

# ADMIRAL GROUP plc

2008 Full Year Results

March 2009



**Diamond**



.co.uk

**Bell**

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# Agenda

## ■ Kevin Chidwick, Finance Director

- Highlights
- UK car insurance results
- Investments
- Reinsurance
- Dividend

## ■ David Stevens, Chief Operating Officer

- UK car insurance market
- Price comparison market and Confused.com

## ■ Henry Engelhardt, Chief Executive Officer

- International businesses
- Summary
- Questions



# Admiral Is STILL Different

	2004	2005	2006	2007	2008
■ Highly Profitable	✓	✓	✓	✓	✓
■ Fast Growing	✓	✓	✓	✓	✓
■ Strongly Cash Generative	✓	✓	✓	✓	✓
■ Low Risk Profits	✓	✓	✓	✓	✓



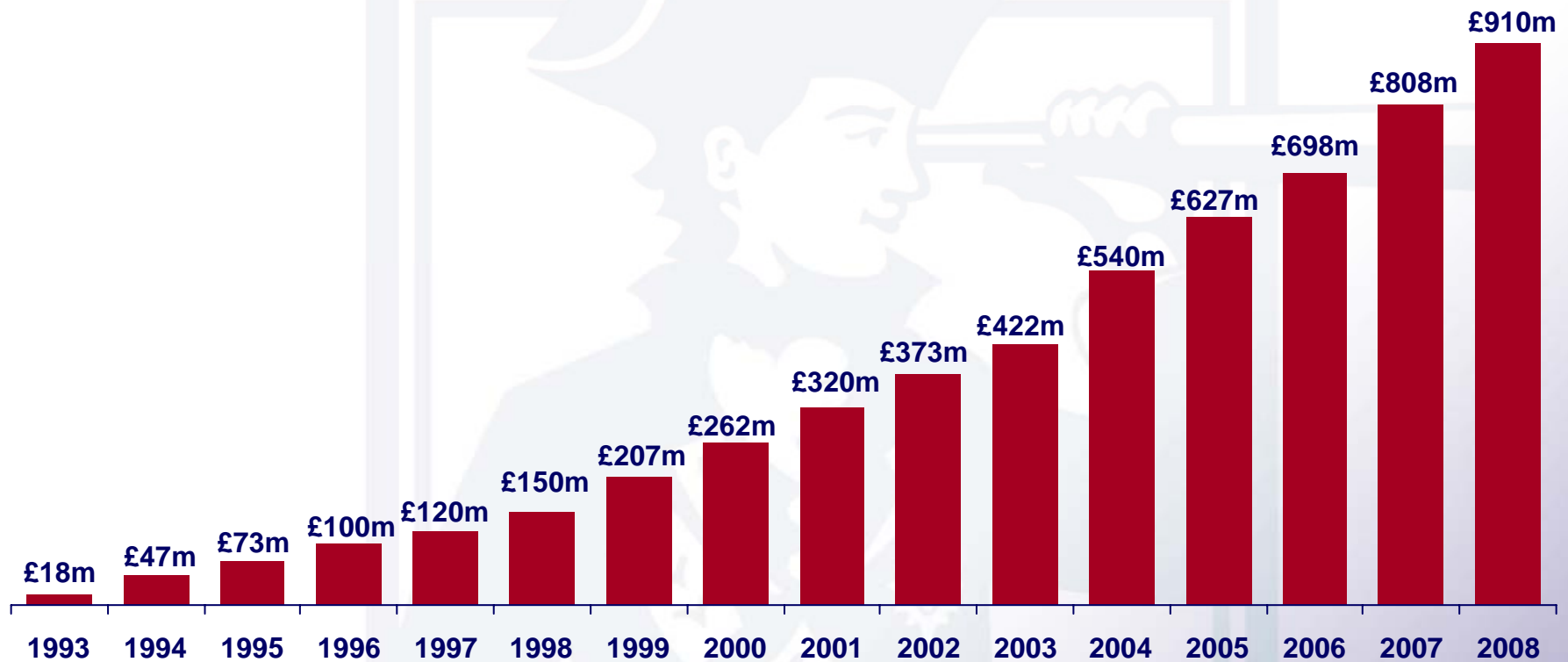
# Highlights

- Profit up 11% at £202.5 million (2007: £182.1 million)
- Earnings per share 54.9p (2007: 48.6p)
- Turnover up 13% at £910.2 million (2007: £808.2 million)
- Year-end vehicle count up 17% to 1.75m
- Group Combined Ratio 86%
- UK ancillaries per vehicle £71
- International businesses progressing well
- H2 2008 dividend per share of 26.5p - full 2008 dividend 52.5p



# Fast Growing

## Historical Revenue Growth (£m)<sup>(1)</sup>

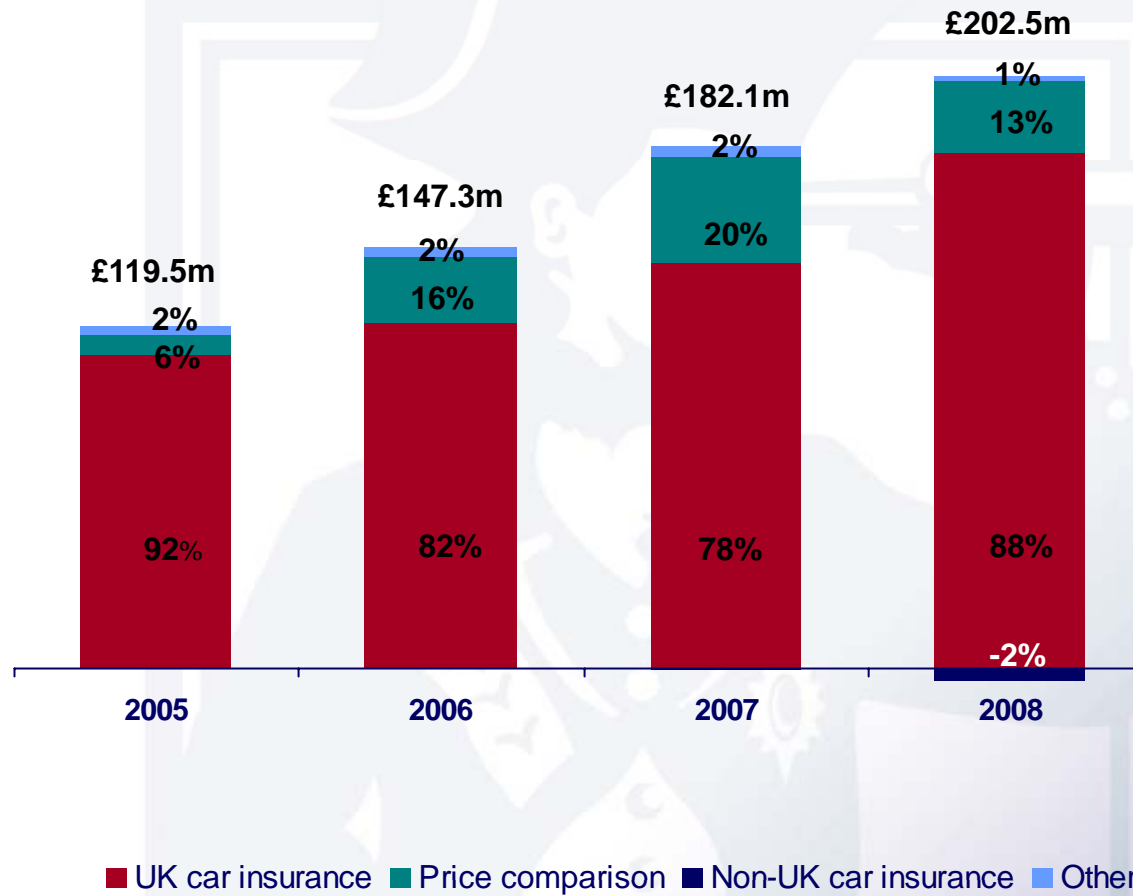


<sup>(1)</sup> Revenue comprises total premiums written + other revenue



# Admiral Group Profits

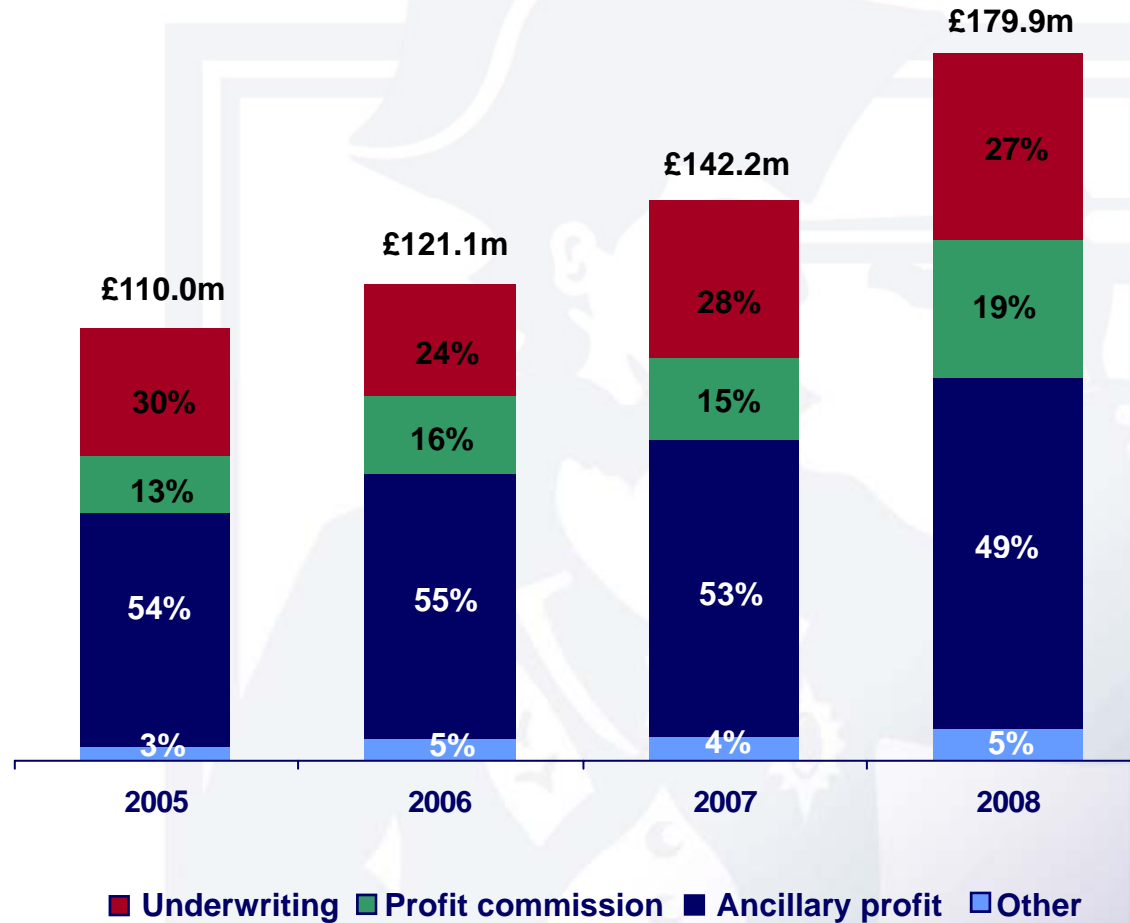
## Profit before tax (£m)





