ADMIRAL GROUP PLC 2008 FULL YEAR RESULTS ANNOUNCEMENT

Admiral Group plc Results for the Year Ended 31 December 2008
3 March 2009

Admiral Reports Record Profits & Strong Growth

Admiral Group plc today announces a strong annual result with a profit before tax of £202.5 million for the year to December 2008, an increase of 11% over the previous year. Turnover, comprising total premiums written and other revenue rose 13% to £910 million.

2008 Highlights

- Profit before tax up 11% at £202.5 million (2007: £182.1 million)
- Final dividend of 26.5p per share, making total dividend of 52.5p for 2008 (2007: 43.8p)
- Turnover* up 13% at £910 million (2007: £808 million)
- Net revenue up 16% at £423 million (2007: £364 million)
- Number of customers up 17% to 1.75 million from 1.49 million at 31 December 2007. In UK car insurance, customer numbers increased 15% to 1.59 million (from 1.38 million)
- UK car insurance profits up 27% to £179.9 million from £142.2 million
- Confused.com profits at £25.6 million (2007: £36.7 million)
- ConTe.it successfully launched in Italy in May 2008
- Turnover from outside the UK £29.7 million (up 80%) and 73,700 customers
- Employee Share Scheme – over £4.5 million of shares will be distributed to over 3,000 staff based on the H2 2008 result

* Turnover is defined as total premiums written (including co-insurers' share) and other revenue

Comment from Henry Engelhardt, Group Chief Executive

"This is a good news story. For the fifth year out of five since becoming a listed company Admiral delivered record profits and the 2008 dividend will be the biggest in our history. In addition, Admiral is still hiring new staff in all its operations.

"Key to our success was the great result turned in by the UK business. We increased the number of customers by 15% by giving a combination of competitive prices and great service. Our combined ratio in the UK fell from 83% to 81% while premium income grew by 12% to £690 million.

"As the UK business goes from strength to strength we are planting the seeds of our long term future by taking what we know and do well, internet and phone delivery of car insurance, to other countries.

"On May 30 we launched ConTe in Italy. In the next 12 months we have two launches planned, a direct operation in the USA, based in Richmond, Virginia, and a price comparison business in Spain, which will be called Rastreator, based in Madrid.

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“We recognise that setting up businesses outside the UK is not just add water and stir and that it will take time and some money before they make major contributions to the Group but if I could fast forward 10 years I’d expect to see these businesses as the drivers of our profit growth.

“Life is certainly not without its challenges. Although Confused.com had a fine year, with profits of £26 million, there is fierce competition in this sector and margins are being squeezed. In addition, there is plenty of work to do in our direct operations in Spain and Germany, where loss ratios are still too high.

“In sum, it was a great year, which means that every member of staff in every country will get the maximum payout of shares in our Employee Share Scheme, which totals more than £4.5 million’s worth of shares. They earned it.”

Comment from Alastair Lyons, Group Chairman

"With higher profits, a capital-efficient cash-generative business model, and a most conservatively managed balance sheet, we are very pleased to be able to propose a 20% increase in total dividends for the year to 52.5p per share. This represents a yield of 6.1% based on the closing share price on 27 February 2009 and follows our principle of returning all available surpluses to shareholders.

"Our sustained growth in the UK, now accounting for some 6% of the UK private motor market covering 1.6 million vehicles, provides the basis for our continuing investment in the longer-term development of our business through our overseas start-ups. I am delighted that last year ConTe.it followed our earlier launches in Spain and Germany and I look forward to our starting to do business in the US."

Final dividend

Subject to approval at the Company’s AGM, the final dividend of 26.5p per share will be paid on 27 May 2009. The ex-dividend date is 6 May 2009, the record date 8 May 2009.

Management presentation

Analysts and investors will be able to access the Admiral Group management presentation which commences at 09:30 GMT on Tuesday 3 March 2009 by dialling +44 (0)20 1452 569103 and using participant code 83126638.

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Chairman's statement

Amid all the market turbulence it is pleasing to be able to report another year of sustained growth in turnover, profits, and dividend. Also that in the gloom of widespread job losses Admiral has been able to create 326 new jobs in Wales over the past 12 months, not to mention 290 posts outside the UK. 2008, therefore, marked another year of successfully advancing our strategy, being to grow our share of the UK private motor market and exploit the knowledge, skills and resources attaching to our core business to promote our expansion overseas and our position in price comparison.

We estimate that we now account for some 6% of the UK private motor market covering 1.6 million vehicles, 15% up on December 2007 and placing us third in terms of premium in this market. Since the business floated in September 2004 our vehicle count has grown by over 12% p.a. compound, testament to the relevance of our customer proposition; the effectiveness with which the business has seized the opportunities presented by the internet and the rise of aggregators; and continuing innovation such as Admiral MultiCar. This growth in our book in 2008 was accompanied by a 17% increase in profit derived from ancillary products and services.

The upward trend in pricing that started to emerge a year ago has been sustained during 2008. As Henry Engelhardt discusses more fully in his CEO's report, we increased our rates by around 4%, generally in line with the market as a whole, whilst claims frequency continued to fall. Our established reserving methodology under which we make a prudent assessment of claims in their early stages engendered further significant releases as these prior year claims aged.

In my statement last year I underlined the rapid growth of competition in car insurance price comparison. With another enormous increase in marketing expenditure in this sector, it was inevitable that the market share held historically by Confused would reduce, albeit that the overall market has continued to expand rapidly, growing by an estimated 60% in 2008. In determining how much to commit ourselves we sought to balance our margin of profitability and defence of our leadership position. Across 2008 as a whole Confused's turnover held broadly steady, being down 4% on the year, but at a significantly higher marketing cost such that Confused profits fell from £37 million to £26 million. Price comparison now accounts for 38% of the private motor market, up from 24% in 2007, and shows no sign of stopping its growth which is good news both for Confused and for the Admiral brands, for which it represents the principal source of new business. We would, however, anticipate that this sector will remain highly competitive whilst some players continue to be prepared to incur losses to attempt to build share.

Having launched Balumba.es in Spain in 2006 and AdmiralDirekt.de in Germany in 2007, 2008 was the turn of ConTe.it in Italy at the end of May. It has always been the Admiral way to learn by doing, taking relatively small and inexpensive steps to test different approaches and identify the best way forward. Our expansion overseas is central to our long-term strategy of growth of our direct private motor franchise, and this will require sustained investment until we achieve the scale to support the infrastructure necessary in each country, and have selected the best model to write profitable business. In this context we congratulate our Spanish team on bringing their loss ratio at month 12 down from 137% for the 2007 underwriting year to 102% for 2008 whilst growing their book 18% to 55,000 customers by the year-end. Our teams in Germany and Italy are both at an early stage of determining how best to penetrate their respective markets, and we now also have a team working in Richmond, Virginia towards a launch in the US.

With a very prudent investment philosophy only employing cash deposits or money market funds it was inevitable that the sharp fall in general interest rates should have had an equivalent impact on our investment income. 100% of our, and our policyholders', money was, however, secure.

The result for the year was a pre-tax profit of £202.5 million, an 11% increase on 2007 off a 13% growth in total written premiums.

As a principle we return all available surpluses to shareholders after taking into account our required solvency, our overseas expansion plans, and a prudent margin – currently £25m – against contingencies. We, therefore, commit to pay a standard normal dividend that has grown in line with our growth in profits based on a 45% pay-out ratio, and pay whatever remains as available surplus as a special dividend which will, therefore, fluctuate from year to year.

This year our normal dividend amounted to 24.7p per share, and our special to 27.8p per share, bringing to £220m the total we have declared as special dividends since flotation in September 2004, this being in addition to £215m normal dividends over the same period. Total dividends for the year, therefore, amounted to 52.5p per share, a 20% increase on last year, representing a yield of 6.1% based on the closing share price on 27 February 2009.

Our success reflects both excellent strategic leadership and first-class execution by our staff across all aspects of our operations. Our staff have been shareholders in Admiral for the last 9 years, initially under private equity ownership and now through the Free Share Schemes put in place at flotation. We see this alignment of the interests of our staff and our shareholders as fundamental to our success, and we are strongly of the view that there is a direct link between our staff being owners of the business and our having been placed for 9 consecutive years amongst the Sunday Times Top 100 Companies to Work For in the UK. Our remuneration philosophy combines base salary and performance-related shares across our entire business and we are delighted that achievement in full of the objectives set for 2008 meant that eligible employees again realised the maximum award of £3,000 free shares under our Approved Scheme. The second 3-year period for the Discretionary Free Share Scheme significantly exceeded the performance conditions, qualifying the scheme to vest the maximum share entitlement under the individual awards.

Admiral is now one of the largest private employers in Wales and, as such, is a significant part of the local community. The contribution that the company has made to Wales was recognised by the award of an honorary CBE to Henry Engelhardt in April 2008, on which may I once again extend to him our hearty congratulations. We encourage our staff to work with local projects and we provided financial support during the year to such disparate events as the Admiral Cardiff Big Weekend offering 3 days of quality live music, and the South Wales Echo Community Champion Awards.

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I would like to take this opportunity to extend the thanks of the Board to everyone who has contributed to another successful year – our staff at home and overseas; our Board, executive and non-executive; our suppliers; and above all our 1.7 million customers, whose satisfaction through great products and great service will provide the basis of our continuing success.

Alastair Lyons
Chairman

Chief Executive's statement

At the end of 2008 the market capitalisation of Admiral Group was almost twice that of General Motors. Funny year 2008.

Normally at this point in my commentary I like to get right to the highlights so that shareholders can see straight away what we accomplished in the year. This year, however, I think there are few key messages that I need to get across and, for those of you who never read beyond the third paragraph of these reports, I'd better put them next to make sure you get them. The highlights, and there were plenty of them, will follow, further down the page.

Key messages:

1. Resistant, not proof
2. Freight train gaining speed
3. Headlines don't mirror reality
4. Fierce competition
5. It's not just add water and stir
6. Stick to the strategy

So, for those of you who only do three paras, thanks for your time. For those want to know more, please read on.

