net share of 30% of the risk generated. This net share sits entirely within AICL.

Italian motor

Admiral's Italian private motor insurance business, branded ConTe.it (“ConTe”), was established in 2008. Its business is currently written on a Freedom of Services basis via three co-insurers:

- Admiral Insurance Company Limited “AICL” (45%)
- Admiral Insurance (Gibraltar) Limited “AIGL” (45%)
- Great Lakes Insurance, S.E. “GLISE” (10%)

AICL and AIGL are 100% subsidiaries of Admiral Group plc. GLISE is a subsidiary of Munich Re.

ConTe wrote c. €155m of premium in 2017, with 500k active customers at the end of the year.

ConTe uses co-insurance and quota share reinsurance arrangements and currently retains a net share of 35% of the risk generated. Half of this net share sits within AICL and the other half sits in AIGL. AIGL's share will also transfer via the parallel Gibraltar transfer so that both shares will sit together in AECS after the Effective Date.

German motor

The Admiral group underwrote a small amount of German motor insurance between 2008 and 2011 which utilised similar coinsurance and quota share arrangements to those described for ConTe above. The net outstanding liabilities within AICL as at year-end 2017 in respect of German policies were less than £0.2m and Admiral expects to settle all outstanding claims ahead of year-end 2018. Admiral considers there to be minimal risk that new claims will be reported or historical claims reopened after year-end 2018 and hence German business is excluded from the Transfer.

2.1.2. Admiral Insurance (Gibraltar) Limited

AIGL underwrites a share of the Group's UK and Italian motor risks in addition to 100% of the Group's French motor and UK household, travel and van risks. As noted above, new van insurance business is also underwritten by AIGL. AIGL also underwrote a share of the historical German motor risks described above but, consistent with the position for AICL, these will not be impacted by the Gibraltar transfer. Further details of the portfolios, which are relevant to the AICL Transfer, are provided below:

French motor

Admiral currently writes private motor insurance in France through AIGL on a Freedom of Services basis. The business is branded L'olivier - assurance auto ("L'olivier") and was established in 2010. In 2017, L'olivier wrote €58m of premium and had 129k customers at the end of the year. L'olivier uses quota share reinsurance arrangements and currently retains 35% of the risk generated. This net share sits entirely within AIGL.

French household

Admiral plans to launch a household line of business in France under its L'olivier brand during 2019. The planned volumes and premium are modest during the next few years.

Italian motor and other risks

As noted in Section 2.1.1 above, AIGL underwrites a share of the Italian motor business and 100% of add-on products, which are ancillary to the core motor policies. These ancillary products include breakdown, vandalism, natural events, windscreen, telematics and personal injury.

Typically premiums for these ancillary products are not ceded through proportional reinsurance arrangements. Underwriting profits are shared with the intermediary through profit share arrangements and so whilst profitable, these products do not contribute significantly to the long term profitability of the company.

2.1.3. Admiral Europe Compañía de Seguros, S.A

AECS was incorporated in Madrid on 20 December 2017 and authorised by the Spanish regulator (the Dirección General de Seguros y Fondos de Pensiones ("DGSFP")) on 18 July 2018. The company was set up in the context of the UK's pending exit of the European Union and single market. The aim is to continue the European insurance business activities established by both AICL and AIGL in the event of a "Hard Brexit", whereby UK companies will no longer be authorised to provide insurance services to policyholders in European member states. AECS intends to commence underwriting new policies, regardless of the outcome of the Brexit negotiations, on 1 January 2019.

2.1.4. Summary of business written

Table 2 - Business written and exposure within each of the Companies

Company	Commenced underwriting	Business written	Exposure						
			Motor			Household			
			UK	French	Spanish	Italian	German	UK	French
AICL	2003	UK, Spanish, Italian and German motor insurance and add-on products. The largest account is UK motor.	✓	✗	✓	✓	✓	✗	✗
AIGL	2003	UK, Italian, French and German motor insurance and add-on products and UK household. The largest account is UK motor.	✓	✓	✗	✓	✓	✓	✗
AECS	2019	Spanish, Italian and French motor business and add-on products and French household. The largest account will be Italian motor.	✗	✓	✓	✓	✗	✗	✓

The table above summarises the portfolios written, or to be written, into each insurance entity. The following table below shows the gross booked reserves for AICL as a whole and for the transferring AIGL policies split by territory and class of business written. The gross booked reserves provide an indication of the size of each of the portfolios in the context of AICL pre-Transfer and AICL and AECS post-Transfer.

Table 3 – Booked reserves by line of business

Booked Reserves as at 31 Dec 2017 (Gross £000's)	AICL	AIGL transferring	AECS
UK motor and van	224,092	-	-
Spanish motor	29,957	→	29,957
Italian motor	68,126	→ 69,821 →	137,947
French motor	-	→ 33,587 →	33,587
German motor	2,259	-	-
Total	324,434	103,408	201,491

2.2. Description of the AICL Transfer

If sanctioned by the Court, the Transfer will move all risks written for policyholders outside of the UK (with the exception of those in Germany) from AICL to AECS. The Transfer will also move all relevant assets supporting these risks including external reinsurance contracts protecting the Transferring business.

There will be no significant immediate changes to the operations of AICL as a result of the Transfer. The operations around the Transferring business will remain unchanged (such as claims handling) being performed by the same people sitting at the same desks as before, albeit for the new company. Where the establishment of AECS as a new company requires separate operations to be established, I understand that these will be aligned to Group-wide processes and hence will replicate those currently used within AICL.

There are currently some relatively minor internal reinsurance arrangements between AICL and the transferring European business. I understand that these arrangements will be commuted ahead of the Transfer and hence there will be no intra-group arrangements in place after the Transfer.

Both AICL and AIGL have reinsurance arrangements with external reinsurers. The Companies have confirmed to me that there will be no change to the operation of these arrangements as a result of either transfer. The reinsurance arrangements currently in place for the Transferring risks within AICL and AIGL will move with the two transfers to protect the same business in AECS after the Effective Date.

Other rights and obligations of AICL relating to the Transferring Policies will also be transferred to AECS. There will be no changes to policy terms and conditions as a result of the Transfer.

In the sections that follow, my comments are based upon my understanding of the operation of both Admiral transfers, the representations made to me by the Companies and my experience of other Part VII transfers.

2.2.1. Periodic Payment Orders (“PPOs”)

A periodic payment order (“PPO”) is an order by the Court to make a series of regular payments to a claimant for the rest of their life in settlement of a claim. Severe motor bodily injury claims are sometimes settled in this way to ensure the claimant has sufficient funds to cover additional care needs for the rest of their life.

Some claims in AICL have been settled by way of a PPO. These all relate to UK motor policies and will remain in AICL after the transfer. Whilst there is the potential for some claims relating to the Transferring risks to settle on a similar structured settlement basis in the future, no such settlements have been agreed to date.

2.2.2. Guarantees

There are no guarantees or stop loss policies in place for any of the Companies.

2.2.3. Dividends and capital extraction

I understand that AICL intends to pay dividends during the course of 2018 in the normal course of business and that these dividends will be paid in advance of the Transfer. In addition, I understand that Admiral expects some surplus capital to arise in AICL as a result of the Transfer itself. Admiral wishes to use the surplus capital arising as a result of the Transfer to fund the increased capital requirement in AECS but does not propose to extract this capital from AICL until sometime after the Transfer when the Board is satisfied that it is appropriate to do so. The funding requirement for AECS will be met in the meantime by Admiral Group meaning that, at the time of the Transfer, there will be significantly more capital across AICL and AECS than currently used to support AICL and the Transferring AIGL business before the Transfer.

I have performed my analysis under the assumption that the projected 2018 dividends will have been paid out before the Transfer, and the proposed capital extraction after the Transfer will not be completed immediately. I have commented separately on the potential impact of the proposed post-Transfer capital release should it be agreed within six months of the Effective Date. After that point I would regard any subsequent capital extraction to be part of the Company’s dividend process in the normal course of business and unrelated to the Transfer. I will revisit this point in my supplementary report.

2.2.4. Intra-group equity commitment

In addition to the initial capital injection by Admiral Group into AECS described above, the Group will legally commit a further £50m 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 for transfer if required. This arrangement has not yet been formally agreed. I have seen a template for the legal form of the arrangement and have proceeded with my analysis for this report on the basis that the agreement is put in place in a substantially similar form. I expect to review the finalised agreement and legal opinions confirming that it will be enforceable under both UK and Spanish law in time to comment on these in my supplementary report.