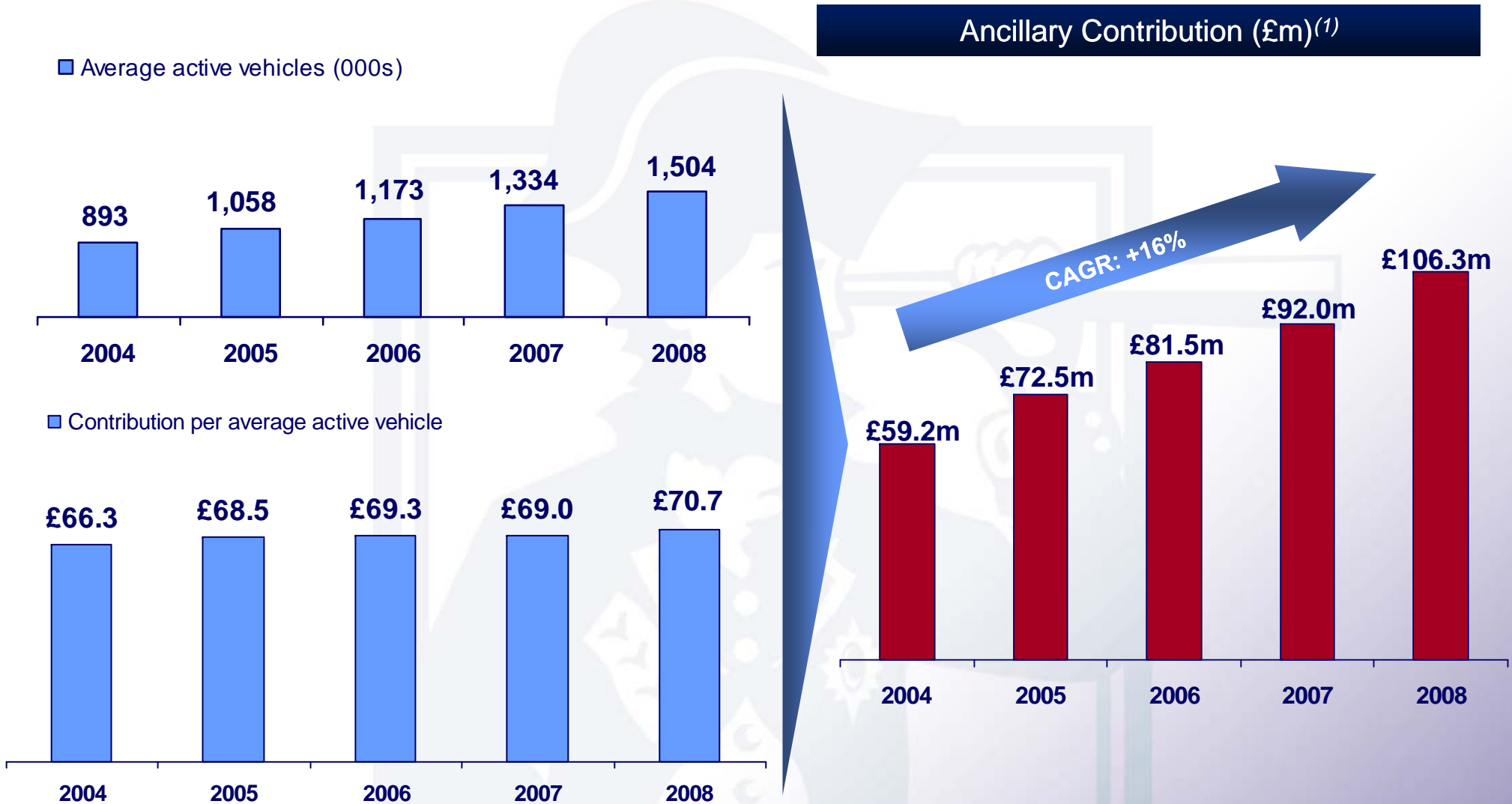
# UK car insurance profit

## UK car insurance profit before tax (£m)





# Low Risk Profits - Growing Ancillary Income – UK Motor



(1) Before allocation of overhead expenses

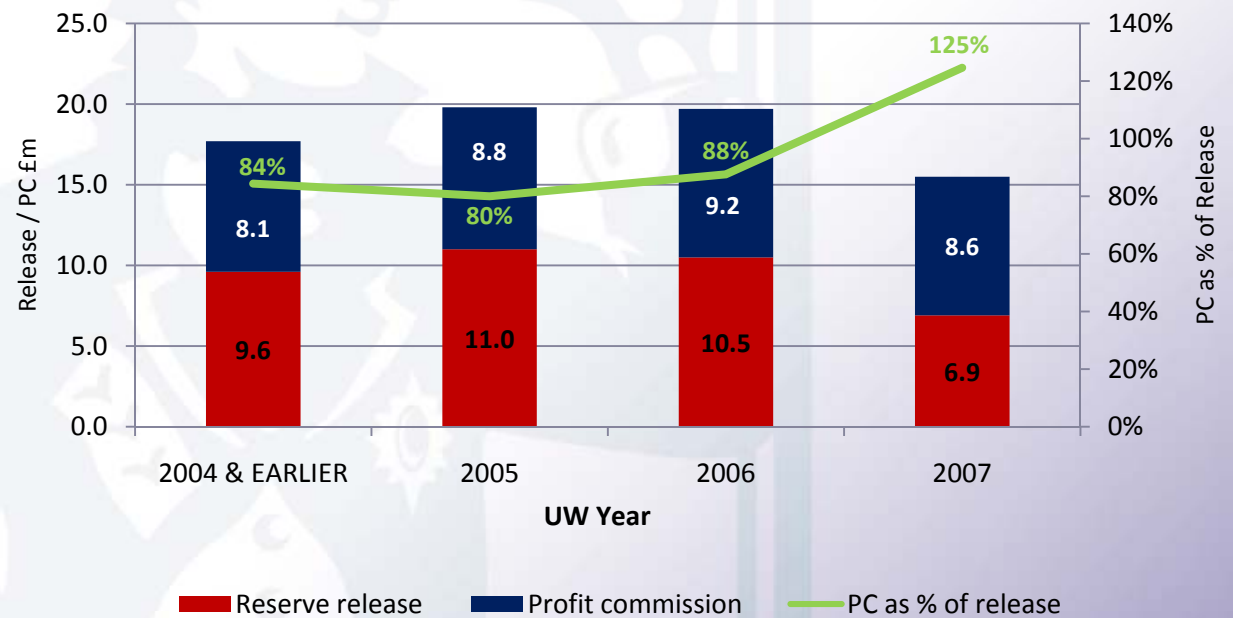




# Reserve releases and profit commissions 2008

	2007	2008
Reserve release	£29.5m	£38.0m
Profit commission	£20.4m	£34.7m
PC as % of release	69%	91%

Analysis of 2008 FY releases (£38.0m) and profit commission (£34.7m):

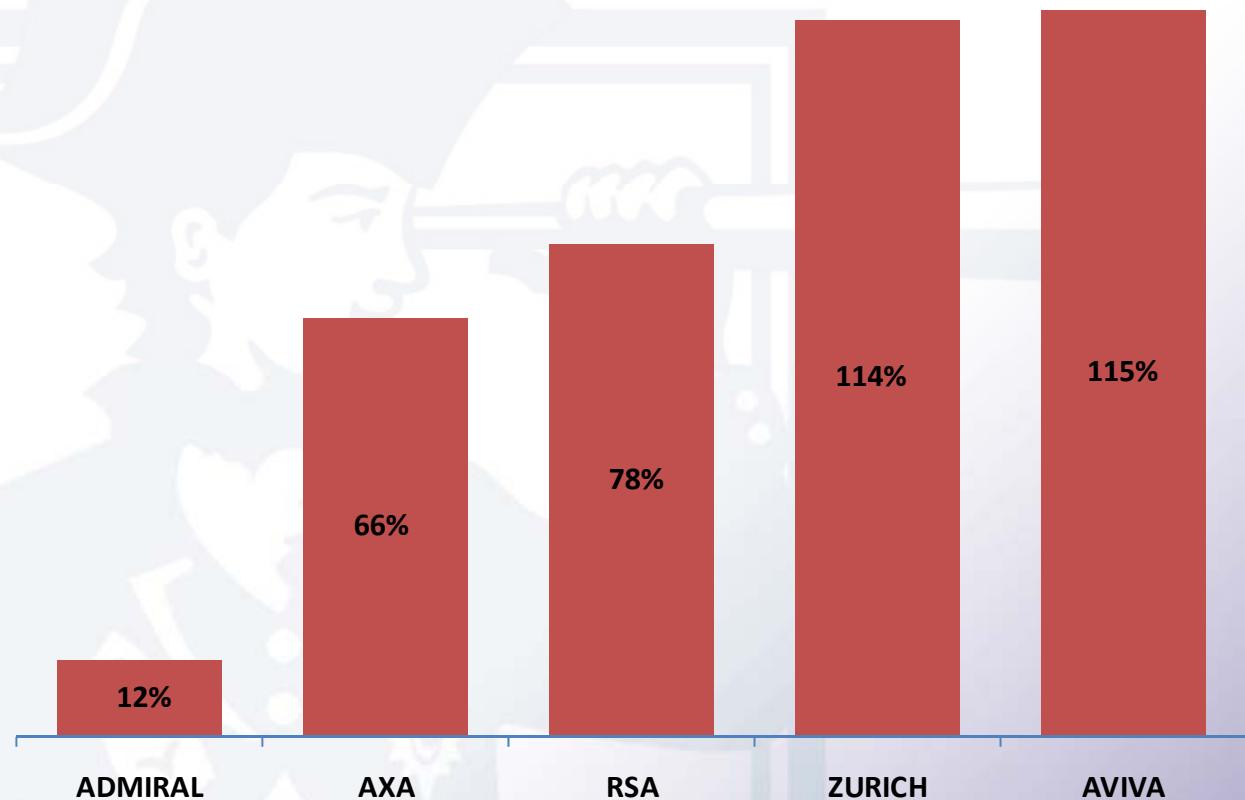




# Investment & Interest Income

- Invested in money market funds and cash deposits
- Capital secure and no write offs
- Achieved 4.9% in 2008 – £24.4m
- Expect lower returns in 2009

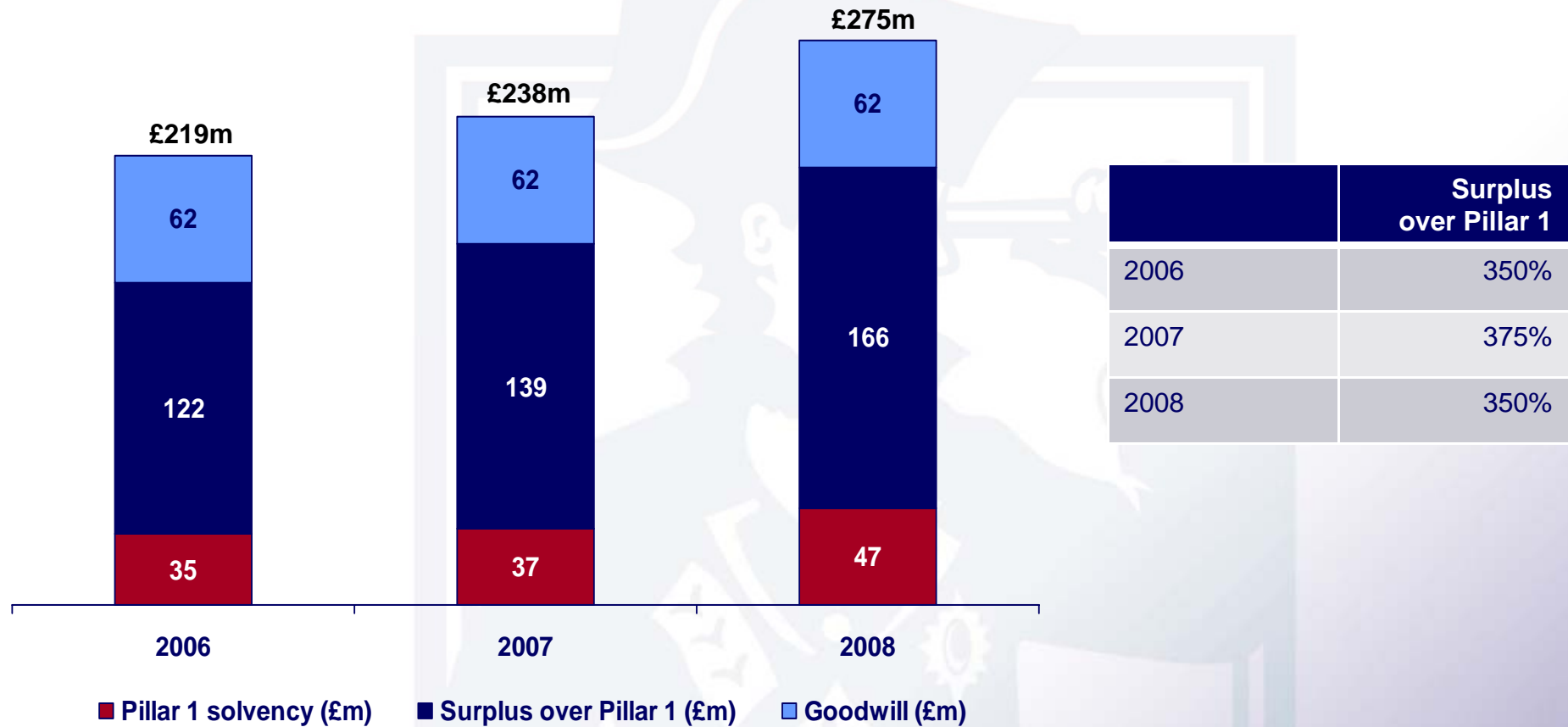
Investment & Interest Income as % PBT



For Aviva, AXA and Zurich, the Investment & Interest Income as % PBT is for their general insurance divisions (results are for 2008 with the exception of AVIVA which is for 2007).