Resistant, not proof
Car insurance is probably as good an industry as there is in a recession. The very simple fact that it's compulsory purchase means consumers aren't deciding whether or not to buy it this year, they're just asking 'who from?' I don't think any industry is airtight, recession-proof, but this one is recession-resistant – it's a compulsory purchase product! I don't see people giving up their cars en masse and so they'll have to buy the insurance. I do see consumers shopping around even more to ensure they get the best deal. In the UK, I think this additional shopping, especially when it's done on price comparison sites, plays very nicely in Admiral's hands, because it becomes more and more a survival of the fittest. And we're one of, if not the, fittest. And in those markets where we have fledgling businesses, additional shopping around will only make our job easier.

Freight Train Gaining Speed

The aforementioned freight train is our UK direct business. We continue to grow the number of customers we serve, premium income, ancillary revenues and, not surprisingly, our profits. The number of vehicles we insure in the UK grew by 15% in 2008. 15%! The profits increased from £142m to £180m. Other signs of our excellent performance here are:

- Premium income increased by 12%, from £617m to £690m;
- Combined ratio fell from 83% to 81%;
- Ancillary income per vehicle rose from £69 to £71;

All of this was achieved in an environment where distribution patterns were changing rapidly and price hikes were hard to come by.

In particular, we're really quite proud of our ability to increase the ancillary contribution per vehicle, albeit modestly (£69.00 to £70.70). Growing or even keeping the ancillary contribution per vehicle stable is challenging in the current economic climate. However, our track record on this is good and we feel comfortable that ancillary income per vehicle in 2009 will be close to, if not above, the 2008 figure.

You might now wonder what the 'gaining speed' part of the freight train is all about. Well, we've made changes to our reinsurance arrangements that will mean we get a greater share of any underwriting profits in the future. This means that even if we stand still, we'll be more profitable.

A couple of years ago we revised the existing agreement with Munich Re in favour of an agreement that goes until at least 2014. The new agreement gives us better profit share terms in 2007-8-9 and then further improvements in 2010 and beyond. The benefits of these profit share improvements are only just starting to hit the bottom line with releases from the 2007 underwriting year. In addition, in order to give us greater control over our book, Munich Re is in the middle of a multi-year process of stepping back from underwriting 65% (2006) to 40% (2011). For 2008 they took 55% and for 2009 they will take 50%. We have been fortunate to replace this capacity for 2009, 2010 and 2011 with other reinsurers, with arrangements that are shorter in duration and smaller in size, such that we retain a greater proportion of the profits than the Munich Re deal.

In addition to getting a greater share of the profits through improved reinsurance arrangements we fully expect the UK business to grow further in 2009. The combination of all these factors means that the low-risk, capital-lite, high-dividend model moves forward in 2009.

Headlines don't mirror reality

The UK car insurance market remains a very competitive place. The market performed pretty much as we forecast with rates grudgingly (sloth-like?), inching upwards in 2008. Based on our data, headlines of 5%-10% rate increases during the year are misleading. I don't know the exact methodology of either the AA or Deloitte's price trackers but I'd be surprised if they pick up on special offers (like Direct Line's early 2009 offer of 12 months cover for 10 months cost implying a 16.6% price reduction) or any special rates on price comparison sites. A recent review of prices done solely on price comparison sites indicated, for instance, that the best rate offered for a variety of risks actually declined by 1% in January 2009.

Rate increases are being muted by the dominance of price comparison sites, where consumers naturally drift to the lowest price offered. One measure we use to gauge price changes by the market is the percentage times one of our brands comes up first on price comparison sites. This percentage stayed roughly the same throughout 2008. Meanwhile, during the year we moved our rates up, on average, 4%. This leads me to think that the market moved its rates up about 4% as well.

However, I don't think this modest price move means the results for the market will be poor. In my opinion, subdued claims inflation, led by reduced accident frequency, will result in this year being no worse for the market than 2007. I think 2008 will again be marked by large reserve releases by the market as a whole.

It's not yet clear how rates will trend in 2009. There are competing factors that influence the potential of rate increases and rate decreases. On the 'rates moving up' side, there is the decline in interest rates and therefore investment income. With firms earning less investment income there is added pressure to produce a better underwriting result. In addition, lower petrol prices might spur more driving, which would result in more accidents, which in turn should lead to price increases. Already the winter has been more severe than many recent winters, with a corresponding rise in frequency. All of these factors weigh in favour of rate increases.

On the 'rates stable or moving down' side there is lack of intense pain in the industry. It does not appear that the industry as a whole is suffering a lot; combined ratios plus profits from ancillary products, after releases for 2007 (latest data available) indicate the market makes a reasonable return on capital. Economic pain is always the greatest catalyst for price increases and if that pain does not exist then insurers generally do not increase rates. In addition, the further growth of price comparison sites means more and more consumers will get the industry's lowest rate, pinning the industry to rate increases only as dictated by the slowest mover for any individual risk. Lastly, the recession might result in people driving less and, despite the difficult winter, this would have a beneficial effect on frequency, which might lead to insurers deciding to hold the line on, or even decrease, rates.

All in all, I think it means a bit of a sleepy year on rates, with the above cocktail of factors working to produce rate increases similar to 2008. For those needing animal imagery I'd suggest the koala bear. There are a number of idiosyncrasies about the koala bear that resonate with similarity to the UK car insurance market. Here are three, I leave it to you to pick and choose which ones best represent the UK car insurance market: koalas sleep some 16 hours a day, they can be nasty if provoked and they are known to smell quite bad.

<u>Fierce competition</u>

Confused had a pretty good year. However, as predicted, competition was fierce and as a result profits reduced from £37m in 2007 to £26m in 2008. The spend on TV and press by price comparison sites has gone from approximately £5.5m in 2006 to £51m in 2007 to £76m in 2008. Confused's portion of this spend has gone from virtually 100% in 06, to a third of the spend in 07 to around a fifth of the spend in 08. Simply put, competition has taken a lot of profit out of this market through increased marketing costs, despite continued growth in the number of people using price comparison sites. The dominance of price comparison sites as the method of choice for buying car insurance in the UK is reflected by:

- The fact that in 2008 73% of Admiral's new business originated through price comparison sites, up from 50% in 2007, up from 30% in 2006.
- TV and press advertising by price comparison sites as a percentage of all car insurance TV and press advertising rose from 35% in 2007 to 52% in 2008.
- The fact that only one brand has yet to have a presence on any price comparison site and that's Direct Line. Even all the other RBS insurance brands have joined price comparison panels.

But enough whinging about what a tough world it is, let me tell you what Confused is doing to respond. First, we took the better part of 2008 to rebuild the quote engine. It's now faster and easier for the customer. It also looks better. Second, we've launched a new TV campaign which, given the number of times people have seen the old campaign over the last few years, will certainly be welcomed by the British public. Third, we are improving Confused's offerings of other products. In particular we're seeing growth in household insurance and energy comparisons.

It is very hard to predict Confused's result for 2009, the sector remains under intense competitive pressures. However, the market is still growing and this, coupled with the changes Confused made at the end of 2008, has resulted in Confused producing the biggest number of car insurance quotes ever in January 2009. But, I'm sorry to say, it was not a record month for profits. The missing data point to the future is how much money each of the competitors in this sector is willing to spend in 2009 to try and reach, or grow, profitability. If January is anything to go by then Britain will be seeing a lot of price comparison advertising during the year!

<u>It's not just add water and stir</u>

We are in the process of sowing the seeds of our future growth and success with the development of our businesses outside the UK. In 10 years time I expect these seeds to be a forest of profit growth for the Group. However, the non-UK operations should not be expected to make any noticeable return for a few years. Building profitable, growing, sustainable direct operations takes time. Balumba, in Spain, has only just completed its second full year of trading, AdmiralDirekt in Germany is less than two years old and ConTe in Italy only launched at the very end of May 2008. The development of these businesses outside the UK will take not only time, but also money. Not a lot of money, but money nonetheless. We don't do things on a grand scale until we are quite confident of the result and we work hard to learn as we go, but as we grow these businesses on top of each other the capital requirement increases. This should not put off investors, as our business model generates cash and we have no debt to repay.

Balumba was challenged to improve its loss ratio in 2008 and it did so. The loss ratio for 2007 at the end of 2007 was 137%. The loss ratio for 2008 at the end of 2008 was 102%. We are looking for continued improvement in 2009. Improving the loss ratio was our primary focus during the year and while we were making adjustments to pricing and claims management we pulled back a bit on our advertising spend, resulting in the number of customers Balumba services growing by 8,500, from 46,900 to 55,400 (18%). Balumba's earned combined ratio was 165% for the year, compared to 232% in 2007. Overall however, Balumba posted a loss of only £1.2m (€1.5m). This sum appears modest largely due to the sale of ancillary products and services to its customers. This is very nice income to have but the key to long-term success for Balumba is to become a good insurer.

The German market is an odd beast (certainly bigger and arguably even less friendly than a koala). There is a season for car insurance in Germany that runs about 10 weeks, from early October to early December. There is very limited activity during the rest of the year. This comes about because almost the entire market renews on a single date, January 1, and consumers have to give their insurers a month's notice to leave them, which means they have to give notice by the end of November. After that the only substantial group of people shopping are those who are changing vehicle. Besides the difficult logistics of trying to gear up for a short sales window, you lose the ability to test, re-calibrate, re-test, re-re-calibrate, etc. that we employ everywhere else. You can test but then you have wait 42 weeks to re-calibrate!

There's good news and bad news from AdmiralDirekt.de. On the 1st of January 2009 (from the '2008 season') we had around 30,000 policyholders. This was at the high end of our expectations. That's the good news. The bad news is that the 8,000 policyholders that went on risk on January 1, 2008 did not perform well. The loss ratio for the 2008 year at the end of 2008 was 142%. Part of this is the volatility inherent in a small book of business where one or two large claims make a big difference. But part of this too is down to an inexperience in claims handling and the typically poorer loss ratios that accompany first year business.

Our reaction to these problems was to spend a lot of energy improving the claims systems and re-calibrating our pricing. Our renewal rate for this season was low enough to lead us to believe our pricing re-calibration had an effect. Now we wait to see how this year's customers perform.

