Admiral Group plc announces a record Group profit before tax of £526.1 million for the year ended 31 December 2019

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2019 Results Highlights

	2019	2018	% change
Group's share of profit before tax *1	£526.1 million	£479.3 million	+10%
Group statutory profit before tax	£522.6 million	£476.2 million	+10%
Earnings per share	148.3 pence	137.1 pence	+8%
Full year dividend	140.0 pence	126.0 pence	+11%
Return on equity*1	52%	56%	-7%
Group turnover*1	£3.46 billion	£3.28 billion	+5%
Group net revenue	£1.35 billion	£1.26 billion	+7%
Group customers*1	6.98 million	6.51 million	+7%
UK insurance customers*1	5.48 million	5.24 million	+4%
International car insurance customers*1	1.42 million	1.22 million	+16%
Group's share of price comparison profit *1	£18.0 million	£8.8 million	+105%
Statutory price comparison profit	£14.7 million	£6.6 million	+123%
Solvency ratio (post dividend)*2	190%	194%	-2%

*1*Alternative Performance Measures - refer to the end of the report for definition and explanation*

*2*Unaudited. Refer to capital structure and financial position section later in the report for further information*

Around 10,000 staff each receive free shares worth up to £3,600 under the employee share scheme based on the full year 2019 results. All staff will also receive a one-off £500 bonus to reflect the Group's strong performance in 2019.

Comment from David Stevens, Group Chief Executive Officer:
"Admiral tends, year after year, to exhibit a relentless forward momentum, which my predecessor described as "going like a freight train".

"Was 2019 another "freight train" year?

"Very much so. In so many ways.

"It was a year which saw profits exceed £500 million for the first time, on the back of substantial reserve releases. We crossed the million mark in household policyholders, and added 200,000 new car insurance customers overseas.

"Alongside this rapid progress on many fronts, some data points were stubbornly stable. The number of consecutive years amongst the top performers in the "Best Companies" list only nudged up from 19 years to 20. The percentage of staff saying they are proud to work for Admiral was stuck in a narrow band in the mid-90's. As was the percentage of customers who said they wanted to renew with Admiral following a claim.

"Consistently happy staff, consistently happy customers. Hopefully happy shareholders.

"I announced this morning that I am going to be stepping down as CEO in 12 months' time. I fully expect that Admiral's talented senior management, led by our very talented CEO designate, Milena Mondini, will be more than ready to maintain, or even stoke up, Admiral's relentless momentum."

Annette Court, Admiral Group Chair, commented:
"I am delighted to report another year of record profit in 2019 and a strong set of results. It was also pleasing to receive a recent award as the only company to appear in the *Sunday Times Best Large Company to Work For* shortlist every year since the inception of the awards 20 years ago. These results are testament to our people, who continue to be at the core of our success and highlight every day the real difference that they make through their focus on great customer service.

"Following from the announcement today of Admiral's CEO David Stevens informing the Board of his intention to retire in twelve months' time, I'd like to thank him for his amazing contribution over the past 27 years to Admiral's success. Since he's not leaving for another 12 months, I'll reserve my fuller accolades until that time.

“Having been through a comprehensive and robust succession process, the Board is confident that in Milena Mondini we have a natural successor and a leader for the next generation, supported by a very strong management team. Milena brings a deep appreciation of the special Admiral culture, entrepreneurial spirit, commercial track record and people development skills.”

Dividend

The Board has proposed a final dividend of 77.0 pence per share (2018: 66.0p) representing a normal dividend (65% of post-tax profits) of 56.3 pence and a special dividend of 20.7 pence per share. The dividend will be paid on 1 June 2020. The ex-dividend date is 7 May 2020 and the record date is 11 May 2020.

Management presentation

Analysts and investors will be able to access the Admiral Group management presentation which commences at 11am GMT on Thursday 5 March 2020 by registering at the following link https://pres.admiralgroup.co.uk/admiral037/vip_connect. A copy of the presentation slides will be available at www.admiralgroup.co.uk

Chair Statement

2019 marks another year of very strong results for Admiral, and also the announcement of a change of leadership. It is hard to sum up the amazing contribution that David has made to the Group over the last 27 years. As one of the founders he has overseen the business grow from a standing start to become one of the UK’s largest motor insurers, employing over 10,000 people, serving seven million customers and with a market value today of over £6 billion.

David isn’t going just yet and I don’t want to use up all my accolades until he actually steps down in 12 months’ time. David brings a unique combination of great brainpower, integrity, innovation, caring and humility. As an individual, his compassion for colleagues and customers alike encapsulates Admiral’s approach and ethos. Suffice to say, it continues to be a real pleasure to work with him.

Having been through a comprehensive and robust succession process, the Board is confident that in Milena we have a natural successor and a leader for the next generation. We have a wealth of management talent at Admiral and bringing this through has always been a central pillar to Admiral’s management philosophy as the business evolves alongside its customers. Milena brings a deep appreciation of the special Admiral culture, entrepreneurial spirit, commercial track record and people development skills.

Looking back at 2019

I am delighted to report another year of strong performance in 2019, beating many records. This is once again due to our people. They make the real difference at Admiral. Their focus on serving our customers, the distinctive culture and their contribution to the communities in which Admiral operates is what makes Admiral truly different.

The Group has continued to grow with turnover increasing by 5% to £3.5 billion, whilst customer numbers are 7% higher than 2018 at 6.98 million. The Group’s share of pre-tax profit increased by 10% to £526 million driven by UK Motor insurance, with strong releases of prior year claims reserves. Once again we were impacted by Ogden (the Personal Injury Discount Rate). Although the final rate was set at -0.25%, and therefore lower than our expectations, we were able to deliver significantly increased profits resulting in an early trading update to notify the market of higher than expected profit. Earnings per share rose by 8% and return on equity was 52%. The Group’s solvency ratio remains robust at 190% (194% at the end of 2018).

This strong performance was due to contributions from businesses across the Group. Particularly of note was UK Insurance (Motor, Household, Travel), European insurance and Confused.com. Our Loans business continues to develop well and we continue to build this business with our usual cautious approach. We have encountered more challenges in the US, so we still continue to strengthen fundamentals there.

Focusing on the UK, we maintained a disciplined approach and prioritised profitability over growth, by increasing prices as a result of continued claims inflation. This led to modest growth over the period. The regulatory environment in the UK continues to evolve, with whiplash reform and the FCA market pricing study being key features of 2019 and into 2020. Approximately 80% of Admiral customers shop around at renewal, so we are encouraged that the majority choose to remain with us and is an indicator of our good customer experience and competitive pricing.

As a result of our Brexit restructuring, 1 January 2019 marked the start of operations for our European insurance hub in Madrid. The hub allows us to underwrite and support our growing European insurance businesses and ensures that we are well placed for a full range of potential circumstances without disrupting our customers.

Dividend

Our dividend policy remains that we pay a normal dividend of 65% of post-tax profit and distribute each year the available surplus over and above what we retain to meet regulatory requirements, the future development of our business and appropriate buffers. The Directors have recommended a final dividend of 77 pence per share (2018: 66 pence per share) for the year to 31 December 2019 representing a distribution of 90% of our second half earnings.

This will bring the total dividend for the year to 140 pence per share, an overall increase of 11%. This represents a pay-out ratio of 94%. The Group has delivered a Total Shareholder Return (TSR) of 361% over the last 10 years.

Group Board in 2019

The Board recognises the need for a strong corporate governance framework and supporting processes across the Group and believes that good governance, with the tone set from the top, is a key factor in delivering sustainable business performance and creating value for all the Group’s stakeholders.

We reviewed our Group strategy in 2019 which remains straightforward and highly focused on building customer-centric, sustainable businesses for the long-term. We strive to keep doing what we’re doing, and do it better year after year.

In our UK insurance business, we remain determined to strengthen our core competitive advantages and pursue our culture of innovation and test and learn approach. For example, we are continuing to deploy technology relating to digital and self-service to improve the customer experience and overall efficiencies.

We also continue to take what we do well and what we learn to new markets and new products, both in the UK and abroad. We are agile enough to adapt to evolving business environments and encourage entrepreneurial initiatives to solve challenges and offer the best outcome to our customers, people and investors. One example is the launch of Household insurance in France.

From a governance perspective, we have applied the principles of the new Corporate Governance Code which ensures that we will continue to take on board the views of all of our stakeholders in our discussions and decision making. As you would expect, we already have strong links with our people and in 2019, the Board revisited and enhanced several areas of focus including our culture, engagement, diversity, our impact on the environment and climate change, and how we give back and participate in the communities in which we operate through our Ministry of Giving.

To ensure that we further enhance the strong links between the Board and Admiral employees, we have set up an Employee Consultation Group (ECG). This group, elected by employees, meets on a regular basis and provides a two-way link between the Board and wider staff. I and other members of the Board have had the privilege of attending these sessions and I am impressed by the passion and energy our people have for continuing to shape the business and a real desire to ensure that we remain a great company to work for. An example of this is considering ways in which we can better use flexible working.

There is further work to do to ensure that views of our international employees across the Group are better represented, so we will be building on this approach over the next twelve months.

Once again Admiral was recognised as a Great Place to Work in 2019. We were awarded the Sunday Times best company to work for in the UK, 7th best

multinational workplace in Europe, 3rd best workplace for women in the UK and 18th best workplace in the world! Of course, this his doesn't happen by accident. We continue to believe that if people like what they do, they do it better. Our people feel involved because they have a voice, they are shareholders in our business, and they genuinely care.

Having our people as shareholders remains a distinctive element of Admiral's incentive schemes These are designed to ensure that decisions are made by management to support long-term value growth, that the right behaviours are rewarded and that our people's interests are aligned with those of shareholders. Our core belief is that over the long-term, share appreciation depends on delivering great outcomes for our customers.

During the year, I had the pleasure of visiting our operations in the UK, France, Italy, Spain and the US where I was able to engage with a wide variety of people. It is always wonderful to see the Admiral culture so deeply ingrained in offices across the globe. This culture was just as clearly embedded for me at the annual Staff General Meeting and the annual management off-site event. In 2019, the Board also attended a Claims education session in Newport as part of our ongoing Board education programme, and we each had the opportunity to engage with claims employees and visit a local repairer which was very insightful in seeing more evidence of our service in practice.

The Board and I feel that there is a good balance of experience, skills and knowledge to support and challenge the management team, and that operations are supported by effective governance and control systems. There have been no changes to the Board composition in 2019 following three new appointments in 2018 but the Board and I expect to appoint an additional non-executive director with a technology background in early 2020. We will continue to review all aspects of diversity to ensure that we are well-prepared to guide the Group through our next phase of growth.

During the year the Board and each of its Committees undertook reviews of their effectiveness. As part of the three-year cycle we undertook an external effectiveness review of the Board in 2019, including consideration of the principles of the 2018 Corporate Governance Code. The conclusions provided useful feedback on its performance.

Our focus areas for the Board remain to:

- Continue to build on the remarkably special Admiral culture and in so doing putting our people, customers and wider impact on the community at the heart of what we do
- Continue the history of growth, profitability and innovation
- Invest in the development and growth of our people – we have focused on the quality and development of our senior management team, added to our talent base by some external hires, and reviewed our succession pipeline

·Ensure excellent governance and the highest standards

Our role in Society

Admiral takes its role in society very seriously and has an active approach to Corporate Responsibility (more information in Corporate Social Responsibility Report on the Admiral website) We are proud to be Wales' only FTSE 100 headquartered company and employ over 7,000 people in South Wales. Our people play an active part in the communities in which we operate. We carefully consider our impact on the community and environment, including factors such as the green credentials of our buildings, raising funds for multiple charities, and considering the impact of climate change across the business.

This year we reviewed our responsible investment policy with regard to our ESG positioning. We aim to be an economically strong and responsible business over the long-term, guided by a clear purpose, to make a positive and significant impact not just to our customers and our people but to the economy and society.

Thank you

On behalf of the Board I would like to thank everyone at Admiral for their continued hard work and contribution to the Group's results in 2019. I would also like to thank our shareholders for their support and confidence. Most of all I would like to thank our customers for placing their business with us.

Annette Court
Group Chair
4 March 2020

Chief Executive's Statement

The combination of a new decade and an imminent, if not immediate, change of leadership at Admiral provides me with a valid excuse to comment across a longer time period than a typical CEO statement in an annual report.

Almost a decade ago, my predecessor, Henry, with his inimitable talent for a colourful phrase to light up a CEO statement, described the company as a "snowball going like a freight train – downhill" (2010's CEO statement). I know I'm not alone in having enjoyed Henry's CEO statements, with his penchant for colourful, often gastronomic, analogies. I confess, however, in this instance, I might have avoided both "snowball" – with associations of fragility and transience - and "downhill" – with associations of, well… "downhill"; neither of which entirely reassured on the sustainability of Admiral's model.

But I did love "going like a freight train". A freight train – not racy, not glamourous (who needs a glamourous insurance company); but progressing ever onwards with a relentless, implacable forward momentum.

That relentless forward momentum has seen us grow, year in year out, over the decade with the number of customers we serve growing from 1.9 million to 7.0 million overall, and from just over 100k to 1.4 million beyond the UK, while also growing our profits from £206 million to £526 million.

Did 2019 itself fit into this narrative of relentless momentum?

Very much so. In so many ways.

It was a year which saw profits exceed £500 million for the first time, on the back of substantial reserve releases. We crossed the million mark in household policyholders and sold our first household policy beyond the UK. By year end, we had almost sold our 100,000th loan (and have, at time of writing, done so). We believe (hard to prove it) we have become the biggest (non-fleet) van insurer in the UK, only 2.5 years after starting to underwrite van insurance.

Alongside this rapid progress on many fronts, some data points were stubbornly stable. The number of consecutive years amongst the top performers in the "Best Places To Work" only nudged up from 19 years to 20.

The percentage of staff saying they are proud to work for Admiral was stuck in a narrow band in the mid-90's. As was the percentage of customers who said they wanted to renew with Admiral following a claim.

Consistently happy staff, consistently happy customers.

Reassuringly stable outcomes, that are fundamental to our relentless forward momentum; a momentum fuelled by a sustainably healthy culture:

- A culture that, in many different ways, attracts & retains people, at all levels, who are simply better at their jobs than most of their peers in the industry.
- A culture that respects and promotes a set of fundamental skills in risk selection, claim handling, customer support and expense control that are core to success in insurance.
- A culture that emphasises the long term over the short term; long term prosperity ahead of short-term financials; a sustainable balance in the outcomes for staff, customers and shareholders.

It is a source of huge satisfaction to me, as I contemplate the end of my period of stewardship of Admiral, that I will leave a wonderful company in the hands of a wonderful top management team in Geraint, Cristina, Scott & Elena, very ably supported by great leaders running important subsidiaries and key Group functions. They are collectively more than capable, of not just sustaining, but also of evolving, Admiral's potent culture. And I am particularly glad that, in Milena, I have a successor who has the intelligence, the values, the track record and the clarity of vision to take on the role of Group CEO; to "reinterpret" the culture, to maintain its relevance over the next decade; to reinforce the elements that remain key to our future success; and, equally importantly, to set aside elements that will inevitably slip past their "sell-by" date.

Thereby ensuring that Admiral will continue to "go like a freight train" in the years to come.

David Stevens, CBE
Group Chief Executive Officer
4 March 2020

Chief Financial Officer's Review

A headline 10% increase in pre-tax profit - to a new record level - is a really pleasing result, and so I'll start my review by looking at what's driving that very positive move:

Group share pre-tax profit £m	2019	2018	Change
UK Insurance	597	556	+41
International Insurance	(1)	(1)	-
Comparison	18	9	+9
Admiral Loans	(8)	(12)	+4
Share scheme cost	(53)	(49)	(4)
Other	(27)	(24)	(3)
Profit	**526**	**479**	**+47**

The standout item is the £41m improvement in UK Insurance profit. £11m of that comes from an improved household result (more below). UK Motor profitability moved ahead by around £30m to £591m.

When trying to assess the change, it's important to remember that the Ogden Discount Rate (see later in the report for more detail) has distorted both years' results. Firstly, 2018 was positively impacted (£66m) when we changed our assumption of the rate, ahead of its announcement, from -0.75% to 0% at year-end. When the new rate (-0.25%) was announced (mid-2019), 2019's result took a hit of around £33m to adjust for our slight optimism. That means that the underlying profit move is bigger than the £47m in the table above, though the changes in the Ogden rate during the period make meaningful comparison difficult. Thankfully we should see some stability in Ogden in the coming years.

What is clear is that UK motor profit is materially higher in 2019 than prior years. That has been driven by unusually high UK motor reserve releases that resulted from improved reserve estimates across a number of years. This in part is due to some 'unclogging' of large claims settlements caused by the recent certainty, but also generally much more positive trends on big claims than we expected. Admiral of course is (and I believe always should be) consistently prudent in setting reserves and normally expects significant releases, but 2019 has been well above average (29% v 21% over the previous five years). Profit commission revenue was also well ahead of recent years.

To give an idea of quantum, if the reserve release for 2019 (defined as reserve releases on Admiral's original net share of the business as a percentage of current year net premium revenue) was in line with the average of the prior five years, Group profit would have been around £430 million to £450 million.

It's also worth noting that the level of conservatism in the reserves (we usually think of it in terms of the margin above best estimate in percentage terms) is unchanged year-on-year. We were expecting it to reduce somewhat at 2019 year-end, but the scale and nature of the positive moves on the back years has led us to continue being as cautious as at the end of 2018 for the time being.

We would expect (though can't guarantee of course) significant releases again in 2020, though possibly not quite of the magnitude seen in 2019. We might expect the level of conservatism within the reserves to reduce if 2020 trends are a bit more usual.

A few other observations from the results:

- Within the UK Insurance result above, our Household business made a profit of around £8m. Still relatively small to the Group (it would be over twice as big if the cost of quota share reinsurance was excluded), but a decent £11m or so improvement on 2018's weather-impacted result. The business continued to grow nicely, with 17% more customers insured. We're hoping for some improvement in the non-weather loss ratio in the coming years
- In contrast (and a bit disappointingly), the International Insurance result remained flat at a £1m loss in 2019. This comprised a better European result (£9m v £7m) offset by a higher US loss (£10m v £8m). This four-point-higher-loss-ratio-driven US result is discussed further below, whilst the overall international result needs to be considered alongside a very healthy 16% growth in the number of active policies at year-end
- The Comparison segment produced a very pleasing (stellar even?) doubling of profit (£18m v £9m).

Confused.com led the way and more detail on that is below. Revenue growth was also strong at 14%

- Admiral Loans grew its outstanding balances to £455m (+52%) whilst revenue more than doubled. Importantly, headcount was basically flat, a nice insight into the efficiency of the business. The loss reduced to £8m - in line with expectation and arrears were also in line with plan

·Finally, 'other' costs were up around £8m on last year. The biggest component as you can see is the Admiral share scheme charge which increased (£49m to £53m) as a result of improved vesting assumptions (improved financial results and strong shareholder return) and the higher share price. We will also pay all our employees a cash bonus of £500 in recognition of the huge contribution to the Group's strong 2019 results (around £6m)

Further details on the numbers are set out throughout the strategic review section of the report.

Highlight – Confused.com
Picking a highlight from such a strong set of results was reassuringly tough. Options included a good turnaround in UK household profit (plus decent growth, surpassing one million customers), strong growth and an improved result at L'olivier in France, continued great progress in Admiral Loans (not forgetting the UK motor profit). But there's one standout for me, so let's hear a bit more about Confused.com.

The improvement in performance under Louise and team's leadership over the past two years has been stark:

	2017	2018	2019	2019 v 2017
Revenue	£87.1m	£95.1m	£112.7m	+29%
Operating profit	£10.1m	£14.3m	£20.4m	+102%
Operating profit %	12%	15%	18%	+50%

A number of factors have contributed to that very nice doubling of profit v 2017 – even more focus on profitability and cost efficiency, very notable improvements in marketing, customer experience and product.

From a marketing perspective, brand awareness has significantly improved and, in particular, spontaneous awareness almost doubled in 2019. No doubt you'll have enjoyed Confused.com's sponsorship of the Rugby World Cup on TV whilst desperately hoping for a Welsh win. Marketing efficiency was also improved.

Confused's product offering is better than it was two years back, as is the customer journey. Results from products beyond car insurance comparison have improved significantly.

Great work Louise plus Andy, John, Karen, Sam, Steve, Tamsin and the whole Confused.com team!

Less pleasing – Elephant Auto
For balance and as hinted above, a disappointment in 2019 was the reversal in the trend of improving financials for Elephant Auto and associated write down of the carrying value in the parent company financial statements.

The last few years have seen some great progress at Elephant. Some examples from 2019 include notable improvements in service levels (leading to a big increase in Net Promotor Score) and technology (online self-service as one example), launching a second brand and diversifying distribution channels, amongst others.

But 2019 will probably be most remembered for a deterioration in loss ratio (2019 underwriting year is projected around 77% v 74% for 2018 at the same point of development) when we were expecting the opposite. Much action is being and has been taken (including underwriting rule changes and significant rate increases) and improving the loss ratio will continue to be a (or actually, the) major area of focus in 2020. Some additional conservatism has also been built into the booked reserves at the end of 2019.

Partly because of the result being worse than plan, we changed to using shorter-term projections for the carrying value impairment test. Whilst we remain confident that Elephant's result will improve in the short-term, and the business will go onto profitability in the (ideally) not too distant future, this led us to conclude that further impairment to the carrying value was required and a £66m charge was taken in the 2019 parent company accounts.

I have faith in our team in Richmond to improve the results in 2020 (no pressure Alberto!).

Finally, I should also give an update on the status of our internal capital model. Our team has continued its intensive work, with key tasks during 2019 including remediation of previous findings and having the updated model retested, by independent internal and external validators. Positively, none of that work has moved the overall capital position materially.

In terms of next steps – we expect to move into a pre-application phase with the PRA and Gibraltar regulators in the middle of 2020. That process involves an assessment of our application against the requirements and can last six months. After that there would be a further number of months for us to fix any issues that came out of that review. Then we'd be in a position to make a formal application, and realistically we'd now expect that to be in 2021.

In March 2016's CFO statement I counted myself very lucky to have worked for Admiral's first CEO, Henry Engelhardt, who was about to retire after a reasonable 25 year shift in charge. The exact same sentiment applies to my current boss - Admiral's second CEO and cofounder, David. We'll pay fuller tribute when David actually steps down after the transition, so I'll just say that I'm very delighted we've been able to name Milena as David's successor. Having sat back-to-back to her for a year or so (occasionally getting a word in), I know she'll do an amazing job as Admiral's third CEO and I'm really forward to working with her and continuing to be part of Admiral's leadership team for the foreseeable. Congratulations Milena!

Geraint Jones
Chief Financial Officer
4 March 2020

2019 Group Overview

£m	2019	2018	2017
Turnover (£bn) *1*2	3.46	3.28	2.96

Underwriting profit including investment income**1*	238.0	211.2	177.7
Profit commission	114.9	93.2	67.0
Net other revenue and expenses	182.3	183.1	170.2
Operating profit	**535.2**	**487.5**	**414.9**
Group Statutory profit before tax	**522.6**	**476.2**	**403.5**
Group's Share of profit before tax **1*	**526.1**	**479.3**	**405.4**
UK Insurance	597.4	555.6	465.5
International Insurance	(0.9)	(1.1)	(14.3)
Comparison	18.0	8.8	7.1
Loans	(8.4)	(11.8)	(4.4)
Other	(80.0)	(72.2)	(48.5)
Group's Share of profit before tax **1*	**526.1**	**479.3**	**405.4**
Key metrics:			
Group loss ratio**1*2*	64.9%	67.3%	66.2%
Group expense ratio**1*2*	23.7%	22.9%	21.5%
Group combined ratio**1*	88.6%	90.2%	87.7%
Customer numbers (million)	6.98	6.51	5.73
Earnings per share	148.3p	137.1p	117.2p
Dividends	140.0p	126.0p	114.0p
Return on Equity**1*	52%	56%	55%
Solvency Ratio	190%	194%	205%

*1 *Alternative Performance Measures – refer to the end of this report for definition and explanation*

*2 *See note 13 for a reconciliation of Turnover and reported loss and expense ratios to the financial statements*

Key highlights of the Group's result for 2019 are as follows:

- Continued growth in turnover (£3.46 billion, up 5% on 2018) and customer numbers (6.98 million, up 7% on 2018)
- Group's share of pre-tax profits of £526.1 million (2018: £479.3 million) and statutory profit before tax of £522.6 million (2018: £476.2 million)
- The main driver of the strong growth in Group profit was a higher UK Insurance result, which benefitted from very positive development in prior years claims costs and elevated reserve releases and profit commission, partially offset by higher central costs
- UK Insurance turnover and customers both increased by 2% and 4% respectively to £2.63 billion and 5.5 million (2018: £2.58 billion and 5.2 million), as the business continued to prioritise margin over volume by increasing rates ahead of the market
- UK Household saw strong growth in turnover and customer numbers, with an improved result of £7.5 million (2018: £3.0 million loss) after more benign weather experience in 2019 in comparison to 2018
- The European insurance businesses delivered a higher profit of £8.7 million (2018: £6.4 million), offset by an increased loss in the US insurance business (£9.6m in 2019 v £7.5m in 2018). The overall international insurance loss was £0.9 million (2018: £1.1 million loss).

·The Comparison businesses recorded aggregate profits (excluding minority interests' share) of £18.0 million (2018: £8.8 million), with the increase mainly driven by a very strong profit from Confused.com of £20.4 million (2018: £14.3 million)

Change in UK discount rate ('Ogden')

Following the announcement in mid-2019 by the UK Government, the Ogden discount rate, which is used in setting personal injury compensation, was changed to minus 0.25% from the existing minus 0.75% rate that had been in place since February 2017. The change came into effect on 5 August 2019 and the minus 0.25% rate is expected to remain in place for up to the next five years.

Admiral assumed a 0% rate in setting best estimate claims reserves at 31 December 2018 and 2018's pre-tax profit was positively impacted by £66 million as a result of the move from minus 0.75%. As a result of the actual rate being 25 basis points lower than the assumed 0%, 2019's profit before tax is adversely impacted by around £33 million.

Earnings per share

Earnings per share increased by 8% to 148.3 pence (2018: 137.1 pence), with growth slightly lower than the pre-tax profit growth of 10% due to an increase in the weighted average number of shares.

Dividends

The Group's dividend policy is to pay 65% of post-tax profits as a normal dividend and to pay a further special dividend comprising earnings not required to be held in the Group for solvency capital requirements including management internal risk appetite above the regulatory minimum.

The Board has proposed a final dividend of 77.0 pence per share (approximately £222 million), split as follows:

- 56.3 pence per share normal dividend, based on the dividend policy of distributing 65% of post-tax profits; plus
- A special dividend of 20.7 pence per share

This final dividend is 17% ahead of the 2018 final dividend (66.0 pence per share), with a pay-out ratio of 90% for H2 2019.

The total dividend for the 2019 financial year is 140.0 pence per share, reflecting an 11% increase on 2018 and a 94% pay-out ratio.

The payment is due on 1 June 2020, ex-dividend date 7 May 2020 and record date 11 May 2020.

Return on equity
The Group's return on equity was 52% in 2019, lower than the 56% in 2018. Whilst the Group's share of post-tax profits grew by 9%, the group's share of average equity grew faster at 19% resulting in a lower overall return. The significant growth in profits in the second half of 2019 contributed to the increase in the group's share of equity.

Capital structure and financial position
The Group's co-insurance and reinsurance arrangements for the UK Car Insurance business are in place at least until the end of 2020. The Group's net retained share of that business is 22%. Munich Re will underwrite 40% of the business, through co-insurance (30%) and reinsurance (10%) arrangements, until at least the end of 2020. Extensions beyond 2020 are expected to be confirmed during the first half of 2020.

Similar longer-term arrangements are in place in the Group's international insurance operations and the UK Household and Van businesses.

The Group continues to manage its capital to ensure that all entities are able to continue as going concerns and that regulated entities comfortably meet regulatory capital requirements. Surplus capital within subsidiaries is paid up to the Group holding company in the form of dividends.

The Group's regulatory capital is based on the Solvency II Standard Formula, with a capital add-on to reflect recognised limitations in the Standard Formula with respect to Admiral's business (predominantly in respect of profit commission arrangements in co- and reinsurance agreements and risks arising from claims including Periodic Payment Order (PPO) claims).

The Group continues to develop its partial internal model to form the basis of future capital requirements and expects to enter the PRA's pre-application process during 2020. Formal application for regulatory approval to use the model is expected to follow in 2021. In the interim period before submission, the current capital add-on basis will continue to be used to calculate the regulatory capital requirement.

The estimated and unaudited regulatory Solvency II position for the Group at the date of this report is as follows:

Group capital position (unaudited)

Group	**£bn**
Eligible Own Funds (pre 2019 final dividend)	1.42
2019 final dividend	0.22
Eligible Own Funds (post 2019 final dividend)	1.20
Solvency II capital requirement*1	0.63
Surplus over regulatory capital requirement	**0.57**
Solvency ratio (post dividend)*2	**190%**

*1 Solvency capital requirement includes updated capital add-on which is subject to regulatory approval.
*2 Solvency ratio calculated on a volatility adjusted basis.

The Group's capital includes £200 million ten year dated subordinated bonds. The rate of interest is fixed at 5.5% and the bonds mature in July 2024. The bonds qualify as tier two capital under the Solvency II regulatory regime.

Estimated sensitivities to the current Group solvency ratio are presented in the table below. These sensitivities cover the two most material risk types, insurance risk and market risk, and within these risks cover the most significant elements of the risk profile. Aside from the catastrophe events, estimated sensitivities have not been calibrated to individual return periods.

Solvency ratio sensitivities (unaudited)

	2019	**2018**
UK Motor – incurred loss ratio +5%	-23%	-27%
UK Motor – 1 in 200 catastrophe event	-1%	-2%
UK Household – 1 in 200 catastrophe event	-2%	-2%
Interest rate – yield curve down 50 bps	-5%	-12%
Credit spreads widen 100 bps	-8%	-5%
Currency – 25% movement in euro and US dollar	-3%	-3%
ASHE – long term inflation assumption up 0.5%	-3%	-10%
Loans – 100% worsening in experience	-3%	-1%

The sensitivity to interest rates and long-term ASHE inflation is lower at the end of 2019, compared to the previous year end. This reflects a reduction in the assumption of the number of open claims that are expected to settle as periodic payment orders.

Taxation
The tax charge reported in the consolidated income statement is £94.2 million (2018: £85.7 million), equating to 18.0 % of pre-tax profit (2018: 18.0%).