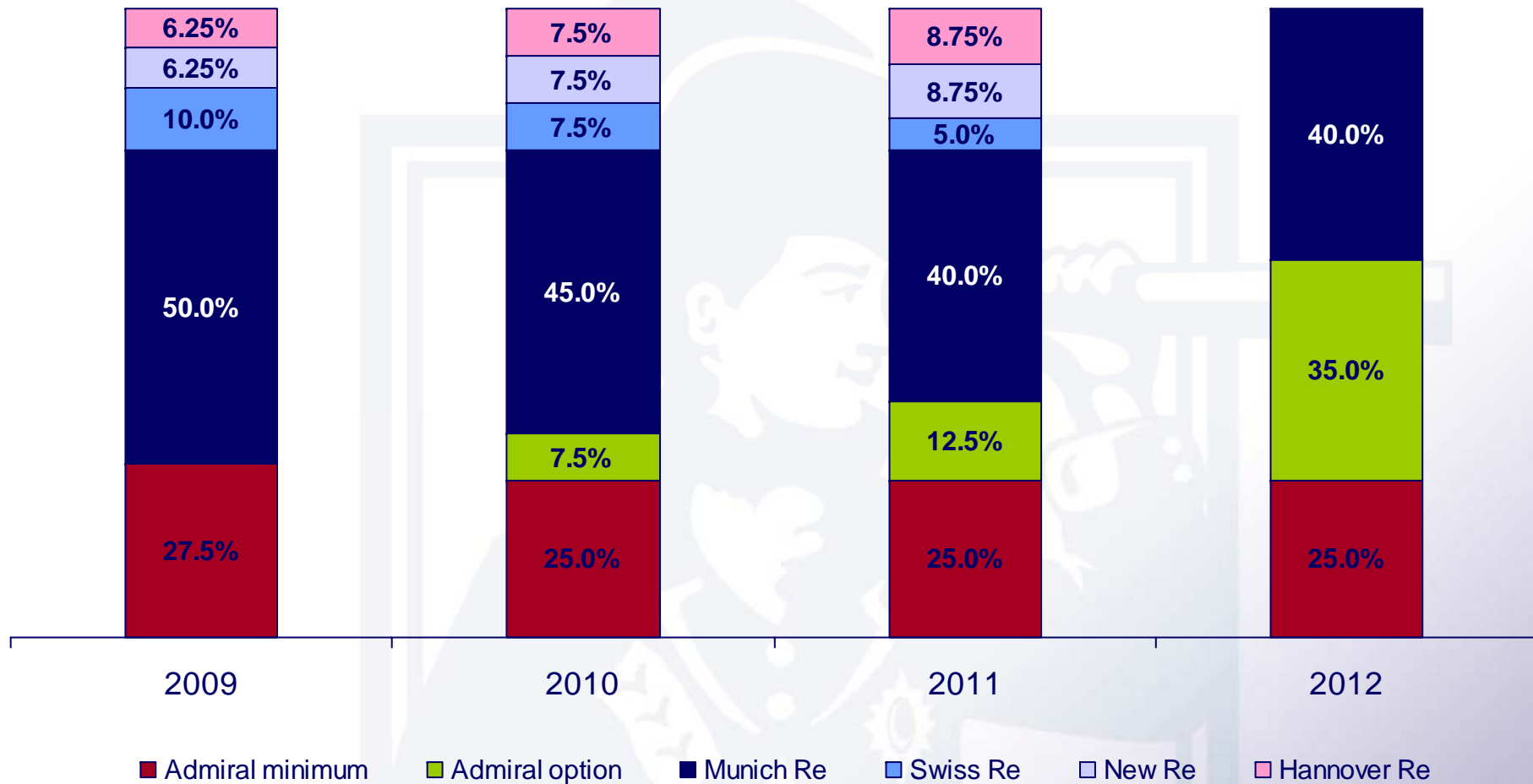


# Admiral Group Solvency





# UK car insurance underwriting

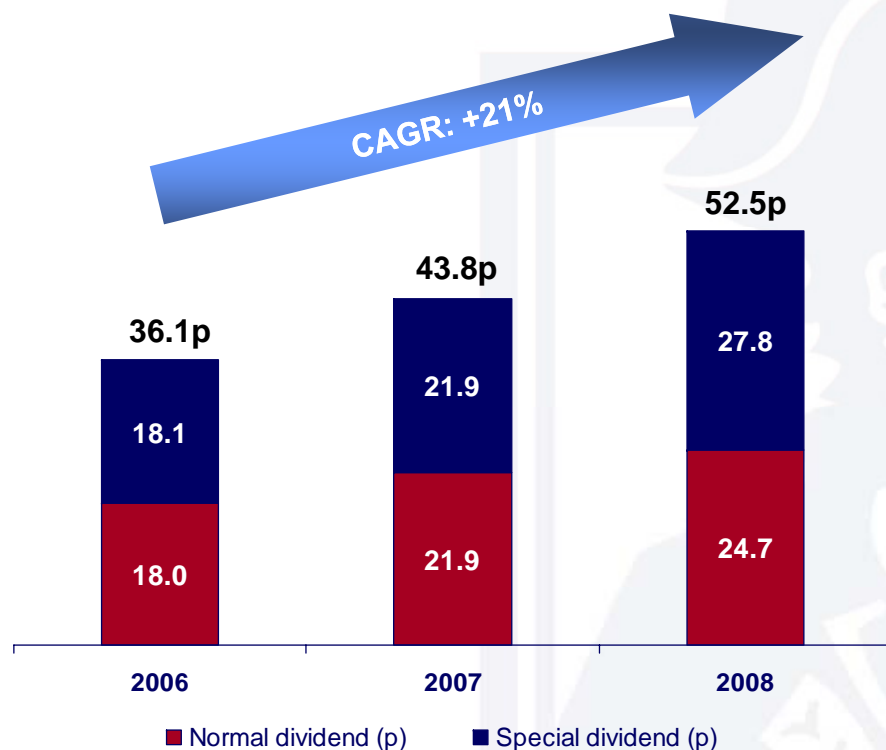


(65% Munich Re, 35% Admiral for Spain, Germany & Italy)



# Dividend

## Full year dividends



## Final dividends

	2006	2007	2008
	£m	£m	£m
Equity	219	238	275
Goodwill	(62)	(62)	(62)
Solvency	(65)	(85)	(113)
	<u>92</u>	<u>91</u>	<u>100</u>
Buffer	(25)	(25)	(25)
International expansion	(5)	(5)	(5)
	<u>62</u>	<u>61</u>	<u>70</u>
<b>Final dividend</b>	<b>62</b>	<b>61</b>	<b>70</b>

H2 2008 – 26.5p per share

Ex-dividend - 6 May 2009 Record date - 8 May 2009 Payment date - 27 May 2009

# UK Car Insurance Market



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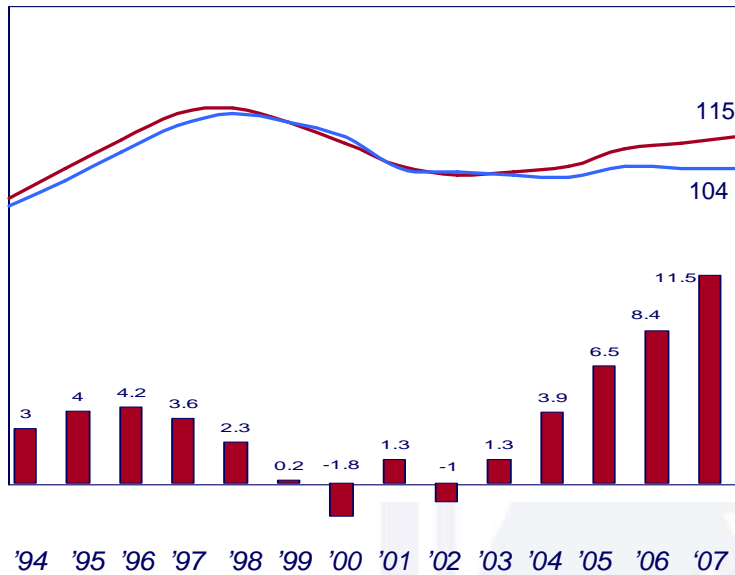


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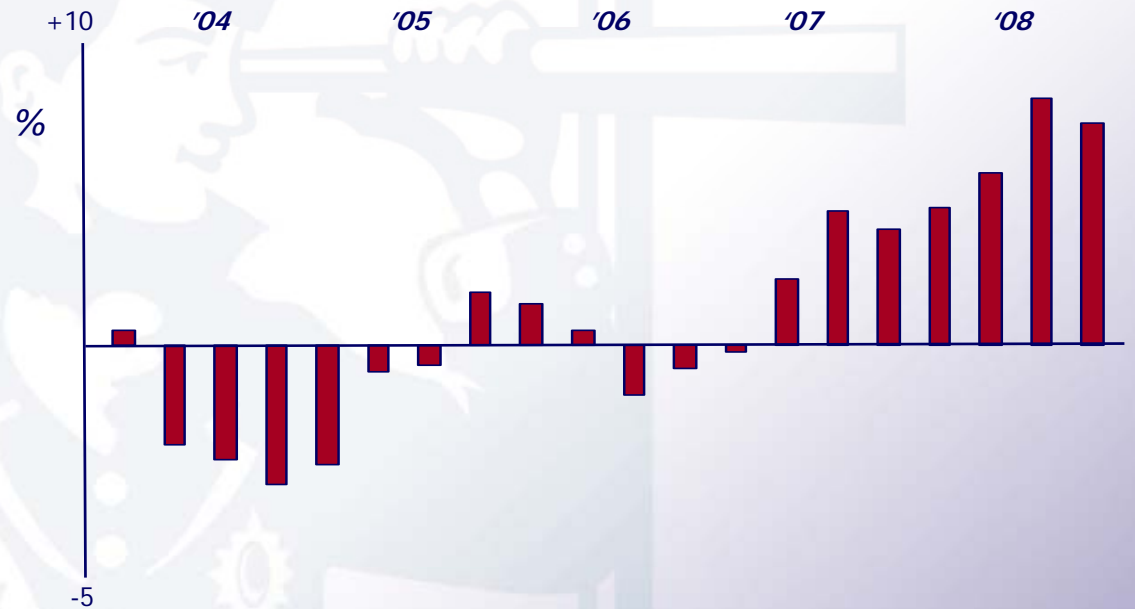
# Market Cycle

## Combined Ratio



- Pre-release combined ratio (% of premium)
- Post-release combined ratio (% of premium)
- Releases (% of premium)

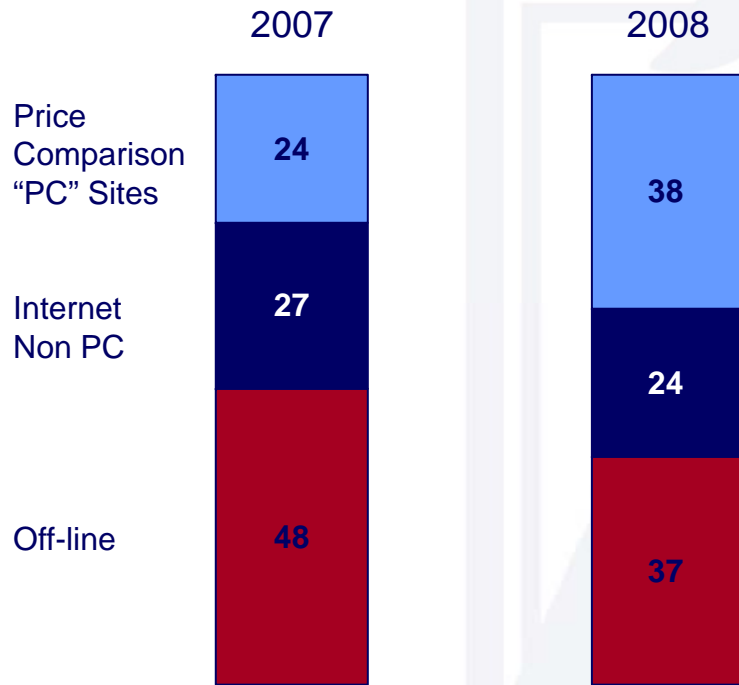
## Premium Inflation v. Year Ago (Deloitte's, by quarter)





# Distribution Change

**New Business Sales By Channel \***



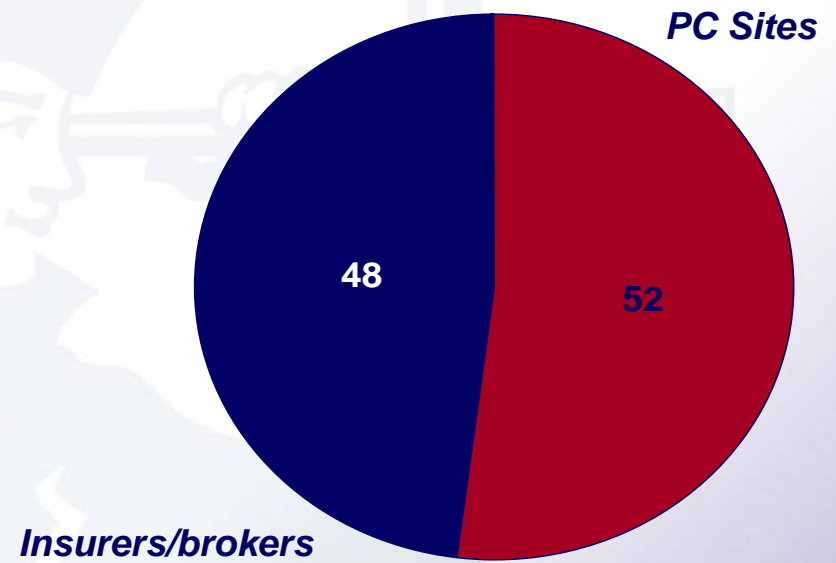
Volume Change

+60%

-8%

-20%

**Share of TV/Press Spend \*\* (2008)**



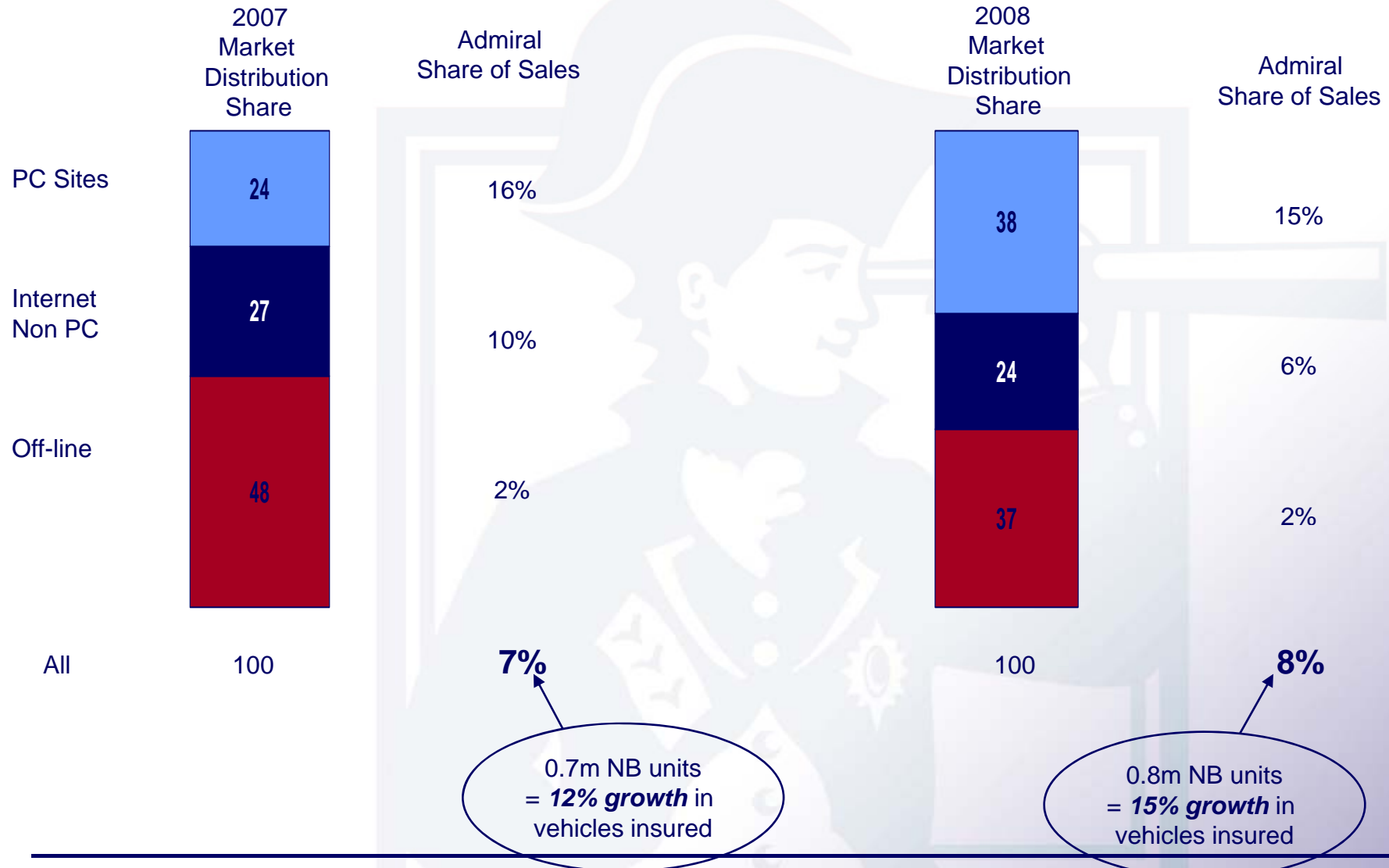
\*Management estimate.

\*\* Nielsen data.