In Italy we were successful in launching ConTe on schedule and within budget at the end of May. However, as we'd seen Balumba and, to some extent, AdmiralDirekt.de, grow their respective volumes quickly to the detriment of their loss ratios, in Italy we put rates up from the outset to protect the loss ratio. The result was our writing just 3,660 policies in the year with annualised premium income of €1.4m. However, the 2008 loss ratio at the end of 2008 was 87%! But the loss ratio on such a small premium income is subject to dramatic change with even a single claim. As the year ended we were re-calibrating rates to stimulate sales.

In sum, I am pleased with the progress we've made in Spain, Germany and Italy despite the challenges noted above. They all hold great potential for the future.

Stick to the strategy

Our strategy has been and continues to be, rather simple: continue our profitable growth in the UK and take what we know and do well and do it elsewhere. This means expanding our direct businesses geographically to take advantage of changing distribution patterns in countries with large, mature car insurance markets. I believe that this is the way to ensure a prosperous future. For 2009 this means that, besides continuing to invest in our Spanish, German and Italian operations, we are working on a launch in the United States, the world's largest car insurance market.

The business in the US will start small, one or two states to begin with and, if successful, expand to other interesting states. The company, which has yet to be named, will be based in Richmond, Va. and should launch either in the final quarter of 2009 or first quarter of 2010.

Our strategic plan has always shown five markets to expand into. With the US coming on-stream that would leave only the French market left on the list and we are beginning to investigate this market.

We are also looking to expand the international presence of our Confused business. The first launch outside the UK will again be Spain, with an operation called Rastreator (a made up word, but close to 'rastreador', which means tracker). The growth of internet distribution for car insurance makes this market interesting for price comparison. This business should go live sometime in the first half of 2009.

Highlights

Okay, if anyone's gotten through all that, it's time for some highlights of 2008. I'm proud to say that it was another excellent year for the Admiral Group:

1. Profit before tax up 11% to £202.5m
2. Number of customers up 17% to 1.75m
3. Turnover up 13% to £910m
4. Combined ratio still well below 90% at 86%
5. Top 10 in the FT Best Companies To Work For; 37th in the Sunday Times Best Companies To Work For in the UK
6. Launched ConTe in Italy
7. Still debt- free
8. Record dividend of 52.5p per share for the year
9. Robust return on capital of 57% (56% 2007)
10. Robust return on income of 56% (57% 2007)
11. Number of people employed in the Group rose to 3,110 from 2,500 (+24%), we opened a new office in Newport (Wales, not Rhode Island) and we're hiring in every operation!

It is a hugely exciting time within Admiral Group and I'm glad to be a part of it. I am fortunate to work with intelligent, highly motivated, nice people. I'd like to say a specific thanks to all the senior managers who are so dedicated to Admiral Group and to all the staff in all our offices who work hard every day to provide a great service to our customers. I'm looking forward to another excellent year in 2009.

Henry Engelhardt
Chief Executive Officer

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Summary Financial Review

UK Car Insurance Financial Performance

Non-GAAP format income statement

£m	2006	2007	2008
Turnover[*1]	697.6	791.8	880.5
Total premiums written[*2]	566.0	617.0	690.2
Net insurance premium revenue	144.9	140.2	161.9
Investment income	9.9	16.7	17.1
Net insurance claims	(107.1)	(97.0)	(105.1)
Net insurance expenses	(19.2)	(19.9)	(26.0)
Underwriting profit	28.5	40.0	47.9
Profit commission	19.9	20.4	34.7
Net ancillary income	66.9	75.8	89.0
Other revenue	5.8	6.0	8.3
UK car insurance business profit	**121.1**	**142.2**	**179.9**

**1 Turnover (a non-GAAP measure) comprises total premiums written and other revenue*
**2 Total premiums written (non-GAAP) includes premium underwritten by co-insurers*

Key performance indicators

	2006	2007	2008
Reported loss ratio	71.5%	66.7%	62.0%
Reported expense ratio	15.7%	16.7%	19.0%
Reported combined ratio	87.2%	83.4%	81.0%
Written basis expense ratio	15.8%	16.7%	16.7%
Claims reserve releases	£20.9m	£29.5m	£38.0m
Releases as % of premium	14.4%	21.0%	23.5%
Profit commission as % of premium	13.7%	14.6%	21.4%
Vehicles insured at year-end	1.24m	1.38m	1.59m
Ancillary income per vehicle	£69.3	£69.0	£70.7

Co-insurance and reinsurance arrangements

For the 2008 year, Admiral underwrote 27.5% of the UK premium, up from 22.5% in 2007. 55% of the UK total is underwritten by the Munich Re Group (specifically Great Lakes Reinsurance (UK) Plc) through a co-insurance agreement, and 17.5% was reinsured to Swiss Re and Partner Re.

The nature of the co-insurance arrangement is such that 55% of all motor premium and claims for the 2008 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

The principal advantages of this significant use of co- and reinsurance are the reduced capital requirements and also reduced exposure to underwriting risk. This creates a high return on shareholder equity and strong cash flows, supporting regular dividends.

The profit commission arrangements in the agreements allow Admiral to participate to a large extent in the profitability of the total underwriting, and the most recent reinsurance contracts allow for a significant proportion of the profit to be remitted back to Admiral.

The underwriting arrangements for 2009 have changed compared to 2008: Admiral will continue to retain a net 27.5%, with Munich Re stepping down to 50% and the remaining 22.5% split between a group of reinsurers – Swiss Re (10.0%), Hannover Re (6.25%) and New Re (6.25%).

UK car insurance financial commentary

The UK business again grew strongly in 2008, increasing total premiums written by 12% from £617m to £690m and also growing the number of vehicles insured by 15% to 1.59m. A fall in average premiums accounted for the difference in the growth rates.

Admiral's premium rates actually increased by around 4% during 2008, but the continued growth in distribution via price comparison websites partly contributed to a fall in average premiums written. Also, the mix of the new business and renewal book has shifted very gradually towards slightly lower premium risks. Our own data on the competitiveness of Admiral's rates suggests that market price changes were broadly in line with our own.

The underwriting results of 2008 showed continued improvement, with a combined ratio of 81% coming in two points better than 83% for 2007. The private motor market reported a combined ratio (i.e. including the effect of reserve releases) for 2007 of 104% (115% before releases), meaning Admiral enjoyed a 21 point outperformance in reported results for that year. We do not expect a material change in the market's result for 2008.

Overall underwriting profit increased by 20% to £48m (representing just less than one quarter of total 2008 pre-tax profit).

The loss ratio improved to 62.0% from 66.7%, partly reflecting a larger impact resulting from prior year reserve surplus releases (positively contributing 23.5% in 2008 v 21.0% in 2007), but equally the 'pure year' ratio (i.e. the loss ratio without the benefit of releases) also improved, to 85.5% from 87.7%, reflecting better claims experience in the 2008 calendar year compared to 2007.

On the Group's own underwriting, we continue to reserve initially on a conservative basis, above actuarial projections of ultimate outcomes. This results in a significant margin being held in claims reserves to allow for any unforeseen adverse development in open claims. This creates a position whereby Admiral expects to be able to consistently make above industry average reserve releases.

In addition to these releases, there is a significant amount of revenue not yet recognised arising from profit commissions earned on the premiums that Admiral does not underwrite itself. Proportionally these balances have become much more significant at the end of 2008 and consequently we now consider it more appropriate to consider these two parts together when we determine the quantum of reserve releases. We seek to achieve a consistent level of overall prudence.

The expense ratio increased to 19.0% from 16.7% in 2007. Part of the increase results from an accounting impact arising from Admiral retaining more of the 2008 premium (27.5%) than 2007 (22.5%). A further element of the increase arose due to the commission structures of the quota share reinsurance contracts. On a like for like basis, the expense ratio for 2008 was in line with 2007.

Aside from the underwriting result for Admiral's own account, another notable feature of the 2008 income statement is the significant increase in profit commission income (up 70% to £34.7m). This results from a number of factors, including growth in the overall level of premium written; a higher percentage of business co-/reinsured in 2007 than previous years and continued improvement in reported loss ratios for previous years. The main contributor however was the significantly improved profit commission terms to Admiral on co-/reinsurance contracts for the 2007 year and beyond. We recognised the first profit commission income on this year during 2008.

The new quota share contracts which came into effect in January 2009 (with Hannover Re and New Re) include even more favourable terms for Admiral.

Net income from ancillary products and services has for some time been a key source of profit for the Group, and 2008 was no exception. Ancillary profit increased by around 17% to £89.0m from £75.8m. Most of the growth came by way of an increase in the number of vehicles insured (+15%), whilst there was also a modest increase in the income per vehicle (£70.70 v £69.00). Although Admiral does not underwrite all the car insurance generated for its own account, it does retain all ancillary income generated.

Price Comparison Financial Performance

Non-GAAP format income statement

£m	**2006**	**2007**	**2008**
Revenue:			
Motor	34.3	58.8	52.9
Other	4.2	10.3	13.2
Total	38.5	69.1	66.1
Operating expenses	(15.4)	(32.4)	(40.5)
Operating profit	**23.1**	**36.7**	**25.6**

Competition in UK price comparison intensified further during 2008, evidenced by substantial increases in media spends by the major players. The market also saw a number of new entrants.

At the same time, the size of the market (although somewhat difficult to measure precisely) also grew significantly. We estimate the number of car insurance policies sold through price comparison websites grew by nearly 60% during 2008 to a point where the channel now accounts for around 40% of all new business sales.

One of the main effects of the increased competition has been to remove a large amount of the market's profitability – as business becomes significantly more expensive to acquire, against only a modest increase in income per sale. As a dominant and highly profitable player in the market, Confused's results inevitably suffered against this backdrop.

In spite of the challenging market conditions, Confused achieved an operating profit of £26m, and an operating margin of 39%.

Confused did generate notable growth in its activities beyond car insurance. Household insurance and utilities were particularly strong and contributed to growth in other revenue of 28% (to £13.2m).

At the end of 2008, Confused launched its rebuilt website, which makes the quote process faster and easier for customers. It has also launched a new TV advertising campaign early in 2009, which led to January being a record month for quotes.

The Group is also in the process of developing a price comparison business to launch in Spain, and Rastreator.es (based in Madrid) should launch there in the first half of 2009.

