

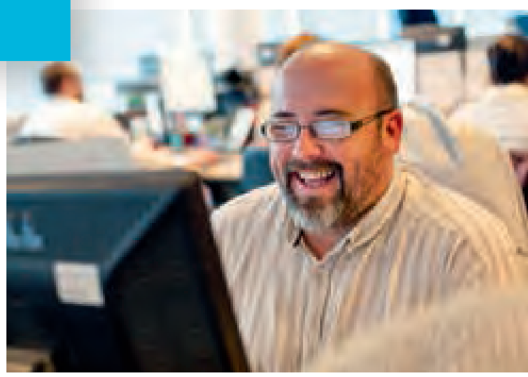
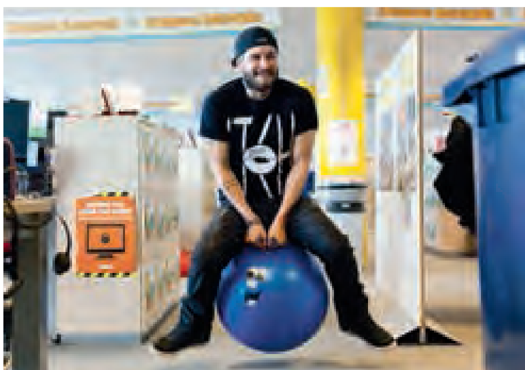



Admiral Group plc

People who like what they do, do it better

Admiral Group plc
Annual Report and Accounts 2014



Admiral Group is one of the UK's largest and most profitable car insurance providers, with over 11% market share and market-leading financial results.

The history of the Admiral Group is one of growth, profitability and innovation. Admiral launched in 1993 with just one brand, zero customers and 57 members of staff. The Group now has operations in Spain, Italy, France and the US, and has over four million customers.

Admiral's strategy is simple: To continue to progress in the UK Car Insurance market whilst taking what we do well to new markets and products: keep doing what we're doing and do it better year after year.

Admiral is one of the largest employers in South Wales and has over 7,000 people worldwide.

Find out more about how people make our businesses work from page 12

Chairman's Statement
Alastair Lyons, CBE
From page 04

Admiral's businesses and operations
From page 06

Chief Executive's Statement
Henry Engelhardt, CBE
From page 08

Stacey
Advanced MOJ handler

Another good year

"2014 was another good year for the Admiral Group. The current year result included an increase in profit from the UK Car Insurance business and, encouragingly, a profit[*1] from ConTe in Italy, which brings to three (out of seven) the number of businesses outside the UK that contribute positively to the Group's result."

Geraint Jones
Chief Financial Officer

Group highlights

- Group profit before tax[*2] 4% lower at £356.5 million (2013: £370.7 million)
- Earnings per share 2% lower at 103.0 pence (2013: 104.6 pence)
- Final dividend of 49.0 pence per share, bringing the 2014 total dividend to 98.4 pence per share down 1% (2013: 99.5 pence per share)
- Return on equity of 52% (2013: 58%)
- Group turnover[*3] down 3% at £1.97 billion (2013: £2.03 billion)
- Group customers up 9% to 4.05 million (2013: 3.70 million)
- International car insurance turnover up 10% to £206 million, with customers up 15% to 592,600 (2013: £188 million and 515,300 customers)
- Over 7,000 staff to receive free shares worth £3,000 in the employee share scheme

[*1] Segment result, excludes share scheme charges. These charges are included in the 'Other' segment

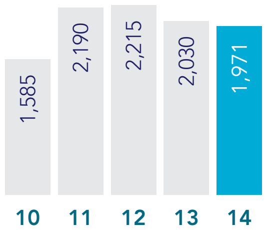
[*2] Represents Group's share of profit before tax after excluding Minority Interests

[*3] Turnover is defined as total premiums written (including co-insurers' share) and Other Revenue (excluding vehicle commission)

Turnover (£million)

£1,971m

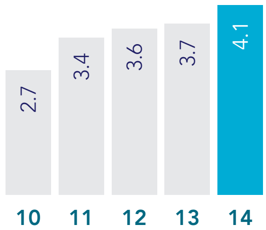
-3%



Customers (million)

4.1m

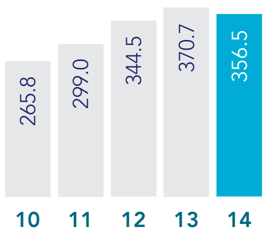
+9%



Profit before tax[*1] (£million)

£356.5m

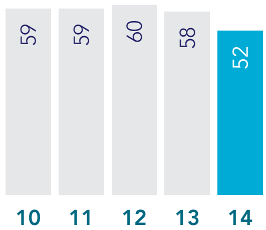
-4%



Return on equity (%)

52%

-10%



Another busy year

Important moments in 2014:

June

Admiral named third best workplace in Europe

July

Admiral announced a successful inaugural bond offering of £200 million

Chelsea
Customer Consultant

A Great Place to Work!

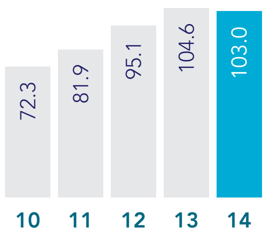
We pride ourselves on being a great place to work, and this is reflected in the many awards we win. We are particularly proud of these awards as they are voted for by staff.

Read more about our people on page 15

Earnings per share (pence)

103.0p

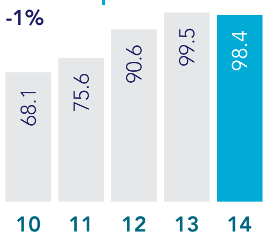
-2%



Full year dividend per share (pence)

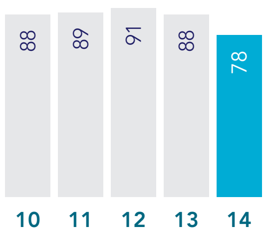
98.4p

-1%



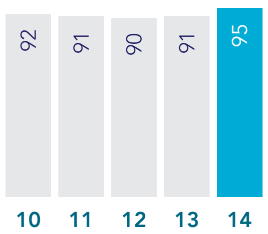
Staff satisfaction: 'I am happy at Admiral' (%)

78%



'Following a claim, I would renew with Admiral' (%)

95%



GREAT PLACE TO WORK® Best Workplaces 2014 Category: Large United Kingdom

GREAT PLACE TO WORK® Best Workplaces 2014 Europe

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2014

Read more about what we've achieved over the last ten years from page 10

› August

Admiral announced Geraint Jones as new Chief Financial Officer (CFO) and Executive Director

› September

Admiral celebrates 10 years since flotation on the London Stock Exchange

› November

Admiral was named the Best Car Insurance Provider at the Personal Finance Awards for the second year running

Straightforward and highly focused strategy

"The Admiral team has set about building private motor businesses in five countries, price comparison businesses in four, and a household insurance business in the UK."

Alastair Lyons, CBE
Chairman

2014 in summary

- The UK motor insurance market was again characterised by falling prices
- Italy is the Group's largest business outside the UK with almost half of our overseas customers
- An assessment of the French market suggests the potential for accelerated growth of direct motor insurance, benefiting both LeLynx and L'olivier Assurances
- In the US and Spain, growth came from expanding the accessible market
- Rastreator and LeLynx hold leading positions in their respective markets in Spain and France
- Confused.com faces very strong competition that has impacted conversion and hence profitability
- Compare.com is making progress and we are planning a material increase next year in promotional support

Our strategy

In my statement last year I listed what I regarded to be the top ten attributes that had contributed in great measure to Admiral's success over the last ten years that it has been a listed company. I spoke of management; our culture; our employees; focus; pricing; claims management; controlled test and learn; low cost; low capital employed; and low risk.

Admiral has applied these consistently to deliver against a straightforward highly focused strategy – to make the most of the market-leading positions we have developed in the UK in direct motor insurance and price comparison and apply our learning in these sectors in overseas markets of appropriate scale, structure and stage of development. Applying the tenets of controlled test and learn, low capital employed and low risk, the Admiral team has set about building private motor businesses in five countries, price comparison businesses in four, and a household insurance business in the UK. We have then sought to embed in these new businesses our management capability, our culture and the quality of our employees.

Organic growth, whilst slower, requires much less capital than growth by acquisition and avoids the significant risk associated with buying where one has little or no knowledge. By taking incremental steps one is able to construct, in all important respects, the platform one wants for the future, taking advantage to the degree relevant to each specific market of our differentiation in areas such as pricing and claims management.

Notwithstanding this step-by-step approach of test and learn, whilst each of our overseas businesses began life as a business plan Admiral now has nearly 600,000 customers outside the UK. It will, however, still be some years before these businesses, all at varying stages in their growth and required investment, make the material contribution to Group profits of which we believe they are capable. As now the second largest insurer of private cars in the UK Admiral's fortunes will, therefore, be driven for the foreseeable future by the UK motor insurance cycle.

2014 in overview

We recognise that in a cyclical business there are periods for growth, and periods for consolidation, seeking purely to maintain one's existing market position and focus on building capability to support growth when conditions render that both profitable and sustainable. 2014 was such a period of consolidation for three out of our five motor insurance businesses.

As a consequence our pre-tax profits, before reflecting our first material investment in our new US comparison business, were broadly flat on the previous year and our overall Group profits were £14 million lower at £357 million.

The UK motor insurance market was again characterised by falling prices, albeit that the sustained reduction since the market turned in 2010 now appears to be running out of steam.

Our aim through this period has been to maximise value rather than volume, maintaining our book at around three million customers and focusing on a major systems upgrade that is scheduled to complete in 2015. When delivered, this will enable us to retain our flexibility and responsiveness when it is right to resume the growth of our UK business. As we test, we learn how to improve our effectiveness across all aspects of our operations whether it be marketing; pricing; sales; customer service; or claims handling. Then we institutionalise what we have learned by building this learning into the systems that support the processes we operate. Through processes, systems and detailed timely management information we can be confident that all our people undertake their activities in a controlled, efficient way. We can also assess what it is relevant to seek to export alongside our culture to other markets.

We have also had major systems development taking place in our operations in Italy and France as these businesses prepare for the next stage in their growth. Italy is our largest business outside the UK with almost half of our overseas customers. As in the UK, with growth of the book unattractive in an environment of falling prices, the Italian business has focused on building its learning into a new operating platform that we believe will provide competitive advantage when the market turns. In France, the youngest of our overseas insurance operations, we had adopted a different outsourced start-up model to get into the market quickly, cost-effectively and at low risk. Four years on from launch our initial assessment of the French market suggests the potential for accelerated growth of direct motor insurance supported both by the growth of price comparison, in part reflecting the success of our own market-leading business LeLynx, and by the recently implemented change in the law making it easier for customers to switch insurance providers. Hence our move to bring all our functions in-house onto our own platform now that we understand what the French market needs.

In the US and Spain growth came from expanding the accessible market – in the case of Elephant Auto in the US by building on the entry into Texas in 2013, and for Admiral Seguros in Spain through the addition of a second brand, Qualitas Auto.

In price comparison we have continued to achieve strong growth outside the UK, with both Rastreator and Le Lynx holding leading positions in their respective markets in Spain and France. By contrast, price comparison in the UK has continued to be challenging, with Confused.com facing very strong competition that has impacted conversion and hence profitability. In the US, compare.com launched in 2013 as the first truly European-style aggregator as distinct from lead generators.

> "We believe it is for our investors rather than Admiral to determine how they wish to invest funds surplus to the requirements of our business."

Whilst early days, it is making encouraging progress both with consumers and insurer partners and we are planning a material increase next year in the commitment of promotional support, following our same philosophy of test and learn.

Our capital structure

Our low risk approach to our business with significant use of reinsurance has made it possible to maintain low levels of capital employed. However in 2014 we recognised that favourable capital markets and very reasonable rates of interest created the opportunity to strengthen and diversify our capital resources as we make a prudent transition into Solvency II in 2016, with the attendant regulatory capital requirement and buffers. Raising £200 million of additional capital in the form of ten-year tier two subordinated notes also sets us up well for the growth we expect from all our businesses in the coming years whilst being consistent with our existing dividend policy.

Dividends

Our dividend policy has been clear since flotation – we believe it is for our investors rather than Admiral to determine how they wish to invest funds surplus to the requirements of our business. We, therefore, distribute each year the available surplus over and above what we retain to meet regulatory requirements, the future development of our business and appropriate buffers, in particular, the buffer required during a period of transition between two different capital regimes. We also believe that the year-on-year progression of our dividend should largely mirror the movement in after-tax profits, subject to any abnormal demands on our capital resources.

Our final dividend for 2014 is therefore proposed at 49.0 pence per share, resulting in a full year dividend of 98.4 pence per share, within 1% of the 2013 full year dividend, against a backdrop of after-tax profits themselves 2% lower than last year. This comprises a normal dividend of 22.5 pence per share and a special dividend of 26.5 pence per share, bringing to £915 million the total of special dividends paid to shareholders since flotation, in addition to our £839 million normal dividends paid over this period.

Board changes

With its distinctive culture and focus on making Admiral a great place to work the Company enjoys strong levels of retention amongst employees, management and Directors alike.

Senior Executives in the Group have either been with Admiral since the Company listed ten years ago or since their respective overseas business was formed. To encourage retention of our people, and therefore of their skills and experience, we seek to provide management with development opportunities that allow us to promote from within. I was, therefore, delighted to welcome Geraint Jones to the Board at the time of our interim results, succeeding Kevin Chidwick as CFO, who will now focus solely on his role as CEO of Elephant Auto in the US. Geraint has been with Admiral's finance team since 2002, having been our Deputy CFO since 2012.

Roger Abravanel will not be seeking re-election at the forthcoming Annual General Meeting and I would like to thank him for his contribution to the Board, in particular the insight he has provided us into the Italian market. Balancing the loss of Roger we are delighted to welcome Penny James to the Board as a Non-Executive Director and member of the Audit Committee. Penny has been Director of Group Finance at Prudential plc since March 2011 and brings a wealth of commercial and financial experience to her role with Admiral.

Thank you

To our employees for their commitment and enthusiasm; to our management for their leadership and inspiration; to our shareholders for their support and confidence; but most of all to our customers for their business and choice of Admiral in preference to others in the highly competitive markets in which we operate.

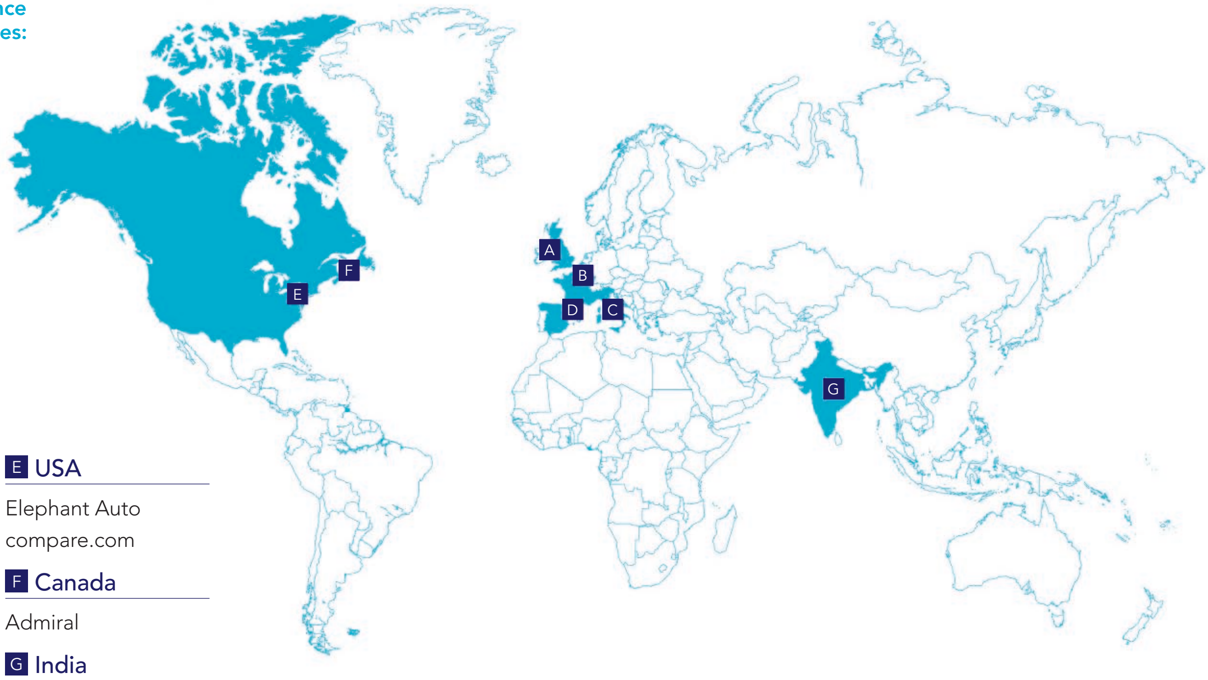
Alastair Lyons, CBE
Chairman
4 March 2015

Admiral's brands and markets

In the UK, Admiral is one of the largest and most recognised car insurance providers, and the Admiral Group includes Confused.com, one of the leading price comparison websites, as well as a budding household insurance business. Outside the UK, the Group has exported the knowledge and experience gained from its UK businesses and owns four insurance and three price comparison businesses.

Our presence

An international presence spanning seven countries:



A UK
- Admiral
- Bell
- Confused.com
- elephant.co.uk
- Diamond
- Gladiator
- Admiral Household
- BDE Law
- Admiral Law

B France
- LeLynx
- L'olivier Assurances

C Italy
- ConTe

D Spain
- Balumba
- Qualitas Auto
- Rastreator

E USA
- Elephant Auto
- compare.com

F Canada
- Admiral

G India
- Admiral Solutions
- Admiral Technologies

Our people

David Stevens
Admiral, UK

Cristina Nestares
Admiral Seguros, Spain

Milena Mondini
ConTe, Italy

Kevin Chidwick
Elephant Auto, USA

1 UK Car Insurance

Read the review from page 22

Admiral is one of the largest and most profitable private car insurers in the UK

Turnover
£1,603 million
2013: £1,699 million (-6%)

Pre-tax profit[*1]
£398 million
2013: £394 million (+1%)

Customers
3.2 million
2013: 3.0 million (+7%)

2 International Car Insurance

Read the review from page 28

Growing car insurance businesses in Spain, Italy, the US and France

Turnover
£206 million
2013: £188 million (+10%)

Pre-tax loss[*1]
£20 million
2013: £22 million (-9%)

Customers
592,600
2013: 515,300 (+15%)

3 Price Comparison

Read the review from page 32

Confused.com, one of the UK's leading price comparison websites, profitable operations in Spain and France and a new business in the US

Turnover
£108 million
2013: £113 million (-4%)

Pre-tax profit[*1,2]
£4 million
2013: £21 million (-81%)

Customer quotes
18.4 million
2013: 18.7 million (-2%)

4 Other Group Items

Read the review on page 35

UK Household Insurance, commercial vehicle insurance broking and other central costs (including share scheme charges and finance costs)

Turnover
£55 million
2013: £31 million (+77%)

Pre-tax loss
£25 million
2013: £22 million (+14%)

Gladiator customers
143,900
2013: 117,900 (+22%)

[*1] All segment results exclude share scheme charges. These charges are included in the 'Other' segment

[*2] Price Comparison pre-tax profit excluding Minority Interests

A hot and cold year

> Admiral Group's 2014 was the year of the Baked Alaska – hot and cold in a single bite."

Henry Engelhardt, CBE
Chief Executive Officer

In summary

- We're investing in many different markets, all with great potential, all with different competitive landscapes and timetables to success
- UK profits in the future are likely to be far more cyclically influenced than before
- Longer term there will be greater balance as reliance on the UK Car Insurance portfolio reduces

2014 goes down as the year of the Baked Alaska

Admiral Group's 2014 was the year of the Baked Alaska – hot and cold in a single bite.

The cold? For the first time since we went public and the first time this century, Admiral Group did not post a record profit. We still made a lot of money and had an enviable 52% return on equity, but, alas, the 2014 result is being dragged down by cyclicality and everything else, in sum, still required investment.

The hot? Profits emerging from some of those businesses outside the UK, including profit from ConTe, our Italian insurance business (in its sixth full year of operation) and record profits at Rastreator and LeLynx, our price comparison businesses in Spain and France, respectively.

My impression is that CEO statements are supposed to present a veneer of progress against a backdrop of challenging conditions: "the mountain was a tricky climb, the climate inhospitable, but we a) did it, b) are doing it or c) will soon do it".

This statement is not going to follow that common pattern.

What I will do is try to put you in my chair. What do I worry about? What do I look forward to? I will not be going over each business one at a time as Alastair has already provided a quick review of the businesses and further on in this report is a commentary from each of the business CEOs and plenty of numbers that will give you a lot of detail about those operations.

Let me start by reiterating our strategy: continue prosperous growth in the UK Car Insurance market while developing growing, profitable, sustainable businesses outside the UK and in the UK beyond car insurance.

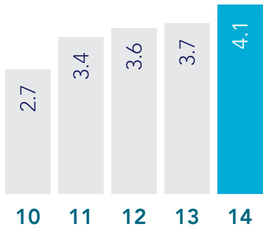
So with that strategy in mind, what do I worry about? Here we go then, in David Letterman style, my Top Ten Worries for 2015 (as written in January) from least worrying worry to most worrying worry:

10. We don't get our mobile phone access strategy right in ConTe (Italy).
9. That we won't be able to stretch far enough to take advantage of new opportunities put in front of us.
8. An upward move in Baremo, which governs the costs of bodily injury claims in Spain, fails to materialise so price hikes in the market also fail to materialise and therefore there is a lot less shopping for car insurance.
7. French consumers refuse to believe they can now easily leave their insurer, which, due to the new law, Loi Hamon, is now the case. Allez les Français réveillez-vous!
6. Confused's Get a Free Brian Toy campaign does not resonate with consumers and my house ends up decorated in Brian Toys.
5. My wife telling me she's pregnant.
4. Solvency II brings higher capital requirements than we're currently expecting and reduces the efficiency of our business model.
3. Compare.com can't reduce its cost per quote or cost per sale to a profitable level.
2. Guidewire, our new computer system currently being built and tested, doesn't work efficiently in the UK or in France (it is currently running successfully in the US).

Customers (million)

4.1m

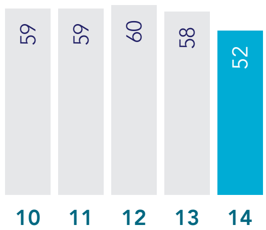
+9%



Return on equity (%)

52%

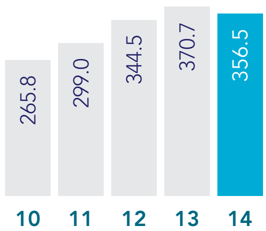
-10%



Profit before tax[*1] (£million)

£356.5m

-4%

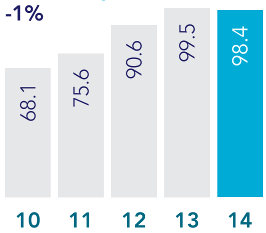


[*1] Represents Group's share of profit before tax after excluding Minority Interests

Full year dividend per share (pence)

98.4p

-1%



Read more about our financial performance on pages 18 to 21

All of the above worries, cumulatively, just about total my number one worry. The number one worry in this hit parade of worries is always number one on my worry list: irrational competitors.

These are competitors who either don't mind if they lose lots of money (perhaps it's even in their plans) or fool themselves in believing they won't lose lots of money (but eventually they do) or don't realise they are actually losing lots of money (and, again, eventually they do). So they act irrationally and buy business and in the world of car insurance irrational they may be, but they're unlikely to pay the price for that irrationality for several years.

So things can look jolly nice for them for quite a period of time (growth is good, right?). And the rest of the world is left with a choice: be rational in response, which means you lose a lot of business, or join the ranks of the irrational and sacrifice profits. That's the position we found ourselves in, in the UK during 2014 as we tried to slalom our way through the poorest part of the UK cycle. Our growth in vehicles insured, achieved in the first half of the year, was a modest 4%. Our rates went up during the year across all customer segments. As our rates went up, our competitiveness declined. However, due to these rate increases, we feel we are in a better place starting 2015, and there are signs that the market is now raising rates which, given our superior expense ratio in particular, would give us the choice of continuing to raise rates or growing our customer count.

But I must admit, I don't lose a lot of sleep over the UK in particular because the CEO of our UK business is David Stevens, one of the founders of Admiral. As one of our Non-Executive Directors recently put it: there is no one more qualified to run the UK business. The 'no one' did not mean 'no one in Admiral', or 'no one in the UK' or even 'no one in Europe', it was a very clear: no one. And I couldn't agree more. To find out if David's sleeping well or not you'll have to turn a few pages to read his report.

As David takes responsibility for the UK, I spend a lot of time with our businesses outside the UK. In particular, I spent a couple of weeks towards the end of 2014 with our insurance business in Seville, Admiral Seguros (brands: Qualitas Auto and Balumba), and the desire for success from every person I met, in every part of the business, was contagious. I always leave Seville more energised than when I arrive. I don't usually talk about specific goals for the year ahead in this report, but I'll share this one with you: the goal for Admiral Seguros in 2015 is break-even on a written premium basis. I'm going to go out on a limb now and say that I am very confident the team will succeed in reaching this goal.

So here's my Top Ten Things I'm Looking Forward To in 2015:

10. Successful use of mobile phones for consumers, particularly in ConTe (Italy).
9. Continued, efficient growth in Elephant Auto (US), particularly in Texas.
8. Continued sector dominance for Rastreator and growth, particularly in telephony comparison.
7. Big quote volumes for LeLynx (France) due to the introduction of the Loi Hamon.
6. Watching the Cubs win the World Series.
5. Seeing Group revenue climb back above £2 billion.
4. We can't get Brian Toys made fast enough to meet demand.
3. Success of the new compare.com TV campaign coupled with lots of word of mouth.
2. Break-even in Admiral Seguros (Spain).

And the number one thing I'm looking forward to: David taking the odd afternoon off because he has nothing to worry about because results from the UK are so good.

Let me conclude by saying that we're investing in many different markets, all with great potential, all with different competitive landscapes and timetables to success. I could spin a bit of veneer about the value we're creating even without profits, but the truth of the matter is that in the past these investments were overshadowed by ever-growing profitability in the UK; in the past the UK business seemed immune to market cyclicality. But now we are just too big to be immune. And I think it's very fair to say too that the competition is improving, which, besides being very annoying, demands that we improve too and I can assure you that we are working flat out to do so. The upshot is that UK profits in the future are likely to be far more cyclically influenced than before and so for the next few years the Group result is likely to follow this cyclical pattern. Longer term, in our view, there will be less UK cyclicality in the result as our reliance on the UK Car Insurance portfolio reduces.

I'm sad to see the consecutive profit record go, it was a source of great pride. But, like the hot versus cold of Baked Alaska, I'm also glad to see it go, because it means we're investing in our future and not afraid to sacrifice some of the present to do so.

Henry Engelhardt
Chief Executive Officer
4 March 2015

Celebrating 10 years since flotation

Since Admiral listed on the London Stock Exchange in 2004, it has transformed from a company based solely in the UK, to a company that today has insurance and price comparison businesses in five countries in Europe and the US. All its growth has been based on an approach of test and learn and applying Admiral's expertise to new products and markets.

2004

On 23 September, Admiral floats on the London Stock Exchange with a share price of £2.75 and market capitalisation of £711 million.

