

ADMIRAL  
GROUP plc



# 2011 Full Year Results

7<sup>th</sup> March 2012

**Henry Engelhardt, Chief Executive Officer**

2011 Overview

**Kevin Chidwick, Finance Director**

Results

**David Stevens, Chief Operating Officer**

UK Car Insurance

**Henry Engelhardt, Chief Executive Officer**

International

**Q&A**



# **2011 Overview**

**Henry Engelhardt**



# Admiral is still different

**Highly profitable**



- ✓ Focussed on delivering profit growth
- ✓ Three-fold increase in profits to £299m (2004-2011)

**Consistently growing**



- ✓ 100% organic, controlled growth
- ✓ Three-fold increase in number of customers to 3.4m (2004-2011)
- ✓ Flexibility to adjust growth according to market conditions

**Efficient and effective**



- ✓ Lower customer acquisition costs
- ✓ Sophisticated underwriting techniques used
- ✓ Run low cost operations with service-orientated culture
- ✓ Cross-sell other products

**Low risk model**



- ✓ No debt, and cash balances conservatively managed
- ✓ Use of co and reinsurance
- ✓ Test and learn approach

**Strongly cash generative**



- ✓ Strong earnings growth
- ✓ Highly capital efficient
- ✓ Transparent dividend policy and high dividend payout ratio

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**High return on capital**



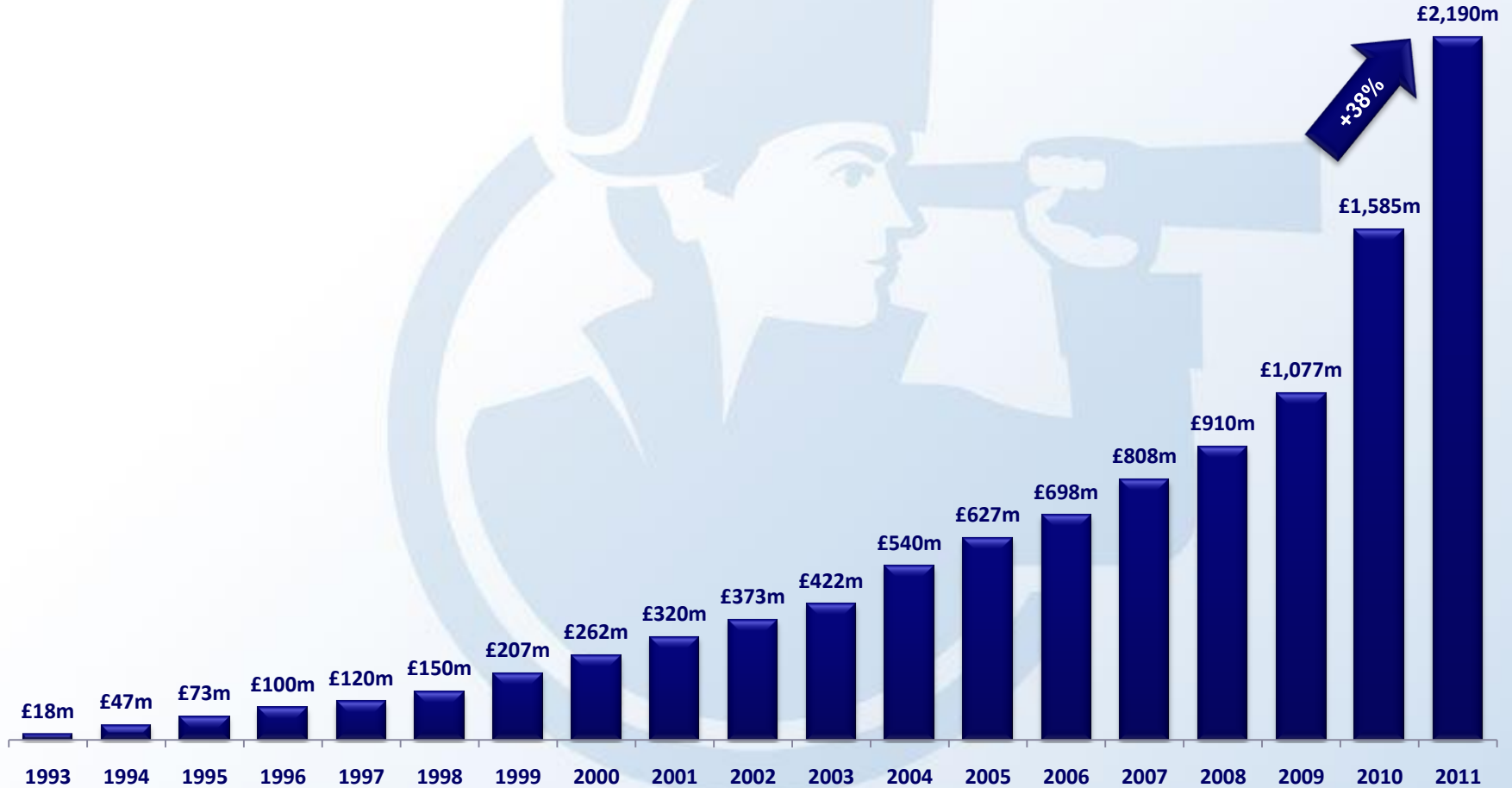
## 2011 Overview

- ❑ Profit before tax up 13% at £299.1 million (2010: £265.5 million)
- ❑ Return on capital employed 59% (2010: 59%)
- ❑ Turnover up 38% at £2.19 billion (2010: £1.58 billion)
- ❑ Group vehicle count up 22% to 3.36 million (2010: 2.75 million)
- ❑ Group combined ratio 96% (2010: 89%)
- ❑ Final dividend per share of 36.5p, full 2011 dividend up 11% to 75.6p (2010: 68.1p)