Non-UK Car Insurance Financial Performance

Non-GAAP format income statement

£m	2006	2007	2008
Turnover	0.6	16.5	29.7
Total premiums written	0.6	14.2	26.0
Net insurance premium revenue	-	2.0	7.9
Investment income	-	0.1	0.7
Net insurance claims	-	(2.8)	(9.5)
Net insurance expenses	(0.2)	(1.8)	(6.2)
Underwriting result	(0.2)	(2.5)	(7.1)
Net ancillary income	0.1	1.8	2.8
Other revenue	-	-	0.2
Non-UK car insurance result	**(0.1)**	**(0.7)**	**(4.1)**

Note - Pre-launch costs excluded

Key performance indicators

	2006	2007	2008
Loss ratio	-	141%	120%
Expense ratio	-	91%	78%
Combined ratio	-	232%	198%
Vehicles insured at year-end	2,200	46,900	73,700
Ancillary income per policy	-	£45	£47

Co-insurance and reinsurance arrangements

Underwriting arrangements for Balumba, AdmiralDirekt and ConTe are similar, with the Munich Re Group underwriting 65% of the risks in each. Admiral retains the remaining 35%.

Such strong reinsurance support is especially valuable in start up operations, as Munich Re also shares the (post-launch) expenses incurred. The contracts are long-term in nature and are designed to run for eight years. The reinsurer does have the option for an early exit, typically after four years, but not before.

The contracts contain profit commission clauses that allow Admiral to participate in the profitability of the business written by Munich Re, when that business reaches profitability on a cumulative basis.

Non-UK car insurance financial commentary

The non-UK operations remain a relatively small part of the overall Group result, with total premium accounting for less than 4% of the Group's total. Net insurance premium revenue (net earned premium) amounted to just under £8m.

Balumba:

Balumba accounted for the majority of the non-UK volume, contributing 80% of the total premium and 75% of the insured vehicles. Its net insurance premium revenue totalled £7.0m. The key focus at Balumba during 2008 was improving the loss ratio, and whilst significant progress has been made in this area, management recognise that more improvement is needed. The rate of growth has been deliberately slowed whilst work continues in this area.

Balumba loss ratio development

	Underwriting year	
	2007	2008
After 12 months	137%	102%
After 24 months	135%	-

Numerous measures have been implemented to address the loss ratio, including:

- Rating increases
- Improvements to the claims function (including resourcing, enhancing the garage network)
- Underwriting control improvements
- Joining the Spanish "knock for knock" claims system

The reported loss ratio for 2008 improved to 117%, from 141% in 2007. The overall loss for the period totalled £1.2m (up from a loss of £0.7m in 2007).

Other Group Items

Gladiator – Non-GAAP income statement and KPIs

£m	2006	2007	2008
Revenue	5.9	7.5	9.5
Expenses	(3.9)	(5.5)	(6.7)
Operating profit	**2.0**	**2.0**	**2.8**
Operating margin	34%	27%	29%
Customer numbers	42,300	62,200	84,900

Gladiator has successfully grown its market share of the UK van insurance market over the past few years, and achieved a significant increase in profits in 2008 compared to 2007. A material amount of Gladiator's business is now distributed through price comparison websites, as this channel has become more important in the market.

Other income statement items

(Non-GAAP) £m	2006	2007	2008
Group net interest income	4.5	7.8	6.6
Share scheme charges	(0.9)	(3.0)	(5.9)
Expansion costs	(0.5)	(1.4)	(0.8)
Other central overhead	(0.8)	(1.3)	(1.6)

Interest income declined in 2008 compared to 2007 largely due to significant falls in the UK base interest rate in the last quarter of the year.

Share scheme charges have continued to increase, as additional awards are made under the Group's schemes, and the share price on which the charges are based has also increased over time. 2008 was also the first period in which existing awards vested. Refer to note 25 for further detail on the Group's share schemes.

Expansion costs relate to pre-launch expenses incurred in the development of the international businesses.

Investments

The Group's conservative approach to investment was maintained during 2008, with no change in overall strategy, and little change in where funds were invested.

The key element of Group-wide investment strategy is capital preservation, with additional priorities focussing on low volatility in returns and high levels of liquidity. The majority of insurance funds continue to be invested in AAA-rated money market funds, offering cash-like returns, same day liquidity, low risk and good diversification.

Cash and investments analysis

	31 December 2008				
	UK car insurance £m	Price comparison £m	Non-UK car insurance £m	Other £m	Total £m
Liquidity money market funds	287.3	-	23.5	-	310.8
Long term cash deposits	100.0	-	-	-	100.0
Short term cash deposits	4.0	-	-	-	4.0
Cash	46.4	15.6	18.2	60.1	140.3
Total	**437.7**	**15.6**	**41.7**	**60.1**	**555.1**

	31 December 2007				
	UK car insurance £m	Price comparison £m	Non-UK car insurance £m	Other £m	Total £m
Liquidity money market funds	335.6	-	-	-	335.6
Long term cash deposits	-	-	-	-	0.0
Short term cash deposits	16.4	11.0	-	18.0	45.4
Cash	63.7	4.9	10.0	31.8	110.4
Total	**415.7**	**15.9**	**10.0**	**49.8**	**491.4**

The Group generated total investment and interest income of £24.4m in 2008, similar to the £24.6m returned in 2007 despite an increase in the value of invested funds and cash in 2008 over 2007. The significant fall in interest rates in the UK and Europe towards the end of 2008 explains this anomaly. The average rate of return on the Group's invested sterling funds in 2008 was around 5.1%, compared to 5.6% in 2007.

The nature of the investments means that returns are closely linked to central bank target interest rates. The significant cuts in these to date (along with expectation of further cuts) will mean that the Group's investment and interest income is expected to be materially lower in 2009.

The Group continues to believe that capital preservation and low volatility are the most critical investment objectives, and there are no current plans to materially change investment strategy.

Taxation

The taxation charge reported in the income statement is £57.6m, which equates to 28.4% of profit before tax.

Earnings per share

Basic earnings per share rose by 13% to 54.9p from 48.6p. This rate of growth is higher than the pre-tax profit growth (11%) due to the change in the rate of UK corporation tax from April 2008 (from 30% to 28%).

Dividends

The Directors are proposing a final dividend for 2008 of 26.5p. In line with the Group's dividend strategy, this comprises a 12.4p normal element and a 14.1p special distribution, representing an increase of 14% on the final dividend paid in respect of 2007.

The payment date is 27 May 2009, ex-dividend date 6 May and record date 8 May.

The total dividend for 2008 (52.5p) is 20% higher than the 43.8p distributed in respect of 2007.

ADMIRAL GROUP PLC 2008 FULL YEAR RESULTS ANNOUNCEMENT

Consolidated income statement

	Note:	Year ended: 31 December 2008 £000	31 December 2007 £000
Insurance premium revenue		301,460	233,075
Insurance premium ceded to reinsurers		(131,624)	(90,839)
Net insurance premium revenue	5	**169,836**	**142,236**
Other revenue	6	193,863	176,878
Profit commission	7	34,726	20,448
Investment and interest income	8	24,381	24,572
Net revenue		**422,806**	**364,134**
Insurance claims and claims handling expenses		(213,780)	(172,611)
Insurance claims and claims handling expenses recovered from reinsurers		99,204	72,816
Net insurance claims		**(114,576)**	**(99,795)**
Expenses	9	(99,763)	(78,986)
Share scheme charges	9, 25	(5,924)	(2,971)
Total expenses		**(220,263)**	**(181,752)**
Operating profit		**202,543**	**182,382**
Finance charges	12	(25)	(284)
Profit before tax	10	**202,518**	**182,098**
Taxation expense	13	(57,580)	(54,682)
Profit after tax attributable to equity holders of the Company		**144,938**	**127,416**
Earnings per share:			
Basic	15	54.9p	48.6p
Diluted	15	54.9p	48.6p
Dividends declared (total)	14	128,515	116,016
Dividends declared (per share)	14	49.2p	44.6p

Consolidated balance sheet

	Note:	As at 31 December 2008 £000	As at 31 December 2007 £000
ASSETS			
Property, plant and equipment	16	11,002	7,708
Intangible assets	17	75,685	69,063
Financial assets	18	586,935	481,848
Reinsurance assets	19	170,594	131,668
Deferred income tax	24	-	1,629
Trade and other receivables	18, 20	25,501	22,633
Cash and cash equivalents	18, 21	144,286	155,773
Total assets		**1,014,003**	**870,322**
EQUITY			
Share capital	25	265	263
Share premium account	26	13,145	13,145
Retained earnings	26	251,821	223,828
Other reserves	26	10,338	396
Total equity		**275,569**	**237,632**
LIABILITIES			
Insurance contracts	19	439,556	363,060
Deferred income tax	24	10,327	-
Trade and other payables	18, 22	270,088	239,593
Current tax liabilities		18,463	30,037
Total liabilities		**738,434**	**632,690**
Total equity and total liabilities		**1,014,003**	**870,322**

Consolidated statement of recognised income and expense

	Year ended: 31 December 2008 £000	31 December 2007 £000
Exchange differences on translation of foreign operations	9,942	429
Net income recognised directly in equity	**9,942**	**429**
Profit for the period	144,938	127,416
Total recognised income and expense for the period	**154,880**	**127,845**

Consolidated cash flow statement

	Note	Year ended: 31 December 2008 £000	31 December 2007 £000
Profit after tax		**144,938**	**127,416**
Adjustments for non-cash items:			
- Depreciation		3,746	3,227
- Amortisation of software		1,390	725
- Change in unrealised gains on investments		796	(1,123)
- Share scheme charge	25	11,320	5,560
Loss on disposal of property, plant and equipment and software		30	6
Change in gross insurance contract liabilities		76,496	68,635
Change in reinsurance assets		(38,926)	(56,979)
Change in trade and other receivables, including from policyholders		(36,466)	(14,772)
Change in trade and other payables, including tax and social security		30,704	25,506
Interest expense		25	284
Taxation expense		57,580	54,682
Cash flows from operating activities, before movements in investments		**251,633**	**213,167**
Net cash flow into investments		(76,049)	(76,849)
Cash flows from operating activities, net of movements in investments		175,584	136,318
Interest payments		(25)	(284)
Taxation payments		(56,949)	(49,477)
Net cash flow from operating activities		**118,610**	**86,557**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(11,315)	(5,390)
Net cash used in investing activities		**(11,315)**	**(5,390)**
Cash flows from financing activities:			
Capital element of new finance leases		490	457
Repayment of finance lease liabilities		(699)	(1,506)
Equity dividends paid		(128,515)	(116,016)
Net cash used in financing activities		**(128,724)**	**(117,065)**
Net decrease in cash and cash equivalents		**(21,429)**	**(35,898)**
Cash and cash equivalents at 1 January		155,773	191,242
Effects of changes in foreign exchange rates		9,942	429
Cash and cash equivalents at end of period	21	**144,286**	**155,773**

Notes to the financial statements

1. General information and basis of preparation

General information

Admiral Group plc is a Company incorporated in England and Wales. Its registered office is at Capital Tower, Greyfriars Road, Cardiff CF10 3AZ and its shares are listed on the London Stock Exchange.

The financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2008 and comparative figures for the year ended 31 December 2007. The financial statements of the Company's subsidiaries are consolidated in the Group financial statements. The Company controls 100% of the voting share capital of all its subsidiaries. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (IAS) 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions.

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 UK Generally Accepted Accounting Practice (GAAP).

Basis of preparation

The accounts have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board have reviewed the Group's projections for the next twelve months and beyond, including cash flow forecasts and regulatory capital surpluses. The Group has no debt.

As a result of this review the Directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

The accounting policies set out in note 3 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 at fair value through profit or loss.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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 if this revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

2. Critical accounting judgements and estimates

Judgements:

In applying the Group's accounting policies as described in note 3, management has primarily applied judgement in the classification of the Group's contracts with reinsurers as quota share 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 the contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make these judgements.

Estimation techniques used in calculation of claims provisions:

Estimation techniques are used in the calculation of the provisions for claims outstanding, which represents a projection of the ultimate cost of settling claims that have occurred prior to the balance sheet date and remain unsettled at the balance sheet date.

The key area where these techniques are used relates to the ultimate cost of reported claims. A secondary area relates to the emergence of claims that occurred prior to the balance sheet date, but had not been reported at that date.

The estimates of the ultimate cost of reported claims are based on the setting of claim provisions on a case-by-case basis, for all but the simplest of claims.

The sum of these provisions are compared with projected ultimate costs using a variety of different projection techniques (including incurred and paid chain ladder and an average cost of claim approach) to allow an actuarial assessment of their likely accuracy. They include allowance for unreported claims.

The most significant sensitivity in the use of the projection techniques arises from any future step change in claims costs, which would cause future claim cost inflation to deviate from historic trends. This is most likely to arise from a change in the regulatory or judicial regime that leads to an increase in awards or legal costs for bodily injury claims that is significantly above or below the historical trend.

The claims provisions are subject to independent review by the Group's actuarial advisors.

Future changes in claims reserves also impact profit commission income, as the recognition 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.

3. Significant accounting policies

a) Revenue recognition

Premiums, ancillary income and profit commission:

Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover.

Income earned on the sale of ancillary products and income from policies paid by instalments is credited to the income statement over the period matching the Group's obligations to provide services. Where the Group has no remaining contractual obligations, the income is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of ancillary amounts charged.

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 income being recognised based on loss and expense ratios used in the preparation of the financial statements.

Revenue from Gladiator and Confused.com:

Commission from these activities is credited to income on the sale of the underlying insurance policy.

Investment income:

Investment income from financial assets comprises interest income and net gains (both realised and unrealised) on financial assets classified as fair value through profit and loss or held to maturity deposits.

b) Foreign currency translation

Functional and presentation currency

Items included in the financial statements 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 thousands of pounds sterling, which is the Group's presentation currency.

Transactions and balances

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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the fair value reserve in equity.

Translation of financial statements of foreign operations

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

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average 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); and

(iii) All resulting exchange differences are recognised as a separate component of equity.

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

c) Insurance contracts and reinsurance assets

Premium:

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 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. 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 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 an insurance or reinsurance contract where there is significant insurance risk transfer between the insured and the insurer.

The benefits to which the Group is entitled under these contracts are held as reinsurance assets.

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.

d) Intangible assets

Goodwill:

All business combinations are accounted for using the purchase 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 (CGU's) according to business segment and is reviewed annually for impairment.

The Goodwill held on the balance sheet at 31 December 2008 is allocated solely to the UK car insurance segment.

Impairment of goodwill:

The annual impairment review involves comparing the carrying amount to the estimated recoverable amount (by allocating the goodwill to CGU's) 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 net realisable value 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 discount rate applied to the cashflow projections in the value in use calculations is 11%, based on the Group's weighted average cost of capital.

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.

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 corresponds 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 between two and four years). The carrying value 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.

e) Property, plant and equipment and depreciation

All property, plant 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:

Motor vehicles	-	4 years
Fixtures, fittings and equipment	-	4 years
Computer equipment	-	2 to 4 years
Improvements to short leasehold properties	-	4 years

Impairment of property, plant and equipment

In the case of property plant 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 net realisable value and the asset's value in use. Impairment losses are recognised through the income statement.

f) Leased assets

The rental costs relating to assets held under operating leases are charged to the income statement on a straight-line basis over the life of the lease.

Leases under the terms of which the Group assumes substantially all of the risks and rewards of ownership are classed as finance leases. Assets acquired under finance leases are included in property, plant and equipment at fair value on acquisition and are depreciated in the same manner as equivalent owned assets. Finance lease and hire purchase obligations are included in creditors, and the finance costs are spread over the periods of the agreements based on the net amount outstanding.

g) Financial assets – investments and receivables

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments. The Group has not held any derivative instruments in the years ending 31 December 2008 and 31 December 2007.

At initial recognition assets are recognised at fair value and classified according to the purpose for which they were acquired:

The Group's investments in money market liquidity funds are designated as financial assets at fair value through profit or loss (FVTPL) at inception.

This designation is permitted under IAS 39, as the investments in money market funds are managed as a group of assets and internal performance evaluation of this group is conducted on a fair value basis.

The Group's deposits with credit institutions are classified as held to maturity investments which is consistent with the intention for which they were purchased.

Subsequent measurement

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement.

Deposits with fixed maturities, classified as held to maturity investments are measured at amortised cost using the effective interest method. Movements in the amortised cost are recognised through the income statement, as are any impairment losses.

Receivables are stated at their amortised cost less impairment using the effective interest method. Impairment losses are recognised through the income statement.

Impairment of financial assets

The Group assesses at each balance sheet date whether any financial assets or groups of financial assets are impaired. Financial assets are impaired where there is evidence that one or more events occurring after the initial recognition of the asset, may lead to a reduction in the estimated future cashflows arising from the asset.

Objective evidence of impairment may include default on cashflows due from the asset and reported financial difficulty of the issuer or counterparty.

Derecognition of financial assets

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

h) Cash and cash equivalents

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.

i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

j) Employee benefits

Pensions:

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

Employee share schemes:

The Group operates a number of equity settled compensation schemes for its employees. For schemes commencing 1 January 2004 and after, the fair value of the employee services received in exchange for the grant of free shares under the schemes is recognised as an expense, with a corresponding increase in equity.

The total charge expensed over the vesting period is determined by reference to the fair value of the free shares granted as determined at the grant date (excluding the impact of non-market vesting conditions). Non-market conditions such as profitability targets as well as staff attrition rates are included in assumptions over the number of free shares to vest under the applicable scheme.

At each balance sheet date, the Group revises its assumptions on the number of shares to be granted with the impact of any change in the assumptions recognised through income.

Refer to note 25 for further details on share schemes.

k) Taxation

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

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 directly in equity is recognised in equity and not in the income statement.

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. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The principal temporary differences arise from depreciation of property and equipment, share scheme charges and the tax treatment of Lloyd's profits. 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.

l) Government grants

Government grants are recognised in the financial statements in the period where it becomes reasonably certain that the conditions attaching to the grant will be met, and that the grant will be received.

Grants relating to assets are deducted from the carrying amount of the asset. The grant is therefore recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

Grants relating to income are shown as a deduction in the reported expense.

4. Operating segments

The Group has adopted IFRS 8 Operating Segments in advance of its effective date. IFRS 8 adopts a strict management approach to segment reporting and requires that operating segments be identified on the same basis as financial information is reported internally to the chief operating decision maker for the purposes of allocating resources between segments and assessing their performance. IAS 14, the previously effective standard on segment reporting, was similar, in that identification of segments started with internal financial reporting to key management personnel. However its main focus was on components of the business with similar risks and generating similar returns which could potentially be very different to the management approach.

The Group's Directors consider that the adoption of IFRS 8 does not lead to a material change in the identification of the Group's segments as the business segments reported to the Group's Board of Directors have clearly defined lines of risk and reward. The Board of Directors is considered to be the chief operating decision maker for the Group.

Under IAS 14 in previous financial years, the primary segments were identified by business type. No secondary geographical segments were presented on materiality grounds. As described below the segments presented under IFRS 8 continue to be identified by business type. In addition, the Group's Directors consider that the car insurance segment should be sub-divided into two geographical reportable segments; UK and Non-UK, on the basis of it being useful information to users of the financial statements rather than the breach of quantitative thresholds within the standard.

The following segments represent the principal split of business that is regularly reported to the Group's Board of Directors, and therefore become the Group's reportable segments under IFRS 8:

UK car insurance

The segment consists of the underwriting of private car insurance and the generation of ancillary income 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 income are not independent of each other and are performed as one business. This mirrors the approach taken in management reporting.

Price Comparison

The segment relates to the Group's price comparison operation Confused.com. This operation had previously been combined with the Group's commercial van insurance broker, Gladiator, to form an 'Insurance Broking' segment. However based on the management reporting approach, the Directors consider that Price Comparison is an independent reportable segment.

Non-UK car insurance

The segment consists of the underwriting of private car insurance and the generation of ancillary income outside of the UK. It specifically covers the Group's Balumba.es, AdmiralDirekt.de and ConTe.it operations in Spain, Germany and Italy respectively.