2.2.5. Claims handling

Claims administration for both the Spanish and Italian Policies is currently the responsibility of EUI Limited, an Admiral Group company, via separate Spanish and Italian branches. Following the Transfer, the responsibility for claims handling will change as follows: -

- 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.

No changes are proposed to the claims handling arrangements of UK risks remaining within AICL.

2.2.6. Non-EEA business

Admiral has confirmed to me that AICL has written no business which covers policyholders situated in jurisdictions outside the European Economic Area (“EEA”) and hence I am satisfied that all policies are currently governed by the UK Court which would authorise the Transfer. Whilst AICL has some reinsurance arrangements with non-EEA reinsurers, these are in relation to UK risks and hence are not impacted by the Transfer. There are non-EEA reinsurers covering business transferring from AIGL. Admiral will contact, either through brokers or directly, any non EEA reinsurers to ensure that these contracts continue to provide cover following the Transfer.

2.2.7. Purpose of the transfers

I have discussed the reasons for proposing the AICL and AIGL transfers with Admiral’s management. I have been informed that the transfers are proposed in the context of the UK’s pending exit of the European Union and single market to ensure that Admiral can continue to service existing policies and underwrite new risks in Continental Europe.

3. Conclusions

3.1. Overall conclusions

I have considered the proposed Transfer and the likely effect on both the UK and Transferring policyholders of AICL. At the point of transfer, Admiral is providing significantly more capital than previously used to support the business. I understand action will be taken by management in the future to remove surplus capital arising above target in AICL. Nevertheless, 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.

I have concluded that policyholders (and third parties who rely on their policies) will not be materially adversely affected by the proposed Transfer. 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 an equivalent Capital Cover Ratio for short-tailed policyholders and a lower but still reasonable Capital Cover Ratio for longer-tailed policyholders.

In my view, based on the analysis conducted and described in this report, the Transfer meets the criteria needed to proceed.

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 reduces slightly; however, 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.
- With the intra group equity commitment in place, on a short-term economic basis, the Capital Cover Ratio remains the same as a result of the Transfer. On a long-term basis there is a reduction in the Capital Cover Ratio but a reasonable margin remains above 100% to ensure cover is adequate in the event of fluctuations in experience or underlying assumptions.

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- 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.

3.1.1. Policyholder security

The security of a policyholder's contractual rights is deemed to be affected by the Transfer if the security on the day after the Transfer is not the same as the security on the day before the Transfer took place and the change is as a direct consequence of the Transfer itself. The security of a policyholder is adversely affected if it is reduced.

Whilst it is commonly accepted by Independent Experts that have concluded upon Part VII transfers that a transfer should be free to proceed where policyholders are not materially adversely affected, it is important to be clear what I mean by "materially adversely affected" in this context.

I have not assessed whether an adverse effect on the security of a policyholder group is material with reference to any quantifiable measure because it is not possible to quantify all of the relevant aspects of policyholder security. Rather, I have made the assessment by applying reasoned judgement to the interplay of factors involved to consider whether a policyholder would have cause to be concerned about the change in their security. Specifically, where the change is so small or the probability of a reduced payment sufficiently insignificant that it should give no cause for concern to policyholders, I have considered it not to be material.

For the reasons summarised above, I have concluded that the security of policyholders (and third parties who rely on their policies) will not be materially adversely affected by the proposed Transfer.

3.1.2. Policyholder experience

There are no changes to the way that policies will be administered or claims handled. I have concluded that there will be no impact on the policyholder experience as a result of the Transfer.

3.1.3. Conduct regulation

There will be no changes to the conduct regime for UK policyholders.

Following the Transfer, the conduct regime for transferring policyholders will be provided by the Dirección General de Seguros y Fondos de Pensiones (“DGSFP”), who provide both prudential and conduct regulation in Spain. In comparison the FCA currently provides a singular focus on conduct issues in the UK. Whilst the focus on conduct is unlikely to be as strong as that provided by the FCA in the UK, the introduction of the Insurance Distribution Directive which is being implemented in October 2018 will ensure a reasonable and adequate minimum standard of conduct regulation across Europe. I consider Transferring policyholders will not be materially adversely affected as a result of the change in conduct regulation.

3.2. 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.

4. Analysis

4.1. Overview of approach

My approach to assessing the likely effects of the Transfer on policyholders has been to:

- Identify the groups of policyholders affected or potentially affected by the Transfer.
- Understand the effect of the Transfer on the assets and liabilities of AICL and AECS (in order to assist me in assessing the effect on policyholders).
- Consider the likely effect of the Transfer on the security of each group of policyholders.
- Consider conduct related aspects of the Transfer such as changes in the governance arrangements and the effect on policyholder service, which form the policyholder experience.
- Consider any implications of the parallel transfer from AIGL on the above.
- Consider the potential implications on the operation of the business from Brexit.

In performing my work, I have requested that various information be provided to me including Reports & Accounts, 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 D.

I have performed my own analyses to test the information received, particularly in the areas of reserving and capital assessments. I have applied alternative assumptions to the capital assessments in order to understand how the capital requirements of the entities vary when assumptions are stressed.

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.

4.2. Policyholders affected or potentially affected

Different groups of policyholders may not be affected in the same way by the Transfer. In forming my conclusion on the Transfer, I need to consider the interests of each group of policyholders separately. The factors that differentiate groups of policyholders which I have considered as relevant to my analysis are as follows:

- *Differences between UK and Transferring policyholders* – UK policyholders will remain in the same company (AICL) with the same administration and governance processes and the same regulation. Transferring policyholders will be in a different company (AECS) regulated by the Spanish authorities after the Transfer. Each company will have its own level of capital, which provides security to its policyholders, and will be subject to particular risks arising from the insurance business written. In particular, the transferring Spanish and Italian policyholders currently within AICL will be exposed to French motor risks transferring simultaneously from AIGL following the Transfer, and potentially some French household risks with sales planned to commence in 2019.
- *Differences for policyholders in Spain and Italy* – Spanish policyholders will be insured by a regulated Spanish company. It is Admiral's intention that the Spanish company will be authorised to cover Italian policyholders on a Freedom of Services basis from Spain, although some aspects of the business may be overseen by the Italian regulator.
- *Short and long term claimants* – Some policyholders will have claims, such as damage to a vehicle, which they would expect to be settled within a year. Other longer term claims, which might include

motor bodily injury claims that are complex and subject to legal proceedings, will take longer to settle. The policyholders with longer tail claims are likely to be interested in the security of their insurer over the longer term.

- *Periodic payment order claims ("PPOs")* - A PPO is an order by the Court to make a series of regular payments to a claimant for the rest of their life in settlement of a claim. Like the policyholders with longer tail claims, policyholders with claims settled in this way will be interested in the longer term view of the security of their insurer.

The longest term of liability will come from the PPO claims and I consider the longer term risks faced by PPO claimants will encompass those borne by other long term claimants. I have considered these as a single policyholder grouping for the purposes of my analysis.

In light of the above factors, I have considered the effects of the Transfers on the following groups of policyholders:

Policyholder group	AICL pre-Transfer	AICL post-Transfer	AECS post-Transfer
UK Policyholders	✓	✓	✗
Transferring policyholders	✓	✗	✓
Short tail claimants	✓	✓	✓
PPO and long tail claimants	✓	✓	✓
Spanish versus Italian policyholders	✓	✗	✓

I have performed analyses to examine the security of the UK and Transferring policyholders separately. I have considered the security of the short and long tail claimants by reviewing the results over a shorter 1 year time frame as well as a longer 'to ultimate' time frame, which extends until all claims from current business are fully paid.

I have considered the impact of the change in regulatory regime, any differences between Spanish and Italian policyholders and other conduct or policyholder experience aspects in a qualitative manner.

I note that the contractual rights of the Transferring Policyholders in respect of existing policies will not change as a result of the Transfer except that those rights will be against a different company.

As I have mentioned, there will be a parallel transfer of business from AIGL to AECS. Policyholders remaining in AIGL will be unaffected by the AICL transfer. The policyholders of AIGL who will be moving to AECS will be affected by the AICL transfer to the extent that the additional AICL business will be transferred into AECS at the same time. It is not within my remit to consider the impact on these transferring AIGL policyholders whose interests will be addressed by the parallel Gibraltar transfer. I do not believe that the policyholders of any other insurance companies are affected by the Transfers.