Investments and cash

Investment strategy
Admiral Group's underlying investment strategy remains the same - the main focus is on capital preservation, with additional priorities including low volatility of returns, high levels of liquidity and appropriate matching of asset/liability duration and currency. All objectives continue to be met. The Group's Investment

Committee performs regular reviews of the strategy to ensure it remains appropriate.

Admiral's investment approach evolved in two main ways during 2019:

- Formal adoption of a responsible investment strategy which focusses on ensuring Environmental, Social and Governance criteria are considered within investment decision making
- Widening the opportunity set of investments to achieve greater returns without material change in market risk capital allocated to investments. Examples included high quality (AAA) asset backed securities, private debt assets and global bond strategies, actively managed on a total return basis

Cash and investments analysis

£m	2019	2018	2017
Fixed income and debt securities	1,957.8	1,568.6	1,493.5
Money market funds and other fair value instruments	1,160.2	1,301.1	1,074.3
Cash deposits	116.5	100.0	130.0
Cash	281.7	376.8	326.8
Total	**3,516.2**	**3,346.5**	**3,024.6**

Investment and interest income in 2019 was £35.3 million, a decrease of £0.7 million on 2018 (£36.0 million). 2019 investment income is negatively impacted by an accrual of £12.9 million relating to quota share reinsurance arrangements (2018: nil). Excluding this, investment and interest income in 2019 was £48.2 million, an increase of £12.2 million compared to 2018 due to higher average balances and an increase in the average rate of return in 2019, partly due to the changes noted above. Fixed income was increased by rebalancing other holdings, and new mandates including very high-quality asset backed securities and senior private debt.

The underlying rate of return for the year (excluding accruals related to reinsurance contract funds withheld) on the Group's cash and investments was 1.4% (2018: 1.2%).

The Group continues to generate significant amounts of cash and its capital-efficient business model enables the distribution of the majority of post-tax profits as dividends.

Cash flow

£m	2019	2018	2017
Operating cash flow, before movements in investments	518.1	488.5	617.6
Transfers to financial investments	(188.7)	(248.8)	(229.4)
Operating cash flow	329.4	239.7	388.2
Tax payments	(92.8)	(55.6)	(55.9)
Investing cash flows (capital expenditure)	(33.6)	(23.9)	(22.7)
Financing cash flows	(392.4)	(346.8)	(310.0)
Loans funding through special purpose entity	85.9	220.2	-
Net contributions from non-controlling interests	1.6	19.3	-
Foreign currency translation impact	6.8	(2.9)	0.6
Net cash movement	**(95.1)**	**50.0**	**0.2**
Movement in unrealised gains on investments	34.6	(26.6)	11.2
Movement in accrued interest	41.5	49.7	37.0
Net increase in cash and financial investments	**169.7**	**321.9**	**277.8**

The main items contributing to the operating cash inflow are as follows:

£m	2019	2018	2017
Profit after tax	**428.4**	**390.5**	**331.6**
Change in net insurance liabilities	50.4	176.6	53.2
Net change in trade receivables and liabilities	27.4	14.9	195.2
Change in loans and advances to customers	(168.7)	(242.9)	(65.2)
Non-cash income statement items	86.4	63.7	30.9
Taxation expense	94.2	85.7	71.9
Operating cash flow, before movements in investments	**518.1**	**488.5**	**617.6**

Net cash and investments have increased by £169.7 million or 5% (2018: £321.9 million, 11%). The main drivers include the Group's share of increase in funding for the Admiral Loans business, increased tax payments in 2019 (due to timing) and increased dividend payments.

The Group's results are presented in the following sections as:

- **UK Insurance – including UK Motor (Car and Van), Household, Travel**
- **International Insurance – including L'olivier (France), Admiral Seguros (Spain), ConTe (Italy), Elephant (US)**
- **Comparison – including Confused.com (UK), LeLynx (France), Rastreator (Spain),**

Compare.com (US), Preminen (emerging markets)

UK and European Insurance Review – Milena Mondini, Group CEO Designate
What an eventful year! I'm sure that 2019 will remain particularly memorable for breaking the half billion profit record. In the UK, unusually high reserve releases in UK motor was the driver, whilst the European operations showed a combined profit for the second year.

While in the UK, the theme was 'discipline' and we slowed growth in a high claims inflation environment, in Europe, the focus was 'growth' (still with discipline) in order to reach economies of scale and gather more data to improve technical results and customer outcomes.

Our 2019 strategy review has strengthened our belief that sustainable growth for Admiral Group will be achieved by building on our competitive advantages and driving product diversification in all the countries in which we operate. On both points, it has been great to witness stronger collaboration amongst our insurance businesses across the world over the past twelve months.

Most ongoing business priorities are similar in the different countries: a better digital experience for our customers, excellence in analytics, continuous improvements in technology and new product development, all enabled by new ways of working.

At the same time, we increased focus on product diversification, with a view to deploy our core competencies and to better serve our customers. In the UK, we saw our household team hit a key milestone of 1 million customers, and continued growth in our van and travel insurance businesses. In Europe, we expanded into the household insurance market with the launch of Homebrella in France, a renter focused product, prior to the launch of a fully-fledged renters and owner proposition in early 2020.

Overall, 2019 was a good year focusing on what we do best, and what we do next – supported by a strong team and an even stronger focus to continue to build a long-term business for the future.

UK Insurance Review – Cristina Nestares, CEO UK Insurance
One of the things I enjoy most about my role at Admiral is that I get an opportunity to visit the various sites we have across South Wales, Canada and India and to spend time with the people that really make this company. And by that, I mean the people who sell our policies, talk to our customers, and most importantly help them when they need it most – whether that's to get insurance for their new car or dealing with their needs if their home has been flooded.

It's our people's enthusiasm to come to work that makes Admiral's culture a little bit different and makes it a great place to work, which drives forward our desire to improve the service and products we offer to customers. And ultimately, providing great service and keeping our customers happy (along with strong, disciplined underwriting capability, of course) drives and delivers our results each year.

This year's results are a new high for the business, as very strong back year developments have resulted in record releases and our highest ever recorded profits. Whilst this release is much higher than we've seen in recent years and largely influenced by increased settlement speeds due to Ogden certainty, I believe that it also demonstrates of our market-leading ability to price risks and our effective claims handling processes.

Moving forward with automation and digital capabilities is fundamental if we're to ensure that Admiral maintains its position at the forefront of the insurance market in the UK, and we've made strong strides this year that will help us into the future.

An example is the launch of our InstaQuote household product. Throughout our history, we've recognised that our customers want quick, efficient and value-for-money services, which is exactly what this tool provides. It's dramatically reduced the time taken to get a price, which makes life easier for the customer, and has helped us to break through the 1 million customers mark just 7 years after launching! We also won the Moneynet Personal Finance Best Household Insurer award in 2019!

In addition to improving the household customer journey, we've also been enhancing our motor insurance journey by opening more digital communication routes to help customers interact with us and make changes via the web and to register claims electronically. The traditional channels are still available, of course, but many of our customers (both young and old) favour quicker, more flexible channels of interaction, which have the added benefit of efficiency for us.

In the last couple of years, this increased investment has contributed to the slight increase in our expense ratio (albeit from a very low base, and with additional levies being the greatest contributor to the expense ratio increase in 2019). However, these changes leave us well placed to deal with the challenges and customer demands of 2020 and beyond. The development of digital channels and automating our back-office processes are also important for the claims reforms (or Civil Liability Bill) that come into force in the second half of 2020, which should allow us to service claims under the lower cost regime and pass the savings to customers whilst maintaining our competitive advantage.

Whilst on the topic of regulation and customers, we welcome the pricing study that is being undertaken by the FCA, particularly in relation to the household market where many customers' policies have stagnated at a single provider and increased in price for many years. When we launched Confused.com in 2002, we saw that customers wanted pricing transparency and the best price, and the comparison channel has delivered most of our motor and car customers ever since. We're therefore very pleased that changes to encourage customers to shop around (as most of our motor and home customers already do) and will provide Admiral with further opportunity to grow the Household customer base towards its second million!

In conclusion, I'd like to thank our people for their hard work in 2019 and our customers for their trust in us – as ultimately, we are here to serve our customers!

UK Insurance review
UK Insurance financial performance

£m	2019	2018	2017
Turnover*1	**2,635.0**	**2,575.7**	**2,354.0**
Total premiums written	2,321.7	2,269.8	2,098.0
Net insurance premium revenue	533.2	523.9	491.6
Underwriting profit including investment income*1	**257.4**	**227.7**	**206.2**
Profit commission and other income	340.0	327.9	259.3
Group's share of UK insurance profit before tax *1	**597.4**	**555.6**	**465.5**

**1Alternative Performance Measures – refer to note 13 at the end of this report for definition and explanation*

Split of UK Insurance profit before tax

£m	2019	2018	2017
Motor	591.5	561.7	461.4
Household	7.5	(3.0)	4.1
Travel	(1.6)	(3.1)	-

Group's share of UK insurance profit	597.4	555.6	465.5

Key performance indicators

	2019	2018	2017
Vehicles insured at year end	4.37m	4.32m	3.96m
Households insured at year end	1.01m	0.87m	0.66m
Travel policies insured at year end	0.09m	0.05m	-
Total UK Insurance customers[*1]	**5.47m**	**5.24m**	**4.62m**

*[*1]Alternative Performance Measures – refer to the end of the report for definition and explanation.*

Key highlights for the UK insurance business for 2019 include:

- Modest growth in Motor customers but continued strong growth in Household with Admiral increasing rates ahead of the market throughout 2019 for Motor and maintaining rates for Household
- A 5% increase in UK Motor profit to £591.5 million (2018: £561.7 million) primarily as a result of increased reserve releases due to an increase in the speed of settlements of large bodily injury claims and increased certainty post the change in the Ogden rate in mid-2019
- This is partially offset by an adverse change in the 'one-off' Ogden impacts (favourable impact in 2018, adverse impact in 2019). Refer to the UK motor section below for further analysis of the underlying growth on key metrics such as loss ratio, reserve releases and profit commission
- Household profit of £7.5 million (2018: £3.0 million loss) as a result of more benign weather experience in 2019
- Travel insurance product saw a lower loss of £1.6 million (2018: £3.1 million loss)

UK Motor Insurance financial review

£m	2019	2018	2017
Turnover[*1]	**2,455.3**	**2,423.1**	**2,246.9**
Total premiums written[*1]	2,158.5	2,132.1	2,001.5
Net insurance premium revenue	452.6	452.5	433.2
Investment income[*2]	30.4	32.2	32.6
Net insurance claims	(164.7)	(189.2)	(214.2)
Net insurance expenses	(74.7)	(72.0)	(59.7)
Underwriting profit including investment income[*3]	**243.6**	**223.5**	**191.9**
Profit commission	112.2	95.0	64.7
Underwriting profit and profit commission	**355.8**	**318.5**	**256.6**
Net other revenue[*4]	235.7	243.2	204.8
UK Motor Insurance profit before tax	**591.5**	**561.7**	**461.4**

**1 Alternative Performance Measures – refer to the end of this report for definition and explanation*
**2 Investment income includes £2.8 million of intra-group interest (2018: £0.7 million; 2017: nil)*
**3 Underwriting profit excludes contribution from underwritten ancillaries (included in net other revenue)*
**4 Net other revenue includes instalment income and contribution from underwritten ancillaries and is analysed later in the report.*

Key performance indicators

£m	2019	2018	2017
Reported motor loss ratio[*1,*2]	60.7%	63.5%	64.1%
Reported motor expense ratio[*1,*3]	19.1%	18.4%	16.2%
Reported motor combined ratio	79.8%	81.9%	80.3%
Written basis Motor expense ratio	18.5%	17.5%	15.8%
Reported loss ratio before releases	87.6%	88.1%	85.3%
Claims reserve releases – original net share[*1,*4]	£121.7m	£111.4m	£92.1m
Claims reserve releases – commuted reinsurance[*1,*5]	£121.7m	£109.6m	£73.8m
Total claims reserve releases	£243.4m	£221.0m	£165.9m
Other Revenue per vehicle	£66	£67	£64
Vehicles insured at year end	4.37m	4.32m	3.96m

**1 Alternative Performance Measures – refer to the end of this report for definition and explanation*
**2 Motor loss ratio adjusted to exclude impact of reserve releases on commuted reinsurance contracts. Reconciliation in note 13b.*

**3 Motor expense ratio is calculated by including claims handling expenses that are reported within claims costs in the income statement. Reconciliation in note 13c.*
**4 Original net share shows reserve releases on the proportion of the portfolio that Admiral wrote on a net basis at the start of the underwriting year in question.*
**5 Commuted reinsurance shows releases, net of loss on commutation, on the proportion of the account that was originally ceded under quota share reinsurance contracts but has since been commuted and hence reported in underwriting profit rather than profit commission.*

UK Motor profit increased by 5% during 2019 to £591.5 million (2018: £561.7 million) and vehicles insured rose very modestly to 4.37 million (2018: 4.32 million), whilst the reported combined ratio improved to 79.8% (2018: 81.9%). Net insurance premium revenue was consistent with the prior period. The results were impacted by a number of factors:

- The current period loss ratio was 87.6% (2018: 88.1%). As highlighted below, there are a number of offsetting movements that net to the overall improvement of 0.5%pts:

Reported Motor Loss Ratio	Current Period Loss Ratio	Releases on Original Net Share	Reported Loss Ratio
2018	**88.1%**	**-24.6%**	**63.5%**
Prior period impact of Ogden change (-0.75% to 0%)	-	+4.0%	+4.0%
Change in underlying current period loss ratio	-1.5%	-	-1.5%
Change in underlying claims reserve release	-	-8.7%	-8.7%
2019 (excluding Ogden change)	**86.6%**	**-29.3%**	**57.3%**
Add Impact of Ogden change (0% to - 0.25%)	+1.0%	+2.4%	+3.4%
2019	**87.6%**	**-26.9%**	**60.7%**

- The unfavourable Ogden change in 2019 (0% to minus -0.25%) increased the current period loss ratio by 1.0 ppt. Excluding this impact, the current period loss ratio is 86.6%, which can be compared to the 2018 ratio of 88.1% (both at Ogden 0%). The underlying improvement of 1.5 ppts reflects a slightly lower level of margin held above the projected ultimate outcome for the current accident year, when compared to 2018 at the same point.
- Reserve releases on Admiral's original net share of business improved the reported loss ratio by 26.9 ppts in 2019. Excluding the adverse Ogden impact increases this to 29.3 ppts which is 4.7 ppts higher than in 2018 (24.6 ppts) and well above historical results. The underlying increase, after excluding the favourable one-off Ogden impact in 2018 is 8.7 ppts.
- This underlying improvement in the level of reserve release is unusually large and the main driver of the increase in reported profits. It is the result of a significant level of favourable development in ultimate projections of prior underwriting years which in turn can be broadly attributed to an increase in the speed of settlements in larger bodily injury claims following the confirmation of the new Ogden rate.
- Despite the significant level of reserve release (in both projected ultimate and financial statement loss ratios), the margin held above ultimate outcomes in the financial statement reserves remains both significant and prudent. In both absolute and relative terms, the aggregate level of margin held across current and prior underwriting years, remains consistent with that held at the end of 2018.
- Reserve releases from commuted reinsurance and profit commission were higher in 2019, as follows:

£m	Reserve releases – commuted reinsurance	Profit commission	Total
2018	**109.6**	**95.0**	**204.6**
Prior period Impact of Ogden change (- 0.75% to 0%)	-17.2	-18.4	-35.6
Change in underlying commuted releases	+11.3	-	+11.3
Change in loss on commutation	+27.0	-	+27.0
Change in underlying profit commission	-	+44.5	+44.5
2019 (excluding Ogden change)	**130.7**	**121.1**	**251.8**
Add Impact of Ogden change (0% to minus 0.25%)	-9.1	-8.8	-17.9
2019	**121.7**	**112.2**	**233.9**

- Releases on reserves originally reinsured but since commuted is higher at £121.7 million (v £109.6

million in 2018)

- There are a number of offsetting underlying movements, including a lower impact of the accounting loss on commutation (2019: £4.9 million; 2018: £31.9 million) and an underlying improvement in the level of commuted releases in line with the favourable development noted above, offset by an unfavourable net impact of one-off Ogden changes in both years
- The trend is similar for profit commission which improved to £112.2 million (2018: £95.0 million). Underlying profit commission improved by £44.5m, primarily as a result of the favourable development of prior underwriting years
- Investment income was slightly lower than 2018 at £30.4 million (2018: £32.2 million) with an underlying increase of £11.1m (due to both an increase in yield and growth in the asset base) more than offset by notional investment income accruals on reinsurance funds withheld balances of £12.9 million (2018: £nil)
- The written and reported basis expense ratios increased in 2019 with a number of factors impacting: non-acquisition costs was the main driver primarily through levies and to a lesser extent, investment in IT and claims as the skills and foundations to build further competitive advantages in these areas are strengthened
- Other revenue (including ancillary products underwritten by Admiral) and instalment income decreased to £235.7 million (2018: £243.2 million) primarily resulting from lower contribution from optional ancillaries

Market prices remained subdued during the year with some evidence of increases in the later months as a result of elevated levels of claims inflation. Admiral continued to prioritise margin over growth, and increased prices ahead of the market. As a result, slight new business growth and good retention contributed to customer numbers (4.37 million v 4.32 million) and turnover (£2.46 billion v £2.42 billion) being both up by 1%.

Claims and reserves
Notable claims trends for Admiral and the market in 2019 were similar to 2018, including a slow-down in the reduction in small injury claims frequency and continuing inflation in damage claims costs. The first projection of the impact of large bodily injury claims on the 2019 loss ratio is consistent with the projection of 2018 at the end of 2018.

The Group continues to reserve conservatively, setting claims reserves in the financial statements well above actuarial best estimates to create a margin held to allow for unforeseen adverse development.

As noted above, the Group experienced continued positive development of claims costs on previous underwriting years as a result of increased speed of large bodily injury settlements and increased certainty related to the Ogden rate, in addition to a small number of positive very large claims settlements. These factors led to another significant release of reserves in the financial statements in the period (£121.7 million on Admiral's original net share, up from £111.4 million). The margin held in reserves is prudent and significant and remained at a consistent level year-on-year.

UK Car Insurance – co-insurance and reinsurance
Admiral makes significant use of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either through co-insurance or quota share reinsurance contracts. These arrangements include profit commission terms (see below) which allow Admiral to retain a significant portion of the profit generated.

Munich Re and it's subsidiary entity, Great Lakes will underwrite 40% of the UK motor business until at least 2020, with future extension options available to Munich Re until 2022. 30% of this total is on a co-insurance basis, with the remaining 10% under a quota share reinsurance agreement from 2017 onwards.

The Group also has other quota share reinsurance arrangements confirmed to the end of 2020 covering 38% of the business written and expects to extend these or similar arrangements beyond 2020 during the first half of 2020.

The nature of the co-insurance proportion underwritten by Munich Re (via Great Lakes) is such that 30% of all motor premium and claims for the 2019 year accrue directly to Great Lakes and are not reflected in the Group's financial statements. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering this business.

The quota share reinsurance arrangements result in all motor premiums and claims that are ceded to reinsurers being included in the Group's financial statements, but these figures are adjusted to exclude the reinsurer share, resulting in a net result for the Group.

The Group also purchases excess of loss reinsurance to provide protection against large claims and reviews this cover annually. The level of cover purchased for 2020 reduced slightly compared to 2019 due to significant increases in market prices for cover.

Profit commission
Admiral is potentially able to earn material amounts of profit commission revenue from co- and reinsurance partners, depending on the profitability of the insurance business underwritten by the partner. Revenue is recognised in the income statement in line with the booked loss ratios on Admiral's retained underwriting.

Note 5c to the financial statements analyses profit commission income by business, type of contract and by underwriting year.

Commutations of quota share reinsurance
Admiral tends to commute its UK Car Insurance quota share reinsurance contracts for an underwriting year 24 months after inception, assuming there is sufficient confidence in the profitability of the business covered by the reinsurance contract.

After the commutation is executed, movements in booked loss ratios result in reserve releases (or strengthening if the booked loss ratio were to increase) rather than reduced or increased reinsurance claims recoveries or profit commission.

During the first half of 2019, the majority of the 2017 quota share contracts were commuted. At 31 December 2019, quota share reinsurance contracts remained in place for a small portion of 2017 and the full 2018 and 2019 underwriting years. No further contracts were commuted in the second half of 2019 (as is usual).

As noted above, in 2019 Admiral recognised reserve releases from commuted reinsurance contracts of £121.7 million (2018: 109.6 million).

Refer to note 5d(v) of the financial statements for further analysis of reserve releases on commuted quota share reinsurance contracts.

Other Revenue and Instalment Income
UK Motor Insurance Other Revenue – analysis of contribution:

£m	2019	2018	2017
Contribution from additional products & fees	202.1	206.5	187.3
Contribution from additional products underwritten by Admiral*1	13.9	13.6	15.0
Instalment income	83.9	81.4	56.1
Other revenue	**299.9**	**301.5**	**258.4**
Internal costs	(64.2)	(58.3)	(53.6)
Net other revenue	**235.7**	**243.2**	**204.8**
Other revenue per vehicle*2	**£66**	**£67**	**£64**
Other revenue per vehicle net of internal costs	**£56**	**£57**	**£54**

*1 Included in underwriting profit in income statement but re-allocated to Other Revenue for purpose of KPIs.
*2 Other revenue (before internal costs) divided by average active vehicles, rolling 12-month basis.

Admiral generates Other revenue from a portfolio of insurance products that complement the core car insurance product, and also fees generated over the life of the policy.

The most material contributors to net Other revenue continue to be:

- Profit earned from motor policy upgrade products underwritten by Admiral, including breakdown, car hire and personal injury covers
- Revenue from other insurance products, not underwritten by Admiral
- Fees such as administration and cancellation fees

·Interest charged to customers paying for cover in instalments

Overall contribution (Other revenue net of costs plus instalment income) decreased to £235.7 million (2018: £243.2 million). This is in line with the half year expectation of a small reduction. Whilst there were a number of smaller offsetting changes within the total, the main reasons for the decrease is reduced optional ancillary contribution and fees, which reflects an increase in transactions completed digitally and changes to the customer journey. This was slightly offset by an increase in instalment income primarily due to the growth in the underlying book and an increase in customers paying by instalments.

Other revenue was equivalent to a decrease to £66 per vehicle (gross of costs; 2018: £67), as a result of the factors mentioned above. Net Other Revenue (after deducting costs) per vehicle was £56 (2018: £57).

UK Household Insurance financial performance

£m	2019	2018	2017
Turnover*1	**171.3**	**146.0**	**107.1**
Total premiums written*1	154.9	131.1	96.5
Net insurance premium revenue	37.2	31.2	23.1
Underwriting profit/(loss)*1*2	**0.7**	**(6.3)**	**(0.8)**
Profit commission and other income	**6.8**	**3.3**	**4.9**
UK Household insurance profit/(loss)	**7.5**	**(3.0)**	**4.1**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation
*2 Underwriting profit/(loss) excluding contribution from underwritten ancillaries

Key performance indicators

	2019	2018	2017
Reported household loss ratio*1	69.1%	92.3%	73.5%
Reported household expense ratio*1	28.9%	28.1%	30.0%
Reported household combined ratio*1	98.0%	120.4%	103.5%
Impact of extreme weather and subsidence*1	-	19.1%	-
Households insured at year end*1	1,011,900	865,800	659,800

*1 *Alternative Performance Measures – refer to the end of this report for definition and explanation*

The number of properties insured increased by 17% to 1.01 million (2018: 0.87 million). Turnover increased by 17% to £171.3 million (2018: £146.0 million). New business market volumes continued to increase, customer retention remained strong, and shopping increased via the comparison channels.

2019 saw more benign weather than in 2018. A combined ratio of 98% (2018: 120%) resulted in a small net underwriting profit of £0.7 million (2018: underwriting loss of £6.3 million), which was supplemented by net other revenue and profit commission of £6.8 million (2018: £3.3 million).

UK Household insurance – reinsurance
The Group's Household business is supported by long-term proportional reinsurance arrangements covering 70% of the risk. In addition, the Group has non-proportional reinsurance to cover the risk of catastrophes stemming from weather events.

UK Insurance Regulatory environment
The UK Insurance business operates predominantly under the regulation of:

- the UK Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) which regulate the Group's UK registered subsidiaries including EUI Limited (an insurance intermediary) and Admiral Insurance Company Limited (AICL; an insurer); and
- the Financial Services Commission (FSC), which regulates the Group's Gibraltar-based insurance company (Admiral Insurance (Gibraltar) Limited, AIGL), in that territory.

The Group is required to maintain capital at a level prescribed by the lead regulator for Solvency II purposes, the PRA, and maintains a surplus above that required level at all times.

International Insurance review

Spain – Pascal Gonzalvez – Acting CEO (Sarah Harris is on maternity leave), Admiral Seguros
In 2019, Admiral Seguros accelerated its growth despite difficult market conditions and we finished the year with more than 290,000 customers.

We managed to increase our new business sales by 16% while the comparison market was shrinking. This was made possible by the structural changes on Rastreator where the user experience was significantly improved by guaranteeing the final price to customers, having a significant impact on conversion. Our strategy to diversify our acquisition channels has also been bearing fruit with the development of a broker channel that is contributing to the accelerated growth.

It was pleasing to see our overall technical results moving in the right direction despite challenges in the cost of growth. Loss ratios are improving on prior years as expected, whilst being slightly higher than anticipated for the 2019 underwriting year as a result of new business growth. This was offset by a decrease in our expense ratio as we improved internal efficiencies.

In 2020, we're planning to keep exploring alternative acquisition channels. In our core business, we're about to launch new initiatives to improve loss ratio (e.g. improved anti-fraud capabilities and innovation in risk selection). We'll also be accelerating in improving customer experience through digital capabilities (self-service) and operational optimisation (automation).

France – Pascal Gonzalvez – CEO, L'olivier Assurance
2019 was another year of strong performance for L'olivier Assurance.

It was a year of fast growth despite unfavourable market conditions. Our portfolio increased by 32%, while at the same time the aggregator market (our main acquisition channel) was shrinking. We're pleased to see our efforts on brand awareness, direct acquisition, and conversion showing progress and paving the way for further development in the coming years.

Not only did we grow fast, but we also grew stronger. Our portfolio grew while having some significant operational improvements. As a consequence, our customers like us more and more! The benefits of our investments toward an effortless customer journey started to materialise with peaks in customer satisfaction (net promoter score), persistency, and referrals, to name a few.

On the claims side, loss ratios have developed well for prior years, resulting in reserve releases. However, the business experienced a deterioration in the 2019 loss ratio, partly due to the strong growth of new business in 2019.

2020 is the beginning of a new chapter for L'olivier as we embark on our multi-product journey and the launch of a new household insurance product. After launching our insurtech named Homebrella (a home insurance product for renters and expats in France) in 2019, we'll also launch a broader household product under the brand L'olivier in early 2020.

We look forward to continuing to #makeithappen J

Italy – Costantino Moretti – CEO, ConTe
ConTe closed 2019 with a profit for the sixth year in a row, whilst also achieving significant growth in turnover of 16% year-on-year.

The direct market wasn't particularly favourable and we experienced single digit growth and challenging competition, especially via comparison panels. Despite this context, ConTe was able to grow by leveraging on its competitiveness and on the improvements in the digital journey, particularly focussed on mobile.

ConTe is strengthening its competitive positioning in the Italian Market and continuing to invest in the brand which is steadily increasing awareness among Italian drivers. In 2019 a new advertising campaign was successfully launched, endorsed by Mr. Carlo Conti, who is one of the most popular Italian TV anchors.

Our growth is bringing a significant benefit towards achieving scale and is driving an improved expense ratio. Efficiencies were also gained thanks to investment in technology: digital, robotics and automation are delivering the expected benefits and continue to offer interesting opportunities for the future.

Other key metrics of the business improved which demonstrates that ConTe continues to stay focused on its 'sustainable growth' strategy. Although the 2019 loss ratio deteriorated, favourable prior year development resulted in strong reserve releases.

In a perfect Admiral-style, our people and culture continue to make the difference. We have been recognised for another year in a row as one of the best large companies to work for!

USA – Alberto Schiavon – CEO, Elephant Auto
Over the last year Elephant has continued with our strategy to focus on customer retention, to service these customers efficiently by leveraging technology, and to make Elephant a great insurer for our shareholders, customers and staff. While we undoubtedly made some great improvements on many fronts, we have also seen some significant headwinds in our loss experience, slowing down our speed of progress.

As mentioned at our half year results presentation, Elephant saw a higher than expected claims ratio, deteriorating by four points compared to 2018. The main driver was increased claims frequency as well as general market inflation, in particular in damage claims and medical costs. As a consequence, we took a defensive approach towards margins, at the expense of growth. We responded with numerous initiatives, including significant rate increases, especially towards certain lower-performing segments; and a reduction in our acquisition spend. With regard to the first point, some segments of the book have seen sharp increases with obvious impact on sales and cancellations while allowing us to have better performance on the loss ratio in the coming years. As per the second point, we have been more selective in some distribution channels, favoring some online advertising and doing less on traditional media, enabling us to be more efficient in our spend.

The effect of those efforts is visible in our top line numbers: while vehicles in force remained flat year on year, our turnover grew to £233 million (2018: £214 million). Most of this turnover growth comes from a high performing renewal book, giving confidence in our long-term strategy. The lack of policy growth meant that we couldn't fully leverage economies of scale on our platform, and as a result delivered a slightly improved expense ratio.

At the same time, Elephant made some significant progress in a number of areas: we further developed our self-servicing functionalities, especially in claims management; we expanded our acquisition channels to include some agency business; and we deployed some important new features to our risk selection. We expect that these will ultimately translate into further growth, within profitable segments, at very good incremental costs. Finally, I am grateful to all Elephant employees for their high level of commitment in delivering such a high volume of projects, and for building such a strong foundation for a sustainable long-term business.