# We have achieved profitable scale wholly through organic growth

## Admiral Group Turnover



\*Calculation: Turnover comprises total premiums written + other revenue

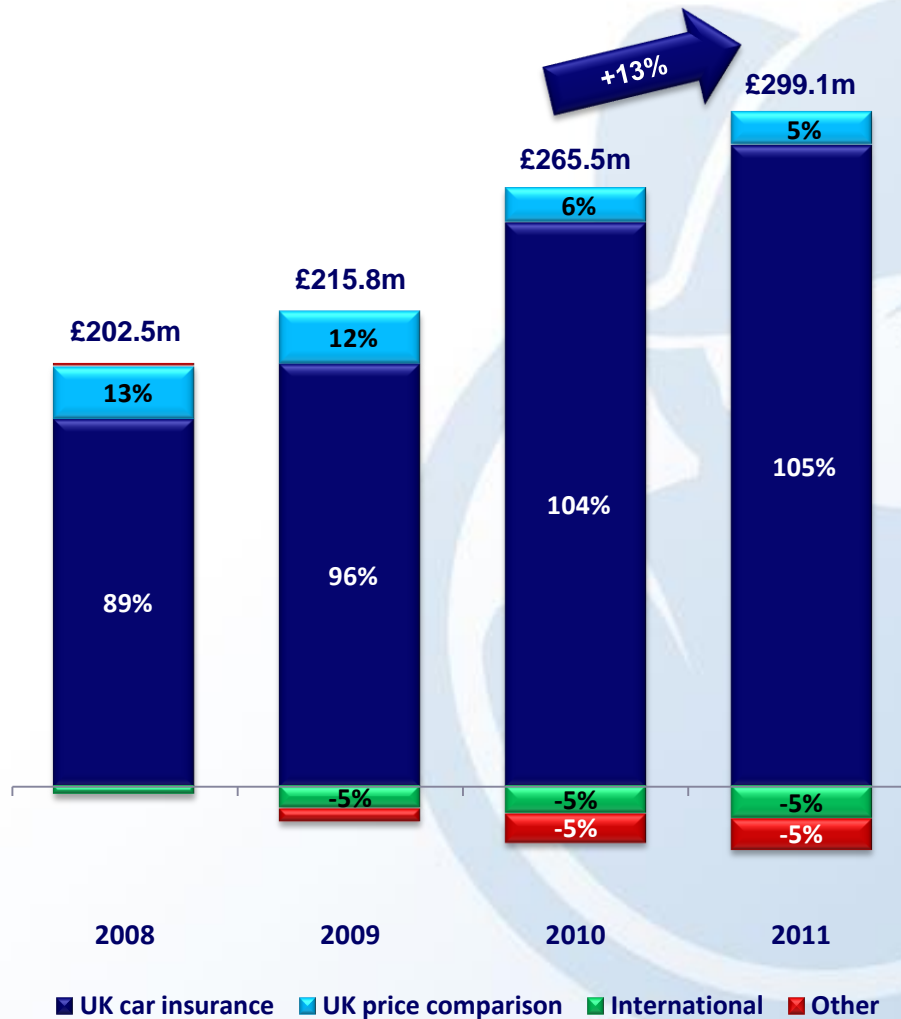


# **Results**

**Kevin Chidwick**



# Group Profit Before Tax



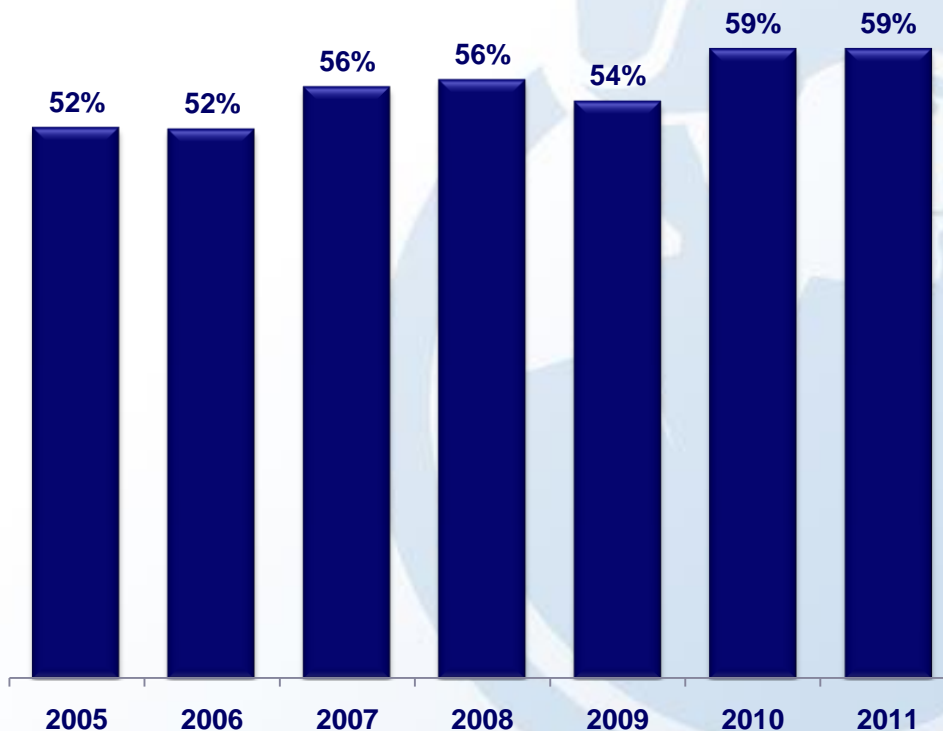
- The Group's core UK Car Insurance operation accounted for £314m of Group profit before tax
- Confused.com performed well in a highly competitive environment contributing £16m to profit before tax
- The Group continued to invest and make progress in overseas expansion in car insurance and price comparison in 2011
- The Group's employee share scheme costs account for the majority of "Other" category. At the end of 2011 all Admiral's 6,000 employees participated in the scheme





# Group Return on Capital Employed

Admiral Group Return on Capital Employed\*



## ■ Underwriting arrangements

- Co and reinsurance enables Admiral to generate a very high return on capital employed
- UK reinsurance arrangements have been extended to at least the end of 2014
- UK co-insurance arrangements are in place until at least the end of 2016

## ■ Solvency II

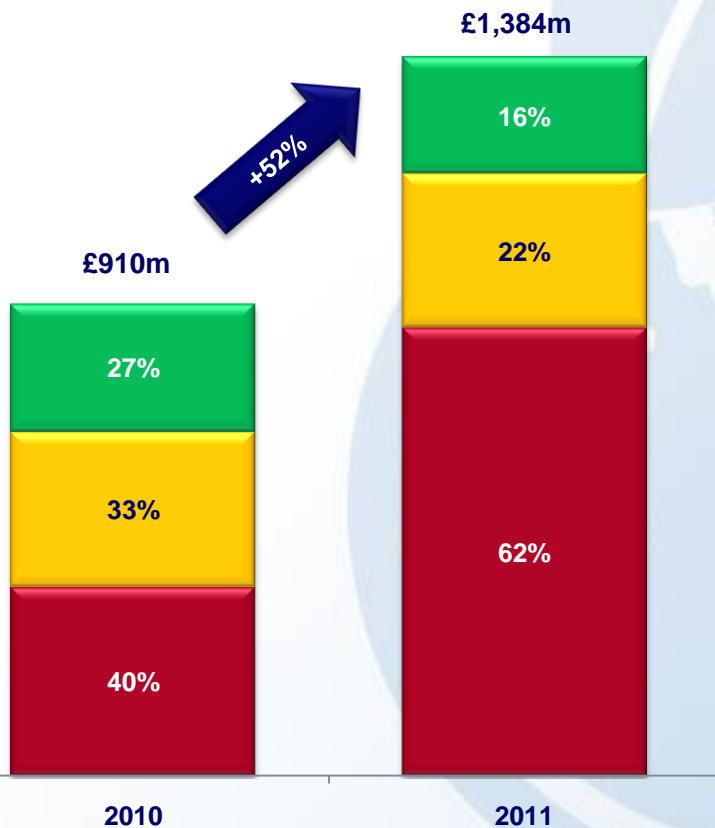
- As the regulation currently stands, we expect there to be no material change to Admiral's capital requirements under Solvency II

\*Note: ROCE calculated as post tax result divided by average equity

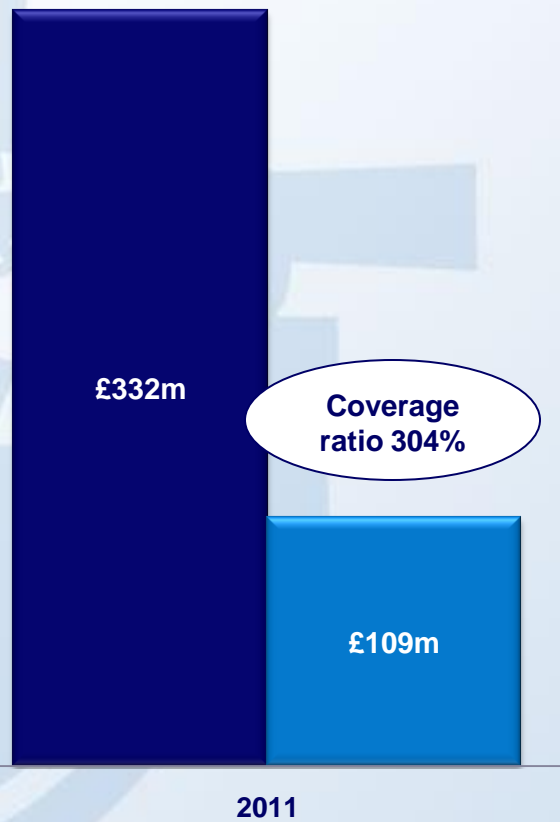


# Group Balance Sheet

### Admiral Group Cash & Investments



### Admiral Group Solvency



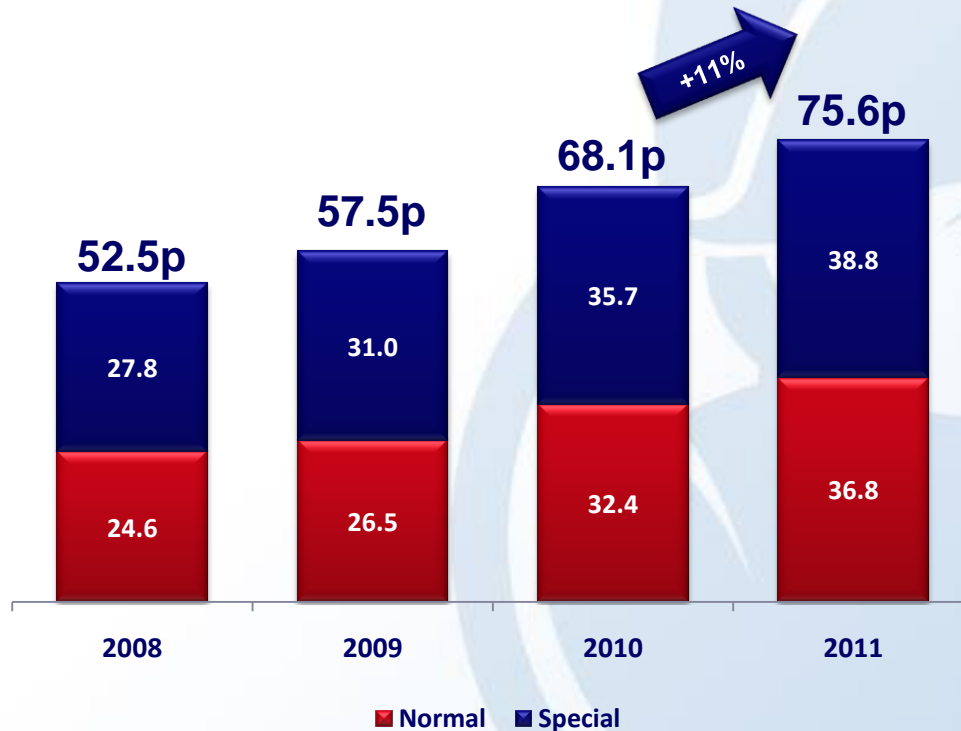
■ Money market funds ■ Long-term cash deposits ■ Cash

■ Tangible equity ■ Required capital (IGD)



# Admiral's Dividend Policy is Unchanged

Admiral Group Full Year Dividend



H2 Dividend Calculation

	2010	2011
	£m	£m
Total equity	351	394
Goodwill	-62	-62
Solvency capital	<u>-164</u>	<u>-203</u>
	125	129
Buffer	<u>-30</u>	<u>-30</u>
Dividend	95	99