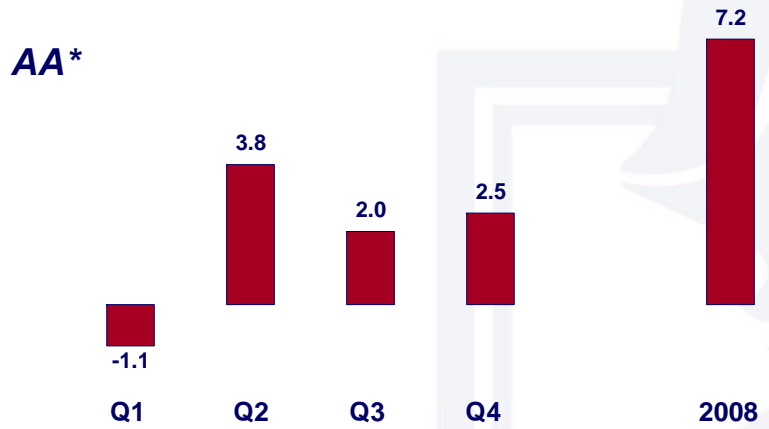
# PC Site Growth Drives Admiral Policy Growth





# Popular Price Surveys Overstate True Premium Inflation

**Survey Price Changes (%)**



**Admiral Rates (New Business)**

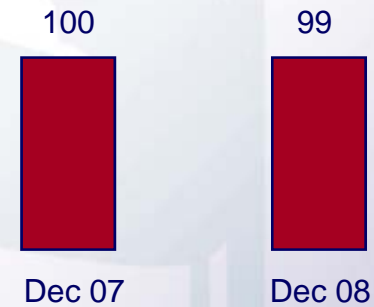
H1 08	H2 08	2008
+0.2%	+3.3%	+3.5%

**Deloitte**



**Admiral - Times Top on Confused**

(Indexed; Dec 07 = 100)



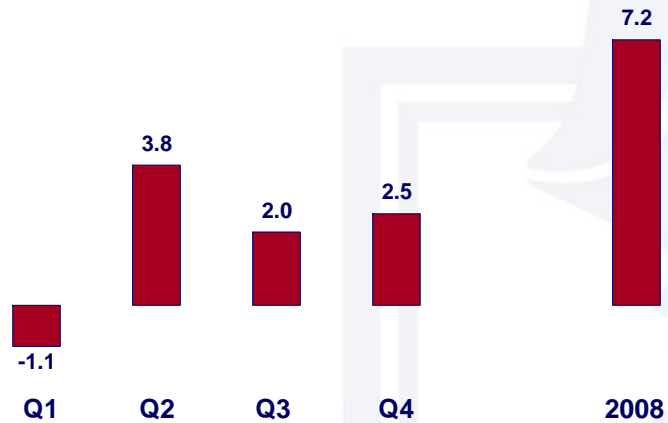
\* Comprehensive, shoparound.



# Popular Price Surveys Overstate True Premium Inflation

## Survey Price Changes (%)

AA\*



Inadequate sampling of PC sites

- commission waiver
- preferential pricing on PC sites

Deloitte



Increased rate transparency

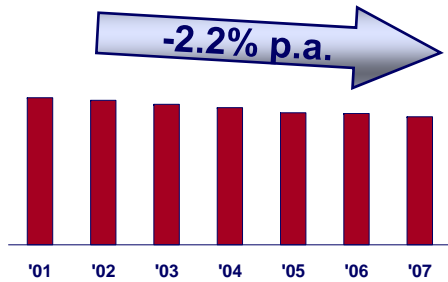
\* Comprehensive, shoparound.



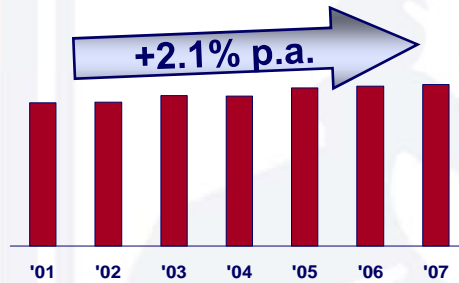
# Benign Claims Environment

## Claim Cost Drivers 2001-2007

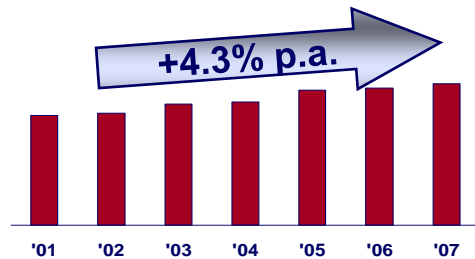
Frequency (%)\*



Cost per Vehicle Year (£)

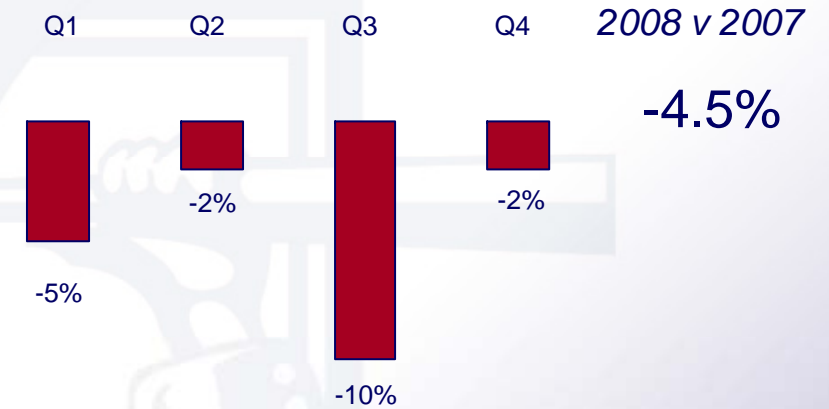


Average Claim (£)



## Claim Cost Drivers 2008

Year on Year Frequency (source: ABI)



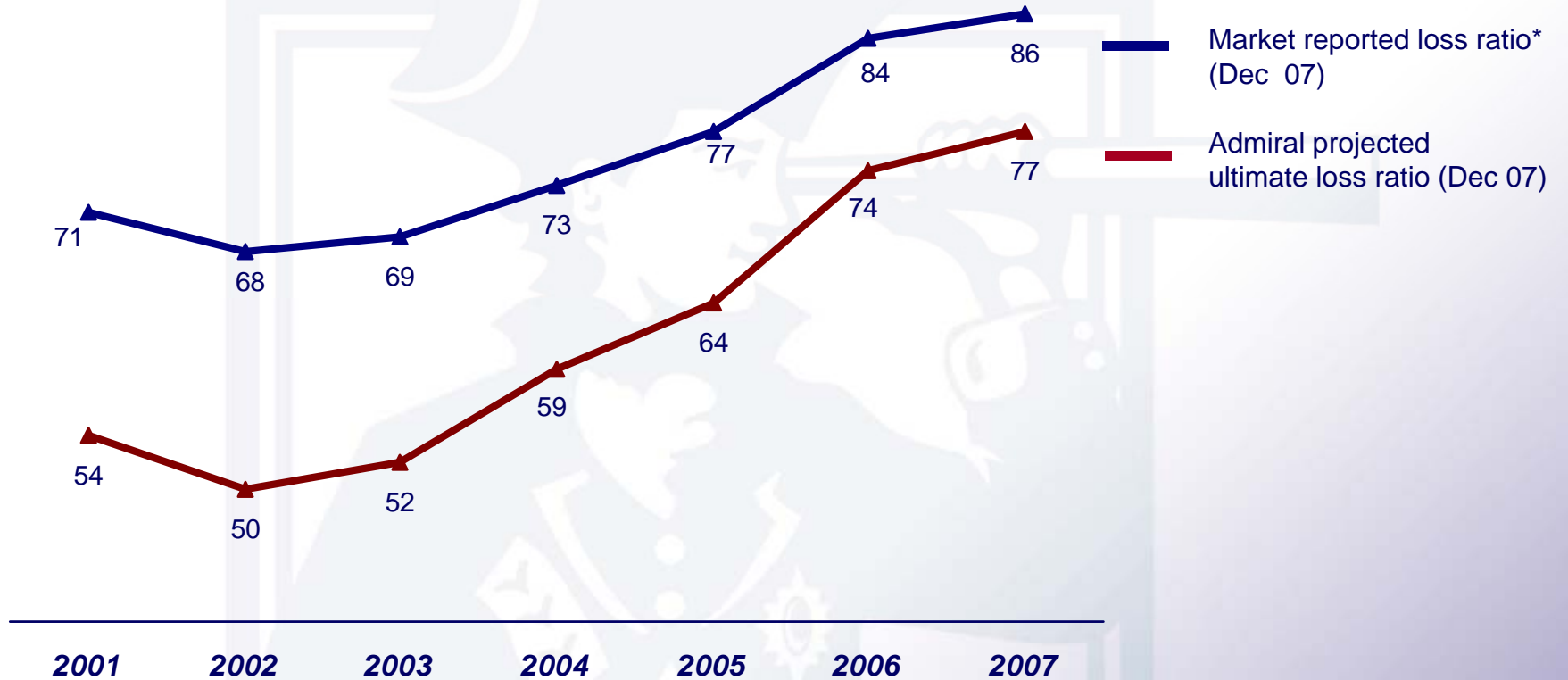
Cost of Second-Hand Cars\*\*



\* Frequency & average claim data sourced from EMB analysis of treasury returns from 01-05 (comp only) & then derived from ABI frequency & treasury cost per vehicle data for 2006/7.  
 \*\* 3 year old cars/Glass's Guide.



# Loss Ratio Projection – End 2007

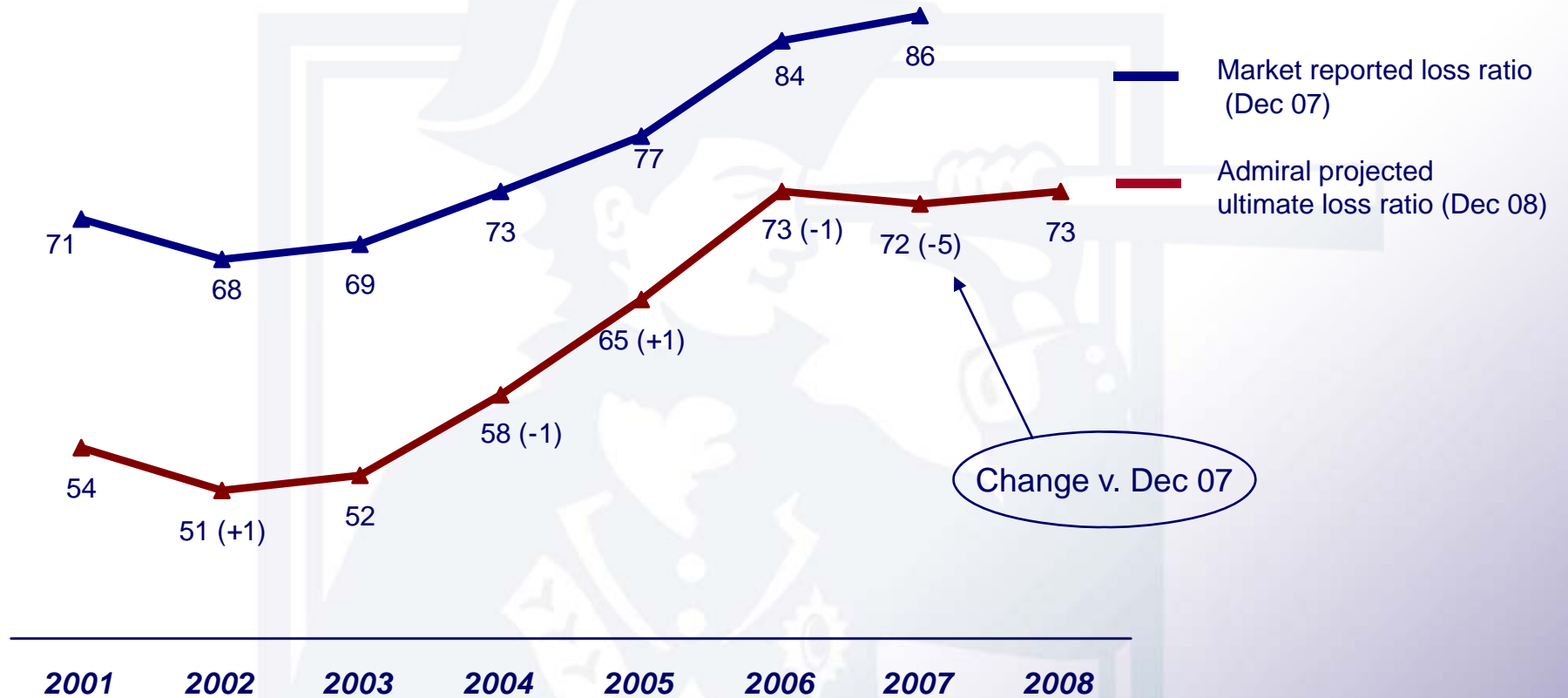


\* Reported accident year loss ratio with reserve releases allocated back to relevant accident year. (Source: Treasury Returns.)

\*\* Ernst & Young projected ultimate loss ratios.