International Car Insurance financial performance

£m	2019	2018	2017
Turnover*[1]	**623.6**	**538.7**	**449.8**
Total premiums written*[1]	562.6	484.3	401.4
Net insurance premium revenue	168.6	141.7	123.0
Investment income	1.5	1.3	0.6
Net insurance claims	(137.2)	(104.0)	(94.1)
Net insurance expenses	(53.0)	(55.8)	(58.0)
Underwriting result including investment income*[1]	**(20.1)**	**(16.8)**	**(28.5)**
Net other revenue	19.2	15.7	14.2
International Car Insurance result	**(0.9)**	**(1.1)**	**(14.3)**

Key performance indicators

	2019	2018	2017
Reported Loss ratio*[2]	77%	76%	76%
Expense ratio*[2]	37%	40%	45%
Combined ratio*[3]	114%	116%	121%
Combined ratio, net of Other Revenue*[4]	104%	105%	109%
Vehicles insured at period end	**1.42m**	**1.22m**	**1.03m**

*[1] *Alternative Performance Measures – refer to the end of this report for definition and explanation.*

*[2] *Loss ratios and expense ratios have been adjusted to remove the impact of reinsurer caps so the underlying performance of the business is transparent.*

*[3] *Combined ratio is calculated on Admiral's net share of premiums and excludes Other revenue. It excludes the impact of reinsurer caps. Including the impact of reinsurer caps the reported combined ratio would be 2019: 113%; 2018: 113%; 2017: 124%.*

*[4] *Combined ratio, net of Other Revenue is calculated on Admiral's net share of premiums and includes Other Revenue. Including the impact of reinsurer caps the reported combined ratio, net of Other Revenue would be 2019: 102% 2018: 102%; 2017: 112%.*

Geographical analysis

2019	Spain	Italy	France	US	Total
Vehicles insured at period end (m)	0.29	0.69	0.23	0.21	1.42
Turnover*[1] (£m)	78.2	204.2	108.1	233.1	623.6

2018	Spain	Italy	France	US	Total
Vehicles insured at period end (m)	0.25	0.59	0.17	0.21	1.22
Turnover*[1] (£m)	67.6	176.8	80.5	213.8	538.7

*[1] *Alternative Performance Measures – refer to the end of this report for definition and explanation*

Admiral has four insurance businesses outside the UK: in Spain (Admiral Seguros), Italy (ConTe), the US (Elephant Auto) and France (L'olivier Assurance).

The operations continued to grow strongly in 2019, with customer numbers increasing by 16% to 1.42 million (2018: 1.22 million) and combined turnover rising by 16% to £623.6 million (2018: £538.7 million).

The key features of the International Car insurance results are:

- An aggregate loss of £0.9 million (2018: £1.1 million loss) reflecting an improvement in performance of the European businesses offset by a deterioration in the US business;
- A record profit in the Group's Italian business ConTe, which also grew its customer base by 18%;
- A deterioration in Elephant Auto's result (increased loss from £7.5 million to £9.6 million year-on-year)
- A relatively flat combined ratio (net of other revenue) of 104% (2018: 105%) reflecting reduced acquisition costs, pricing improvements and operational efficiencies as well as positive back year development in Europe offset by a deteriorating loss ratio in Elephant Auto

·Continued investment and improvements in technology, people and the customer experience across all operations

The combined International expense ratio improved to 37% (2018: 40%) as all businesses grew, and continued to pursue operational efficiencies, albeit growth was slower in Elephant as prices were increased in response to the loss ratio pressure.

The European insurance operations in Spain, Italy and France insured 1.21 million vehicles at 31 December 2019 – 20% higher than a year earlier (31 December 2018: 1.01 million). Turnover was up 20% at £390.5 million (2018: £324.9 million). The consolidated result of the businesses was a profit of £8.7 million (2018: £6.4 million) consisting of continued (and higher) profitability in Italy and lower losses in France and Spain. The combined ratio net of other revenue (excluding the impact of reinsurer caps) improved to 92% from 98% due to the improved claims experience and expense ratio.

Elephant insured 212,100 vehicles at the end of 2019, broadly flat year-on-year though higher prices meant turnover was up 9% to £233.1 million (2018: £213.8 million). Elephant's loss increased for the period to £9.6 million from £7.5 million in 2018, as a result of adverse claims development.

Elephant responded with enhancements in underwriting and rate increases resulting in a slowdown of growth in the second half of 2019. The expense ratio improved slightly through increased operational efficiency, a focus on customer experience improvements, and enhancement of the digital online journey. Elephant continues to see improvements in persistency as a result of the focus on higher retaining customers. The combined ratio net of other revenue was 118% (115% in 2018).

In 2019, a non-cash impairment charge of £65.9 million was recognised in the financial statements of the parent company with respect to the carrying value of the parent's investment in Elephant Auto. This follows a change to using shorter-term projections as a result of the adverse loss ratio experience in 2019. The impairment charge is recognised in the income statement of the parent company (Refer to note 4 of the Parent Company Financial Statements for further details) and has no impact on the Group's consolidated profit for the period or the Group's 2019 regulatory capital position.

Elephant continues to focus on improving fundamentals in 2020 with a focus on loss ratio, expense efficiencies and continued improvement in the customer experience.

International Car Insurance co-insurance and reinsurance
In 2019 Admiral retained 35% (Italy), 30% (France and Spain) and 33% (USA) of the underwriting risk respectively. The arrangements for 2020 will remain the same in Italy, France and Spain. In the USA, 50% of the risk will be retained within the Group.

International Car Insurance Regulatory environment

Admiral's European insurance operations are now primarily regulated by the Spanish insurance regulator, the DGS. This shift is a result of restructuring completed ahead of Brexit.

The Group's US insurer, Elephant Insurance Company, is regulated by the Virginia State Corporation Commission's Bureau of Insurance.

Both insurers are required to maintain capital at levels prescribed by the regulator and hold a surplus above these requirements at all times.

Comparison Review - Elena Betés - CEO, Comparison Businesses
2019 was a good year for our Comparison businesses. Recognising the benefits of scale in digital markets, we set up a European corporate structure named Penguin Portals, that gives us not only the framework to achieve our ambition to lead our key European markets, but also a working environment to deliver scale beyond these markets. This also allows our seven comparison platforms to take advantage of operational and technological synergies and share expertise.

Operationally, each Comparison platform is supported by two technological centres of excellence, Confused.com in Cardiff and Admiral Technologies in Delhi, allowing for a shared architecture to facilitate further collaboration and rapid innovation.

Our goal to empower the world to choose better has not changed. We continue to focus on service diversification and geographic expansion, driven by a desire to innovate the customer experience leveraging technology and data.

In Europe, we had a strong year, fuelled by Confused.com and growth at LeLynx and with all our businesses improving margins. We successfully diversified our product offering, took some key verticals in-house, delivered new verticals, reinforced our use of data and grew a B2B infrastructure whilst continuously improving the customer experience. I'd especially note Rastreator's effort to provide more transparency to Spanish customers with accurate prices.

Preminen, our comparison incubator, continues our path of organic expansion in emerging markets. In 2019 we welcomed GoSahi.com in India as the newest member of our comparison family. Rastreator.mx in Mexico was awarded the best ecommerce start-up of the year (e-awards), Tamoniki.com in Turkey is in the process of building the panel and we will soon be incorporating a new Penguin into the colony.

In the USA, we downsized the business to adjust to market conditions, allowing for increased agility whilst we further develop our customer proposition.

The results are moving in the right direction and I´m confident that we have a strong foundation to build upon our successes in 2019 into the future.

UK – Louise O'Shea – CEO, Confused.com
It's been 18 years since Confused.com was formed, and we're still making history. In 2019, our revenue exceeded £100m for the first time.

We achieved this by standing firmly on the side of our customers and continuing to differentiate ourselves against the competition. Confused.com is the brand that cuts through the noise and confusion in order to help people make clear decisions. Our marketing was more effective, and more focus was placed on the products our customers need and want beyond car insurance. Making better use of our data has helped our insurance partners deliver the right product to the right customer for the right price at the right time. All of this and the dedication of the Confused.com team has resulted in our revenue and profit growing by 19% and 43% year on year, respectively, and our profit margin improving to over 18% (2018: 15%).

It wasn't a year without challenges. The highly competitive market continues to necessitate focus on marketing channel effectiveness and diversification which in 2019 saw us introduce a successful B2B offering and drive innovation in the customer experience.

In 2020 we'll continue to make decisions based on what is best for our customers, empowering them to choose better.

Spain – Fernando Summers – CEO, Rastreator
At Rastreator, 2019 has been a year of hard work.

We substantially enhanced the customer experience with our Price Accuracy strategy for insurance, meaningfully improving our net promoter score. More efficient traffic acquisition led to a 13% increase in profit.

The proposed joint venture with Acierto and Oakley Capital was a focus area for management in 2019, but due to challenges in completing the transaction within a reasonable timeframe related to the anti-trust process and associated costs, the final decision was not to proceed. We delivered modest revenue growth, mainly due to our mortgage broker and data businesses.

We are optimistic about our future in the context of a large market opportunity. We will be working on further improving the customer experience, increasing customer support through our processes and we will continue developing our broker capabilities – not only for finance products but also for some insurance products.

I would like to thank the fantastic and enthusiastic team who are always hungry for growth and to improve the experience for our customers, for all their support in a challenging year. We are looking forward to the opportunities we see in 2020 and beyond.

France – Itzal Arbide – CEO, LeLynx
2019 was an excellent year full of milestones for LeLynx. We made significant improvements in our operational structure and business approach, achieved key product enhancements to better serve our users and signed new important commercial agreements to improve our offering. As a result, LeLynx finished 2019 with revenue growth of 19% and also improved profitability.

While motor Insurance comparison mainly benefited from a better online user experience which improved conversion, energy comparison (launched in 2018) saw great operational improvements and moved past test and learn phase to become an integrated product for LeLynx in 2019 in line with our diversification strategy.

Improving the customer experience has been a focus, from improving user pain points and providing more information, to further improving the journey to allow customers to make the best choice and receive the best possible service. I am enthusiastic about the evolution of Le Lynx as we head into 2020 and beyond. We will keep working on user-centric new projects to improve our customer experience and to strengthen our product base.

The French market is large and slowly evolving and LeLynx is perfectly placed to capture that opportunity.

USA – Allie Feakins – CEO, Compare.com
2019 was a somewhat volatile year for Compare.com. Facing stronger headwinds in cost efficient customer acquisition and scalability in the US auto insurance market, we took action to reduce the fixed costs of the business to allow a more agile approach. While we expected to realise some of the benefits of this decision in 2019, we were also pleasantly surprised by performance improvements in the second half of the year. Insurers are facing the very same acquisition cost headwinds, so we made progress expanding our panel and improving our own revenue potential as well.

In 2019, we completed an upgrade to the experience for our customers, improving their journey whether they are using our website to find information or pursuing our quote journey to view real-time auto insurance prices. We also continued to invest in our technology platform to enable our marketing partners to leverage our insurer panel and to enable our insurance partners to leverage our competitive intelligence data.

In 2020, we don't expect the competitive environment to ease up, but our objectives will shift slightly from 2019 as we change our marketing approach, messages and campaigns to explore opportunities for building deeper customer and partner relationships.

I am optimistic about the future of Compare.com and look forward to 2020 in my new role as CEO.

Emerging Markets – Pedro Tabernero – CEO, Preminen
Preminen had an exciting year of growth and saw the launch of a new comparison business. In Mexico, Rastreator.mx continues to see positive signs of growth and we are confident in the sustainability of the business. All relevant insurers have joined, and the customer proposition is well accepted. Tamoniki.com in Turkey has been trading for almost one year, mainly focused on building the panel with a slow but positive evolution.

A new market approach is being tested in India with the launch of Gosahi.com in February 2019, a loan comparison portal that enables users to compare online and get full support during their off-line loan application (a complex process in the market) with the collaboration of relevant financial brokers.

2020 is expected to be the year of consolidation for Rastreator.mx, growth for Tamoniki.com and Gosahi.com and to also deliver further geographic expansion. Thanks to the Preminen team for the hard work – we're looking forward to an even better 2020!

Comparison financial review

£m	**2019**	**2018**	**2017**
Revenue			
Car insurance comparison	119.4	110.1	108.8
Other	52.2	40.9	34.8
Total revenue	**171.6**	**151.0**	**143.6**
Expenses	(156.9)	(144.4)	(138.2)
Profit before tax	**14.7**	**6.6**	**5.4**
Confused.com profit	20.4	14.3	10.1
International comparison result	(5.7)	(7.7)	(4.7)
	14.7	**6.6**	**5.4**
Group's share of profit before tax *1			
Confused.com profit	20.4	14.3	10.1
International comparison result	(2.4)	(5.5)	(3.0)
	18.0	**8.8**	**7.1**

**1 Alternative Performance Measure – refer to the end of this report for definition and explanation*

Admiral has comparison businesses in the UK (Confused.com), Spain (Rastreator), France (LeLynx) and the US (Compare.com). In addition, Preminen, the Group's joint venture holding company for comparison ventures in new markets, oversees operations in Mexico (Rastreator.mx), Turkey (Tamoniki.com) and India (GoSahi.com).

Admiral Group owns 75% of Rastreator, 59% of Compare.com and 50% of Preminen.

In 2019, the Group established a holding company for the European businesses named Penguin Portals, facilitating greater collaboration and sharing of best practices across the businesses to support customer growth and new product development.

Combined revenue grew by 14% to £171.6 million (2018: £151.0 million) and the businesses made a combined profit (excluding minority interests' shares) of £18.0 million (2018: £8.8 million).

The key features of the Comparison result are:

- In the UK, Confused.com saw market share increases in motor and home insurance comparison and efficient media spending leading to significantly increased profit of £20.4 million (2018: £14.3 million)
- A loss of £4.3 million (2018: £6.9 million) at Compare.com in the US (Admiral Group share). Statutory loss before tax was also lower at £7.2 million (2018: £10.0 million). The results reflect lower sales volumes due to a reduced marketing spend and lower fixed costs
- The continental European comparison businesses reported an increased profit of £3.5 million (2018: £1.4 million) reflecting improved customer experience through the digital customer journey and product diversification, with strong growth at LeLynx in France

·Costs for Penguin Portals, and Preminen (which was previously recorded under business development costs in 'Other Group items') are included in the Comparison segment result in the 'other' section

The UK comparison market remains very competitive with increasing advertising spend across all marketing channels, however increases in market share across products and a focus on customer experience resulted in a 19% increase in turnover for Confused.com to £112.7 million (2018: £95.1 million).

The combined revenue from the European operations increased by 8% to £50.1 million (2018: £46.3 million), reflecting continued growth in traffic and customer quotes in LeLynx, and improved customer experience and product diversification across both operations.

Compare.com lowered losses to £4.3 million (2018: £6.9 million) as a result of downsizing to allow for a more agile approach, together with reduced marketing spend and increased efficiencies. A non-cash impairment of £2.0 million in the second half of 2019 (full year impairment total of £27.7 million) was recognised by the parent company in respect of its investment in Compare.com. This impairment is in line with the reduction in Compare.com's net assets since half year 2019. The impairment charge is recognised in the income statement of the parent company and has no impact on the Group's consolidated profit for the period or the Group's 2019 regulatory capital position.

Preminen, the Group's comparison venture with Mapfre, continues to explore comparison in new markets overseas. Rastreator.mx in Mexico and Tamoniki.com in Turkey have focused on panel development and growth, while GoSahi.com in India was launched in 2019.

Comparison Regulatory environment
Confused.com is regulated by the Financial Conduct Authority (FCA) as an insurance intermediary and is subject to all relevant intermediation rules, including those on solvency capital.

Rastreator and LeLynx are now locally licensed in Spain and France post the finalisation of Brexit preparations. Further information on the impact of Brexit on our European operations can be found later in this report.

Compare.com is a regulated insurance agency domiciled in Virginia, US, and licensed in all other US states.

Other Group Items

Other Group items financial review

£m	2019	2018	2017
Share scheme charges	(52.7)	(49.0)	(35.2)
Admiral Loans loss before tax	(8.4)	(11.8)	(4.4)
Other interest and investment return	6.0	2.9	8.4
Business development costs	(2.1)	(4.3)	(5.2)
Other central overheads	(20.0)	(10.5)	(5.1)
Finance charges	(11.2)	(11.3)	(11.4)
Other Group items	**(88.4)**	**(84.0)**	**(52.9)**

Share scheme charges relate to the Group's two employee share schemes (refer to note 9 to the financial statements). Charges increased by £3.7 million in 2019, to £52.7 million reflecting the improved vesting outcomes resulting from the increased level of profit in 2019 and a higher share price.

Other interest and investment income increased to £6.0 million in 2019 (2018: £2.9 million). 2019 includes a lower level of unrealised losses relating to forward foreign exchange contracts compared to 2018 (2019: £0.1 million, 2018: £2.3 million). The higher number in 2019 was also driven by increased investment return due to the increased cash holding in the parent company.

Business development costs include costs associated with potential new ventures. The costs associated with Preminen have now been included in the Comparison section, contributing to the decrease in business development costs in 2019.

Other central overheads of £20.0 million continue to reflect the cost of a number of significant group projects. In addition, a £6 million cost relating to a one-off cash bonus of £500 per employee, is included in 2019 (2018: £nil).

Finance charges of £11.2 million (2018: £11.3 million) represent interest on the £200 million subordinated notes issued in July 2014 (refer to note 6 to the financial statements).

Loans – Scott Cargill – CEO, Admiral Financial Services Limited

We can look back at 2019 with pride at what we delivered but knowing there is still much more to do with an exciting outlook for the coming years.

In just over two years Admiral Loans has built up a prime loan book totalling £455 million and is now a relevant participant in what is a large market in the UK. The progress in 2019 was particularly pleasing, with customer growth of over 70% – importantly, still within risk appetite. We improved our economics as we started to benefit from economies of scale. Our customers and employee scores were strong. And the loss of £8 million was in line with expectation.

Turning to 2020, we expect to benefit from a continued market shift to comparison and credit score marketplaces which now account for over 20% of personal loans distributed in the UK. I would therefore expect to see continued growth in our loan balances towards the £700-900 million range in the next two years that we identified at the 2019 half year results.

We remain acutely aware of and responsive to the macro-economic backdrop in the UK and anticipate continued investment in our people, technology, product and risk selection capabilities. I'd like to thank all our staff in Admiral Loans for the tremendous progress we made last year.

£m	2019	2018	2017
Total interest income	30.8	15.0	1.6
Interest expense*1	(9.1)	(4.3)	(0.4)
Net interest income	**21.7**	**10.7**	**1.2**
Other fee income	1.9	0.4	-
Total income	**23.6**	**11.2**	**1.2**
Expenses	(32.0)	(22.9)	(5.6)
Admiral Loans result	**(8.4)**	**(11.8)**	**(4.4)**

*[1] *Includes £2.8 million intra-group interest expense (2018: £0.7 million; 2017: £nil)*

Background
Admiral Loans launched in 2017 and provides unsecured personal loans and car finance products primarily through the comparison channel.

Loan balances increased during the year to £455 million (2018: £300 million), with just over 5% of the book being used for car loans and over 15% being to existing Admiral insurance customers. The 12-month default experience remained in line with 2018 at around 2% during 2019 and the business has continued to invest in its operational capabilities and technology.

Admiral Loans is funded through a combination of internal and external funding. The external portion funds approximately 60% of the current balance through securitisation. The risk and reward of the securitised loans is considered to remain with Admiral.

Result
Admiral Loans recorded a pre-tax loss of £8.4 million in 2019 (decreased from £11.8 million in 2018). The lower loss predominantly reflects the increased interest income in the period, offset to an extent by increased provisions against the loan book due to its growing size.

UK Exit from the European Union ('Brexit')
Admiral adopted a prudent approach to Brexit and set up new entities in Europe under which the European operations have traded since 1 January 2019. All of the Group's European insurance business is now underwritten by a regulated entity in Spain, Admiral Europe Compania Seguros (AECS). The Group's European comparison businesses Rastreator and LeLynx have successfully been merged into comparison companies established in Spain (Comparaseguros Corredia de Seguros) and France (LeLynx SAS) respectively.

Brexit continues to bring risks to the Group including:

- The potential for market volatility, and the potential for the uncertainty or the emerging terms of exit to trigger or exacerbate less favourable economic conditions in the UK and other countries in which Admiral operates (though it is worth noting that car insurance has tended to be resilient to economic downturns; and Admiral Loans has adopted a cautious approach to volumes and credit quality in advance of Brexit);
- As part of the Own Risk and Solvency Assessment ("ORSA") process, the Group has performed a stress testing exercise for its assessment of the stressed macroeconomic conditions on the UK and EU insurance and financial service businesses that may result from Brexit, including the potential increase in claims costs following a spike in inflation. This includes negative movement in interest rates, currency, investment yields and inflation which could be experienced post Brexit. Given the results of the stress testing the Group is comfortable that it is able to manage the potential outcomes of such scenarios should they occur;
- Potential changes to the rules relating to the free movement of people between the UK and the remaining EU member states. The Group has followed external advice on planning for the small number of EU citizens working within the UK and UK citizens working in the EU, for the Group;
- Potential for impact on the import of car parts with potential impact on claims costs. A working group is in place to manage and review this risk, with commercial negotiations ongoing to mitigate risks arising from a "no deal" Brexit;
- Potential operational impacts for the provision of Green Cards for UK customers to continue driving in the EU. Procedures have been established to manage the operational impacts and ensure suitable communication to customers.

At present, the Group does not foresee a material adverse impact on day-to-day operations (including customers or employees). Whilst the Group is comfortable that it is able to manage potential outcomes following the review of the stress testing noted above, it recognises the uncertainties that exist post Brexit and the potential for adverse impacts to the Group's capital position and future dividend payments. Sensitivities to the Group's regulatory solvency ratio are presented earlier in this report, including a number of specific market risk sensitivities. The cost of the restructuring activity was not material to the Group.

Coronavirus (COVID-19)
Admiral is closely monitoring government updates in relation to the coronavirus during recent months and is considering any potential impacts on the business.

The response to date has focussed on the wellbeing of staff in the group's offices and also in ensuring that appropriate plans are in place to ensure that Admiral's operations can continue to service customers.

Ongoing stress testing work, overseen by the Group Risk Committee, is focused on operational resilience plans and potential financial impacts. As the situation develops Admiral will implement appropriate business continuity plans to mitigate potential impacts.

Principal Risks and Uncertainties
The Group's 2019 Annual Report will contain an analysis of the Principal Risks and Uncertainties identified by the Group's Enterprise Risk Management Framework, along with the impacts of those risks and actions taken to mitigate them.

Audit Tender
As referenced in the Group's 2018 Annual Report, in 2018 the Group's Audit Committee reported that it had reviewed the arrangements with the current external auditor and had considered whether it was appropriate to initiate a tender process in order that the current arrangements could be reviewed against those offered by other audit firms in the market.

The Committee considered the results of various reviews and consultations on the audit services market as well as other factors relating to a potential tender process and concluded that it was appropriate to continue with the planned tender process in 2020. The process will be initiated in Q2 2020 for an appointment (or reappointment) to be made with effect from 2021, coinciding with the rotation of the current audit partner. As the Group Audit Committee has primary responsibility for conducting the tender process and making recommendations to the Board, regarding the appointment, reappointment and removal of the external auditor, it will lead the proposed tender process. The Committee intends to engage with the Group's major shareholders to get their views on the firms that will be invited to participate in the tender and the timetable that has been agreed for the tender process.

Disclaimer on forward-looking statements
Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of known and unknown risks and uncertainties that may cause actual events or results to differ materially from any expected future events or

results expressed or implied in these forward-looking statements.

Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Consolidated income statement
For the year ended 31 December 2019

	Note	Year ended	
		31 December 2019 £m	31 December 2018 £m
Insurance premium revenue		**2,198.4**	2,079.6
Insurance premium ceded to reinsurers		**(1,489.0)**	(1,407.8)
Net insurance premium revenue	5	**709.4**	671.8
Other revenue	8	**469.9**	449.2
Profit commission	5	**114.9**	93.2
Interest income	7	**30.8**	15.0
Interest expense	7	**(6.3)**	(3.6)
Net interest income from loans		**24.5**	11.4
Investment return	6	**35.3**	36.0
Net revenue		**1,354.0**	1,261.6
Insurance claims and claims handling expenses	5	**(1,568.1)**	(1,513.8)
Insurance claims and claims handling expenses recoverable from reinsurers		**1,208.8**	1,163.7
Net insurance claims	5	**(359.3)**	(350.1)
Operating expenses and share scheme charges	9	**(900.7)**	(842.8)
Operating expenses and share scheme charges recoverable from co- and reinsurers	9	**441.2**	418.8
Net operating expenses and share scheme charges		**(459.5)**	(424.0)
Total expenses		**(818.8)**	(774.1)
Operating profit		**535.2**	487.5
Finance costs	6	**(14.6)**	(11.3)
Finance costs recoverable from co- and reinsurers	6	**2.0**	—
Net finance costs		**(12.6)**	(11.3)
Profit before tax		**522.6**	476.2
Taxation expense	10	**(94.2)**	(85.7)
Profit after tax		**428.4**	390.5
Profit after tax attributable to:			
Equity holders of the parent		**432.4**	395.1
Non-controlling interests (NCI)		**(4.0)**	(4.6)
		428.4	390.5
Earnings per share			
Basic	12	**148.3p**	137.1p
Diluted	12	**148.0p**	136.8p
Dividends declared and paid (total)	12	**367.8**	332.7
Dividends declared and paid (per share)	12	**129.0p**	118.0p

Consolidated statement of comprehensive income
For the year ended 31 December 2019

	Year ended	
	31 December 2019 £m	31 December 2018 £m
Profit for the period	**428.4**	390.5
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Movements in fair value reserve	**34.6**	(24.0)
Deferred tax charge in relation to movement in fair value reserve	**(1.5)**	0.7

Exchange differences on translation of foreign operations	**(8.9)**	2.2
Movement in hedging reserve	**(0.9)**	(0.3)
Other comprehensive income for the period, net of income tax	**23.3**	(21.4)
Total comprehensive income for the period	**451.7**	369.1
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**456.1**	373.7
Non-controlling interests	**(4.4)**	(4.6)
	451.7	369.1

Consolidated statement of financial position
As at 31 December 2019

	Note	As at **31 December 2019 £m**	31 December 2018 £m
ASSETS			
Property and equipment	11	**154.4**	28.1
Intangible assets	11	**160.3**	162.0
Deferred income tax	10	—	0.2
Reinsurance assets	5	**2,071.7**	1,883.5
Insurance and other receivables	6	**1,227.7**	1,082.0
Loans and advances to customers	7	**455.1**	300.2
Financial investments	6	**3,234.5**	2,969.7
Cash and cash equivalents	6	**281.7**	376.8
Total assets		**7,585.4**	6,802.5
EQUITY			
Share capital	12	**0.3**	0.3
Share premium account		**13.1**	13.1
Other reserves	12	**55.1**	31.4
Retained earnings		**840.9**	713.5
Total equity attributable to equity holders of the parent		**909.4**	758.3
Non-controlling interests		**9.2**	12.8
Total equity		**918.6**	771.1
LIABILITIES			
Insurance contract liabilities	5	**3,975.0**	3,736.4
Subordinated and other financial liabilities	6	**530.1**	444.2
Trade and other payables	6, 11	**1,975.9**	1,801.5
Lease liabilities	6	**137.1**	—
Deferred income tax	10	**0.4**	—
Current tax liabilities	10	**48.3**	49.3
Total liabilities		**6,666.8**	6,031.4
Total equity and total liabilities		**7,585.4**	6,802.5

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

Geraint Jones
Chief Financial Officer
Admiral Group plc

Consolidated cash flow statement
For the year ended 31 December 2019

	Note	Year ended **31 December 2019 £m**	31 December 2018 £m
Profit after tax		**428.4**	390.5
Adjustments for non-cash items:			
– Depreciation of property, plant and equipment and right-of-use assets	11	**23.8**	12.0
– Amortisation and impairment of intangible assets	11	**18.7**	15.5
– Movement in provision for loans and advances to customers	7	**13.8**	8.9

	Note	2019 £m	2018 £m
– Share scheme charges	9	**53.4**	49.8
– Accrued interest income from loans and advances to customers		**(0.6)**	(1.4)
– Investment return	6	**(35.3)**	(36.0)
– Finance costs, including unwinding of discounts on lease liabilities		**12.6**	14.9
– Taxation expense	10	**94.2**	85.7
Change in gross insurance contract liabilities	5	**238.6**	422.5
Change in reinsurance assets	5	**(188.2)**	(245.9)
Change in insurance and other receivables	6, 11	**(147.0)**	(145.0)
Change in gross loans and advances to customers	7	**(168.7)**	(242.9)
Change in trade and other payables, including tax and social security	11	**174.4**	159.9
Cash flows from operating activities, before movements in investments		**518.1**	488.5
Purchases of financial instruments		**(2,048.2)**	(1,830.2)
Proceeds on disposal/ maturity of financial instruments		**1,847.9**	1,573.4
Interest and investment income received	6	**11.6**	8.0
Cash flows from operating activities, net of movements in investments		**329.4**	239.7
Taxation payments		**(92.8)**	(55.6)
Net cash flow from operating activities		**236.6**	184.1
Cash flows from investing activities:			
Purchases of property, equipment and software	11	**(33.6)**	(23.9)
Net cash used in investing activities		**(33.6)**	(23.9)
Cash flows from financing activities:			
Non-controlling interest capital contribution		**1.6**	19.3
Proceeds on issue of loan backed securities		**136.2**	168.3
(Repayment)/proceeds from other financial liabilities		**(50.3)**	51.9
Finance costs paid, including interest expense paid on funding for loans		**(14.0)**	(14.1)
Repayment of lease liabilities		**(10.6)**	—
Equity dividends paid	12	**(367.8)**	(332.7)
Net cash used in financing activities		**(304.9)**	(107.3)
Net (decrease) / increase in cash and cash equivalents		**(101.9)**	52.9
Cash and cash equivalents at 1 January		**376.8**	326.8
Effects of changes in foreign exchange rates		**6.8**	(2.9)
Cash and cash equivalents at end of period	6	**281.7**	376.8

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Attributable to the owners of the Company							
	Share capital £m	Share premium account £m	Fair value reserve £m	Hedging reserve £m	Foreign exchange reserve £m	Retained profit and loss £m	**Total £m**	Non-controlling interests £m
At 1 January 2018	0.3	13.1	36.4	—	16.0	580.3	**646.1**	9.7
Initial application of IFRS 9	—	—	0.4	—	—	(0.4)	—	—
Adjusted balance at 1 January 2018	0.3	13.1	36.8	—	16.0	579.9	**646.1**	9.7
Profit/(loss) for the period	—	—	—	—	—	395.1	**395.1**	(4.6)
Other comprehensive income								
Movements in fair value reserve	—	—	(24.0)	—	—	—	**(24.0)**	—
Deferred tax charge in relation to movement in fair value reserve	—	—	0.7	—	—	—	**0.7**	—
Movement in hedging reserve	—	—	—	(0.3)	—	—	**(0.3)**	—
Currency translation differences	—	—	—	—	2.2	—	**2.2**	—
Total comprehensive income for the period	—	—	**(23.3)**	**(0.3)**	**2.2**	**395.1**	**373.7**	**(4.6)**
Transactions with equity holders								
Dividends	—	—	—	—	—	(332.7)	**(332.7)**	(0.4)
Share scheme credit	—	—	—	—	—	56.7	**56.7**	—
Deferred tax credit on share scheme credit	—	—	—	—	—	3.3	**3.3**	—
Changes in ownership interests without a change in control	—	—	—	—	—	11.2	**11.2**	8.1
Total transactions with equity holders	—	—	—	—	—	**(261.5)**	**(261.5)**	**7.7**
As at 31 December 2018	**0.3**	**13.1**	**13.5**	**(0.3)**	**18.2**	**713.5**	**758.3**	**12.8**

Consolidated statement of changes in equity (continued)
For the year ended 31 December 2019

	Attributable to the owners of the Company							
	Share capital £m	Share premium account £m	Fair value reserve £m	Hedging reserve £m	Foreign exchange reserve £m	Retained profit and loss £m	**Total £m**	Non-controlling interests £m
As at 31 December 2018	**0.3**	**13.1**	**13.5**	**(0.3)**	**18.2**	**713.5**	**758.3**	**12.8**
Balance at 1 January 2019	**0.3**	**13.1**	**13.5**	**(0.3)**	**18.2**	**713.5**	**758.3**	**12.8**
Profit/(loss) for the period	—	—	—	—	—	432.4	**432.4**	(4.0)
Other comprehensive income								
Movements in fair value reserve	—	—	34.6	—	—	—	**34.6**	—
Deferred tax charge in relation to movement in fair value reserve	—	—	(1.5)	—	—	—	**(1.5)**	—
Movement in hedging reserve	—	—	—	(0.9)			**(0.9)**	—
Currency translation differences	—	—	—	—	(8.5)	—	**(8.5)**	(0.4)
Total comprehensive income for the period	—	—	33.1	(0.9)	(8.5)	432.4	**456.1**	(4.4)
Transactions with equity holders								
Dividends	—	—	—	—	—	(367.8)	**(367.8)**	—
Share scheme credit	—	—	—	—	—	58.8	**58.8**	—
Deferred tax credit on share scheme credit	—	—	—	—	—	3.2	**3.2**	—
Contributions by NCIs	—	—	—	—	—	—	**—**	2.2
Changes in ownership interests without a change in control	—	—	—	—	—	0.8	**0.8**	(1.4)
Total transactions with equity holders	—	—	—	—	—	(305.0)	**(305.0)**	0.8
As at 31 December 2019	**0.3**	**13.1**	**46.6**	**(1.2)**	**9.7**	**840.9**	**909.4**	**9.2**

Notes to the financial statements

For the year ended 31 December 2019

1. General information

Admiral Group plc is a company incorporated in England and Wales. Its registered office is at Tŷ Admiral, David Street, Cardiff, CF10 2EH and its shares are listed on the London Stock Exchange.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Company has elected to prepare its Parent Company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

2. Basis of preparation

The accounts have been prepared on a going concern basis. In considering this requirement, the Directors have taken into account the following:

- The Group's projections for the next 12 months and beyond, in particular the profit forecasts, regulatory capital surpluses and levels and sources of liquidity.
- The risks included on the Group's risk register that could impact on the Group's financial performance, levels of liquidity and solvency over the next 12 months. This includes consideration of the principal risks and uncertainties and how these are managed and mitigated.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also includes the Group's principal risks and uncertainties. In addition, the Governance report includes the Directors' statement on the viability of the Group over a three year period.