There will be third party claimants affected by the Transfer who are not policyholders. These claimants will include individuals who have received damage to their vehicle or who have been injured in a motor accident caused by an AICL policyholder. The interests of these third party claimants will be aligned with policyholders with similar damage or injury claims. Based upon my experience of Part VII transfers, I do not believe that any third party who relies on a policy can be adversely affected by the Transfer if the relevant or equivalent policyholder group is not affected by the Transfer.

4.3. Effect of the Transfer on assets and liabilities

In order to indicate the effect on AICL and AECS of the Transfer, I have considered pre and post Transfer balance sheets in Table 5 below. For ease of explanation, I have shown the balance sheets in summarised formats.

These balance sheets are presented as at the Effective Date of the Transfer and have been produced by Admiral, at my request, by rolling forward the latest audited accounts of AICL and AIGL. These projected balance sheets reflect the dividends described in Section 2.2.3.

The latest audited position for AICL is as at 31 December 2017, produced in accordance with International Financial Reporting Standards (“IFRS”). Table 4 below shows this audited balance sheet, also in summarised format. No audited balance sheet for AECS was available as at 31 December 2017. The full audited balance sheet of AIGL is not relevant to the Transfer because not all of AIGL’s risks are transferring.

Numbers in each of the tables below have been rounded to the nearest multiple of £0.1m.

Table 4 - Summarised audited IFRS balance sheet for AICL as at 31 December 2017

£ms	AICL
Assets	
Investments	424.1
Reinsurers’ share of Technical provisions	121.4
Debtors	58.8
Investments in subsidiaries	0.0
Other	6.0
Total	610.3
Liabilities	
Shareholders’ funds	106.4
Gross Technical provisions	474.6
Other	29.3
Total	610.3
Solvency measures:	
Ratio of shareholders’ funds to:	
- Net Technical provisions (Net = Gross – Reinsurers’ share of)	22%
- Gross Technical provisions	19%

I have confirmed with the management of Admiral that there are no off balance sheet arrangements within the Company.

4.3.1. Expected changes in assets and liabilities to Effective Date

Having examined the balance sheets as at 31 December 2017, I have then considered the changes that may occur between 31 December 2017 and the Effective Date and Admiral’s approach to rolling forward the IFRS balance sheets to this date.

I expect that the normal activities of AICL and AIGL will continue. They will continue to issue policies, settle claims and re-assess reserves in the light of experience. I do not consider that any additional risk to policyholders will emerge as a result of the continuation of normal business.

Further to considering the continuation of normal business, I have discussed with the management of the Companies the possibility of management actions, such as corporate restructuring or capital distributions that could affect the financial position of the Companies other than the dividend payments, which I have considered. I have been informed that there are no such plans.

On the basis of the information provided to me, I am satisfied that the simplified pre- and post-Transfer balance sheets provided to me, based on the expected position as at the Effective Date, are reasonable for the purposes of describing the effect of the Transfer in my report.

Notwithstanding the above, I anticipate producing a supplementary report closer to the date of the Court hearing to approve the Transfer indicating whether any material changes have occurred which would impact these projected positions and hence my conclusions.

Table 5 - Effect on IFRS balance sheets as at 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	427.4	75.0	55.7	52.4	183.1	371.7
Reinsurers' share of technical provisions	141.9	0.0	115.0	112.8	227.8	26.9
Debtors	48.4	0.0	11.0	22.3	33.3	37.4
Investments in subsidiaries	75.0	0.0	0.0	0.0	0.0	75.0
Other	6.0	0.0	3.2	2.0	5.2	2.8
Total	698.7	75.0	184.9	189.5	449.4	513.8
Liabilities						
Shareholders' funds	95.8	75.0	0.0	0.0	75.0	95.8
Technical provisions	507.2	0.0	178.7	179.6	358.3	328.5
Other	95.7	0.0	6.2	9.9	16.1	89.5
Total	698.7	75.0	184.9	189.5	449.4	513.8
Solvency measures:						
Ratio of shareholder funds to:						
- Net Insurance liabilities	26%				57%	32%
- Gross Insurance liabilities	19%				21%	29%

As a result of the AICL Transfer, gross technical provisions in AECS will increase by £179m, 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 £115m, which is the total of reinsurers' share of technical provisions for the Transferring business.

At the same time the Gibraltar transfer will move £180m of gross technical provisions and £113m reinsurers share of technical provisions.

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.

At the bottom of Table 5 I have displayed, as simple measures of solvency, the ratio of shareholders' funds to net and gross insurance liabilities. I will discuss more sophisticated measures of solvency later in this report.

4.3.2. Technical provisions - General comments

The elements of the above balance sheets which are the most difficult to assess are, as with all insurance companies, the appropriate levels of technical provisions, i.e. the estimated values of the current and future liabilities that insurance companies have to pay in respect of the insurance policies that they have written. Section 4.3.3 below covers my assessment of those valuations.

It should be noted that the estimation of technical provisions for insurance liabilities (which I also refer to as "reserves") is an inherently uncertain exercise. An element of subjectivity is inevitably included in any reserve assessment.

4.3.3. Assessment of the technical provisions of the Companies

The levels of technical provisions stated within the accounts are based on external reserve assessments for all risks as at 31 December 2017.

Work related to the assessment of technical provisions has been performed by internal and external actuaries. I have obtained reports and memos for the following work performed by external parties:

- External actuarial consultants, LCP, performed a review of the UK motor reserves based on data as at 31 December 2017.
- External actuarial consultants C&A, SIA and EY Spain performed reviews of the Italian, French and Spanish motor reserves respectively based on data as at 31 December 2017.
- The technical provisions for AICL and AIGL were externally audited by Deloitte as at 31 December 2017.

Please see the comment on reliance in Section 1.6 regarding the basis upon which I have used the work performed by external parties.

I have read the reports produced by the internal actuaries (covering each of the territories) and the external actuaries (as listed above) and considered the approach to estimating reserves, the key issues and the results presented. Standard actuarial techniques have been used by both Admiral and the external providers that I consider to be appropriate to the nature and duration of the liabilities and to the data available. I have questioned the internal actuaries to confirm my understanding and received satisfactory answers to my questions.

Admiral includes a margin in the booked reserves for each territory, which demonstrates a conservative approach to provisioning for future claims liabilities. These margins, along with any differences between the internal and external estimates, are removed for the purposes of calculating technical provisions for solvency, which form the starting point for the capital analyses, as required by the Solvency II legislation.

The key uncertainties within the reserves identified during the course of my analyses are as follows:

- **PPOs** - AICL has exposure to PPO claims within the UK and holds an explicit reserve relating to claims which have either settled on a PPO basis already or have the potential to do so in the future. Whilst no claims have settled on a similar structured settlement basis in other European territories, Admiral is allowing for the potential for one or two outstanding French claims to do so.

These claims are uncertain because the payments will continue for the life of the policyholder, and may

increase if the cost of care rises in the future.

I note that the margin held within the booked reserves for AICL could be used as a buffer to cover any deficiencies in the best estimate reserves in respect of PPO claims, which may emerge in the future. This is relevant to my later analysis because it is the best estimate reserve position that feeds the capital assessments and not this booked figure.

These claims are large and typically protected by reinsurance, which will limit the cost to AICL and AECS should the current allowance for future claims be insufficient at a gross of reinsurance level.

- **The Ogden discount rate** - When assessing lump sum awards for personal injury claimants, courts take into account the rate of interest that the claimant might expect to receive from a reasonably prudent investment of lump sum compensation. This rate is used to discount the future costs that form part of the award. In the UK, this rate is referred to as the “Ogden discount rate”. The Ogden discount rate was revised significantly from 2.5% to minus 0.75%, effective on 31 March 2017. This led to market wide increases in UK motor reserves.

The greatest level of uncertainty within Admiral’s UK motor reserves relates to the current and future Ogden discount rate following a further announcement by the Lord Chancellor on 7 September 2017, which proposes draft legislation containing changes to the way in which the discount rate is calculated. At the current time we do not know if or when such a bill will be passed, when a further change in the rate might be announced, or the investment conditions prevailing at that time.

We note that Admiral has calculated reserves on the basis of a -0.75% p.a. Ogden discount rate. I have discussed the rationale for this position with management and consider it to be reasonable given the information currently available and the uncertainties outlined above. I will revisit this point in my supplementary report.