3 OFFICES
IN THE UK

1,500 STAFF
EMPLOYED DIRECTLY BY ADMIRAL

1 MILLION CUSTOMERS
IN THE UK

2005

Admiral launches Multicar, enabling UK customers to insure two or more cars on the same policy, with all cars eligible for a discount.

2006

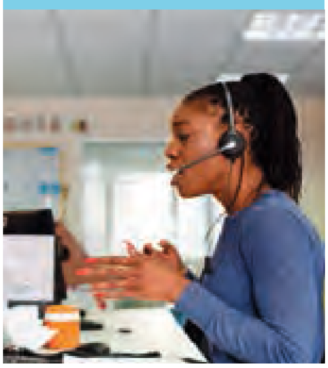
Balumba.es launches in Seville, selling car insurance in Spain.

2007

AdmiralDirekt.de launches in Cologne, selling car insurance in Germany.

2008

ConTe.it launches in Rome, selling car insurance in Italy.



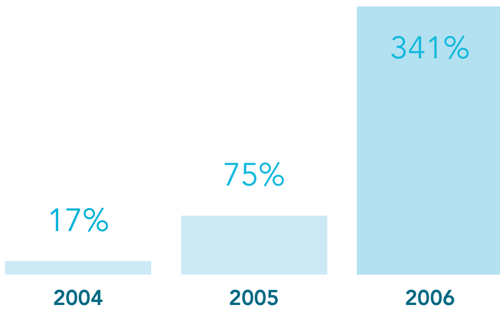
2009

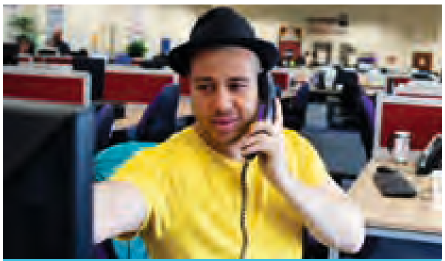
Rastreator.com, a price comparison website, launches in Madrid, Spain.

Elephant Auto Insurance launches in Richmond, Virginia selling car insurance in the US.

High shareholder returns

Over the past ten years, Admiral's Total Shareholder Returns are in excess of 750%





2010

LeLynx, a price comparison website, launches in Paris, France.

Chiarezza.it, a car insurance price comparison website, launches in Milan, Italy.

L'olivier Assurances launches in Paris selling car insurance in France.

2012

Admiral launches UK household insurance.

Chiarezza.it, the Group's Italian price comparison website, is sold.

2014

As of 31 December, the closing share price is £13.23 and Admiral has a market capitalisation of £3.6 billion.

Admiral has distributed over £1.6 billion to shareholders since float.

18 OFFICES
IN 9 COUNTRIES

OVER 7,000 STAFF
EMPLOYED DIRECTLY BY ADMIRAL

OVER 4 MILLION CUSTOMERS
ACROSS 5 COUNTRIES

2011

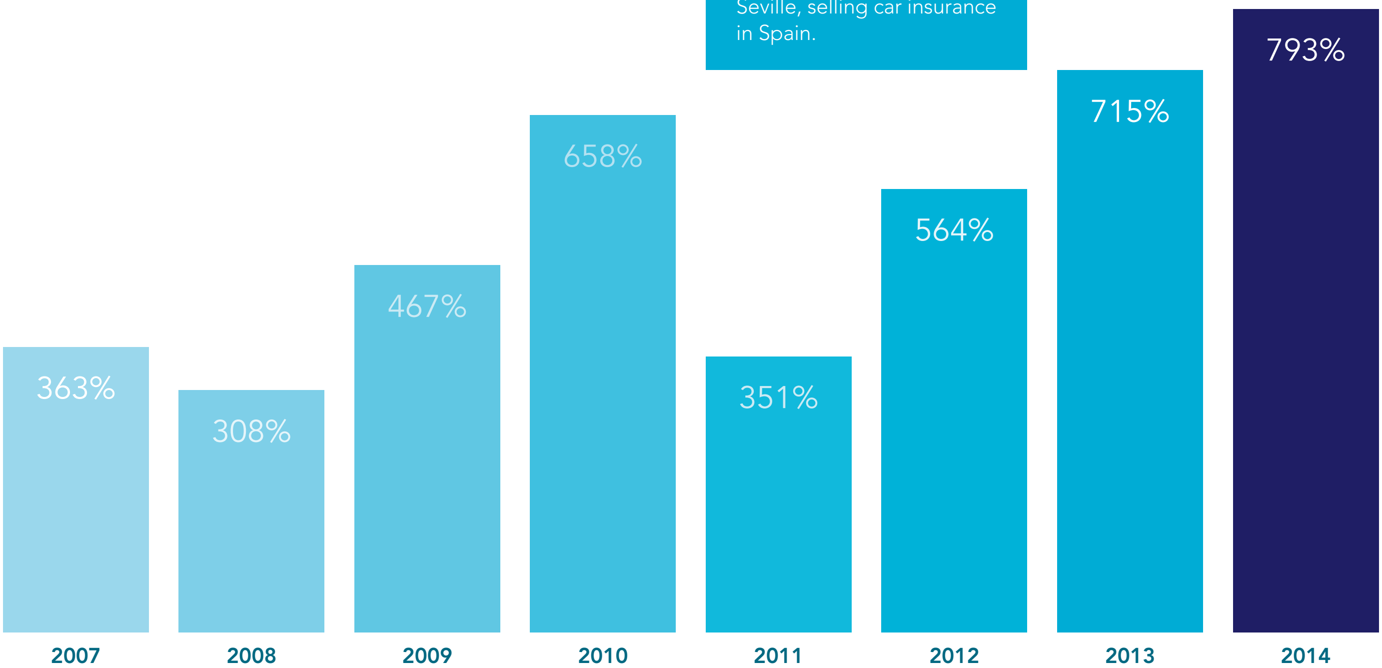
AdmiralDirekt.de is sold.

2013

Compare.com[*1], a price comparison website, launches in the US.

Qualitas Auto launches in Seville, selling car insurance in Spain.

[*1] Compare.com (formerly comparenow.com) simplified its name in February 2015 to better align with its services



Maximising our potential

Our track record of strong growth is based on a low risk business model that places great emphasis on customer satisfaction and staff wellbeing.

A great place to work

We go out of our way to make this a GREAT place to work. There are four pillars to our culture: communication, equality, reward and fun. It is upon these pillars that the performance of our staff rests.

Low capital employed

Sharing risk with co- and reinsurance partners is an important part of Admiral's business. Our model is based on reinsurance relationships underpinned by strong underwriting results, with Admiral itself only providing the capital backing for a minority of its business.

Profitability

Admiral continues to focus on profitability both in the short, medium and long term, and will continue to do what is right for the long term success of the business.

Shareholder returns

We believe that keeping management hungry for cash keeps them focused on the most important aspects of the business. We don't starve our businesses, but neither do we allow them the luxury of excess capital.

Putting customers at the heart of our business model

We value our customers above everything else and believe that good service and customer satisfaction are crucial for success. Our staff and departments are rewarded through incentive schemes that place emphasis on the quality of service provided to our customers.

Every day revolves around attracting, keeping and satisfying customers and the Group strives to design products that customers want and that represent value for money.

In 2014 consumers voted Admiral the Best Motor Insurance Provider at the Personal Finance Awards for the second year in a row.

The Personal Finance Awards 2014/15
WINNER
Best Car Insurance

WHO ARE OUR CUSTOMERS?

Admiral tends not to focus on particular market segments, but aims to offer great value products and services to all customers in its markets.

OUR STRENGTHS

Culture

Many companies document their culture at length but the best way to understand Admiral's culture is to spend a day in one of our offices to appreciate the depth of staff engagement with a business of which they all own a part; the vibrancy of the working environment; the commitment to the customer; and the engrained desire to produce a quality output and continuously improve that quality.

People

We believe that if people enjoy what they do, they do a better job – in 2014 Admiral was voted the 2nd Best Large Workplace in the UK by the Great Place to Work Institute and was awarded the FTSE Female Pipeline Award, which recognises Admiral for the success of women in its workplace. Admiral has been in The Sunday Times 100 Best Companies to Work For in the UK every year the list has been compiled and was 2nd in this year's list. We also win numerous awards in our overseas businesses reflecting the successful export of the Admiral culture to those newer businesses.

Focus

Admiral has spent more than 20 years refining how best to provide the service people look for from their car insurer, and the last 13 years developing Price Comparison. It is only since the advent of Admiral Household Insurance in 2012 that the Group has dedicated any material effort outside private motor insurance and price comparison.

OUR APPROACH

Risk aversion

Admiral has always sought to protect its downside and this is characterised by: the reinsurance model; a very conservative approach to claims reserving; an organic growth strategy; a test and learn approach of taking measured steps before investing further; and a conservative approach to investment management.

Profit focus

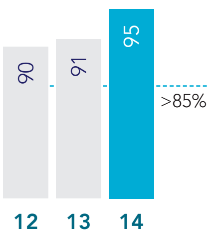
Admiral is focused on bottom line profitability in the short, medium and long term across all its business operations. We don't spend too much time thinking about things like market share, size and target customers; these factors are all by-products, not drivers, of the decisions that we make that are focused on generating profits.

Controlled test and learn

Admiral Group has been built from the ground up, taking measured steps to test how well we understand the challenge ahead and the effectiveness of our solutions, and then to learn from that experience and from the experience of those who have tried other strategies. That is how the Admiral team has set about building private motor businesses in five countries, price comparison businesses in four, and a household insurance business in the UK.

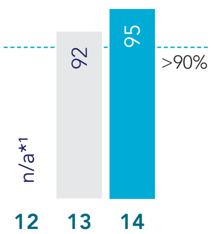
Customers who would renew following a claim (%)

95%



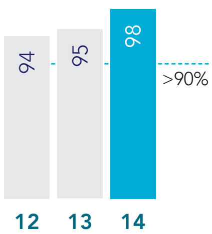
Customer Services, New Business and Renewals call answer rates*1 (%)

95%



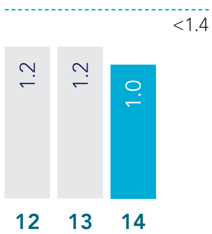
Claims call answer rate (%)

98%



Complaints per 1,000 vehicles

1.0



*1 2012 data is unavailable due to changes in reporting

Doing what we do, and doing it even better than last year

Our strategy is simple: we aim to build on our existing strengths.

1 Maintain strong performance of our UK Car Insurance business

What this means
Stay ahead of the competition – in particular maintaining a material combined ratio advantage. This means underwriting profitable business and pricing effectively for risk, providing great customer service and maintaining a cost conscious culture.

Our focus for 2015
Respond to UK market conditions; implement price increases, control claims and expenses.

2 Exploit opportunities presented by the US car insurance market

What this means
Learn from our experiences in the UK and Europe and export those learnings (including sophisticated pricing techniques) to the US. Understand the US consumer: what insurance cover and products they want and how they want to buy them. Educate the US consumer: shopping for car insurance online is a good thing!

Our focus for 2015
Grow the customer base in the states in which we operate and raise the profile of Elephant Auto. This will be supported by the separate development of our price comparison website, compare.com, and focused marketing in important states to spread the understanding of price comparison and increase the number of visitors to both our compare.com and Elephant Auto websites.

3 Further grow our presence in Europe

What this means
Develop profitable, growing, sustainable businesses in insurance and price comparison that mirror the UK model. This means building on the market profiles developed by our strong management teams.

Our focus for 2015
Capitalise on ConTe's performance in 2014 and grow the premium base. Generate further growth from Rastreator and LeLynx's market-leading positions in the Spanish and French price comparison markets. Admiral Seguros to follow ConTe to break-even.

L'olivier Assurances to capitalise on its new infrastructure and grow following the introduction of the Hamon Law, which allows consumers to switch insurers any time after one year without penalty.

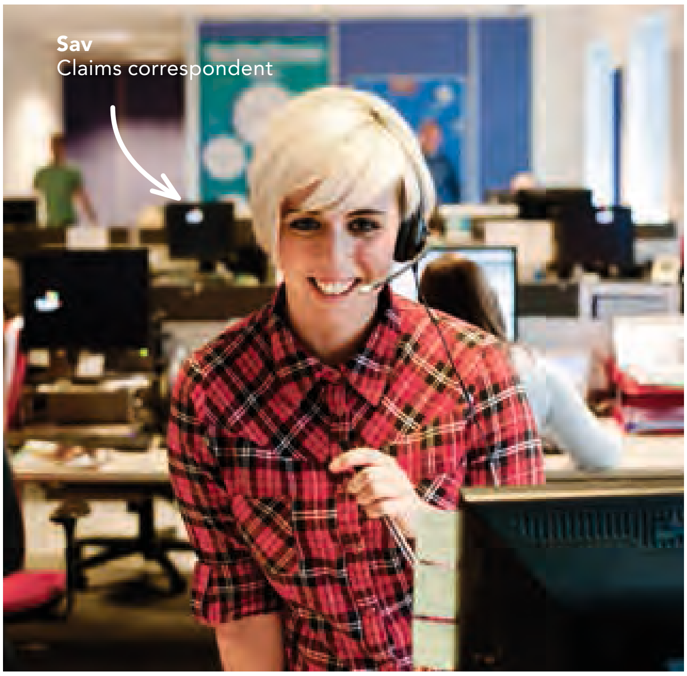
4 Establish new products which use our existing expertise

What this means
Test and learn approach to utilising our existing skills and expertise to develop products that customers want and that represent value for money.

Our focus for 2015
Continue to focus on household as more people embrace price comparison shopping for household cover. Control household costs to support a below market average expense ratio whilst maintaining control over pricing and claims to produce a good loss ratio.

Our success has been based on having the right people with the right skills.

We believe that good service and customer satisfaction is crucial for success. Our strategy is delivered through our people; they are crucial to our success.

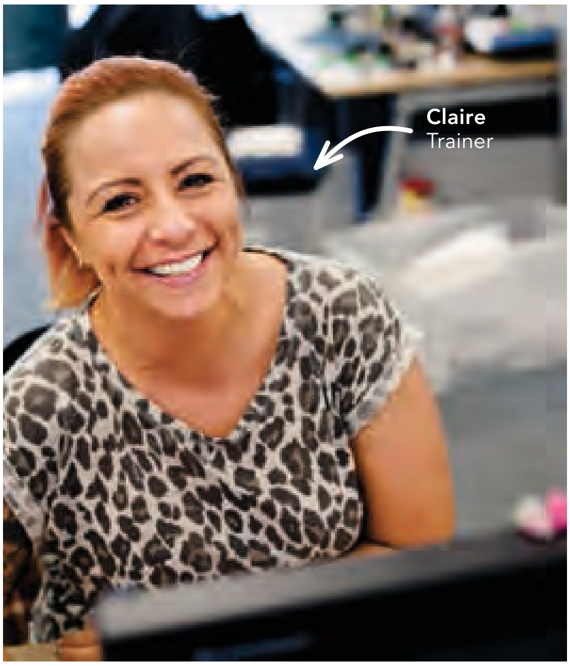


Expanding internationally

In recent years Admiral Group has expanded across Europe and to the US. An important attribute to success in these markets is our staff. We have created office environments to help motivate staff, combining the best of what's been learned over time in the UK with local habits and traditions.

Aligned interests

Admiral staff across all locations are awarded a stake in the Group shortly after they join.



A quality service

Everyone in the organisation has a part to play in ensuring quality, so departments within the Group are measured against sets of quality measures, which are meant to be a challenge; people have to work hard to achieve them, but they are still achievable.

To learn about our diversity, ethics and human rights, please turn to the Directors' Report on page 73

Questions and answers

with Henry Engelhardt, David Stevens and Geraint Jones

In the last 12 months we have had a lot of questions from investors and analysts alike. Here we try to answer some of them.

Henry

Alastair's statement indicates that the downturn in the Group result is due to the investment in compare.com. How long do you see the investment continuing and when will you know if the model works in the US?

With price comparison operations, the amount of investment in the early years roughly equates to the loss, as the earnings profile is very much driven by marketing spend. Both Rastreator and LeLynx were profitable within three years of launch.

Compare.com continues to make good progress in the US which justifies the ongoing investment we have outlined for 2015. We have focused marketing spend on the larger US states of California, Illinois, Texas and Virginia. We continue to view the internet as an irresistible force and believe more and more consumers will turn to the internet for more and more shopping opportunities. Feedback from US consumers is positive and, as you will see from Andrew Rose's (compare.com CEO) report, with more than 40 auto insurance carriers under contract, it's an attractive choice for insurers as well.

Quick questions

What is your most memorable Admiral moment?

The day we floated on the Stock Exchange and next day when we went around the offices offering (little) bottles of champagne to every member of staff. That was a very happy group!

David Stevens
Chief Operating Officer

Geraint Jones
Chief Financial Officer

Henry Engelhardt
Chief Executive Officer

It's great that ConTe has made a profit and you are optimistic that Admiral Seguros will follow suit. Is this a watershed year for the international businesses?

We have always said that insurance businesses will take between six to ten years to break-even, due mainly to the start-up costs and the high expense ratio in the early years when premiums and customers are low. It is very encouraging that ConTe has produced its first profits at the lower end of this target period, in year six, albeit those profits came from back year releases rather than current year results. I'm confident Admiral Seguros will break even in 2015. This is in spite of very challenging economic conditions in Europe which have particularly affected both ConTe and Admiral Seguros.

Admiral is in the business of building profitable, sustainable and growing businesses and we expect the European operations to build on their performance to date and to match growth aspirations to local market conditions.

We would expect Elephant Auto to follow this six to ten year profile and, given the size of the US market, probably to be at the outer end of this target period, but we are already in year five, so halfway there! We have already achieved so much in establishing Elephant Auto as a direct insurer in an agent driven market. The development of an active price comparison market, led by compare.com, can only accelerate change.

You (and the team) have built a fantastic business over the last 21 years. What would you like to see your eventual successor aim for?

There's definitely success in succession at Admiral. I am fully convinced that the group of young senior managers we've got in our Group are brighter and more inventive then those of us moving on over the next few years. These managers have already spent a number of years in the Group and so we've also been able to brainwash them with the way we do things. Not only are these people interesting and talented, but they are also hungry to succeed.

If we cannot find our future leaders from this group then I will have done my job very poorly. And we certainly don't want that to be the case, do we?!

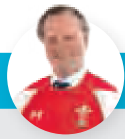
David

Henry's statement indicates that Admiral is now too big to be immune to the cyclicality in the UK market. What does that mean for Admiral's UK loss ratio, reserves and reserve releases?

The underwriting margin we earn per policy rises and falls as the insurance cycle drives prices up and down. Historically, when we had a small market share we had the opportunity to offset falling margin per policy through a rapid growth in policies. Now we have roughly 12% of the market it's neither possible nor advisable to grow strongly during periods of falling margin – especially now that the price comparison market has largely reached maturity.

We attempt to soften the profit impact of the cycle by raising rates earlier than our competitors in bad times and ceasing to raise them earlier in the good times.

Our reserving philosophy has always been and remains conservative and consistent across time – we claim to take full credit for an underwriting profit only when it has a very high degree of certainty, which typically involves waiting a couple of years.



Quick questions

What are you most likely to be caught doing outside of work?

Sneaking a taramasalata on Digestives.

Alastair's statement makes reference to 'a major systems upgrade' in the UK, so what have you been up to and how will this impact the UK business?

Henry has also made reference in his statement to Guidewire being implemented in the UK and France. We already use Guidewire in our US operation.

We've been going for 20 years now and the time has come for an overhaul of our insurance administration system. We expect to be able to deliver better service at a somewhat lower cost with our new systems.

Although it's a big and complex project, I am confident that we are dedicating the right level of internal and external expertise to ensure a successful implementation.

Admiral has always prided itself on being a low-cost operation, but you are investing in systems, facilities and staff. How will this affect your historical expense ratio advantage?

Our expense ratio advantage over our competitors runs at over ten percentage points and has done for years. We see the investments we are making as important to maintaining that advantage.

Geraint

Admiral is a cash generative business with a high dividend payout. If you needed capital, why not just reduce the dividend? Why did you issue debt?

As Alastair mentioned in his statement, we recognised that favourable capital markets offered an opportunity to strengthen and diversify the capital base. The bond counts towards capital in the current and future solvency regimes and we believe it was a prudent course of action as we make the transition into the new Solvency II regime in 2016.

The increased level of capital will also support our growth aspirations for all Admiral's businesses in the coming years.

In terms of dividends, we continue to believe firmly in not holding excess capital in the Group and will again distribute 95% of earnings in 2014 – the same level as 2013.

How does the level of reserve conservatism compare to previous years and will Solvency II change your approach to reserving?

Admiral has always reserved cautiously – initially setting provisions well above the projected ultimate outcomes. This tends to lead to higher than industry-average releases and you'll see from the results that we have seen an increase in releases in 2014, which was due to some very positive development on the back years. However, despite the large releases there has been no deterioration in the level of conservatism in the reserves.

Solvency II will bring numerous changes to the Group, from the way capital requirements are calculated to our structure of risk management and the way Admiral's results and business are reported to regulators and to the public. Despite this, I don't see Admiral's cautious approach to reserving changing under the new regime.

Quick questions

What is your favourite album?

It's almost impossible to pick one, but if I absolutely had to it would be *Appetite for Destruction, Guns n' Roses*.... shaped my musical tastes for good.

There has been a lot of talk about the potential impact of Solvency II on capital and dividends. So what will be the impact on capital and how might this affect Admiral's dividend policy?

As I mention in my statement, whilst some uncertainty still remains, based on what we know today, we expect the level of capital requirement for the Group in 2016 to be not too dissimilar from that agreed by the PRA under the UK ICAS rules for 2015.

I don't foresee any change to Admiral's philosophy on dividends and expect the Group to continue distributing to shareholders capital we don't need to keep within the Group for solvency, growth or for contingencies. Based on what we know today, I don't expect material changes for the foreseeable future in the level of dividends in terms of the percentage of earnings distributed.

2014 was another strong year for the Admiral Group

"The final dividend proposed for 2014 is 49.0 pence per share – bringing the total dividend to 98.4 pence per share, within 1% of the total 2013 dividend. That represents a payout ratio of 95% and brings to £271 million the full year dividend (£271 million last year)."

Geraint Jones
Chief Financial Officer

In summary

- The Group's UK Car Insurance business accounts for 81% of Group turnover (2013: 84%) and 78% of customers (2013: 82%)
- ConTe, our Italian car insurance business, joined our French and Spanish price comparison businesses in now contributing positively to the Group's result
- Our insurance operations in France, Spain and the US continue to require investment, though we remain encouraged by the progress made and have confidence in the operations and their future profitability
- The UK Household Insurance business enjoyed another year of strong growth in policy numbers and again achieved break-even

2014 was another strong year for Admiral, with good financial results and lots of encouraging progress in businesses across the Group. Earnings per share at 103.0 pence was slightly lower than 2013 (104.6 pence), though the 2014 result included a further, small increase in profit from the UK Car Insurance business and, encouragingly, a small profit from ConTe, Admiral's Italian insurance business. Taken together with Rastreator and LeLynx, this brings to three (out of seven) the number of businesses outside the UK that contribute positively to the Group's result.

As noted earlier in this report, the main reason for the fall in 2014's result was the investment made in the US comparison business compare.com (Admiral's share of the loss was £15 million pre-tax). We believe this new business has developed well and has great potential. We will continue to invest in attracting customers to the website and growing the business, to the extent that compare.com is expected to post a loss in the region of £20 million to £30 million in 2015 (based on Admiral's 68% ownership).

Our insurance operations in France, Spain and the US are still loss-making, although the combined loss for all international operations has reduced to £19.9 million from £22.1 million. We continue to be encouraged by progress made and have confidence in the operations and their future profitability. Admiral's UK Household Insurance business enjoyed another year of very strong growth in policy numbers and another broadly break-even financial result. Much more detail on the performance of each of the businesses is set out on the following pages.

Alastair has articulated Admiral's dividend policy in his statement and I won't repeat it here. The final dividend proposed for 2014 is 49.0 pence per share – a 3% reduction compared to the final 2013 payment. The full year dividend for 2014 is £271 million (2013: £271 million) equating to a payout ratio of 95% of earnings.

Consistent with our approach to the calculation of the interim 2014 dividend, we have, at year end, retained a significant margin over current economic capital requirements to ensure a smooth transition to the new Solvency II regulatory regime coming into effect in January 2016. We are making very good progress towards full compliance with the various requirements of the regulation and expect clarity in the coming months on the level of capital requirement that will apply next year. Acknowledging that some uncertainty remains, based on what we know today, we expect the level of capital requirement in 2016 to be not too dissimilar to the current ICAS requirements.

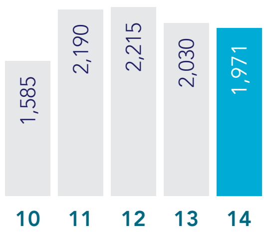
And finally, we were pleased to complete successfully the issue of Admiral's first public bond in July 2014, which both strengthened and diversified the capital available to the Group. The net annual cost of the £200 million ten-year subordinated notes (lower tier two capital under the current regime and expected to qualify as tier two under Solvency II) is approximately £4.5 million per year: we welcome this new set of investors in the Admiral Group.

Geraint Jones
Chief Financial Officer
4 March 2015

Turnover (£million)

£1,971m

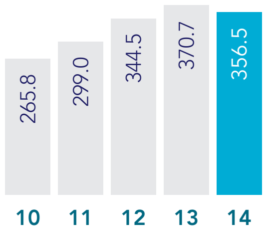
-3%



Profit before tax[*1] (£million)

£356.5m

-4%

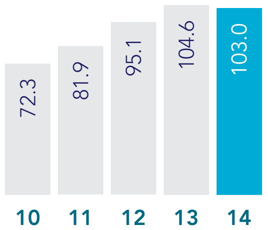


[*1] Represents Group's share of profit before tax after excluding Minority Interests

Earnings per share (pence)

103.0p

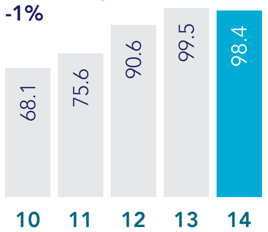
-2%



Full year dividend per share (pence)

98.4p

-1%



Group results and dividend

- Admiral Group's share of pre-tax profits decreased in 2014 by 4% to £356.5 million (2013: £370.7 million).
- UK Car Insurance profit increased by 1% to £398.0 million (2013: £393.9 million).
- International Car Insurance losses totalled £19.9 million (2013: £22.1 million).
- Admiral Group's share of Price Comparison profit totalled £3.6 million (2013: £21.1 million) reflecting the investment in compare.com.
- Other Group Items, including employee share schemes and net debt financing charges, amounted to a cost of £24.6 million (2013: £22.0 million).

Note: Segment and business results also exclude share scheme charges which are accounted for in Other Group Items

Further details by segment are set out below.

The decrease in Group profit was predominantly due to the increased investment made in compare.com – the Group's US comparison business (Admiral's share of the loss was £15.0 million in 2014).

Group turnover of £1,971.0 million decreased by 3% compared to 2013 (£2,030.2 million). This was mainly due to reductions in average premiums in the UK Car Insurance business. During 2014, the Group increased its customer base to 4.05 million from 3.70 million at 31 December 2013, year-on-year growth of just under 355,000.

Earnings per share decreased by 2% to 103.0 pence (2013: 104.6 pence). The decrease is lower than the 5% decrease in pre-tax profit due to the lower effective rate of corporation tax in 2014.