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

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic Report. Further information regarding the financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. In addition, notes 6 and 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The accounting policies set out in the notes to the financial statements have, unless otherwise stated, been applied consistently to all periods presented in these

Group financial statements.

The financial statements are prepared on the historical cost basis, except for the revaluation of financial assets classified as fair value through profit or loss or as fair value through other comprehensive income. The Group and Company financial statements are presented in pounds sterling, rounded to the nearest £0.1 million.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group has securitised certain loans and advances to customers by the transfer of the loans to a special purpose entity ("SPE") controlled by the Group. The securitisation enables a subsequent issuance of debt by the SPE to investors who gain the security of the underlying assets as collateral. The SPE is fully consolidated into the Group financial statements under IFRS 10, as the Group controls the entity in line with the above definition.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is reviewed. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, it is recognised by adjusting the carrying amount of the related asset or liability in the period of the change.

Adoption of new and revised standards

The Group has adopted the following IFRSs and interpretations during the year, which have been issued and endorsed by the EU:

- IFRS 16 "Leases"
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

Other than the impact of IFRS 16 and the Amendments to IFRS 9 and IFRS 7 in respect of interest rate benchmark reform, further detail of which is provided below, the application of these amendments has not had a material impact on the Group's results, financial position and cashflows.

IFRS 16

During the year the Group has adopted IFRS 16 *Leases* with a date of initial application of 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligations to make lease payments.

As permitted by the transitional provisions of IFRS 16 the Group has elected to use the modified retrospective approach, and as such has not restated prior year comparatives (which are presented, as previously reported, under IAS 17 and related interpretations).

The adjustments arising from transition are recognised in the opening balance sheet on 1 January 2019 and are set out below along with details of the changes in accounting policies relating to IFRS 16 as applied in the period.

a) Definition of a lease and practical expedients applied

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease, which under IFRS 16 is where a contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has also used the following practical expedients permitted by the standard:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

b) Impact of transition

On adoption of IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities in relation to leases which were previously classified as 'operating leases' under IAS 17 *Leases*. The liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate (discount rate) applied is 2.4%.

A reconciliation of the Group's lease liabilities to the operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements is shown below.

	2019 **£m**
Operating lease commitments disclosed as at 31 December 2018	185.9
Impact of extension options exercised before the date of initial application[*1]	12.7
Impact of changes in relation to IFRS 16 treatment[*1]	(24.0)

Adjusted operating lease commitments under IFRS 16	**174.6**
Impact of discount at the date of initial application	(25.4)
Lease liability recognised at 1 January 2019	**149.2**
Current	10.5
Non-current	138.7

*1 Following a review of lease extension options and variable lease payments during the IFRS 16 transition process, the operating lease commitments disclosed as at 31 December 2018 have been amended to reflect the impact of a different treatment of inflation and VAT within lease agreements, and lease extensions that had occurred before the transition date but were not previously disclosed.

The associated right-of-use assets have been measured retrospectively, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

All right-of-use assets relate to property leases held by the Group.

The following adjustment was recognised on the date of initial application:

	1 January 2019 £m
ROU Lease Assets	136.7
Trade and other payables- invoice accrual	1.1
Trade and other payables- rent free accrual	11.4
Lease Liability	(149.2)

For the Group's accounting policy in relation to right-of-use assets and lease liabilities, see notes 6 and 11.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Group given that it hedges and applies hedge accounting to its benchmark interest rate exposure.

The application of the amendments impact the Group's accounting in the following way:

- The Group has floating rate debt, linked to GBP LIBOR, which it hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to benchmark interest rate reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reforms, the cumulative gain or loss will be immediately reclassified to profit or loss.

The Group has chosen to early apply the amendments to IFRS 9 for the reporting period ending 31 December 2019, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

See note 6i for further details.

Standards endorsed but not yet effective

As at 31 December 2019, the following amendments to standards had been endorsed by the EU but are not yet effective:

- Amendments to IAS 1 and IAS 8: "Definition of Material"
- Amendments to references to the Conceptual Framework in IFRS Standards

No significant impact is expected as a result of adopting the above amendments.

Standards yet to be endorsed by the EU

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2019 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. The following IFRSs have been issued but have not been applied by the Group in these financial statements:

- IFRS 17 Insurance Contracts;
- Amendments to IFRS 3 "Business Combinations"

IFRS 17 – Insurance contracts

IFRS 17 *Insurance Contracts* was issued in May 2017, with a revised endorsement draft incorporating a number of proposed amendments issued in June 2019.

The standard will replace IFRS 4, establishing new principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the standard. The proposed IASB effective date in the revised exposure draft is 1 January 2022, requiring a transition balance sheet at 1 January 2021.

The Group continues to assess the impact of IFRS 17 on its results and financial position, taking into account the proposals in the revised exposure draft, along with any impacts of the other standards and amendments which have yet to be endorsed.

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies as described in the notes to the financial statements, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.   The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
Critical accounting judgements
The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

·Classification of the Group's contracts with reinsurers as reinsurance contracts:

A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of each such insurance and reinsurance contract in order to be able to make this judgement. In particular, all reinsurance contracts (both excess of loss and quota share contracts) held by the Group have been assessed and it has been concluded that all contracts transfer significant insurance risk and have therefore been classified and accounted for as reinsurance contracts within these financial statements.

·Consolidation of the Group's special purpose entity ("SPE")

During 2018 the Group set up an SPE in relation to the Admiral Loans business, whereby the Group securitises certain loans by the transfer of the loans to the SPE. The securitisation enables a subsequent issue of debt by the SPE to investors who gain the security of the underlying assets as collateral.

The accounting treatment of the SPE has been assessed and it has been concluded that it should be fully consolidated into the Group's financial statements under IFRS 10. This is due to the fact that despite not having legal ownership, the Group has control of the SPE, being exposed to the returns and having the ability to affect those returns through its power over the SPE.

The SPE has therefore been fully consolidated into the Group's financial statements.

There are two further significant accounting estimates within the financial statements that also require management to apply judgement:

·Calculation of insurance claims provisions and reinsurance assets:

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

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

Refer to the section on estimation techniques below, and the analysis of Insurance risk in note 5 to the financial statements for further detail on the development of the Group's reserving methodology applied during the period and the calculation of the projected best estimate outcome.

·Calculation of expected credit loss provision

The Group is required to calculate an expected credit loss ('ECL') allowance in respect of the carrying value of the Admiral Loans book in line with the requirements of IFRS 9. Due to the increase in the size of the loan book the calculation of the ECL is deemed to be a critical accounting judgement and includes key sources of estimation uncertainty. Management applies judgement in;

- Determining the appropriate modelling solution for measuring the ECL
- Calibrating and selecting appropriate assumptions
- Setting the criteria for what constitutes a significant increase in credit risk
- Identification of key scenarios to include and determining the credit loss in these instances.

Refer to the section on estimation techniques below, and the analysis in note 7 to the financial statements for further detail on the Group's ECL methodology applied in the period.

Key sources of estimation uncertainty

·Calculation of insurance claims provisions and reinsurance assets:

Estimation techniques are used in the calculation of the provisions for claims outstanding, which represent a projection of the ultimate estimated total cost of settling claims that have been incurred prior to the balance sheet date and remain unsettled at the balance sheet date, along with a margin to allow for unforeseen adverse claims development.

The primary areas of estimation uncertainty are as follows:

Calculation of gross best estimate claims provisions

The key area where estimation techniques are used is in the ultimate projected cost of reported claims, which includes the emergence of claims that occurred prior

to the balance sheet date, but had not been reported at that date.

Independent actuarial advisors project the best estimate claims reserves using a variety of different recognised actuarial projection techniques (for example incurred and paid chain ladders, and initial expected assumptions) to allow an actuarial assessment of their potential outcome. This includes an allowance for unreported claims.

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

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

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

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

Calculation of excess of loss reinsurance recoveries

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

As for the underlying gross claims, independent actuarial advisors project the best estimate excess of loss reinsurance recoveries using a variety of actuarial projection techniques that focus on both the ultimate frequency of reported recoveries and the average size of the recovery.

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

The most significant element of the estimation relates to large bodily injury claims. The key assumption in the calculation of excess of loss recoveries relates to the numbers of large claims in the Group's core UK Motor insurance business that will attract recoveries, where the high retention means that a small number of additional large claims would potentially result in a material increase in the excess of loss recoveries.

Calculation of the margin held for adverse development

A wide range of factors inform management's recommendation in setting the margin held above actuarial best estimates, which is subject to approval from the Group's Reserving and Audit Committees, including:

- Reserve KPIs such as the level of margin as a percentage of the ultimate reserve.
- Results of stress testing of key assumptions underpinning key actuarial assumptions within best estimate reserves.
- A review of a number of individual and aggregated reserve scenarios which may result in future adverse variance to the ultimate best estimate reserve.
- Qualitative assessment of the level of uncertainty and volatility within the reserves and the change in that assessment compared to previous periods.

In addition, for the Group's core UK Car Insurance business, the Group's internal reserve risk distribution is used to determine the approximate confidence level of the recommended booked reserve position which enables comparison of the reserve strength to previous periods and demonstration of the compliance with IFRS 4.

For further detail on objectives, policies and procedures for managing insurance risk, refer to note 5 of the financial statements.

Future changes in claims reserves also impact profit commission income, as the measurement of this income is dependent on the loss ratio booked in the financial statements, and cash receivable is dependent on actuarial projections of ultimate loss ratios.

·*Calculation of expected credit loss provision*

The key areas of estimation uncertainty are in the calculation of the Probability of Default (PD) in the base scenario for stage 1 and 2 assets, and the determination, impact assessment and weighting of the forward-looking scenarios.

Note 7 provides detail of the methodology the group has used in the period.

·Recognition of deferred tax assets relating to unused tax losses:

Management is required to determine the probability of an entity generating future taxable profits against which to utilise accumulated losses in determining the recognition and measurement of deferred tax assets. In making this estimation, management makes an assessment of the reliability of approved business plan projections using both qualitative and quantitative factors including the age and status of the business, the Group's previous experience in similar markets, historic performance against business plans and the application of a number of stress and sensitivity tests to the projections.

4. Group consolidation and operating segments

4a. Accounting policies

(i) Group consolidation

The consolidated financial statements comprise the results and balances of the Company and all entities controlled by the Company, being its subsidiaries and SPE (together referred to as the Group), for the year ended 31 December 2019 and comparative figures for the year ended 31 December 2018. The financial statements of the Company's subsidiaries and its SPE are consolidated in the Group financial statements.

The Company controls 100% of the voting share capital of all its principal subsidiaries, except Admiral Law Limited, BDE Law Limited (indirect holding), Inspop USA LLC, comparenow.com Insurance Agency LLC (indirect holding), Rastreator.com Limited, Rastreator Comparador Correduria De Seguros S.L.U (indirect holding), Preminen Price Comparison Holdings Limited and the indirect holdings in Preminen Dragon Price Comparison Limited, Preminen Mexico Sociedad Anonima de Capital Variable, Preminen Online Fiyat Karşılaştırma Hizmetleri Anonim Şirketi, Preminen Sigorta Brokerlik Anonim Sirketi and Preminen Price Comparison India Private Limited.

The SPE is fully consolidated into the Group financial statements under IFRS 10, whereby the Group has control over the SPE.

The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with IAS 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions in the consolidated financial statements.

(ii) Foreign currency translation

Items included in the financial records of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, the Group's presentational currency, rounded to the nearest £0.1 million.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items measured at cost are translated at their historic rate and non-monetary items held at fair value are translated using the foreign exchange rate on the date that the fair value was established.

The financial statements of foreign operations whose functional currency is not pounds sterling are translated into the Group presentation currency (sterling) as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average monthly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction).
- All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity except to the extent that the translation differences are attributable to non-controlling interests.

On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

4b. Segment reporting

The Group has four reportable segments, as described below. These segments represent the principal split of business that is regularly reported to the Group's Board of Directors, which is considered to be the Group's chief operating decision maker in line with IFRS 8 Operating Segments.

UK Insurance

The segment consists of the underwriting of car insurance, van insurance, household insurance, travel insurance and other products that supplement these insurance policies within the UK. It also includes the generation of revenue from additional products and fees from underwriting insurance in the UK. The Directors consider the results of these activities to be reportable as one segment as the activities carried out in generating the revenue are not independent of each other and are performed as one business. This mirrors the approach taken in management reporting.

International Insurance

The segment consists of the underwriting of car and home insurance and the generation of revenue from additional products and fees from underwriting car insurance outside of the UK. It specifically covers the Group operations Admiral Seguros in Spain, ConTe in Italy, L'olivier Assurance in France and Elephant Auto in the US. None of these operations are reportable on an individual basis, based on the threshold requirements in IFRS 8.

Comparison

The segment relates to the Group's comparison businesses: Confused.com in the UK, Rastreator in Spain, LeLynx in France and compare.com in the US. From 2019, the segment also includes the Preminen entities, which has a head office in Spain and operations in Turkey, Mexico and India (all of which were previously reported in the 'Other' segment), and Penguin Portals, the new intermediate holding company of Confused.com, LeLynx and Rastreator.

Each of the comparison businesses are operating in individual geographical segments but are grouped into one reporting segment, as none of the operating segments individually meet the reporting segment threshold requirements of IFRS 8.

Other

The 'Other' segment is designed to be comprised of all other operating segments that do not meet the threshold requirements for individual reporting. It includes the Admiral Loans business and the Group's commercial van insurance broker, Gladiator.

Taxes are not allocated across the segments and, as with the corporate activities, are included in the reconciliation to the consolidated income statement and consolidated statement of financial position.

An analysis of the Group's revenue and results for the year ended 31 December 2019, by reportable segment, is shown below. The accounting policies of the reportable segments are materially consistent with those presented in the notes to the financial statements for the Group.

Year ended 31 December 2019

	UK Insurance £m	**International Car Insurance £m**	**Comparison £m**	**Other £m**	**Eliminations[*2] £m**	**Total £m**
Turnover[*1]	**2,635.0**	**623.6**	**171.6**	**33.3**	**(19.4)**	**3,444.1**
Net insurance premium revenue	**533.2**	**176.2**	**—**	**—**	**—**	**709.4**
Other Revenue and profit commission	**407.6**	**22.5**	**171.6**	**24.2**	**(16.6)**	**609.3**
Investment return	**30.4**	**1.5**	**—**	**—**	**(2.8)**	**29.1**
Net revenue	**971.2**	**200.2**	**171.6**	**24.2**	**(19.4)**	**1,347.8**
Net insurance claims	**(215.8)**	**(143.5)**	**—**	**—**	**—**	**(359.3)**
Expenses	**(157.5)**	**(57.6)**	**(156.9)**	**(31.5)**	**19.4**	**(384.1)**
Segment profit/(loss) before tax	**597.9**	**(0.9)**	**14.7**	**(7.3)**	**—**	**604.4**
Other central revenue and expenses, including share scheme charges						**(76.6)**
Investment and interest income						**6.2**
Finance costs[*3]						**(11.4)**
Consolidated profit before tax[*4]						**522.6**
Taxation expense						**(94.2)**
Consolidated profit after tax						**428.4**
Other segment items:						
– Intangible and tangible asset additions	**51.7**	**34.5**	**1.4**	**0.8**	**—**	**88.4**
– Depreciation and amortisation	**57.4**	**33.1**	**2.3**	**1.2**	**—**	**94.0**

*1 Turnover is an Alternative Performance Measure presented before intra-group eliminations and consists of total premiums written (including co-insurers' share) and Other revenue. Refer to the glossary and note 13 for further information.
*2 Eliminations are in respect of the intra-group trading between the Group's comparison and UK and International insurance entities and intra-group interest.
*3 £1.2m of IFRS 16 interest expense (being the Group's net share of IFRS 16 interest expense) included within Finance Costs in the Income Statement has been reallocated to individual segments within expenses, in line with management segmental reporting.
*4 Profit before tax above of £522.6m is presented on a statutory basis, being 100% of the result for each entity. This increases to Group's share of profit before tax of £526.1m. See note 13f for a reconciliation of the UK Insurance, International Insurance and Comparison turnover and profit before tax to the Strategic Report.

Revenue and results for the corresponding reportable segments for the year ended 31 December 2018 are shown below.

	Year ended 31 December 2018					
	UK Insurance £m	International Car Insurance £m	Comparison £m	Other[*4] £m	Eliminations[*2] £m	Total £m
Turnover[*1]	2,575.7	538.7	151.0	17.5	(19.3)	3,263.6
Net insurance premium revenue	523.9	147.9	—	—	—	671.8
Other Revenue and profit commission	389.5	18.6	151.0	13.3	(18.6)	553.8
Investment return	32.3	1.3	—	—	(0.7)	32.9
Net revenue	945.7	167.8	151.0	13.3	(19.3)	1,258.5
Net insurance claims	(242.5)	(107.6)	—	—	—	(350.1)
Expenses	(146.5)	(61.3)	(144.4)	(26.9)	19.3	(359.8)
Segment profit/(loss) before tax	556.7	(1.1)	6.6	(13.6)	—	548.6
Other central revenue and expenses, including share scheme charges						(64.2)
Investment and interest income						3.1
Finance costs						(11.3)
Consolidated profit before tax[*3]						476.2
Taxation expense						(85.7)
Consolidated profit after tax						390.5
Other segment items:						
– Intangible and tangible asset additions	43.0	29.8	2.0	2.2	—	77.0
– Depreciation and amortisation	49.7	26.4	1.1	0.8	—	78.0

*1 Turnover is an Alternative Performance Measure presented before intra-group eliminations and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 13 for further information.
*2 Eliminations are in respect of the intra-group trading between the Group's comparison and UK and International insurance entities.
*3 Profit before tax above of £476.2m is presented on a statutory basis, being 100% of the result for each entity. This increases to Group's share of profit before tax of £479.3m. See note 13f for a reconciliation of the UK Insurance, International Insurance and Comparison turnover and profit before tax to the Strategic Report.
*4 "Other" in 2018 includes £2.5m of expansion costs associated with the Preminen entities (included within "Other central revenue and expenses, including share scheme charges"). In 2019, the results of the Preminen operations have been included in the Comparison segment, as those operations have started to generate revenue in the period. The prior year segmental analysis has not been restated due to the amounts being immaterial.

Segment revenues

The UK and International Car Insurance reportable segments derive all insurance premium income from external policyholders. Revenue within these segments is not derived from an individual policyholder that represents 10% or more of the Group's total revenue.

The total of Comparison revenues from transactions with other reportable segments is £19.4 million (2018: £19.3 million) which has been eliminated on consolidation. There are no other transactions between reportable segments.

Revenues from external customers for products and services are consistent with the split of reportable segment revenues.

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country, are shown within the International Car Insurance reportable segment shown on the previous pages. The revenue and results of the international Comparison businesses, Rastreator, LeLynx, compare.com and the Preminen entities are not yet material enough to be presented as a separate segment.

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2019 are as follows:

	As at 31 December 2019					
	UK Insurance £m	**International Car Insurance £m**	**Comparison £m**	**Other £m**	**Eliminations £m**	**Total £m**
Reportable segment assets	**6,282.1**	**966.7**	**98.7**	**610.7**	**(727.3)**	**7,230.9**
Reportable segment liabilities	**5,232.7**	**824.4**	**49.9**	**942.1**	**(635.2)**	**6,413.9**
Reportable segment net assets	**1,049.4**	**142.3**	**48.8**	**(331.4)**	**(92.1)**	**817.0**
Unallocated assets and liabilities						**101.6**
Consolidated net assets						**918.6**

Unallocated assets and liabilities consist of other central assets and liabilities, plus deferred and current corporation tax balances. These assets and liabilities are not regularly reviewed by the Board of Directors in the reportable segment format.

There is an asymmetrical allocation of assets and income to the reportable segments, in that the interest earned on cash and cash equivalent assets deployed in the UK Insurance, Comparison and International Car Insurance segments is not allocated in arriving at segment profits. This is consistent with regular reporting to the Board of Directors.

Eliminations represent inter-segment funding, balances included in insurance and other receivables and deemed loan receivables in respect of securitised loan receivables.

The segment assets and liabilities at 31 December 2018 are as follows:

	As at 31 December 2018					
	UK Insurance £m	International Car Insurance £m	Comparison £m	Other £m	Eliminations £m	Total £m
Reportable segment assets	5,760.5	831.0	89.2	414.9	(552.9)	6,542.7
Reportable segment liabilities	4,870.3	702.1	35.0	623.4	(452.8)	5,778.0
Reportable segment net assets	890.2	128.9	54.2	(208.5)	(100.1)	764.7
Unallocated assets and liabilities						6.4
Consolidated net assets						771.1

5. Premium, claims and profit commissions

5a. Accounting policies

(i) Revenue – premiums

Premiums relating to insurance contracts are recognised as revenue, net of expected cancellations and insurance premium tax, proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders related to unexpired risk are recognised within policyholder receivables. A corresponding unearned premium provision is recognised (see note 5a(iii)).

(ii) Revenue – profit commission

Under some of the co-insurance and reinsurance contracts under which motor premiums are shared or ceded, profit commission may be earned on a particular year of account, which is usually subject to performance criteria such as loss ratios and expense ratios. The commission is dependent on the ultimate outcome of any year, with revenue being recognised when loss and expense ratios used in the preparation of the financial statements move below a contractual threshold.

Profit commission receivable from reinsurance contracts is accounted for in line with IFRS 4, whereas profit commission receivable from co-insurance contracts is in line with IFRS 15. Further detail of the policy under IFRS 15 is set out in note 8.

(iii) Insurance contracts and reinsurance assets

Premiums

The proportion of premium receivable on in-force policies relating to unexpired risks is reported in insurance contract liabilities and reinsurance assets as the unearned premium provision – gross and reinsurers' share respectively.

Claims

Claims and claims handling expenses are charged as incurred, based on the estimated direct and indirect costs of settling all liabilities arising on events occurring up to the balance sheet date.

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether

reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the income statement for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Provision for unexpired risks is made where necessary for the estimated amount required over and above unearned premiums (net of deferred acquisition costs) to meet future claims and related expenses.

Co-insurance

The Group has entered into certain co-insurance contracts under which insurance risks are shared on a proportional basis, with the co-insurer taking a specific percentage of premium written and being responsible for the same proportion of each claim. The co-insurer therefore takes direct insurance risk from the policyholder and is subsequently directly responsible to the claimant for its proportion of the claim. As the contractual liability is several and not joint, neither the premiums nor claims relating to the co-insurance are included in the income statement. Under the terms of these agreements the co-insurers reimburse the Group for the same proportionate share of the costs of acquiring and administering the business.

Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on the insurance contracts issued by the Group are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insured and the insurer.

Reinsurance assets are comprised of balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

The Group assesses its reinsurance assets for impairment on a regular basis, and in detail every six months. If there is objective evidence that the asset is impaired, then the carrying value will be written down to its recoverable amount.

On the commutation of reinsurance contracts, the reinsurer is discharged from all obligations relating to the contract. Reinsurance assets and liabilities relating to the commuted contracts are settled in the period in which the commutation agreement is signed.

5b. Net insurance premium revenue

	31 December 2019 £m	31 December 2018 £m
Total insurance premiums written before co-insurance[*1]	**2,884.4**	2,754.1
Group gross premiums written after co-insurance	**2,273.7**	2,166.7
Outwards reinsurance premiums	**(1,541.4)**	(1,464.3)
Net insurance premiums written	**732.3**	702.4
Change in gross unearned premium provision	**(75.3)**	(87.1)
Change in reinsurers' share of unearned premium provision	**52.4**	56.5
Net insurance premium revenue	**709.4**	671.8

*1 Alternative Performance Measures – refer to the end of the report for definition and explanation, and to note 13a for reconciliation to group gross premiums written.

The Group's share of its insurance business was underwritten by Admiral Insurance (Gibraltar) Limited, Admiral Insurance Company Limited, Admiral Europe Compania Seguros ('AECS') and Elephant Insurance Company. All contracts are short term in duration, lasting for 10 or 12 months.

5c. Profit commission

	31 December 2019 £m	31 December 2018 £m
Underwriting year (UK Motor only)		
2014 and prior	**23.8**	61.1
2015	**24.5**	11.0
2016	**27.5**	22.9
2017	**36.4**	—
Total UK Motor profit commission[*1]	**112.2**	95.0
Total UK Household and International profit commission[*1]	**2.7**	(1.8)
Total profit commission	**114.9**	93.2

*1 Of the total UK motor profit commission recognised of £112.2m, £95.4m relates to co-insurance arrangements and £16.8m to reinsurance arrangements. The UK Household and International profit commission relates solely to reinsurance arrangements.

No profit commission has yet been recognised on the 2018 – 2019 underwriting years as the combined ratios calculated from the financial statement loss ratios on these years sit above the threshold for profit commission recognition.

5d. Reinsurance assets and insurance contract liabilities

(i) Objectives, policies and procedures for the management of insurance risk

The Group's primary business is the issuance of insurance contracts that transfer risk from policyholders to the Group and its co-insurance partners.

Insurance risk involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued. It is primarily comprised of Reserve risk; the risk that the value of insurance liabilities established is insufficient to cover the ultimate cost of claims incurred at the balance sheet date, and premium risk; the risk that the claims experience on business written but not earned is higher than allowed for in the premiums charged to policyholders.

The Board of Directors is responsible for the management of insurance risk, although as mentioned in note 6, it has delegated the detailed oversight of risk management to the Group Risk Committee.

The Group also has a Reserving Committee which comprises senior managers within the finance, claims, pricing and actuarial functions. The Reserving Committee primarily recommends the approach for UK Car Insurance reserving but also reviews the systems and controls in place to support accurate reserving and material reserving issues such as Periodic Payment Order (PPO) and claims inflation, which represent the key uncertainties in the amount or timing of claims settlements.

The Board implements certain policies in order to mitigate and control the level of insurance risk accepted by the Group. These include pricing policies and claims management and administration processes, in addition to reserving policies and co- and reinsurance arrangements as detailed below.

Reserve Risk

Reserving risk is mitigated through a series of processes and controls. The key processes are as follows:

- Regular management and internal actuarial review of individual and aggregate case claim reserves, including regular reporting of management information and exception reporting of significant movements;
- Regular management and internal actuarial review of large claims, including claims settled or potentially settled by PPOs for which the uncertainty is increased by factors such as the lifetime of the claimant and movements in the indexation for the cost of future care of the claimant;
- Bi-annual external actuarial review of best estimate claims reserves using a variety of recognised actuarial techniques;
- Internal actuarial analysis of reserve uncertainty through qualitative analysis, scenario testing and a range of stochastic reserving techniques;
- Ad hoc external reviews of reserving related processes and assumptions;
- Use of a reserving methodology which informs management's reserving decisions for the purposes of the Group's financial statements. As described in note 3, critical accounting judgements and estimates, the methodology determines that reserves should be set above projected best estimate outcomes to allow for unforeseen adverse claims development.

As noted above, the Group shares a significant amount of the insurance business generated with external underwriters. As well as these proportional arrangements, excess of loss reinsurance programmes are also purchased to protect the Group against very large individual claims and catastrophe losses.

Claims reserving

As previously disclosed, Admiral's reserving policy (both within the claims function and in the financial statements) is initially to reserve conservatively, above internal and independent projections of actuarial best estimates. This is designed to create a margin held in reserves to allow for unforeseen adverse development in open claims and typically results in Admiral making above industry average reserve releases. Admiral's booked claims reserves continue to include a significant margin above projected best estimates of ultimate claims costs.