Other

The other segment includes the Gladiator broking operation in addition to certain central expenses, overseas development expenses, share scheme costs, finance charges and interest. None of these are reportable segments based on their immateriality.

Taxes are not allocated across the segments and are included for the purposes of reconciliation to the Income Statement.

Segment income, results and other information

An analysis of the Group's revenue and results for the year ended 31 December 2008, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in note 3 for the Group.

	31 December 2008				
	UK car insurance £000	Price comparison £000	Non–UK car insurance £000	Other £000	Group £000
Net insurance premium revenue	161,947	-	7,889	-	169,836
Other revenue and profit commission	149,266	66,143	3,656	9,524	228,589
Investment and interest income	17,098	-	628	6,655	24,381
Net revenue	328,311	66,143	12,173	16,179	422,806
Net insurance claims	(105,123)	-	(9,453)	-	(114,576)
Expenses	(43,281)	(40,539)	(6,821)	(15,046)	(105,687)
Operating profit	179,907	25,604	(4,101)	1,133	202,543
Finance charges	-	-	-	(25)	(25)
Segment profit / (loss) before tax	179,907	25,604	(4,101)	1,108	202,518
Unallocated taxation expense					(57,580)
Group profit after tax					144,938
Other segment items:					
Interest revenue				6,655	6,655
Interest expense				25	25
Capital expenditure	15,330	882	9,611	83	25,906
Depreciation and amortisation	13,442	313	2,131	74	15,960

Restated revenue and results for the corresponding reportable segments for the year ended 31 December 2007 are shown below.

	31 December 2007 (Restated)				
	UK car insurance £000	Price comparison £000	Non–UK car insurance £000	Other £000	Group £000
Net insurance premium revenue	140,267	-	1,969	-	142,236
Other revenue and profit commission	118,406	69,159	2,238	7,523	197,326
Investment and interest income	16,662	-	133	7,777	24,572
Net revenue	275,335	69,159	4,340	15,300	364,134
Net insurance claims	(97,019)	-	(2,776)	-	(99,795)
Expenses	(36,124)	(32,433)	(2,223)	(11,177	(81,957)
Operating profit	142,192	36,726	(659)	4,123	182,382
Finance charges	-	-	-	(284)	(284)
Segment profit / (loss) before tax	142,192	36,726	(659)	3,839	182,098
Unallocated taxation expense					(54,682)
Group profit after tax					127,416
Other segment items:					
Interest revenue				7,777	7,777
Interest expense				284	284
Capital expenditure	11,516	335	3,063	59	14,973
Depreciation and amortisation	11,243	145	942	71	12,401

Segment revenues

The UK and Non–UK 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 Price comparison revenues from transactions with other reportable segments is £11,050,000 (2007: £10,784,000).

Revenues from external customers for products and services is consistent with the split of reportable segment revenues as shown above.

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country are shown within the Non–UK car insurance reportable segment shown above.

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2008 for the year are as follows.

						31 December 2008
	UK Car Insurance	Price Comparison	Non-UK Car Insurance	Other	Eliminations	Group
Plant, property and equipment	6,649	1,079	3,112	162	-	11,002
Intangible assets	68,836	-	6,849	-	-	75,685
Financial assets	549,680	-	37,255	-	-	586,935
Reinsurance assets	149,521	-	21,073	-	-	170,594
Trade and other receivables	105,777	6,557	1,415	5,638	(93,886)	25,501
Cash and cash equivalents	50,295	15,602	18,245	60,144	-	144,286
Reportable segment assets	930,758	23,238	87,949	65,944	(93,886)	1,014,003
Insurance contract liabilities	406,869	-	32,687	-	-	439,556
Trade and other payables	261,759	4,080	4,359	46,385	(46,495)	270,088
Reportable segment liabilities	668,628	4,080	37,046	46,385	(46,495)	709,644
Reportable segment net assets	262,130	19,158	50,903	19,559	(47,391)	304,359
Unallocated liabilities						(28,790)
Total net assets						275,569

Unallocated assets and liabilities consist of 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 car insurance, Price Comparison and Non-UK car insurance segments is allocated to the Other reportable segment.

Eliminations represent inter-segment funding and balances included in trade and other receivables and other payables.

The restated segment assets and liabilities at 31 December 2007 are as follows.

					31 December 2007	
	UK Car Insurance	Price Comparison	Non-UK Car Insurance	Other	Eliminations	Group
Plant, property and equipment	6,288	508	760	152	-	7,708
Intangible assets	67,340	-	1,723	-	-	69,063
Financial assets	476,797	-	5,051	-	-	481,848
Reinsurance assets	121,758	-	9,910	-	-	131,668
Trade and other receivables	18,070	6,325	3,785	8,194	(13,741)	22,633
Cash and cash equivalents	79,877	15,906	10,166	49,824	-	155,773
Reportable segment assets	770,130	22,739	31,395	58,170	(13,741)	868,693
Insurance contract liabilities	347,814	-	15,246	-	-	363,060
Trade and other payables	228,130	4,324	6,300	2,767	(13,741)	239,593
Reportable segment liabilities	575,944	4,324	21,546	2,767	(1,928)	602,653
Reportable segment net assets	194,186	18,415	9,849	55,403	(11,813)	266,040
Unallocated liabilities						(28,408)
Total net assets						237,632

5. Net insurance premium revenue

	31 December 2008 £000	31 December 2007 £000
Total motor insurance premiums before co-insurance	716,288	631,251
Group gross premiums written after co-insurance	334,665	260,901
Outwards reinsurance premiums	(140,264)	(119,049)
Net insurance premiums written	194,401	141,852
Change in gross unearned premium provision	(33,204)	(27,826)
Change in reinsurers' share of unearned premium provision	8,639	28,210
Net insurance premium revenue	169,836	142,236

The Group's share of the car insurance business was underwritten by Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL). All contracts are short-term in duration, lasting for 10 or 12 months.

6. Other revenue

	31 December 2008 £000	31 December 2007 £000
Ancillary revenue	109,774	94,216
Revenue from Confused.com	66,143	69,159
Revenue from Gladiator	9,524	7,520
Instalment income earned	8,422	5,983
Total other revenue	193,863	176,878

Refer to the business review for further detail on the sources of revenue.

7. Profit commission

	31 December 2008 £000	31 December 2007 £000
Total profit commission	34,726	20,448

Source of profit commission:

	Financial year:			
	2005	2006	2007	2008
Underwriting year:	£000	£000	£000	£000
2003 & prior	3,858	6,770	3,657	2,611
2004	9,110	8,075	6,811	5,522
2005	1,767	4,701	8,263	8,846
2006	-	380	1,717	9,221
2007	-	-	-	8,526
Total	14,735	19,926	20,448	34,726

8. Investment and interest income

	31 December 2008 £000	31 December 2007 £000
Net investment return	17,726	16,795
Interest receivable	6,655	7,777
Total investment and interest income	24,381	24,572

9. Expenses and share scheme charges

	31 December 2008			31 December 2007		
	Insurance contracts £000	Other £000	Total £000	Insurance contracts £000	Other £000	Total £000
Acquisition of insurance contracts	12,482	-	12,482	8,420	-	8,420
Administration and other marketing costs	19,726	67,555	87,281	13,314	57,252	70,566
Expenses	32,208	67,555	99,763	21,734	57,252	78,986
Share scheme charges	-	5,924	5,924	-	2,971	2,971
Total expenses and share scheme charges	32,208	73,479	105,687	21,734	60,223	81,957

Analysis of other administration and other marketing costs:

	31 December 2008 £000	31 December 2007 £000
Ancillary sales expenses	17,893	16,613
Confused.com operating expenses	40,539	32,432
Gladiator operating expenses	6,719	5,520
Central overheads	2,404	2,687
Total	67,555	57,252

The £19,726,000 (2007: £13,314,000) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

The gross amount of expenses, before recoveries from co-insurers and reinsurers is £211,181,000 (2007: £167,773,000). This amount can be reconciled to the total expenses and share scheme charges above of £105,687,000 (2007: £81,957,000) as follows:

	31 December 2008 £000	31 December 2007 £000
Gross expenses	211,181	167,773
Co-insurer share of expenses	(72,783)	(66,430)
Expenses, net of co-insurer share	138,398	101,343
Adjustment for deferral of acquisition costs	(5,974)	(3,687)
Expenses, net of co-insurer share (earned basis)	132,424	97,656
Reinsurer share of expenses (earned basis)	(26,737)	(15,699)
Total expenses and share scheme charges	105,687	81,957

Reconciliation of expenses related to insurance contracts to reported Group expense ratio:

	31 December 2008 £000	31 December 2007 £000
Insurance contract expenses from above	32,208	21,734
Add: claims handling expenses	4,745	3,471
Adjusted expenses	36,953	25,205
Net insurance premium revenue	169,836	142,236
Reported expense ratio	21.8%	17.7%

10. Staff costs and other expenses

Included in profit, before co-insurance arrangements are the following:

	31 December 2008 £000	31 December 2007 £000
Salaries	60,725	45,022
Social security charges	7,678	6,231
Pension costs	713	588
Share scheme charges (see note 25)	11,320	5,560
Total staff expenses	80,436	57,401

Depreciation charge:		
- Owned assets	2,667	2,127
- Leased assets	1,079	1,100
Amortisation charge:		
- Software	1,390	725
- Deferred acquisition costs	10,824	8,449
Operating lease rentals:		
- Buildings	3,902	3,018
Auditor's remuneration:		
- Fees payable for the audit of the Company's annual accounts	30	25
- Fees payable for the audit of the Company's subsidiary accounts	186	169
- Fees payable for other services	160	85
Loss on disposal of property, plant and equipment	30	6
Net foreign exchange gains	162	171

Analysis of fees paid to the auditor for other services:		
Tax services	160	85
Other services	-	-
Total as above	160	85

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

11. Staff numbers (including Directors)

	Average for the year 2008 Number	2007 Number
Direct customer contact staff	2,354	1,839
Support staff	731	525
Total	3,085	2,364

12. Finance charges

	31 December 2008 £000	31 December 2007 £000
Finance lease interest	25	243
Letter of credit charges	-	41
Total finance charges	25	284

13. Taxation

	31 December 2008 £000	31 December 2007 £000
Current tax		
Corporation tax on profits for the year	50,104	56,194
Over provision relating to prior periods	(4,730)	(87)
Current tax charge	45,374	56,107
Deferred tax		
Current period deferred taxation movement	12,102	(1,422)
Under / (over) provision relating to prior periods – deferred tax	104	(3)
Total tax charge per income statement	57,580	54,682

Factors affecting the tax charge are:

	31 December 2008 £000	31 December 2007 £000
Profit before tax	202,518	182,098
Corporation tax thereon at UK corporation tax rate of 28.5% (2007: 30%)	57,718	54,629
Expenses and provisions not deductible for tax purposes	414	178
Other differences	(481)	(36)
Adjustments relating to prior periods	(71)	(89)
Tax charge for the period as above	57,580	54,682

14. Dividends

Dividends were declared and paid as follows.