Total dividends paid and proposed for the financial year amount to 98.4 pence per share (£271 million), a decrease of 1% on the previous year (2013: 99.5 pence, £271 million). This is equal to 95% of post-tax profits. The final dividend proposed is 49.0 pence per share (3% lower than the final 2013 dividend of 50.6 pence).

The final dividend is made up of a 22.5 pence normal element, based on the stated dividend policy of distributing 45% of post-tax profits, and a further special element of 26.5 pence. The special dividend is calculated by reference to distributable reserves after taking into account solvency requirements and a margin for contingencies.

The payment date is 29 May 2015, the ex-dividend date is 7 May and the record date is 8 May.

Divisional performance highlights

The Group's UK Car Insurance business accounts for 81% of Group turnover (2013: 84%) and 78% of customers (2013: 82%). The relative decreases are due to the continued growth and development of the Group's other businesses, leading to lower concentration of the core business.

In 2014, the UK business continued to focus on margin rather than volume, in the face of very strong competition in the UK market and continued pressure on rates, but increased marginally the number of vehicles insured to 3.2 million (2013: 3.0 million). Supported by strong releases from prior year claims reserves on the back of continued positive development in projected claims costs, and an improved expense ratio, the combined ratio improved to 79.5% (2013: 81.0%) and profit before tax was £398.0 million – up 1% on 2013's result of £393.9 million.

Lower average premiums in the competitive UK market, in part offset by success in increasing the number of renewal customers, contributed to a reduction in UK turnover of 6% to £1,602.7 million (2013: £1,698.9 million).

Outside of the UK, Admiral's International Car Insurance businesses continue to develop, with combined turnover rising 10% to £206.2 million (2013: £187.8 million) and customer numbers almost reaching 600,000 – an increase of 15% on a year earlier. The 2014 Group results include a small profit generated by ConTe. The combined loss from the international insurance operations was lower in 2014 at £19.9 million (2013: £22.1 million), primarily due to improved claims experience and the impact of the ConTe profit.

In a very competitive UK comparison market, Confused.com, the Group's UK Price Comparison business, reported a pre-tax profit of £15.8 million – £5.9 million lower than 2013's result. Outside the UK, the European Price Comparison businesses (Rastreator in Spain and LeLynx in France) contributed a combined profit of £2.8 million (2013: £1.9 million) to the Group's profits. During the year, the Group invested in growing compare.com, its US comparison business, and the Group's share of the pre-tax loss was £15.0 million.

Other Group key performance indicators include:

- Group loss ratio 69.0% (2013: 69.2%) – a marginal reduction in the UK loss ratio resulting from higher reserve releases together with a significant improvement in the international loss ratio.
- Group expense ratio 19.7% (2013: 19.9%) – a slight decrease in the UK ratio offset by an increased international ratio.
- Group combined ratio 88.7% (2013: 89.1%).

Investments and cash

Investment strategy

Admiral maintained a low risk investment strategy throughout the year and continued to invest in the same broad asset classes as previous years.

The main focus of the Group's investment strategy is capital preservation, with additional priorities including low volatility of returns and high levels of liquidity. All objectives continue to be met.

The Group's Investment Committee performs regular reviews of the strategy to ensure it remains appropriate.

Cash and investments analysis

	31 December 2014				
	UK Car Insurance £m	**International Car Insurance £m**	**Price Comparison £m**	**Other £m**	**Total £m**
Fixed income and debt securities	**822.7**	**—**	**—**	**199.1**	**1,021.8**
Money market funds	**808.6**	**96.5**	**—**	**4.1**	**909.2**
Cash deposits	**261.0**	**2.1**	**—**	**—**	**263.1**
Cash	**101.8**	**38.6**	**49.0**	**66.5**	**255.9**
Total	**1,994.1**	**137.2**	**49.0**	**269.7**	**2,450.0**

	31 December 2013				
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Total £m
Fixed income and debt securities	202.4	—	—	—	202.4
Money market funds	1,278.2	98.4	—	29.5	1,406.1
Cash deposits	286.0	2.4	—	—	288.4
Cash	101.6	35.7	38.7	11.9	187.9
Total	1,868.2	136.5	38.7	41.4	2,084.8

There has been a change in the allocation of funds during 2014, with a greater proportion invested in fixed income and other short dated securities (and less in money market funds and deposits). This change has been made in order to increase yield without materially increasing risk. This change has not resulted in a material change in credit quality and only a moderate increase in average duration, due to the features of the underlying investments.

Money market funds, fixed income and debt securities comprise the majority of the total; 79% at 31 December 2014, up from 77% at 31 December 2013.

Investment and interest income in 2014 was £15.4 million, up 8% on 2013 (£14.3 million). The increase was due to higher average balances along with the increased allocation of funds to fixed income and other short dated securities that took place across 2014. The increase would have been greater but was partially offset by an adjustment (of approximately £8 million) relating to notional investment income on quota share reinsurance funds withheld arrangements. If the combined ratio on the 2014 underwriting year (for the UK Car Insurance business) reduces to profitable levels, this adjustment will reverse.

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

	2012 £m	2013 £m	**2014 £m**
Operating cash flow, before transfers to investments	742.0	616.8	**540.2**
Transfers to financial investments	(441.9)	(295.3)	**(286.3)**
Operating cash flow	300.1	321.5	**253.9**
Tax and interest payments	(79.7)	(88.5)	**(77.0)**
Investing cash flows (capital expenditure)	(10.9)	(10.1)	**(47.5)**
Financing cash flows (dividends offset by proceeds of debt issue)	(214.8)	(250.3)	**(64.4)**
Foreign currency translation impact	(2.7)	(1.3)	**3.0**
Net cash movement	(8.0)	(28.7)	**68.0**
Movement in investment valuation reserve	—	—	**10.9**
Net increase in cash and financial investments	434.5	266.6	**365.2**

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

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

	2012 £m	2013 £m	2014 £m
Profit after tax	258.4	286.9	**281.6**
Change in net insurance liabilities	200.0	186.2	**187.5**
Net change in trade receivables and liabilities	163.0	22.3	**(34.7)**
Non-cash income statement items	34.4	38.1	**36.7**
Tax and net interest expense	86.2	83.3	**69.1**
Operating cash flow, before transfers to investments	742.0	616.8	**540.2**

Total cash plus investments increased by £365 million or 18% (2013: £267 million, 15%). The net change in actual cash balances was less significant, as funds were transferred into investments.

Capital structure and financial position

Admiral's capital-efficient and profitable business model led to a return on equity of 52% (2013: 58%). A key feature of the business model is the extensive use of co- and reinsurance across the Group. During 2013 and in early 2014 Admiral announced extensions to its UK co- and reinsurance arrangements with capacity fully allocated until at least the end of 2016 and Munich Re committed to underwriting 40% of our UK motor business until at least the end of 2018. Similar long term arrangements are in place in the Group's international insurance operations and UK Household Insurance business.

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

In July 2014, the Group completed the issue of £200 million of ten-year dated subordinated bonds. The rate of interest is fixed at 5.5% and the bonds mature in July 2024. The bonds qualify as lower tier two capital under the current regulatory capital regime and are expected to qualify as tier two capital under Solvency II.

The majority of the Group's capital requirement is derived from its European insurance operations, Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL) under their respective local regulations. The minimum capital requirements and surplus position at the end of 2014 for those companies, along with the overall Group position, were as follows:

	AIGL £m	AICL £m	Group £m
Capital*1	187	77	705
Minimum regulatory capital requirement	77	27	120
Surplus over minimum requirement	**110**	**50**	**585**
Actual capital requirement*2			289
Surplus over regulatory capital requirement			**416**

*1 Before accounting for the 2014 final dividend of £136 million. Comprises tangible equity plus debt

*2 Based on the sum of the individual capital requirements of Group subsidiaries at 31 December 2014

During 2015, the Group's capital requirement will be assessed under the ICAS regime in the UK with Individual Capital Guidance (ICG) applied by the Prudential Regulatory Authority (PRA) as appropriate. The Group expects to hold a significant buffer above ICG throughout 2015.

Solvency II

During 2014 further requirements and guidance continued to be issued on implementing the Solvency II regulatory regime in the EU ahead of the effective date of 1 January 2016. Solvency II aims to provide an EU-wide set of capital requirement and risk management standards. Principal themes include risk-based capital, market-consistent balance sheets and Own Risk and Solvency Assessments (ORSA). The Directors do not believe, based on guidance issued to date, that there will be a material change in the level of the Group's capital surplus as a result of the new regime compared to the surplus expected during 2015. The Group is making good progress towards full compliance with the various requirements of the regulation and expects clarity in the coming months on the level of capital requirement that will apply from 2016.

Taxation

The tax charge reported in the Consolidated Income Statement is £69.1 million (2013: £83.3 million), which equates to 19.7% (2013: 22.5%) of profit before tax. The lower effective rate of taxation compared to 2013 predominantly results from reductions in the rate of UK corporation tax in 2013 and 2014, but is also impacted by deferred tax movements relating to losses in the Group's US businesses. The average rate of UK corporation tax in 2014 was 21.50% (2013: 23.25%). The average rate will fall to 20.25% in 2015 and 20.00% in 2016.

Quick questions

What is your most memorable Admiral moment?

They mainly involve singing… either with the band at the floor 22 Christmas party in 2011, or in front of 5,000 Germans at the Oktoberfest in Munich.

The Group's results are presented in three segments – UK Car Insurance, International Car Insurance and Price Comparison. Other Group Items are summarised in a fourth section.

UK Car Insurance remains a key part of the business

UK Insurance strategy

The strategy for Admiral's UK business is unchanged and remains simple:

- The Group aims to grow profitably its share of the UK private motor insurance market whilst maintaining a capital-efficient structure.
- At the same time, Admiral endeavours always to give excellent service to customers, whilst providing a positive environment in which staff can work and develop.

David Stevens
Chief Operating Officer

> "After over two years of almost unprecedented premium deflation, premiums across the car insurance market stabilised in the second half of 2014, and even began to drift up."

Quick questions

TV or radio – Radio
Home or abroad – Abroad
Trainers or shoes – Shoes
Tea or coffee – Tea
Bus or walk – Bus
Call or text – Call
Chips or mash – Mash

The avid readers (or possibly reader) of my UK review will have noted its subtle rebranding from UK Car Insurance Review to UK Insurance Review – a nod to Admiral's entry into the second biggest non-life market in the UK – household insurance.

Maybe the rebranding's premature. Car insurance still accounts for the vast majority of our turnover and almost all our profits. So I'll write about that first.

After over two years of almost unprecedented premium deflation, premiums across the car insurance market stabilised in the second half of 2014, and even began to drift up. This is partly simply a normal, cyclical point of inflection, and partly a response to the return to 'business as usual' in terms of claims inflation, following the largely one-off benefits in 2013 of changes in the rules around small bodily injury claims. This probably means that the point of lowest profitability was around the end of 2014 (in terms of ultimate profitability of newly written business, though not necessarily in terms of currently reported profitability).

Within an overall cycle there are often mini-cycles that make subsets of the market relatively more or less attractive. A combination of factors has made the younger driver segment more challenging than the market as a whole at this particular juncture. This has partly been an equal and opposite reaction to the panic premium hikes and withdrawals of 2010/11, with a number of important competitors re-embracing the segment in 2013/14. It's also partly a dislocation caused by the impact of telematics. Telematics, though largely irrelevant for the market as a whole, is important in the younger driver segment. Whatever the potential in the long run, in the short term, because of the extra expenses involved and the size of the discounts required to overcome customer resistance, it has reduced the profitability of the young driver segment. This segment is, and is likely to remain, a significant minority of our business, but its importance to us shrank somewhat during 2014 through relatively higher price increases, as we responded to these pressures.

Across all segments, we started increasing our new business prices in May and renewal prices in July, and by year end had implemented a series of price increases cumulatively, in percentage terms, in the high single digits. We anticipate further price increases during 2015, reversing some of the margin reduction of the last two to three years. However, longer term followers of our Company will appreciate that price increases today are a case of 'jam tomorrow' in profit terms – any year's actual profitability is essentially reflected in reported profitability over the following two to three years, due to our cautious approach to recognising underwriting profit. Still, it's good to be heading in the right direction.

Achievements and goals

UK Insurance achievements in 2014

- Profit before tax increased 1% to £398 million (2013: £394 million).
- Combined ratio remained broadly flat in 2014 at 80% (2013: 81%).
- Profit generated from the portfolio of insurance products that complement the core car insurance product of £182 million (2013: £173 million).
- Strong growth in Household with a break-even result.
- 95% of customers who have submitted a claim would renew with Admiral, based on their claims experience (2013: 91%).
- 94% of staff say that Admiral is a friendly place to work according to the Best Workplaces survey.
- 2nd Best Big Company to Work For, The Sunday Times 100 Best Companies to Work For.
- 2nd Best Large Workplace in the UK, Great Place to Work Institute.
- Best Car Insurance Provider in the Personal Finance Awards for the second year in a row.
- Britain's Most Admired Company in the Life Assurance and Insurance sector.
- FTSE Female Pipeline Award. This award recognises Admiral for the success of women in its workplace.

UK Insurance goals for 2015

- Appropriate rate increases in response to claims trends and market conditions.
- Continued reserve releases if back years develop as expected.
- Successful transition to new IT system (Guidewire).

And what about our Household business?

Two years on and we insure more households than we did cars two years from our launch as a motor insurer, and we're growing fast as more and more people embrace price comparison shopping for household cover. Results are encouraging. Our strategic bet is that we can materially undercut the 40%+ expense ratios of many of the established players, while also delivering a decent loss ratio outcome. Our expense ratio, on a written basis, is already actually below market average and our loss ratio is also encouraging. We have, of course, (and here's a hostage to fortune, given the time lag from written to read) benefited, along with other players, from unusually benign weather, notwithstanding increasing tabloid 'weather bomb' hysteria. So, it's 'so far, so good', but it is early days.

David Stevens
Chief Operating Officer
4 March 2015

Service with a smile

The customer is the centre of everything we do, and our most important stakeholder. I feel a sense of pride in the work I do, by ensuring I do my utmost to leave each customer I speak to with a smile on their face.

Read more about our people on page 15

UK Car Insurance financial review
Non-GAAP[*1] format income statement

	2012 £m	2013 £m	2014 £m
Turnover[*2]	1,936.2	1,698.9	**1,602.7**
Total premiums written[*3]	1,748.7	1,553.0	**1,453.1**
Net insurance premium revenue	455.6	425.1	**394.3**
Investment income	13.9	12.4	**11.5**
Net insurance claims	(355.1)	(251.3)	**(198.3)**
Net insurance expenses	(50.0)	(52.1)	**(44.6)**
Underwriting profit	64.4	134.1	**162.9**
Profit commission	108.4	99.3	**71.8**
Underwriting profit plus profit commission	172.8	233.4	**234.7**
Net other income	170.9	136.8	**140.7**
Instalment income	29.1	23.7	**22.6**
UK Car Insurance profit before tax[*4]	372.8	393.9	**398.0**

*1 GAAP – Generally Accepted Accounting Practice

*2 Turnover (a non-GAAP measure) comprises total premiums written and Other Revenue. Refer to note 12 for a reconciliation to financial statement line items

*3 Total premiums written (non-GAAP) includes premium underwritten by co-insurers

*4 UK Car Insurance profit before tax includes Minority Interests. The Minority Interests' share of profit before tax is insignificant

Split of underwriting profit

	2012 £m	2013 £m	2014 £m
Motor	59.6	121.8	**144.2**
Additional products	4.8	12.3	**18.7**
Underwriting profit	64.4	134.1	**162.9**

Key performance indicators

	2012	2013	2014
Reported motor loss ratio[*1]	76.4%	68.0%	**68.6%**
Reported motor expense ratio[*2]	13.6%	15.0%	**14.4%**
Reported motor combined ratio	90.0%	83.0%	**83.0%**
Written basis motor expense ratio	13.0%	14.5%	**16.0%**
Reported total combined ratio[*3]	89.1%	81.0%	**79.5%**
Claims reserve releases – original net share[*4]	£16.3m	£53.3m	**£66.8m**
Claims reserve releases – commuted reinsurance[*5]	£1.3m	£40.9m	**£70.6m**
Total claims reserve releases	£17.6m	£94.2m	**£137.4m**
Vehicles insured at year end	3.02m	3.02m	**3.15m**
Other Revenue per vehicle	£79	£67	**£67**

*1 Motor loss ratio adjusted to exclude impact of reserve releases on commuted reinsurance contracts. Reconciliation in note 12b

*2 Motor expense ratio is calculated by including claims handling expenses that are reported within claims costs in the income statement. Reconciliation in note 12c

*3 Reported total combined ratio includes additional products underwritten by Admiral

*4 Original net share shows reserve releases on the proportion of the portfolio that Admiral wrote on a net basis at the start of the underwriting year in question

*5 Commuted reinsurance shows releases on the proportion of the account that was originally ceded under quota share reinsurance contracts but has since been commuted and hence reported through underwriting and not profit commission

"Profit from UK Car Insurance increased 1% to £398.0 million (2013: £393.9 million). Profit from underwriting and profit commission increased marginally to £234.7 million (2013: £233.4 million), resulting from an improved combined ratio."

UK Car Insurance – co-insurance and reinsurance

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

The two principal advantages of the arrangements are:

- Capital efficiency: a significant proportion of the capital supporting the underwriting is held outside the Group. As Admiral is typically able to retain much of the profit generated via profit commission (refer below for further details), the return on Group capital is higher than in an insurance company with a standard business model.
- Risk mitigation: co- and reinsurers bear their proportional shares of claims expenses and hence provide protection should results worsen substantially.

Arrangements for 2014 to 2016

In early 2014 the Group was pleased to announce extensions to its arrangements such that capacity is fully placed until the end of 2016. The underwriting splits can be summarised as follows:

	2014	2015	2016
Admiral	25.00%	25.00%	25.00%
Great Lakes (Munich Re)	40.00%	40.00%	40.00%
New Re	13.25%	12.25%	12.25%
Swiss Re	9.00%	9.00%	9.00%
Hannover Re	8.75%	8.75%	8.75%
Mapfre Re	4.00%	5.00%	5.00%
Total	**100.00%**	**100.00%**	**100.00%**

The proportion underwritten by Great Lakes (a UK subsidiary of Munich Re) is on a co-insurance basis, such that 40% of all motor premium and claims for the 2014 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.

Great Lakes will underwrite 40% of the UK business until at least the end of 2018.

All other agreements are quota share reinsurance.

Admiral has options to commute quota share reinsurance contracts and typically does so after two or three years of an underwriting year's development when there is a reasonably certain view on the year's outcome. There is little or no impact of commutation on profit or the timing of profit recognition.

After commutation, movements in booked loss ratios result in reduced or increased net claims costs (and not profit commission).

At 31 December 2014, all material UK quota share reinsurance contracts for underwriting years up to and including 2012 have been commuted. All reinsurance for the 2013 and 2014 years remained in effect.

Co-insurance and reinsurance arrangements expose Admiral to two principal risks:

- The risk of reduced availability of co-insurance and reinsurance arrangements.
- Credit risk of significant counterparties through default of a reinsurer.

Details of the potential impact and mitigating factors the Group has in place are available on pages 36 to 38.

The European and US arrangements are explained in the International Car Insurance section and the UK Household arrangements are explained in the Other Group Items section.

UK Car Insurance financial performance

2014 was the third successive year of premium reductions in the UK Car Insurance market. Admiral's response has been to prioritise margin protection rather than attempting to grow market share materially. As a consequence, although strong renewal retention figures led to a 4% increase in vehicles insured, turnover fell to £1.6 billion from £1.7 billion. In the latter part of 2014, some evidence emerged of prices in the market increasing, though not yet in a material way.

Profit

Profit from UK Car Insurance increased 1% to £398.0 million (2013: £393.9 million). Profit from underwriting and profit commission increased marginally to £234.7 million (2013: £233.4 million), resulting from an improved combined ratio offsetting a reduction in net insurance premium revenue. The combined ratio improvement was largely due to higher reserve releases that resulted from positive claims development, in particular from the 2011, 2012 and 2013 years. Net other income and instalment income increased by 2% to £163.3 million (2013: £160.5 million).

Turnover and premiums

UK turnover of £1,602.7 million decreased by 6% (2013: £1,698.9 million) primarily due to reductions in average premiums which also led to a 6% reduction in total premiums written to £1,453.1 million (2013: £1,553.0 million). The closing vehicle count increased to 3.15 million (2013: 3.02 million). Average written premium for the year was around £453 down 10% on 2013 (2013: £505), largely a result of rate cuts made in 2013 along with portfolio mix changes (notably a shift in the balance of the portfolio towards renewal business).

Underwriting result and profit commission

The UK Car Insurance motor combined ratio remained stable in 2014 as follows:

UK Car Insurance Motor combined ratio	2013	2014
Loss ratio excluding reserve releases from original net share and commuted reinsurance	81.2%	**86.9%**
Reserve releases – original net share	13.2%	**18.3%**
Loss ratio net of releases – original net share[*1]	68.0%	**68.6%**
Expense ratio	15.0%	**14.4%**
Combined ratio – original net share[*1]	83.0%	**83.0%**

[*1] Ratios calculated on original net share uses the proportion of the portfolio that Admiral wrote on a net basis at the start of the underwriting year in question

The reported motor combined ratio remained stable at 83.0% (2013: 83.0%) (both figures exclude the impact of reserve releases from commuted reinsurance contracts). This reflects a marginally increased reported loss ratio of 68.6% (2013: 68.0%), which was due to the impact of falling premiums offset by higher reserve releases (£66.8 million vs. £53.3 million).

These higher releases were possible due to positive claims development during 2014 that resulted in improvements in the projected ultimate loss ratios, especially for the 2011 to 2013 underwriting years.

Excluding reserve releases, the loss ratio increased to 86.9% (2013: 81.2%), largely due to the impact of falling premiums.

> “The reported motor combined ratio remained stable at 83.0% (2013: 83.0%).”

Claims reserving

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

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

The earned motor expense ratio decreased to 14.4% from 15.0% due to the current year benefiting from a one-off adjustment to levy costs as a result of a change in accounting standards. Excluding the adjustment the earned motor expense ratio would have increased to 16.3%, the increase being due to lower average premiums (which also led to an increase in the written basis expense ratio to around 16% from 15%).

The projected ultimate loss ratio for Admiral for the 2014 accident year is 82% (2013 accident year: 68%). The increase between years is due to a combination of lower average premiums and increases in average claims costs.

The projected ultimate combined ratio (ultimate loss ratio plus written expense ratio) for Admiral for the 2014 accident year is 97%, compared to 85% for 2013, resulting from the increased loss ratio. The reported combined ratio for the whole UK market (excluding Admiral) for 2013, excluding reserve releases, was 108%.

Helping drive my career!

Each department in Admiral has their own training teams. The customer service team have recently launched a new training plan with programmes designed to help staff develop in their own roles, as well as climb up the ladder.

Read more about our people on page 15

Profit commission

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

In 2014 Admiral recognised profit commission revenue of £71.8 million (2013: £99.3 million) and reserve releases from business that was originally ceded under quota share reinsurance contracts that have since been commuted of £70.6 million (2013: £40.9 million). Total income from both of the above therefore increased marginally to £142.4 million (2013: £140.2 million) due to improvements in prior year claims costs. Note 5c to the financial statements analyses profit commission income by underwriting year.

When a quota share reinsurance contract is commuted (typically after two or three years from the start of an underwriting year), further improvement or deterioration in claims costs are reported within net claims. If the contracts were not commuted, the movement would be reported in profit commission.

Total profit (excluding investment income) from car insurance underwriting of £144.2 million and profit commission of £71.8 million decreased, by 2% to £216.0 million from £221.1 million in 2013.

Other Revenue

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

The most material contributors to net Other Revenue are:

- Profit earned from motor policy upgrade products underwritten by Admiral, including breakdown, car hire and personal injury covers.
- Profit from other insurance products, not underwritten by Admiral.
- Vehicle commission.
- Fees – administration fees and referral income.
- Instalment income – interest charged to customers paying for cover in instalments.

Other Revenue (net of costs and including contribution from additional products underwritten by Admiral) increased by 5% to £182.0 million (2013: £172.8 million). This was equivalent to £67 per vehicle (gross of costs) – consistent with 2013. Net Other Revenue (after deducting costs) per vehicle was £58 (2013: £57).

UK Car Insurance Other Revenue – analysis of contribution:

	2012 £m	2013 £m	2014 £m
Contribution from additional products and fees	205.2	170.4	**177.8**
Contribution from additional products underwritten by Admiral*1	4.8	12.3	**18.7**
Instalment income	29.1	23.7	**22.6**
Other Revenue	239.1	206.4	**219.1**
Internal costs	(34.3)	(33.6)	**(37.1)**
Net Other Revenue	204.8	172.8	**182.0**
Other Revenue per vehicle*2	£79	£67	**£67**
Other Revenue per vehicle net of internal costs	£68	£57	**£58**

*1 Included in underwriting profit in income statement but re-allocated to Other Revenue for purpose of KPIs

*2 Other Revenue (before internal costs) divided by average active vehicles, rolling 12 month basis

Instalment income

Instalment income is interest charged to customers paying for their insurance in instalments. During 2014 Admiral earned £22.6 million from instalment income, down 5% on the prior period (2013: £23.7 million). Instalment charges are calculated as a percentage of premium and therefore a reduction in average premium leads to a reduction in instalment income.

Additional products underwritten by Admiral

There are a number of products that are core to providing car insurance to customers (including personal injury insurance, breakdown cover and car hire cover). Contribution from these products underwritten by Admiral during 2014 was £18.7 million and this is included in underwriting profit in the income statement, but reallocated to Other Revenue for the purpose of management key performance indicators.

Regulatory environment

The UK Car Insurance business operates predominantly under the regulation of the UK Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), and through a Gibraltar-based insurance company, under the Financial Services Commission (FSC) in that territory.

The FCA and PRA regulate the Group's UK registered subsidiaries including EUI Limited (an insurance intermediary) and Admiral Insurance Company Limited (AICL; an insurer), whilst the FSC regulates Admiral Insurance (Gibraltar) Limited (AIGL; also an insurer).

All three companies are required to maintain capital at levels prescribed by their regulator, and all three maintain surpluses above those required levels at all times.

FCA review into insurance add-on products

In September 2014, the FCA released the outcomes of its investigations into insurance 'add-ons', i.e. those insurance products that are sold alongside the core car insurance product, resulting in the introduction of a small number of reforms, including greater disclosures on these products. The impact of these reforms on Admiral's longer term profitability is not currently considered to be material.

Investing to build profitable, sustainable and growing businesses

International Car Insurance strategy

Admiral's strategy is to exploit the knowledge, skills and resources attached to the established UK businesses to promote expansion overseas in private car insurance. Admiral's objective is to create profitable, sustainable and growing businesses.

Admiral has four direct car insurance businesses operating outside the UK:

Spain

Admiral Seguros (Seville, Spain)
The most mature of the Group's international businesses, having traded since October 2006. The business trades via two brands: Balumba and Qualitas Auto

Cristina Nestares
CEO, Admiral Seguros

The Spanish market has continued with the same trends of the past few years: profitable but shrinking. In 2014, gross written premium decreased by a further 1.5%, a modest decrease compared to the previous years. The market combined ratio looks set to remain below 100% – it finished 2013 at 99% and we expect a similar result for 2014 with H1 finishing at 98%. This makes it below 100% for more than 10 years in succession.