As at 31 December 2019, the level of relative reserve margin is consistent with that at 31 December 2018, albeit remaining prudent when measured against the internal reserve risk distribution and other market benchmarks.

As profit commission income is recognised in the income statement in line with loss ratios accounted for on Admiral's own claims reserves, the reserving policy also results in profit commission income being deferred and recognised over time.

Premium Risk

As noted above, the Group defines Premium risk as the risk that claims cost on business written but not yet earned is higher than allowed for in the premiums charged to policyholders. This also includes catastrophe risk; the risk of incurring significant losses as a result of the occurrence of manmade catastrophe or natural weather events.

Key processes and controls operating to mitigate premium risk are as follows:

- Experienced and focused senior management and teams in relevant business areas including pricing and claims management;
- A data-driven and analytical approach to regular monitoring of claims and underwriting performance;
- Capability to identify and resolve underperformance promptly through changes to key performance drivers, in particular pricing.

In addition, as mentioned above, excess of loss reinsurance programmes are also purchased to protect the Group against very large individual claims and catastrophe losses.

Other elements of insurance risk include reinsurance risk; the risk of placement of ineffective reinsurance arrangements, or the economic risk of reduced availability of co-insurance and reinsurance arrangements in future periods.

The Group mitigates these risks by ensuring that it has a diverse range of financially secure reinsurance partners, including a long-term relationship with Munich Re and a number of other very large reinsurers.

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk. This is because, although the Group has historically written only one significant line of UK insurance business, the risks are spread across a large number of people and a wide regional base. The International Car Insurance, UK Household, UK Travel and UK Van businesses further contribute to the diversification of the Group's insurance risk.

(ii) Sensitivity of recognised amounts to changes in assumptions

Ogden discount rate

During 2019, following the announcement by the UK Government, the Ogden discount rate which is used in setting personal injury compensation, was changed to minus 0.25% from the existing minus 0.75% rate that had been in place since February 2017. The change came into effect on 5 August 2019 and the minus 0.25% rate is likely to remain in place for up to five years.

The minus 0.25% rate is 25 basis points lower than the assumed rate of 0% that was used in setting best estimate claims reserves at 31 December 2018. Given the stated timeframes for the update of the rate, sensitivities to the Ogden discount rate assumption are not presented.

Underwriting year loss ratios – UK Car Insurance

The following table sets out the impact on equity and post-tax profit or loss at 31 December 2019 that would result from a 1%, 3% and 5% increase and decrease in the UK Car insurance loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year			
	2016	2017	2018	2019
Booked loss ratio	73%	75%	81%	92%
Impact of 1% deterioration in booked loss ratio (£m)	(14.2)	(15.9)	(3.8)	(2.0)
Impact of 3% deterioration in booked loss ratio (£m)	(42.4)	(47.6)	(11.3)	(5.9)
Impact of 5% deterioration in booked loss ratio (£m)	(69.6)	(72.6)	(18.9)	(9.8)
Impact of 1% improvement in booked loss ratio (£m)	14.2	15.3	9.5	2.0
Impact of 3% improvement in booked loss ratio (£m)	42.6	46.3	33.7	5.9
Impact of 5% improvement in booked loss ratio (£m)	71.0	77.6	61.7	9.8

As above, the impact is stated net of reinsurance and includes the change in net insurance claims along with the associated profit commission movements that result from changes in loss ratios. The figures are stated net of tax at the current rate.

(iii) Analysis of recognised amounts

	31 December 2019 £m	31 December 2018 £m
Gross		
Claims outstanding[*1]	**2,899.4**	2,740.5
Unearned premium provision	**1,075.6**	995.9
Total gross insurance liabilities	**3,975.0**	3,736.4
Recoverable from reinsurers		
Claims outstanding	**1,354.2**	1,220.1
Unearned premium provision	**717.5**	663.4
Total reinsurers' share of insurance liabilities	**2,071.7**	1,883.5
Net		
Claims outstanding[*2]	**1,545.2**	1,520.4
Unearned premium provision	**358.1**	332.5
Total insurance liabilities – net	**1,903.3**	1,852.9

*1 Gross claims outstanding at 31 December 2019 is presented before the deduction of salvage and subrogation recoveries totalling £71.7 million (2018: £56.4 million).
*2 Admiral typically commutes quota share reinsurance contracts in its UK Car Insurance business 24-36 months following the start of the underwriting year. After commutation, claims outstanding from these contracts are included in Admiral's net claims outstanding balance. Refer to note (v) below.

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

	< 1 year £m	**1–3 years £m**	**> 3 years £m**
Claims outstanding	**813.7**	**497.0**	**1,588.7**
Unearned premium provision	**1,075.6**	—	—
Total gross insurance liabilities	**1,889.3**	**497.0**	**1,588.7**

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

	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	739.9	383.7	1,616.9
Unearned premium provision	995.9	—	—
Total gross insurance liabilities	1,735.8	383.7	1,616.9

(iv) Analysis of claims incurred

The following tables illustrate the development of gross and net UK Insurance and International Insurance claims incurred for the past ten financial periods, including the impact of re-estimation of claims provisions at the end of each financial year. The first table shows actual gross claims incurred and the second shows actual net claims incurred. Figures are presented on an underwriting year basis.

	Financial year ended 31 December										
Analysis of claims incurred (gross amounts)	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Underwriting year (UK insurance)											
2010 and prior	(360.3)	(250.1)	4.2	41.7	28.0	10.6	4.1	4.3	6.4	**16.5**	
2011	—	(444.3)	(329.7)	43.4	51.4	47.9	(0.9)	26.9	21.0	**0.5**	**(583.8)**
2012	—	—	(463.7)	(334.7)	49.8	69.2	8.6	59.9	30.3	**8.5**	**(572.1)**
2013	—	—	—	(431.1)	(325.5)	53.6	44.4	34.2	35.2	**8.2**	**(581.0)**
2014	—	—	—	—	(438.2)	(347.1)	25.6	17.1	52.0	**15.7**	**(674.9)**
2015	—	—	—	—	—	(428.4)	(411.2)	21.7	53.3	**58.0**	**(706.6)**
2016	—	—	—	—	—	—	(529.4)	(463.7)	82.1	**54.8**	**(856.2)**
2017	—	—	—	—	—	—	—	(691.8)	(615.0)	**123.1**	**(1,183.7)**
2018	—	—	—	—	—	—	—	—	(818.8)	**(546.9)**	**(1,365.7)**
2019	—	—	—	—	—	—	—	—	—	**(812.4)**	**(812.4)**
UK insurance gross claims incurred	**(360.3)**	**(694.4)**	**(789.2)**	**(680.7)**	**(634.5)**	**(594.2)**	**(858.8)**	**(991.4)**	**(1,153.5)**	**(1,074.0)**	
Underwriting year (International insurance)[*1]											
2010 and prior	(31.8)	(29.9)	(11.5)	(0.1)	5.1	1.3	0.6	0.6	1.5	**0.5**	
2011	—	(35.7)	(42.7)	1.2	5.7	1.7	4.0	1.2	1.3	**1.1**	**(62.2)**
2012	—	—	(58.0)	(53.7)	0.7	4.0	6.0	2.6	2.0	**1.5**	**(94.9)**
2013	—	—	—	(68.2)	(57.8)	4.2	7.7	3.3	5.8	**1.3**	**(103.7)**
2014	—	—	—	—	(85.2)	(65.5)	4.4	5.8	5.5	**2.0**	**(133.0)**
2015	—	—	—	—	—	(92.6)	(101.6)	7.7	3.1	**0.1**	**(183.3)**
2016	—	—	—	—	—	—	(138.9)	(125.3)	11.7	**6.9**	**(245.6)**
2017	—	—	—	—	—	—	—	(174.1)	(147.3)	**16.5**	**(304.9)**
2018	—	—	—	—	—	—	—	—	(204.9)	**(165.7)**	**(370.6)**
2019	—	—	—	—	—	—	—	—	—	**(293.8)**	**(293.8)**
International insurance gross claims incurred	**(31.8)**	**(65.6)**	**(112.2)**	**(120.8)**	**(131.5)**	**(146.9)**	**(217.8)**	**(278.2)**	**(321.3)**	**(429.6)**	
Other gross claims incurred	(7.6)	0.0	(1.7)	(2.2)	(7.1)	(5.4)	(0.1)	(3.6)	(1.1)	—	
Claims handling costs	(17.0)	(25.9)	(26.0)	(22.9)	(21.4)	(22.6)	(27.1)	(35.5)	(37.9)	(64.5)	
Total gross claims incurred	**(416.7)**	**(785.9)**	**(929.1)**	**(826.6)**	**(794.5)**	**(769.1)**	**(1,103.8)**	**(1,308.7)**	**(1,513.8)**	**(1,568.1)**	

	Financial year ended 31 December										
Analysis of claims incurred (net amounts)	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Underwriting year (UK insurance)											

2010 and prior	(184.1)	(119.9)	2.8	41.7	28.0	10.6	14.0	11.4	3.6	**15.5**	
2011	—	(203.7)	(151.1)	39.7	51.4	47.0	8.4	26.2	16.3	**1.7**	**(164.1)**
2012	—	—	(196.0)	(139.3)	49.8	69.2	19.4	59.1	30.6	**4.9**	**(102.3)**
2013	—	—	—	(184.4)	(135.0)	38.4	49.3	36.4	34.7	**4.4**	**(156.2)**
2014	—	—	—	—	(187.0)	(144.1)	(16.4)	25.3	38.4	**17.2**	**(266.6)**
2015	—	—	—	—	—	(182.1)	(162.0)	(2.6)	42.6	**48.2**	**(255.9)**
2016	—	—	—	—	—	—	(219.4)	(180.7)	48.1	**50.7**	**(301.3)**
2017	—	—	—	—	—	—	—	(214.3)	(182.9)	**77.8**	**(319.4)**
2018	—	—	—	—	—	—	—	—	(261.0)	**(165.2)**	**(426.2)**
2019	—	—	—	—	—	—	—	—	—	**(258.1)**	**(258.1)**
UK insurance net claims incurred	(184.1)	(323.6)	(344.3)	(242.3)	(192.8)	(161.0)	(306.7)	(239.2)	(229.6)	**(202.9)**	
Underwriting year (International insurance)											
2010 and prior	(12.8)	(13.4)	(5.7)	(0.1)	2.5	0.6	0.2	0.3	0.7	**0.3**	
2011	—	(14.9)	(18.7)	0.4	2.9	0.8	2.0	0.6	0.6	**0.4**	**(25.9)**
2012	—	—	(24.2)	(22.8)	(0.8)	2.0	2.2	1.3	1.0	**0.7**	**(40.6)**
2013	—	—	—	(26.6)	(23.5)	1.7	4.8	0.9	3.0	**0.7**	**(39.0)**
2014	—	—	—	—	(31.6)	(23.3)	1.8	1.8	2.2	**0.8**	**(48.3)**
2015	—	—	—	—	—	(33.4)	(39.6)	5.1	1.3	**1.3**	**(65.3)**
2016	—	—	—	—	—	—	(47.9)	(43.5)	6.3	**2.4**	**(82.7)**
2017	—	—	—	—	—	—	—	(60.7)	(51.5)	**5.5**	**(106.7)**
2018	—	—	—	—	—	—	—	—	(71.2)	**(58.4)**	**(129.6)**
2019	—	—	—	—	—	—	—	—	—	**(89.6)**	**(89.6)**
International insurance net claims incurred	(12.8)	(28.3)	(48.6)	(49.1)	(50.5)	(51.6)	(76.5)	(94.2)	(107.6)	**(135.9)**	
Other net claims incurred	(3.1)	0.0	(0.8)	(2.1)	(6.9)	(5.4)	(0.2)	(2.6)	(1.1)	—	
Claims handling costs	(8.5)	(11.9)	(10.8)	(9.5)	(8.9)	(9.4)	(11.2)	(11.1)	(11.8)	(20.5)	
Total net claims incurred	**(208.5)**	**(363.8)**	**(404.5)**	**(303.0)**	**(259.1)**	**(227.4)**	**(394.6)**	**(347.1)**	**(350.1)**	**(359.3)**	

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

	Financial year ended 31 December				
UK Car Insurance loss ratio development	2014	2015	2016	2017	**2018**
Underwriting year (UK Car only)					
2014	92%	89%	84%	81%	76%
2015		87%	87%	83%	77%
2016		—	88%	84%	77%
2017		—	—	87%	83%
2018		—	—	—	92%
2019		—	—	—	—

(v) Analysis of claims reserve releases

The following table analyses the impact of movements in prior year claims provisions on a gross and net basis. Figures are presented on an underwriting year basis.

	Financial year ended 31 December					
Gross	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**
Underwriting year (UK Motor insurance)						
2014 and prior	148.1	197.7	133.8	158.3	123.6	**43.9**
2015	—	—	1.9	32.0	50.9	**47.3**
2016	—	—	—	23.7	70.6	**50.6**
2017	—	—	—	—	25.4	**110.6**
2018	—	—	—	—	—	**83.2**
Total gross release (UK Motor Insurance)	148.1	197.7	135.7	214.0	270.5	**335.6**
Total gross release (UK Household Insurance)	—	—	—	1.6	4.6	**8.3**

Total gross release (International Insurance)	12.6	14.0	21.0	23.2	35.2	**39.1**
Total gross release	160.7	211.7	156.7	238.8	310.3	**383.0**

	Financial year ended 31 December					
Net	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**
Underwriting year (UK Motor Insurance)						
2014 and prior	137.4	173.4	74.6	158.3	123.4	**43.9**
2015	—	—	0.8	(2.4)	42.5	**47.3**
2016	—	—	—	10.0	47.1	**50.6**
2017	—	—	—	—	8.0	**75.8**
2018	—	—	—	—	—	**25.8**
Total net release (UK Motor Insurance)	137.4	173.4	75.4	165.9	221.0	**243.4**
Total net release (UK Household Insurance)	—	—	—	0.5	1.4	**2.5**
Total net release (International Insurance)	6.3	6.5	9.9	9.5	13.5	**14.4**
Total net release	143.7	179.9	85.3	175.9	235.9	**260.3**
Analysis of net releases on UK Motor Insurance:						
– Net releases on Admiral net share (motor)	66.8	84.6	58.3	92.1	111.4	**121.7**
– Releases on commuted quota share reinsurance contracts	70.6	88.8	17.1	73.8	109.6	**121.7**
Total net release as above	137.4	173.4	75.4	165.9	221.0	**243.4**

Admiral typically commutes quota share reinsurance contracts in its UK Car Insurance business 24 or 36 months following the start of the underwriting year. After commutation, any changes in claims costs on the commuted proportion of the business are reflected within claims costs and are separately analysed here. Releases on commuted quota share contracts are analysed by underwriting year as follows:

	Financial year ended 31 December				
	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**
Underwriting year					
2014 and prior	88.8	17.1	89.6	70.6	**23.0**
2015	—	—	(15.8)	21.3	**27.7**
2016	—	—	—	17.7	**29.5**
2017	—	—	—	—	**41.5**
Total releases on commuted quota share reinsurance contracts	88.8	17.1	73.8	109.6	**121.7**

Profit commission is analysed in note 5c.

(vi) Reconciliation of movement in claims provision

	31 December 2019		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	**2,740.5**	**(1,220.1)**	**1,520.4**
Claims incurred (excluding releases)	**1,886.6**	**(1,287.6)**	**599.0**
Reserve releases	**(383.0)**	**122.7**	**(260.3)**
Movement in claims provision due to commutation	—	**257.1**	**257.1**
Claims paid and other movements	**(1,344.7)**	**773.7**	**(571.0)**
Claims provision at end of period	**2,899.4**	**(1,354.2)**	**1,545.2**

	31 December 2018		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	2,403.2	(1,028.8)	1,374.4
Claims incurred (excluding releases)	1,786.2	(1,212.0)	574.2
Reserve releases	(310.3)	74.4	(235.9)
Movement in claims provision due to commutation	—	310.4	310.4
Claims paid and other movements	(1,138.6)	635.9	(502.7)
Claims provision at end of period	2,740.5	(1,220.1)	1,520.4

(viii) Reconciliation of movement in net unearned premium provision

	31 December 2019		
	Gross £m	Reinsurance £m	Net £m

Unearned premium provision at start of period	**995.9**	**(663.4)**	**332.5**
Written in the period	**2,273.7**	**(1,541.4)**	**732.3**
Earned in the period	**(2,194.0)**	**1,487.3**	**(706.7)**
Unearned premium provision at end of period	**1,075.6**	**(717.5)**	**358.1**

	31 December 2018		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	910.7	(608.8)	301.9
Written in the period	2,166.7	(1,464.3)	702.4
Earned in the period	(2,081.5)	1,409.7	(671.8)
Unearned premium provision at end of period	995.9	(663.4)	332.5

6. Investment Income and costs

6a. Accounting policies

i) Financial assets

Classification and measurement

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

a. the Group's business model for managing the financial assets and
b. the contractual cash flow characteristics of the financial asset.

Based on these factors, the financial asset is classified into one of the following categories:

·Amortised cost – assets which are held in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding (SPPI), where the asset is not designated as FVTPL.

For the Group, these include deposits with credit institutions, cash and cash equivalents, insurance receivables, trade and other receivables and loans and advances to customers.

The interest income generated from these assets is included in 'Investment return' with the exception of Loans and advances to customer, where the interest receivable is recognised in 'Interest income'.

Impairment is recognised on these assets using the expected credit loss model.

·Fair value through other comprehensive income (FVOCI) – assets which are held both to collect contractual cash flows and to sell the asset, where the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding (SPPI), where the asset is not designated as FVTPL.

For the Group, these assets include government gilts and debt securities.

In addition, IFRS 9 allows an irrevocable election at initial recognition to designate equity investments at FVOCI that otherwise would be held at FVTPL, provided these are not held for trading. The Group has made this election for certain equity investments.

Movements in the carrying amount are taken through OCI, with the exception of recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses which are recognised in profit or loss.

·Fair value through profit or loss (FVTPL) – assets which do not meet the criteria for amortised cost or FVOCI, or which are designated as FVTPL.

For the Group these assets include investment liquidity funds investing in short duration assets and derivative financial instruments.

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

Impairment

The expected credit loss model is used to calculate any impairment to be recognised for all assets measured at amortised cost, as well as financial investments measured at FVOCI. The general approach, which utilises the three-stage model, is used for Loans and advances to customers (see note 7) whilst impairment for the remaining assets is measured using the simplified approach.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from that asset have expired, or when the Group transfers the asset and all the attached substantial risks and rewards relating to the asset to a third party.

ii) Financial Liabilities

Classification and subsequent measurement

Subsequent measurement of financial liabilities is at amortised cost using the effective interest method. Movements in the amortised cost are recognised through the income statement.

Derecognition

A financial liability is derecognised when the obligation under that liability is discharged, cancelled or expires.

iii) Investment return and finance costs

Investment return from financial assets comprises distributions as well as net realised and unrealised gains on financial assets classified as FVTPL, interest

income and net realised gains, net of impairment losses, from financial assets classified as FVOCI, and interest income on holdings in deposits with credit institutions (held at amortised cost).

Finance costs from financial liabilities comprise interest expense on subordinated notes, loan backed securities, credit facilities and lease liabilities, calculated using the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial asset or liability (or group of financial assets or financial liabilities) and allocates the interest income or expense over the expected life of the asset or liability.

6b. Investment return

	31 December 2019 £m	31 December 2018 £m
Investment return		
On assets classified as FVTPL	**11.4**	6.3
On assets classified as FVOCI*1*3	**34.5**	27.9
On assets classified as amortised costs*1	**1.6**	3.0
Net unrealised losses		
Unrealised losses on forward contracts	**(0.1)**	(2.3)
Notional accrual for reinsurers' share of investment return	**(12.9)**	—
Interest receivable on cash and cash equivalents*1	**0.8**	1.1
Total investment and interest income *2	**35.3**	36.0

*1 Interest received during the year was £11.6 million (2018: £8.0 million)
*2 Total investment return excludes £2.8 million of intra-group interest (2018: £0.7 million)
*3 Realised gains/losses on sales of debt securities classified as FVOCI are immaterial

6c. Finance costs

	31 December 2019 £m	31 December 2018 £m
Interest payable on subordinated loan notes*1	**11.4**	11.3
Interest payable on lease liabilities	**3.2**	—
Interest recoverable from co and re-insurers	**(2.0)**	—
Total finance costs	**12.6**	11.3

*1 Interest paid during the year was £14.0 million (2018: £11.0 million)

Finance costs represent interest payable on the £200.0 million (2018: £200.0 million) subordinated notes and other financial liabilities.

Interest payable on lease liabilities represents the unwinding of the discount on lease liabilities under IFRS 16 and does not result in a cash payment. Further detail on the transition to IFRS 16 is included in note 2.

6d. Financial assets and liabilities

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

	31 December 2019 £m	31 December 2018 £m
Financial investments measured at FVTPL		
Money market and other similar funds	**1,160.2**	1,301.1
Financial investments classified as FVOCI		
Debt securities	**1,776.3**	1,389.9
Government gilts	**174.0**	170.9
	1,950.3	1,560.8
Equity investments (designated FVOCI)	**7.5**	7.8
	1,957.8	1,568.6
Financial assets measured at amortised cost		
Deposits with credit institutions	**116.5**	100.0
Total financial investments	**3,234.5**	2,969.7
Other financial assets measured at amortised cost		
Insurance receivables	**948.9**	842.3
Trade and other receivables	**278.8**	239.7
Insurance and other receivables	**1,227.7**	1,082.0

Loans and advances to customers (note 7)	**455.1**	300.2
Cash and cash equivalents	**281.7**	376.8
Total financial assets	**5,199.0**	4,728.7
Financial liabilities		
Subordinated notes	**204.2**	204.1
Loan backed securities	**304.5**	168.3
Other borrowings	**20.0**	71.5
Derivative financial instruments	**1.4**	0.3
Subordinated and other financial liabilities	**530.1**	444.2
Trade and other payables[*1]	**1,975.9**	1,801.5
Lease liabilities[*2]	**137.1**	—
Total financial liabilities	**2,643.1**	2,245.7

*1 Trade and other payables total balance of £1,975.9m (2018: £1,801.5m) above includes £1,472.1m (2018: £1,349.6m) in relation to tax and social security, deferred income and reinsurer balances that are outside the scope of IFRS 9.
*2 Lease liabilities of £149.2m were recognised on transition on 1 January 2019. The movement to the balance presented of £137.1m reflects cash payments in the period offset by the lease interest expense recognised in the income statement.

The maturity profile of financial assets and liabilities under the scope of IFRS 4 & 9 at 31 December 2019 is as follows:

	On demand £m	**< 1 year £m**	**Between 1 and 2 years £m**	**> 2 years £m**
Financial investments				
Money market funds and derivative financial instruments	—	1,145.1	1.0	14.0
Deposits with credit institutions	—	96.5	20.0	—
Debt securities	—	462.6	196.6	1,117.1
Government gilts	—	—	—	174.0
Total financial investments	—	1,704.2	217.6	1,305.1
Trade and other receivables	—	278.8	—	—
Loans and advances to customers	—	128.6	134.2	192.3
Cash and cash equivalents	281.7	—	—	—
Total financial assets	**281.7**	**2,111.6**	**351.8**	**1,497.4**
Financial liabilities				
Subordinated notes	—	11.0	11.0	233.0
Loan backed securities	—	102.3	90.9	125.7
Other borrowings	—	20.3	—	—
Trade and other payables[*1]	—	1,725.1	—	—
Total financial liabilities	**—**	**1,858.7**	**101.9**	**358.7**

*1 Of the £1,725.1m held within trade and other payables, £1,442.1m do not meet the definition of a financial liability but fall within the scope of IFRS 4 hence are included in the above maturity profile.

The maturity profile of financial assets and liabilities under the scope of IFRS 9 at 31 December 2018 was as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial investments				
Money market funds and derivative financial instruments	—	1,296.9	2.1	2.1
Deposits with credit institutions	—	60.0	40.0	—
Debt securities	—	295.3	210.7	883.9
Government gilts	—	—	—	170.9
Total financial investments	—	1652.2	252.8	1,056.9
Trade and other receivables	—	239.7	—	—
Loans and advances to customers	—	102.1	91.2	106.9
Cash and cash equivalents	376.8	—	—	—
Total financial assets	376.8	1,994.0	344.0	1,163.8
Financial liabilities				
Subordinated notes	—	4.9	—	199.2
Loan backed securities	—	60.2	53.0	55.1

Other borrowings	—	71.8	—	—
Trade and other payables	—	1,801.5	—	—
Total financial liabilities	—	1,938.4	53.0	254.3

*1 Of the £1,801.5m held within trade and other payables, £1,275.9m do not meet the definition of a financial liability but fall within the scope of IFRS 4 hence are included in the above maturity profile.

6e. Financial Investments

	FVTPL £m	FVOCI £m	Amortised Cost £m	Total £m
AAA- AA	414.5	861.0	68.7	1,344.2
A	441.2	733.6	308.5	1,483.3
BBB	28.5	304.3	20.2	353.0
Sub BBB	13.3	—	0.1	13.4
Not rated*1	262.7	58.9	0.7	322.3
Total financial investments	**1,160.2**	**1,957.8**	**398.2**	**3,516.2**

*1 The majority (£234.4m) of the unrated exposure stems from money market funds, which are rated AAA, but the underlying securities are not. These specific exposures are re-purchase agreements. The remaining unrated exposure is a mixture of private debt (£77.2m) and other holdings (£10.7m).

Classification and Measurement

At initial recognition, the Group measures financial investments at fair value plus or minus, in the case of financial instruments not measured at fair value through profit and loss, directly attributable transaction costs. Transaction costs of financial instruments measured at fair value through profit and loss are expensed to the profit and loss when incurred.

Money market funds and derivative financial instruments are measured at FVTPL. The regulatory capital within the Group is used to invest in these instruments in addition to any surplus funds which may be held. Buying and selling activity occurs depending on timing of different cashflows.

Debt securities are measured at FVOCI and as such fall under the scope of the ECL model. These assets are held to match policyholder liabilities or interest on debt liabilities. If sold before maturity, gains or losses on these assets impact the P&L.

Private Equity investments have been designated as being reported through FVOCI due to these being long term, strategic investments. Dividends are recognised in the Income Statement whilst a change in fair values will be reflected in OCI. Given the immaterial amount (£7.5 million) of these investments, detailed levelling disclosures have not been provided.

Impairment

All financial investments held at FVOCI and at amortised cost have been assessed for impairment using the expected credit loss model under IFRS 9. The assessment has been made based on the credit ratings of the entities and externally available credit loss ratios.

The fair value of debt securities is calculated with reference to quoted market valuations and as such take into account future expected credit losses. As a result, no impairment provision is required against the book value. The calculated impairment loss within the fair value is recognised through the Income Statement whilst fair value movements are recognised in other comprehensive income. Deposits are held with well rated institutions and are held at book value, with impairment calculated in a similar manner to debt securities.

All assets that are purchased, which require a calculation of impairment, are considered of investment grade or above (i.e. BBB rated or higher), as defined by an external credit rating agency or an assessment from Admiral's external asset managers. The credit rating of all assets is regularly monitored. As at the year-end reporting date, the vast majority of financial assets are of investment grade and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12 month expected loss is used to calculate the impairment provision required.

Any assets downgraded below BBB are considered by the Group to have significantly increased in credit risk since inception, and therefore enter stage 2 under IFRS9.

The impairment provision at 31 December 2019 is £0.9 million (£0.5 million at 31 December 2018). Given there is no material change in the credit quality or type of financial assets in the year and the movement in provision is immaterial, no further disclosure has been made.

Fair value measurement

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

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

	31 December 2019		31 December 2018	
	FVTPL £m	FVOCI £m	FVTPL £m	FVOCI £m
Level One (quoted prices in active markets)	1,160.2	1,950.3	1,301.1	1,560.8
Level Two (use of observable inputs)	—	—	—	—
Level Three (use of significant unobservable inputs)*1	—	7.5	—	7.8
Total	**1,160.2**	**1,957.8**	**1,301.1**	**1,568.6**

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

Deposits are held with well rated institutions; as such the approximate fair value is the book value of the investments as impairment of the capital is not expected.

6f. Cash and cash equivalents

	31 December	31 December

	2019 £m	2018 £m
Cash at bank and in hand[*1]	**281.7**	376.0
Short-term deposits	**—**	0.8
Total cash and cash equivalents	**281.7**	376.8

*1 £4.4m of cash is ring-fenced via a bank guarantee. See note 11f for further details.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term deposits with original maturities of three months or less. All cash and cash equivalents are measured at amortised cost.

An assessment has been completed for impairment purposes. The credit rating of all assets is regularly monitored. As at the year end reporting date all financial assets are of investment grade or above (i.e. BBB rated or higher) and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12 month expected loss is used to calculate the impairment provision required. Given the short-term duration of these assets and low risk of these assets, no impairment provision has been recognised.

For cash at bank and cash deposits and other receivables, the fair value approximates to the book value due to their short maturity.

6g. Other Assets

Insurance and other receivables

	31 December 2019 £m	31 December 2018 £m
Insurance receivables[*1]	**948.9**	842.3
Trade and other receivables	**262.8**	227.0
Prepayments and accrued income	**16.0**	12.7
Total insurance and other receivables	**1,227.7**	1,082.0

*1 Insurance receivables at 31 December 2019 include £71.7 million in respect of salvage and subrogation recoveries (2018: £59.3 million).

Insurance receivables

Insurance receivables are measured at amortised cost. Given the short-term duration of these assets no impairment provision has been recognised.

Trade and other receivables

Classification. Trade and other receivables are measured at amortised cost, being made up of multiple types of receivable balances.

Impairment. Where a provision is required for these receivables, it is calculated in line with the simplified method for trade receivables per IFRS 9, whereby lifetime expected credit losses are recognised irrelevant of the credit risk. In this case, the provision is based on a combination of

i. aged debtor analysis,
ii. historic experience of write-offs for each receivable,
iii. any specific indicators of credit deterioration observed, and
iv. management judgement.

The level of provision is immaterial.

The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

Contract balances

The following table provides information about receivables and contract assets from contracts with customers. Both balances are included in Trade and other receivables.

	31 December 2019 £m	31 December 2018 £m
Receivables	**40.3**	32.5
Contract assets	**24.8**	23.4

The contract asset relates to the Group's right to consideration for work undertaken in the law companies on behalf of clients which is ongoing or where the final fee has not yet been billed. The contract asset is transferred to trade receivables once the fee has been billed.