H2 2011 – 36.5p per share

Ex-dividend date – 2<sup>nd</sup> May 2012

Record date – 4<sup>th</sup> May 2012

Payment date – 1<sup>st</sup> June 2012

% Payout	2008	2009	2010	2011
	96%	97%	92%	92%

Note: Normal dividend is calculated as 45% of post tax profits. H2 2011 36.5 pence per share dividend is a 17.4 pence normal and 19.1 pence special dividend



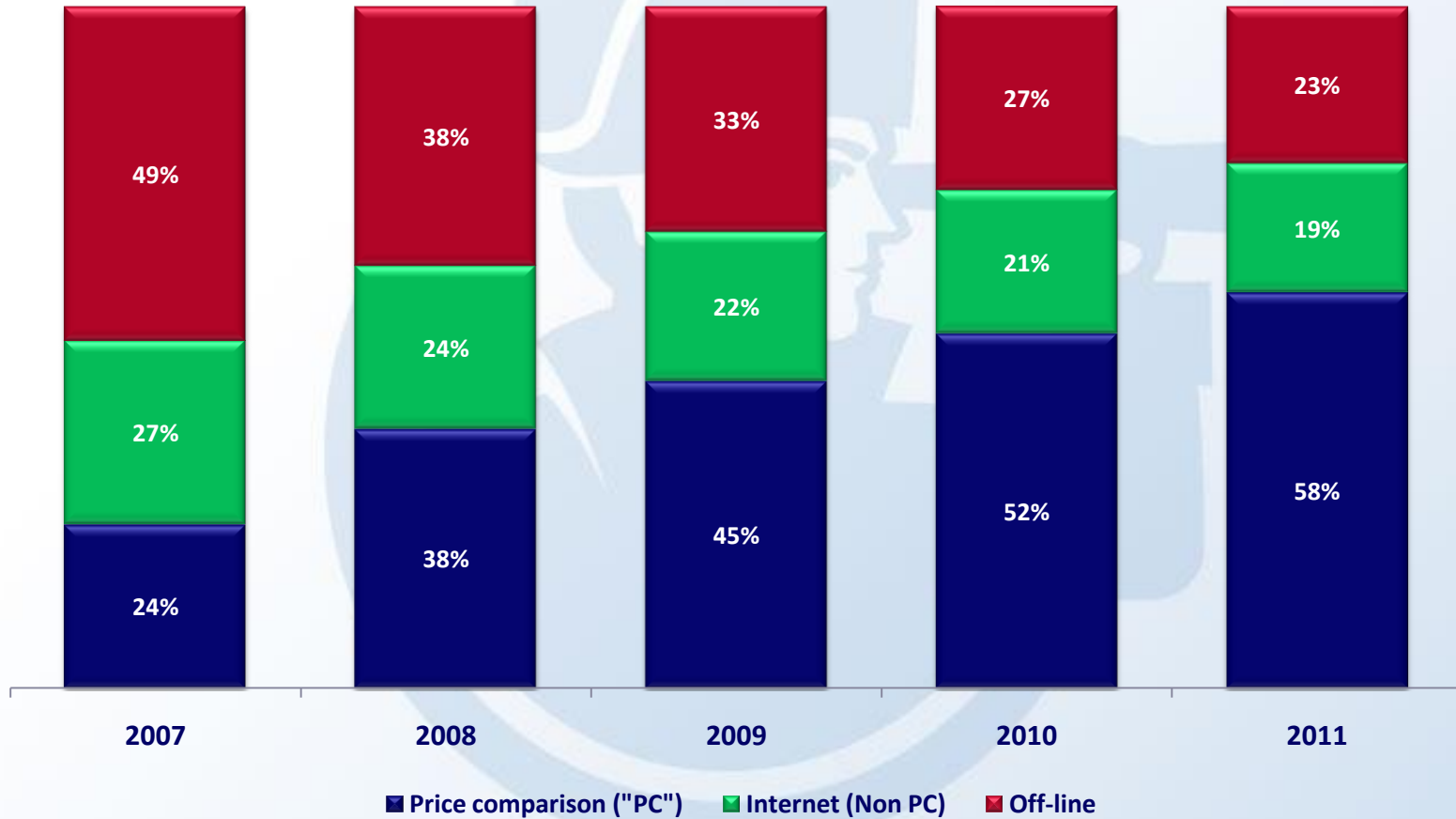
# **UK Car Insurance**

**David Stevens**



# Price comparison market - business as usual

## UK Market Car Insurance New Business Distribution Channels

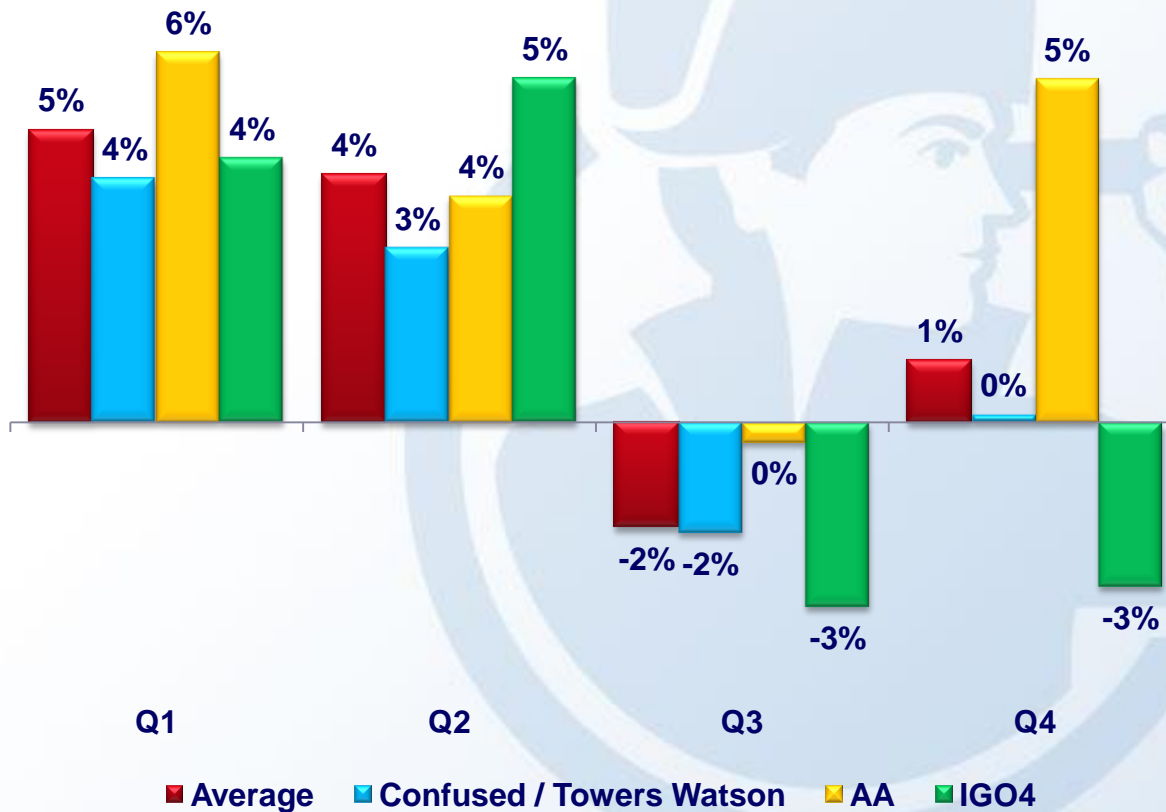


Source: management estimates



# Market rate changes – end of rapid price increases

2011 Quarterly Rate Movements (New Business Only)



Cumulative Rate Movements	2011
Confused / Towers Watson	5%
AA	15%
IGO4	4%
Average	8%



# Regulatory developments

- Personal injury referral fees
  - Implementation of ban in April 2013
  - Earlier change possible due to government intervention on legal costs
  
- Credit hire referral fees
  - OFT work focussed on credit hire
  - Report due in May / June 2012
  
- Implications for Admiral
  - Likely reductions in other revenue per vehicle in 2012 / 2013
  - Offsetting improvement in claims costs
  - No change to competitive position



# Admiral UK Car Insurance Results

- UK Profit Before Tax up 14% at £313.6 million (2010: £275.8 million)
- Turnover up 38% at £1.97 billion (2010: £1.42 billion)
- UK vehicle count up 21% to 2.97 million; Q4 vehicle count growth of 2%
- Ancillary income per vehicle: £76\*
  - Combine with instalment income as “Other Revenue” per vehicle: £84
- £6.3 million reserve release in H2 (FY: £10.3m) - 15<sup>th</sup> reserve release since IPO
  - Reported loss ratio 77% (2010: 68%) primarily due to lower level of prior year reserve releases
  - Loss ratio excluding releases of 80%, up from 77% due to current year booking