During 2014 there were some modest positive signs in the economy including a 20% increase in car sales, a shift in the declining trend of fuel consumption and signs of an increase in claims frequency. This trend coupled with an expected change in Baremo (BI costs) may result in price increases in the market. The aggregator market grew by only 4%, despite the launch of a new aggregator, with Rastreator continuing to lead the market growth.

Despite the difficult economic conditions, Admiral Seguros enjoyed another year of growth. Turnover grew by 8% and policy count by 20%, finishing the year with 164,000 customers on our books. This growth is mainly due to the continued success of our second brand, Qualitas Auto, launched in 2013. In addition, we have continued working to improve the offering to our customers and at the end of the year we launched our motorbike insurance product and started testing a telematics product.

As Henry has mentioned, we hope that 2015 will be an important year for Admiral Seguros as our challenge is to break-even on an underwriting year basis. Given the small size of our book this is a challenging task!

Italy

ConTe (Rome, Italy)
Launched in May 2008, ConTe is the largest of the non-UK insurers within the Group

Milena Mondini
CEO, ConTe

The 2013 Italian insurance market reported a combined ratio of 88%! As a result, and not unsurprisingly, 2014 was characterised by strong price reductions and aggressive competition. With an average premium decrease of c.6%, almost stable claims cost and a modest frequency decrease (c.3%), the insurance cycle finally turned. The combined ratio increased and it is expected to increase further in 2015, also reflecting higher fuel consumption driven by fuel price reductions.

During 2014, whilst price comparison continued its unstoppable growth and the number of customers using their mobile phones to access insurance sites doubled, the voice of the major traditional groups was also very prominent, with innovative propositions and aggressive media investments.

Despite this competitive context, ConTe's policy base grew slightly (+2%) and with a lower acquisition cost. Whilst defending the top line has been a major challenge, ConTe has focused primarily on increasing the profitability of the existing book, optimising the cost structure, improving portfolio quality and continued investments in underwriting and anti-fraud processes and product innovation. We believe that we now have a much stronger foundation to scale up the business when the market conditions become more favourable.

Highlight of the year? An extremely positive development of the back years, leading ConTe to report a profit for the first time in its life!

Achievements

International Car Insurance achievements in 2014

- Admiral insured 592,600 customers across its Spanish, Italian, American and French operations (2013: 515,300).
- 3rd Best Multinational Place to Work in Europe, awarded by Great Place to Work.
- Admiral Seguros increased turnover by 8% and policy count by 20%.
- Admiral Seguros launched motorbike insurance.
- Admiral Seguros voted 8th Best Company to Work for in Spain, awarded by Great Place to Work.
- ConTe reported its first profit.
- ConTe voted 9th Best Company to Work for in Italy, awarded by Great Place to Work.
- Elephant Auto grew its customer base by more than 50%.
- Elephant Auto voted 4th Top Work Places 2014 (Medium), awarded by Richmond Times-Dispatch.
- L'olivier Assurances – conversion from out-sourced to in-sourced operation completed.

Goals

International Car Insurance goals for 2015

- Admiral Seguros targeting break-even on written basis.
- ConTe to leverage the expected cycle turn and grow customers and revenue.
- Elephant Auto to focus on continued growth and improving its combined ratio.
- L'olivier Assurances to grow customers and revenue.

USA

Elephant Auto (Virginia, US)
Launched in October 2009 and provides car insurance in four US states (Virginia, Maryland, Illinois and Texas) with a combined market size larger than the UK

Kevin Chidwick
CEO, Elephant Auto

France

L'olivier Assurances (Paris, France)
The Group's youngest (and smallest) international car insurance business, launched in December 2010

Pascal Gonzalvez
CEO, L'olivier Assurances

The US market is represented by 200 million vehicles and $180 billion of premium. It is the biggest car insurance market in the world and each year it moves a little bit more towards the direct distribution model that is so familiar to UK readers. Direct, which is what Elephant does, is about 25% of the market, but is estimated to be roughly 40% of new business. The US has a nascent online price comparison market and compare.com is a significant contributor to that emerging channel.

In terms of pricing, there is no excitement to report from the US. Collective data for 2014 is not available, but industry analysis would suggest that claims inflation continued its long term trend of benign but persistent increases and prices seem to have followed suit. So price inflation of around 3–5% was once again the direction in which the industry moved in, in the year.

2014 was a good year for Elephant. Our business grew its customer base by more than 50% in 2014 whilst once again delivering good acquisition economics in its core markets. The business also made a number of significant infrastructure improvements in the year and grew its renewal book substantially, both of which augur well for the future.

We continue to sell insurance in four states – Virginia, Maryland, Texas and Illinois. At some point we will look to expand beyond these states, but it is true to say that there is plenty of opportunity to grow within these existing four markets. Those states have 34 million vehicles in them – making them larger in aggregate than the UK market. With 109,000 customers at year end, Elephant still has plenty of market share left to go for.

In 2014, the French motor insurance market continued to grow modestly. After many years of improvement, the claims frequency pattern increased, especially for bodily injury. This increasing frequency together with higher claim costs and limited price increases led to a worsening market combined ratio.

For L'olivier Assurances, 2014 was a special year devoted to the full in-sourcing of its operations with controlled growth. We successfully completed the development of a modern infrastructure, with a new cutting-edge IT system and in-house operations, opening a new office in the north of France. With the right infrastructure and control of our own operations, we're convinced L'olivier Assurances now has all the levers to make the most of its competitive advantage going forward.

The main objective for 2015 is to gain market share. The new regulatory environment (from 1st January 2015) which reinforces rights for consumers should support this objective. Motorists can now switch insurance providers anytime after one year without penalty and that should make the motor insurance market more fluid. In this context, L'olivier Assurances is planning to invest more in its brand and grow faster in 2015.

International Car Insurance financial performance
Non-GAAP format income statement

	2012 £m	2013 £m	**2014 £m**
Turnover	162.9	187.8	**206.2**
Total premiums written	148.5	168.3	**185.4**
Net insurance premium revenue	43.3	54.1	**58.1**
Investment income	0.1	—	**0.2**
Net insurance claims	(49.4)	(49.1)	**(50.5)**
Net insurance expenses	(27.4)	(32.9)	**(34.0)**
Underwriting result	(33.4)	(27.9)	**(26.2)**
Net other income	8.9	5.8	**6.3**
Other Revenue and charges	—	—	**—**
International Car Insurance result	(24.5)	(22.1)	**(19.9)**

Key performance indicators

	2012	2013	**2014**
Adjusted loss ratio*1	114%	91%	**77%**
Adjusted expense ratio*1	54%	49%	**50%**
Adjusted combined ratio*2	168%	140%	**127%**
Adjusted Reported combined ratio, net of Other Revenue*3	147%	129%	**116%**
Vehicles insured at period end	436,000	515,300	**592,600**

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

*2 Adjusted combined ratio is calculated on Admiral's net share of premiums and excludes Other Revenue. It excludes the impact of reinsurer caps. Including the impact of reinsurer caps the reported combined ratio would be 2014: 145%; 2013: 152%; 2012: 177%

*3 Adjusted combined ratio, net of Other Revenue is calculated on Admiral's net share of premiums and includes Other Revenue. Including the impact of reinsurer caps the reported combined ratio, net of Other Revenue would be 2014: 134%; 2013: 141%; 2012: 157%

Geographical analysis

	Spain	Italy	France	USA	**Total**
2014					
Vehicles insured at period end	**164,400**	**285,100**	**34,200**	**108,900**	**592,600**
Turnover (£m)*1	**43.8**	**81.9**	**14.2**	**66.3**	**206.2**
2013					
Vehicles insured at period end	136,500	279,900	28,600	70,300	515,300
Turnover (£m)*1	40.6	93.4	13.0	40.8	187.8

*1 Turnover includes total premium written and income generated by the sale of additional products and services and fees

International Car Insurance co-insurance and reinsurance

As noted earlier, Admiral makes significant use of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either through co-insurance or quota share reinsurance contracts.

For the 2014 year Admiral retained 35% (Italy), 30% (France and Spain) and 33% (USA) of the underwriting risk respectively. The arrangements for 2015 will remain the same.

All contracts are subject to certain caps on the reinsurers' exposures and all contracts have profit commission terms that allow Admiral to receive a proportion of the profit earned on the underwriting once the business reaches cumulative profitability. The contracts include proportional sharing of Other Revenue.

International Car Insurance financial performance

Admiral's international insurance businesses (in aggregate and individually) continued to grow, adding over 77,000 customers and ending 2014 15% larger than a year earlier. Turnover grew by 10% to £206.2 million (2013: £187.8 million). Vehicles and turnover from these businesses represent 15% and 10% of the Group totals respectively, up from 14% and 9% in 2013.

Improved prior year claims development, especially in ConTe in Italy, led to an improvement in the adjusted combined ratio, which decreased from 140% to 127%. This improvement, in conjunction with higher net insurance premium revenue, led to a lower loss of £19.9 million in 2014, down from £22.1 million in 2013.

As noted, the lower combined ratio was a result of an improvement in the loss ratio to 77% (2013: 91%), whilst the expense ratio was broadly flat at 50% (2013: 49%). The expense ratio is high in comparison to Admiral's UK business because all of the international operations need to continue to grow to achieve economies of scale. In addition, there are market specific reasons why the expense ratios are higher, for example higher acquisition costs in the US.

As the Group's international insurance operations grow, it is expected that they will make losses until appropriate scale has been achieved. The Group is satisfied with the progress each business continues to make towards the goal of becoming a sustainable, growing, profitable operation.

Admiral Seguros (Spain) was launched in 2006 and is the oldest of Admiral's international operations. In 2013, Admiral Seguros launched a second brand (Qualitas Auto) to complement its original Balumba brand. The business insured 164,400 customers at the end of 2014, 20% more than a year earlier.

The Group's largest international operation is ConTe in Italy, which insured 285,100 vehicles at the end of 2014, up 2% year-on-year. ConTe was launched in 2008 and has benefited from a period of generally favourable market conditions, which has recently come to an end. ConTe enjoyed positive development of projected ultimate claims outcomes on its back years during 2014 and was able to record its first profit on the back of strong reserve releases. Despite the releases, the level of conservatism in the booked reserves at year end increased compared to the position at the end of 2013.

Admiral's youngest and smallest international insurance business is L'olivier Assurances, launched in 2010 in France. L'olivier Assurances insured 34,200 vehicles at the end of 2014, up almost 20% on the prior year. L'olivier Assurances was initially established with a different start-up model to Admiral's other operations, with certain functions outsourced to keep expenses low in the initial phases of development. During 2014 L'olivier Assurances has brought a number of these functions in-house and vehicle count growth was intentionally lower.

The consolidated result of Admiral's insurance operations in Spain, Italy and France was a loss of £10.4 million (2013: £11.7 million). The combined ratio*1 improved to 136% from 138% primarily due to improved claims experience.

In the US, Admiral operates in four states (Virginia, Maryland, Illinois and Texas) through its Elephant Auto business, which launched at the end of 2009. At the end of 2014 Elephant Auto insured almost 109,000 vehicles, up by 55% year-on-year. Elephant Auto's expense ratio is currently high as the business is spending significant amounts on advertising to develop the Elephant Auto brand and grow the portfolio. Elephant Auto's written combined ratio*1 improved from 152% in 2013 to 141% in 2014 primarily resulting from an improved expense ratio due to vehicle count growth.

*1 European combined ratio is calculated on the earned basis, and Elephant Auto combined ratio is calculated on the written basis due to market claims patterns. Both combined ratios are calculated on 100% of underwritten premium (including co- and reinsurers' share) and include the results from the sale of additional products and services and fees

Regulatory environment

Admiral's European insurance operations are generally subject to the same regulation as the UK Car Insurance business, details of which are summarised on page 27, but also comply with local requirements as appropriate.

The Group's US insurer, Elephant Insurance Company, is regulated by the Virginia State Corporation Commission's Bureau of Insurance. The Company is required to maintain capital at levels prescribed by the regulator and holds a surplus above these requirements at all times.

People who like what they do, do it better!

Admiral puts a lot of effort into making sure staff enjoy their job. Each month a different department is elected ministry of fun, and is responsible for coordinating competitions, and fun activities.

Read more about our people on page 15

Taking what we do well, overseas

Price Comparison strategy

Admiral's strategy is to develop websites that allow consumers to compare a range of general insurance and financial services products across price and policy benefits. The international strategy is to exploit the UK expertise in price comparison and export it overseas.

UK

Confused.com (Cardiff, UK)
The most mature of the Group's price comparison businesses, having traded since 2002 and one of the UK's leading price comparison websites.

Martin Coriat
CEO, Confused.com

Spain

Rastreator (Madrid, Spain)
Launched in March 2009, offers comparison on motor, home, motorcycle and life insurance, and now the leading price comparison site in Spain.

Elena Betes
CEO, Rastreator

The UK Car Insurance price comparison market is characterised by three aspects:

- It is one of, if not the, most mature in Europe, with almost 70% of new business sales in the market originating via price comparison. A consequence of this high level of adoption, together with a reduction of car insurance premiums in 2014 for the third year in a row, is that the price comparison market as a whole did not grow as much as in previous years.
- It remains a highly competitive market of four principal players, with persistently high levels of marketing spend.
- The market is also on the verge of commoditisation with less and less differentiation between the different players in customer minds.

Overall the context in which Confused operates has changed over the last 12 months and this makes the market more challenging for incumbents.

As a result of this highly competitive environment, Confused had a challenging year in 2014 and reported a reduced profit of £16 million. This reduction in profit is driven by the limited growth in the market and the impact of changes made by Google to its natural search algorithms impacting Confused's search engine optimisation (SEO) position early in the year, but also reflects our relative media spend and advertising effectiveness.

Beyond the comparison of car insurance, Confused.com continues to find success in other products such as the comparison of home and life insurance.

During the year the price comparison sector has come under further scrutiny from the Financial Conduct Authority (FCA) and the Competition and Market Authority (CMA). Both the CMA and the FCA released remedies that Confused welcomed, as their main focus is on the need to provide sufficient, clear and consistent product information to consumers.

Five and a half years after Rastreator´s launch, we maintain our leading position in Spain's rising price comparison world.

During 2014, we implemented our strategic goals, firstly developing not just the leading brand but also a preferred brand, and secondly becoming a portal that is recognised as a source of transparency on insurance, telephony, finance and energy costs, helping all users to simplify their lives.

Focusing on insurance, Rastreator´s panel now represents 85% of the Spanish market, the strongest panel in Spain. In 2014 we offered the first Spanish car insurance price index, Rastreator-Deloitte, which indicated that price reductions have slowed and that we may see increases during 2015. Our leadership puts us in the right place to benefit from this, as price increases will always produce an increase in customer shopping for car insurance.

During 2014 Rastreator agreed to acquire seguros.es, a broker competitor. Once the acquisition is completed in 2015, we believe this will allow us to increase market share and broaden our platform.

Our brand recognition of 91% has allowed us to successfully expand our comparison lines and all have grown substantially, as demonstrated by a 24% increase in our quotes.

Finally, Rastreator received awards for the Best Website of the Year and the Most Popular Website during the year.

Achievements

UK Price Comparison achievements in 2014

- Confused.com continued success in non-motor products such as comparison of home and life insurance.
- Brand development of Brian, the Confused.com robot.

International Price Comparison achievements in 2014

- Quote volumes: combined 6.6 million (2013: 5.1 million).
- Rastreator won Best Website of the Year in Spain, awarded by eAwards Barcelona 2014.
- Rastreator agreed to acquire seguros.es.
- LeLynx strengthened its leading position in the insurance price comparison market in France.
- Compare.com TV advertising launched in January 2014.
- Compare.com has more than 40 auto insurance companies, including eight of the top 20, under contract.
- Compare.com returned rates in 49 of the 51 US markets.

Goals

UK Price Comparison goals for 2015

- Leverage Confused.com's brand icon to build preference and loyalty and strengthen market position.
- Develop and promote new products and offers in order to have more diversified revenue sources.

International Price Comparison goals in 2015

- Rastreator – continued defence of market-leading position in car insurance comparison and further development of other comparison services.
- LeLynx – exploitation of the new Hamon law in France.
- Compare.com – continued lowering of acquisition cost while increasing the number of carriers and rates presented to consumers.

France

LeLynx (Paris, France)
Launched in January 2010 and offers comparison on a range of products: the leading price comparison site in France.

Diane Larramendy
CEO, LeLynx

In 2014, LeLynx strengthened its leading position in the insurance price comparison market in France. With solid incumbent competitors when we launched back in 2010, LeLynx is proud to have achieved this leadership in such a short time.

All players are now looking forward to the new Hamon law, which should bring flexibility to the insurance sector. This law, which was published at the very end of the year, will enable customers to switch insurers at any time after one year easily and without financial penalties.

LeLynx is now a well recognised brand with an experienced team, hence the business is very well positioned to make the most of the legislative changes.

USA

Compare.com (Virginia, USA)
Launched in March 2013 and offers comparison on motor insurance: the first European-style price comparison site in the US.

Andrew Rose
CEO, compare.com

The US market is clearly divided between those insurers that advertise and those that don't. With nearly $3 billion of the $6 billion insurance advertising dollars concentrated in the top four insurers, the remaining c.300 players look for ways to compete for a greater share of the third of consumers that shop for insurance annually. Comparison sites, like compare.com, provide them with an easy route to do that. With more than 40 auto insurance companies, including eight of the top 20, now under contract with compare.com, it makes it an attractive choice for consumers too.

In 2014, compare.com returned rates in 49 of the 51 US markets (sorry Alaska and Hawaii!), but we focused effort on California, Illinois, Texas and Virginia, where the number of potential rates returned to consumers was maximized. Compare.com accelerated its advertising, yielding more than a million rates to interested consumers.

In May 2014 insurance industry guru Brian Sullivan claimed that comparison sites were one of the biggest trends of the year. We think his prognostication was good, as compare.com was joined by an array of new entrants and re-energized existing players in the broader aggregator space.

We hope Brian will be proven right as consumers are ultimately undefeated in pursuit of simplicity and transparency – something compare.com delivers in spades.

As optimistic as our future may look, we caution that success is not guaranteed. Pitfalls remain on numerous sides. Will companies continue to join and then return rates for a money saving experience for consumers? Will consumers follow through and actually switch insurers? Will competitors join too quickly and depress the revenue per sale earned?

All that said, we remain positive and intend to continue to invest in what we believe will be a transformative force in the market.

Price Comparison financial performance

Non-GAAP format income statement

	2012 £m	2013 £m	**2014 £m**
Revenue			
Car insurance price comparison	82.5	87.2	**81.0**
Other	21.0	25.5	**26.5**
Total Revenue	103.5	112.7	**107.5**
Operating expenses	(85.5)	(92.3)	**(110.3)**
Operating profit/(loss)	18.0	20.4	**(2.8)**
Confused.com profit	18.2	21.7	**15.8**
International Price Comparison result*1	(0.2)	(1.3)	**(18.6)**
	18.0	20.4	**(2.8)**
Group share of operating profit/(loss)*2			
Confused.com profit	18.2	21.7	**15.8**
International Price Comparison result*1	(0.6)	(0.6)	**(12.2)**
	17.6	21.1	**3.6**

*1 Excludes pre-launch costs. 2012 figures include results of Chiarezza.it, which was sold in April 2012. The disposal did not have material impact on the income statement

*2 Represents the Group's share of Price Comparison profit/(loss) and excludes the impact of Minority Interests

"Revenue from non-car insurance comparison sources increased in actual terms and now represents over a quarter of total revenue."

UK Price Comparison – Confused.com

Confused.com produced a reduced result, with revenue 8% lower at £80.8 million (2013: £87.7 million) and profit down 27% to £15.8 million (2013: £21.7 million).

Revenue from non-car insurance comparison sources increased in actual terms and now represents over a quarter of total revenue. Confused.com's operating margin reduced to 20% (2013: 25%).

International Price Comparison

Following the sale of the Italian Price Comparison operation (Chiarezza.it) during H1 2012 and the launch in Q1 2013 of a new operation in the US, Admiral now operates three Price Comparison businesses outside the UK: in Spain (Rastreator), France (LeLynx) and the US (compare.com).

The combined revenue from the European operations in 2014 remained stable despite a weakening Euro at £25.3 million (2013: £25.0 million), with 20% more quotes provided. Both Rastreator and LeLynx have market-leading positions and strong brand recognition in their respective markets. The Group's share of the combined result for Rastreator and LeLynx was a record profit of £2.8 million (2013: £1.9 million) reflecting increased quote volumes and improved conversion rates. The acquisition of seguros.es by Rastreator will allow Rastreator to increase its market share, but it is not expected to have a material impact on the Group financial statements when completed in 2015. Admiral Group owns 75% of Rastreator, with the remaining 25% owned by Mapfre.

Following the launch in March 2013 of compare.com, a US comparison operation based in Virginia, the Group has continued to invest in the operation. During 2014 Admiral's share of compare.com's loss was £15 million before tax.

The combined result for International Price Comparison was therefore a loss of £12.2 million (2013: £0.6 million) – the profit from Rastreator and LeLynx offset by investment in compare.com.

Regulatory environment

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

The European operations are all structured as branches of UK companies, with the UK insurance intermediary permission passported into Europe.

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

OTHER GROUP ITEMS

"The UK household insurance business enjoyed another year of strong growth."

	2012 £m	2013 £m	2014 £m
UK Household Insurance result	—	(0.1)	**(0.1)**
UK Commercial Vehicle operating profit	2.5	2.5	**2.2**
Other interest and investment income	1.9	1.9	**3.7**
Share scheme charges	(20.6)	(22.5)	**(21.2)**
Business development costs	(2.1)	(0.3)	**(0.7)**
Other central overhead	(3.4)	(3.5)	**(3.9)**
Finance charges	—	—	**(4.6)**

UK Household Insurance

UK Household Insurance was launched in December 2012 under the Admiral brand. The product is underwritten within the Group and in common with other businesses it is supported by proportional reinsurance covering 70% of the risk (shared between Munich Re, 40%, and Swiss Re, 30%). The business enjoyed another year of strong growth in policy numbers and another broadly break-even financial result.

UK Commercial Vehicle

The Group operates a Commercial Vehicle insurance broker (Gladiator) offering van insurance and associated products, typically to small businesses. Distribution is via telephone and internet (including price comparison websites).

UK Commercial Vehicle operating profit in the year decreased to £2.2 million from £2.5 million, although customer numbers increased from 117,900 at the end of 2013 to 143,900 at the end of 2014.

Interest income

Interest income in 2014 was £3.7 million (2013: £1.9 million). The increase is materially due to the gilt holdings purchased with the proceeds of the debt issue.

Share scheme charges

These costs relate to the Group's two employee share schemes, further detail on which is set out in the notes to the financial statements. The decrease in the charge is due to a combination of a lower share price at the end of 2014 compared to 2013 offset by an increase in the number of awards across the Group resulting from headcount growth.

Other central overheads

Other central overheads include Group Directors' remuneration and other Group central costs.

Finance charges

Finance charges of £4.6 million (2013: £nil) represent interest on the £200 million subordinated notes (refer to note 6 to the financial statements for further details).

Celebrating excellent performance

We host a series of annual award ceremonies to reward and recognise our people, both for their own individual achievements and for the collective performance of their team, department or site.

Read more about our people on page 15

The table below sets out the principal risks Admiral has identified through its Enterprise Risk Management Framework (ERMF) as having the potential for a material adverse affect on Admiral's profitability and solvency. The report on Corporate Governance on pages 44 to 48 describes the ERMF in place throughout the Group.

RISK	IMPACT	MITIGATING FACTORS
Insurance risk		
Reserving risk in UK and International Car Insurance		
Admiral is exposed to reserving risk through its underwriting of motor and household insurance policies. Claims reserves in the financial statements may prove inadequate to cover the ultimate cost of earned claims which are by nature uncertain.	Adverse run-off leading to higher claims costs in the financial statements. Also, resultant loss of profit commission from proportional co-insurance and reinsurance arrangements.	Admiral has a conservative reserving policy and continues to hold a material margin in its financial statement claims reserves above actuarially determined best estimates. Best estimate reserves are estimated both internally and externally by an independent actuary. Many of the potential causes of claims shocks are outside the control of Admiral (for example legislative changes or changes in the Ogden discount rate) and the focus is, therefore, on how to prepare for and react to the occurrence of such events. Admiral holds a margin in booked reserves to cover significant legislative changes impacting earned claims. Furthermore, Admiral continues to hold an additional margin in its reserves in excess of the projected ultimate outcomes to cover other potential claim shocks. The Group continues to make material investments in staff and systems to work on the identification and prevention of claims fraud. For very large claims Admiral purchases excess of loss reinsurance, which mitigates the loss to the selected deductible amount.
Underwriting risk in UK and International Car Insurance		
The Group is exposed to the risk that claims costs on business written and earned in the future is higher than expected. This might arise due to very large or catastrophic man-made or natural individual or multiple claims.	Higher claims costs and loss ratios, reducing profitability or resulting in underwriting losses. Also, resultant loss of profit commission from proportional co-insurance and reinsurance arrangements.	There are a number of aspects which contribute to Admiral's strong UK underwriting results, including: › Experienced and focused senior management and teams in key business areas including pricing and claims management. › Highly data-driven and analytical approach to regular monitoring of claims and underwriting performance. › Capability to identify and resolve underperformance promptly through changes to key performance drivers, particularly pricing. › Continuous appraisal of and investment in staff, systems and processes. Admiral purchases excess of loss reinsurance, designed to mitigate the impact of very large individual or catastrophe event claims. The Group continues to work to establish similar capability and expertise in its newer UK and international businesses.
Reduced availability of co-insurance and reinsurance arrangements		
Admiral uses proportional co-insurance and reinsurance across its insurance businesses to reduce its own capital needs (and increase return on the capital it does hold) and to mitigate the cost and risk of establishing new operations. There is a risk that support will not be available in the future if the results and/or future prospects of either the UK business or (more realistically) one or more of the newer operations are not satisfactory for the co- and/or reinsurers.	A potential need to raise additional capital to support underwriting. This could be in the form of equity or debt. Return on equity might reduce compared to current levels.	Admiral mitigates the risk to its reinsurance arrangements by ensuring that it has a diverse range of financially secure partners. Admiral has enjoyed a long term relationship with one of the world's largest reinsurers, Munich Re, which has supported Admiral since 2000. Admiral also has relationships with a number of other reinsurers, including Amlin Re, Hannover Re, XL Re, Mapfre Re, New Re and Swiss Re. In the UK, reinsurance arrangements have been agreed until at least the end of 2016, reflecting confidence in the Admiral UK Car Insurance business. The long term co-insurance agreement with Munich Re (covering 40% of the UK Car Insurance business) will remain in place until at least the end of 2018. Long term arrangements are also in place for international and household businesses.

Strategic risk

Erosion of competitive advantage in UK Car Insurance

RISK	IMPACT	MITIGATING FACTORS
Admiral typically maintains a significant combined ratio advantage over the UK market. This advantage and/or the level of underwriting profit (and associated profit commission) could be eroded. This risk could be exacerbated by irrational competitors.	A worse UK Car Insurance result and lower return on equity. A sustained and uncorrected erosion of competitive advantage could affect the ability of Admiral to extend its reinsurance arrangements, which might in turn require Admiral to hold more capital.	Admiral's focus remains on the wide range of factors that contribute to Admiral's combined ratio outperformance of the UK market. Some are set out on page 36, but in addition: › Track record of innovation and ability to react quickly to market conditions and developments. › Keen focus on maintaining a low-cost infrastructure and efficient acquisition costs.