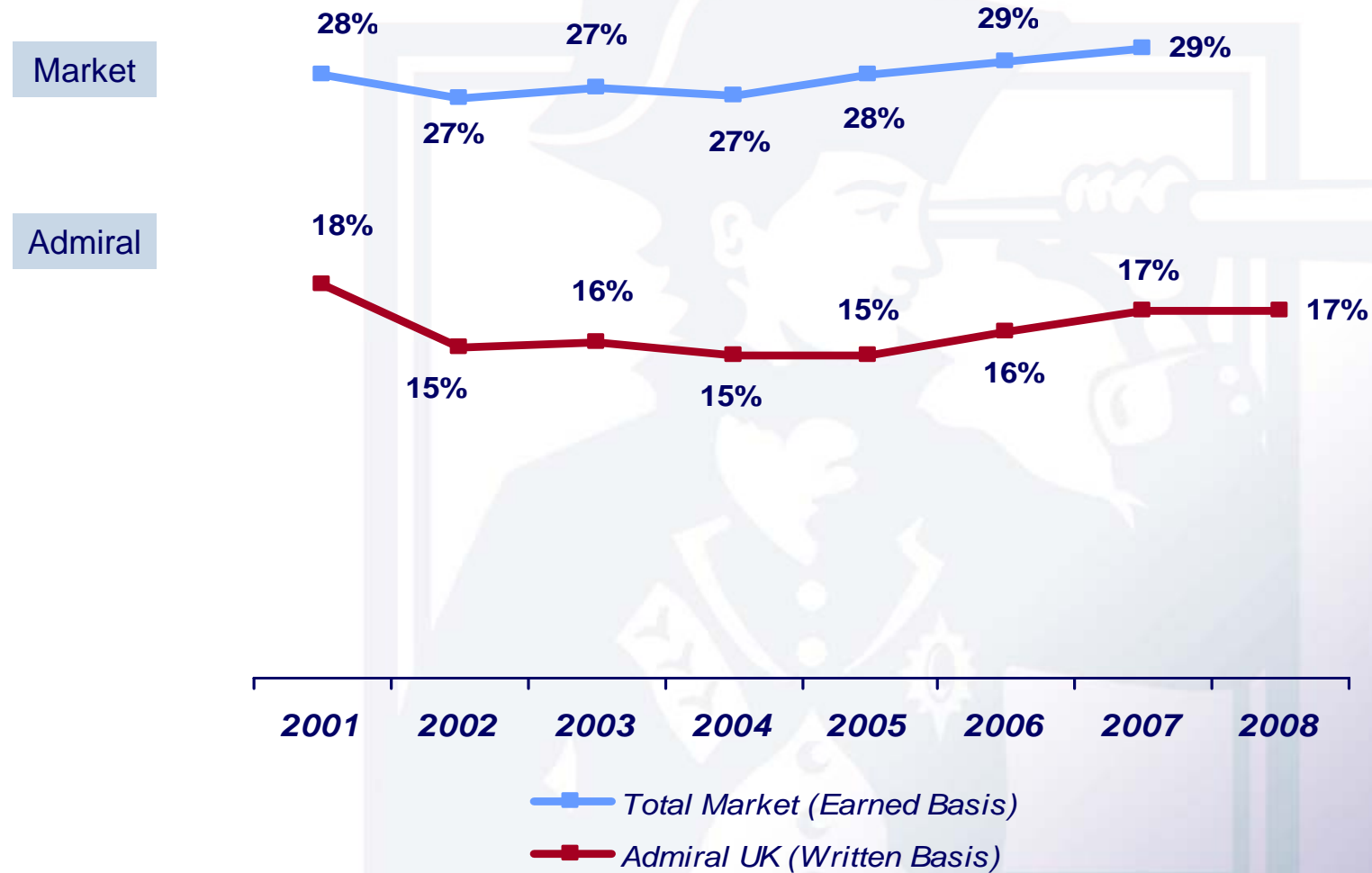


# Loss Ratio Projection – End 2008



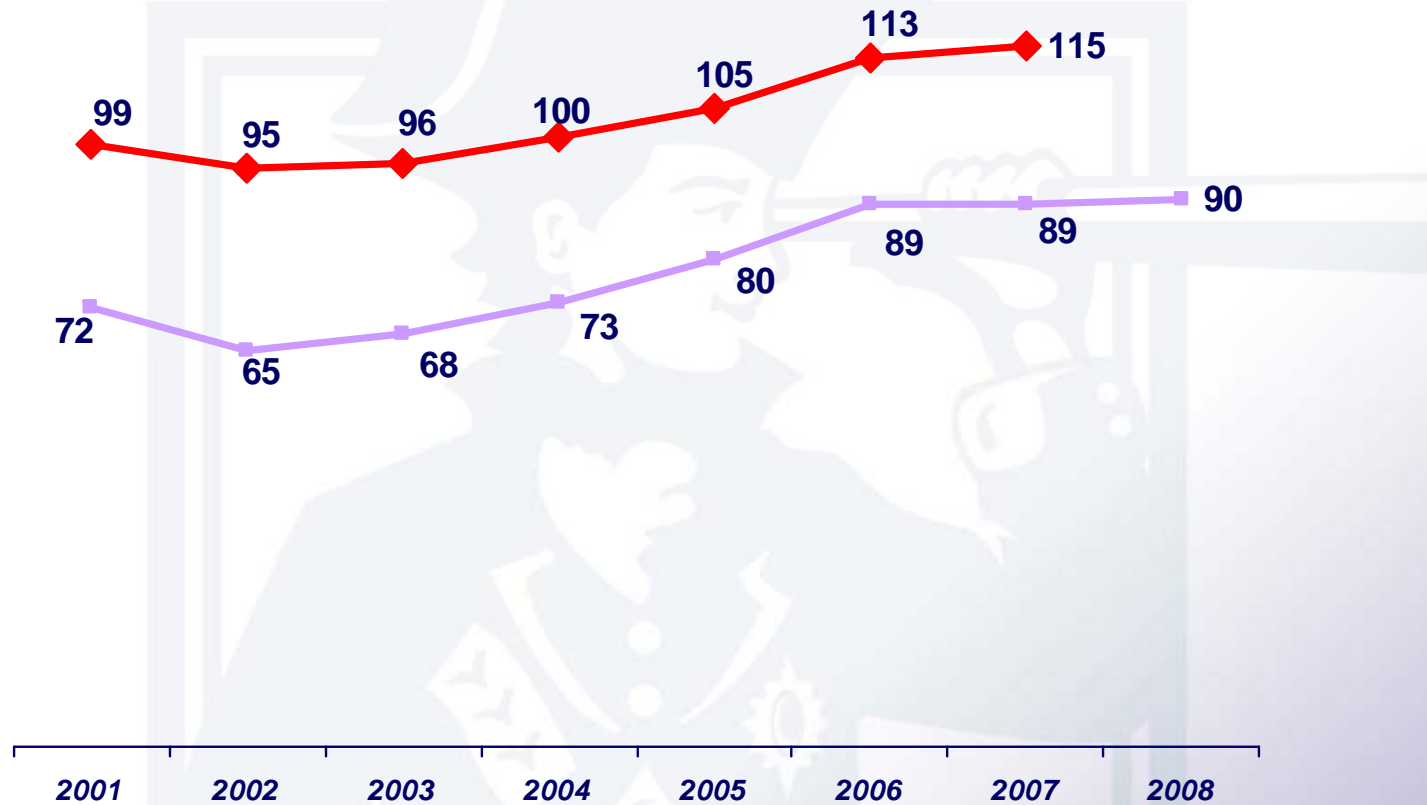


# Stable Expense Ratio





# Combined Ratio v Market



— Market (excl Admiral) reported loss ratio (before releases) as at Dec 07, plus expense ratio.

— Admiral projected ultimate loss ratio as at Dec 08, plus written expense ratio.

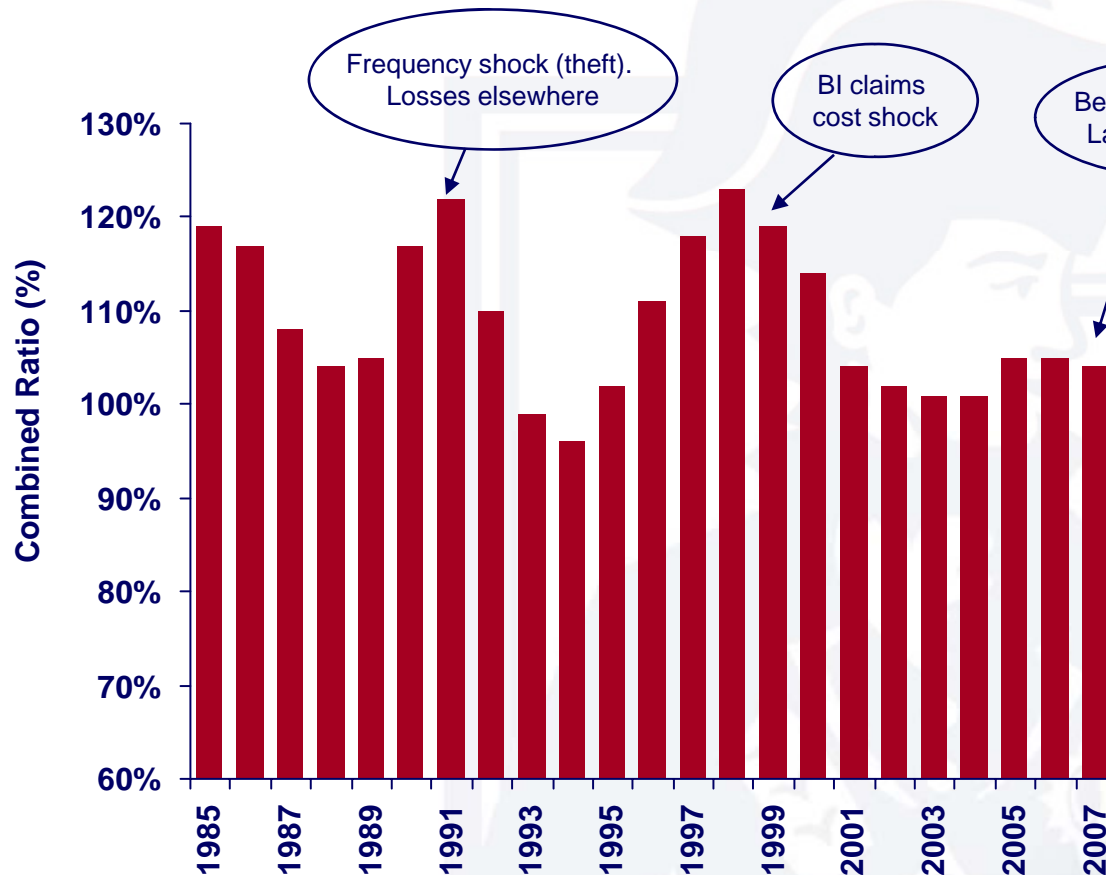




# Premium Inflation – Prospects for 2009

Price increase accelerated by:

Prices held back by:



## 2009

### Faster premium inflation

- Lower investment returns
- Lower reserve releases
- Losses elsewhere

### Slower premium inflation

- Further growth in PC site share
- Continuing reserve releases

### Unknowns

- RBSI/Fortis/HBOS fall-out
- Recession's impact on claims cost

Source: 1985 to 1991 Merrill Lynch Research analysis of DTI returns; 1991 to 2007 Deloitte analysis of FSA returns.

# Price Comparison Market & Confused.com



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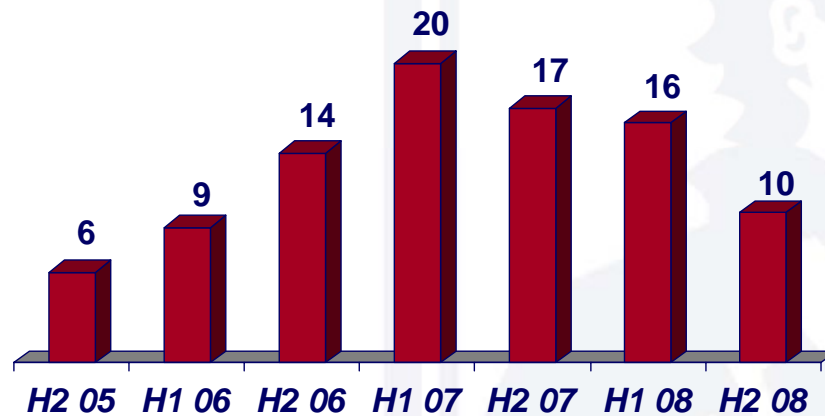
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# Confused – Falling Margins & Share

## Confused Profitability

(£m)



Margin 60% 56% 62% 58% 49% 43% 34%

## Market Share

(% Car Insurance PC Market)

2007

2008

Others

42

63

Confused

58

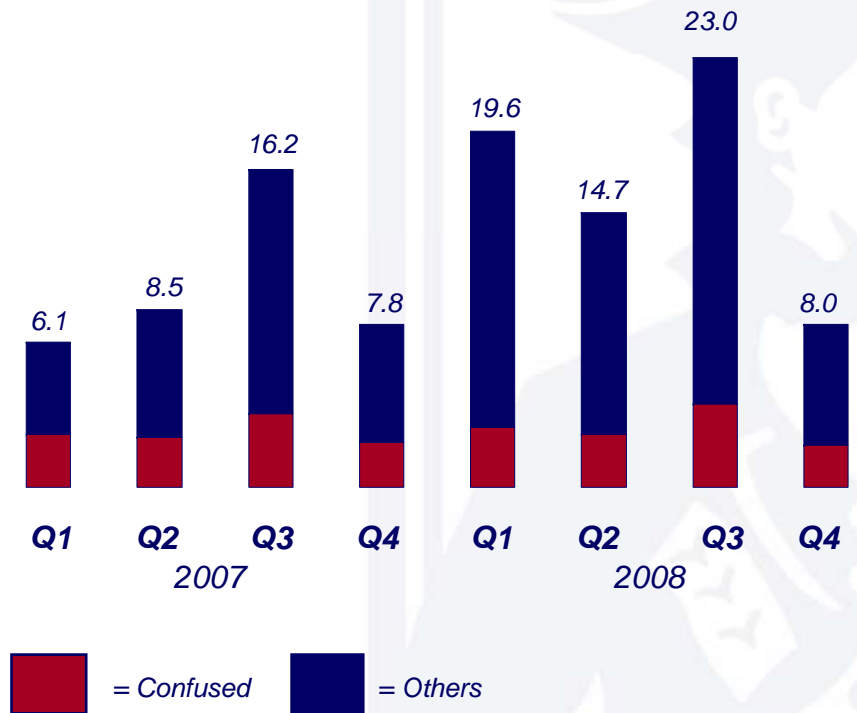
37



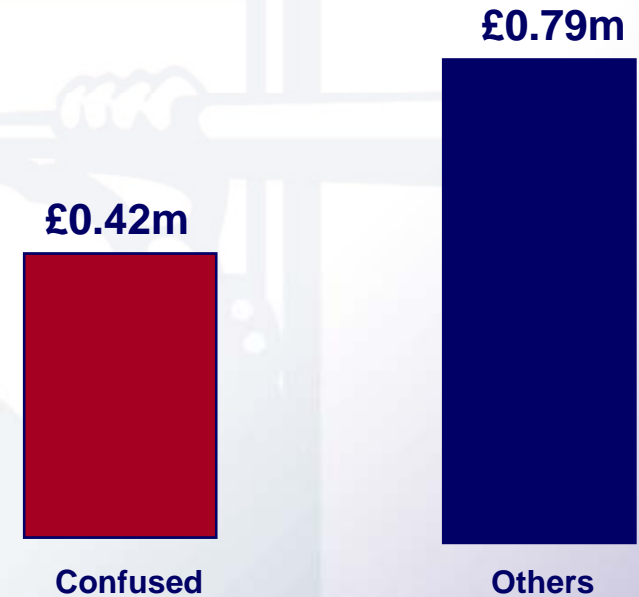
# Rising Marketing Spend

## Price Comparison (insurance) Media Spend\*

(£m)



## TV/Press Spend\* Per Percentage Point of Market Share (£m)



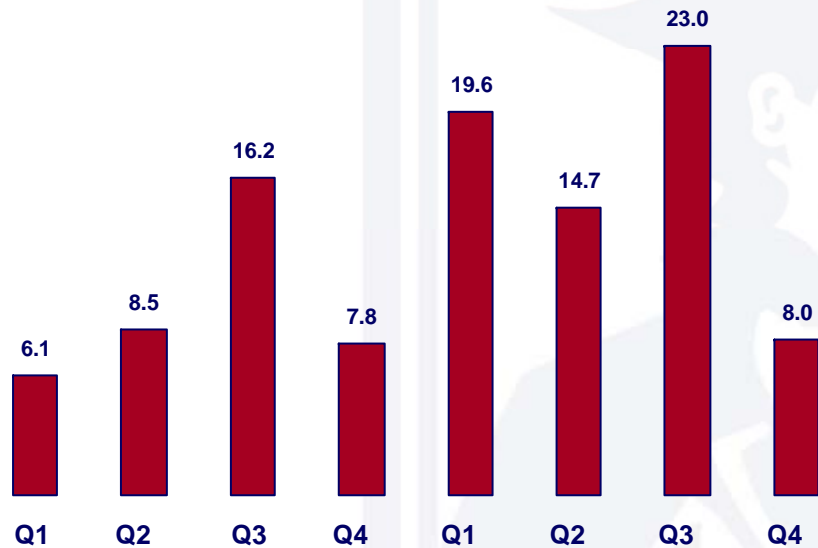
\* Source: Nielsen; 50% of MSM's spend allocated to insurance.