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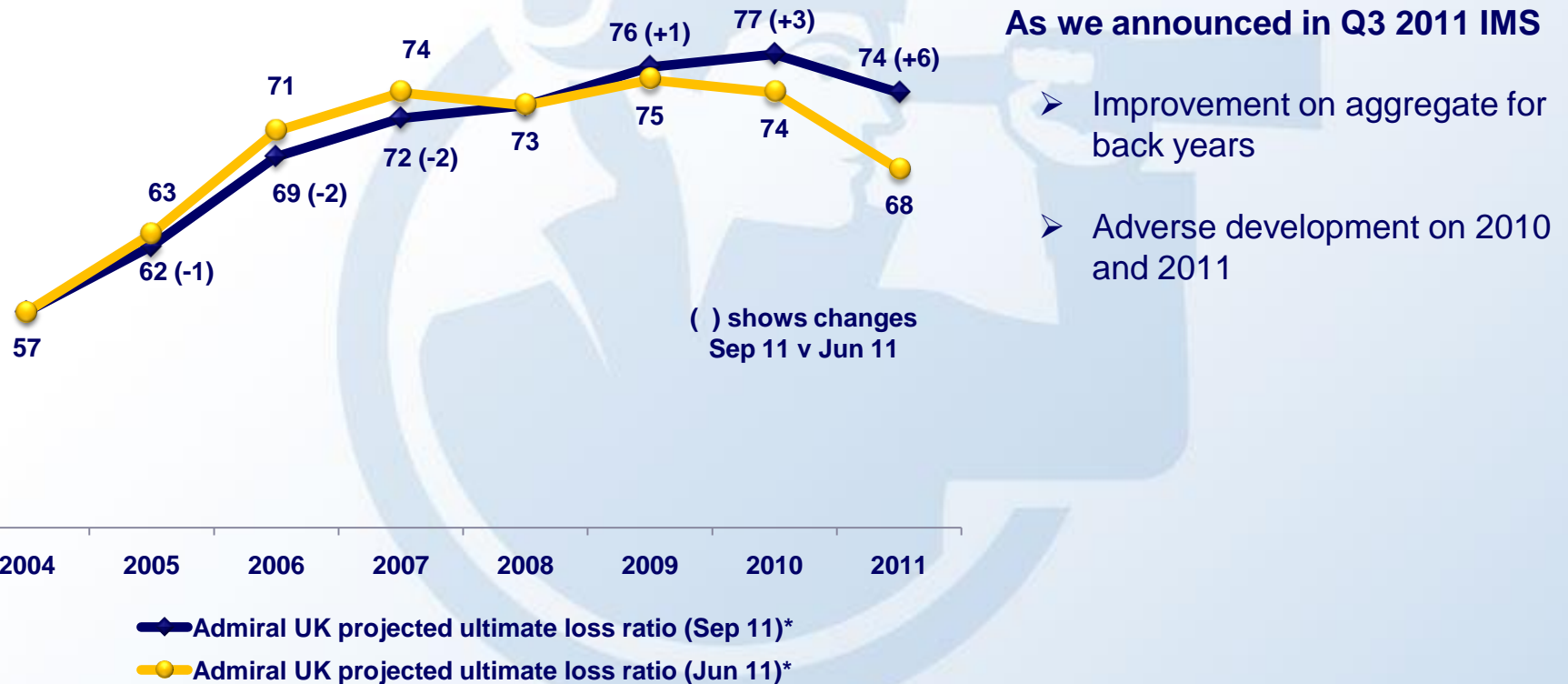
*\*Ancillary income per vehicle varies by vehicle growth rate (total income divided by average vehicles)*





# Ultimate loss ratio movement from Q2 to Q3

Accident Year Basis Ultimate Loss Ratios in June 2011 and September 2011

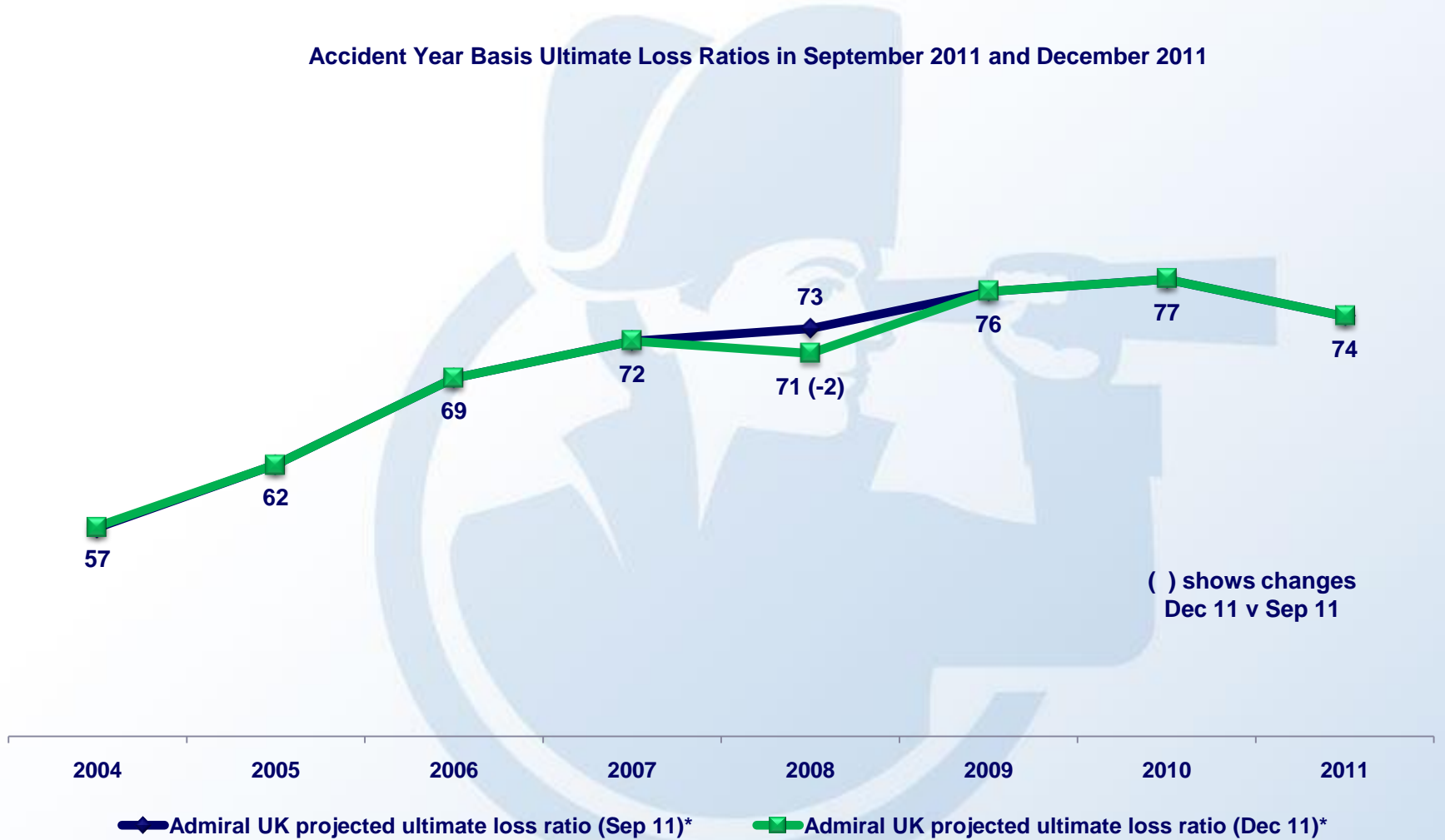


\*Source: Independent actuarial projection of ultimate loss ratios on accident year basis



# Ultimate loss ratio movement from Q3 to Q4

Accident Year Basis Ultimate Loss Ratios in September 2011 and December 2011



\*Source: Independent actuarial projection of ultimate loss ratio on accident year basis

Note: The ultimate loss ratios are on accident year basis, booked loss ratios (appendix) are on underwriting year basis. 2010 ultimate loss ratio on underwriting year basis = 74%



## Actions taken

### ➤ Undertaken detailed reviews

- Including additional independent actuarial review which further supports ultimate loss ratios at end of Q4
- Independent “large claims” review by external lawyers confirms
  - robustness of large claims reserving, and
  - indication of a degree of increased conservatism\*

### ➤ Implemented higher relative price increases

- Reduced vehicle growth in H2 (5%) vs H1 (15%)