Failure of geographic and/or product expansion

RISK	IMPACT	MITIGATING FACTORS
Admiral continues to develop and support the UK household and overseas operations. One or more of the operations could fail to become a sustainable, profitable long term business.	Higher than planned losses (and potentially closure costs) and distraction of key management. A collective failure of these businesses would threaten Admiral's objective to diversify its earnings by expanding into new markets and products.	Admiral's approach to expansion remains conservative, applying the 'test and learn' philosophy that has proven successful for previous operations. International insurance businesses have executed cautious launch strategies and are all backed by proportional reinsurance support which provides substantial mitigation against start-up losses in the early years. New price comparison businesses have aligned their marketing investment with the extent of improvement in key performance indicators such as average cost per quote and conversion ratio. The Group also accepts partial disposals of equity to share start-up losses with partners. The Directors are mindful of management stretch and regularly assess the suitability of the management structure in place for Admiral's new UK and international operations. The new UK Household Insurance business is backed by proportional reinsurance support which provides mitigation against start-up losses and excess of loss reinsurance which mitigates potential losses from catastrophe events.

Group risk

Potential diminution of Other Revenue

RISK	IMPACT	MITIGATING FACTORS
Admiral earns Other Revenue from a portfolio of products and other sources. The level of this revenue could diminish due to regulatory or legal changes, customer behaviour or market forces.	Lower profits from insurance operations and lower return on equity.	Admiral continuously assesses the value to its customers of the products it offers, and makes changes to ensure the products continue to meet customer needs and offer good value. Admiral seeks to minimise reliance on any single source by earning revenue from a range of products. This mitigates the impact of a regulatory change which might affect a particular product or income stream.

Competition in UK Price Comparison

RISK	IMPACT	MITIGATING FACTORS
Admiral is dependent on the four main UK price comparison websites as an important source of new business and growth. Growth in this distribution channel could slow, cease or reverse, or Admiral could lose one or more of the websites as a source of customers.	A potentially material reduction in UK Car Insurance new business volumes. The impact on Confused.com of higher levels of competition in the price comparison market, either through the aggressive activities of existing players or the entry of significant new participants, would be to lower profits. However, a more competitive market might benefit the UK Car Insurance business through lower acquisition costs.	Admiral's ownership of Confused.com (one of the leading UK price comparison websites which operates independently of the UK Car Insurance business) helps to mitigate the risk of over-reliance on this distribution channel. Admiral also contributes materially to the revenues of other price comparison businesses and therefore it is not considered probable that a material source of new business would be lost. The management of Confused.com maintain a very keen awareness of the risks of continued competition.

Credit risk

Credit risk of significant counterparties

RISK	IMPACT	MITIGATING FACTORS
Admiral is primarily exposed to credit risk in the form of a) default of reinsurer and b) failure of banking or investment counterparty.	Additional capital may need to be raised as a result of a major credit event, dependent on its nature and severity. Admiral would also need to ensure that it had sufficient liquid assets to meet its claims and other liabilities as they fell due.	Admiral only conducts business with reinsurers of appropriate financial strength. In addition, most reinsurance contracts are operated on a funds withheld basis, which substantially reduces credit risk, as Admiral holds the cash received as collateral. With respect to investment counterparties, there are no specific concentrations of credit risk due to the structure of the liquidity funds which invest in a wide range of short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. Some long term investments are held in Government bonds to further mitigate the exposure to credit risk. Admiral considers counterparty exposure frequently and in significant detail, and has in place appropriate triggers and limits, to mitigate exposure to individual investment counterparties.

Conduct risk

RISK	IMPACT	MITIGATING FACTORS
Failure of products, processes or service to meet customer and regulator expectations and failure to address customer complaints promptly or appropriately. Further detail on how Admiral interacts with its customers is set out on page 12 and in the Corporate Social Responsibility (CSR) Report available online.	Potential customer detriment and/or potential regulatory censure/ enforcement and/or reputational damage as a result of Admiral's action.	Admiral operates the three lines of defence model for overseeing its products, processes and service. At each stage of the customer journey customer outcomes are monitored, managed and reported in order to mitigate customer detriment.

Operational risk

People risk

RISK	IMPACT	MITIGATING FACTORS
Failure to recruit, develop and retain suitable talent. Further detail on how Admiral interacts with its employees is set out on page 13 and in the CSR Report available online. In addition, the risk of project failure. More specifically, projects relating to system upgrades and Solvency II.	Unable to successfully carry out Admiral Group strategy and achieve goals. Failure of projects would most likely result in additional costs for the Group.	Strong Company culture underpinned by communication, equality, reward, recognition and fun. › Objectives and personal development plans. › Understanding gained through staff surveys and team meetings. › Succession and graduate plans. › Sponsorship programme designed to give staff benefits and develop pride in brand(s). › Employee share ownership scheme.

IT risk

RISK	IMPACT	MITIGATING FACTORS
Failure to invest in, and successfully implement, appropriate technology (particularly Guidewire implementation in the UK) to support the Group's future business development, mitigated by regular review of the effectiveness of the Group's IT capability by Executive management and the Board. In addition, the emerging risk relating to IT security and cyber risk are areas of growing focus for the Group.	Unable to support the required growth and development essential for future business success, maintaining competitor advantage and developing the Group's business model.	› Regular review of the effectiveness of the Group's IT capability by Executive management and the Board. › Strong governance and oversight of major systems developments.

Regulatory risk

RISK	IMPACT	MITIGATING FACTORS
Failure to comply with regulatory requirements and/or changes. In particular, the risk of non-compliance with Solvency II requirements ahead of 1st January 2016.	Exposure to regulatory intervention and/or censure and/or enforcement action through fines and other tools available to the regulator.	Mitigated by regular review of the Group's compliance with current and proposed requirements and interaction with regulators by Executive management and the Board. Solvency II progress has primarily been mitigated through significant investment in resources for the Solvency II Project, with regular communication with both the Board and the regulators on progress against the agreed project plan.

This Strategic Report was approved by the Board of Directors and signed on its behalf by:

Henry Engelhardt
Chief Executive Officer
4 March 2015

Admiral serves a real social purpose

Our business is to protect people, as much as we can, from the adverse consequences of car accidents, or from damage to their home. In addition to providing protection for our customers, we aim to contribute positively to the wider communities in which we operate.

We centre our business on four of our significant stakeholders

These four stakeholders also drive the core focus of our corporate social responsibility strategy: our customers, our people, our community and our environment.

To read more about our corporate social responsibility strategy visit www.admiralgroup.co.uk

> "The Board remains committed to maintaining the highest standards of corporate governance."

Alastair Lyons, CBE
Chairman

Dear Shareholder,

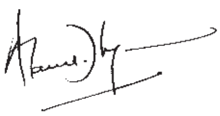
On behalf of the Board I am pleased to present the Corporate Governance Report for the financial year ended 31 December 2014. The Board remains committed to maintaining the highest standards of corporate governance. This Report sets out the Admiral framework of governance and the approach the Board has taken during 2014 to achieve the standards of good corporate governance for which it is accountable to the Group's shareholders.

We also confirm the Group's compliance, with the principles and provisions set out in the UK Corporate Governance Code (the Code), which was revised by the Financial Reporting Council in September 2012 and is applicable to the year under review. The Group is mindful that a new version of the Code was issued in September 2014 and applies to accounting periods beginning on or after 1 October 2014. The Group has considered the provisions contained in the revised Code and intends to report compliance against the revised code in the 2015 Annual Report.

We believe that having a sound corporate governance framework enables effective and efficient decision making and ensures that there is the right balance of skills and experience to assess and manage the risks in the markets in which the Group operates and inherent in the Group's activities. However, we also believe that good governance should be proportionate and that individual responsibility and accountability should not be lost within a multi-layered committee structure that distances senior management from the day-to-day reality of operational activity.

As the Group undertook in 2013 an external Board evaluation facilitated by an independent external consultant, the evaluation process this year consisted of each Board member completing a questionnaire detailing the extent to which the Board had achieved each of the recommendations identified in the 2013 external evaluation together with Board members identifying areas where further review was required to ensure that the Board continued to operate effectively. The results of the evaluation and areas for development are set out in more detail on page 46 of this report

This Corporate Governance Report is structured in order to demonstrate to shareholders that the Board has complied during 2014 in all respects with each section of the Code – Leadership; Effectiveness; Accountability; and Relations with Shareholders. Remuneration is dealt with in the separate Directors' Remuneration Report.



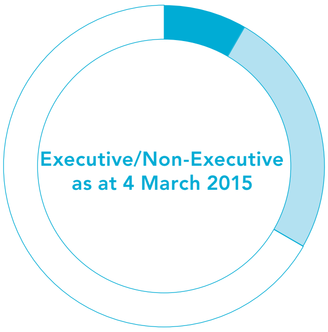
Alastair Lyons, CBE
Chairman
4 March 2015

ADMIRAL'S GOVERNANCE FRAMEWORK

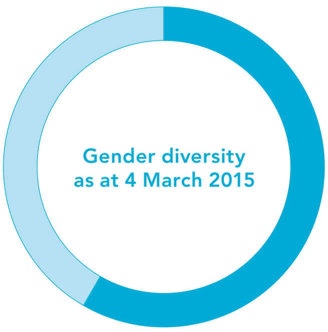
> "We believe that having a sound corporate governance framework enables effective and efficient decision making and ensures that there is the right balance of skills and experience to assess and manage the risks in the markets in which the Group operates and inherent in the Group's activities.
>
> However, we also believe that good governance should be proportionate and that individual responsibility and accountability should not be lost within a multi-layered committee structure that distances senior management from the day to day reality of operational activity."

Alastair Lyons, CBE
Chairman

Board composition



Chairman (1)	8%
Executive (3)	25%
Non-Executive (8)	67%



Male (7)	58%
Female (5)	42%

Read more about gender diversity within the Company on page 73

Corporate structure

The Board of Directors

Board Committees

Remuneration Committee

Membership at 31 December 2014:

- Annette Court (Chair)
- Margaret Johnson
- Roger Abravanel[*1]
- Jean Park

Meetings during 2014:
8

Read more on pages 58 to 72

Audit Committee

Membership at 31 December 2014[*2]:

- Colin Holmes (Chair)
- Margaret Johnson
- Annette Court

Meetings during 2014:
6

Read more on pages 49 to 52

Nomination Committee

Membership at 31 December 2014:

- Alastair Lyons (Chair)
- Lucy Kellaway
- Colin Holmes

Meetings during 2014:
1

Read more on pages 56 to 57

Group Risk Committee

Membership at 31 December 2014:

- Jean Park (Chair)
- Annette Court
- Lucy Kellaway
- David Stevens

Meetings during 2014:
5

Read more on pages 53 to 55

[*1] Roger Abravanel will not be seeking re-election at Admiral Group plc's forthcoming Annual General Meeting on 29 April 2015 and will be stepping down as a Non-Executive Director of Admiral Group plc effective from that date

[*2] Penny James was appointed to the Board on 1 January 2015 and joined the Audit Committee with effect from that date

* NC

Alastair Lyons, CBE (61)

Non-Executive Chairman, appointed in July 2000

- Non-Executive Chairman of the Towergate Insurance Group
- Non-Executive Chairman of Serco Group plc
- Group Deputy Chairman of Bovis Homes Group plc

In his executive career Alastair has been Chief Executive Officer (CEO) of the National Provident Institution and of the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc and Director of Corporate Projects at National Westminster Bank plc. He has also been a Non-Executive Director of both the Department for Transport (DfT) and the Department for Work and Pensions (DWP), as well as of its predecessor, the Department of Health and Social Security (DHSS).

A Fellow of the Institute of Chartered Accountants, he was awarded a CBE in the 2001 Birthday Honours for services to social security.

Henry Engelhardt, CBE (57)

Chief Executive Officer, appointed in October 1999

- Trustee of the Wales Millennium Centre (WMC)
- Trustee of the Moondance Foundation

Henry is a founder Director of Admiral and was recruited by the Brockbank Group in 1991 to set up the Admiral business. Henry has an MBA from INSEAD, a BA from the University of Michigan and was awarded an honorary CBE in 2008 for services to business in Wales.

Geraint Jones (38)

Chief Financial Officer, appointed in August 2014

Geraint is responsible for finance, actuarial, compliance and investments. He joined Admiral in 2002 and has since held a number of senior finance positions, including Head of Finance, before being promoted to Deputy Chief Financial Officer in January 2012. A Fellow of the Institute of Chartered Accountants in England and Wales, Geraint has also worked as an external auditor at Ernst & Young and KPMG.

GRC

RC

David Stevens, CBE (53)

Chief Operating Officer, appointed in October 1999

- Trustee of the Waterloo Foundation

David is a founder Director of Admiral and was recruited in 1991 to set up the Admiral business. Prior to joining Admiral David worked at McKinsey & Co, in the Financial Interest Group, and Cadbury Schweppes in the UK and the US. David has an MBA from INSEAD and he was awarded a CBE in 2010 for services to business and the community in Wales.

Roger Abravanel* (68)

Non-Executive Director, appointed in March 2012

- Non-Executive Director serving on, amongst others, the Boards of: Teva Pharmaceutical Industries Ltd, Banca Nazionale del Lavoro S.p.A. and COFIDE S.p.A.
- Board member of the Italian Institute of Technology
- Chairman of the INSEAD Advisory Group in Italy

Roger has significant international consulting experience having been with McKinsey and Co. from 1972 until his retirement, as Director Emeritus, in 2006. Roger holds an MBA from INSEAD. Roger has authored several books and currently writes for an Italian daily newspaper.

* Roger Abravanel will not be seeking re-election at Admiral Group plc's forthcoming Annual General Meeting on 29 April 2015 and will be stepping down as a Non-Executive Director of Admiral Group plc effective from that date.

Manfred Aldag (64)

Non-Executive Director, appointed in March 2003

- Chief Executive Manager of Munich Re, responsible for UK, Ireland, Netherlands, Nordics, Baltics and Russia

Manfred graduated from University of Essen with a degree in economics and business management. Since 1981, Manfred has been working for Munich Re.

* RC
AC
GRC

Annette Court (52)

Non-Executive Director, appointed in March 2012

- Non-Executive Director of Jardine Lloyd Thompson Group plc
- Non-Executive Director of Foxtons plc
- Non-Executive Director of Workshare

Between 2007 and 2010 Annette was CEO of Europe General Insurance for Zurich Financial Services and a member of the Group Executive Committee. Annette is former CEO of the Direct Line Group (formerly known as RBS Insurance). In this role Annette was also a member of the RBS Group Executive Management Committee. Annette has previously served as a member on the Board of the Association of British Insurers (ABI).

SID
* AC
NC

Colin Holmes (49)

Non-Executive Director, appointed in December 2010

- Chairman of GO Outdoors Ltd

Colin was formerly a member of the Executive Committee of Tesco plc and during his 22 year career at Tesco held a wide range of positions, including UK Finance Director and CEO of Tesco Express. Previously, Colin was a Non-Executive Director of Bovis Homes Group plc, where he chaired the Remuneration Committee. Colin is a Chartered Management Accountant and a member of the Institute's Advisory Panel.

AC

Penny James (45)

Non-Executive Director, appointed in January 2015

- Director of Group Finance at Prudential plc

Between 2007 and 2011 Penny was Group Chief Financial Officer of Omega Insurance Holdings. Prior to this, Penny spent 12 years with Zurich Financial Services where she held a number of senior finance roles including Chief Financial Officer of the UK General Insurance division and a Director of Eagle Star Insurance. Penny is a Member of the Institute of Chartered Accountants in England and Wales.

AC
RC

Margaret Johnson, OBE (56)

Non-Executive Director, appointed in September 2006

- Group Chief Executive Officer of Leagas Delaney

Margaret has worked for the international advertising agency Leagas Delaney for the past 16 years. Margaret was awarded an OBE in 2013 in recognition of her services to the creative industries and her voluntary work for charities.

GRC
NC

Lucy Kellaway (55)

Non-Executive Director, appointed in September 2006

- Lucy is a management columnist on the Financial Times

In her 21 years at the Financial Times Lucy has been an oil correspondent, a Lex columnist and Brussels correspondent. Lucy has authored various books.

* GRC
RC

Jean Park (60)

Non-Executive Director, appointed in January 2014

- Non-Executive Director of Murray Income Trust plc
- Non-Executive Director of the National House Building Council

Jean was Group Chief Risk Officer at the Phoenix Group from 2009 until June 2013, during which time she held responsibility for the Group's relationship with the regulator and founded the Board Risk Committee. Previously, she was Risk Management Director of the Insurance and Investments division of Lloyds TSB and, before that, Head of Compliance and Audit at Scottish Widows. Jean is a Member of the Institute of Chartered Accountants of Scotland.

Committee key

RC Remuneration Committee member
AC Audit Committee member
NC Nomination Committee member
GRC Group Risk Committee member
* Committee Chairman
SID Senior Independent Director

Leadership

The role of the Board

The Board is the principal decision-making forum for the Group providing entrepreneurial leadership, both directly and through its Committees, and delegating authority to the Executive team. The Board is responsible for organising and directing the affairs of the Group in a manner that is most likely to promote its success for the benefit of its members as a whole. The Board is accountable to shareholders for setting and achieving the Group's strategic objectives; for the creation and delivery of strong sustainable financial and operational performance; for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met; and for ensuring that it operates within appropriately established risk parameters. The Group's UK regulated entities are responsible to the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) for ensuring compliance with the Group's UK regulatory obligations and that dealings with the FCA and PRA are handled in a constructive, co-operative and transparent manner. Similar provisions apply in respect of the Group's international businesses with regard to the relevant regulatory authorities in those overseas jurisdictions in which the Group also operates.

The Board has adopted a formal schedule of matters reserved for the Board's consideration. This is monitored by the Company Secretary and reviewed by the Board on an annual basis. Specific matters reserved for the Board include the approval of:

- The Group's long term objectives and corporate strategy.
- Operating and capital budgets, financial results, and any significant changes to accounting practices or policies.
- The Group's capital structure.
- Results and financial reporting.
- The system of internal control and risk management.
- The Group's overall risk appetite.
- Changes to the structure, size and composition of the Board, including new appointments.
- Succession plans for the Board and senior management.
- Dividend policy and proposals for dividend payments.
- Major acquisitions, disposals and other transactions outside delegated limits.
- The annual review of its own performance and that of its Board Committees.
- Annual review of the Group's Board policies.
- The review of the Group's overall corporate governance arrangements.

Board activity during 2014

At each scheduled meeting the Board receives updates from the Chief Executive, Chief Operating Officer and Chief Financial Officer on the financial and operational performance of the Group and any specific developments in the areas of the business for which they are directly responsible and of which the Board should be aware. Items that are considered on an annual basis are included in an annual schedule of rolling agenda items to ensure that they are considered at the appropriate point in the financial and regulatory cycle. Meetings are structured so as to allow for consideration and debate of all matters. Mindful of the need to ensure effective Director succession through senior managers below Board level having exposure to and gaining experience of the operation of the Board, the heads of the Group's US, Italian and Spanish direct insurance businesses (respectively Kevin Chidwick, Milena Mondini and Cristina Nestares) are invited to attend every Board meeting and Board dinner, as was the Group's Deputy Chief Financial Officer, Geraint Jones, until his appointment as Chief Financial Officer in August 2014.

The Board met on seven occasions in 2014 with six of these meetings being held over two days. The Board also held an additional telephone meeting to consider and respond to the formal notification of the PRA's Individual Capital Guidance (ICG) with respect to the Group. Unfortunately, given prior commitments, Manfred Aldag and Roger Abravanel were unable to join this telephone meeting.

In addition to the regular consideration of financial and operating performance and risk management and compliance, the Board considered each of the Group's businesses in depth once during the year, receiving detailed presentations from the businesses' management teams on their strategy, plans and performance. The Board also considered specific presentations on a variety of topics associated with the Group's strategy and development

The Chairman seeks to visit each of the Group's overseas operations every year and Non-Executive Directors are invited to join either him or the Chief Executive on one or more of their overseas visits each year. In addition, the Non-Executive Directors and the Chairman met during the year without the Executive Directors being present. In order to increase their understanding of the operation of the Group below Board level, the Non-Executive Directors and the Chairman also attended a dinner with members of the Group's senior management team without the Executive Directors being present.

"The Board is accountable to shareholders for setting and achieving the Group's strategic objectives; for the creation and delivery of strong sustainable financial and operational performance; for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met; and for ensuring that it operates within appropriately established risk parameters."

Meetings and attendance

Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Group to perform their duties. Where Directors are unable to attend meetings they receive papers for that meeting giving them the opportunity to raise any issues with the Chairman in advance of the meeting. The number of scheduled Board meetings and Committee meetings of which they are a member attended by each Director during 2014 is provided in the table below.

	Scheduled Board meetings	Audit Committee meetings	Group Risk Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
Total meetings held	**7**	**6**	**5**	**1**	**8**
Alastair Lyons (Chairman)	7			1	
Henry Engelhardt (Chief Executive Officer)	7				
Kevin Chidwick (Chief Financial Officer)	5/5				
Geraint Jones (Chief Financial Officer)	2/2				
David Stevens (Chief Operating Officer)	7		5		
Roger Abravanel	6				6
Manfred Aldag	6				
Annette Court	7	6	5		5/5
Colin Holmes	7	6		1	
Martin Jackson	3/3		2/2		3/3
Margaret Johnson	7	6			8
Lucy Kellaway	7		3/3	1	
Jean Park	7		4/4		7
John Sussens	3/3		2/2		3/3

John Sussens and Martin Jackson stepped down from the Board with effect from 9 April 2014.

Jean Park joined the Group Risk Committee on appointment from 17 January 2014 and attended all Group Risk Committee meetings held after this time.

Lucy Kellaway joined the Group Risk Committee from April 2014 and attended all Group Risk Committee meetings after this time.

Annette Court took over as Chair of the Remuneration Committee from April 2014 and attended all Remuneration Committee meetings held after this time.

Kevin Chidwick stepped down as Group Chief Financial Officer and was succeeded by Geraint Jones with effect from 13 August 2014. Both Kevin and Geraint attended all Board meetings as required in their roles as CFO.

The Nomination Committee met formally on one occasion in 2014 although members of the Committee corresponded and met informally on a number of occasions to consider and meet with individuals that the Committee had identified as possible candidates to join the Board.

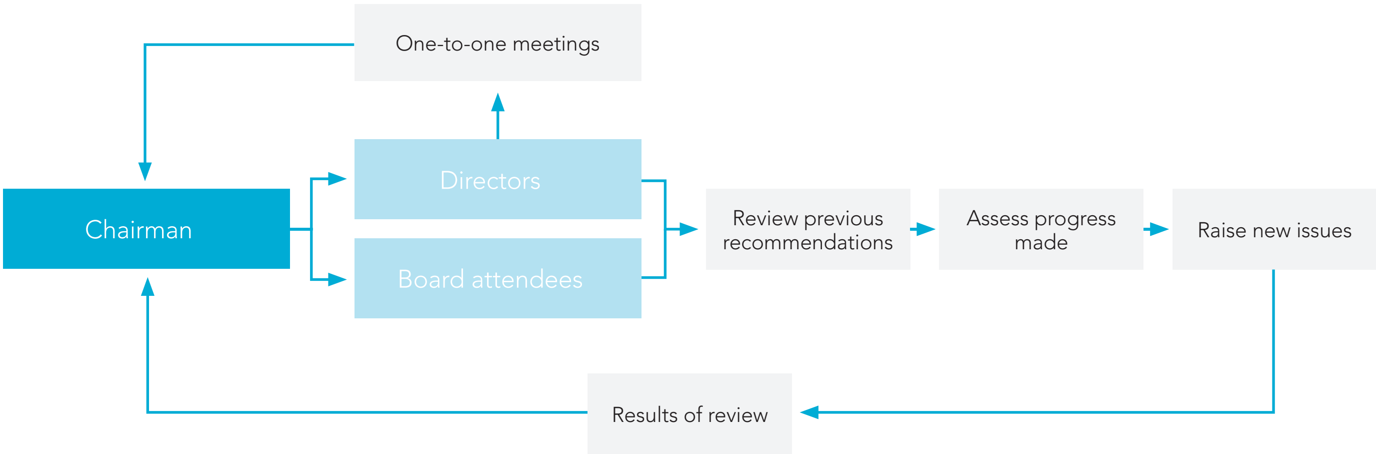
Agendas and papers are circulated to the Board electronically in a timely and secure manner in preparation for Board and Committee meetings. The Board agenda is carefully structured by the Chairman in consultation with the Company Secretary and Chief Executive. These papers are supplemented by information specifically requested by the Directors from time to time. All Board and Committee meetings during the year were held in an open atmosphere conducive to robust and constructive challenge and debate. All Directors have, therefore, been able to bring independent judgement to bear on issues such as strategy, risk management, performance and resources. Additional meetings are called when required and there is contact between meetings, where necessary, to progress the Group's business.

The Company Secretary

All the Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for advising the Board, through the Chairman, on governance matters. The Company Secretary provides updates to the Board on regulatory and corporate governance issues, new legislation and Directors' duties and obligations. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Effectiveness

Our Board evaluation process



Board effectiveness

As the Board carried out an externally facilitated evaluation of the Board last year, led by an independent external consultant, this year the Chairman led an internal Board evaluation process. As well as considering the effectiveness and performance of the Board, the objective of the evaluation was to assess progress made against the recommendations from the last evaluation in order to continue the development of the collective contribution of the Board as a whole and also the effectiveness of each individual Director. When considering the evaluation process, the Chairman considered feedback received from Directors after one-to-one meetings held with him during the year as to areas of focus to improve Board effectiveness.

The evaluation process involved the Chairman circulating to all Directors and Board attendees, the recommendations from the 2013 Board effectiveness review and inviting respondents to assess progress made and comment on each recommendation. Respondents were also invited to raise any new issues of significance that they felt had developed since the last review a year ago and on which they believed the Board should focus in the coming year.

The results of the review were presented by the Chairman to the Board in January 2015. Overall the review found that good progress had been made against most recommendations, that the Board continued to work effectively and that each Director contributes and demonstrates full commitment to his/her duties.

The particular areas identified by the Board during the 2014 review where further progress was required included:

- Although good progress had been made by the Chair of Risk to develop the appropriate strategy to achieve the requisite balance and focus between procedural and substantive aspects of risk and to create the most efficient and effective reporting materials, it was felt that further work was needed to embed fully the Group's risk framework within the organisation.
- Focus on finding the right balance to ensure that gaps in international experience were addressed through greater competitive analysis or contributions from external experts such that the collective knowledge of the Board does not become 'UK centric'.
- Reinforcement of the approach to create a clear structure in presentation materials that show the original forecast, the agreed approach and any assumptions made at the time and the bridge to the current position showing changes to current forecast and suggested approach.
- Inviting external experts to present on customers, competitors and/or societal trends every one–two years to provoke thinking and debate in advance of likely changes in customer preferences or competitor practices. It was felt that although some progress had been made there was still the opportunity through external presentations to lift the perspective of the Board, spending more time on the strategic context for the business and less on its routine operating activity.

The Chief Executive, to whom they report, appraises annually the performance of the individual Executive Directors. The Chairman, taking into account the views of the other Directors, reviews the performance of the Chief Executive (who is also appraised by an internal 360-degree feedback process). The performance of the Chairman is reviewed by the Board led by the Senior Independent Director (SID). Following the latest review, the SID considered and discussed with the Chairman the comments and feedback that had been received from the Directors as part of the Chairman's evaluation questionnaire, and was able to confirm that the performance of the Chairman continues to be effective and that he continues to demonstrate appropriate commitment to his role.