Significant changes in the contract asset balance during the period are as follows:

Contract asset balance	**31 December 2019 £m**
At 1 January 2019	**23.4**
Revenue recognised	**34.8**
Transferred to trade receivables	**(31.8)**
Write-offs	**(1.6)**
At 31 December 2019	**24.8**

The amount of revenue recognised in 2019 from performance obligations satisfied (or partially satisfied) in previous periods is £nil (2018: £nil).

6h. Financial liabilities

Subordinated notes

Financial liabilities are inclusive of £200.0 million subordinated notes issued on 25 July 2014 at a fixed rate of 5.5% with a redemption date of 25 July 2024.

The notes are unsecured subordinated obligations of the Group and rank pari passu without any preference among themselves. In the event of a winding-up or bankruptcy, they are to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any of the notes during the year. The Group has the option to defer interest payments on the notes but to date has not exercised this right.

The fair value of subordinated notes (level one valuation) at 31 December 2019 is £225.1 million (2018: £211.3 million).

Other borrowings

The Group holds a credit facility of £20.0 million which expires in September 2020. £20.0 million was drawn under this agreement as at 31 December 2019. The group also hold a revolving credit facility of £200.0 million which expires in December 2020. As at 31 December 2019, £nil was drawn down on this facility (2018: £71.5 million). Amounts drawn under their respective agreements are shown within other borrowings in the table above.

Loan backed securities

During 2018 an asset backed senior loan note facility of £300.0 million was established in relation to the Admiral Loans business, which increased to £400.0 million during 2019 (see note 3 for details of the accounting treatment of this SPE). As at the year end, £304.5 million (2018: £168.3 million) of this facility had been utilised.

Lease liabilities

The Group leases various properties, with rental contracts typically for fixed periods of 5 to 25 years although these may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Under IAS 17, all Group leases were classified as operating leases. Operating lease payments, including the effects of any lease incentives, were recognised in the income statement on a straight-line basis over the lease term.

Under IFRS 16, from 1 January 2019, for each lease a right-of-use asset and corresponding lease liability are recognised at the date at which the leased asset becomes available for use by the Group.

The lease liability is initially measured at the present value of remaining lease payments, which include the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment, with similar terms and conditions. Generally, the Group uses its incremental borrowing rate as the discount rate.

Subsequently, lease payments are allocated to the lease liability, split between repayments of principal and interest. A finance cost is charged to the profit and loss so as to produce a constant period rate of interest on the remaining balance of the lease liability

6i. Objectives, policies and procedures for managing financial assets and liabilities

The Group's activities expose it primarily to financial risks of credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Board of Directors has delegated the task of supervising risk management and internal control to the Group Risk Committee. There is also an Investment Committee that makes recommendations to the Group and subsidiary Boards on investment strategy.

There are several key elements to the risk management environment throughout the Group. These are detailed in full in the Corporate Governance Statement. Specific considerations for the risks arising from financial assets and liabilities are detailed below.

Credit risk

The Group defines credit risk as the risk of loss if another party fails to perform its obligations. The key areas of exposure to credit risk for the Group result through its reinsurance programme, investments, bank deposits, loans and advances to customers and policyholder receivables.

The Directors consider credit quality and counterparty exposure frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Group's risk appetite and, during 2019 and historically, no material credit losses have been experienced by the Group.

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

	31 December 2019 £m	31 December 2018 £m
Equity	**54.8**	42.3

Financial Investments and cash

Credit and counterparty risk is managed by the Group by investing in high quality money market funds, and setting suitable parameters for asset managers to adhere to when purchasing debt securities. Cash balances and deposits are placed only with highly rated credit institutions. The detailed holdings are reviewed regularly by the Investment Committee.

Invested Assets

As noted above, the Group primarily invests the following asset types:

- Investment funds and cash plus liquidity funds, which in turn invest in a mixture of short-dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial paper.
- Deposits with well rated institutions are short in duration (one to five years). These are classified as held at amortised cost. Therefore neither the carrying value of the asset, nor the interest return will be impacted by fluctuations in interest rates.
- Debt securities are held within two segregated mandates. The guidelines of the investments retain a similar credit quality of the investment funds (all holdings are investment grade). The duration of the securities is relatively short (c. three years) and similar to the duration of the on book claims liabilities (the average duration is three years).
- UK Government bonds which are classified as FVOCI.

Reinsurance assets

To mitigate the risk arising from exposure to reinsurers (in the form of reinsurance recoveries and profit commissions), the Group only conducts business with companies of appropriate financial strength ratings. In addition, many reinsurance contracts are operated on a funds withheld basis, which substantially reduces credit risk, as the Group withholds the cash received from policyholders as collateral.

Loans and Advances to Customers

The risk appetite for the lending business is set with respect to anticipated loan losses over a 12-month period. Management has defined an amber and a red loan loss limit, representing points at which action is required. These limits have been defined by management to reflect the business maturity, the business ambitions and the economic climate. Risk appetite is assessed at least annually, while the limits are continuously monitored.

Insurance assets

A further principal form of credit risk is in respect of amounts due from policyholders, largely due to the potential for default by instalment payers. The impact of this is mitigated by the large customer base and low average level of balance recoverable. There is also mitigation by the operation of numerous high- and low-level controls in this area, including payment on policy acceptance as opposed to inception and automated cancellation procedures for policies in default.

The amount of bad debt expense relating to policyholder debt charged to the income statement in 2019 and 2018 is insignificant.

Trade and other receivables

Trade receivables and other debtors are also subject to credit risk, although this is mitigated by a review of the credit worthiness of all counterparties prior to them being accepted.

Other Assets

All other assets are assessed as low credit risk under IFRS 9, with no significant amounts past due or impaired.

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

	Rating	**31 December 2019 £m**	31 December 2018 £m
Financial institutions – Credit institutions	AAA	**245.1**	164.3
Financial institutions – Credit institutions	AA	**925.2**	942.1
Financial institutions – Credit institutions	A	**1,483.2**	1,501.3
Financial institutions – Credit institutions	BBB and below	**688.7**	567.9
UK Government gilts	AA	**174.0**	170.9
Reinsurers	AA	**688.9**	458.5
Reinsurers	A	**160.6**	303.6
Reinsurers	BBB	**1.7**	—

The Group's maximum exposure to credit risk at 31 December 2019 is £4,913.3 million (2018: £4,507.4 million), being the carrying value of financial investments and cash, the carrying value of loans and advances to customers, and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements. The Group does not use credit derivatives or similar instruments to mitigate exposure.

£13.8 million (2018: £9.2 million) was charged to the income statement in respect of movement on the ECL of loans and advances to customers. Further details are provided in note 7b.

There were no further significant financial assets that were past due at the close of either 2019 or 2018.

Interest rate risk

The Group considers interest rate risk to be the risk that unfavourable movements in interest rates could adversely impact on the capital values of financial assets and liabilities.

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

	31 December 2019 £m	31 December 2018 £m
Equity	**35.4**	29.9

Loans and Advances to customers

The Group's Loan portfolio is made up of fixed rate on loans which are funded at a floating variable rate. The Group has an interest rate swap arrangement, the risk management objective of which is to eliminate the majority of the interest rate risk from the Loans portfolio. This relates to the difference between fixed rate on loans written and floating variable rate on funding.

Hedge Accounting

Hedge accounting is applied when the criteria specified in IFRS 9 (including amendments, as set out above) are met. In line with IFRS9, the gain or loss on the hedged position as at the balance sheet date is recognised through Other Comprehensive Income.

This results in a hedging reserve at 31 December 2019 (and at 31 December 2018) in relation to the interest rate swap.

The Group is exposed to GBP LIBOR within its hedge accounting relationships, with the hedged item including issued GBP LIBOR floating rate debt as disclosed in "Hedge accounting" below. In addition, the Group has a number of financial assets and liabilities with interest rates linked to GBP LIBOR that are not included in hedge accounting relationships. Similarly, there are exposures to non GBP interest rates.

The Group is closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates.

In response to the announcements, the Group has set up an IBOR transition project which includes input from a number of areas of the business including risk management, investments, legal, accounting and systems. The project is under the governance of the Investment Committee, and ultimately the Chief Financial Officer who is a member of the Board. The aim of the programme is to understand where IBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. The Group intends to have its transition and fall-back plans in place by the end of 2020.

For the Group's loan backed securities and related interest rate swaps (which are bilateral agreements) the Group has started discussions with respective counterparties to amend the reference benchmark interest rate which will change to SONIA. The Group aims to finalise this amendment in the second half of 2020.

For the Group's RCF and other debt linked to GBP LIBOR and reinsurance funds withheld balances, the Group will begin a dialogue in 2020 to propose amendments to the fall-back provisions to move from GBPLIBOR to SONIA.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to benchmark interest rate reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Cash flow hedge	Pay sterling fixed, receive 1-month GBP LIBOR interest rate swap	2023	£146.3m	Portfolio cash flow hedges of interest rate risk on GBP LIBOR
Cash flow hedge	Pay sterling fixed, receive 1-month GBP LIBOR interest rate swap	2024	£274.7m	Portfolio cash flow hedges of interest rate risk on GBP LIBOR

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends.

Due to the immateriality of the transaction and balance, no further disclosure is made.

Financial Liabilities

The Group also holds a financial liability in the form of £200.0 million of subordinated notes with a ten year maturity and fixed rate coupon of 5.5%. This liability is valued at amortised cost and therefore neither the carrying value of the deposits, nor the interest payable, will be impacted by fluctuations in interest rates.

Liquidity risk

Liquidity risk is defined as the risk that the Group does not have sufficient, available financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.

The Group is strongly cash-generative due to the large proportion of revenue arising from non-underwriting activity. Further, as noted above, a significant portion of insurance funds are invested in investment funds with same day liquidity, meaning that a large proportion of the Group cash and investments is immediately available.

A breakdown of the Group's other borrowings, trade payables and other payables is shown in note 11.

The subordinated notes have a maturity date of July 2024, whereas all trade and other payables will mature within three to six months of the balance sheet date. (Refer to the maturity profile at the start of this note for further detail.)

In practice, the Group's Directors expect actual cash flows to be consistent with this maturity profile except for amounts owed to co-insurers and reinsurers. Of the total amounts owed to co-insurers and reinsurers of £1,442.1 million (2018: £1,275.9 million), £1,129.6 million (2018: £1,022.7 million) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

A maturity analysis for insurance contract liabilities is included in note 5. The maturity profile for financial assets is included at the start of this note.

The Group's Directors believe that the cash flows arising from these assets will be consistent with this profile. Liquidity risk is not, therefore, considered to be significant.

Foreign exchange risk

Foreign exchange risk arises from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets and liabilities.

The Group is exposed to foreign exchange risk through its operations overseas. Although the relative size of the international operations means that the risks are relatively small, increasingly volatile foreign exchange rates could result in larger potential gains or losses. Assets held to fund insurance liabilities are held in the currency of the liabilities; however, surplus assets held as regulatory capital in foreign currencies remain exposed.

The Group's exposure to net assets and profits in currencies other than the reporting currency is immaterial other than for US dollars and Euros. The Group's exposure to net assets held in dollars at the balance sheet date was £40.9 million (2018: £60.7 million); the exposure to net assets held in Euros was £111.8 million (2018: £69.3 million).

The loss before tax derived from business carried out in the US was £18.5 million (2018: £19.2 million). If the Sterling rates with US dollars had strengthened/weakened by 10%, the Group's profit before tax for the year would increase/decrease by £1.8 million (2018: £1.8 million).

The profit before tax derived from business carried out in Euros was €11.9 million (2018: profit before tax of €5.4 million). If the Sterling rates with euros had strengthened/weakened by 10%, the Group's profit before tax for the year would increase/decrease by £1.0 million (2018: £0.4 million).

7. Loans and Advances to Customers

7a. Accounting policies

Loans and advances to customers relate to the Admiral Loans business, consisting of unsecured personal loans and car finance products.

Classification

Loans and advances to customers are measured at amortised cost. This is because assets are held in order to collect contractual cash flows and the contractual terms of the financial asset demand cash inflows which are solely payments of principal and interest on the principal amount outstanding.

Interest income and expense

Interest income received in relation to loans and advances to customers is calculated using the effective interest method which allocates interest, and direct and incremental fees and costs over the expected lives of the assets and liabilities. There has been no change in recognition of interest income from the comparative period.

Interest expense is calculated following the specific process relating to each source of funding, which is not linked to individual accounts.

Finance leases

Included within Loans and advances to customers are personal contract purchase (PCP) and hire purchase (HP) arrangements which are classified as finance leases under IFRS 16. A receivable equal to the net investment in the lease has been recognised. The net investment is equal to the gross investment in the lease discounted at the rate implicit in the lease. The impairment requirements of IAS 36 have been applied to the finance leases held.

Lease interest income is recognised within interest income in the income statement over the term of the lease using the effective interest method.

7b. Loans and advances to customers

	31 December 2019 £m	31 December 2018 £m
Loans and advances to customers – gross carrying amount	**479.1**	310.4
Loans and advances to customers – provision	**(24.0)**	(10.2)
Total loans and advances to customers	**455.1**	300.2

Loans and advances to customers are comprised of the following:

	31 December 2019 £m	31 December 2018 £m
Unsecured personal loans	**445.8**	294.2
Finance leases	**33.3**	16.2
Total loans and advances to customers, gross	**479.1**	310.4

Fair value measurement

The amortised cost of loans and advances to customers on a portfolio basis is considered a reasonable approximation of fair value.

Expected credit losses

The expected credit loss model is a three-stage model based on forward looking information regarding changes in the credit quality since origination. Credit risk is measured using a probability of default (PD), exposure at default (EAD) and loss given default (LGD) defined as follows:

- Probability of Default (PD): The likelihood of an account defaulting; calibrated through analysis of historic customer behaviour. Where customers have already met the definition of default this is 100%. For customers that are not in default the PD is determined through analysis of historic data at a credit grade level.
- Exposure at Default (EAD): The amount of balance at the time of default. For loans that are in arrears the EAD is taken as the current balance, for up to date loans the contractual outstanding balance in each future month is used.
- Loss Given Default (LGD): The amount of the asset not recovered following a borrower's default, determined through analysis of historic recovery performance.

The PD is applied to the EAD to calculate the expected loss. Where customers are up-to-date the EAD is effectively the sum of the future month-end balances, as such the PD is converted from an annual rate to a monthly rate before applying it to the EAD. The LGD is then applied to this loss to calculate the total expected loss including recoveries. A forward-looking provision is also calculated, as set out later in this note.

Loan assets are segmented into three stages of credit impairment:

- Stage 1 – no significant increase in credit risk of the financial asset since inception;
- Stage 2 – significant increase in credit risk of the financial asset since inception;
- Stage 3 – financial asset is credit impaired.

For assets in stage 1, the allowance is calculated as the expected credit losses from events within 12 months after the reporting date. For assets in stages 2 and 3 the allowance is calculated as the expected credit loss from events in the remaining lifetime of each asset.

Significant increase in credit risk (SICR) (Stage 2)

As explained above, stage 1 assets have an ECL allowing for losses in the next twelve months, stage 2 or 3 assets have an ECL allowing for losses over the remaining lifetime of the contract. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS9 does not prescribe a definition of significant increase in credit risk (SICR) but does include a rebuttable presumption that this does occur for loan assets which are 30 days past due (which the Group does not rebut).

The Group has deemed a SICR to have occurred where:

- the loan is 1 to 3 loan payments in arrears, or
- the loan has been in arrears with AFSL in the last six months, or
- the customer has a significant level of unsecured debt relative to the point of inception.

Credit Impaired (Stage 3)

The Group does not rebut the presumption within IFRS9 that default has occurred when an exposure is greater than 90 days past due, which is consistent with a customer being 4 or more payments in arrears. In addition, a loan is deemed to be credit impaired where

a. there is an Individual Voluntary Arrangement (‘IVA’) agreement confirmed or proposed, or
b. customer has started or progressed bankruptcy action, or
c. a repayment plan is in place, or
d. customer is deceased.

Write off policy

Loans are written off where there is no reasonable expectation of recovery. The Group’s policy is to write off balances to their estimated net realisable value. Write offs are actioned on a case by case basis taking into account the operational position and the collections strategy. Given the immaturity of the loans business, and considerations surrounding potential debt sales in the future, the Group has to-date operationally written off only a small proportion of the book.

Forward-looking information

Under IFRS9 the provision must reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The means by which the Group has determined this is to run scenario analyses.

Economic scenarios are considered, including an upturn, a downturn and a severe downturn. A 50% weighting is applied to the base scenario and the remaining 50% distributed across the scenarios as shown below:

- 25% Upturn
- 20% Downturn
- 5% Severe Downturn

The key economic driver of the losses from the scenarios is the likelihood of a customer entering hardship through unemployment. Several customer demographics including age, income and debt levels are considered with a sensitivity to the specific scenarios considered. For each individual customer, the sensitivities from each demographic are combined to determine an overall sensitivity.

Management judgement has been used to define the weighting and severity of the different scenarios based on available data without undue cost or effort. The outcome from the scenarios have been contrasted to loss rates stemming from loans written over the last decade, including those from the most recent economic downturn (2007-2009).

Sensitivities to key areas of estimation uncertainty

The key areas of estimation uncertainty identified, as per note 3 to the financial statements, are in the PD and the forward looking scenarios.

Stage 1 assets represent 95% of the total loan assets; a 0.1% increase in the stage 1 PD, i.e. from 1.8% to 1.9%, would result in a £0.5m (2%) increase in ECL.

The upturn scenario would reduce the ECL allowance by £1.2 million (-5.4%), the downturn would create an increase of £2.5 million (11.7%) and severe downturn by £30.0 million (138.0%).

Amounts arising from ECL: loans and advances to customers

The Group is exposed to credit risk from the Admiral Loans business which has expanded during 2019.

The following table sets out information about the credit quality of the loans and advances to customers measured at amortised cost. Credit grades are used to segment customers by apparent credit risk at the time of acquisition. Higher grades are the lowest credit risk with each subsequent grade increasing in expected credit risk. The Group does not have any purchased or originated credit-impaired (POCI) assets. These tables are inclusive of the finance lease assets which are held by the Group, further analysis of these balances can be found in note 7c.

All probability of defaults figures included in this paragraph allow for forward-looking information, i.e. the PDs are a weighted average from the economic scenarios considered. The average probability of default (PD) in for stage 1 assets is 1.8% (2018: 1.8%) reflecting the expectation of defaults within 12 months of the reporting date. The average PD for assets in stage 2 is 58.7% (2018: 5.2%) reflecting expected losses over the remaining life of the assets. The PD for assets in stage 3 is 100.0% (2018: 100.0%) as these assets are deemed to have defaulted.

	31 December 2019	31 December 2018

	Stage 1 12- month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m	Total £m
Credit Grade[*2]					
Higher	333.5	3.6	—	**337.1**	139.5
Medium	112.1	2.6	—	**114.7**	117.7
Lower	10.6	0.3	—	**10.9**	48.6
Credit Impaired	—	—	16.4	**16.4**	4.6
Gross carrying amount	456.2	6.5	16.4	**479.1**	310.4
Expected credit loss allowance	(5.6)	(3.4)	(14.4)	**(23.4)**	(9.9)
Other loss allowance[*1]	(0.6)	—	—	**(0.6)**	(0.3)
Carrying amount	**450.0**	**3.1**	**2.0**	**455.1**	**300.2**

*1 Other loss allowance covers losses due to a reduction in current or future vehicle value or costs associated with recovery and sale of vehicles.

- Credit grade is the internal credit banding given to a customer at origination. This is based on external credit rating information.

The following tables reconcile the opening and closing gross carrying amount and expected credit loss allowance.

	Stage 1 12- month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
Gross carrying amount as at 1 January 2019	**296.9**	**8.9**	**4.6**	**310.4**
Transfers				
Transfers from Stage 1 to Stage 2	(4.5)	4.5	—	—
Transfers from Stage 1 to Stage 3	(8.2)	—	8.2	—
Transfers from Stage 2 to Stage 1	2.4	(2.4)	-	—
Transfers from Stage 2 to Stage 3	—	(2.7)	2.7	—
Transfers from Stage 3 to Stage 1	—	—	—	—
Transfers from Stage 3 to Stage 2	—	—	—	—
Principal redemption payments	(124.9)	(4.5)	(1.3)	(130.7)
New financial assets originated or purchased	294.5	2.7	2.2	299.4
Gross carrying amount as at 31 December 2019	**456.2**	**6.5**	**16.4**	**479.1**

	Stage 1 12- month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total
Expected credit loss allowance as at 1 January 2018	**4.4**	**1.4**	**4.1**	**9.9**
Movements with a profit and loss impact				
Transfers				
Transfers from Stage 1 to Stage 2	(0.1)	0.2	—	0.1
Transfers from Stage 1 to Stage 3	(0.3)	—	0.5	0.2
Transfers from Stage 2 to Stage 1	0.1	(0.2)	—	(0.1)
Transfers from Stage 3 to Stage 1	—	—	—	—
Changes in PDs/ LGDs/ EADs	(1.8)	0.8	7.9	6.9
New financial assets originated or purchased	3.3	1.2	1.9	6.4
Total net profit and loss charge in the period	1.2	2.0	10.3	13.5
Expected credit loss allowance as at 31 December 2019	**5.6**	**3.4**	**14.4**	**23.4**
Other movements with no profit and loss impact				
Transfers				
Transfers from Stage 2 to Stage 3	—	(1.0)	1.0	—
Transfers from Stage 3 to Stage 2	—	—	—	—
Write-offs	—	—	(0.5)	—

7c. Finance lease receivables

Loans and advances to customers include the following finance leases. The group is the lessor for leases of cars.

	31 December 2019 £m	31 December 2018 £m
Gross investment in finance leases, receivable		

Less than 1 year	**8.1**	4.9
Between 1 to 5 years	**28.9**	10.9
More than 5 years	**—**	—
	37.0	15.8
Unearned finance income	**(4.2)**	(1.9)
Net investment in lease receivables	**32.8**	13.9
Less impairment allowance	**(0.4)**	(0.2)
	32.4	13.7

Net investment in finance leases, receivable		
Less than 1 year	**6.2**	4.1
Between 1 to 5 years	**26.6**	9.8
More than 5 years	**—**	—
	32.8	13.9

The net investment in finance leases shown above is net of the unguaranteed residual value of £0.5 million (2018: £0.3 million).

7d. Interest Income

	31 December 2019 £m	31 December 2018 £m
Loans and advances to customers	**30.8**	15.0
	30.8	15.0

Interest receivable on loans and advances to customers is recognised in the Income Statement using the effective interest method, which calculates the amortised cost of the financial asset and allocates the interest income over the expected product life.

7e. Interest expense

	31 December 2019 £m	31 December 2018 £m
Interest payable on loan backed securities	**5.6**	1.7
Interest payable on other credit facilities	**0.7**	1.9
Total interest expense[*1]	**6.3**	3.6

*1 Interest paid in total during the year was £6.3 million (2018: £3.1 million)

Interest expense represents the interest payable on funding for the Admiral Loans business, in the form of credit facilities of £220.0 million (2018: £200.0 million) of which £20.0 million was drawn down at 31 December 2019 (2018: £71.5 million) and loan backed securities through an SPE of £400.0 million (2018: £300.0 million) of which £304.5 million was drawn down at 31 December 2019 (2018: £168.3 million).

8. Other Revenue

8a. Accounting policy

(i) Contribution from additional products and fees and Other Revenue

Revenue is credited to the income statement over the period matching the Group's obligations to provide services. Where the Group has no remaining obligations, the revenue is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of amounts charged.

Commission from the provision of insurance intermediary services is credited to revenue on the sale of the underlying insurance policy.

There has been no change in revenue recognition from the comparative period.

(ii) Nature of goods and services

The following is a description of the principle activities within the scope of IFRS 15 from which the Group generates its other revenue.

Products and services	**Nature, timing of satisfaction of performance obligations and significant payment terms**
Comparison	The performance obligation is the provision of insurance intermediary services, at which point the performance obligation is met. Revenue is therefore recognised at a point in time.
Fee and commission revenue: Commission on underlying products	The performance obligation is the provision of insurance intermediary services, at which point the performance obligation is met. Revenue is therefore recognised at a point in time. Payment of the commission is due within 30 days of the period close.
Fee and commission revenue: Administration fees	The performance obligation is the change requested being made to the underlying policy, at which point the performance obligation is met. Revenue is therefore recognised at a point in time and is collected immediately or in line with direct debit instalments.

Revenue from law firm	The performance obligation is the pursuit of the compensation from the other side's insurer on behalf of the customer. Once the case is settled the performance obligation is fully satisfied. Revenue is therefore recognised over time using the expected value method. This method values revenue by multiplying hours incurred on open cases by a 12-month realisable rate. The realisable rate is a probability weighted transaction price based on settled cases. The expected value method therefore results in revenue recognised being constrained to that where there is a high probability of no significant reversal. Revenue is recognised over time because as the Group has an enforceable right to payment for performance completed to date and the work performed to date has no alternative use to the Group A contract asset is recognised equal to the work performed up to the balance sheet date but not yet billed. Refer to note 6g for further detail of this balance. Payment is due within 28 days of invoice.
Profit commission from co-insurers	The Group's profit commission revenue falling within the scope of IFRS 15, 'Revenue from Contracts with Customers' relates to a contractual arrangement between the Group's insurance intermediary EUI Limited, and a third party (external to the Group) co-insurer (Great Lakes) underwriting a share of the UK Car Insurance business generated by EUI Limited. The variable consideration, being the profit commission recognised in respect of each underwriting year at the end of each reporting period, is recognized at a point in time, and calculated based on a number of detailed inputs, the most material of which are as follows: • Premiums, defined as gross premiums ceded including any instalment income, less reinsurance premium (for excess of loss reinsurance); • Insurance expenses incurred; • Claims ratio (more typically referred to as a loss ratio) Whilst the premiums and insurance expenses related to an underwriting year are typically fixed at the conclusion of each underwriting year and are not subject to judgement, the claims ratio is calculated from the underwriting year loss ratios that result from the setting of claims reserves in the financial statements meaning it is subject to inherent uncertainty. As stated in note 5d, Admiral's reserving policy is initially to reserve conservatively, above internal and independent projections of actuarial best estimates. This is designed to create a margin held in reserves to allow for unforeseen adverse development in open claims. Admiral's financial statement loss ratios, used in the calculation of profit commission income, continue to include a significant margin above projected best estimates of ultimate claims costs. It is this margin for uncertainty, included in the financial statement loss ratios, which creates the constraint over the recognition of the variable consideration, as using the booked loss ratio rather than the actuarial best estimate constrains the profit commission income to a level where there is a high probability of no significant reversal of the revenue recognised. The key methods, inputs and assumptions used to estimate the variable consideration of profit commission are therefore in line with those used for the calculation of claims liabilities, as set out in note 3 to the annual report, with further detail also included in note 5. There are no further critical accounting estimates or judgements in relation to the recognition of profit commission.

Instalment income on insurance premium paid via instalments is recognised under IFRS 9 using the effective interest rate, and as such is not within the scope of IFRS 15. Profit commission from reinsurers is within the scope of IFRS 4, and not within the scope of IFRS 15 *Revenue from Contracts with Customers* due to the nature of the income.

Refer to the Strategic Report for further detail on the sources of revenue.

8b. Disaggregation of revenue

In the following tables, other revenue is disaggregated by major products/service lines and timing of revenue recognition. The total revenue disclosed in the table of £584.8 million (2018: £542.4 million) represents total other revenue and profit commission and is disaggregated into the segments included in note 4.

	Year ended 31 December 2019				
	UK Insurance £m	International Car Insurance £m	Comparison £m	Other £m	Total £m
Major products/ service line					
Comparison[*1]	**—**	**—**	**152.2**	**—**	**152.2**
Instalment income	**85.3**	**2.9**	**—**	**—**	**88.2**
Fee and commission revenue	**162.0**	**18.7**	**—**	**1.9**	**182.6**
Revenue from law firm	**32.9**	**—**	**—**	**—**	**32.9**
Other	**13.4**	**—**	**—**	**0.6**	**14.0**
Total other revenue	**293.6**	**21.6**	**152.2**	**2.5**	**469.9**
Profit commission	**114.0**	**0.9**	**—**	**—**	**114.9**
Total other revenue and profit commission	**407.6**	**22.5**	**152.2**	**2.5**	**584.8**
Timing of revenue recognition					
Point in time	**267.8**	**18.7**	**152.2**	**2.5**	**441.2**
Over time	**35.9**	**—**	**—**	**—**	**35.9**
Revenue outside the scope of IFRS 15	**103.9**	**3.8**	**—**	**—**	**107.7**
	407.6	**22.5**	**152.2**	**2.5**	**584.8**

	Year ended 31 December 2018				
	UK Insurance £m	International Car Insurance £m	Comparison £m	Other £m	Total £m
Major products/ service line					
Comparison[*1]	—	—	131.7	—	131.7
Instalment income	82.6	2.7	—	—	85.3
Fee and commission revenue	172.4	15.9	—	1.9	190.2
Revenue from law firms	30.5	—	—	—	30.5
Other	10.8	—	—	0.7	11.5
Total other revenue	296.3	18.6	131.7	2.6	449.2
Profit commission	93.2	—	—	—	93.2
Total other revenue and profit commission	389.5	18.6	131.7	2.6	542.4
Timing of revenue recognition					
Point in time	275.3	15.9	131.7	2.6	425.5
Over time	33.4	—	—	—	33.4
Revenue outside the scope of IFRS 15	80.8	2.7	—	—	83.5
	389.5	18.6	131.7	2.6	542.4

*1 Comparison revenue excludes £19.4 million (31 December 2018: £19.3 million) of income from other Group companies.

Instalment income is recognised applying the effective interest rate over the term of the policy, and is outside the scope of IFRS 15. Profit commission from reinsurers is recognised under IFRS 4, and is discussed further in note 5 to the financial statements.

9. Expenses

9a. Accounting policies

(i) Acquisition costs and operating expenses

Acquisition costs incurred in obtaining new and renewal business are charged to the income statement over the period in which those premiums are earned. All other operating expenses are charged to the income statement in the period that they are incurred.

(ii) Employee benefits

As detailed in the Remuneration Committee Report, the key elements of employee remuneration are:

- Base salaries and pension contributions
- Share based incentive plans
- A discretionary bonus, (the ‘DFSS Bonus’), rather than an annual cash bonus, that is directly linked to the number of DFSS awards held and actual dividends paid out to shareholders.

Within note 9b, the charges for base salaries and pension contributions (and the related social security costs) are recognised within insurance contract expenses or administration and other marketing costs, based on the role of the employee.