Rate Movements	2010	2011
Admiral (NB & RN)	+26%	+15%
Market (NB only)	+36%	+5%

### ➤ Made precautionary steer of portfolio to reduce bodily injury frequency

- Age groups
- Geographies

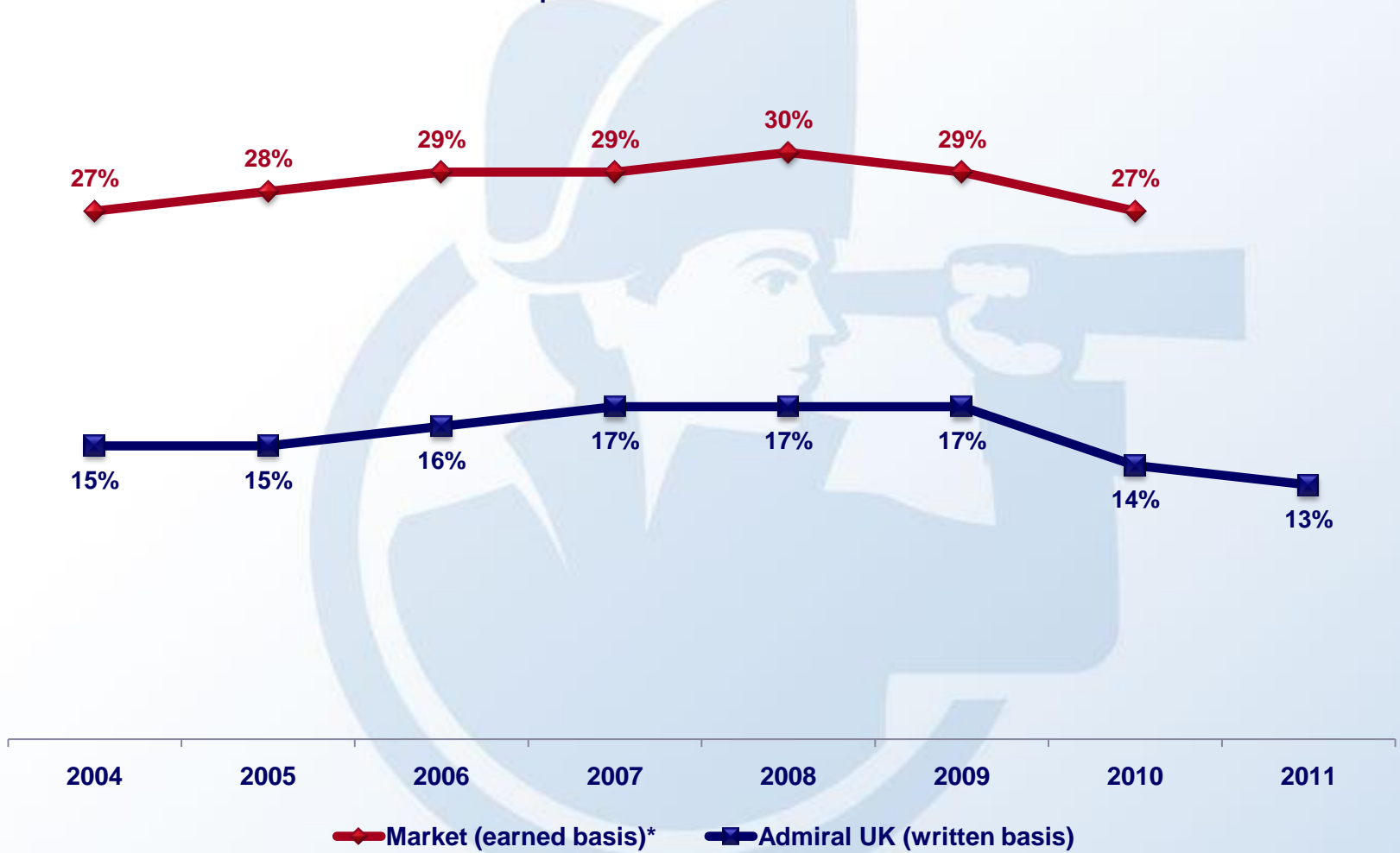
### ➤ Accelerated initiatives to further improve risk selection

*\*Remember large claims reserves require time to develop and settle, it is only in time that we will be provided with an accurate view of the outcome. We started the exercise on a very small sample (less than 1% of outstanding reserves) and extended it to cover approximately 20% of outstanding reserves.*



# We continue to focus on keeping costs low

Expense Ratio Admiral vs Market

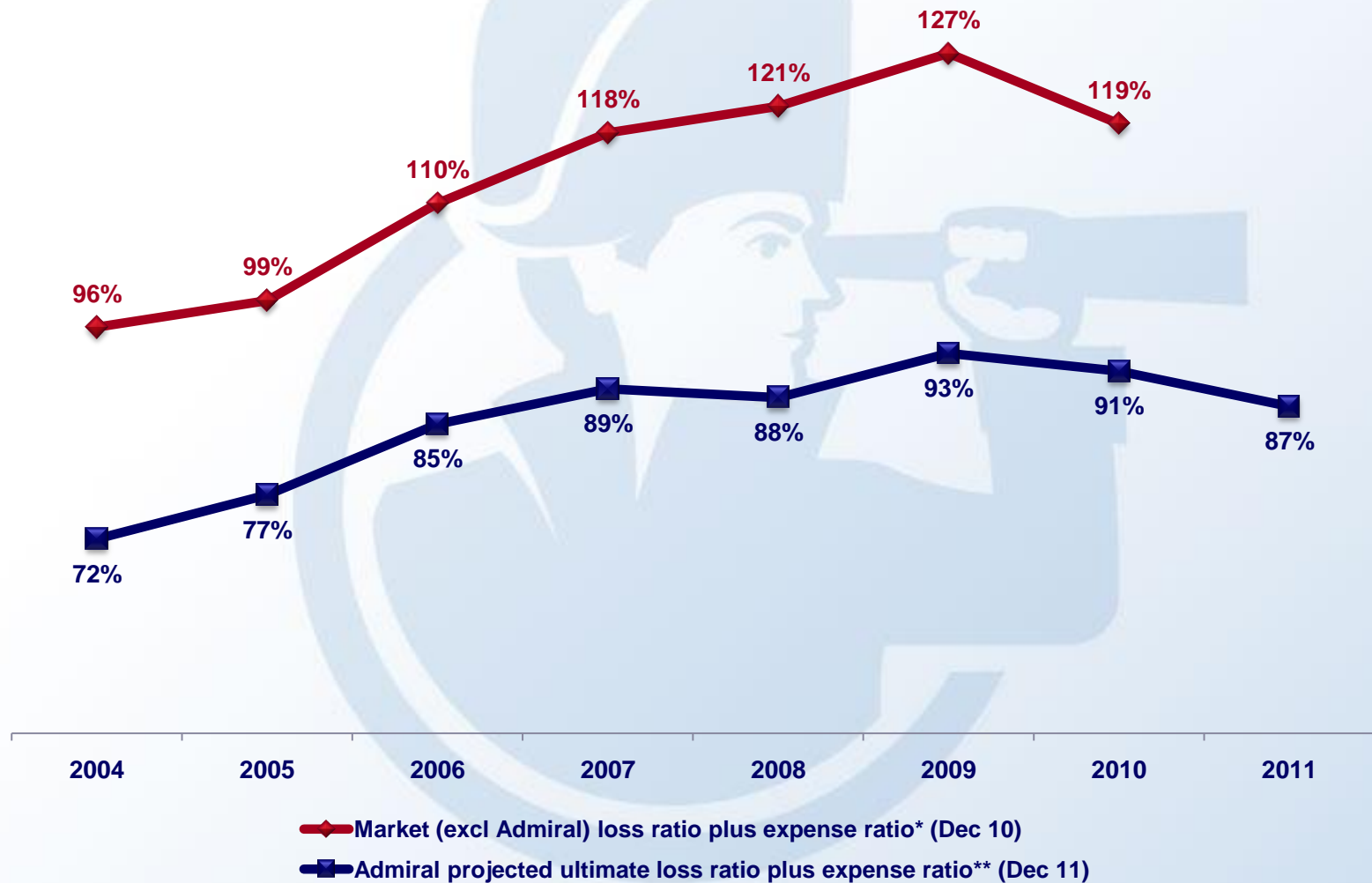


\*Source: Towers Watson analysis of FSA returns as at 31 December 2010 excluding UKI anomaly for 2010



# Ultimate combined ratio Admiral vs market

Combined Ratio Admiral vs Market



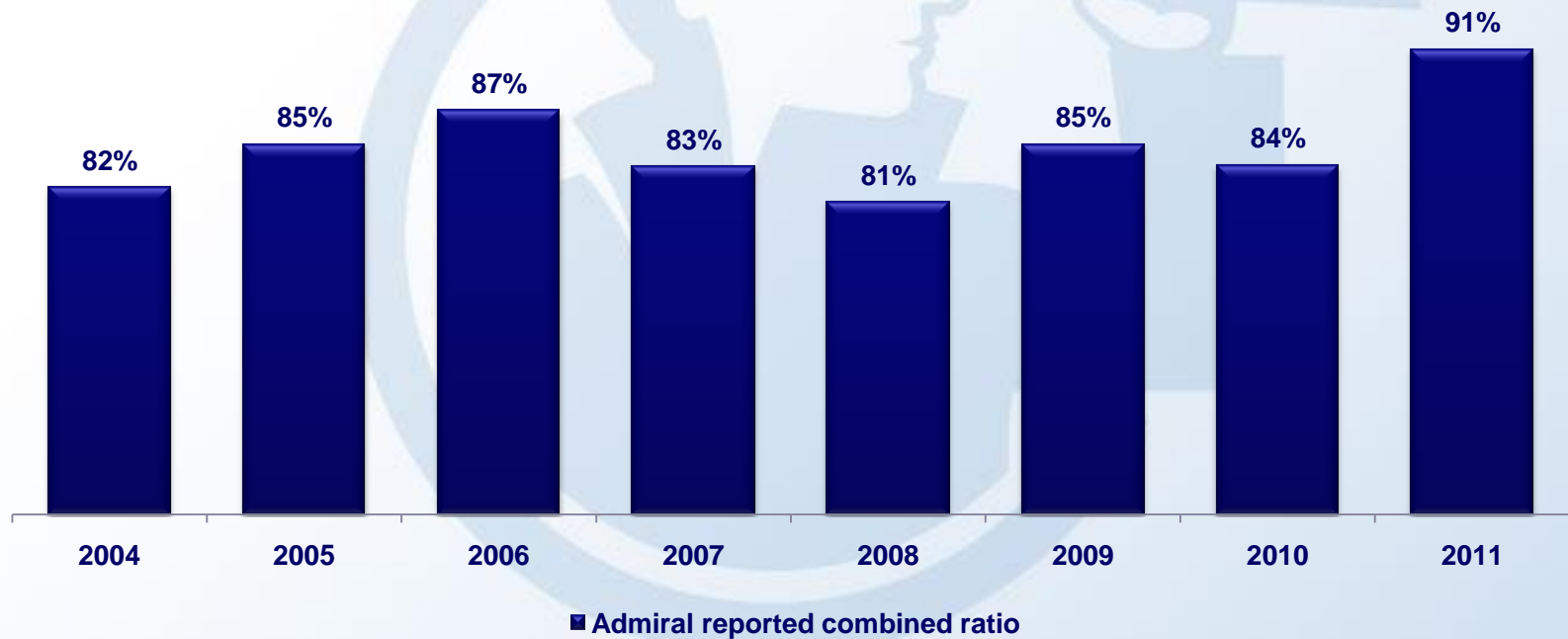
\*Earned expense ratio plus reported accident year loss ratio with reserve releases allocated back to relevant accident year, source: TowersWatson & Synthesis analysis of FSA returns