On the basis of the information described above, I am satisfied that the technical provisions of the Companies are reasonable for the purposes of describing the effect of the Transfer in my report and for the purposes of showing simplified balance sheets.

I have investigated the impact of alternative viable scenarios relating to PPOs and the Ogden discount rate in my stress tests on the capital assessments in Section 4.8.

4.4. Capital extraction

As mentioned in Section 2.2.3, I understand 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.

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.

4.5. Effect of the Transfer on capital assessment

A key issue for the Court in determining whether or not it is appropriate for it to exercise its discretion to sanction a transfer is the question of whether or not the policyholders of AICL (transferring and not transferring) will be sufficiently secure following the Effective Date in the event of the Transfer taking place.

The security of policyholders is well described by the level of capital held by a company compared to the level of capital necessary to cover the underlying risks of that company's business.

The regulatory capital requirements for companies within Europe are governed by the 'Solvency II' regime, which came into force on 1 January 2016. Under this regime, insurance companies can apply to the Regulators to approve an 'Internal Model' or adopt the 'Standard Formula' approach. Alternatively, insurance companies can apply to use a 'Partial Internal Model' which is a blend of these two approaches. Admiral is currently using the Standard Formula approach for AICL and will continue to do so for both AICL and AECS following the Transfer.

The Standard Formula calculation of a company's Solvency Capital Requirement ("SCR") is complemented by the Own Risk and Solvency Assessment ("ORSA") which reflects the company's own view of the risks it faces and the extent to which these are accurately reflected in the prescribed Standard Formula SCR.

4.5.1. Solvency Assessment processes and information received

Capital is held to mitigate the risks to which each Company is exposed. Without the capital held these risks could cause an entity to be unable to meet its liabilities as they fall due. The level of capital determined in the Standard Formula calculation is intended to ensure that a company is at least 99.5% likely (199 chances in 200) to remain solvent over a one year time horizon.

The latest Standard Formula assessment prepared by AICL that I have considered is based on data as at 31 December 2017 but is projected to apply as at 31 December 2018, just before the Effective Date. It represents the latest capital assessment available to me at the time of writing this report. The assessment as at 31 December 2017 has been provided to the Regulators and no feedback has yet been received.

Many of the Standard Formula parameters are fixed by Solvency II regulations and guidance. In some specific areas I have discussed with Admiral the use of alternative assumptions that better reflect the economic impact of the risks to which the Companies are exposed. Most importantly, these alternative assumptions reflect the complexities of certain restrictions within the terms of the reinsurance arrangements covering the Transferring risks. I consider this '1 year economic basis' to be more reliable for the purposes of comparing the security of policyholders with shorter tail claims before and after the Transfer.

I have also requested that Admiral assesses the level of capital that AICL would need to hold were this 99.5% test to apply over an 'Ultimate' time horizon, allowing specifically for the nature of the risks underlying the UK PPO liabilities. This equates to the level of capital intended to ensure that the company is at least 99.5% likely (199 chances in 200) to remain solvent until the last claim is paid on all business written historically and to be written during the next 12 months (i.e. including business written between 1 January 2018 and 31 December 2018). This represents a stronger capital test than the Standard Formula 1 year basis as it allows for risks which might emerge beyond the first year.

AICL and AECS will continue to pay medium and longer tail claims over the course of a longer time horizon than 1 year. For this reason, I have used the alternative 'Ultimate economic' time horizon capital calculations in order to assist with my assessment of the Transfer on the security of policyholders whose claims might not be paid until many years into the future. I refer to this group as longer tail policyholders.

Admiral has derived the economic 1 year and ultimate views based on adjustments to the Standard Formula calculation and hence the assessments on this economic basis are also based on data as at 31 December 2017 but projected to apply as at 31 December 2018.

In summary, I have been provided with assessments of the capital position before and after the Transfer on three bases:

- *1 year regulatory basis* – using the prescribed Standard Formula;
- *1 year economic basis* – using adjustments to some Standard Formula parameters to better reflect the economic impact of risks to which the Companies are exposed;

-
- *Ultimate economic basis* – using further adjustments to the Standard Formula parameters to reflect the impact of risks over the longer time horizon until the last claim has been paid.

In drawing my conclusions on the impact of the Transfer I have focused my attention on the 1 year economic basis and the Ultimate economic basis as I believe these reflect the impact most accurately on shorter tail and longer tail policyholders respectively.

For the purposes of assessing the impact of the Transfer, the Companies have, at my request, also assessed the level of capital that AICL and AECS need to hold on a regulatory, a 1 year economic and an Ultimate economic basis after the Transfer. This includes an assessment of the risks to which AECS would be exposed following the parallel transfer from AIGL.

4.5.2. Approach to review of capital assessments

I have considered the methodologies and assumptions used in the Standard Formula and economic analyses produced by the Companies for AICL pre-Transfer and AICL and AECS post-Transfer. I have also considered the appropriateness of the Standard Formula calculation and the adjustments applied to convert to the economic bases based on my understanding of the business and my discussions with management. I have asked questions regarding specific aspects of the analysis to ensure my understanding and I have received satisfactory answers to my questions.

Capital assessments are subject to considerable uncertainty and expert judgement and the results are dependent upon the data and categorisation of the data used. They are also dependent on the data inputs being accurate. As such I have stressed certain inputs to the calculations including the level and volatility of reserves; these stress tests are described in Section 4.8.

The purpose of my assessment has been to test the robustness of the Standard Formula and 1 year and Ultimate economic SCR calculations, and the extent to which they can be compared with each other, in order to check whether it is reasonable to use the results of these assessments for my consideration of the impact of the Transfer on policyholder security. From the results of my enquiries with Admiral, and from the results of the stress tests I have carried out, I am satisfied that I may use the SCRs provided to me to assess the impact of the Transfer on policyholder security.

4.5.3. Solvency Assessment results

Capital Cover Ratio

The Standard Formula SCR calculation produces a level of capital that is required to meet regulatory solvency levels and which I describe as “sufficient” for the purpose of my analysis. If the company has a healthy capital position, then the actual capital that the company holds (the “Available Capital”), will be greater than the “Required Capital” calculated under each basis. I refer to the ratio of the Available Capital to the Required Capital as the “Capital Cover Ratio”.

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’.

If the Capital Cover Ratio increases after the Transfer for a group of policyholders, there is an increase in security for those policyholders. If there is a reduction in the Capital Cover Ratio there is a reduction in security and I need to consider whether that reduction is likely to be material to the policyholder.

Regulatory basis

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

Regulatory Basis	AICL pre-Transfer	AICL post-Transfer	AECS post-Transfer
Available Capital	120	124	65
Required Capital under Standard Formula	91	74	52
Capital Cover Ratio	133%	167%	124%

I am able to show these figures on the regulatory basis because they are similar to figures which are in the public domain and they are helpful for confirming that the companies will be able to meet their regulatory capital requirements after the Transfer.

Economic basis

There are features of Admiral's business that are important to the security impacts of the Transfer which are not well reflected in the regulatory basis. Admiral has produced alternative figures on both a 1 year and ultimate economic basis to improve comparability. It is these economic bases that I have used to form my conclusions on the impact of the Transfer on the security of both short- and longer-tailed policyholders.

The economic bases allow specifically for the impact of caps on some of the reinsurance covers protecting the Transferring business, which increase the capital requirement. They also allow for the £50 million intra group equity commitment (described in Section 2.2.4) which is being put in place to provide additional support to the new Spanish entity in light of this increase. This commitment has not been agreed with the regulator so it cannot be included in the available capital on the regulatory basis.

I understand that some of Admiral's reinsurance programmes will be due for renewal in 2020 and that it will seek to renegotiate the cover provided at that time. If these renegotiations are successful, the impact of these adjustments on the AECS position could be substantially reduced.

4.5.4. Solvency Assessment conclusion

For the purposes of my analysis, I have considered the methodologies and assumptions used by Admiral in the calculation of its Standard Formula SCRs to be appropriate and broadly in line with current market practice.

I consider the approaches used by Admiral to convert the regulatory Standard Formula view to a 1 year economic and an Ultimate economic view to allow appropriately for the features of Admiral's business that are important to the consideration of the impact of the Transfer on policyholder security and, therefore, to be appropriate for the purposes of my work.