The roles of the Chairman and Chief Executive

The Board has approved a statement that sets out the clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is primarily responsible for the leadership and workings of the Board, setting its agenda and monitoring its effectiveness. The Chairman is not involved in the day-to-day management of the business. Save for matters reserved for decision by the Board, the Chief Executive, with the support of the other Executive Directors, is responsible for proposing the strategy to be adopted by the Group; running the business in accordance with the strategy agreed by the Board; and implementing specific Board decisions relating to the operation of the Group. The statements of division of responsibilities and matters reserved for decision by the Board are reviewed annually.

Board balance and independence

The composition of the Board evolved during the year as John Sussens and Martin Jackson stepped down from the Board after nine years' service. Careful consideration continues to be given to Board structure and balance particularly given another two Directors will reach nine years' service in the next two years. In this context the Group continues to monitor the need to refresh Board and Committee membership in an orderly manner so as to maintain the continuity of Board process and the strength of personal interaction which underlies the effectiveness of the Board as a team. The Board remains satisfied that it has the appropriate balance of skills, experience, independence and knowledge of the Group to enable it and its Committees to discharge their duties and responsibilities effectively, as required by the Code.

The Board currently comprises 12 Directors, the Chairman (who was independent on appointment), three Executive Directors, seven independent Non-Executive Directors, and one Non-Executive Director, Manfred Aldag, who is employed by a significant shareholder and is not, therefore, considered independent. There is no requirement that the significant shareholder has representation on the Board and, accordingly, Mr Aldag's appointment is subject to the same appointment and removal process as the other Board Directors. As can be seen from the Directors' biographies on pages 42 to 43, the Directors have a broad range of skills and experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct which are integral to the success of the Group.

In the context of two of the Non-Executive Directors reaching their maximum term over the next two years, the Nomination Committee initiated the process of recruiting a Non-Executive Director to ensure that the balance and composition of the Board was maintained. Appointments to the Board are the responsibility of the Board as a whole, acting on the advice and recommendations of the Nomination Committee. Appointments are made on merit and against objective criteria, having due regard to the benefits of diversity, including gender. Following a formal, rigorous and transparent process implemented and led by the Nomination Committee, the Board was delighted to appoint Penny James as an independent Non-Executive Director with effect from 1 January 2015. Penny joined as a member of the Audit Committee on appointment and will be subject to election by shareholders at the forthcoming AGM.

The Board, having given thorough consideration to the matter, considers seven of the Non-Executive Directors to be independent and is not aware of any relationships or circumstances which are likely to affect, or could appear to affect, the judgement of any of them. It is the view of the Board that the independent Non-Executive Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

Independent Non-Executive Directors are currently appointed for fixed periods of three years, subject to election by shareholders. The initial three-year period may be extended for two further three-year periods subject to re-election by shareholders. Their letters of appointment may be inspected at the Company's registered office or can be obtained on request from the Company Secretary.

Although the Chairman has served in that role since July 2000 the Board remains of the view that he should continue in office. The Chairman, along with all the Directors, seeks election by shareholders annually.

The Chairman performs a number of other non-executive roles outside the Group and details of these are included in the Chairman's biography. The Board continues to be satisfied that these other commitments are not such as to interfere with the performance of his duties within the Group and will not impact on his ability to allocate sufficient time to discharge effectively his responsibilities to the Group.

John Sussens stepped down as the Senior Independent Non-Executive Director (SID) in April 2014 and was succeeded by Colin Holmes, who has the requisite knowledge and experience gained through his Board tenure and Chairmanship of the Audit Committee. He is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. He is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new Chairman, as and when appropriate. From April 2014, Annette Court replaced John Sussens as Chair of the Remuneration Committee and Jean Park replaced Martin Jackson as Chair of the Group Risk Committee.

Roger Abravanel will not be seeking re-election at the forthcoming AGM and will step down from the Board on 29 April 2015.

In accordance with the requirement under the Code for annual election of Directors, all Directors, except for Roger Abravanel, will be submitting themselves for re-election by shareholders at the forthcoming AGM. The Board is satisfied that all are properly qualified for their reappointment by virtue of their skills and experience and their contribution to the Board and its Committees.

The Directors are given access to independent professional advice at the Group's expense, should they deem it necessary to carry out their responsibilities.

Current length of service as a Non-Executive Director at 31 December 2014

The table below details the length of service of the Chairman and each of the Non-Executive Directors and illustrates the balance of experience and fresh perspectives.

Director	Date of appointment	Current length of service as a Non-Executive Director at 31 December 2014
Alastair Lyons (Chairman)	1 July 2000	14 yrs 6 mths
Manfred Aldag	13 March 2003	11 yrs 9 mths
Margaret Johnson	4 September 2006	8 yrs 4 mths
Lucy Kellaway	4 September 2006	8 yrs 4 mths
Colin Holmes	3 December 2010	4 yrs 1 mth
Roger Abravanel	6 March 2012	2 yrs 10 mths
Annette Court	21 March 2012	2 yrs 9 mths
Jean Park	17 January 2014	11 mths
Penny James	1 January 2015	n/a

Effectiveness continued

Professional development

On appointment, Directors take part in a comprehensive induction programme whereby they receive financial and operational information about the Group; details concerning their responsibilities and duties; as well as an introduction to the Group's governance, regulatory and control environment.

This induction is supplemented by visits to the Group's head office in Cardiff and overseas offices, and meetings with members of the senior management team and their departments. Development and training of Directors is an ongoing process. Throughout their period in office the Directors are regularly updated on the Group's business; legal matters concerning their role and duties; the competitive environments in which the Group operates; and any other significant changes affecting the Group and the industry of which it is a part. All Board members are also encouraged to attend relevant training courses at the Company's expense.

The Board receives presentations from senior managers within the Group on a regular basis and Non-Executive Directors are encouraged to make informal visits to different parts of the Group to meet with local management.

Engagement with shareholders

The Company attaches considerable importance to communications with shareholders and engages with them regularly. Open and frequent dialogue with investors enables them to understand fully the Group's strategy, objectives and governance. The Investor Relations team has day-to-day primary responsibility for managing communications with institutional shareholders through a combination of briefings to analysts and institutional shareholders, both at the half year and full year results. A number of analysts and investors visited the Group's Cardiff office during the year to meet with the Executive Directors and senior management in order to get a better understanding of how the Group operates and how it intends to achieve its strategic and operational objectives. Senior Executives from the Group's overseas businesses also visit the UK in order to present to, and meet with, analysts and investors. Site visits and individual discussions with the Executive Directors are also arranged throughout the year with individual shareholders.

In addition the Chairman had individual meetings during the year with major shareholders and reported to the Board on issues raised with him.

This is supplemented by feedback to the Board on meetings between management and investors. In addition, the Investor Relations team produces a quarterly Investor Relations Report that is circulated to the Board for their consideration. The Report contains an analysis of share price performance; a summary of analyst reports received during the month and of meetings that have been held with investors and analysts; together with details of any significant changes to the shareholders' register.

The Senior Independent Director has specific responsibility to be available to investors who have any issues or concerns, and in cases where contact with the Chairman, Chief Executive and Chief Financial Officer has either failed to resolve their concerns, or for where such contact is inappropriate. No such concerns have been raised in the year under review.

All shareholders are invited to attend the Company's Annual General Meeting (AGM). The Chairs of the Audit, Remuneration, Nomination and Group Risk Committees attend the AGM along with the other Directors and are available to answer shareholders' questions on the activities of the Committees they chair. Shareholders are also invited to ask questions during the meeting and have an opportunity to meet with Directors after the formal business of the meeting has been concluded. Details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the Company's website following the meeting.

> The Group maintains a corporate website (www.admiralgroup.co.uk) containing a wide range of information of interest to institutional and private investors. The major shareholders of the Company are listed on page 74.

Conflicts of interest

In compliance with the requirements of the Companies Act 2006 regarding Directors' duties in relation to conflicts of interest, the Group's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits as it thinks fit. The Company has put in place procedures to deal with conflicts of interest. These procedures include each Board member completing, annually, a conflict of interest questionnaire that sets out any situation in which they, or their connected persons have, or could have, a direct or indirect interest that could conflict with the interests of the Company. Any current directorships that they, or their connected persons hold, any advisory roles or trusteeships held, together with any companies in which they hold more than 1% of the issued share capital are also disclosed. These procedures were reviewed by the Board in November 2014 and it was concluded that they continued to operate effectively.

> "The Company attaches considerable importance to communications with shareholders and engages with them regularly. Open and frequent dialogue with investors enables them to understand fully the Group's strategy, objectives and governance."

Board Committees

The Board has delegated authority to a number of permanent Committees to deal with matters in accordance with written Terms of Reference. The principal Committees of the Board – Audit, Remuneration, Group Risk and Nomination – all comply fully with the requirements of the Code.

All Committees are chaired by an independent Director, except the Nomination Committee which is chaired by the Chairman of the Board, and comprise a majority of independent Directors. Appointments to the Committees are made on the recommendation of the Nomination Committee and are for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. The Committees are constituted with written Terms of Reference that are reviewed annually to ensure that they remain appropriate and reflect any changes in good practice and governance. These Terms of Reference are available on request from the Company Secretary and can also be found on the Company's website: www.admiralgroup.co.uk. Directors are fully informed of all Committee matters by the Committee Chairs reporting on the proceedings of their Committee at the subsequent Board meeting. Copies of Committee minutes are also distributed to the Board. Committees are authorised to obtain outside legal or other independent professional advice if they consider it necessary. The Chair of each Committee attends the Annual General Meeting to respond to any shareholder questions that might be raised on the Committee's activities.

REPORT OF THE AUDIT COMMITTEE

Statement from Colin Holmes

> "The key areas of focus have been to provide support to the Board in its oversight of financial reporting and the control environment across the Group."

Colin Holmes
Chairman of the Audit Committee

Dear Shareholder,

I'm pleased to provide an update on the main activities of Admiral's Audit Committee during 2014.

The key areas of focus for the Committee during the year have been to provide support to the Board in its oversight of financial reporting and the control environment across the Group. The setting of insurance claims reserves continues to be a key accounting judgement in the Group's financial statements, and the Committee placed considerable focus on reviewing the recommendations of management and discussing the key reserving judgements with the Group's independent actuaries and external auditor. In addition, the Committee continued to monitor the appropriateness of the Group's system of risk management and internal controls as well as the robustness of the Internal and External Audit processes.

The Committee studied a number of key control issues, highlighted through a range of different sources including the risk register, Internal Audit and the Committee's previous work. In each case the Committee found the responses and action plans from management appropriate to the issues raised. With the planned implementation in 2015 of a new IT system in the UK business the Committee received regular updates from the project's manager, ensuring that the impact of implementation issues were being fully considered and mitigated against. The Committee also reviewed with the Head of IT the plans of the business to ensure that IT security issues are being appropriately managed.

The growing materiality of the Group's international businesses has been a key focus of the Committee, with presentations from the key CEOs and an improved oversight of the businesses' audit activities. Also during the year the Group issued its first public bond, with the Committee reviewing the accuracy and completeness of the financial information being provided as part of the prospectus.

Finally as previously communicated the Group plans to tender the External Audit of the Group to coincide with the rotation of the current KPMG audit partner. In preparation for the tender process the Committee has spent time considering how it will manage this process to ensure the Group continues to have a strong External Audit team into the future.

The Committee continues to provide strong oversight of the Group and I would like to thank all those who have made this possible. In particular I would like to thank my two colleagues, Margaret Johnson and Annette Court, for their invaluable contribution over the last year, and equally to welcome Penny James to the Committee following her appointment to the Board in January.

I hope you find the above summary, and the more detailed report, both useful and informative.

Colin Holmes
Chairman of the Audit Committee
4 March 2015

The Audit Committee's primary responsibilities are to:

- Monitor the integrity of the Group's financial statements and any formal announcement relating to the Group's financial performance, reviewing any significant financial reporting judgements that they contain.
- Keep under review the effectiveness of the Group's internal financial controls, internal control and risk management systems.
- Review the Group's procedures for handling allegations from whistleblowers and for detecting fraud.
- Monitor and assess the role and effectiveness of the Group's Internal Audit functions in the context of the Group's overall internal control and risk management systems.
- Consider and make recommendations to the Board, to be put to shareholders for their approval at the AGM, in relation to the appointment, reappointment and removal of the Group's external auditor.
- Review the external auditor's independence and objectivity and the effectiveness of the audit process.
- Review the policy on the engagement of the external auditor to provide non-audit services, considering the relevant regulatory guidance regarding the provision of non-audit services by the external auditor.

Summary of key activities during 2014

During the year the Committee reviewed the following:

- The Annual Report and interim results.
- Reports from the Internal Audit departments within the Group on the effectiveness of the Group's risk management and internal control procedures, details of key audit findings and actions taken by management to manage and reduce the impact of the risks identified.
- Reports from the external auditor on the principal findings from its review of the Group's systems and controls, and on the key accounting and audit issues and conclusions on the half and full year reporting.
- Reports from the Chair of the Group Risk Committee on the principal risks faced by the Group and the work undertaken by the Committee to ensure risk is appropriately managed.
- Presentations from independent actuaries to assist the Committee in concluding on the adequacy of the Group's reserves.
- Reports from the external auditor on the proposed audit scope, fees, audit findings, and auditor independence.
- The proposed Internal Audit plans for both the UK and international businesses.
- Performance and effectiveness of the Internal Audit departments including review of the results of the external effectiveness review of Internal Audit.
- Significant findings from Internal Audit including management responses to the conclusions set out in the reports.
- Reports from the CEO and Internal Auditors of the significant international businesses.
- The effectiveness of the Group's Whistleblowing Policy, which sets out the arrangements for raising and handling allegations from whistleblowers.
- The effectiveness of the procedures for detecting fraud.
- The Committee also received presentations and discussions on a range of important issues including: IT Security; the Group's Excess of Loss arrangements; Periodic Payment Order (PPO) identification; reserving and the impact on the Group of the introduction of the Gender Directive in the context of considering whether any portfolio shifts could lead to material changes in claims development patterns and impact the appropriateness of claims estimation at the year end.
- The plans and governance of the project to implement a new IT system for the UK business in 2015.
- The accuracy and completeness of the financial information contained within the prospectus for the Group's public bond issue.
- The pre-planning work to facilitate a smooth and effective tender of the External Audit work.
- Its own Terms of Reference.
- Its own effectiveness.

Membership

Audit Committee attendance (6 meetings)

Colin Holmes	■	■	■	■	■	■
Margaret Johnson	■	■	■	■	■	■
Annette Court	■	■	■	■	■	■

■ Chairman ■ Member □ Did not attend

Membership of the Committee at the end of the year was: Colin Holmes (Chair), Margaret Johnson and Annette Court, with Penny James joining the Committee with effect from her appointment as a Non-Executive Director on 1 January 2015. Composition of the Committee is well balanced, with Committee members having a broad range of financial and business experience such that they are able to effectively analyse, challenge and debate the issues that fall within the Committee's remit.

The Company Secretary acts as Secretary to the Committee. The Committee meets at least four times per year and has an agenda linked to events in the Group's financial calendar and other important issues that arise throughout the year which fall for consideration by the Committee under its remit.

The Board considers that the members of the Committee have the appropriate competence and experience necessary to contribute meaningfully to the Committee's deliberations and further considers that Colin Holmes (Chair), as a Chartered Management Accountant, has appropriate recent and relevant financial experience having previously been the UK Finance Director for Tesco plc. Penny James is currently Director of Group Finance at Prudential plc.

The Committee is kept up to date with changes to Accounting Standards and relevant developments in financial reporting, company law and the various regulatory frameworks through presentations from the Group's external auditor, Chief Financial Officer and Company Secretary. In addition, members attend relevant seminars and conferences provided by external bodies. The Terms of Reference of the Audit Committee include all the matters required under the Code.

Other individuals such as the Chief Financial Officer, the Chief Operating Officer, the Chief Executive Officer, the Chairman of the Board, the Director of Risk, Compliance and Internal Audit, and representatives of different parts of the Group may be invited to attend all or part of any meeting as and when appropriate. The external auditor was invited to attend all of the Committee's meetings held in 2014, excepting those agenda items when its own performance was to be reviewed and provision of non-audit services discussed. In addition, a number of private meetings were held between members of the Committee and the auditor.

Significant issues considered by the Committee

After discussion with both management and the external auditor, the Audit Committee determined that the key risks of misstatement of the Group's financial statements related to: insurance liabilities; profit commissions; and both co-insurance and reinsurance contracts.

These issues were discussed with management during the year and with the auditor at the time the Committee reviewed and agreed the auditor's Group audit plan, when the auditor reviewed the interim financial statements in August 2014 and also at the conclusion of the audit of these full year financial statements.

Insurance liabilities

The Audit Committee considered the provision for claims outstanding comprising provisions for the estimated cost of settling all claims incurred but unpaid as at the balance sheet date, whether reported or not. The Board has approved a Reserving Policy that sets out the methodology by which management sets reserves in the financial statements. The approach is to ensure that an appropriate margin is provided above actuarial best estimates to allow for uncertainty and volatility.

The Committee held separate meetings with the Group's external actuaries at which there was challenge and debate of the methodology used and best estimates developed by the external actuaries and recommended for adoption by management. At these meetings management provided further information on the reserving levels proposed and were challenged by the Committee as to their adequacy and level of prudency. In particular, the Committee reviewed the process for identifying and grading cases which potentially would settle as Payment Protection Orders (PPO). The Committee was satisfied that PPOs were being appropriately identified and reserved for.

The Committee also discussed the Reserving Letter sent to insurance CEOs by the Prudential Regulatory Authority (PRA) which set out the PRA's reserving expectations for firms; their approach to reviewing firms' reserving processes and reserve levels; and forthcoming Solvency II requirements. The Committee discussed and approved a response with management that reiterated the Group's strong reserving processes and methodology set out in the Group's Reserving Policy and the clear process by which the matters raised in the PRA's letter could be addressed.

Whilst acknowledging that the setting of reserves to cover future claims is a complex and judgemental area and having had the opportunity at the separate meetings referred to above to consider and question the recommended best estimates, the Committee is satisfied that an appropriate process has been followed and that there has been scrutiny, challenge and debate to give confidence that the reserving levels set provide an appropriate margin above best estimates and allowed for a level of prudency.

The Committee also received an update from the auditor regarding the procedures used to test management's methodology in setting best estimates and considered the auditor's assertion that they had challenged the reserving approach taken by management and considered compliance with current accounting standards. Based on this and the reserving process, the Committee was satisfied with the Group's approach to setting reserves.

Profit commission

The Committee considered the impact on profit commission income of future changes in claims reserves 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. The Committee remained satisfied that profit commission was correctly accounted for by the Group and was in accordance with the contractual arrangements that were in place.

Co-insurance and reinsurance

The Group has in place a number of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either through co-insurance or reinsurance contracts. There is judgement involved in the assessment of whether significant risk has transferred which impacts on the appropriate accounting.

In particular, the Committee considered the accounting treatment of the caps contained in the Group's international quota share reinsurance contracts that limited the losses of the reinsurer when certain combined ratio and/or expense ratio limits had been breached. The Committee discussed the accounting options available to account for these cap accruals and had challenged management as to the merit of the accounting options available. The Committee accepted the view of management that the most appropriate presentation was to allocate the impact of expense ratio caps to insurance expenses and to split the impact of combined ratio caps between insurance expenses and insurance claims.

The Committee considered key accounting judgements as part of its review and approval of Group financial statements at interim and year end meetings. The Committee received reporting from the Group Finance team that supported key accounting estimates and judgements and this formed the basis for the Committee's discussion. Risk transfer was considered on a periodic basis or more frequently in the case of changes to contractual arrangements. In the light of the information received by the Committee, the Committee considered that the appropriate risk transfer had taken place.

Recognition of intra-group trading

The Committee considered and reviewed an unadjusted difference, reported by the external auditor, relating to intra-group trading which had not been eliminated on consolidation.

Management confirmed to the Committee that the auditor continued to report an unadjusted difference in relation to intra-group trading between the Group's insurance and price comparison operations. Management had opted not to make the elimination adjustments as the effect would have a misleading impact on the key ratios for the business as typically used by the industry and also to maintain consistency with prior years. KPMG confirmed that although this was an unadjusted difference, it was both immaterial and consistent with prior years.

The Committee fully considered and challenged management on the approach they had taken not to make elimination adjustments on the grounds of immateriality. Following comprehensive review, the Committee confirmed its acceptance of management's position on the basis that accounting for intra-group trading in this way was acceptable given the immateriality of the sums involved and resulted in a better overall presentation of the financial statements.

IFRIC 21 levies

The impact of IFRIC 21 on levies was considered by management and the Group's auditor, with the implication to Admiral being on the amounts it pays to the Motor Insurers Bureau and the Financial Services Compensation Scheme. The standard is not mandatory until 2015 but the Committee agreed with management that in the interest of transparency it was appropriate for the Group to early adopt, with full disclosure of its implications being provided in the Report and Accounts.

Deferred tax assets

The Group's two US operations – Elephant Auto and compare.com, are both loss-making, reflecting the stage of development of each business. The Committee discussed the potential deferred tax assets (DTA) recommended by management in relation to the accumulated losses carried forward at the balance sheet date for both operations. The Committee concluded that the proposed assets were consistent with the accounting standard.

Misstatements

The Committee considered all misstatements reported by the auditor and were satisfied that no material amounts remain unadjusted. The Committee confirms that it is satisfied that the auditor has fulfilled its responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the auditor, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Non-audit fees

During the year the Committee reviewed its policy on non-audit services that sets out the procedure for approval, by the Committee, of expenditure with the Group's auditor of over £30,000, including the process where it is necessary for approval of such work to be given outside of the normal Committee meeting timetable. Such circumstances will require the approval of the Audit Committee Chair, who will consider and approve such fees on behalf of the Committee and will ensure that auditor independence and objectivity are not compromised. Such approval of fees in excess of £30,000 will then be notified by the Committee Chair to the next Committee meeting following approval.

The Group's auditor, KPMG LLP, provides some non-audit services, the majority of which comprise compliance and advisory services related to various taxation issues within the Group, and which are not considered by the Committee to compromise their independence and objectivity as auditor. This decision is typically based on the merit of using KPMG's existing knowledge of the Group's business; their particular expertise in relation to the advice sought on each relevant transaction and the consequent value added and inherent saving of fees. The level of non-audit fees is reviewed at each Committee meeting and details are included in the Annual Report.

The Committee also considered the implications of both the forthcoming tender of the External Audit and the potential adoption by the UK of EU legislation that prohibits auditors from carrying out certain non-audit services including tax and other consultancy. The Committee will continue to track developments to ensure the Group will be able to comply with future legislation and guidance in this area.

Effectiveness of the External Audit process

The Committee undertakes an annual review to assess the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements, the progress achieved against the agreed audit plan, and the competence with which the auditor handles the key accounting and audit judgements. Following this review the Committee concluded that the auditor, KPMG LLP, remained independent and provided a service that was robust and fit for purpose.

Audit tender

The Committee confirmed in last year's Annual Report that it was the Group's intention to put the External Audit services contract out to tender at the end of the five-year rotation of the current audit engagement partner. Although the transitional rules under the EU legislation give the Group the option to delay the tender process until 2022, the Committee remains of the view that the audit for the year ending 31 December 2016 will be put out to tender in 2015.

In view of the high quality of service received by the Group from the current external auditor, and the above intention to undertake a full tender of the audit for the 2016 financial year, the Committee recommends the reappointment of KPMG for the next financial year. A resolution for the reappointment of KPMG as auditor will, therefore, be proposed at the forthcoming AGM. There are no contractual obligations that restrict the Group's choice of external auditor.

Internal Audit

The Group Head of Internal Audit attends all Audit Committee meetings and provides a range of presentations and papers to the Committee, through which the Committee monitors the effectiveness of the Group's internal controls. The Committee reviewed and approved the Group Internal Audit Terms of Reference which set out the role; objectives; reporting lines and accountability; authority; independence; and objectivity of the Internal Audit function. The role and competence of each Internal Audit function across the Group was also assessed and considered by the Committee. It was agreed that the Group Head of Internal Audit would have increased responsibility over the Internal Audit activities in the Group's overseas locations.

Members of the Committee also receive all issued audit reports, enabling them to challenge the reports' content and related recommendations. The Committee approves the Internal Audit programmes at the start of each calendar year whilst the effectiveness and workload of the Internal Audit functions and the adequacy of available resources are monitored throughout the year.

In accordance with agreed parameters, the overseas businesses of ConTe, Admiral Seguros and Elephant have their own locally based internal auditors, who report to their respective CEOs. All reports are evaluated by the Group Head of Internal Audit to ensure the quality and effectiveness of the reported findings. In addition, the UK Internal Audit department carries out high level governance reviews of all foreign operations, assessing the internal control frameworks and system of risk management. The overseas internal auditors attend Committee meetings periodically.

Committee effectiveness review

As part of the Committee's detailed annual review of its performance and processes, each Committee member completed a comprehensive questionnaire designed to provide objective assessment of the Committee's performance, including its effectiveness in monitoring Internal and External Audit. The Committee discussed the results of the review and it was concluded that the Committee and the audit process were effective; that the Committee had full access to all the information it required; that the Committee had appropriate Terms of Reference; and that it was adequately discharging its responsibilities.

REPORT OF THE GROUP RISK COMMITTEE

Statement from Jean Park

"The Committee has focused on developing the Board's approved risk strategy and risk appetite."

Jean Park
Chair of the Group Risk Committee

Dear Shareholder,

As you are aware, I took over the Chair of the Group Risk Committee in April 2014. At a similar time we appointed a new Director of Risk, James Armstrong, and subsequently we have spent significant time building on the risk management activities undertaken by the Group.

During the year the Committee has focused on developing the Board's approved risk strategy and risk appetite to a more granular level. This has been developed as part of the Group's Enterprise Risk Management Framework (ERMF). A significant amount of time has been dedicated to Solvency II work. In particular, the GRC signed off the annual Own Risk and Solvency Assessment (ORSA) report towards the end of the year as well as approving a number of new policies required as part of the overall systems of governance.

I look forward to continuing the good work of 2014 this year as we move towards the implementation of Solvency II.

Jean Park
Chair of the Group Risk Committee
4 March 2015

The Group Risk Committee's responsibilities can be summarised as:

- Agreeing the Group's risk management framework, including the remits of Risk Management Committees that are established within each of the Group's operational entities and overseeing the risk management functions.
- Monitoring the Group's prudential risk exposure, which includes ensuring that the Group's capital resources and liquidity profile are appropriate to its needs whilst meeting minimum regulatory requirements, including overseeing and challenging the design and execution of the Group's stress and scenario testing.
- Monitoring the Group's current and future conduct risk exposure.
- Ensuring the adequacy and effectiveness of the Group's systems and controls for the prevention of financial crime, including prevention of bribery and adequacy of anti-money laundering and data protection systems and controls.
- Monitoring the adequacy and effectiveness of the Group's Compliance functions.
- Reviewing the Group's progress towards achieving Solvency II compliance.
- Reviewing compliance with Group policies, including the established Reserving Policy and process.
- Considering and recommending to the Board for approval the Group's risk appetite, including any changes to the appetite for each material type of risk faced by the Group.