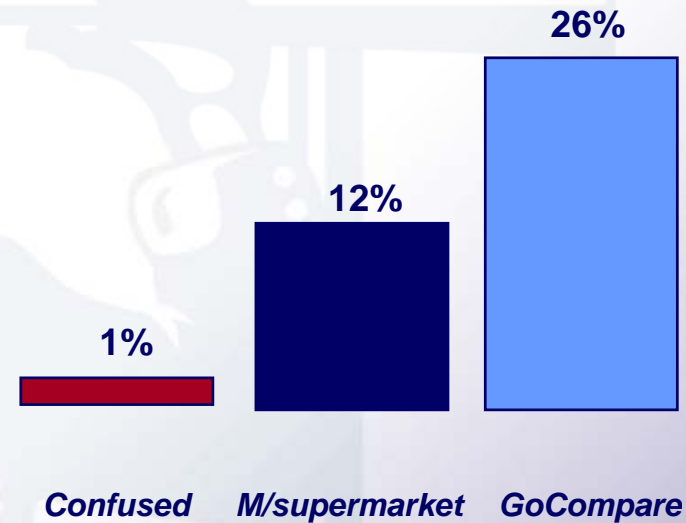
# Rising Marketing Spend

## Media Spend\*

(£m)



## Share of “Car Insurance” Paid Clicks (Sept – Oct 08)\*\*



Likely Cost Per Sale

£50

£100 - £200

\* Source: Nielsen; 50% of MSM's spend allocated to insurance.

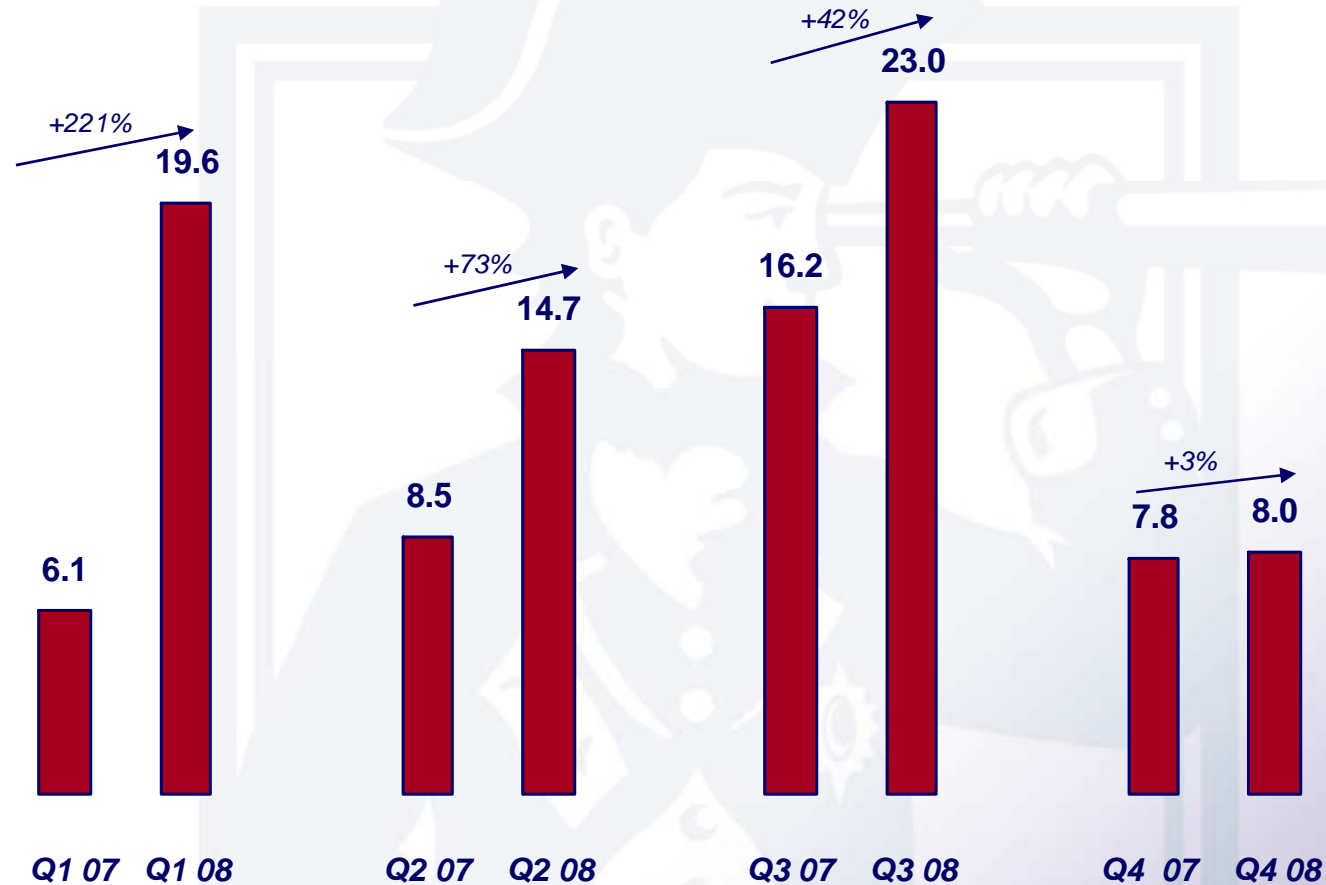
\*\* Source: Hitwise.



# Rising Marketing Spend

## Media Spend\*

(£m)



\* Source: Nielsen; 50% of MSM's spend allocated to insurance.



# Confused 2009

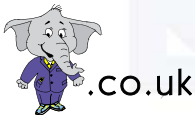
- Improve car insurance competitiveness
  - New quote process and prices page (Dec 08)
  - New TV ads
  - Invest behind success
  - Some increase in “revenue per sale” to reflect
    - Increased acquisition costs
    - Confused’s superior delivery v. other PC sites (retention, mid-term cancellation, loss ratio)
- Increase non-car insurance income
  - 2007 15% of income
  - 2008 20% of income (≈ £13m p.a.).



# International



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# Combined performance of all non-UK in 2008

Active customers at year end	73,700
Total premium written	£26.0m
Written expense ratio	65%
2008 underwriting year loss ratio	108%
Ancillary contribution per vehicle	£47
Admiral result	(£4.1m)





# Spain

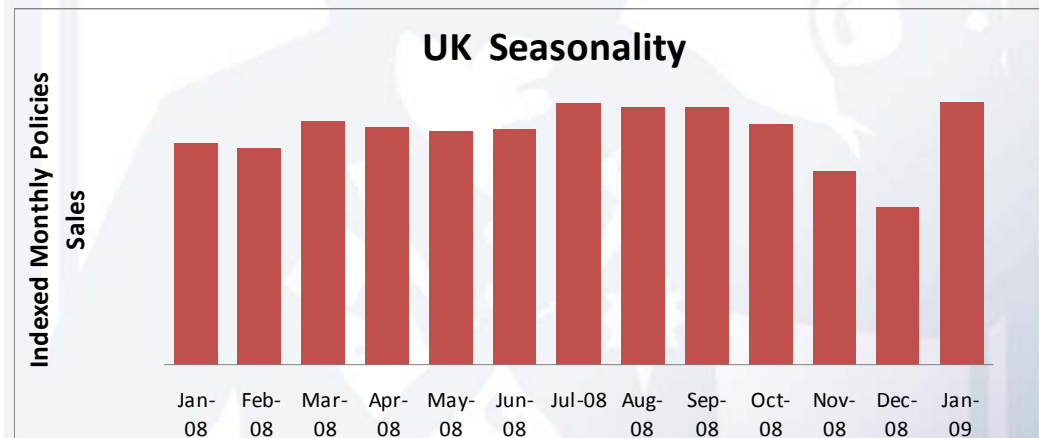
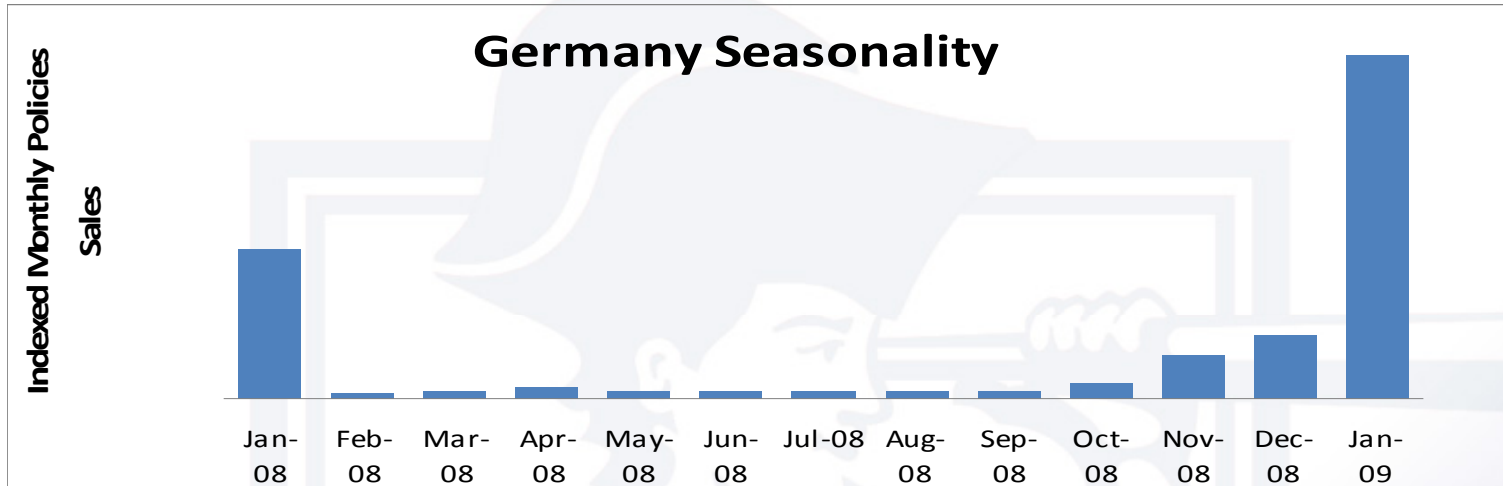


	<b>2008</b>	<b>2007</b>
Active customers at year end	55,400	46,900
Total written premium	€26.2m	€20.7m
Written expense ratio	44%	54%
Underwriting year loss ratio	102%	135%
Ancillary contribution per vehicle	€72	€67
Admiral result	(€1.5m)	(€0.9m)





# Germany





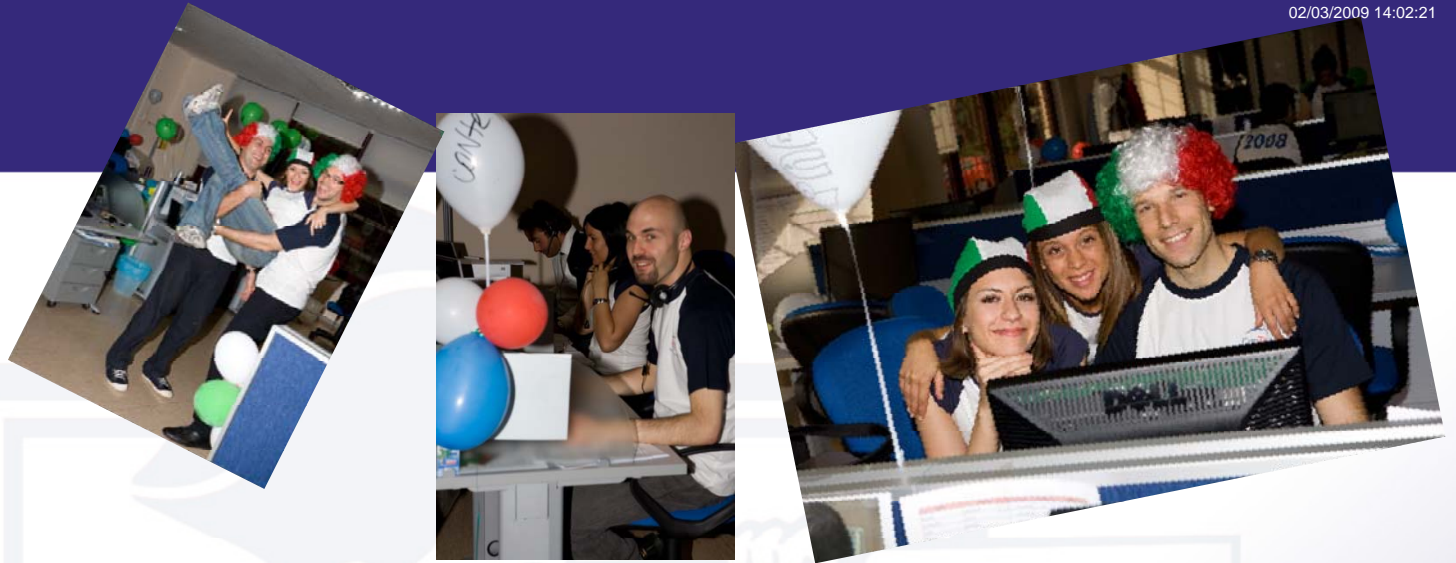
# Germany



Total written premium '08	€5.4m
Written expense ratio	132%
2008 Underwriting year loss ratio	142%
Policyholders at 1 <sup>st</sup> January '09	30,000