Charges for the share based incentive plans (and related social security costs) and discretionary bonus are included within “share scheme charges”. These charges are not shown as part of the result for each reportable segment, or within the expense ratio, due to them being materially comprised of an accounting charge in line with IFRS 2 ‘Share based payments’ which does not result in a cash payment to employees but instead results in a dilution of shares.

The rules of the share schemes ensure that the actual dilution level does not exceed 10% in any rolling ten-year period, by funding of any vested (and future) DFSS and SIP awards as appropriate with market-purchased shares. This corresponds to approximately a 1% dilution of share capital each year.

Base salaries and pension contributions

Base salaries and the related employer social security costs are charged to the income statement in the period that they are incurred.

The Group contributes to defined contribution personal pension plans for its employees. The contributions payable to these schemes are charged in the accounting period to which they relate.

Share based incentive plans and related social security costs

The Group operates a number of equity and cash settled compensation schemes for its employees, the main ones being:

- a Share Incentive Plan (‘SIP’), which is in place for all UK employees encouraging wide share ownership across our employees, and
- the Discretionary Free Share Scheme (‘DFSS’). DFSS shares are typically awarded to managers, and for the majority of employees 50% of the DFSS shares awarded are subject to three performance conditions being Earnings per Share growth, Return on Equity and Total Shareholder Return vs. the FTSE 350 (excluding investment companies) over a three-year period.

For both schemes, employees must remain in employment three years after the award date (i.e. at the vesting date), otherwise the shares are forfeited.

The majority of these schemes are classed as equity settled under IFRS 2, due to the employees receiving shares (rather than cash) as consideration for the services provided.

For equity settled schemes, the charge, which reflects the fair value of the employee services received in exchange for the grant of the free shares, is recognised as an expense, with a corresponding increase in equity, as shown in Consolidated statement of changes in equity (2019: £58.8 million; 2018: £56.7 million).

For the cash settled schemes, the expense recognised for the fair value of services received results in a corresponding increase in liabilities.

The key drivers and assumptions used to calculate the charge for the schemes over the three year vesting period are:

- the number of shares awarded, which is set at the start of each scheme. Details of the number of shares awarded for each scheme where shares remain unvested is set out in note 9f(ii)
- the fair value of the shares
  - For the SIP, the fair value of the shares awarded is the share price at the award date. Awards under the SIP are entitled to receive dividends, and hence no adjustment is made to this fair value.
  - For the DFSS equity settled awards, awards are not eligible for dividends, although a discretionary bonus is currently paid equivalent to the dividend that would have been paid on the shareholding, hence the fair value of the shares is revised downwards to take account of these expected dividends.
  - For the DFSS cash settled awards, the fair value is based on the share price at the vesting date. The closing share price at the end of each reporting period is used as an approximation for the closing price at the end of the vesting period.
- attrition rates, which impact the ultimate number of shares that vest.
- in the case of the DFSS, the vesting rates based on the performance conditions, which also impact the ultimate number of shares that vest.

The number of shares that have ultimately vested compared to those originally awarded is set out in note 9f(iii).

At each balance sheet date, the Group revises its assumptions on the number of shares which will ultimately vest based on the latest forecast information for attrition rates and, for the DFSS, the extent to which the performance conditions are met.

The financial impact as a result of any change in the assumptions is recognised through the income statement. Any significant changes in assumptions may therefore result in an increased/ decreased charge in an accounting period as a result of this true-up of the expected cumulative charge required.

Social security costs on share based incentive plans

Social security costs are incurred by the Group in respect of the share based incentive plans, with the expense recognised over the vesting period for each share scheme. For the SIP, these costs are paid when the employees sell the shares after vesting (typically 3-5 years after the grant date). For the DFSS, the costs are paid immediately upon vesting.

The total social security costs are calculated based on the following:

- The taxable value of the shares, being:
  - For the SIP, the lower of the share price at award date and the share price at the balance sheet date
  - For the DFSS, the share price at the balance sheet date;
- the number of shares expected to vest for each scheme, driven by the number of shares awarded, attrition rates and, for the DFSS, the vesting rate based on performance conditions;
- the appropriate social security rate.

These assumptions are updated at the end of each reporting period. The financial impact as a result of any change in the assumptions is recognised through the income statement. Any significant changes in assumptions may therefore result in an increased/ decreased charge in an accounting period as a result of this true-up of the expected cumulative charge required.

Discretionary bonus on shares allocated but unvested

The cost of the DFSS bonus is recognised and paid in each period equivalent to the dividends on shares allocated to employees that are still entitled to vest, but have not yet vested. The cost shown also includes the social security costs on the discretionary bonus. No accrual is made for future discretionary bonus payments due to there being no contractual obligation for such a bonus at the balance sheet date.

9b. Operating expenses and share scheme charges

	31 December 2019		
	Gross £m	**Recoverable from co- and reinsurers £m**	**Net £m**
Acquisition of insurance contracts	**138.0**	**(104.9)**	**33.1**
Administration and other marketing costs (insurance contracts)	**398.8**	**(307.2)**	**91.6**
Insurance contract expenses	**536.8**	**(412.1)**	**124.7**
Administration and other marketing costs (other)	**281.4**	**—**	**281.4**
Share scheme charges	**82.5**	**(29.1)**	**53.4**
Total expenses and share scheme charges	**900.7**	**(441.2)**	**459.5**

	31 December 2018		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts*1	135.1	(103.8)	31.3
Administration and other marketing costs (insurance contracts)	381.6	(287.9)	93.7
Insurance contract expenses	516.7	(391.7)	125.0
Administration and other marketing costs (other)	249.2	—	249.2
Share scheme charges	76.9	(27.1)	49.8
Total expenses and share scheme charges	842.8	(418.8)	424.0

*1 Acquisition of insurance contracts expense excludes £19.4 million (2018: £19.3 million) of aggregator fees from other Group companies.

The £91.6 million (2018: £93.7 million) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

Analysis of other administration and other marketing costs:

	31 December 2019 £m	31 December 2018 £m
Expenses relating to additional products and fees	**70.1**	63.4
Comparison operating expenses	**156.8**	144.4
Loans expenses (including movement on ECL provision)	**31.9**	22.9
Other expenses	**22.6**	18.5
Total	**281.4**	249.2

Refer to note 13 for a reconciliation between insurance contract expenses and the reported expense ratio.

9c. Staff costs and other expenses

	31 December 2019		31 December 2018	
	Total £m	**Net £m**	Total £m	Net £m
Salaries	**292.2**	**109.2**	268.8	95.7
Social security charges	**30.5**	**12.8**	27.2	10.3
Pension costs	**13.5**	**4.8**	9.0	3.2
Share scheme charges (see note 9f)	**82.5**	**53.4**	76.9	49.8
Total staff expenses	**418.7**	**180.2**	381.9	159.0
Depreciation charge:				
– Owned assets	**11.9**	**4.1**	12.0	3.7
– ROU assets	**11.9**	**4.6**	—	—
Amortisation charge:				
– Software	**17.4**	**5.9**	15.5	4.6
– Deferred acquisition costs	—	**52.8**	—	50.5
Auditor's remuneration (including VAT):				
– Fees payable for the audit of the Company's annual accounts	**0.1**	**—**	—	—
– Fees payable for the audit of the Company's subsidiary accounts	**0.9**	**0.8**	0.5	0.3
– Fees payable for audit related assurance services pursuant to legislation or regulation	**0.4**	**—**	0.4	—

£32,380 (2018: £nil) was payable to the auditor for other services in the year.

Total and net expenses are before and after co- and reinsurance arrangements respectively.

Refer to the Corporate Governance Report for details of the Audit Committee's policy on fees paid to the Company's auditor for non-audit services. Audit fees are 66% (2018: 53%) of total fees and 31% (2018: 47%) of total fees are for non-audit services, which are classed as audit related assurance services under the FRC rules on non-audit services.

The amortisation of software and deferred acquisition cost assets is charged to expenses in the income statement.

9d. Staff numbers (including Directors)

	Average for the year	
	2019 Number	2018 Number
Direct customer contact staff	**7,319**	6,845
Support staff	**3,510**	3,354
Total	**10,829**	10,199

9e. Directors' remuneration

(i) Directors' remuneration

	31 December 2019 £m	31 December 2018 £m
Directors' emoluments	**1.7**	1.6
Amounts receivable under SIP and DFSS share schemes	**1.2**	1.1
Company contributions to money purchase pension plans	—	—
Total	**2.9**	2.7

(ii) Number of Directors

	2019 Number	2018 Number
Retirement benefits are accruing to the following number of Directors under:		
– Money purchase schemes	**1**	1

9f. Staff share schemes

Analysis of share scheme costs:

					31 December 2019	
	SIP charge (i)		DFSS charge (ii)		Total charge	
	Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
IFRS 2 charge for equity settled share schemes	17.3	11.9	41.5	26.5	**58.8**	**38.4**
IFRS 2 charge for cash settled share schemes	—	—	1.9	1.0	**1.9**	**1.0**

	SIP Gross £m	SIP Net £m	DFSS Gross £m	DFSS Net £m	Total Gross £m	Total Net £m
Total IFRS 2 charge	17.3	11.9	43.4	27.5	**60.7**	**39.4**
Social security costs on IFRS 2 charge	1.6	1.2	7.1	4.8	**8.7**	**6.0**
Discretionary bonus on shares allocated but unvested	—	—	13.1	8.0	**13.1**	**8.0**
Total share scheme charges	18.9	13.1	63.6	40.3	**82.5**	**53.4**

					31 December 2018	
	SIP charge (i)		DFSS charge (ii)		Total charge	
	Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
IFRS 2 charge for equity settled share schemes	16.4	11.2	40.3	25.8	**56.7**	**37.0**
IFRS 2 charge for cash settled share schemes	—	—	0.6	0.3	**0.6**	**0.3**
Total IFRS 2 charge	16.4	11.2	40.9	26.1	**57.3**	**37.3**
Social security costs	1.7	1.1	5.9	3.9	**7.6**	**5.0**
Discretionary bonus on shares allocated but unvested	—	— -	12.0	7.5	**12.0**	**7.5**
Total share scheme charges	18.1	12.3	58.8	37.5	**76.9**	**49.8**

Net share scheme charges are presented after allocations to co-insurers (in the UK and Italy) and reinsurers (in the International Insurance businesses). The proportion of net to gross share scheme charges would be expected to be consistent in each period, at approximately 65%.

	Financial year ended 31 December				
Analysis of gross cost	2016 and prior £m	2017 £m	2018 £m	2019 £m	Total cumulative charge to date £m
Year of share scheme - SIP					
2014	9.7	2.1	—	—	**11.8**
2015	8.6	3.0	2.0	—	**13.6**
2016	6.2	2.2	5.4	**2.1**	**15.9**
2017[*1]	2.2	1.1	5.5	**5.5**	**14.3**
2018[*1]	—	—	3.5	**6.1**	**9.6**
2019[*1]	—	—	—	**3.6**	**3.6**
Gross IFRS 2 costs – SIP		8.4	16.4	**17.3**	
Year of share scheme - DFSS					
2014	11.8	3.7	—	—	**15.5**
2015	9.6	9.4	7.0	—	**26.0**
2016	5.8	12.8	17.0	**9.8**	**45.4**
2017[*2]	—	3.6	13.0	**14.5**	**31.1**
2018[*2]	—	—	3.9	**15.6**	**19.5**
2019[*2]	—	—	—	**3.5**	**3.5**
Gross IFRS 2 costs - DFSS		29.5	40.9	**43.4**	
Total IFRS 2 costs		**37.9**	**57.3**	**60.7**	

*1 Awards are made in March and September of each year, and vest over 36 months from award date. On the 2017 scheme, an average of 5 months' charge remains outstanding, on the 2018 scheme an average of 17 months' charge remains outstanding, and on the 2019 schemes an average of 29 months' charge remains outstanding.
*2 The main award is made in September of each year, with smaller awards made at other points through the year. The shares vest over 36 months from award date. On the 2017 main DFSS, 9 months' charge remains outstsanding; on the 2018 main DFSS 21 months' charge remains outstanding, and on the 2019 main DFSS, 33 months' charge remains outstanding.

(i) The Approved Share Incentive Plan (the SIP)

Eligible UK based employees qualified for awards under the SIP based upon the performance of the Group in each half-year period. The maximum award for each year is £3,600 per employee and the maximum number of shares that can vest relating to the 2019 schemes is 1,113,496 (2018 schemes: 1,192,302; 2017 schemes: 1,067,291).

The awards are made at the discretion of the remuneration committee, taking into account the Group's performance.

(ii) The Discretionary Free Share Scheme (the DFSS)

Under the DFSS, details of which are contained in the remuneration policy section of the Directors' Remuneration Report, individuals receive an award of free shares at no charge.

The maximum number of shares that can vest relating to the 2019 schemes is 2,637,196 (2018 schemes: 3,373,948; 2017 schemes: 3,205,449).

The vesting percentage for the 2016 DFSS scheme which vested during 2019 was 93.8% (2015 DFSS scheme: 87.1%).

(ii) ***Number of free share awards committed at 31 December 2019***

	Awards outstanding[*1]

SIP 2017[2]	1,067,291
SIP 2018[*2]	1,192,302
SIP 2019[*2]	1,113,496
DFSS 2017[*3]	3,205,449
DFSS 2018[*3]	3,373,948
DFSS 2019[*3]	2,637,196
Total awards committed	12,589,682

*1 Being the maximum number of awards committed before accounting for expected staff attrition and vesting conditions
*2 Shares are awarded in March and September of each year, and vest three years later
*3 The main award is made in September of each year, with smaller awards made at other points through the year

(iii) Number of free share awards vesting during the year ended 31 December 2019

During the year ended 31 December 2019, awards under the SIP H116 and H216 schemes and the DFSS 2016 schemes vested. The total number of awards vesting for each scheme is as follows.

	Original awards	Awards vested
SIP 2016 schemes	1,025,662	797,311
DFSS 2016 schemes	3,253,250	2,643,980

The difference between the original and vested awards reflects employee attrition (SIP schemes) and both employee attrition and the vesting outcomes based on performance conditions noted above (DFSS schemes).

The weighted average fair value of the shares granted in the year was £18.96 (2018: £17.65).

The weighted average market share price at the date of exercise for shares exercised during the year was £21.06 (2018: £20.05).

10. Taxation

10a. Accounting policy

Income tax on the profit or loss for the periods presented comprises current and deferred tax.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Current tax related to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

(ii) Deferred tax

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised.

The principal temporary differences arise from carried forward losses, depreciation of property and equipment and share scheme charges. The resulting deferred tax is charged or credited in the income statement, except in relation to share scheme charges where the amount of tax benefit credited to the income statement is limited to an equivalent credit calculated on the accounting charge. Any excess is recognised directly in equity.

Deferred tax assets relating to carried forward losses are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The probability of the availability of future taxable profits is determined by a combination of the classification of the status of the businesses holding cumulative tax losses and the business plan profit projections for that business, subject to appropriate stress testing.

10b. Taxation

	31 December 2019 £m	31 December 2018 £m
Current tax		
Corporation tax on profits for the year	**91.3**	81.4
Under-provision relating to prior periods	**0.5**	0.2
Current tax charge	**91.8**	81.6
Deferred tax		
Current period deferred taxation movement	**2.8**	3.8
(Over)/under provision relating to prior periods	**(0.4)**	0.3
Total tax charge per consolidated income statement	**94.2**	85.7

Factors affecting the total tax charge are:

	31 December 2019 £m	31 December 2018 £m
Profit before tax	**522.6**	476.2

Corporation tax thereon at effective UK corporation tax rate of 19.0% (2018: 19.0%)	**99.3**	90.5
Expenses and provisions not deductible for tax purposes	**1.8**	0.7
Non-taxable income	**(4.9)**	(6.0)
Impact of change in UK tax rate on deferred tax balances	**0.3**	0.5
Adjustments relating to prior periods	**0.1**	0.6
Impact of different overseas tax rates	**(8.8)**	(8.2)
Unrecognised deferred tax	**6.4**	7.6
Total tax charge for the period as above	**94.2**	85.7

The outstanding corporation tax payable as at 31 December 2019 was £48.3 million (2018: £49.3 million).

10c. Deferred income tax asset/(liability)

Analysis of deferred tax asset/(liability)

	Tax treatment of share schemes £m	Capital allowances £m	Carried forward losses £m	Fair value reserve £m	Other differences £m	Total £m
Balance brought forward at 1 January 2018	**6.1**	**(4.5)**	**2.9**	**(4.6)**	**0.4**	**0.3**
Tax treatment of share scheme charges through income or expense	(2.2)	—	—	—	—	(2.2)
Tax treatment of share scheme charges through reserves	3.3	—	—	—	—	3.3
Capital allowances	—	0.9	—	—	—	0.9
Carried forward losses	—	—	(2.9)	—	—	(2.9)
Movement in fair value reserve	—	—	—	0.7	—	0.7
Other difference	—	—	—	—	0.1	0.1
Balance carried forward at 31 December 2018	**7.2**	**(3.6)**	—	**(3.9)**	**0.5**	**0.2**
Tax treatment of share scheme charges through income or expense	(4.6)	—	—	—	—	(4.6)
Tax treatment of share scheme charges through reserves	3.3	—	—	—	—	3.3
Capital allowances	—	1.5	—	—	—	1.5
Carried forward losses	—	—	—	—	—	—
Movement in fair value reserve	—	—	—	(1.5)	—	(1.5)
Other difference	—	—	—	—	0.7	0.7
Balance carried forward at 31 December 2019	**5.9**	**(2.1)**	—	**(5.4)**	**1.2**	**(0.4)**

Positive amounts presented above relate to a deferred tax asset position.

The average effective rate of tax for 2019 is 19.0% (2018: 19.0%). A further reduction to the main rate of corporation tax to 17% (effective from 1 April 2020) was enacted on 15 September 2016 but is expected to be reversed. This would reduce the Group's future current tax charge accordingly.

The deferred tax asset in relation to carried forward losses remains at £nil at the year end (2018: £nil) due to uncertainty over the availability of future taxable profits against which to offset utilise any deferred tax asset (see note 3 for details of how future taxable profits are estimated).

At 31 December 2019 the Group had unused tax losses amounting to £231.3 million (2018: £217.5 million), relating primarily to the Group's US businesses Elephant Auto and compare.com, for which no deferred tax asset has been recognised. The earliest expiry date for any of these tax losses is 2029. The total aggregated unrecognised deferred tax liabilities on temporary differences associated with subsidiaries is £nil (2018: £nil).

11. Other assets and other liabilities

11a. Accounting policy

(i) Property and equipment, and depreciation

All property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost less residual values of the assets over their useful economic lives. These useful economic lives are as follows:

Improvements to short leasehold buildings – four to ten years

Computer equipment – two to four years

Office equipment – four years

Furniture and fittings – four years

Motor vehicles – four years

Right-of-use assets - 2 – 20 years, aligned to lease agreement

In line with the adoption of IFRS 16, and as set out further in notes 2 and 6h to the financial statements, a right-of-use asset has been established in relation the Group's lease arrangements.

The right-of-use asset is measured at cost, which comprises the following:

- the amount of the initial measurement of lease liability (see notes 2 and 6h to the financial statements)
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the lease term and the asset's useful life on a straight-line basis.

The Group does not have any significant leases which qualify for the short-term leases or leases of low-value assets exemption.

(ii) Impairment of property and equipment

In the case of property and equipment, carrying values are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The carrying value is the higher of the fair value of the asset, less costs to sell and the asset's value in use. Impairment losses are recognised through the income statement.

(iv) Intangible assets

Goodwill

All business combinations are accounted for using the acquisition method. Goodwill has been recognised in acquisitions of subsidiaries, and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

The classification and accounting treatment of acquisitions occurring before 1 January 2004 have not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004 due to the exemption available in IFRS 1 (First time adoption). In respect of acquisitions prior to 1 January 2004, goodwill is included at the transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP, which was tested for impairment at the transition date. On transition, amortisation of goodwill has ceased as required by IAS 38.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGUs) according to business segment and is reviewed annually for impairment.

The goodwill held on the balance sheet at 31 December 2019 and 2018 is allocated solely to the UK Insurance segment.

Impairment of goodwill

The annual impairment review involves comparing the carrying amount to the estimated recoverable amount (by allocating the goodwill to CGUs) and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the income statement and are not subsequently reversed.

The recoverable amount is the greater of the fair value of the asset less costs to sell and the value in use of the CGU.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond this period are considered, but not included in the calculation.

The key assumptions used in the value in use calculations are those regarding growth rates and expected changes in pricing and expenses incurred during the period. Management estimates growth rates and changes in pricing based on past practices and expected future changes in the market.

The headroom above the goodwill carrying value is very significant, and there is no foreseeable event that would eliminate this margin.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that correspond to the unearned premiums provision at the balance sheet date. This balance is held as an intangible asset. It is amortised over the term of the contract as premium is earned.

Software

Purchased software is recognised as an intangible asset and amortised over its expected useful life (generally the licence term). Internally generated software is recognised as an intangible asset, with directly attributable costs incurred in the development stage capitalised. The internally generated software assets are amortised over the expected useful life of the systems and amortisation commences when the software is available for use.

The carrying value of software is reviewed every six months for evidence of impairment, with the value being written down if any impairment exists. Impairment may be reversed if conditions subsequently improve.

(iv) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when a legal or constructive obligation arises as a result of an event that occurred before the balance sheet date, when a cash-outflow relating to this obligation is probable and when the amount can be estimated reliably.

Where a material obligation exists, but the likelihood of a cash out-flow or the amount is uncertain, or where there is a possible obligation arising from a past event that is contingent on a future event, a contingent liability is disclosed.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of future events. Where it is probable that a cash-inflow will arise from a contingent asset, this is disclosed.

11b. Property and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	ROU Asset – Leasehold buildings £m	Total £m
Cost						
At 1 January 2018	28.7	57.2	19.7	9.8	—	115.4
Additions	3.1	4.9	1.9	0.1	—	10.0
Disposals	(0.7)	(0.1)	(0.2)	(0.2)	—	(1.2)

Transfers	(1.2)	—	—	—	—	(1.2)
Foreign exchange movement	(0.1)	0.1	—	0.1	—	0.1
At 31 December 2018	29.8	62.1	21.4	9.8	—	123.1
Depreciation						
At 1 January 2018	14.9	45.9	15.2	8.1	—	84.1
Charge for the year	2.8	6.5	1.9	0.8	—	12.0
Disposals	(0.7)	(0.1)	(0.1)	(0.1)	—	(1.0)
Foreign exchange movement	(0.2)	—	—	0.1	—	(0.1)
At 31 December 2018	16.8	52.3	17.0	8.9	—	95.0
Net book amount						
At 1 January 2018	13.8	11.3	4.5	1.7	—	31.3
Net book amount						
At 31 December 2018	13.0	9.8	4.4	0.9	—	28.1
Cost						
At 1 January 2019	29.8	62.1	21.4	9.8	—	123.1
Initial application of IFRS 16	—	—	—	—	136.7	136.7
Additions	4.2	9.7	1.8	0.9	—	16.6
Disposals	—	(0.2)	(0.6)	(0.2)	—	(1.0)
Transfers	(0.4)	0.1	—	0.3	—	—
Foreign exchange and other movements*1	(0.2)	(0.3)	(0.2)	(0.2)	(2.3)	(3.2)
At 31 December 2019	33.4	71.4	22.4	10.6	134.4	272.2
Depreciation						
At 1 January 2019	16.8	52.3	17.0	8.9	—	95.0
Initial application of IFRS 16	—	—	—	—	—	—
Charge for the year	3.2	6.7	1.5	0.5	11.9	23.8
Disposals	—	(0.1)	—	(0.2)	—	(0.3)
Foreign exchange movement	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.7)
At 31 December 2019	19.8	58.7	18.4	9.1	11.8	117.8
Net book amount						
At 31 December 2019	**13.6**	**12.7**	**4.0**	**1.5**	**122.6**	**154.4**

*1 Within foreign exchange and other movements for the ROU asset, £0.6m relates to remeasurements of the ROU asset due to amendments to the payment terms of the leasing arrangement.

11c. Intangible Assets

	Goodwill £m	Deferred acquisition costs £m	Software*1 £m	Total £m
At 1 January 2018	62.3	20.6	76.5	159.4
Additions	—	53.1	13.9	67.0
Amortisation charge	—	(50.5)	(15.5)	(66.0)
Disposals	—	—	—	—
Transfers	—	—	1.2	1.2
Foreign exchange movement	—	0.2	0.2	0.4
At 31 December 2018	62.3	23.4	76.3	162.0
Additions	—	54.8	17.0	71.8
Amortisation charge	—	(52.8)	(17.4)	(70.2)
Disposals	—	—	(0.3)	(0.3)
Impairment	—	—	(1.2)	(1.2)
Transfers	—	—	—	—
Foreign exchange movement	—	(0.6)	(1.2)	(1.8)
At 31 December 2019	**62.3**	**24.8**	**73.2**	**160.3**

*1 Software additions relating to internal development are immaterial in both 2019 and 2018

Goodwill relates to the acquisition of Group subsidiary EUI Limited (formerly Admiral Insurance Services Limited) in November 1999. As described in the accounting policies, the amortisation of this asset ceased on transition to IFRS on 1 January 2004. All annual impairment reviews since the transition date have indicated that the estimated recoverable value of the asset is greater than the carrying amount and therefore no impairment losses have been recognised. Refer to the accounting policy for goodwill for further information.

11d. Trade and other payables

	31 December 2019 £m	31 December 2018 £m

Trade payables	**37.5**	37.9
Amounts owed to co-insurers	**220.8**	153.2
Amounts owed to reinsurers	**1,221.3**	1,122.7
Other taxation and social security liabilities	**79.6**	60.4
Other payables	**188.1**	196.0
Accruals and deferred income (see below)	**228.6**	231.3
Total trade and other payables	**1,975.9**	1,801.5

Of amounts owed to co-insurers and reinsurers (recognised under IFRS 4), £1,129.6 million (2018: £1,022.7 million) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2019 £m	31 December 2018 £m
Premium received in advance of policy inception	**131.7**	127.2
Accrued expenses	**57.4**	64.8
Deferred income	**39.5**	39.3
Total accruals and deferred income as above	**228.6**	231.3

11e. Leases

Information presented in this note is in accordance with IFRS 16. Comparative information presented for the year ended 31 December 2018 is in accordance with IAS 17.

Admiral Group plc hold various property under leasing arrangements that are now recognised as right of use assets and lease liabilities. A reconciliation to the prior year operating lease commitment can be found in note 2b. A maturity analysis of lease liabilities based on contractual undiscounted cashflows is set out below:

	31 December 2019 £m	31 December 2018 £m
Maturity analysis – contractual undiscounted cash flows		
Within one year	**12.9**	14.8
Between two to five years	**47.9**	54.3
Over five years	**102.0**	116.8
Total	**162.8**	185.9

Amounts recognised in the statement of financial position are as follows:

	31 December 2019 £m
Lease liabilities	
Current	**9.7**
Non-Current	**127.4**
Total	**137.1**

Amounts recognised in the income statement are as follows:

	31 December 2019 £m
Interest payable on lease liabilities under IFRS 16	**3.2**
Interest recoverable from co and re-insurers	**(2.0)**
	1.2

The Group has no significant financial commitments other than those accounted for as right of use assets and lease liabilities under IFRS 16.

11f. Contingent liabilities

The Groups' legal entities operate in numerous tax jurisdictions and on a regular basis are subject to review and enquiry by the relevant tax authority.

Rastreator Comparador Correduria Seguros ("Rastreator Comparador"), the Group's Spanish Comparison business, has recently undergone a tax audit in respect of the 2013 and 2014 financial years. As a result of the audit, the Spanish Tax Authority has denied the VAT exemption relating to insurance intermediary services which Rastreator Comparador has applied. Rastreator Comparador is appealing this decision via the Spanish Courts and is confident in defending its position which is, in its view, in line with the EU Directive and is also consistent with the way similar supplies are treated throughout Europe.

The potential liability for the financial years currently subject to audit is approximately €5m, and, as identified in note 6, a bank guarantee has been provided to the Spanish Tax Authority for this amount. If the exemption is also disallowed in respect of later years, the liability could increase to €19m.

The Group is also in early stage discussions on various corporate tax matters with tax authorities in the UK and Italy.

No provision has been made in these financial statements in relation to the matters noted above.

12. Share capital

The Group's capital includes share capital and the share premium account, other reserves which are comprised of the fair value reserve and foreign exchange reserve, and retained earnings.

12a. Accounting policies

(i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(ii) Dividends

Dividends are recorded in the period in which they are declared and paid.

(iii) Earnings per share

Basic Earnings per share is calculated by dividing profit or loss attributable to equity holders of the Group parent company, Admiral Group plc by the weighted average number of ordinary shares during the period.

Diluted Earnings per share is calculated by dividing profit or loss attributable to equity holders of the Group parent company by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

12b. Dividends

Dividends were proposed, approved and paid as follows:

	31 December 2019 £m	31 December 2018 £m
Proposed March 2018 (58.0 pence per share, approved April 2018, paid June 2018)	—	163.3
Declared August 2018 (60.0 pence per share, paid October 2018)	—	169.4
Proposed March 2019 (66.0 pence per share, approved April 2019, paid June 2019)	**188.0**	—
Declared August 2019 (63.0 pence per share, paid October 2019)	**179.8**	—
Total dividends	**367.8**	332.7

The dividends proposed in March (approved in April) represent the final dividends paid in respect of the 2017 and 2018 financial years. The dividends declared in August are interim distributions in respect of 2018 and 2019.

A final dividend of 77.0 pence per share (£222 million) has been proposed in respect of the 2019 financial year. Refer to the Chairman's Statement and Strategic Report for further detail.

12c. Earnings per share

	31 December 2019 £m	31 December 2018 £m
Profit for the financial year after taxation attributable to equity shareholders	**432.4**	395.1
Weighted average number of shares – basic	**291,513,714**	288,197,247
Unadjusted earnings per share – basic	**148.3p**	137.1p
Weighted average number of shares – diluted	**292,094,797**	288,845,845
Unadjusted earnings per share – diluted	**148.0p**	136.8p

The difference between the basic and diluted number of shares at the end of 2019 (being 581,083; 2018: 648,598) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 9 for further detail.

12d. Share capital

	31 December 2019 £m	31 December 2018 £m
Authorised		
500,000,000 ordinary shares of 0.1 pence	**0.5**	0.5
Issued, called up and fully paid		
293,686,329 ordinary shares of 0.1 pence	**0.3**	—
290,502,737 ordinary shares of 0.1 pence	**—**	0.3
	0.3	0.3

During 2019, 3,183,592 (2018: 3,288,475) new ordinary shares of 0.1 pence were issued to the trusts administering the Group's share schemes.