Any model will be subject to error. I have performed my own stress test based assessments in order to understand whether any differences in the key assumptions, including reserve estimates, Ogden discount rate assumption, propensity for large claims to settled as PPOs and changes in the underlying model parameters, would affect my conclusions. These are discussed in section 4.8. My review of the to-ultimate SCRs has led me to conclude AICL before and AICL and AECS after the Transfer are well-capitalised or better.

I comment on the results at a company and policyholder group level in Sections 4.6 to 4.7.

4.6. Security of Transferring policyholders

4.6.1. Comments applicable to all Transferring policyholders

The proposed Transfer will see the Transferring policyholders of AICL move to a smaller entity with more volatile claims reserves. The additional volatility is due to the reinsurance contracts in place not providing protection under more extreme scenarios. I understand 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 capital requirements, of AECS.

In the meantime, Admiral is putting in place an intra-group equity arrangement to provide additional capital support.

These policyholders will also be exposed to French motor risks transferring simultaneously from AIGL following the Transfer. These new risks have been included within the capital calculations I have considered for AECS following the Transfer.

On the regulatory basis, the Capital Cover Ratio for transferring policyholders reduces slightly but 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.

On the short-term economic basis, the Capital Cover Ratio remains the same and AECS will be well capitalised.

On the long-term basis, there is a reduction in the Capital Cover Ratio but a reasonable margin remains above 100% to ensure cover is sufficient in the event of fluctuations in experience or underlying assumptions.

It is clear that there will be some adverse impact on the security of Transferring policyholders but Admiral is putting in place measures, including significant additional capital support, to ensure any adverse impact will not be material.

On the basis of the above I consider the security of Transferring policyholders is not materially adversely affected by the Transfer.

4.6.2. Longer-tailed policyholders

The Transferring business has exposure to longer-tailed claims (e.g. motor bodily injury claims). I have considered whether there are any additional risks to longer-term policyholders which are not covered by my comments in relation to all Transferring policyholders above. These longer-tailed policyholders are exposed to the risk that the company may fail a number of years into the future, by which time other claims are likely to have been paid in full.

I have considered any differential impact on short versus longer-tailed policyholders by assessing the likelihood of longer-tailed policyholders not being paid in full after the Transfer.

On the longer-tailed Ultimate economic basis there is a reduction in the Capital Cover Ratio but a reasonable margin remains above 100% to ensure cover is sufficient in the event of fluctuations in experience or underlying assumptions. In addition, the new AECS entity is part of a large 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.

As such, I am able to conclude that the chance of longer-tailed policyholders not being paid in full is sufficiently remote that any differential impact between short and longer-tailed policyholders should not be of concern to these longer-tailed policyholders.

Based upon the comments outlined above, I do not consider the security of Transferring longer-tailed policyholders to be materially adversely affected by the proposed Transfer.

4.7. Security of remaining policyholders

4.7.1. Comments applicable to all remaining policyholders

Policyholders remaining in AICL will see their Capital Cover Ratio on all bases (short-term regulatory, short-term economic and long-term economic) increase significantly.

The amount of available capital within AICL increases 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 only if it is appropriate to do so. As noted above, I consider the target capital levels to provide a good level of security to policyholders.

Policyholders cannot expect, therefore, to be kept at the higher level of security arising immediately after the Transfer. In the medium-term the security provided is likely to be consistent with pre-Transfer levels.

Reserves net of reinsurance representing approximately 15% of the total will transfer out, leaving a company only marginally reduced in size.

On the basis of the above, I can conclude that the security of remaining policyholders will not be adversely affected by the Transfer.

4.7.2. Periodic Payment Orders (“PPOs”) claimants and Longer-tailed policyholders

The UK business has exposure to both PPOs and other longer-tailed claims (e.g. motor bodily injury claims). These policyholders are exposed to the risk that the company may fail a number of years into the future, by which time other claims are likely to have been paid in full.

On the long-term basis there is a significant increase in the Capital Cover Ratio immediately following the Transfer. Whilst management does intend to reconsider the capital position following the transfer, I understand that this will only be reduced if it is appropriate to do so.

Based upon the comments outlined above, I do not consider the remaining PPO claimants and longer-tailed policyholders to be adversely affected by the proposed Transfer.

4.8. Impact of stress tests on Solvency Capital Requirement Assessment

Capital assessments are models based upon an interpretation of data, a methodology selection and many assumptions. As with all models these are subject to error. Whilst I have not identified any material errors in Admiral's capital assessment models, any deficiencies that do exist will exist in the assessments both before and after the Transfer and may not affect the comparisons drawn.

Given the use to which I have put the results of the Standard Formula, 1 year economic and Ultimate economic SCRs in assessing the comparative security of policyholders, I have investigated the impact of using alternative assumptions in a series of stress tests. I have adopted these alternative assumptions to stress the SCR and available capital results and to confirm whether the comparative position for capital surplus before versus after the Transfer continues to support my conclusions.

I have considered alternative assumptions, alone or in combination, for:

- the expected mean value of the Reserves;
- the Ogden discount rate applicable for UK Motor bodily injury reserves;
- the propensity for large claims to settle as periodic payment orders;
- the expected variability of the reserves and premiums; and
- the relationship between the classes and companies (referred to as “correlations”).

4.8.1. Stress test conclusion

Under the majority of stress scenarios the capital coverage before and after the Transfer remains sufficient and the direction of change as a result of the Transfer is similar to the descriptions that I have given.

For UK policyholders, the most extreme scenario tested relates to a significant deterioration in the mean value of UK motor reserves. Under this scenario, the Capital Cover Ratio before the Transfer falls below 100% on each of the Standard Formula and two economic bases. This means that, in this extreme scenario, the Available Capital falls just below the level that would be required to ensure that all claims arising in 99.5% of outcomes can be paid in full. In this scenario, however, the Capital Cover ratio for AICL after the Transfer reduces from the base position but remains sufficient so the security of policyholders still increases as a result of the Transfer. As such, my conclusion for the security of UK policyholders set out in Section 4.7 holds.

For Transferring policyholders, the most extreme scenarios tested relate to changes in the expected variability of the reserves and premiums. Under one such extreme scenario, the Capital Cover ratio on an Ultimate economic capital basis falls below 100%. Under all other scenarios, the Capital Cover Ratio remains above 100% both before and after the Transfer. Given the nature of the liabilities and my knowledge of the claim environment in these European territories, I consider the individual scenario in which the Capital Cover ratio falls below 100% to be remote. I also note that maintaining capital over 100% of the Ultimate economic SCR is a stronger test than the 1 year economic and regulatory bases. As such, I have concluded that the results of the stress tests do not affect my conclusion for the security of Transferring policyholders as set out in Section 4.6.

4.9. Conduct aspects of the Transfer

4.9.1. Notifications and Waivers

I have been provided with and reviewed the draft communications plan as at 25th June 2018 for informing policyholders of the proposed Transfer. I understand that:

- Current Spanish and Italian policyholders, together with those who have cancelled their policies in the last 6 months or have an open claim, will be informed directly of the Transfer;
- Third parties who have an open claim involving a Spanish or Italian customer will also be informed directly of the Transfer;
- No current or historical UK policyholders or current third party claimants are to be informed directly of the Transfer;
- Email is to be used as the primary method of communication as the vast majority of policyholders have confirmed they are happy to be contacted in this way; and
- A media campaign that is more extensive than the regulatory minimum is proposed which will be targeted at the existing profile of UK and Transferring policyholders.

Regarding the UK policyholders, I note that their insurer is not changing, 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.

Following my review of the communications plan and my comments above I have not seen anything in the communications plan that leads me to conclude that Admiral's proposed approach is inappropriate or unreasonable.

4.9.2. Administration of the business

Claims administration for both the Spanish and Italian Policies is currently the responsibility of EUI Limited, an Admiral Group company, via separate Spanish and Italian branches. Following the Transfer, the responsibility for claims handling will change as follows: -

- 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.

No changes are proposed to the claims handling arrangements of UK risks remaining within AICL.

Nothing has arisen in my analysis that would lead me to believe that AICL or AECS do not have the financial resources to administer these claims or that there would be any material adverse impact to policyholder experience.

4.9.3. Future changes in operational arrangements

I understand that Admiral has no current intention to make changes to the operational arrangements of the Transferring Policies or to AICL.