Summary of key activities in 2014

During the year the Committee:

- Reviewed the Group's updated risk strategy in the context of the Group's agreed strategic objectives.
- Reviewed the Group's updated risk appetite including an updated suite of Key Risk Indicators (KRIs) with associated triggers and limits.
- Reviewed the Group's Enterprise Risk Management Framework in preparation for Solvency II implementation.
- Considered the adequacy of risk mitigation measures and contingency plans.
- Oversaw the development of customer outcome risks and the aggregation of these risks into tier one categories that will be used for reporting purposes in 2015. This included the establishment of a Conduct Risk Committee that manages the Conduct Risk MI on behalf of the business.
- Monitored the Group's progress towards implementation of Solvency II and plans for compliance with the EIOPA interim guidelines.
- Reviewed the Group's proposed dividend level in line with the capital policy.
- Approved the 2014 ORSA policy.
- Recommended to the Board approval of the 2014 ORSA Report prior to submission to the UK and Gibraltar regulators.
- Reviewed in-depth analysis of a number of the Group's most significant risk areas, including insurance risk in the UK Car Insurance operation.
- Monitored KRIs within the overall risk management framework.
- Provided quarterly written reports to the Group Board on conduct risk and complaints.
- Reviewed its own Terms of Reference.
- Approved the Terms of Reference for the Group Asset and Liability Committee (GALCO).
- Approved the new Terms of Reference for the UK Risk Management Committee following the creation of the GALCO.
- Approved a number of new/revised key risk management policies in preparation for Solvency II.
- Received internal presentations on a number of key risk areas including ORSA and capital modelling.
- Reviewed the progress and risks associated with the IT project responsible for the implementation of a new policy administration system and data warehouse.

Membership

Membership at the end of the year was: Annette Court, Lucy Kellaway, Jean Park (Chair) and David Stevens.

The Company Secretary acts as Secretary to the Committee. The Committee met five times during the year.

Group Risk Committee attendance (5 meetings)

Jean Park	Did not attend	Member	Chairman	Chairman	Chairman
David Stevens	Member	Member	Member	Member	Member
Martin Jackson	Chairman	Chairman	Did not attend	Did not attend	Did not attend
Lucy Kellaway	Did not attend	Did not attend	Member	Member	Member
John Sussens	Member	Member	Did not attend	Did not attend	Did not attend
Annette Court	Member	Member	Member	Member	Member

Chairman Member Did not attend

Duties and responsibilities

The duties and responsibilities of the Committee are set out in Terms of Reference that were approved by the Board in January 2013 and updated and approved in January 2015. The responsibilities of the Committee can be summarised on page 53.

The work of the Committee is supported by more detailed work undertaken by executive Risk Management Committees in each of the Group's operational entities. The membership of the UK Risk Management Committee includes the Group Chief Operating Officer, Group Chief Financial Officer and Group Director of Risk. Membership of the other UK and overseas Committees includes the Managing Director of the operation. At each meeting, the Risk Management Committees consider significant movements in the operation's risk profile, any risks that have arisen and any emerging risks. Risk Management Committees also assess and monitor any regulatory issues, ensuring that their resolution and the action taken are appropriately recorded. In the UK, the Risk Management Committee receives regular information on Conduct Risk, such as complaint handling reports and other related management information.

The Committee Chair reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, as set out in previously circulated minutes to the Board. The Committee Chair also reports on the activities of the Committee in a formal written report that is submitted to and discussed by the Board every six months.

Following a review of the Committee effectiveness in December 2013, the Committee has overseen development of an Enterprise Risk Management Framework. The aim of the framework is to improve the understanding of risks at a Group level to help evaluate strategic opportunities and support the preparation for Solvency II implementation in 2016. The new framework includes an updated Risk Strategy alongside a refreshed suite of KRIs with associated triggers and limits. This has also included the development of the Conduct Risk MI Framework, with the introduction of a new suite of metrics for monitoring the key risks in this area. These updates have improved the effectiveness of the Committee by enabling greater focus on the main risks affecting the business.

Internal control and risk management

The Board is ultimately responsible for the Group's system of internal control and, through the Audit Committee, has reviewed the effectiveness of these systems. The systems of internal control over business, operational, financial, and compliance risks are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's internal controls; that it has been in place for the year ended 31 December 2014; and that, up to the date of approval of the Annual Report and Accounts, it is regularly reviewed by the Board and accords with the internal control guidance for Directors provided in the Code.

A key element of the control system is that the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility. As described above, in order to ensure these responsibilities are properly discharged, the Board has delegated the task of supervision of risk management to the Group Risk Committee (GRC) and of internal control to the Group Audit Committee.

There are several key elements to the risk management environment throughout the Group. These include the setting of risk management strategy, risk appetite and risk policy, and the oversight of the activities of the Group Risk function by the GRC; dissemination of that policy by the Chief Executive; delivery of the policy by the UK Risk Management Committee and the Group's other UK and overseas entities through the application of the Group's systems of internal control and risk management; and the overall assurance provided to the Audit Committee by Internal Audit that the systems operate effectively.

The Board recognises that the day-to-day responsibility for implementing these policies must lie with the senior management whose operational decisions must take into account risk and how this can be controlled effectively. The GRC reports on its activities to the Audit Committee in support of the overall assurance provided by the Audit Committee that the Group's risk management and compliance systems operate effectively.

The Group Risk function defines and prescribes the financial and operational risk assessment processes for the business; performs second line reviews, including reserving and capital modelling processes; maintains the risk registers; undertakes regular reviews of these risks in conjunction with line management; delivers the Own Risk and Solvency Assessment (ORSA); and records any actual losses or near misses that occur as a consequence of the realisation of risk. The Director of Risk has responsibility for ensuring that managers are aware of their risk management obligations, providing them with support and advice, and ensuring that the risk management strategy is properly communicated. Reports are produced showing the most significant risks identified and the controls in place. Internal Audit uses the risk registers to plan and inform their programme of audits around the most significant risks to the Group to ensure that the prescribed controls are in place and are operating effectively.

The GRC receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms that are embedded within the operational units. It, together with the Audit Committee, also receives regular reports from the relevant Internal Audit functions, which include recommendations for improvement of the control and operational environment. Twice a year the Chair of the Group Risk Committee provides a comprehensive written report to the Board on the Group's risk appetite, risk strategy and risk management policy considering the principal assessed exposures and the effectiveness of the mitigation strategies adopted.

The Audit Committee reports to the Board on the appropriateness and effectiveness of the risk management systems and internal controls (including financial controls). Where appropriate, the Committee provides a high-level challenge to the steps being taken by the GRC to implement the risk management strategy. The Internal Audit functions undertake regular reviews of internal control systems and business processes, identifying control weaknesses and making recommendations to management on improvements where necessary. Internal Audit also reviews the effectiveness of the Group Risk function.

Statement from Alastair Lyons

"The Committee continued the development of a clear structured succession plan."

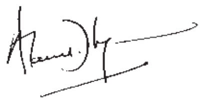
Alastair Lyons
Chairman of the Nomination Committee

Dear Shareholder,

In accordance with its remit to review regularly the composition and experience of the Board, the focus and attention of the Committee during the year was on succession planning. The Committee led the process of Executive and Non-Executive Board appointments given Kevin Chidwick's move to devote himself full-time to the role of CEO of Elephant Auto, the Group's US insurance business, entailing his stepping down from the role of CFO and from membership of the Board, and John Sussens and Martin Jackson stepped down from their Non-Executive roles on the Board during the year after their allotted nine years. The Committee assessed the appropriateness of Geraint Jones, the Deputy CFO, to succeed Kevin Chidwick as CFO and carried out a robust and comprehensive Non-Executive recruitment process resulting in the appointment of Penny James. This appointment further enhanced the range of skills, breadth of experience and diversity around the Board table.

In the context of several Directors retiring from the Board over the next two years, the Committee continued the development of a clear structured succession plan that would ensure appropriate action was taken well ahead of the dates on which individuals would be retiring in order to achieve their replacement, if appropriate, with individuals of the appropriate skills, experience and fit to the Board.

Given that Roger Abravanel will not be seeking re-election at the forthcoming AGM, the Nomination Committee will consider the appropriate size and composition of the Board going forward.



Alastair Lyons
Chairman of the Nomination Committee
4 March 2015

The Nomination Committee's primary responsibilities are to:

- Lead the process for making appointments to the Board.
- Ensure there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.
- Ensure plans are in place for orderly succession for appointments to the Board and for other senior management positions.

Membership

The membership of the Committee at the year end was Alastair Lyons (Chairman), Colin Holmes and Lucy Kellaway. The Company Secretary acts as Secretary to the Committee. The Committee invites the Chief Executive to attend meetings when it deems appropriate. The Nomination Committee met formally on one occasion in 2014 although members of the Committee corresponded and met informally on a number of occasions to consider and meet with individuals that the Committee had identified as possible candidates to join the Board.

Nomination Committee attendance (1 meeting)

Alastair Lyons	■ (Chairman)
Lucy Kellaway	■ (Member)
Colin Holmes	■ (Member)

■ Chairman ■ Member □ Did not attend

Duties and responsibilities

The Committee leads the process for making appointments to the Board or where the appointee is likely to become a Board member. The Committee ensures there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board through a full evaluation of the skills, knowledge and experience required of Directors. The Committee also ensures plans are in place for orderly succession for appointments to the Board and reviews the succession plans for other senior management positions. Responsibility for making senior management appointments rests with the Chief Executive.

During the year

During 2014, having regard to the length of service of some of the existing Board members, the Board decided to initiate a search for a new Non-Executive Director to join the Board and to ensure continuity across the process of succession that will ensue over the next couple of years. The Group has in place a policy of recruiting well ahead of impending retirements in order to ensure continuity of knowledge and Board dynamics.

The Nomination Committee led this process and assessed the balance of skills, knowledge, independence, diversity and experience on the Board. The Committee developed an appropriate specification for this role identifying the need for the successful candidate to have insurance experience and a technical accounting qualification, with preferably experience in a senior finance role within the insurance sector.

Appointments

Following this process, the Committee identified Penny James, who has extensive insurance experience in particular in her current role as Director of Group Finance at Prudential plc since March 2011 and her previous appointments as Chief Finance Officer of Omega Insurance Holdings and UK General Insurance CFO of Zurich Financial Services. Given Penny's background, experience and competence, and the external references that were obtained, the Committee did not consider it either necessary or appropriate to undertake a full search led by an external recruitment consultancy.

Each Committee member met separately with Penny and agreed that she would bring invaluable insurance experience to the Board given her current role with Prudential plc. The Board approved the Committee's recommendation and following regulatory approval Penny was formally appointed to the Board with effect from 1 January 2015.

In August 2014 the Committee recommended for approval by the Board the appointment of Geraint Jones as Chief Financial Officer (CFO). Geraint took over from Kevin Chidwick, who was handing over his CFO duties to focus on his role in the US as CEO of the Group's rapidly growing Elephant Auto Insurance business. Despite stepping off the Board, Kevin continues to be involved in Group matters and to attend and contribute to all Group Board meetings. Geraint joined Admiral in 2002 and has since then held a number of senior finance positions including Head of Finance, before being promoted to Deputy Chief Financial Officer in January 2012. A Fellow of the Institute of Chartered Accountants in England and Wales, Geraint has also worked as an external auditor at Ernst & Young and KPMG. Geraint's appointment demonstrates the depth of talent that exists within Admiral's senior management team and his deep understanding of Admiral's business and culture, coupled with strong leadership and financial skills, made him the natural choice to succeed Kevin as CFO.

Detailed information of individual Directors can be found on pages 42 to 43

Succession plan

The Board, at its meeting in March 2014, considered the Group's current Succession Plan, which considered the senior roles within the Group and identified whether there was emergency short term cover in place in the event that an individual left the organisation, and whether there was a permanent replacement available within the organisation, or whether the position would need to be filled externally. It also identified where there were individuals who, with further experience and guidance, would be capable of moving into particular senior management roles.

At this meeting the emerging talent across the Group was discussed in detail with the Executive team identifying key individuals within the organisation who had impressed in their current roles and who had the potential to contribute to the business by working on projects in other areas of the Group. Such exposure would also assist with their development in order that, at the appropriate time, they might be in a position to succeed to senior management positions.

The Committee remains satisfied that succession plans for Directors and senior management are in place to ensure the continued ability of the Group to implement its strategy and compete effectively in the markets in which it operates.

Board diversity

The Group remains strongly supportive of the principle of boardroom diversity, of which gender is an important, but not the only, aspect. What is important is diversity of thought, experience and approach, and each new appointment must complement what already exists at the Board table. Accordingly, appointments will always be made on merit against objective criteria, including diversity, and not just to achieve an externally prescribed number. Given five of the twelve current members of the Group Board are women, the Group has already met the target set for 2015 by Lord Davies in his report: Women on Boards. The Group remains committed to providing equal opportunities, eliminating discrimination and encouraging diversity amongst its workforce both in the UK and overseas. A breakdown of the gender of Company Directors and senior employees at the end of the financial year together with details of the Group's Equality, Diversity and Dignity at Work Policy are set out in the Directors' Report on pages 73 to 75.

Remuneration Committee

Full details of the membership, responsibilities and activities of the Remuneration Committee can be found in the Directors' Remuneration Report set out on pages 60 to 72.

Appointments made in the last year

Geraint Jones
Chief Financial Officer, appointed in August 2014

Penny James
Non-Executive Director, appointed in January 2015

Statement from Annette Court

"A number of changes are proposed to the DFSS to ensure that senior managers remain motivated and are appropriately rewarded."

Annette Court
Chairman of the Remuneration Committee

Dear Shareholder,

I am pleased to introduce the Directors' Remuneration Report (the Report) for the year ended 31 December 2014, which has been prepared by the Remuneration Committee (the Committee) and approved by the Board. This is the first report I have prepared in my capacity as new Committee Chairman, a role I assumed on 9 April 2014, replacing John Sussens.

2014 has been another good year for the Admiral Group despite challenging conditions in the cyclical core UK motor insurance market. Earnings per share in the year were 103.0 pence (2013: 104.6 pence) with a return on equity of 52% (2013: 58%). Total dividends for the financial year (including the proposed final dividend of 49.0 pence per share) will be 98.4 pence per share, representing 95% of our earnings. The Group's strategy remains to continue to maximise our position in the UK while taking what we know and do well, which is internet and telephone delivery of car insurance and price comparison, to our overseas businesses.

Two of the three Executive Directors are founding Directors and receive remuneration that comprises salary and modest benefits only. The Committee continues to hold the view that this is appropriate, as their significant shareholdings provide a sufficient alignment of their interest with those of other shareholders. In order to provide full transparency of pay arrangements for our Executive Directors, this Report includes single figure and comparative data for our CFO as well as for our CEO, as the pay arrangements for the CFO are more reflective of those for (non-founder) executives.

My predecessor, John, advised in his letter last year that one of the Group's share plans – the DFSS (Discretionary Free Share Scheme) – is due to expire in 2015, and that the Company would carry out a comprehensive review of the plan in the context of the Group's Remuneration Policy in 2014, with any proposed changes put to shareholders for approval at the Group's AGM in 2015. The review took into account the changes to the business in both size and geography since the last review in 2004, shortly after flotation, and recent trends in FTSE incentive design and pay levels particularly in the context of the Group maintaining base salary levels for most senior management positions at well below the lower quartile of their peer group in the FTSE 350.

As a result of the review, a number of changes are proposed to the DFSS in order to ensure that senior managers remain motivated; are appropriately rewarded and that the Group continues to be an attractive employer that talented individuals want to join, whilst at the same time providing appropriate incentives, and rewards, for the 2,300 employees that participate in the DFSS across the Group. I am confident that the proposed changes will continue to support the view, held by the Board, that share ownership drives outstanding performance and promotes the long term success of the business whilst remaining in alignment with shareholder interests.

The key changes that have been proposed to the DFSS are:

- Increased maximum DFSS opportunity of £2 million. For awards above £1 million, a maximum of 600% of base salary applies. We would only expect to utilise the increased maximum award in certain particular circumstances such as the recruitment of a new Executive Director. In this case, we would provide an explanation in our Annual Report on Remuneration.
- Introduction of 100% performance related awards to key senior employees where their award exceeds a threshold.
- In addition to Earnings per Share (EPS), two additional performance measures in the DFSS: relative Total Shareholder Return (TSR) and Return on Equity (ROE). The exact measures for each award may vary to reflect strategic priorities. For the 2015 awards, it is intended that vesting will be linked one third to each of EPS, TSR and ROE.
- Introduction of malus and clawback provisions to allow the recovery of both vested and unvested awards, for example, in the event of gross misconduct or misstatement.

During the early part of 2015, we consulted with our top shareholders on the proposed revisions to the DFSS. Feedback has been positive and we hope to receive your support for both the revised DFSS and the revised Remuneration Policy at the upcoming AGM.

In addition to consideration of the proposed DFSS changes set out above, the Committee also considered the following matters during the year ended 31 December 2014:

- Reviewing the salary arrangements and fee proposals for the Executive Directors, the Chairman and senior management.
- Reviewing the appropriateness of the performance conditions for the Free Share Incentive Plan (SIP) awards.
- Reviewing the Group's two key share plans to ensure both are up to date with current legislation.
- Reviewing the maximum limit for shares distributed via the SIP.
- Reviewing the Company's performance against the performance conditions applicable to the DFSS and SIP awards and where appropriate authorising the vesting of awards.
- Reviewing and authorising the grant of awards under both the DFSS and SIP.
- Reviewing minimum shareholding requirements for Executive Directors.
- Reviewing the Committee's Terms of Reference and recommending amendments to the Board for approval.

Annette Court
Chairman of the Remuneration Committee
4 March 2015

Directors' Remuneration Policy

Compliance statement

This Remuneration Report has been prepared according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and other relevant requirements of the FCA Listing Rules. In addition, the Board has applied the principles of good corporate governance set out in the UK Corporate Governance Code (the Code) and has considered the guidelines issued by its leading shareholders and bodies such as the Association of British Insurers and the National Association of Pension Funds.

This section of the report sets out the policy for Executive Directors which shareholders are asked to approve at the 2015 Annual General Meeting (AGM). The Committee intends that this policy will formally come into effect from the date of the 2015 AGM.

Remuneration paid to Executive Directors in 2014 and remuneration arrangements proposed for 2015 are set out in the Annual Report on Remuneration.

Key principles of Admiral remuneration arrangements

The Group is committed to the primary objective of maximising shareholder value over time and ensuring that there is a strong link between performance and reward. This is reflected in the Group's stated Remuneration Policy of paying competitive, performance-linked and shareholder-aligned remuneration packages comprising basic salaries coupled with participation in performance-based share schemes to generate competitive total reward packages for superior performance. The Board is satisfied that the adoption of this policy continues to meet the objectives of attracting and retaining executives of the highest quality across the Group.

The Committee reviews the framework and remuneration packages of the Executive Directors and the most senior managers and recognises the need to ensure that the Remuneration Policy is firmly linked to the Group's strategy, including its risk management approach. In setting the policy and making remuneration decisions, the Committee takes into account pay and conditions elsewhere in the Group.

The main principles underlying the Remuneration Policy are:

- **Competitive** – the Group aims to combine salaries with attractive performance-related incentives which provide the potential for competitive total reward packages for the achievement of superior performance. Base salaries reflect the role, job size and responsibility together with individual performance and effectiveness. Prevailing market and economic conditions and developments in governance are also considered, as are general salary levels throughout the organisation. In considering total remuneration for the Executive Directors, the Committee takes into account remuneration in companies of a similar size in the Financial Services sector.
- **Performance-linked** – a significant part of the Executive Directors' (excluding the founding Directors) and senior managers' reward remains performance-linked and shareholder-aligned.
- **Transparent** – all aspects of the remuneration structure are clear to employees and openly communicated.

Remuneration policy table

This table describes the key components of the remuneration arrangements for Executive Directors for 2015 and beyond.

Purpose and link to strategy	Operation	Opportunity and performance metrics
Base salary To attract and retain talent by setting base salaries at levels appropriate for the business.	Salaries are reviewed annually or following a significant change in responsibilities. Salary levels/increases take account of: › Scope and responsibility of the position. › Individual performance and effectiveness, and experience of the individual in the role. › Average increase awarded across the Group.	Any salary increases are applied in line with the outcome of the review. In respect of existing Executive Directors, it is anticipated that salary increases will normally be in line with the increase for the general employee population over the term of this policy. More significant increases may be awarded in certain circumstances including, but not limited to: where there has been a significant increase in role size or complexity, to apply salary progression for a newly appointed Executive Director, or where the Executive Director's salary has fallen significantly behind market. Where increases are awarded in excess of that for the general employee population, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.
Pension To provide retirement benefits.	The Group operates a Personal Pension Plan, a Defined Contribution Scheme. This is available to all employees following completion of their probationary period.	The Group matches employee contributions up to a maximum of 6% of base salary subject to an overall maximum employer contribution of £9,000. Salary is the only element of remuneration that is pensionable. Henry Engelhardt has declined to be included in the plan.

Purpose and link to strategy	Operation	Opportunity and performance metrics
Other benefits To provide competitive benefits.	Includes (but not limited to): › Death in service scheme. › Private medical cover. › Permanent health insurance. › Relocation, at the Committee's discretion. All benefits are non-pensionable.	Benefits may vary by role. None of the existing Executive Directors received total taxable benefits exceeding 5% of salary (excluding relocation) during the most recent financial year, and it is not anticipated that the cost of benefits provided will exceed this level over the term of this policy. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation), or in circumstances driven by factors outside the Company's control (e.g. material increases in insurance premiums).
Discretionary Free Share Scheme (DFSS) To motivate and reward longer term performance, aid long term retention of key executive talent, use capital efficiently, grow profits sustainably and further strengthen the alignment of the interests of shareholders and staff.	Executive Directors may be granted awards annually at the discretion of the Committee. Henry Engelhardt and David Stevens have declined to participate given their significant shareholdings. Awards are generally made as a specific number of shares and vest after a minimum of three years subject to Group performance and continued employment. Awards are subject to clawback and malus, i.e. forfeiture or reduction of unvested awards and recovery of vested awards in exceptional circumstances (such as material misstatement or gross misconduct).	Maximum opportunity: £2 million. For awards above £1 million a maximum of 600% of base salary applies. Vesting of DFSS awards is subject to the Group's performance over a three-year performance period. The performance measures and respective weightings may vary year-on-year to reflect strategic priorities. Details of the measures, weightings and performance targets used for specific DFSS grants are included in the Annual Report on Remuneration. Threshold performance will result in vesting of up to 25% of the maximum award.
DFSS bonus To further align incentive structures with shareholder interests through the delivery of dividend equivalents.	To incentivise shareholder value creation, in particular in the form of dividends, management participate in a bonus scheme which directly links their awards to dividends paid to shareholders. Bonus is calculated to be equivalent to dividends that would have been payable during the year on all outstanding DFSS shares awarded but not vested. DFSS bonus payments are subject to clawback in exceptional circumstances (such as material misstatement or gross misconduct).	Maximum opportunity: sum equal to dividends payable during the year on awarded but unvested DFSS shares. No bonus is payable unless dividends are payable on Admiral shares.
Approved Free Share Incentive Plan (SIP) To encourage share ownership across all employees using HMRC approved schemes.	All UK employees participate in the SIP (except Henry Engelhardt and David Stevens, who have declined to participate). Grants are made twice a year based on the results of each half year and vest after three years subject to continued employment.	The SIP is an all-employee scheme and Executive Directors participate on the same terms as other employees. The acquisition of shares is therefore not subject to the satisfaction of a performance target. Maximum opportunity is in line with HMRC limits.
Minimum shareholding requirement To align interests of Executive Directors with shareholders.	Guideline to be met within five years of appointment.	Two times salary.

The Committee is satisfied that the above Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking. The Committee retains discretion to make non-significant changes to the Remuneration Policy without reverting to shareholders.

Directors' Remuneration Policy continued

Notes to the remuneration policy table

Payments from existing awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Remuneration Policy. This includes all outstanding awards under the DFSS, made prior to the approval of the 2015 DFSS, and awards of DFSS shares that vest 50% on performance and 50% on continued employment made to the new CFO prior to his appointment to the Board.

Selection of performance measures

EPS vs. LIBOR has been selected as a performance measure for awards under both the existing and 2015 DFSS as the Committee feels it is a strong indicator of both long term shareholder return and the underlying financial performance of the business. It is transparent and visible and provides good line-of-sight to executives. For awards to be made in 2015, two further measures will be added. The first additional measure is TSR vs. the FTSE 350 (excluding investment companies), selected to reflect value creation for Admiral's shareholders as compared with the general market. The second additional measure is ROE, selected as the Committee believes that ROE reinforces the focus on capital efficiency and delivery of strong returns for our shareholders, thereby further strengthening the alignment of management's incentives with Admiral's strategy. The specific performance measures and their respective weightings in respect of each DFSS award may vary to reflect the strategic priorities at the time of the award.

Performance targets are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. The financial targets are set taking into account a range of reference points including the Group's strategic plan and broker forecasts for both Admiral and its insurance peers. The Committee believes that the performance targets set are stretching, provide motivation, and that maximum outcomes are only available for outstanding performance.

Remuneration policy for other employees

The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the role size, experience required, individual performance and pay levels in comparable companies.

In general, the Remuneration Policy which applies to other senior executives is consistent with that for Executive Directors. Remuneration is typically linked to Company and individual performance in a way that reinforces shareholder value creation.

Approximately 2,300 employees from across the Group, as well as the CFO, participate in the DFSS. The Committee recommends for approval by the Board awards to all participants under the DFSS. For the CFO and around 20 senior managers, all share awards are subject to the performance conditions detailed in the policy table. For employees at lower organisational levels, awards are split: 50% of the award is subject to the same performance conditions and the other 50% has no performance conditions attached other than the requirement that the recipient remains an employee of the Group at the date of vesting. Award sizes vary by organisational level. All holders of DFSS awards receive the DFSS bonus. Overseas employees receive an equivalent award to the UK SIP awards under the DFSS. These awards have no performance measures attached.

All employees are eligible to participate in the SIP on the same terms.

Remuneration arrangements for founding Directors

Two of the three Executive Directors (Henry Engelhardt and David Stevens) are founding Directors. They and the Committee continue to hold the view that the significant shareholdings held by them provide a sufficient alignment of their interest in the performance of the Group with the interests of other shareholders. In light of this, their remuneration packages consist only of a below market rate salary and benefits such as private medical cover, permanent health insurance and death in service cover. During the year David Stevens joined the Group's Personal Pension Plan and from October 2014 the Group matched his contributions under the Plan. The Group does not contribute to any pension arrangements on behalf of Henry Engelhardt. Henry Engelhardt and David Stevens have not participated, nor is it intended that they participate, in any Group share schemes.

Service contracts and leaver/change of control provisions

The Company's policy is to limit termination payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Under normal circumstances, Executive Directors are entitled to receive termination payments in lieu of notice based on base salary and compensation for loss of benefits. The Company has the ability to pay such sums in instalments, requiring the Executive Director to mitigate loss over the relevant period. The notice period for all Executive Directors is one year.

There is no provision in the Executive Directors' contracts for compensation to be payable on early termination of their contract over and above the notice period element. Executive Director service contracts are available to view at the Company's registered office.