883,592 (2018: 988,475) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme to give a closing number at 31 December 2019 of 11,628,981 (31 December 2018: 10,745,389). Of the shares issued, 4,389,821 remain in the Trust at 31 December 2019 (2018: 4,311,425). These shares are entitled to receive dividends.

2,300,000 (2018: 2,300,000) shares were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme resulting in cumulative shares issued to the Trust of 23,461,948 (31 December 2018: 21,161,948). Of the shares issued 5,823,675 remain in the Trust at 31 December 2019 (2018: 6,170,927) to be used for future vesting, the remaining issued shares having vested.

The balance of awards made to employees under the Discretionary Free Share Scheme that have not either vested or lapsed is 8,691,542 (2018: 9,218,956).

The Trustees have waived the right to dividend payments, other than to the extent of 0.001 pence per share, unless and to the extent otherwise directed by the Company from time to time.

There is one class of share with no unusual restrictions.

12e. Objectives, policies and procedures for managing capital

The Group's capital management policy defines the Board oversight, risk appetite and tier structure of the Group's capital in addition to management actions that may be taken in respect of capital, such as dividend payments.

The Group aims to operate a capital-efficient business model by transferring a significant proportion of underwriting risk to co-insurance and reinsurance partners. This in turn reduces the amount of capital the Group needs to retain to operate and grow, and allows the Group to distribute the majority of its earnings as dividends.

The Board has determined that it will hold capital as follows:

- Sufficient Solvency II Own Funds to meet all of the Group's Solvency II capital requirements (over a 1 year and ultimate time horizon).
- An additional contingency to cover unforeseen events and losses that could realistically arise. This risk appetite buffer is assessed via stress testing performed on an annual basis and is calibrated in relation to the one-year regulatory SCR.

The Group's current risk appetite buffer is 30% above the regulatory SCR. This forms the lower bound of the longer-term solvency target operating range of 130% to 150%.

The Group's dividend policy is to:

- Pay a normal dividend equal to 65% of post-tax profits for the period
- Pay a special dividend calculated with reference to distributable reserves and surplus capital held above the risk appetite buffer.

This policy gives the Directors flexibility in managing the Group's capital.

As noted above, the Group's regulatory capital position is calculated under the Solvency II Framework. The Solvency Capital Requirement is based on the Solvency II Standard Formula, with a capital-add-on to reflect limitations in the Standard Formula with respect to Admiral's risk profile (predominately in respect of profit commission arrangements in co-and reinsurance agreements and risks relating to Periodic Payment Order (PPO) claims.

Solvency Ratio (Unaudited)

At the date of this report (4 March 2020), the Group's regulatory solvency ratio, calculated using a capital add-on that has not been subject to regulatory approval, is 190% (2018: 194%). This includes the recognition of the 2019 final dividend of 77 pence per share (2018: 66 pence per share).

The Group's 2019 Solvency and Financial Condition Report (SFCR) will, when published, disclose a solvency ratio that is calculated at the balance sheet dater rather than annual report date, using the capital add-on that was most recently subject to regulatory approval. The estimated and unaudited SFCR solvency ratio is 172%, with the reconciliation between this ratio and the 190% noted above being as follows:

	31 December 2019 £m	31 December 2018 £m
Regulatory Solvency Ratio (Unaudited)		
Solvency Ratio reported in the Annual Report	**190%**	194%
Change in valuation date	**(10%)**	(10%)
Other (including impact of updated, unapproved capital add-on)	**(8%)**	(14%)
Solvency Ratio to be reported in the SFCR	**172%**	170%

Subsidiaries

The Group manages the capital of its subsidiaries to ensure that all entities within the Group are able to continue as going concerns and also to ensure that regulated entities meet regulatory requirements with an appropriate risk appetite buffer. Excess capital above these levels within subsidiaries is paid up to the Group holding company in the form of dividends on a regular basis.

12f. Group related undertakings

The Parent Company's subsidiaries are as follows:

Subsidiary	Class of shares held	% Ownership	Principal Activity
Incorporated in England and Wales			
Registered office: Floors 3 & 4 No. 3 Capital Quarter, Cardiff, CF10 4BZ			
Admiral Law Limited	Ordinary	95	Legal company
Registered office: Admiral House, Queensway, Newport, NP20 4AG			
BDE Law Limited	Ordinary	95 (indirect)	Legal company
Registered office: Ellipse Ground Floor, Padley Road, Swansea, SA1 8AN			
Able Insurance Services Limited	Ordinary	100	Insurance Intermediary

Registered office: Greyfriars House, Greyfriars Road, Cardiff, CF10 3AL			
Penguin Portals Limited	Ordinary	100	Internet-based Comparison Site
Inspop.com Limited	Ordinary	100	Internet-based Comparison Site
Rastreator.com Limited	Ordinary	75	Internet-based Comparison Site
Registered office: Tŷ Admiral, David Street, Cardiff, CF10 2EH			
EUI Limited	Ordinary	100	Insurance Intermediary
Admiral Insurance Company Limited	Ordinary	100	Insurance company
Admiral Life Limited	Ordinary	100	Dormant*
Admiral Syndicate Limited	Ordinary	100	Dormant*
Admiral Syndicate Management Limited	Ordinary	100	Dormant*
Bell Direct Limited	Ordinary	100	Dormant*
Confused.com Limited	Ordinary	100	Dormant*
Diamond Motor Insurance Services Limited	Ordinary	100	Dormant*
Elephant Insurance Services Limited	Ordinary	100	Dormant*
Admiral Financial Services Limited	Ordinary	100	Financial services company
Preminen Price Comparison Holdings Limited	Ordinary	50	Internet-based Comparison Site
Preminen Dragon Price Comparison Limited	Ordinary	50 (indirect)	Internet-based Comparison Site
Incorporated in Gibraltar			
Registered office: 1st Floor, 24 College Lane, Gibraltar, GX11 1AA			
Admiral Insurance (Gibraltar) Limited	Ordinary	100	Insurance company
Incorporated in Spain			
Registered office: Calle Sanchez Pacheco 85 28002 Madrid			
Rastreator Comparador Correduria De Seguros S.L.U.	Ordinary	75 (indirect)	Internet-based Comparison Site
Admiral Europe Compañía de Seguros, S.A.	Ordinary	100	Insurance company
Registered office: Calle Albert Einstein, 10 41092 Sevilla			
Admiral Intermediary Services S.A.	Ordinary	100	Insurance Intermediary
Incorporated in France:			
Registered office: 34 quai de la loire, 75019, Paris			
LeLynx SAS	Ordinary	100	Internet-based Comparison Site
Incorporated in the United States of America			
Registered office: Deep Run 1; Suite 400, 9950 Maryland Drive, Henrico, VA 23233			
Elephant Insurance Company	Ordinary	100	Insurance company
Elephant Insurance Services LLC	Ordinary	100	Insurance intermediary
Grove General Agency Inc	Ordinary	100	Insurance intermediary
Platinum General Agency Inc	Ordinary	100	Insurance intermediary
Registered office: 140 East Shore Drive, Suite 300, Glen Allen, VA 23059			
compare.com Insurance Agency LLC	Ordinary	59.25 (indirect)	Internet-based Comparison Site

Inspop USA LLC	Ordinary	59.25	Internet-based Comparison Site

Incorporated in Mexico

Registered office: Varsovia, 36, 5th floor, office 501, Colonia Juárez, Cuauhtemoc, Ciudad de Mexico

Preminen Mexico Sociedad Anonima de Capital Variable		51.25 (indirect)	Internet-based Comparison Site

Incorporated in Turkey

Registered office: Esentepe MAH. Harman1 SK. Harmanci Giz Plaza 5 1 Sisli/ Istanbul

Preminen Online Fiyat Karşılaştırma Hizmetleri Anonim Şirketi		50 (indirect)	Internet-based Comparison Site
Preminen Sigorta Brokerlik Anonim Sirketi		50 (indirect)	Internet-based Comparison Site

Incorporated in India

Registered office: F-2902, Ireo Grand Arch, Sector 58,, Gurugram, HARYANA, Gurgaon, Haryana, India, 122011

Preminen Price Comparison India Private Limited		50 (indirect)	Internet-based Comparison Site

Subsidiaries by virtue of control

The related undertakings below are subsidiaries in accordance with IFRS 10, as Admiral can exercise dominant influence or control over them:

Registered office: Level 37, 25 Canada Square, Canary Wharf, London, England, E14 5LQ

Seren One Limited	n/a	0	Special purpose entity

Associates

Incorporated in China

Registered office: Room 1806, 15th Floor, Block 16, No. 39 East 3rd Ring Middle Road, Chaoyang District, Beijing

Long Yu Science and Technology (Beijing) Co., Ltd		20.25 (indirect)	Internet-based Comparison Site

Incorporated in Bahrain

Registered office: 4th Floor, Office 42, LMC Building 852, Road 3618, Block 436, Al Seef District, PO Box 60138, Manama, Bahrain

Preminen MENA Price Comparison		15 (indirect)	Internet-based Comparison Site

* Exempt from audit under S479A of Companies Act 2006

For further information on how the Group conducts its business across the UK, Europe and the US, refer to the Strategic Report.

12g. Related party transactions

The Board considers that only the Executive and Non-Executive Directors of Admiral Group plc are key management personnel.

A summary of the remuneration of key management personnel is as follows, with further detail relating to the remuneration and shareholdings of key management personnel set out in the Directors' Remuneration Report.

Key management personnel received short term employee benefits in the year of £1,957,868 (2018: £1,835,302), post-employment benefits of £18,946 (2018: £18,573) and share based payments of £938,258 (2018: £923,400).

Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

12h. Post balance sheet events

No events have occurred since the reporting date that materially impact these financial statements.

13. Reconciliations

The following tables reconcile significant key performance indicators and non-GAAP measures included in the Strategic Report to items included in the financial statements.

13a. Reconciliation of turnover to reported gross premiums written and Other Revenue as per the financial statements

	31 December 2019	31 December 2018

	£m	£m
Gross premiums written after co-insurance per note 5b of financial statements	**2,273.7**	2,166.7
Premiums underwritten through co-insurance arrangements	**610.7**	587.4
Total premiums written before co-insurance arrangements	**2,884.4**	2,754.1
Other Revenue	**469.9**	449.2
Admiral Loans interest income and other fee income	**30.8**	15.4
	3,385.1	3,218.7
Other[*1]	**59.0**	44.9
Turnover as per note 4b of financial statements	**3,444.1**	3,263.6
Intra-group income elimination[*2]	**19.4**	19.3
Total turnover	**3,463.5**	3,282.9

*1 *Other reconciling items represent co-insurer and reinsurer shares of Other Revenue in the Group's Insurance businesses outside of UK Car Insurance.*

*2 *Intra-group income elimination relates to comparison income earned in the Group from other Group companies.*

13b. Reconciliation of claims incurred to reported loss ratios, excluding releases on commuted reinsurance

December 2019	UK Motor £m	UK Home £m	UK Other £m	**UK Total £m**	Int. Car £m	Int. Other £m	**Int. Total £m**	**Group £m**
Net insurance claims (note 5)	164.7	26.8	24.3	**215.8**	137.2	6.3	**143.5**	**359.3**
Deduct claims handling costs	(11.8)	(1.1)	—	**(12.9)**	(7.6)	—	**(7.6)**	**(20.5)**
Prior year release/strengthening – net original share	121.7	2.5	—	**124.2**	14.4	—	**14.4**	**138.6**
Prior year release/strengthening – commuted share	121.7	—	—	**121.7**	—	—	**—**	**121.7**
Impact of reinsurer caps	—	—	—	**—**	(0.1)	—	**(0.1)**	**(0.1)**
Impact of weather events	—	—	—	**—**	—	—	—	—
Impact of subsidence	—	—	—	**—**	—	—	—	—
Attritional current period claims	**396.3**	**28.2**	**24.3**	**448.8**	143.9	6.3	**150.2**	**599.0**
Net insurance premium revenue	**452.6**	**37.2**	**43.4**	**533.2**	168.6	7.6	**176.2**	**709.4**
Loss ratio – current period attritional	87.6%	75.8%	—	**84.2%**	85.3%	—	—	**84.4%**
Loss ratio – current period weather events	—	—	—	**—**	—	—	—	—
Loss ratio – current period subsidence events	—	—	—	**—**	—	—	—	—
Loss ratio – prior year release/strengthening (net original share)	(26.9%)	(6.7%)	—	**(23.3%)**	(8.5%)	—	—	**(19.5%)**
Loss ratio – reported	**60.7%**	**69.1%**	—	**60.9%**	76.8%	—	—	**64.9%**

December 2018	UK Motor £m	UK Home £m	UK Other £m	**UK Total £m**	Int. Car £m	Int. Other £m	**Int. Total £m**	**Group £m**
Net insurance claims (note 5)	189.2	29.3	24.0	**242.5**	104.1	3.5	**107.6**	**350.1**
Deduct claims handling costs	(11.3)	(0.5)	—	**(11.8)**	—	—	**—**	**(11.8)**
Prior year release/strengthening – net original share	111.4	1.4	—	**112.8**	13.5	—	**13.5**	**126.3**
Prior year release/strengthening – commuted share	109.6	—	—	**109.6**	—	—	**—**	**109.6**

Impact of reinsurer caps	—	—	—	**—**	4.5	—	**4.5**	**4.5**
Impact of weather events	—	(3.5)	—	**(3.5)**	—	—	—	**(3.5)**
Impact of subsidence	—	(2.5)	—	**(2.5)**	—	—	—	**(2.5)**
Attritional current period claims	**398.9**	**24.2**	**24.0**	**447.1**	**122.1**	**3.5**	**125.6**	**572.7**
Net insurance premium revenue	**452.5**	**31.2**	**40.2**	**523.9**	**141.7**	**6.2**	**147.9**	**671.8**
Loss ratio – current period attritional	88.1%	77.6%	—	**85.3%**	86.1%	—	—	**85.2%**
Loss ratio – current period weather events	—	11.2%	—	**0.7%**	—	—	—	**0.5%**
Loss ratio – current period subsidence events	—	7.9%	—	**0.5%**	—	—	—	**0.4%**
Loss ratio – prior year release/strengthening (net original share)	(24.6%)	(4.4%)	—	**(21.5%)**	(9.5%)	—	—	**(18.8%)**
Loss ratio – reported*1	**63.5%**	**92.3%**	—	**65.0%**	**76.6%**	—	—	**67.3%**

*1 The group reported loss ratio has been represented at FY 2019 to include the impact of weather events

13c. Reconciliation of expenses related to insurance contracts to reported expense ratios

December 2019	UK Motor £m	UK Home £m	UK Other £m	**UK Total £m**	Int. Car £m	Int. Other £m	**Int. Total £m**	**Group £m**
Net insurance expenses (note 9)	63.4	9.3	4.9	**77.6**	45.8	1.3	**47.1**	**124.7**
Claims handling costs	11.8	1.1	—	**12.9**	7.6	—	**7.6**	**20.5**
Intra-group expenses elimination*1	10.8	0.4	1.1	**12.3**	7.1	—	**7.1**	**19.4**
Impact of reinsurer caps	—	—	—	**—**	2.9	—	**2.9**	**2.9**
Net IFRS 16 finance costs	0.5	—	—	**0.5**	0.1	—	**0.1**	**0.6**
Adjusted net insurance expenses	**86.5**	**10.8**	**6.0**	**103.3**	**63.5**	1.3	**64.8**	**168.1**
Net insurance premium revenue	**452.6**	**37.2**	**43.4**	**533.2**	**168.6**	7.6	**176.2**	**709.4**
Expense ratio – reported	19.1%	28.9%	—	**19.4%**	37.6%	—	—	**23.7%**

December 2018	UK Motor £m	UK Home £m	UK Other £m	**UK Total £m**	Int. Car £m	Int. Other £m	**Int. Total £m**	**Group £m**
Net insurance expenses (note 9)	59.7	7.4	5.6	**72.7**	49.7	2.6	**52.3**	**125.0**
Claims handling costs	11.3	0.5	—	**11.8**	—	—	**—**	**11.8**
Intra-group expenses elimination*1	12.3	0.8	—	**13.1**	6.2	—	**6.2**	**19.3**
Impact of reinsurer caps	—	—	—	**—**	0.2	—	**0.2**	**0.2**
Other adjustment*2	—	—	—	**—**	—	(2.6)	**(2.6)**	**(2.6)**
Adjusted net insurance expenses	**83.3**	**8.7**	**5.6**	**97.6**	**56.1**	**—**	**56.1**	**153.7**
Net insurance premium revenue	**452.5**	**31.2**	**40.2**	**523.9**	**141.7**	**6.2**	**147.9**	**671.8**

Expense ratio – reported	18.4%	28.1%	—	—	39.6%	—	—	**22.9%**

*1 The intra-group expenses elimination amount relates to aggregator fees charges by the Group's comparison entities to other Group companies.
*2 Other adjustments relate to additional products underwritten in the Group's International Insurance businesses. The contribution from these products is reported as ancillary income and as such the amounts are excluded for the purpose of calculations of expense ratios.

13d. Reconciliation of statutory profit before tax to Group's share of profit before tax

	31 December 2019 £m	31 December 2018 £m
Reported profit before tax per the consolidated income statement	**522.6**	476.2
Non-controlling interest share of profit before tax	**3.5**	3.1
Group's share of profit before tax	**526.1**	479.3

13e. Reconciliation of share scheme charges in Strategic report to Consolidated income statement and Consolidated statement of changes in equity

	31 December 2019 £m	31 December 2018 £m
Net share scheme charges included in Group's share of profit before tax	**52.7**	49.0
Non-controlling interest share of net share scheme charges	**0.7**	0.8
Net share scheme charges included in Group profit before tax	**53.4**	**49.8**

13f. Reconciliation of note 4 to Strategic Report

i) UK Insurance

2019	Motor £m	Household £m	Travel £m	**Total £m**
Turnover	**2,455.3**	**171.3**	**8.4**	**2,635.0**
UK Insurance profit before tax – Strategic report	591.5	7.5	(1.6)	**597.4**
Non-controlling interest share of PBT	0.5	—	—	**0.5**
Statutory profit/(loss) before tax	**592.0**	**7.5**	**(1.6)**	**597.9**

2018	Motor £m	Household £m	Travel £m	**Total £m**
Turnover	**2,423.1**	**146.0**	**6.6**	**2,575.7**
UK Insurance profit before tax – Strategic report	561.7	(3.0)	(3.1)	**555.6**
Non-controlling interest share of PBT	1.1	—	—	**1.1**
Statutory profit/(loss) before tax	**562.8**	**(3.0)**	**(3.1)**	**556.7**

ii) International Insurance

2019	Spain £m	Italy £m	France £m	US £m	**Total £m**
Turnover	78.2	204.2	108.1	233.1	**623.6**
Profit/(loss) before tax – Strategic Report and Statutory		8.7		(9.6)	**(0.9)**

2018	Spain £m	Italy £m	France £m	US £m	**Total £m**
Turnover	67.6	176.8	80.5	213.8	**538.7**
Profit/(loss) before tax – Strategic Report and Statutory		6.4		(7.5)	**(1.1)**

iii) Comparison

2019	Confused £m	European £m	Compare £m	Other £m	**To**
Turnover	**112.7**	**50.1**	**7.3**	**1.5**	**17**
Group's share of profit before tax – Strategic Report	20.4	3.5	(4.3)	**(1.6)**	**1**
Non-controlling interest share of profit/(loss) before tax	—	1.0	(2.9)	**(1.4)**	**(3**
Statutory profit/(loss) before tax	**20.4**	**4.5**	**(7.2)**	**(3.0)**	**1**

2018	Confused £m	European £m	Compare £m	**Total £m**
Turnover	**95.1**	**46.3**	**9.7**	**151.0**
Group's share of profit before tax – Strategic Report	14.3	1.4	(6.9)	**8.8**

Non-controlling interest share of profit/(loss) before tax	—	0.9	(3.1)	**(2.2)**
Statutory profit/(loss) before tax	**14.3**	**2.3**	**(10.0)**	**6.6**

14. Statutory Information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Consolidated financial summary (unaudited)

Basis of preparation

The figures below are as stated in the Group financial statements preceding this financial summary and issued previously. Only selected lines from the income statement and balance sheet have been included.

Income statement

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Total premiums	**2,938.6**	2,766.4	2,499.4	2,193.9	1,805.2
Net insurance premium revenue	**709.4**	671.8	619.1	548.8	467.0
Other Revenue	**494.4**	460.6	401.1	360.6	319.8
Profit commission	**114.9**	93.2	67.0	54.3	85.4
Investment and interest income	**35.3**	36.0	41.7	53.1	32.6
Net revenue	**1,354.0**	1,261.6	1,128.9	1,016.8	904.8
Net insurance claims	**(359.3)**	(350.1)	(347.1)	(394.6)	(226.5)
Net expenses	**(459.5)**	(424.0)	(366.9)	(332.4)	(298.5)
Operating profit	**535.2**	487.5	414.9	289.8	379.8
Net finance costs	**(12.6)**	(11.3)	(11.4)	(11.4)	(11.1)
Profit before tax	**522.6**	476.2	403.5	278.4	368.7

Balance sheet

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Property and equipment	**154.4**	28.1	31.3	32.0	34.9
Intangible assets	**160.3**	162.0	159.4	162.3	142.3
Deferred income tax	—	0.2	0.3	8.4	20.6
Reinsurance assets	**2,071.7**	1,883.5	1,637.6	1,126.4	878.7
Insurance and other receivables	**1,227.7**	1,082.0	939.7	784.9	537.1
Loans and advances to customers	**455.1**	300.2	66.2		
Financial investments	**3,234.5**	2,969.7	2,697.8	2,420.2	2,323.5
Cash and cash equivalents	**281.7**	376.8	326.8	326.6	265.3
Total assets	**7,585.4**	6,802.5	5,859.1	4,860.8	4,202.4
Equity	**918.6**	771.1	655.8	581.7	632.9
Insurance contracts	**3,975.0**	3,736.4	3,313.9	2,749.5	2,295.0
Subordinated and other financial liabilities	**530.1**	444.2	224.0	224.0	223.9
Trade and other payables	**1,975.9**	1,801.5	1,641.6	1,292.2	1,015.0
Lease liabilities	**137.1**	—	—	—	—
Deferred income tax	**0.4**	—	—	—	—
Current tax liabilities	**48.3**	49.3	23.8	13.4	35.6
Total equity and total liabilities	**7,585.4**	6,802.5	5,859.1	4,860.8	4,202.4

Glossary

Alternative Performance Measures

Throughout this report, the Group uses a number of Alternative Performance Measures (APMs); measures that are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements.

These APMs are used by the Group, alongside GAAP measures, for both internal performance analysis and to help shareholders and other users of the Annual Report and financial statements to better understand the Group's performance in the period in comparison to previous periods and the Group's competitors.

The table below defines and explains the primary APMs used in this report. Financial APMs are usually derived from financial statement items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated. Non financial KPIs incorporate information that cannot be derived from the financial statements but provide further insight into the performance and financial position of the Group.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

Turnover	Turnover is defined as total premiums written (as below), other revenue and income from Admiral Loans. It is reconciled to financial statement line items in note 13a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the total value of the revenue generated by the Group and analysis of this measure over time provides a clear indication of the size and growth of the Group. The measure was developed as a result of the Group's business model. The core UK Car insurance business has historically shared a significant proportion of the risks with Munich Re, a third party reinsurance Group, through a co-insurance arrangement, with the arrangement subsequently being replicated in some of the Group's international insurance operations. Premiums and claims accruing to the external co-insurer are not reflected in the Group's income statement and therefore presentation of this metric enables users of the Annual Report to see the scale of the Group's insurance operations in a way not possible from taking the income statement in isolation.
Total Premiums Written	Total premiums written are the total forecast premiums, net of forecast cancellations written in the underwriting year within the Group, including co-insurance. It is reconciled to financial statement line items in note 13a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the total premiums written by the Group's insurance intermediaries and analysis of this measure over time provides a clear indication of the growth in premiums, irrespective of how co-insurance agreements have changed over time. The reasons for presenting this measure are consistent with that for the Turnover APM noted above.
Group's share of Profit before Tax	Group's share of profit before tax represents profit before tax, excluding the impact of Non-controlling Interests. It is reconciled to statutory profit before tax in note 13d to the financial statements. This measure is useful in presenting the limit of the Group's exposure to the expenditure incurred in starting up new businesses and demonstrates the 'test-and-learn' strategy employed by the Group to expansion into new territories.
Underwriting result (profit or loss)	For each insurance business an underwriting result is presented showing the segment result prior to the inclusion of profit commission, other income contribution and instalment income. It demonstrates the insurance result, i.e. premium revenue and investment income on insurance assets less claims incurred and insurance expenses.
Loss Ratio	Reported loss ratios are expressed as a percentage of claims incurred divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present

the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 13b to the accounts and explanation is as follows.

UK reported motor loss ratio: Within the UK insurance segment the Group separately presents motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the impact of reserve releases on commuted reinsurance contracts and ii) exclude claims handling costs that are reported within claims costs in the income statement.

International insurance loss ratio: As for the UK Motor loss ratio, the international insurance loss ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to exclude the claims element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer claims costs would distort the underlying performance of the business.

Group loss ratios: Group loss ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) exclude the impact of reserve releases on commuted reinsurance contracts, ii) exclude claims handling costs that are reported within claims costs in the income statement and iii) exclude the claims element of the impact of international reinsurer caps.

Expense Ratio

Reported expense ratios are expressed as a percentage of net operating expenses divided by net earned premiums.

There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 13c to the accounts and explanation is as follows.

UK reported motor expense ratio: Within the UK insurance segment the Group separately presents motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) include claims handling costs that are reported within claims costs in the income statement and ii) include intra-group aggregator fees charged by the UK comparison business to the UK insurance business.

International insurance expense ratio: As for the UK Motor loss ratio, the international insurance expense ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the expense element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer expenses would distort the underlying performance of the business and ii) include intra-group aggregator fees charged by the overseas comparison businesses to the international insurance businesses.

Group expense ratios: Group expense ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) include claims handling costs that are reported within claims costs in the income statement, ii) include intra-group aggregator fees charged by the Group's comparison businesses to the Group's insurance businesses and iii) exclude the

	expense element of the impact of international reinsurer caps.
Combined Ratio	Reported combined ratios are the sum of the loss and expense ratios as defined above. Explanation of these figures is noted above and reconciliation of the calculations are provided in notes 13b and 13c.
Return on Equity	Return on equity is calculated as profit after tax for the period attributable to equity holders of the Group divided by the average total equity attributable to equity holders of the Group in the year. This average is determined by dividing the opening and closing positions for the year by two. The relevant figures for this calculation can be found within the consolidated statement of changes in equity.
Group Customers	Group customer numbers reflect the total number of cars, households and vans on cover at the end of the year, across the Group. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the Group's customer base and analysis of this measure over time provides a clear indication of the growth. It is also a useful indicator of the growing significance to the Group of the different lines of business and geographic regions.
Effective Tax Rate	Effective tax rate is defined as the approximate tax rate derived from dividing the Group's profit before tax by the tax charge going through the income statement. It is a measure historically presented by the Group and enables users to see how the tax cost incurred by the Group compares over time and to current corporation tax rates.

Additional Terminology

There are many other terms used in this report that are specific to the Group or the markets in which it operates. These are defined as follows:

Accident year	The year in which an accident occurs, also referred to as the earned basis.
Actuarial best estimate	The probability-weighted average of all future claims and cost scenarios calculated using historical data, actuarial methods and judgement.
ASHE	'Annual Survey of Hours and Earnings' – a statistical index that is typically used for calculation inflation of annual payment amounts under Periodic Payment Order (PPO) claims settlements.
Claims reserves	A monetary amount set aside for the future payment of incurred claims that have not yet been settled, thus representing a balance sheet liability.
Co-insurance	An arrangement in which two or more insurance companies agree to underwrite insurance business on a specified portfolio in specified proportions. Each co-insurer is directly liable to the policyholder for their proportional share.
Commutation	An agreement between a ceding insurer and the reinsurer that provides for the valuation, payment, and complete discharge of all obligations between the parties under a particular reinsurance contract. The Group typically commutes UK Car insurance quota share contracts after 24 months from the start of an underwriting year where it makes economic sense to do so. Although an individual underwriting year may be profitable, the margin held in the financial statement claims reserves may mean that an accounting loss on commutation must be recognised at the point of commutation of the reinsurance contracts. This loss on commutation unwinds in future periods as the financial statement loss ratios develop to ultimate.
Insurance market cycle	The tendency for the insurance market to swing between highs and lows of profitability over time, with the potential to influence premium rates (also known as the "underwriting cycle").

Net claims	The cost of claims incurred in the period, less any claims costs recovered under reinsurance contracts. It includes both claims payments and movements in claims reserves.
Net insurance premium revenue	Also referred to as net earned premium. The element of premium, less reinsurance premium, earned in the period.
Ogden discount rate	The discount rate used in calculation of personal injury claims settlements. The rate is set by the Lord Chancellor.
Periodic Payment Order (PPO)	A compensation award as part of a claims settlement that involves making a series of annual payments to a claimant over their remaining life to cover the costs of the care they will require.
Premium	A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract. Written premium refers to the total amount the policyholder has contracted for, whereas earned premium refers to the recognition of this premium over the life of the contract.
Profit commission	A clause found in some reinsurance and coinsurance agreements that provides for profit sharing.
Reinsurance	Contractual arrangements whereby the Group transfers part or all of the insurance risk accepted to another insurer. This can be on a quota share basis (a percentage share of premiums, claims and expenses) or an excess of loss basis (full reinsurance for claims over an agreed value).
Securitisation	A process by which a group of assets, usually loans, is aggregated into a pool, which is used to back the issuance of new securities. A company transfer assets to a special purpose entity (SPE) which then issues securities backed by the assets.
Special Purpose Entity (SPE)	An entity that is created to accomplish a narrow and well-defined objective. There are specific restrictions or limited around ongoing activities. The Group uses an SPE set up under a securitisation programme.
Ultimate loss ratio	A projected actuarial best estimate loss ratio for a particular accident year or underwriting year.
Underwriting year	The year in which the policy was incepted.
Underwriting year basis	Also referred to as the written basis. Claims incurred are allocated to the calendar year in which the policy was underwritten. Underwriting year basis results are calculated on the whole account (including co-insurance and reinsurance shares) and include all premiums, claims, expenses incurred and other revenue (for example instalment income and commission income relating to the sale of products that are ancillary to the main insurance policy) relating to policies incepting in the relevant underwriting year.
Written/Earned basis	A policy can be written in one calendar year but earned over a subsequent calendar year.