	31 December 2008 £000	31 December 2007 £000
March 2007 (24.0p per share, paid May 2007)	-	62,412
September 2007 (20.6p per share, paid October 2007)	-	53,604
March 2008 (23.2p per share, paid May 2008)	60,473	-
July 2008 (26.0p per share, paid September 2008)	68,042	-
Total dividends	128,515	116,016

The dividends declared in March represent the final dividends paid in respect of the 2007 and 2006 financial years. Dividends declared in September 2007 and July 2008 are interim distributions in respect of 2007 and 2008.

A final dividend of 26.5p per share has been proposed in respect of the 2008 financial year. Refer to the Chairman's statement and Business Review for further detail.

15. Earnings per share

	31 December 2008	31 December 2007
Profit for the financial year after taxation (£000s)	144,938	127,416
Weighted average number of shares – basic	263,821,341	261,981,843
Unadjusted earnings per share – basic	54.9p	48.6p
Weighted average number of shares – diluted	264,188,008	262,291,843
Unadjusted earnings per share – diluted	54.9p	48.6p

The difference between the basic and diluted number of shares at the end of 2008 (being 366,667) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 25 for further detail.

16. Property, plant and equipment

	Improvements to short leasehold buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2007	2,333	11,191	4,169	1,812	12	19,517
Additions	413	2,129	781	170	-	3,493
Disposals	-	(6)	-	(3)	-	(9)
At 31 December 2007	2,746	13,314	4,950	1,979	12	23,001
Depreciation						
At 1 January 2007	648	7,348	2,716	1,350	7	12,069
Charge for the year	577	1,858	611	178	3	3,227
Disposals	-	(2)	-	(1)	-	(3)
At 31 December 2007	1,225	9,204	3,327	1,527	10	15,293
Net book amount						
At 1 January 2007	1,685	3,843	1,453	462	5	7,448
Net book amount						
At 31 December 2007	1,521	4,110	1,623	452	2	7,708
Cost						
At 1 January 2008	2,746	13,314	4,950	1,979	12	23,001
Additions	1,297	3,534	1,837	371	10	7,049
Disposals	-	(10)	-	-	-	(10)
At 31 December 2008	4,043	16,838	6,787	2,350	22	30,040
Depreciation						
At 1 January 2008	1,225	9,204	3,327	1,527	10	15,293
Charge for the year	692	1,983	841	227	3	3,746
Disposals	-	(1)	-	-	-	(1)
At 31 December 2008	1,917	11,186	4,168	1,754	13	19,038
Net book amount						
At 31 December 2008	2,126	5,652	2,619	596	9	11,002

The net book value of assets held under finance leases is as follows:

	31 December 2008	31 December 2007
	£000	£000
Computer equipment	1,561	2,149

17. Intangible assets

	Goodwill	Deferred acquisition costs	Software	Total
	£000	£000	£000	£000
Carrying amount:				
At 1 January 2007	62,354	3,445	958	66,757
Additions	-	9,584	1,896	11,480
Amortisation charge	-	(8,449)	(725)	(9,174)
At 31 December 2007	62,354	4,580	2,129	69,063
Additions	-	14,591	4,266	18,857
Amortisation charge	-	(10,824)	(1,390)	(12,214)
Disposals	-	-	(21)	(21)
At 31 December 2008	62,354	8,347	4,984	75,685

Goodwill relates to the acquisition of Group subsidiary EUI Limited (formerly Admiral Insurance Services Limited) in November 1999. It is allocated solely to the UK car insurance segment. 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.

18. Financial assets and liabilities

The Group's financial instruments can be analysed as follows:

	31 December 2008	31 December 2007
Financial assets:	£000	£000
Investments held at fair value	310,831	335,608
Held to maturity deposits with credit institutions	100,032	-
Receivables – amounts owed by policyholders	176,072	146,240
Total financial assets per consolidated balance sheet	586,935	481,848
Trade and other receivables	25,501	22,633
Cash and cash equivalents	144,286	155,773
	756,722	660,254
Financial liabilities:		
Trade and other payables	270,088	239,593

All receivables from policyholders are due within 12 months of the balance sheet date.

All investments held at fair value are invested in AAA-rated money market liquidity funds. These funds (spread across three very large providers) target a 7 day LIBID return with capital security and low volatility and continue to achieve these goals.

The amortised cost carrying amount of held to maturity deposits and receivables is a reasonable approximation of fair value.

19. Reinsurance assets and insurance contract liabilities

A) Sensitivity of recognised amounts to changes in assumptions:

The following table sets out the impact on equity at 31 December 2008 that would result from a 1 per cent change in the loss ratios used for each underwriting year for which material amounts remain outstanding.

	UNDERWRITING YEAR						TOTAL
	2003	2004	2005	2006	2007	2008	
Loss ratio	53.5%	57.0%	67.0%	78.5%	80.5%	89.0%	
Impact of 1% change (£000s)	1,753	2,235	2,871	2,827	3,196	1,032	13,914

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.

B) Analysis of recognised amounts:

	31 December 2008 £000	31 December 2007 £000
Gross:		
Claims outstanding	282,273	242,576
Unearned premium provision	157,283	120,484
Total gross insurance liabilities	439,556	363,060
Recoverable from reinsurers:		
Claims outstanding	103,794	76,055
Unearned premium provision	66,800	55,613
Total reinsurers' share of insurance liabilities	170,594	131,668
Net:		
Claims outstanding	178,479	166,521
Unearned premium provision	90,483	64,871
Total insurance liabilities – net	268,962	231,392

C) Analysis of re-estimation of claims provisions:

The following tables set out the cumulative impact, to 31 December 2008, of the retrospective re-estimation of claims provisions initially established at the end of the financial years stated. Figures are shown gross and net of reinsurance. These tables present data on an accident year basis.

Gross amounts:	Financial year ended 31 December 2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Gross claims provision as originally estimated	142,968	170,216	202,421	242,576	282,273
Provision re-estimated as of:					
One year later	137,075	162,205	192,283	223,688	-
Two years later	127,613	149,317	178,679	-	-
Three years later	119,625	138,171	-	-	-
Four years later	113,136	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2008	113,136	138,171	178,679	223,688	-
Gross cumulative overprovision	(29,832)	(32,045)	(23,742)	(18,888)	-

Net amounts:	Financial year ended 31 December 2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Net claims provision as originally estimated	98,120	128,631	154,711	166,521	178,479
Provision re-estimated as of:					
One year later	93,910	122,423	146,435	154,751	-
Two years later	87,761	111,964	135,825	-	-
Three years later	82,004	102,911	-	-	-
Four years later	77,331	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2008	77,331	102,911	135,825	154,751	-
Net cumulative overprovision	(20,789)	(25,720)	(18,886)	(11,770)	-

D) Analysis of net claims provision releases:

The following table analyses the impact of movements in prior year claims provisions, in terms of their net value, and their impact on the reported loss ratio. This data is presented on an underwriting year basis.

	Financial year ended 31 December 2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Underwriting year:					
2000	1,480	370	1,110	740	370
2001	2,967	5,043	1,879	1,483	494
2002	3,229	5,166	2,260	1,292	-
2003	1,513	4,622	5,084	3,235	2,311
2004	-	2,076	7,948	7,589	6,429
2005	-	-	2,623	12,545	10,977
2006	-	-	-	2,588	10,528
2007	-	-	-	-	6,857
Total net release	9,189	17,277	20,904	29,472	37,966
Net premium revenue	107,501	139,454	144,955	142,236	169,836
Release as % of net premium revenue	8.5%	12.4%	14.4%	20.7%	22.4%

E) Reconciliation of movement in net claims provision:

	31 December 2008 £000	31 December 2007 £000
Net claims provision at start of period	166,521	154,711
Net claims incurred	109,830	96,324
Net claims paid	(97,872)	(84,514)
Net claims provision at end of period	178,479	166,521

F) Reconciliation of movement in net unearned premium provision:

	31 December 2008 £000	31 December 2007 £000
Net unearned premium provision at start of period	64,871	65,025
Written in the period	194,401	141,851
Earned in the period	(168,789)	(142,005)
Net unearned premium provision at end of period	90,483	64,871

20. Trade and other receivables

	31 December 2008 £000	31 December 2007 £000
Trade receivables	22,266	20,747
Prepayments and accrued income	3,235	1,886
Total trade and other receivables	25,501	22,633

21. Cash and cash equivalents

	31 December 2008 £000	31 December 2007 £000
Cash at bank and in hand	140,336	150,902
Cash on short term deposit	3,950	4,871
Total cash and cash equivalents	144,286	155,773

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.

22. Trade and other payables

	31 December 2008 £000	31 December 2007 £000
Trade payables	10,760	5,960
Amounts owed to co-insurers and reinsurers	147,942	134,659
Finance leases due within 12 months	126	345
Finance leases due after 12 months	14	4
Other taxation and social security liabilities	9,492	8,557
Other payables	18,830	15,545
Accruals and deferred income (see below)	82,924	74,523
Total trade and other payables	270,088	239,593

Analysis of accruals and deferred income:

	31 December 2008 £000	31 December 2007 £000
Premium receivable in advance of policy inception	45,567	38,477
Accrued expenses	29,350	26,948
Deferred income	8,007	9,098
Total accruals and deferred income as above	82,924	74,523

23. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2008			At 31 December 2007		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	136	10	126	360	15	345
Between one and five years	15	1	14	4	-	4
More than five years	-	-	-	-	-	-
	151	11	140	364	15	349

The average term of leases outstanding is two years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group’s lease obligations approximates to their carrying amount.