4.9.4. Rights under the Financial Services Compensation Scheme and the Financial Ombudsman Service

The Financial Services Compensation Scheme (FSCS) is a compensation fund of last resort that compensates customers of authorised financial firms in the event that a firm becomes insolvent or ceases trading. The FSCS only covers particular classes of business, so that, in the event that an insurer becomes insolvent, not all policyholders receive compensation and some receive different levels of compensation.

The Financial Ombudsman Service provides customers with a free, independent service to help settle disputes with financial firms. The Financial Ombudsman Service deals with complaints from consumers against firms that are regulated by the UK Regulators in relation to activities carried out in the UK and it can require firms to pay compensation.

AICL will continue to subscribe to the FSCS following the Transfer and so this situation will be the same for non-Transferring policyholders of AICL before and after the Transfer and they will continue to have access to the Financial Ombudsman Service.

Transferring policyholders will lose protection from the FSCS and they will no longer have access to the Financial Ombudsman Service in the event of complaint, where it may have applied. Instead they will have access to equivalent compensation and ombudsman services provided by the Spanish authorities after the Transfer.

In particular, the Complaint Department at the General Directorate of Insurance and Pension Funds and the Insurance Compensation Consortium (Consortio de Compensación de Seguros, CCS) play similar roles to the Financial Ombudsman Service and FSCS respectively in Spain. I have reviewed legal advice provided by Admiral's Spanish attorneys confirming this to be the case, which accords with my understanding from discussions I have had with colleagues in Spain.

Regarding the complaints procedures, I understand from Admiral that, in practice, Spanish and Italian policyholders tend to make use of local complaints services currently. As such, there may be little practical impact as a result of the change in access to the Financial Ombudsman Service.

Whilst there will be changes to the complaints and compensation scheme arrangements for the Transferring policyholders as a result of the Transfer, I do not consider the policyholders to be materially adversely affected given the accessibility to equivalent arrangements in Spain.

4.9.5. Governance, systems and controls

There will be no changes to governance, systems and controls for UK policyholders.

The systems, governance and control environment of AECS and the new service company will continue under the same minimum group standards as before although the Spanish and Italian risks may receive more management attention and focus as a larger part of a smaller entity than they did within AICL where the UK business dominates.

I do not consider there to be a material adverse change in the governance, systems and controls arrangements relevant to the Transferring policyholders as a result of the Transfer.

4.9.6. Conduct regulation

There will be no changes to the conduct regime for UK policyholders.

Following the Transfer, the conduct regime for transferring policyholders will be provided by the DGSFP, who provide both prudential and conduct regulation in Spain. In comparison the FCA currently provides a singular

focus on conduct issues in the UK. Whilst the focus on conduct is unlikely to be as strong as that provided by the FCA in the UK the introduction of the Insurance Distribution Directive, which is being implemented in October 2018, will ensure a reasonable and adequate minimum standard of conduct regulation across the EU.

I consider transferring policyholders will not be materially adversely affected as a result of the change in conduct regulation.

4.9.7. Spanish versus Italian policyholders

Spanish policyholders will be insured and serviced by Spanish entities regulated in Spain. Italian policyholders will be provided with insurance policies on a freedom of services basis from these Spanish entities with some services also carried out by existing agents in Italy.

Italian policyholders will, however, receive all the benefits in terms of regulation, and access to compensation and services as Spanish policyholders.

Consequently, I do not perceive any material difference in the position for Italian and Spanish policyholders as result of the Transfer.

4.9.8. Impact of AIGL transfer

As noted in Section 1.1, there will be a simultaneous transfer of non-UK risks from AIGL to AECS under a parallel Gibraltar transfer process with the same Effective Date. This will transfer AIGL's share of the Italian Transferring risks, together with the Group's French motor risks into AECS alongside the risks transferring from AICL. I have included the business transferring from AIGL into AECS when comparing policyholder security for transferring AICL risks before and after the Transfer.

The legal documents and policyholder communications relating to the proposed AICL and AIGL transfers have been prepared on the basis that in order for either transfer to proceed, the other must also have received the necessary regulatory authorisation to proceed and this report has been prepared on this basis. I understand that the Gibraltar regulator will reach a decision on the parallel AIGL transfer ahead of the Court hearing to approve the AICL Transfer.

I will revisit this point within my supplementary report.

4.9.9. Brexit

As noted in Section 1.2, the establishment of AECS and the proposed AICL and AIGL transfers have been proposed to enable the Group to continue its European insurance business activities in the event of a "Hard Brexit".

I have reviewed legal advice provided by Admiral's UK attorneys outlining the options available to Admiral for servicing claims in the event that there is a Hard Brexit and the Transfer is not approved. Based on current law and regulation in Italy and Spain, AICL could be in breach of local law and regulation and its officers could be sanctioned in the applicable Member States for conducting regulated activities without the required authorisation if it were to continue to service in-force business after Hard Brexit. Alternatively, if AICL ceases to service in-force business after Hard Brexit (i.e. because of the regulatory sanction risk described above), policyholders could bring claims against AICL for breach of contract.

This accords with my understanding from discussions I have had with colleagues in the UK and Spain.

In conclusion, if the Transfer were not to proceed then policyholders in Spain and Italy may find their policies cannot be serviced and their claims cannot be paid legally by the company in the event of a Hard Brexit.

4.9.10. Conclusion on conduct aspects of the Transfer

In light of my comments above I do not consider any group of policyholders will suffer a material adverse impact in policyholder experience or other conduct related issues as a result of the Transfer.

4.10. Other considerations

4.10.1. Impact on Reinsurers

As noted in Section 2.2, I understand that all intra-group reinsurance arrangements will be commuted ahead of the AICL and AIGL transfers.

I have reviewed a list of external reinsurers covering the UK and transferring risks within both AICL and AIGL and note that they are all of good credit quality.

Under a UK Part VII transfer the external reinsurance arrangements transfer by virtue of the Court Order and continue to protect the Transferring Policies. Whilst AICL has some reinsurance arrangements with non-EEA reinsurers in jurisdictions that may not recognise a UK Court Order, these relate to UK risks and hence are not impacted by the Transfer. There are, however, non-EEA reinsurers covering business transferring from AIGL.

Admiral has good on-going relationships with its reinsurers and will be informing them of the transfers. In order to mitigate any risks that specific reinsurers will not recognise the transfers, Admiral will seek express consent, either through brokers or directly, from the relevant reinsurers to ensure that these contracts continue to provide cover following the Transfer.

I do not consider the existing reinsurers, including Admiral's quota share partners, to be materially impacted by the Transfers.

4.10.2. Cost and tax effects of the Transfers

The costs of the Transfer will be borne by Admiral Group PLC and I understand from Admiral that there are no expected tax implications of the Transfer on either AICL or AECS.

I do not believe that the cost or tax effects of the Transfer will have an adverse impact on policyholders.

4.10.3. Liquidity

There will be limited change to the funds supporting claims payments to the policyholders. I do not consider there to be any material change in the liquidity available to support claims payments to policyholders.

4.10.4. French household risk

Admiral plans to launch a household line of business in France under its L'olivier brand during 2019. The planned volumes and premium are modest during the next few years.

I do not consider that Transferring policyholders will be materially adversely affected by additional exposure to French household risk. Indeed, to the extent that it improves the diversity of business written within AECS it may serve to reduce volatility within the new entity.

4.10.5. Regulatory regimes

When assessing comparability of prudential and conduct regulatory regimes for UK and Transferring policyholders before and after the Transfer I have assumed, unless otherwise stated, that the current regime in each territory will apply going forward. There is potential for future changes in these regimes in the medium- or long-term (e.g. as a result of changes in the UK's regimes or developments in EU led regulation post-Brexit). Whilst this could lead to further differences between the UK and Continental Europe regimes in the future than those considered in this report, I have not considered the implications of such changes on policyholder security as it is not possible to predict the nature or timing of any such future changes.

Appendices

Appendix A. Excerpt from Engagement Letter

Admiral Group PLC
David Street
Cardiff
CF10 2EH

12 December 2017

Dear Sirs

Terms of engagement – Appointment of Independent Expert

Thank you for engaging us to provide you with services on terms which are described in this letter and the attached terms of business (version ToB 10/16). These together form the agreement between us.