\*\*Admiral's written expense ratio plus actuarial projected ultimate loss ratio.



# Next time, we will focus on the reported ratios

Admiral Reported Combined Ratio





- Slower vehicle growth; changing mix of “new business vs renewal”
- Anticipate ongoing reserves releases
- Continue to refine rates, risk selection, claims management innovation and “test and learn”
- Ranked 6th place in Sunday Times Best Companies to Work For



**International**

**Henry Engelhardt**





**balumba**  
Seguros de coche



**Rastreator.com**  
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**Elephant**  
Auto Insurance



**l'olivier**  
assurances



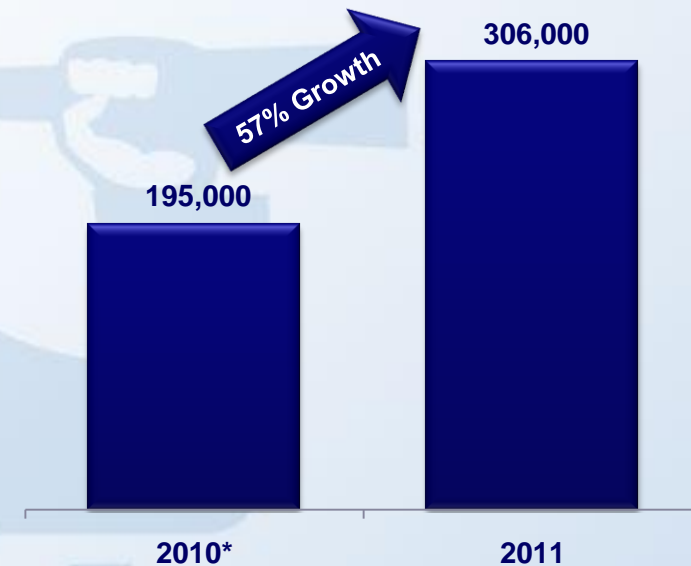
**LeLynx.fr**  
Comparateur d'assurance auto



## International Car Insurance Results

	2010*	2011	Movement	
<b>Total Premiums</b>	<b>£71.0m</b>	<b>£112.5m</b>	<b>+£41.5m</b>	<b>+58%</b>
<b>Loss Ratio</b>	<b>85%</b>	<b>104%</b>	<b>+19pp</b>	<b>+22%</b>
<b>Expense Ratio</b>	<b>88%</b>	<b>60%</b>	<b>-28pp</b>	<b>-32%</b>
<b>Result</b>	<b>(£8.0m)</b>	<b>(£9.5m)</b>	<b>-£1.5m</b>	<b>-19%</b>

## Number of Vehicles Insured



\*2010 includes Admiral Direkt  
Annual Vehicle Growth excluding Admiral Direkt c88%



# International Price Comparison

## International Price Comparison Results

	2010	2011	Movement	
Turnover	£3.9m	£12.8m	+£8.9m	+228%
Result	(£4.8m)	(£5.6m)	-£0.8m	-17%

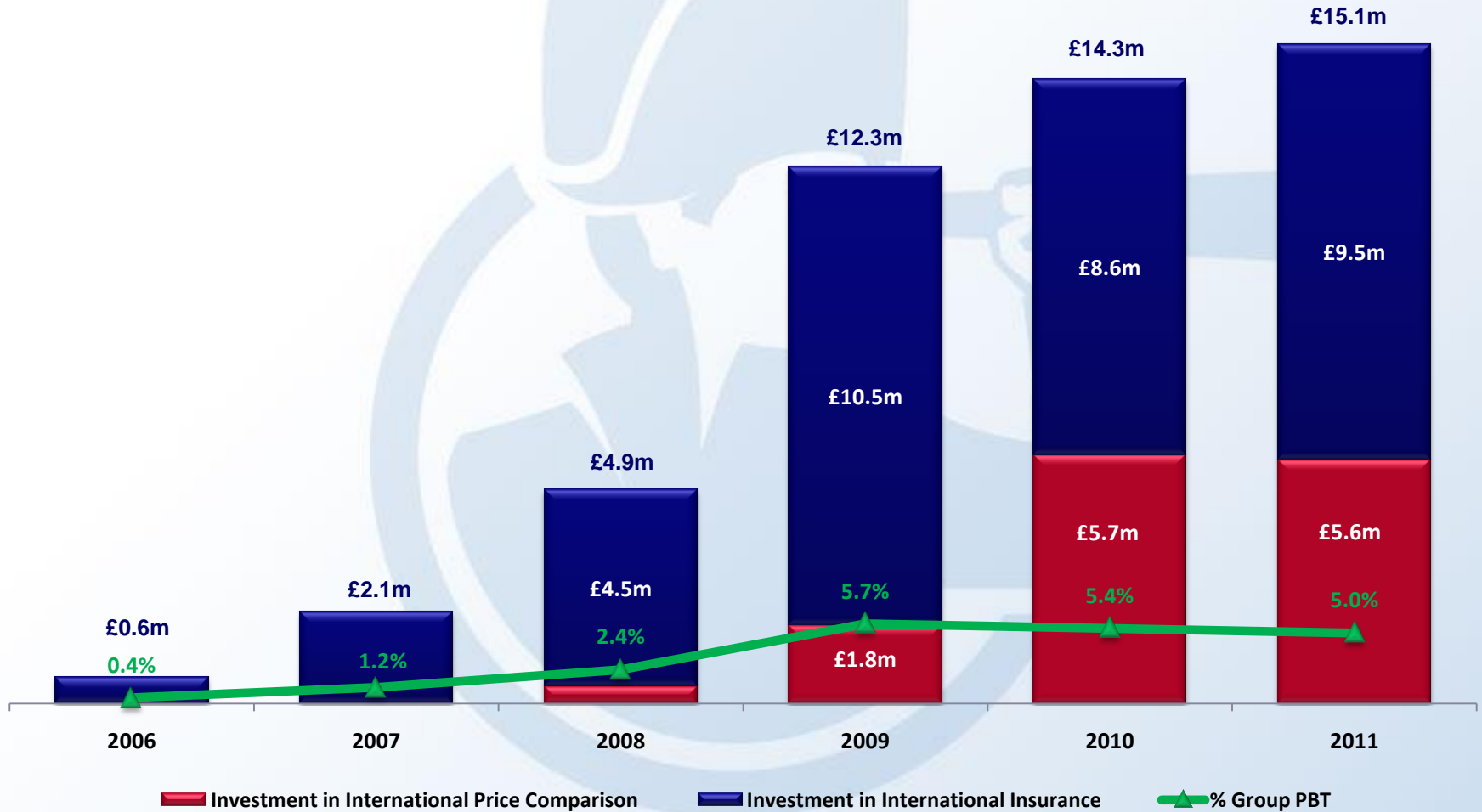
## Number of Quotes Generated





# International Investment

Total Investment in Price Comparison and Car Insurance as % Group PBT



Note: Total investment includes operational result plus expansion costs



➤ **Growth**

- Continued profitable growth in UK
- Trajectory for success internationally

➤ **Expansion**

- Medium term focus on existing operations

➤ **Opportunistic**



## 2011 Recap

- ❑ Profit before tax up 13% at £299.1 million (2010: £265.5 million)
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**Q&A**





# Appendix



- ❑ Admiral Group Key Performance Indicators
- ❑ Summary Income Statement
- ❑ Balance Sheet
- ❑ UK Underwriting Arrangements
- ❑ UK Booked Loss Ratio Development
- ❑ UK Reported Combined Ratio – Admiral vs Market
- ❑ Admiral's Brands
- ❑ Disclaimer Notice