# Italy



Some of the curious things in Italy:

- Obligated to record calls but not allowed to listen to them
- Negative loss ratio

Active customers at year end      3,400

Total annualised written  
premium      €1.4m



# The future... U.S.A.





# U.S.A.



A few basic facts on the US Market:

- 250 million vehicles
- \$162 billion premium
- Average profit margin 2007 = 8%
- State-level regulation
- 2-state launch
- Office in Richmond, Virginia



# Spanish Price Comparison Website



- Use of internet shopping for car insurance growing
  - Balumba non-aggregator, phone/internet split;
  - 2007 & 2008 more than 80% internet
- Growth of internet and aggregators
  - 37% of Balumba's quotes in 2008 from aggregators
- Rastreator
  - Similar to 'tracker'





# Strategy

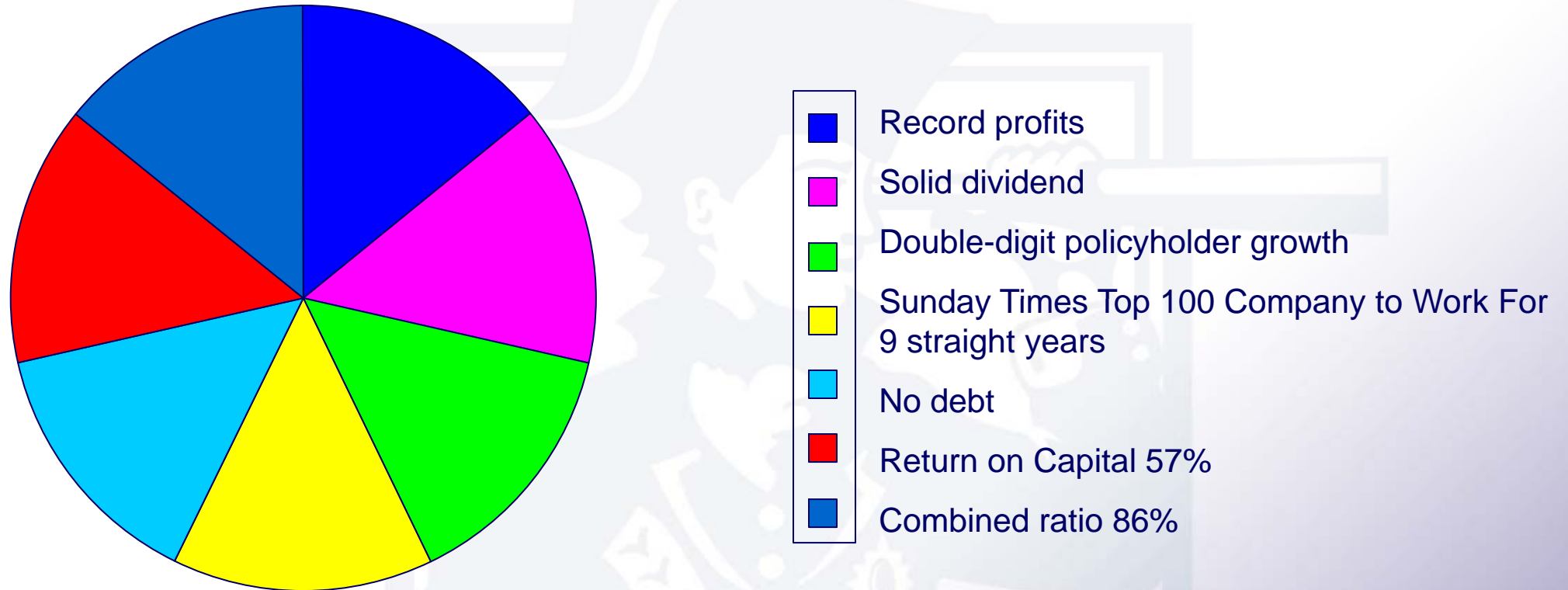
- The UK market: continued profitable growth
- The Internet is an irresistible force
- Take what we know and do well, internet and telephone delivery of car insurance, and do it elsewhere
- Create profitable, growing, sustainable businesses





# Summary

## Wow! 2008 - Great Year!



**Great momentum for 2009!**

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# Appendix



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# Appendices

- Summary income statement
- Balance sheet
- Group key performance indicators
- UK car insurance co-insurance and reinsurance 2009
- UK car insurance – underwriting year loss ratio development
- UK car insurance underwriting – 2003 to 2008 years
- Peer group investment allocations
- Investment returns by asset class 2008



# Summary income statement

	UK car insurance			Price comparison			Non-UK car insurance			Other			Admiral Group		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
<b>Total premiums written</b>	566.0	617.0	690.2				0.6	14.2	26.0				566.6	631.3	716.3
Gross premiums written	195.8	246.7	309.5				0.6	14.2	25.1				196.4	260.9	334.7
Net premiums written	138.5	136.9	185.5				0.2	4.9	8.9				138.6	141.9	194.4
<b>Net earned premium</b>	144.9	140.3	161.9				0.0	2.0	7.9				145.0	142.2	169.8
Investment income	9.9	16.7	17.1				0.0	0.1	0.6				9.9	16.8	17.7
Net insurance claims	(107.1)	(97.0)	(105.1)				(0.0)	(2.8)	(9.5)				(107.1)	(99.8)	(114.6)
Insurance related expenses	(19.2)	(19.9)	(26.0)				(0.2)	(1.8)	(6.2)				(19.4)	(21.7)	(32.2)
<b>Underwriting result</b>	<b>28.5</b>	<b>40.0</b>	<b>47.9</b>				<b>(0.2)</b>	<b>(2.5)</b>	<b>(7.1)</b>				<b>28.4</b>	<b>37.5</b>	<b>40.8</b>
Total profit commission	19.9	20.4	34.7										19.9	20.4	34.7
Gross ancillary revenue	81.4	92.0	106.3				0.1	2.2	3.5				81.5	94.2	109.8
Ancillary costs	(14.5)	(16.2)	(17.3)				(0.0)	(0.4)	(0.6)				(14.5)	(16.6)	(17.9)
Instalment income	5.7	5.9	8.2				0.0	0.0	0.2				5.7	6.0	8.4
Gladiator contribution										2.0	2.0	2.8	2.0	2.0	2.8
Confused.com revenue				38.5	69.2	66.1							38.5	69.2	66.1
Confused.com expenses				(15.4)	(32.4)	(40.5)							(15.4)	(32.4)	(40.5)
Other charges										(0.8)	(1.3)	(1.6)	(0.8)	(1.3)	(1.6)
Interest income										4.5	7.8	6.7	4.5	7.8	6.7
Share scheme charges										(0.9)	(3.0)	(5.9)	(0.9)	(3.0)	(5.9)
Expansion cost										(0.5)	(1.4)	(0.8)	(0.5)	(1.4)	(0.8)
Interest payable										(1.0)	(0.3)	(0.0)	(1.0)	(0.3)	(0.0)
<b>Profit / (loss) before tax</b>	<b>121.1</b>	<b>142.2</b>	<b>179.9</b>	<b>23.1</b>	<b>36.7</b>	<b>25.6</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>(4.1)</b>	<b>3.3</b>	<b>3.8</b>	<b>1.1</b>	<b>147.3</b>	<b>182.1</b>	<b>202.5</b>



# Balance sheet

	2006 £m	2007 £m	2008 £m
<b>ASSETS</b>			
Property, plant and equipment	7.5	7.7	11.0
Intangible assets	66.8	69.1	75.7
Financial assets	395.9	481.8	586.9
Reinsurance contracts	74.7	131.7	170.6
Deferred income tax	0.0	1.6	0.0
Trade and other receivables	16.9	22.6	25.5
Cash and cash equivalents	191.2	155.8	144.3
	<u>753.0</u>	<u>870.3</u>	<u>1,014.0</u>
<b>Total assets</b>			
<b>EQUITY</b>			
Share capital	0.3	0.3	0.3
Share premium	13.1	13.1	13.1
Retained earnings	205.7	223.8	251.8
Other reserves	0.0	0.4	10.3
	<u>219.1</u>	<u>237.6</u>	<u>275.6</u>
<b>Total equity</b>			
<b>LIABILITIES</b>			
Insurance contracts	294.4	363.1	439.6
Trade and other payables	215.1	239.6	270.1
Deferred income tax	1.0	0.0	10.3
Corporation tax liabilities	23.4	30.0	18.5
	<u>533.9</u>	<u>632.7</u>	<u>738.4</u>
<b>Total liabilities</b>			
<b>Total liabilities and equity</b>	<u>753.0</u>	<u>870.3</u>	<u>1,014.0</u>



# Admiral Group Key Performance Indicators

	KPI	2004	2005	2006	2007	2008
Group Financial	Revenue	£540m	£627m	£698m	£808m	£910m
	Customers	1,040,700	1,141,000	1,284,700	1,490,800	1,745,800
	Group pre-tax profit	£98.1m	£119.5m	£147.3m	£182.1m	£202.5m
	Earnings per share	28.4p	32.7p	39.8p	48.6p	54.9p
	Total Dividend	9.3p	24.6p	36.1p	43.8p	52.5p
UK Car Insurance	Vehicles insured	1,007,600	1,104,500	1,240,200	1,381,700	1,587,200
	Total premiums	£470.4m	£533.6m	£566.0m	£617.0m	£690.2m
	Reported combined ratio	82.0%	84.9%	87.2%	83.4%	81.0%
	Ancillary contribution per policy	£66.3	£68.5	£69.3	£69.0	£70.7
	UK car insurance pre-tax profit	£94.7m	£110.0m	£121.1m	£142.2m	£179.9m
Price Comparison	Total Revenue	£3.2m	£12.0m	£38.5m	£69.2m	£66.1m
	Operating profit	£1.3m	£6.9m	£23.1m	£36.7m	£25.6m
	Operating margin	41%	58%	60%	53%	39%
Non-UK Car Insurance	Vehicles insured			2,200	46,900	73,700
	Total premiums			£0.6m	£14.2m	£26.0m
	Reported combined ratio				232%	198%
	Ancillary contribution per policy				£45	£47
	Non-UK car insurance result			£(0.1)m	£(0.7)m	£(4.1)m



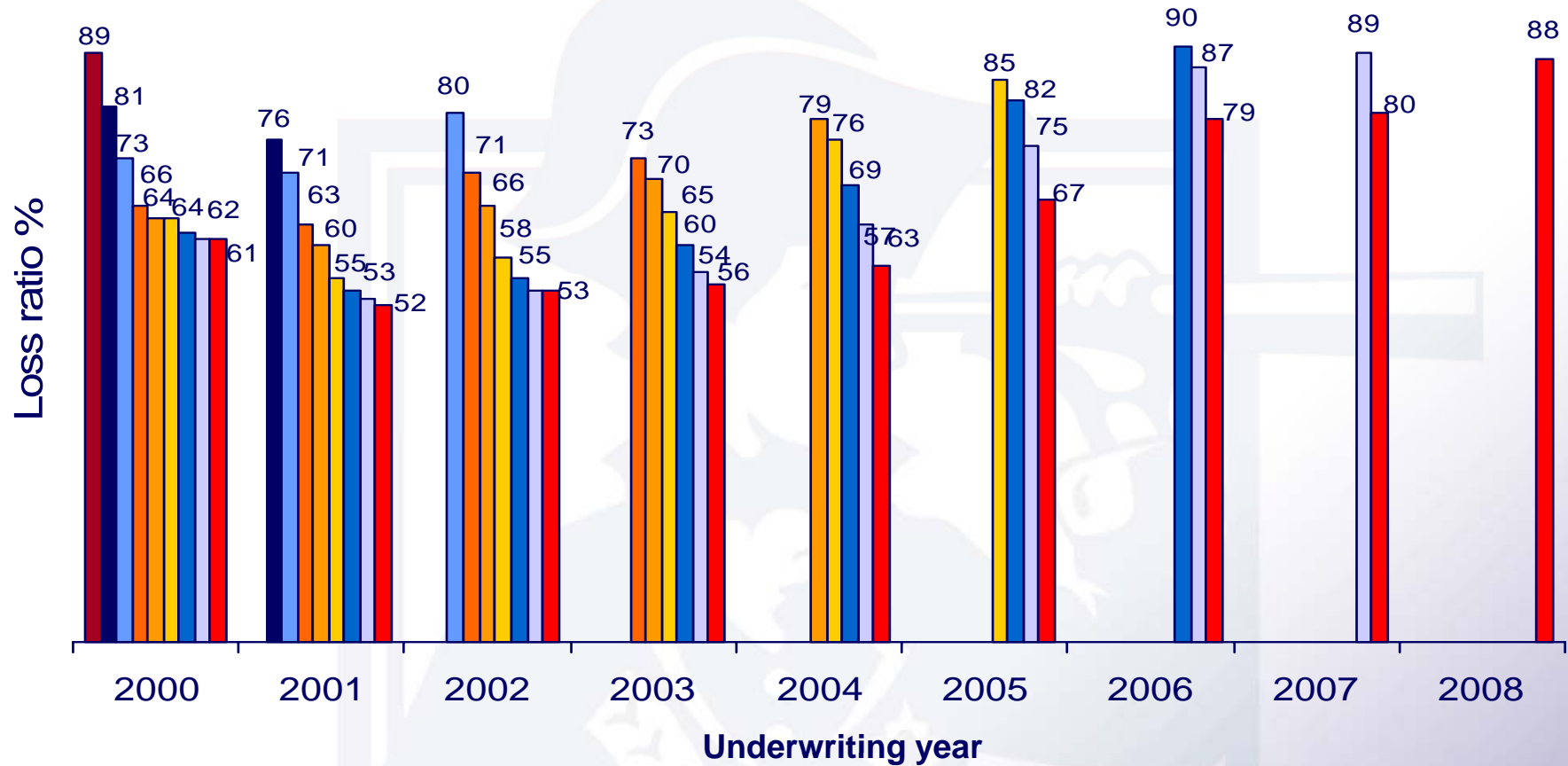
# UK car insurance co-insurance and reinsurance 2009