Background and purpose

You propose to transfer certain portfolios of French, Spanish and Italian motor business written by Admiral Insurance Company Limited ('AICL') and Admiral Insurance (Gibraltar) Limited ('AIGL') into a Spanish Newco, along with certain assets (to be determined). The transfer from AICL will be under Part VII of the Financial Services and Markets Act ('FSMA') (the 'Scheme'). Section 109 of FSMA requires a proposal to transfer insurance or reinsurance business to be accompanied by a report on the terms of the Scheme (the 'Scheme Report') produced by an expert (the 'Independent Expert'). You intend to propose to the Prudential Regulation Authority (the 'PRA') and the Financial Conduct Authority (the 'FCA') that I should act as the Independent Expert to provide this Scheme Report.

The services

We will provide the services set out in the following schedule:

- Schedule 1 – Conduct of Independent Expert work relating to Project Zinc.

You have engaged us to perform the following work:

We will produce the Scheme Report, for the use of the Court, describing the proposed transfers and their likely effects on the policyholders of AICL and the Spanish Newco (if any exist at the transfer date). The Scheme report will focus on the effect of the Part VII transfer from AICL but it will also be relevant to consider the impact on the transferring AICL policyholders of the business that may also be transferring into the Spanish Newco from AIGL under the parallel Gibraltar transfer process. On the assumption that the UK and Gibraltar transfers will have the same Effective Date, the Scheme report will not explicitly consider the impact on any AIGL policyholders, whether transferring or not.

The Scheme Report will comply with the guidance for scheme reports set out by the Prudential Regulation Authority ('the PRA') and the Financial Conduct Authority ('the FCA') (together 'the Regulators'), in the PRA policy statement on Part VII transfers (Appendix 2.4 to PS7/15) and SUP 18 of the FCA Handbook. The Scheme Report will also comply with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying Practice Direction including the Protocol for the Instruction of Experts to give Evidence in Civil Claims issued by the Civil Justice Council. We will liaise with the PRA and the FCA, as required by the Regulators, and I will appear before the Court as necessary.

Our work will require an assessment of the capital position and the insurance liabilities of AICL and the Spanish newco, before and after the transfers, to the extent necessary for the purposes of describing the effects of the transfers on policyholder security and of showing simplified balance sheets. Our assessment will be based on your internal or external actuarial reviews and will also include an assessment of the current Solvency II capital position of AICL and AIGL, to the extent it is relevant for the Gibraltar transferring business only, and an analysis of the likely Solvency II capital position of the Spanish Newco after the transfers. We will consider your Solvency II capital assessments alongside the available capital of the Spanish Newco after the transfers and of AICL before the transfers.

In addition to the capital position and insurance liabilities, we will need to assess the appropriateness in nature and amount of the assets to be transferred with the insurance liabilities, to the extent necessary to describe the effects of the transfers. We will also need to understand other aspects that are relevant to the effects of the transfers on policyholders including any anticipated changes in the policyholder experience when interacting with the companies concerned by the UK transfer.

In the course of our work, we will need to use the work of Admiral's staff or their advisors. We will not be liable for any errors or omissions in the work of Admiral and their advisors. Without prejudice to the preceding sentence we will, however, complete any review we feel necessary in order to satisfy ourselves that it is reasonable for us to use their work.

Before the final court hearing, we may need to consider the extent to which changes in the market environment and any updated information that has been made available to us since the time that our Scheme Report was produced have been in line with our expectations, and hence whether there have been any changes that affect our overall opinion. To the extent that this work is necessary we will perform it and will set out our conclusions for the Court in a supplemental report ('the Supplemental Report'). For the avoidance of doubt our fee estimate as quoted above includes the production of this Supplemental Report save for costs that may be incurred investigating policyholder objections if any arise.

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. We will therefore plan, conduct and report on the work in accordance with those standards.

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.

Deliverable(s)

We will produce the Scheme Report as described above, a summary of the Scheme Report (the 'Summary') for inclusion in notices to policyholders and a Supplemental Report (if required).

These deliverables will be prepared for the Court and addressed to Admiral Group PLC. Save as set out in clause 2.2 of the terms of business, the deliverables may not be provided to anyone other than policyholders, others affected by the proposed Scheme and the Regulators, as set out in paragraph 18.2.34 of the FCA's Supervision Handbook and paragraph 2.31 of the PRA's policy statement, subject to clause 2.3 of the terms of business.

Appendix B. List of terms defined within this report

Admiral Group (Admiral)

The group of companies whose parent is Admiral Group Plc.

AECS

Admiral Europe Compañía de Seguros, S.A.

AICL

Admiral Insurance Company Limited.

AIGL

Admiral Insurance (Gibraltar) Limited.

AIS

Admiral Intermediary Services, S.A.

Ancillary Products

Products that offer additional insurance benefits to the main insurance product purchased.

Available Capital

Financial resources available for use to meet capital requirements.

Balumba

Brand name of the Spanish branch.

Best Estimate Reserve

The arithmetic mean of the perceived distribution of all possible claims outcomes. A best estimate reserve will therefore normally be designed to include no margins for caution or optimism.

Brexit

The prospective withdrawal of the United Kingdom from the European Union.

Capital Cover

Amount of available capital in excess of required capital.

Capital Cover Ratio

Ratio of available capital to required capital.

Co-insurance

An insurance arrangement whereby coverage is provided by more than one insurance company who share both the premiums paid and the claims liability.

ConTe.it (ConTe)

The brand name of Admiral's Italian Private motor business.

Court

The High Court of England and Wales .

Court Order

The order of the High Court of England and Wales sanctioning the Transfer under Section 111 of FSMA.

Companies

The companies involved in the transfers namely Admiral Insurance Company Limited, Admiral Insurance (Gibraltar) Limited and Admiral Europe Compañía de Seguros, S.A.

C&A

Crenca and Associati, a European actuarial and consulting services company.

Deloitte

Deloitte LLP, the UK member firm of Deloitte.

DGSFP

Dirección General de Seguros y Fondos de Pensiones is the Spanish regulator responsible for both conduct and prudential regulation

EEA

European Economic Area.

Effective Date

The date when the transfers shall become effective, expected to be 1 January 2019, or such other date as may be specified in the Court Order sanctioning the Transfers.

External Reinsurance

Reinsurance provided by a company outside the Admiral Insurance Group.

EU

The European Union.

EY Spain

Ernst & Young, S.L, the Spanish member firm of EY.

FCA

The Financial Conduct Authority (FCA) regulates the financial services industry in the UK, its aim is to ensure the industry remains stable and to promote healthy competition between such providers. The FCA was formed as one of the successors to the FSA. Since the 1st April 2013 it has worked alongside the PRA to create a ‘twin peaks’ regulatory structure in the UK.

FoS

Freedom of Services. The right to provide services on a cross-border basis within the European Economic Area.

Freedom of Establishment

The freedom for companies, approved to carry out a regulated activity in one EEA member state, to establish branches or agencies carrying out that same activity in any other member state.

FSMA

The Financial Services and Markets Act 2000.

FSCS

Financial Services compensation scheme.

GLISE

Great Lakes Insurance, S.E.

Hard Brexit

The prospective withdrawal of the United Kingdom from the European Union, the European Union’s Single Market and the EU Customs Union with no subsequent preferential trade relationship.

IFRS

International Financial Reporting Standards (IFRS) are a set of international accounting standards aiming to provide a common global financial reporting language for financial statements.

Insurance Policyholder

A policyholder who holds a contract of insurance with one of the Companies whether bought directly from that company or through a third party intermediary.

Internal Reinsurance

Reinsurance provided by a company within the Admiral Insurance Group.

LCP

Lane Clark & Peacock LLP.

L'olivier -assurances auto (L'olivier)

The brand name of Admiral's French motor insurance business.

Ogden discount rate

The discount rate used to assess lump sum awards for personal injury claimants in the UK.

Outstanding Loss Reserve

Reserves held for claims that have been reported but are not settled.

Part VII Transfer

The transfer of selected liabilities and assets by way of a Court sanctioned novation of business, implemented under Part VII of the FSMA.

Periodic payment order

A periodic payment order (PPO) is an order by the UK Court to make a series of regular payments to a claimant for the rest of their life in settlement of a claim.

PRA

The Prudential Regulation Authority (PRA) is a part of the Bank of England. It is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA was formed as one of the successors to the FSA. Since the 1st April 2013, it has worked alongside the FCA to create a 'twin peaks' regulatory structure in the UK.

Project Zinc

The internal project name used by PwC to refer to the work performed to produce the Transfer Report.

PwC

PricewaterhouseCoopers LLP.

ORSA

Own Risk and Solvency Assessment.

Qualitas Auto

Brand name of Admiral Seguros.