# Admiral Group Key Performance Indicators

	KPI	2004	2005	2006	2007	2008	2009	2010	2011
<b>Group Financial</b>	Turnover £m	540	627	698	808	910	1,077	1,585	2,190
	Customers	1,040,700	1,141,000	1,284,700	1,490,800	1,745,800	2,076,000	2,748,400	3,360,000
	Group pre-tax profit £m	98.1	119.5	147.3	182.1	202.5	215.8	265.5	299.1
	Earnings per share	28.4p	32.7p	39.8p	48.6p	54.9p	59.0p	72.3p	81.9p
	Dividend	9.3p	24.6p	36.1p	43.8p	52.5p	57.5p	68.1p	75.6p
<b>UK Car Insurance</b>	Vehicles covered	1,007,600	1,104,500	1,240,200	1,381,700	1,587,200	1,861,800	2,458,900	2,965,700
	Total premiums £m	470.4	533.6	566.0	617.0	690.2	804.7	1,237.6	1,728.8
	Reported combined ratio	82.0%	84.9%	87.2%	83.4%	81.0%	84.9%	83.5%	91.3%
	Ancillary contribution per vehicle £	66	69	69	69	71	72	77	76
	UK car insurance pre-tax profit £m	94.7	110.0	121.1	142.2	179.9	206.9	275.8	313.6
<b>Price Comparison</b>	Total revenue £m	3.2	12.0	38.5	69.2	66.1	80.6	75.7	90.4
	Operating profit £m	1.3	6.9	23.1	36.7	25.6	24.9	11.7	10.5
	Operating margin - Confused.com	41%	58%	60%	53%	39%	32%	24%	21%
<b>International Car Insurance</b>	Vehicles covered			2,200	46,900	73,700	121,000	195,000	306,000
	Total premiums £m			0.6	14.2	26.0	43.0	71.0	112.5
	Reported combined ratio			0	232%	198%	204%	173%	164%
	International car insurance result £m			(0.1)	(0.7)	(4.1)	(9.5)	(8.0)	(9.5)



# Summary Income Statement

	UK Car Insurance			International Car Insurance			Price comparison			Other			Admiral Group		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Turnover</b>	<b>939.1</b>	<b>1,419.7</b>	<b>1,966.0</b>	<b>47.2</b>	<b>77.6</b>	<b>122.1</b>	<b>80.5</b>	<b>75.7</b>	<b>90.4</b>	<b>10.6</b>	<b>11.8</b>	<b>11.7</b>	<b>1,077.4</b>	<b>1,584.8</b>	<b>2,190.2</b>
<b>Total premiums written</b>	804.7	1,237.6	1,728.8	43.0	71.0	112.5							847.7	1,308.6	1,841.3
Gross premiums written	402.3	678.9	1,037.3	37.6	59.6	91.1							439.9	738.5	1,128.4
Net premiums written	217.7	334.6	472.6	14.8	24.0	33.8							232.5	358.6	506.4
<b>Net earned premium</b>	<b>199.1</b>	<b>269.4</b>	<b>418.6</b>	<b>12.8</b>	<b>18.7</b>	<b>27.2</b>							<b>211.9</b>	<b>288.1</b>	<b>445.8</b>
Investment income	7.5	8.3	10.6	0.2	0.1	0.2							7.7	8.4	10.8
Net insurance claims	(138.7)	(192.6)	(335.5)	(13.0)	(15.9)	(28.3)							(151.7)	(208.5)	(363.8)
Insurance related expenses	(30.3)	(32.4)	(46.7)	(13.0)	(16.5)	(16.2)							(43.3)	(48.9)	(62.9)
<b>Underwriting result</b>	<b>37.6</b>	<b>52.7</b>	<b>47.0</b>	<b>(13.0)</b>	<b>(13.6)</b>	<b>(17.1)</b>							<b>24.6</b>	<b>39.1</b>	<b>29.9</b>
Profit commission	54.2	67.0	61.8										54.2	67.0	61.8
Gross ancillary revenue	125.6	168.3	213.9	3.9	6.3	9.4							129.5	174.6	223.3
Ancillary costs	(19.3)	(25.9)	(32.4)	(0.6)	(1.0)	(1.4)							(19.9)	(26.9)	(33.8)
Instalment income	8.8	13.7	23.3	0.2	0.4	0.3							9.0	14.1	23.6
Gladiator contribution										2.4	2.7	2.8	2.4	2.7	2.8
Price comparison revenue							80.5	75.7	90.4				80.5	75.7	90.4
Price comparison expenses							(55.6)	(63.6)	(79.9)				(55.6)	(63.6)	(79.9)
Interest income										1.1	1.1	2.9	1.1	1.1	2.9
Other (mainly share scheme)					(0.1)	(0.7)				(10.0)	(18.2)	(21.2)	(10.0)	(18.3)	(21.9)
<b>Profit / (loss) before tax</b>	<b>206.9</b>	<b>275.8</b>	<b>313.6</b>	<b>(9.5)</b>	<b>(8.0)</b>	<b>(9.5)</b>	<b>24.9</b>	<b>12.1</b>	<b>10.5</b>	<b>(6.5)</b>	<b>(14.4)</b>	<b>(15.5)</b>	<b>215.8</b>	<b>265.5</b>	<b>299.1</b>

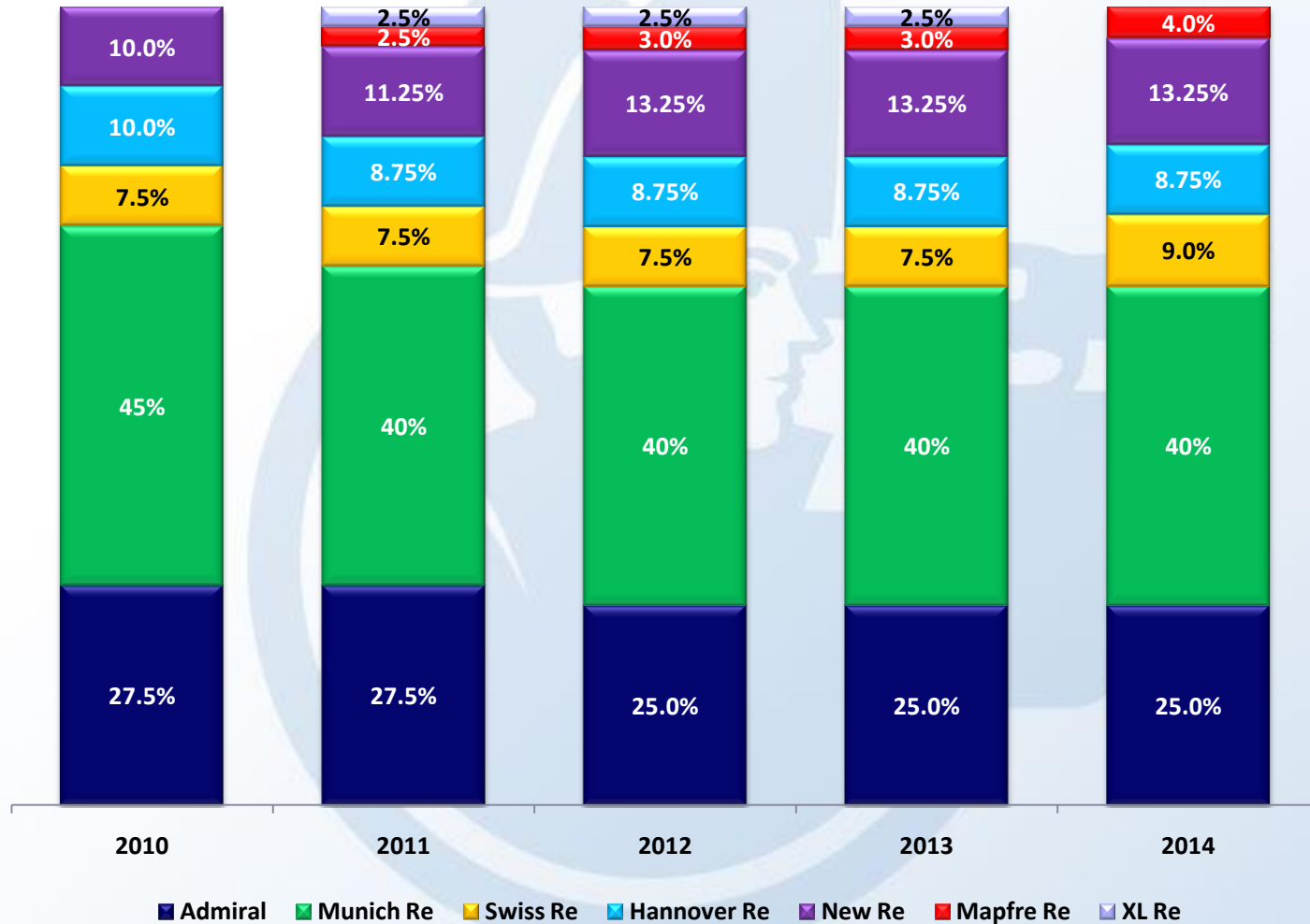


# Balance Sheet

	Dec-11 £m	Dec 10 £m	Dec-09 £m
<b>ASSETS</b>			
Property and equipment	17.6	15.1	12.1
Intangible assets	87.5	82.9	77.0
Deferred income tax	10.3	12.4	-
Reinsurance contracts	639.8	357.0	212.9
Trade and other receivables	52.1	47.9	32.7
Financial assets	1,583.0	1,004.7	630.9
Cash and cash equivalents	<u>224.6</u>	<u>246.7</u>	<u>211.8</u>
<b>Total assets</b>	<b><u>2,614.9</u></b>	<b><u>1,766.7</u></b>	<b><u>1,177.4</u></b>
<b>EQUITY</b>			
Share capital	0.3	0.3	0.3
Share premium	13.1	13.1	13.1
Retained earnings	377.3	332.7	281.8
Other reserves	<u>3.7</u>	<u>4.6</u>	<u>5.6</u>
<b>Total equity</b>	<b>394.4</b>	<b>350.7</b>	<b>300.8</b>
<b>LIABILITIES</b>			
Insurance contracts	1,333.7	806.6	532.9
Trade and other payables	856.6	561.0	306.8
Deferred income tax	-	-	5.7
Corporation tax liabilities	<u>30.2</u>	<u>48.4</u>	<u>31.2</u>
<b>Total liabilities</b>	<b>2,220.5</b>	<b>1,416.0</b>	<b>876.6</b>
<b>Total liabilities and equity</b>	<b><u>2,614.9</u></b>	<b><u>1,766.7</u></b>	<b><u>1,177.4</u></b>