	Munich Re	Swiss Re	New Re	Hannover Re	Munich Re (pre 2007)
<b>Share of premium</b>	50%	10%	6.25%	6.25%	65%
<b>Term</b>	To at least Dec 2014	Ends December 2011			2002 to 2006
<b>Cost to Admiral</b>	Variable, depending on combined ratio	Fixed (not disclosed)	Fixed – 1.7% of premium	Fixed – 1.7% of premium	Variable, depending on combined ratio
<b>Risk protection</b>	Co-insurance	Starts at approximately 104%			Co-insurance
<b>Profit commission</b>	Profit share % based on combined ratio. Different %'s operate in tranches	Starts at 100%. Fixed allocation to Swiss Re, then 100% profit rebate to Admiral thereafter <b>Below "x"% = 100%</b>	Same as Swiss Re (though at different cost) <b>Below 98.3% = 100%</b>		Profit share % based on combined ratio <b>Maximum = 29.5%</b>
<b>Funds withheld</b>	No	No	Yes	Yes	No
<b>Investment income</b>	Munich Re	Admiral (provided combined ratio <100%)			Munich Re
<b>Instalment income</b>	Munich Re	Admiral			Munich Re
<b>Ancillary income</b>	Admiral	Admiral			Admiral
<b>Other terms</b>	Reduces to 45% in 2010, 40% in 2011. Improved PC terms from 2010	Reduces to 7.5% in 2010, 5.0% in 2011	Increases to 7.5% in 2010 and 8.75% in 2011. Admiral option to give further 2.5% in 2010 and 5% in 2011		





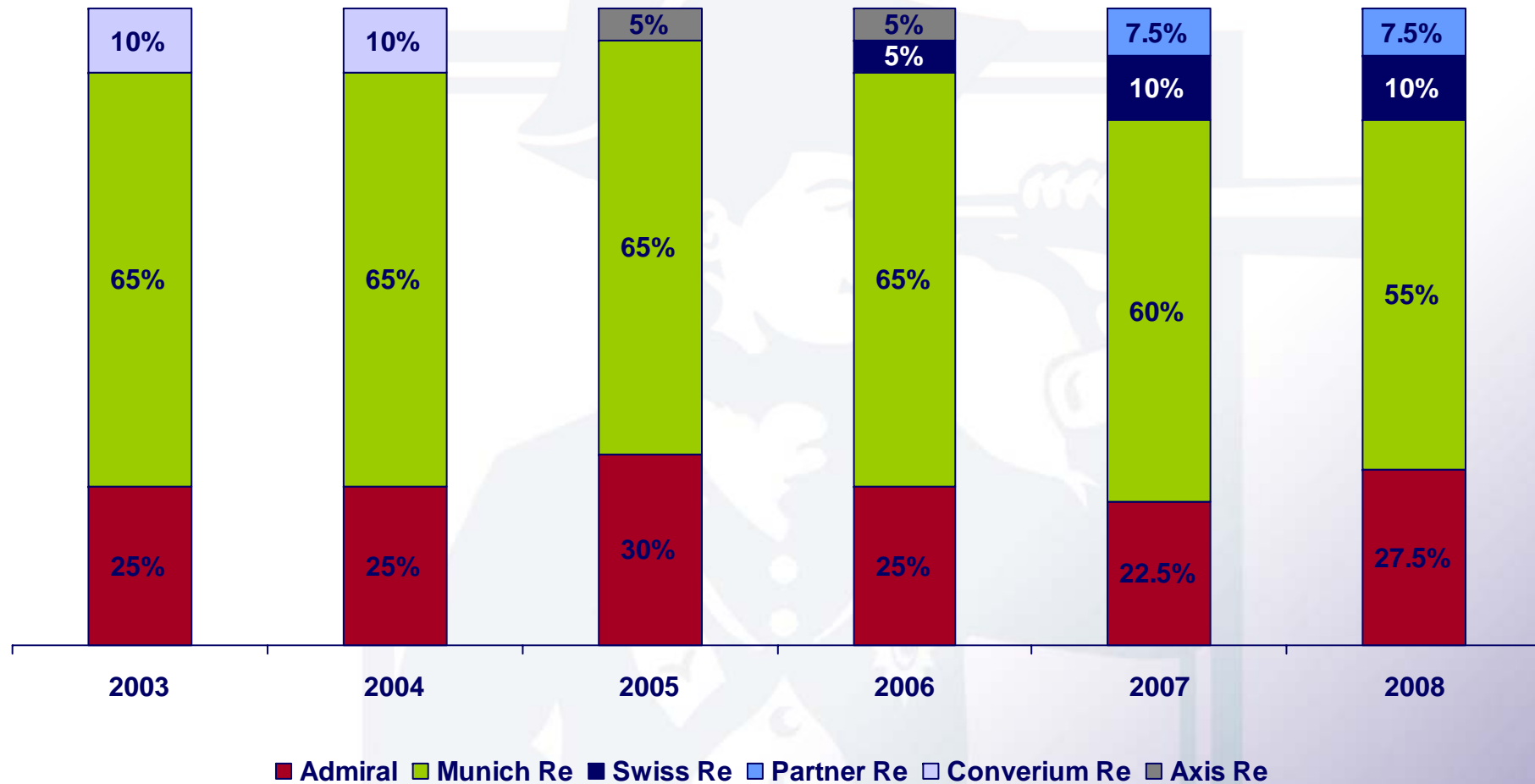
# Loss Ratio Development by Underwriting Year – UK Motor



- 2000 Accounts   ■ 2001 Accounts   ■ 2002 Accounts   ■ 2003 Accounts   ■ 2004 Accounts
- 2005 Accounts   ■ 2006 Accounts   ■ 2007 Accounts   ■ 2008 Accounts

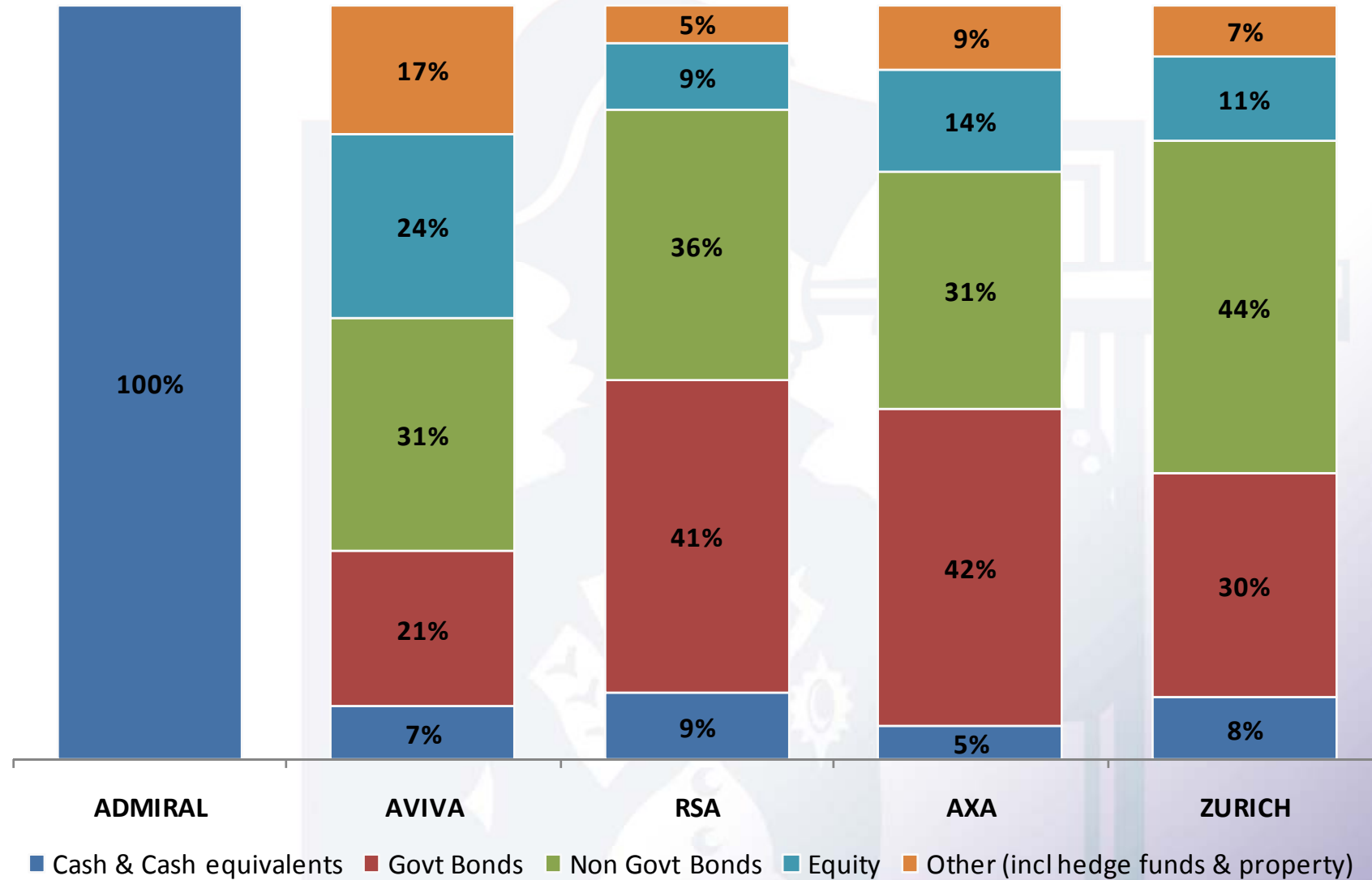


# UK car insurance underwriting 2003 - 2008





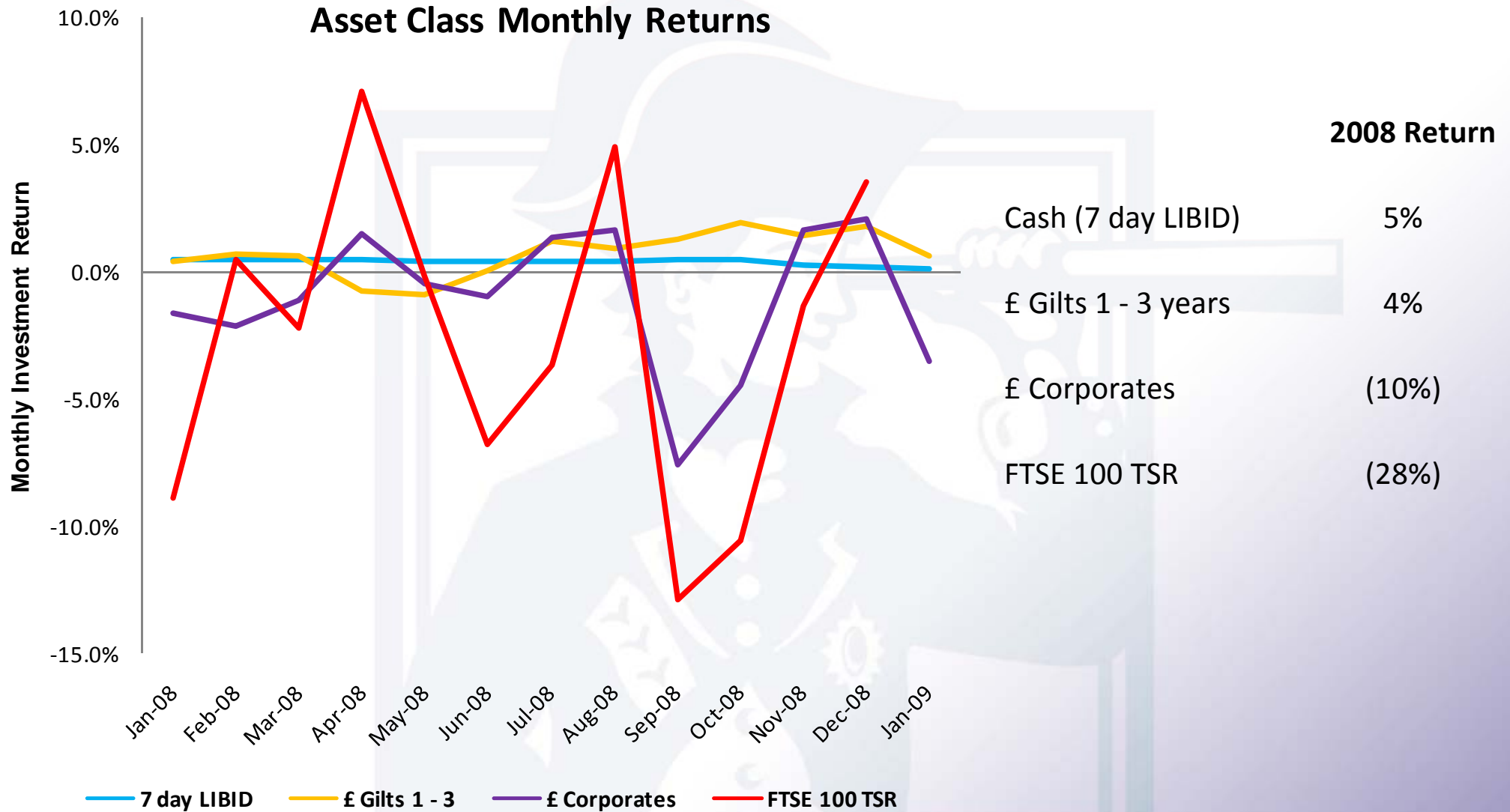
# Composition of Cash & Investments



Competitor information based on latest portfolio compositions available (30 June 08 or 31 Dec 07), for Aviva, AXA and RSA we estimated the split between Govt and Non-Govt bonds.



# Asset Class Returns



Gilt and Corporate returns shown are based on Market IBoxx indices.



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The forward-looking information contained herein has been prepared on the basis of a number of assumptions which may prove to be incorrect, and accordingly, actual results may vary.

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The financial information set out in the presentation does not constitute the Company's statutory accounts in accordance with section 240 Companies Act 1985 for the year ended 31 December 2008. The statutory accounts for the year ended 31 December 2008 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.