Regulators' Handbook

The Handbooks of rules and guidance issued by the Regulators as they apply from time to time.

Reserve Risk

The inherent risk in reserve estimates caused by the uncertainty in future claims.

Reserves

An estimation of technical provisions for insurance liabilities.

Run-off

An insurer that is in run-off is not writing any new business but will continue to administer and pay claims for existing policies.

Standard Formula SCR

The standard formula Solvency Capital Requirement.

Solvency II

A directive in European Union law that primarily concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.

Standard Formula

The basis prescribed under Solvency II for the calculation of capital requirements where an internal model has not been approved.

Stop Loss

A reinsurance contract which caps the aggregate amount of losses that an insurance company is responsible for.

TAS

Technical Actuarial Standards.

Technical Provisions

The estimated value of all current and future liabilities that an insurance company will be liable to pay relating to policies written to date, also referred to as insurance liabilities.

Transferee

Admiral Europe Compañía de Seguros, S.A. ("AECS").

Transfer

The proposed Part VII Transfer that is the subject of this report.

Transferors

Admiral Insurance Company Limited (AICL) and Admiral Insurance (Gibraltar) Limited (AIGL).

Transfer Report

Report on the terms of the Transfers by an Independent Expert.

Transferring Policies

The policies written by the AICL which will be transferred to AECS as a result of the Transfer.

Transferring Policyholders

The policyholders who have Transferring Policies.

To-Ultimate

A modelling basis that considers the full time horizon from the valuation date until the last claim is paid, which is likely to extend over 50+ years.

Wind-up

A process that entails selling all the assets of a business entity, paying off creditors, distributing any remaining assets to the principals, and then dissolving the business.

WiYou

Brand name of the Spanish branch.

Appendix C. Curriculum Vitae – Gregory Overton

Background:

Gregory joined PricewaterhouseCoopers in 1993 after graduating from Warwick University and qualified as a Fellow of the Institute of Actuaries in 1999. Gregory is a Director in the Actuarial & Insurance Management Solutions Group of PricewaterhouseCoopers, providing Non-life Insurance consulting services to a wide range of clients.

Professional Experience:

In his time at PwC, Gregory has worked on a variety of assignments, both in the UK and overseas, though he has specialised in the areas of run-off and restructuring and London Market business. In particular:

- Gregory heads up PwC's actuarial Part VII transfer team.
- Gregory was appointed to perform the role of Independent Expert for:
 - the transfer of certain insurance and reinsurance business from International Insurance Company of Hannover Limited to Brampton Insurance Company Limited, sanctioned by the Court on 22 September 2011
 - the transfer of insurance business from Groupama Insurance Company Limited to Ageas Insurance Limited, sanctioned by the Court in October 2013
 - the transfer of insurance business from Nippon Insurance Company Europe Ltd to Nipponkoa Europe Limited, sanctioned by the Court in October 2013
 - the transfer of insurance and reinsurance business from Cavell Insurance Company Limited, Unione Italiana (UK) Reinsurance Company Limited, Hillcot Re Limited, Longmynd Insurance Company Limited and Fieldmill Insurance Company Limited to River Thames Insurance Company Limited, sanctioned by the Court in June 2014
 - the transfer of insurance and reinsurance business from Bosworth Run-Off Limited, Brampton Insurance Company Limited, Knapton Insurance Limited, Marlon Insurance Company Limited, Mercantile Indemnity Company Limited, and Unionamerica Insurance Company Limited to River Thames Insurance Company Limited, sanctioned by the Court in April 2017
- Gregory advised The Hartford on the consolidation of its UK run-off interest via parallel Part VII transfers including all aspects of the policyholder security modelling and argument
- Gregory worked alongside Paul Duffy of PwC Ireland as the expert appointed to opine on the Irish business transfer of business from Markel Europe to Markel Insurance Company Limited, sanctioned by the Irish Court in Spring 2015.
- He advised Aviva on the consolidation of its general insurance subsidiaries by way of parallel Part VII transfers including assistance with investigating the policyholder security aspects of the transfers.
- Gregory advised Equitas on the Part VII transfer of 1992 & prior liabilities of Lloyd's names including advice on how to structure the transfer, support with the modelling to assess the impact on policyholders and a report reviewed by the Independent Expert commenting on the analyses performed.

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- He has advised a composite insurer on a Part VII transfer of the run-off non-life liabilities within the group and has advised a London Market insurer looking to simplify its corporate structure using a Part VII transfer.
 - He has had extensive experience of run-off and restructuring solutions including working on solvent schemes of arrangement for a London Market pool and a significant UK reinsurer in run-off. Gregory has also been involved in scheme solutions for the insolvent market with experience in this area extending back over 15 years.
 - Gregory has significant experience of reserving for London Market and latent liabilities acting as a Signing Actuary for Lloyd's and having led PwC's research teams into UK and US Asbestos for a number of years.
 - Gregory participated in Institute of Actuaries working parties on Schemes and Part VII Transfers and on UK Asbestos. He is a member of the London Market Actuaries Group and a signing actuary for Lloyd's.

Appendix D. Data and other information considered

Data provided:

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

- Background information on the structure of the Admiral Group.
- Background information on the business written in each territory by AICL and AIGL including: period during which the business has been written; types of business written; geographical distribution of policyholders; distribution channels; and policy and claims administration processes.
- Background information on the purpose of the Transfer, commercial rationale and the likely position of the transferring entities from a Brexit perspective if the transfers are not approved.
- Information on the interactions between the AICL and AIGL transfers; including the Effective Dates and the likely impact on the other transfer of a transfer not being approved.
- Definition of business to be transferred from AICL and AIGL into AECS: policies (i.e. which classes of business), years of account, associated liabilities and details of transferring assets.
- Details of external and intra-group reinsurance arrangements for AICL and the transferring AIGL business and how these arrangements will be affected by both the AICL and AIGL transfers.
- Information on any PPO type orders in each territory.
- Confirmation that there are no features of the business written which require special consideration from legal or wind-up perspective within each territory.
- Business plans and information on any other planned changes within the Admiral Group (i.e. changes related to the Transfer, or other related events as part of the wider Brexit planning project).
- Audited balance sheets for AICL and AIGL as at 31 December 2017.
- 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.
- Details of the draft proposed intra-group equity commitment.
- Reports documenting the findings of the external reviews performed on the UK, French, Italian and Spanish motor liabilities of AICL and AIGL as at 31 December 2017.
- Reports documenting the internal actuarial assessments performed on the UK, French, Italian and Spanish motor liabilities of AICL and AIGL as at 31 December 2017; including comparison against results of the external reviews.
- Details of the approach used to model large UK motor claims following the change in the Ogden discount rate and the sensitivity of the UK motor liabilities to future changes in this rate.

- The Admiral Group's Solvency & Financial Condition Report and Own Risk and Solvency Assessment as at 31 December 2017.
- Details of the audit findings for the Admiral Group on both IFRS and Solvency II bases as at 31 December 2017, as presented by the external auditors to the audit committee.
- The Standard Formula calculation for AICL as at 31 December 2017 and the documentation underlying this calculation.
- Projected Standard Formula calculations as at 31 December 2018 for AICL before and AICL and AECS after the Transfer.
- 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.
- An overview of the approaches used to adjust the Standard Formula outputs to derive these economic 1 year and Ultimate views.
- Results of the stress tests proposed by PwC on the Standard Formula and one-year and to-ultimate economic capital assessments.
- Details of the capital strength appetite for each company before and after the Transfer.
- Draft legal documents relating to the transfers, including the Scheme Arrangement and the Business Transfer Arrangement.
- The draft Communications plan for the Transfer as at 25th June 2018; including proposed notifications and waivers for the AICL transfer, supporting analyses and draft communications.
- Details of comparative position for systems, controls and governance for AICL before and AECS after the Transfer.
- Details of the comparative position for Conduct regulation before and after the Transfer.
- Details of the comparative position for policyholders access to Ombudsman and compensation before and after the Transfer.
- Details of Admiral's recent communications with regulators which may be of relevance to the Transfer.
- Information on the expected tax implications of the Transfer on both AICL and AECS.

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. For example, where applicable, I have reconciled data received to the audited Balance Sheets for each of the Admiral Companies as at 31 December 2017 as appropriate.

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 requested that Admiral performs stress tests in key areas of the analysis to assess the impact of alternative assumptions.

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.