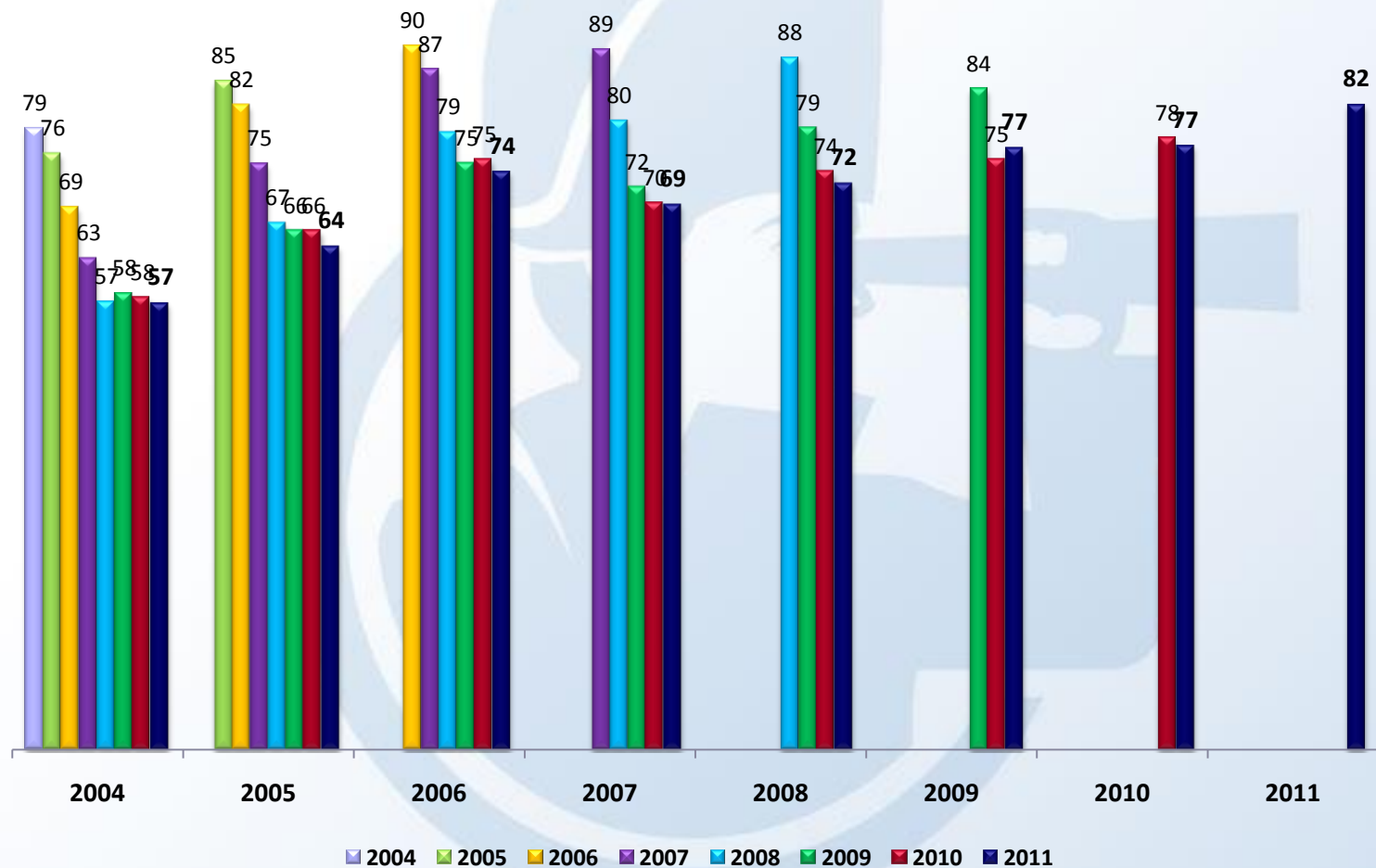


# UK Underwriting Arrangements





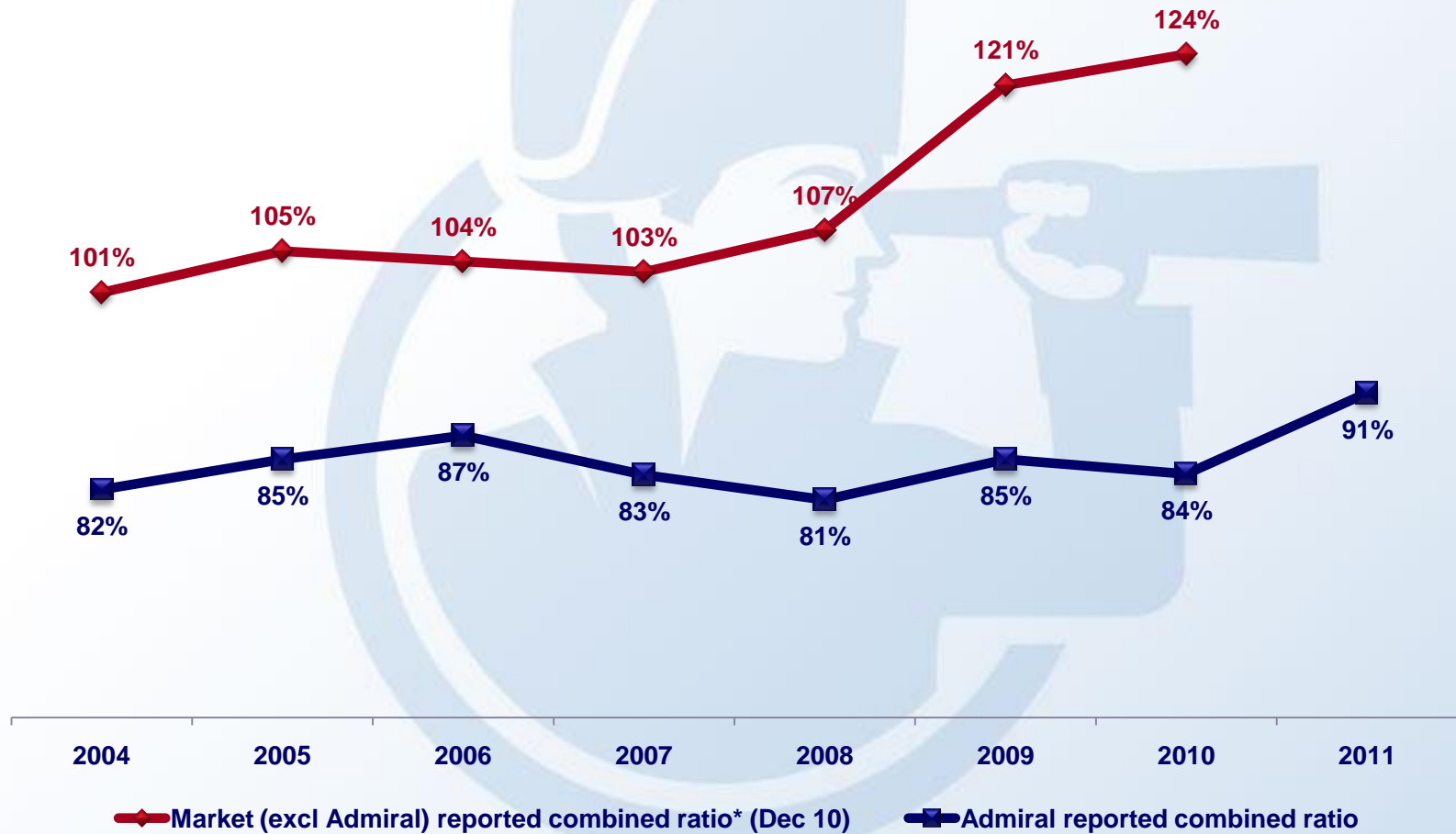
# UK Booked Loss Ratio Development By Underwriting Year



Note: underwriting year basis, therefore direct comparison to ultimate loss ratios on accident year basis is inappropriate  
2010 ultimate loss ratio on underwriting year basis = 74%

# UK Reported Combined Ratio – Admiral vs Market

Admiral vs Market UK Reported Combined Ratio



\*Source: TowersWatson & Synthesis analysis of FSA returns







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