24. Deferred income tax liability / (asset)

	31 December 2008 £000	31 December 2007 £000
Brought forward at start of period	(1,629)	981
Movement in period	11,956	(2,610)
Carried forward at end of period	10,327	(1,629)

The net balance provided at the end of the year is made up as follows:

Analysis of net deferred tax liability / (asset):	31 December 2008 £000	31 December 2007 £000
Tax treatment of Lloyd's Syndicates	-	541
Tax treatment of share scheme charges	(2,401)	(2,091)
Capital allowances	31	126
Other differences	(132)	(205)
Unremitted overseas income	12,829	-
Deferred tax liability / (asset) at end of period	10,327	(1,629)

The amount of deferred tax (expense) / income recognised in the income statement for each of the temporary differences reported above is:

Amounts (charged) / credited to income or expense:	31 December 2008 £000	31 December 2007 £000
Tax treatment of Lloyd's Syndicates	541	1,395
Tax treatment of share scheme charges	60	53
Capital allowances	95	23
Other differences	(73)	(46)
Unremitted overseas income	(12,829)	-
Net deferred tax (charged) / credited to income	(12,206)	1,425

The closing deferred tax balances reflect the change in UK corporation tax rate from 30% to 28% which became effective on 1 April 2008.

The difference between the total movement in the deferred tax balance above and the amount charged to income relates to deferred tax on share scheme charges that has been credited directly to equity.

25. Share capital

	31 December 2008 £000	31 December 2007 £000
Authorised:		
500,000,000 ordinary shares of 0.1p	500	500
Issued, called up and fully paid:		
264,541,810 ordinary shares of 0.1p	265	-
262,721,426 ordinary shares of 0.1p	-	263
	265	263

During 2008,1,820,384 (2007:1,534,827) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

589,384 (2007: 570,827) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme. These shares are entitled to receive dividends.

1,231,000 (2007: 964,000) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

Staff share schemes:

Analysis of share scheme costs (per income statement):

	31 December 2008 £000	31 December 2007 £000
SIP charge (note i)	2,484	1,268
DFSS charge (note ii)	3,440	1,703
Total share scheme charges	5,924	2,971

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2008: £11,320,000, 2007: £5,560,000) and the gross credit to reserves reported in note 26.

The consolidated cashflow statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cashflows from operating activities'. The co-insurance share of the charge is included in the 'change in trade and other payables' line.

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

Eligible employees qualify for awards under the SIP based upon the performance of the Group in each half-year period. The current maximum award for each half-year amounts to 600,000 shares (or a maximum annual award of £3,000 per employee if smaller).

The awards are made with reference to the Group's performance against prior year profit before tax. Employees must remain in employment for the holding period (three years from the date of award) otherwise the shares are forfeited.

The fair value of shares awarded is either the share price at the date of award, or is estimated at the latest share price available when drawing up the financial statements for awards not yet made (and later adjusted to reflect the actual share price on the award date). Awards under the SIP are entitled to receive dividends, and hence no adjustment has been made to this fair value.

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

Under the DFSS, details of which are contained in the Remuneration Report, individuals receive an award of free shares at no charge. Staff must remain in employment until the vesting date in order to receive shares. The maximum number of shares that can vest relating to the 2008 scheme is 1,372,001 (2007 scheme: 964,000).

Individual awards are calculated based on the growth in the Company's earnings per share (EPS) relative to a risk free return (RFR), for which LIBOR has been selected as a benchmark. This performance is measured over the same three-year period.

The range of awards is as follows:

- If the growth in EPS is less than the RFR, no awards vest
- EPS growth is equal to RFR – 10% of maximum award vests
- To achieve the maximum award, EPS growth has to be 36 points higher than RFR over the three year period

Between 10% and 100% of the maximum awards, a linear relationship exists.

Awards under the DFSS are not eligible for dividends and hence the fair value of free shares to be awarded under this scheme has been revised downwards to take account of these distributions. The unadjusted fair value is based on the share price at the date on which awards were made (as stated in the remuneration report).

Number of free share awards committed at 31 December 2008:

	Awards outstanding (*1)	Vesting date
SIP H205 scheme	350,034	March 2009
SIP H106 scheme	350,811	September 2009
SIP H206 scheme	277,538	April 2010
SIP H107 scheme	353,444	September 2010
SIP H207 scheme	337,770	April 2011
SIP H108 scheme	352,732	September 2011
DFSS 2006 scheme, 1st award	604,187	April 2009
DFSS 2006 scheme, 2nd award	105,369	September 2009
DFSS 2007 scheme 1st award	1,210,006	April 2010
DFSS 2007 scheme 2nd award	26,350	December 2010
DFSS 2008 scheme 1st award	1,285,099	April 2011
DFSS 2008 scheme 2nd award	86,902	November 2011
Total awards committed	5,340,242	

*1 – being the maximum number of awards expected to be made before accounting for expected staff attrition.

During the year ended 31 December 2008, awards under the SIP H105 scheme and the DFSS 2005 scheme vested. The total number of awards vesting for each scheme is as follows.

Number of free share awards vesting during the year ended 31 December 2008:

	Original Awards	Awards vested
SIP H105 scheme	581,565	468,540
DFSS 2005 scheme 1st award	686,143	604,962
DFSS 2005 scheme 2nd award	74,943	70,259

26. Analysis of movements in capital and reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Foreign exchange reserve £000	Retained profit and loss £000	Total equity £000
As at 1 January 2007	261	13,145	17	(50)	205,682	219,055
Retained profit for the period	-	-	-	-	127,416	127,416
Dividends	-	-	-	-	(116,016)	(116,016)
Issues of share capital	2	-	-	-	-	2
Currency translation differences	-	-	-	429	-	429
Share scheme charges	-	-	-	-	5,560	5,560
Deferred tax credit on share scheme charges	-	-	-	-	1,186	1,186
As at 31 December 2007	263	13,145	17	379	223,828	237,632
Retained profit for the period	-	-	-	-	144,938	144,938
Dividends	-	-	-	-	(128,515)	(128,515)
Issues of share capital	2	-	-	-	-	2
Currency translation differences	-	-	-	9,942	-	9,942
Share scheme charges	-	-	-	-	11,320	11,320
Deferred tax credit on share scheme charges	-	-	-	-	250	250
As at 31 December 2008	265	13,145	17	10,321	251,821	275,569

The capital redemption reserve arose in 2002 on the redemption of shares previously in issue at below par.

The foreign exchange reserve represents the net gains or losses on translation of the Group's net investment in foreign operations.

27. Financial commitments

The Group was committed to total minimum obligations under operating leases on land and buildings as follows:

Operating leases expiring:	31 December 2008 £000	31 December 2007 £000
Within one years	-	-
Within two to five years	4,139	2,139
Over five years	31,574	27,357
Total commitments	35,713	29,496

Operating lease payments represent rentals payable by the Group for its office properties.

In addition, the Group had contracted to spend the following on property, plant and equipment at the end of each period:

	31 December 2008 £000	31 December 2007 £000
Expenditure contracted to	898	489

28. Group subsidiary companies

The Parent Company's principal subsidiaries (all of which are 100% directly owned) are as follows:

Subsidiary	**Country of incorporation**	**Class of shares held**	**Principal activity**
EUI Limited	England and Wales	Ordinary	General insurance intermediary
Admiral Insurance Company Limited	England and Wales	Ordinary	Insurance Company
Admiral Insurance (Gibraltar) Limited	Gibraltar	Ordinary	Insurance Company
Able Insurance Services Limited	England and Wales	Ordinary	Intermediary
Inspop.com Limited	England and Wales	Ordinary	Internet insurance intermediary

29. Related party transactions

There were no related party transactions occurring during 2008 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the remuneration report, which will be included in the statutory accounts referred to below. 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%.

The Board considers that only the Board of Directors of Admiral Group plc are key management personnel.

Consolidated financial summary

Basis of preparation:

The figures below are as stated in the financial statements preceding this financial summary and issued previously. Only selected lines from the income statement and balance sheet have been included.

Income statement

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Total motor premiums	**716.3**	**631.3**	**566.6**	**533.6**	**470.4**
Net insurance premium revenue	169.8	142.2	145.0	139.5	107.5
Other revenue	193.9	176.9	131.6	93.4	69.5
Profit commission	34.7	20.5	19.9	14.7	21.7
Investment and interest income	24.4	24.6	14.5	15.5	11.9
Net revenue	**422.8**	**364.2**	**311.0**	**263.1**	**210.6**
Net insurance claims	(114.6)	(99.8)	(107.1)	(100.5)	(74.3)
Total expenses	(105.7)	(82.0)	(55.5)	(40.9)	(28.9)
Operating profit	**202.5**	**182.4**	**148.4**	**121.7**	**107.4**

Balance sheet

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Property, plant and equipment	11.0	7.7	7.5	4.6	3.3
Intangible assets	75.7	69.1	66.8	66.5	66.5
Financial assets	586.9	481.8	395.9	378.7	300.7
Reinsurance assets	170.6	131.7	74.7	54.2	66.1
Deferred income tax	-	1.6	-	-	-
Trade and other receivables	25.5	22.6	16.9	9.4	16.7
Cash and cash equivalents	144.3	155.8	191.2	150.2	119.3
Total assets	**1,014.0**	**870.3**	**753.0**	**663.6**	**572.6**
Equity	**275.6**	**237.6**	**219.1**	**181.4**	**144.6**
Insurance contracts	439.6	363.1	294.4	254.1	216.1
Financial liabilities	-	-	-	22.0	33.1
Deferred income tax	10.3	-	1.0	3.6	4.8
Trade and other payables	270.0	239.6	215.1	182.9	164.3
Current tax liabilities	18.5	30.0	23.4	19.6	9.7
Total liabilities	**1,014.0**	**870.3**	**753.0**	**663.6**	**572.6**