Executive Director	Date of appointment
Henry Engelhardt	22 October 1999
David Stevens	22 October 1999
Geraint Jones	13 August 2014

When considering termination payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the DFSS and DFSS bonus scheme are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Plan	Scenario	Timing of vesting	Treatment of awards
DFSS	Resignation	Awards lapse	n/a
	Death, injury or disability, redundancy, retirement or any other reasons the Committee may determine	Normal vesting date	Any outstanding award will be pro-rated for time and performance.
	Change of control	Immediately	Any outstanding award will be pro-rated for time and extent to which the Committee determines that the performance conditions have been met or are likely to be met at the point of change of control.
DFSS bonus	Resignation	n/a	n/a
	Death, injury or disability, redundancy, retirement or any other reasons the Committee may determine	n/a	Not payable after the event.
	Change of control	n/a	Not payable after the event.

Non-Executive Directors

The Company has entered into letters of appointment with its Non-Executive Directors (NEDs). Summary details of terms and notice periods are included below.

NED	Term	Commencement date	Notice period
Alastair Lyons	3 years	1 July 2013	Three months
Roger Abravanel	3 years	6 March 2012	One month
Manfred Aldag	Indefinite	n/a	One month – automatically terminates should he cease employment with Munich Re
Annette Court	3 years	21 March 2015	One month
Colin Holmes	3 years	3 December 2013	One month
Penny James	3 years	1 January 2015	One month
Margaret Johnson	3 years	4 September 2012	One month
Lucy Kellaway	3 years	4 September 2012	One month
Jean Park	3 years	17 January 2014	One month

The NEDs are not eligible to participate in the DFSS or DFSS bonus scheme and do not receive any pension contributions.

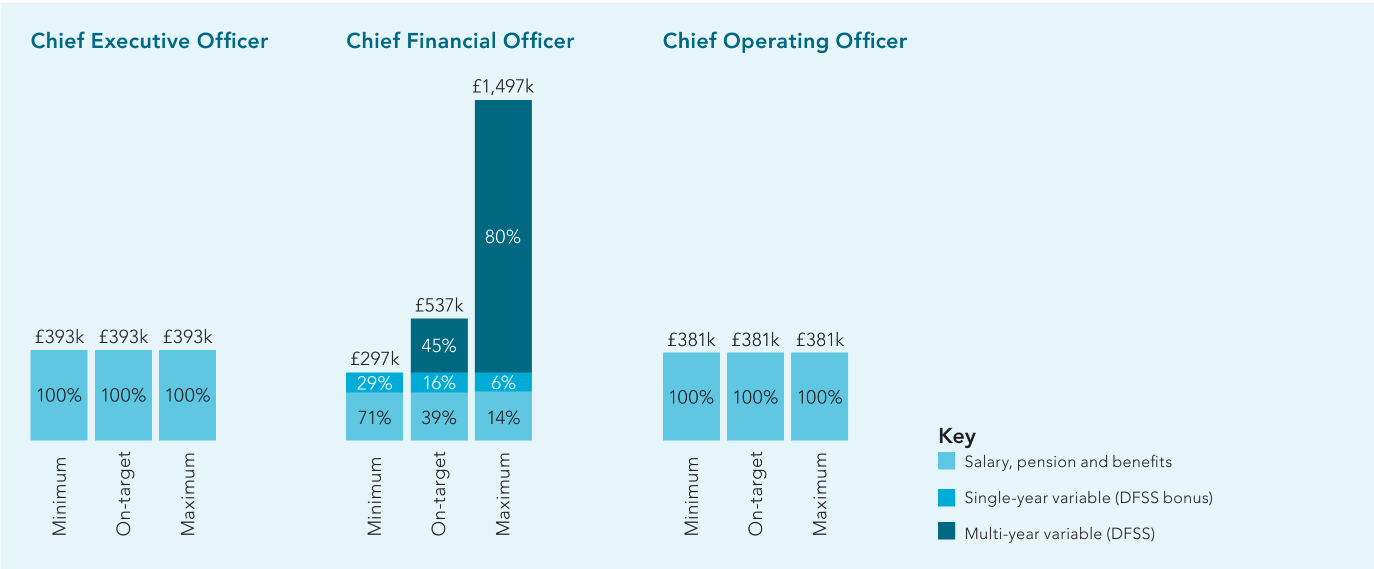
Details of the policy on NED fees are set out in the table below:

Purpose and link to strategy	Operation	Opportunity and performance metrics
To attract and retain NEDs of the highest calibre with experience relevant to the Company	Fees are reviewed annually. The Group Chairman fee is determined by the Committee after consultation with the Executive Directors. The NED fees are determined by the Group Chairman together with the Executive Directors. Additional fees are payable for acting as Senior Independent Director or as Chair or member of a Board Committee as appropriate, and may be payable as appropriate in relation to other additional responsibilities (e.g. attending meetings overseas). Fee levels are reviewed by reference to time commitment and responsibility. Fees are currently paid entirely in cash, but the Board retains discretion to part-pay fees in Company shares.	Any fee increases are applied in line with the outcome of the review. The current Group Chairman, as with the founding Directors, holds a significant shareholding in the Group and this is reflected in the size of his fee, which is materially below that of Chairs of organisations of similar size and complexity.

Directors' Remuneration Policy continued

Pay-for-performance: scenario analysis

The following charts provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of pay under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'. As described on page 61, Admiral's DFSS bonus is directly aligned with dividends received by shareholders. As such, there is no 'threshold' or 'target' performance defined for this element of pay. The figures shown in the chart below for the CFO's DFSS bonus include the value of the actual DFSS bonus paid in 2014. Under all scenarios, potential reward opportunities are based on expected awards for 2015 (in accordance with Admiral's Remuneration Policy), applied to salaries as at 31 December 2014. The 'On-target' column includes a 20% vesting for DFSS awards which would occur for achieving threshold performance targets.



The charts above exclude the effect of any Company share price movement. For this reason, were the CFO's DFSS shares to vest in full, his actual total remuneration may exceed the £ value shown in the chart above.

Component	Minimum	On-target	Maximum
Base salary	Annual base salary for 2015		
Pension	£9,000 annual contribution for CFO and COO; no contribution for CEO		
Benefits	Taxable value of annual benefits provided		
DFSS	0% vesting	20% average vesting	100% vesting
DFSS bonus	Based on DFSS bonus paid in 2014		

Approach to remuneration relating to new appointments

External appointments

In the case of appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	The base salary will be determined by the Committee with reference to the scope and responsibility of the position as well as internal relativities and their current remuneration.	
Pension	New appointees will be eligible to participate in the Personal Pension Plan with Group contributions in line with the existing policy.	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) death in service scheme, private medical cover, and permanent health insurance.	
SIP	New appointees will be eligible to participate in the SIP.	
DFSS	New appointees will be granted awards under the DFSS on the same terms as other Executives, as described in the policy table.	£2 million. Awards over £1 million are subject to a maximum of 600% of base salary.
DFSS bonus	New appointees will be granted awards under the DFSS bonus scheme on the same terms as other Executives, as described in the policy table.	Linked to Admiral dividend.

The Committee may also make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards and the likelihood of those conditions being met to ensure that the value of the buy-outs are no greater than the fair value of the awards they replace. The Committee may also avail itself of Listing Rule 9.4.2 R if appropriate in respect of buy-out incentive arrangements.

Internal appointments
Remuneration for new Executive Directors appointed by way of internal promotion will similarly be determined in line with the policy for external appointees, as detailed on page 64. Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these arrangements. Incentive opportunities for below Board employees are typically no higher than for Executive Directors, but measures may vary if necessary.

NED recruitment
In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 63. A base fee would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or as Chair or member of a Board Committee as appropriate.

Other directorships
Executive Directors are permitted to, although none currently do, accept appointments as Non-Executive Directors of companies with prior approval of the Group Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual.

Considerations of conditions elsewhere in the Group
The Committee considers the pay and employment conditions elsewhere in the Group when determining remuneration for Executive Directors. Whilst the Committee does not currently consult specifically with employees on the Executive Remuneration Policy, it consults with and receives updates on employee pay arrangements from the Head of People Services and takes this into consideration when reviewing Executive remuneration.

Considerations of shareholder views
When determining remuneration, the Committee takes into account best practice guidelines issued by institutional shareholder bodies. The Committee is open to feedback from shareholders on Remuneration Policy and will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the Executive remuneration remains appropriate.

Further detail on the votes received on the Directors' Remuneration Policy and Annual Report on Remuneration are provided in the Annual Report on Remuneration.

Annual Report on Remuneration

This section of the report provides details of how Admiral's Remuneration Policy was implemented in 2014 and the remuneration arrangements proposed for 2015.

Remuneration Committee membership in 2014

The Board sets the Group's Remuneration Policy and, through the authority delegated to it by the Board, the Committee is responsible for making recommendations to the Board on the structure and implementation of the Remuneration Policy across the Group with consideration to the prevailing economic climate within the economies in which the Group operates. Its remit includes recommending the remuneration of the Group Board Chairman, the Executive Directors and the Company Secretary; reviewing the remuneration of senior management; and reviewing the composition of and awards made under the performance-related incentive schemes.

At the end of 2014 the Committee consisted of Margaret Johnson, Roger Abravanel and Jean Park under the Chairmanship of Annette Court. The Committee met eight times during the year.

The Group Chairman and CEO are invited to meetings where the Committee considers it appropriate to obtain their advice on Group strategy and performance and Senior Executive pay strategy. The members of the Committee do not have any personal financial interests (other than shareholdings), or any conflicts, that relate to the business of the Committee. The Committee members do not have any day-to-day involvement in the running of the Group.

Advisor to the Committee

During the year, in order to enable the Committee to reach informed decisions on Executive remuneration, advice on market data and trends was obtained from independent consultants, Kepler Associates. Kepler reports directly to the Committee Chair and is a signatory to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Kepler does not provide any other services to the Group. The fees paid to Kepler in respect of work carried out in 2014 (based on time and materials) totalled £4,135, excluding expenses and VAT.

The Committee undertakes due diligence periodically to ensure that Kepler remains independent of the Company and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Kepler is independent.

In addition, PricewaterhouseCoopers LLP (PwC) provided the Committee with advice on the structure of the Group's share schemes. The fees paid to PwC for work during 2014 totalled £8,200, excluding expenses and VAT. The Company Secretary also circulates market survey results as appropriate.

Summary of shareholder voting at the 2014 AGM

The table below shows the results of the binding and advisory votes on the Directors' Remuneration Policy and Annual Report on Remuneration of the 2014 Directors' Remuneration Report, respectively, at the 2014 AGM.

		For	Against	Total votes cast	Abstentions
Directors' Remuneration Policy	Total number of votes	202,909,688	3,045,740	205,955,428	2,548,073
	% of votes cast	98.5%	1.5%		1.2%
Annual Report on Remuneration	Total number of votes	207,649,080	771,144	208,420,224	82,528
	% of votes cast	99.6%	0.4%		0.0%

Total single figure of remuneration for Executive Directors (audited)

The table below sets out the total single figure remuneration received by each Executive Director for the year ended 31 December 2014 and the prior year.

Executive Director		1. Base salary	2. Benefits	3. Pension	4. SIP	5. DFSS	6. DFSS bonus	7. Other	Total remuneration
Henry Engelhardt	**2014**	**£392,870**	**£390**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£393,260**
	2013	£387,147	£399	n/a	n/a	n/a	n/a	n/a	£387,546
Geraint Jones[8]	**2014**	**£60,263**	**£150**	**£3,470**	**£3,000**	**£171,228**	**£87,250**	**n/a**	**£325,361**
	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David Stevens	**2014**	**£371,340**	**£390**	**£900**	**n/a**	**n/a**	**n/a**	**n/a**	**£372,630**
	2013	£364,130	£399	n/a	n/a	n/a	n/a	n/a	£364,529
Kevin Chidwick[9]	**2014**	**£280,126**	**£240**	**£5,523**	**£3,000**	**£459,598**	**£176,525**	**£177,104**	**£1,102,116**
	2013	£443,289	£399	£9,000	£3,000	£675,075	£148,680	£165,000	£1,444,443

The figures have been calculated as follows:

1. Base salary/fee: amount earned for the year.
2. Benefits: the taxable value of annual benefits received in the year.
3. Pension: the value of the Company's contribution during the year.
4. SIP: the face value at grant.
5. DFSS: the value at vesting of shares vesting on performance over the three-year periods ending 31 December 2014 and 31 December 2013. For the 2014 calculations, given that vesting occurs in October 2015, after the Directors' Remuneration Report is finalised, the figures are based on the average share price in the last three months of 2014 (£12.62). The 2013 calculations have been based on the actual share price on vest (£13.50).
6. DFSS bonus: the value at grant of bonus equivalent to dividends that would have been payable during the year on all outstanding DFSS shares awarded but not yet vested.
7. Kevin Chidwick was paid £177,104 in 2014 (2013: £165,000) to reimburse him for expenses incurred in relation to his being based in the US after taking on CEO responsibility for the Group's US insurer Elephant Auto.
8. Geraint Jones was appointed to the Board as CFO on 13 August 2014. His 2014 remuneration includes salary, pension and benefits in respect of his service as CFO, his full year DFSS and his full year DFSS bonus.
9. Kevin Chidwick left the Board on 13 August 2014 to focus on his new role as CEO of Elephant Auto. His 2014 remuneration includes salary, pension and benefits in respect of his service as CFO, his full year DFSS and his full year DFSS bonus.

Total single figure of remuneration for Non-Executive Directors (audited)

The table below sets out the total single figure remuneration received by each NED for the year ended 31 December 2014 and the prior year.

Director	Total fees 2014	Total fees 2013
Alastair Lyons	**£228,228**	£228,228
Roger Abravanel	**£55,000**	£50,000
Manfred Aldag	**£6,000**	£6,000
Annette Court	**£86,383**	£74,000
Colin Holmes	**£80,295**	£70,000
Margaret Johnson	**£67,000**	£62,000
Lucy Kellaway	**£63,809**	£50,000
Jean Park*1	**£82,103**	—
Martin Jackson*2	**£20,769**	£70,000
John Sussens*2	**£21,323**	£72,000

*1 Jean Park was appointed to the Board on 17 January 2014. Her total single figure remuneration for 2014 includes amounts relating to the month immediately prior to her appointment to the Board when she prepared for and attended, as an observer, a Group Risk Committee meeting and Group Board meeting

*2 Martin Jackson and John Sussens retired from the Board with effect from 9 April 2014

Incentive outcomes for financial year to 31 December 2014

DFSS awards vesting on performance to 31 December 2014

Awards were made under the DFSS to Kevin Chidwick and Geraint Jones on 11 October 2012. Vesting is dependent on the Company's EPS performance in excess of a risk-free return, defined as average three-month LIBOR, over a three-year period commencing on 1 January 2012. 10% of shares vest for matching LIBOR, full vesting occurs for outperforming LIBOR by 10% p.a., with straight-line vesting in between. No vesting occurs for EPS growth below LIBOR. The table below details the Company's EPS performance against targets and vesting outcomes over the performance period ending on 31 December 2014.

Performance period	Executive Director	Interest held	Admiral EPS index	LIBOR index	Out-performance*1	% vesting	Interest vesting	Vesting date	Estimated value*2
1 Jan 2012 – 31 Dec 2014	Geraint Jones*3	16,000	126 points	102 points	24 points	85%	13,568	11 Oct 2015	£171,228
	Kevin Chidwick	52,250				70%	36,418	11 Oct 2015	£459,598

*1 36 points are required for 100% vesting

*2 Calculated based on the average share price in the last three months of 2014 (£12.62)

*3 Only 50% of Geraint Jones' 2012 DFSS award was subject to performance, as the award was made prior to his appointment to the Board

DFSS bonus in respect of 2014

The Group paid a bonus to all holders of DFSS shares in 2014, which was equivalent to the dividend payable on all outstanding DFSS shares awarded but not yet vested. The Committee continues to feel that having a Group-wide bonus equivalent to the dividend flow received by investors further aligns the incentive structure with shareholders.

In 2014, Kevin Chidwick and Geraint Jones received DFSS bonuses of £176,525 and £87,250, respectively (2013 – Kevin Chidwick: £148,680).

Scheme interests awarded in 2014

DFSS

In September 2014, Kevin Chidwick was granted an award under the DFSS of 35,000 shares with a value at the date of award of £429,520. Following his appointment as CFO, in September 2014 Geraint Jones was granted an award of 35,000 shares with a value at the date of award of £429,520. The three-year period over which performance will be measured will be 1 January 2014 to 31 December 2016. The award is eligible to vest in its entirety on the third anniversary of the date of grant (i.e. October 2016), subject to performance and to continued employment. Henry Engelhardt and David Stevens again declined to be included given their significant shareholdings.

Geraint Jones was also granted an award in April 2014 of 20,000 shares with a value at date of award of £274,800. As this award was made prior to his appointment to the Board, only 50% of this award is subject to performance.

Annual Report on Remuneration continued

Scheme interests awarded in 2014 continued

DFSS continued

Awards made up to and including 2014 vest based on EPS growth vs. LIBOR, as outlined on page 61.

Type of award	Discretionary Free Share Scheme
Face value of awards granted in 2014	CEO: n/a
	CFO (Geraint Jones): 20,000 shares on 15 April 2014 with a value at the date of award of £274,800 (based on share price of £13.74) (50% of the award is subject to performance); and 35,000 shares on 22 September 2014 with a value at the date of award of £429,520 (based on share price of £12.272) (100% of the award is subject to performance).
	COO: n/a
	Previous CFO (Kevin Chidwick): 35,000 shares on 22 September 2014 with a value at the date of award of £429,520 (based on share price of £12.272)
Performance period	3 years from 1 January 2014
Performance conditions	Growth in EPS vs. LIBOR
Threshold (10% vests)	Growth in line with LIBOR over 3 years
Maximum (100% vests)	Growth of 10% p.a. in excess of LIBOR over 3 years

SIP

In March and September 2014, Kevin Chidwick and Geraint Jones were granted awards under the SIP of 100 shares in March 2014, with a face value of £1,506, and 114 shares in September 2014, with a face value of £1,489. The shares will vest on 14 March and 5 September 2017 respectively subject to continued employment only. Henry Engelhardt and David Stevens again declined to be included given their significant shareholdings.

Exit payments and payments to past Directors

No payments were made during the year. Unvested DFSS shares awarded to Kevin Chidwick during the period he was CFO remain subject to 100% performance.

Implementation of remuneration policy for 2015

Executive Directors

Salary, pension and benefits

Remuneration for the Executive Directors in 2015 will be determined in line with the latest policy. The Committee approved the following base salaries for the Executive Directors in 2014:

Director	Latest salary	2014 salary	% change	Effective date
Henry Engelhardt	**£392,870**	£392,870	—	1 July 2014
Geraint Jones	**£200,000**	£156,000	28%	1 January 2015
David Stevens	**£371,340**	£371,340	—	1 September 2014

Geraint Jones was appointed to the Board on a relatively low salary and the Committee expects to make salary increases that are above general inflation in the next few years to reflect his demonstrated development in the CFO role and the performance of the business. The Committee will determine the levels of future increases taking into account both his individual and Company performance, and with reference to market pay levels. Geraint's current salary of £200,000 is significantly below the median level for companies of a similar size.

Geraint Jones will continue to participate in the Group Personal Pension Plan, where employee contributions are matched up to a maximum 6% of base salary with maximum employer contribution of £9,000. David Stevens will also continue to participate in the plan, on the same basis as in 2014. As in previous years, Henry Engelhardt has declined to be included in the plan for 2014. All Executive Directors will continue to receive benefits in line with the policy.

DFSS

The Company held a comprehensive review of the DFSS in 2014, taking into account the changes to the business in both size and geography since the last review in 2004, and recent trends in FTSE incentive design and pay levels. As a result of the review, a number of changes to the DFSS have been proposed in order to ensure that senior managers remain motivated; are appropriately rewarded; and that the Group continues to be an attractive employer that talented individuals want to join whilst at the same time providing appropriate incentives, and rewards, for the 2,300 employees that participate in the DFSS across the Group.

The key changes that have been made to the DFSS include:

- Increased maximum DFSS opportunity of £2 million. Awards above £1 million are subject to a 600% of salary limit.
- Inclusion of 100% performance related awards for approximately 20 of the Group's most senior managers.
- Two additional performance measures in the DFSS: relative TSR and ROE.
- Introduction of malus and clawback provisions.

In advance of each DFSS cycle, the Committee reviews the appropriateness of the performance measures and corresponding targets. Vesting of the 2015 award will be linked to three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE, weighted equally. The Committee intends to make DFSS awards in September 2015 and indicative targets are shown in the table below.

	Performance range		
Performance measure	Threshold	Maximum	Vesting
EPS growth vs. LIBOR	Growth in line with LIBOR	Growth of 10% p.a. in excess of LIBOR	10% for reaching threshold with straight line relationship to 100% at maximum performance.
TSR vs. FTSE 350 (excluding investment companies)	Median	Top quartile	25% for median, with straight line relationship to 100% for top quartile.
ROE	25%	55%	25% for reaching threshold with straight line relationship to 100% at maximum performance.

The Committee will determine the precise targets closer to the time of making the awards, later in the year, and will disclose them in the 2015 Annual Report on Remuneration.

Chairman and Non-Executive Directors

The fee payable to the Chairman of the Board is £232,793 p.a. with effect from 1 January 2015. The basic fee payable to each NED is £55,000 p.a. The fees payable for chairing the Audit, Group, Risk, Remuneration and Nomination Committees are £20,000, £20,000, £10,000 and £5,000 p.a., respectively. The additional fee paid for being Senior Independent Director is £10,000 p.a. The fees payable for membership of the Audit and Group Risk Committees are £12,000 p.a. each.

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration from 2013 compared to the average percentage change in remuneration for all other employees. The analysis is based on a consistent set of employees, i.e. the same individuals appear in the 2013 and 2014 populations. As the CEO does not participate in the DFSS bonus scheme, to provide a meaningful comparison, we have also included data for the CFO.

	CEO			CFO			Other employees
	2014	2013	% change	**2014**	2013	% change	% change
Salary	**£392,870**	£387,147	1%	**£340,389**[*1]	£443,289	-23%	3%
Taxable benefits	**£390**	£399	-2%	**£177,494**[*2]	£165,399	7%	-2%
DFSS bonus*3	**—**	—	—	**£263,775**[*4]	£148,680	77%	-1%
Total	**£393,260**	£387,546	1%	**£781,658**	£757,368	3%	3%

*1 Based on the sum of remuneration paid to Kevin Chidwick up to and including 13 August 2014 and to Geraint Jones from 13 August 2014

*2 In January 2014 Kevin Chidwick was provided with a cash reimbursement of 177,104 in relation to expenses incurred in his relocation to the US

*3 DFSS bonus change represents the change in dividends paid, which is the driver of the level of bonus payable to holders of unvested DFSS shares

*4 CFO DFSS bonus includes full DFSS bonus paid to both Geraint Jones (£87,250) and Kevin Chidwick (£176,525) during the year

Relative importance of spend on pay

The table below shows the percentage change in dividends and total employee remuneration spend from the financial year ended 31 December 2013 to the financial year ended 31 December 2014.

	2014 £m	2013 £m	% change
Distribution to shareholders	**271**	271	—
Employee remuneration	**209**	205	2%

The Directors are proposing a final dividend for the year ended 31 December 2014 of 49.0 pence per share bringing the total dividend for 2014 to 98.4 pence per share (2013: 99.5 pence per share).

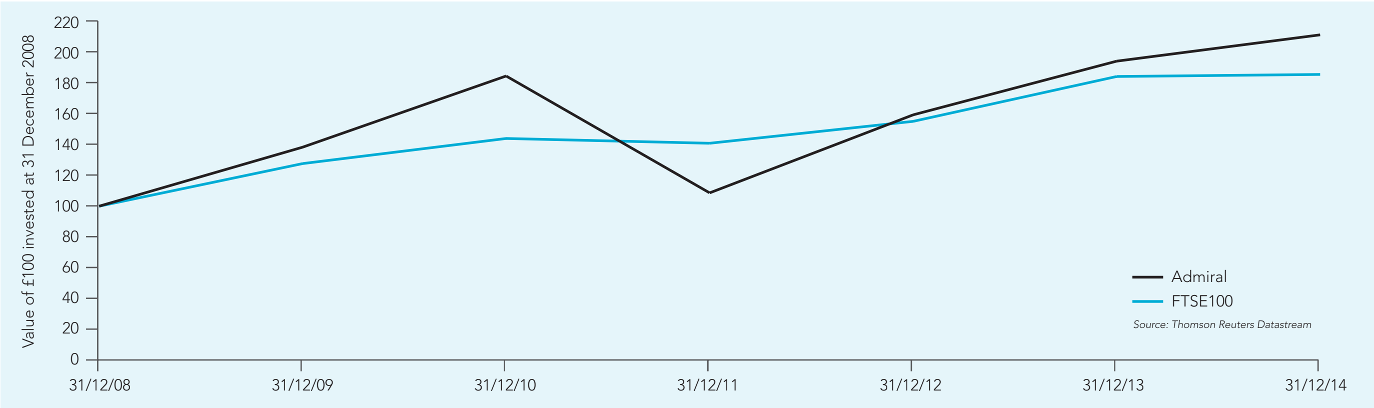
Annual Report on Remuneration continued

Pay for performance

The following graph sets out a comparison of Total Shareholder Return (TSR) for Admiral Group plc shares with that of the FTSE 100 Index, of which the Company is a constituent, over the six-year period to 31 December 2014. The Directors consider this to be the most appropriate index against which the Company should be compared. TSR is defined as the percentage change over the period, assuming reinvestment of income.

Historical TSR performance

Growth in the value of a hypothetical £100 holding over the six years to 31 December 2014



CEO	2009	2010	2011	2012	2013	**2014**
CEO single figure of remuneration	£328,027	£343,106	£358,199	£373,759	£387,546	**£393,260**
DFSS vesting outcome (% of maximum)	n/a	n/a	n/a	n/a	n/a	**n/a**

CFO	2009	2010	2011	2012	2013	**2014**	**2014**
Incumbent	Kevin Chidwick	Kevin Chidwick	Kevin Chidwick	Kevin Chidwick	Kevin Chidwick	**Kevin Chidwick**	**Geraint Jones**
CFO single figure of remuneration	£632,312	£1,269,535	£1,048,130	£1,431,218	£1,444,443*1	**£1,102,116*1**	**£325,361**
DFSS vesting outcome (% of maximum)	98%	100%	100%	100%	100%	**70%**	**85%**

*1 These figures include reimbursement of £177,104 and £165,000 in 2014 and 2013, respectively, for expenses incurred in respect of the previous CFO's relocation

Annual bonus outcome has been excluded as Admiral does not operate any performance-based annual bonus schemes.

Dilution

The Company has controls in place to ensure that shares awarded under the schemes operated by the Company within any rolling ten-year period do not exceed 10% of the number of ordinary shares in the capital of the Company in issue at the time of each award.

Total shareholdings of Directors (audited)

Executive Directors have agreed to (acquire and) retain a beneficial shareholding equal to at least 200% of base salary, which can be built up over a period of five years from the date of appointment.

As at 31 December 2014, the Directors have the following shareholdings:

	Shares held				
Director	Beneficially owned outright	Subject to performance conditions	Shareholding requirement (% of salary)	Current shareholding (% of salary/fee)	Requirement met?
Henry Engelhardt	34,005,472	n/a	200%	>200%	Yes
Geraint Jones[*1]	42,741[*3]	87,000[*4]	200%	>200%	Yes
David Stevens	9,881,950	n/a	200%	>200%	Yes
Kevin Chidwick[*2]	98,458[*3]	139,500			
Alastair Lyons	312,152				
Roger Abravanel	—				
Manfred Aldag	1,919				
Annette Court	—				
Colin Holmes	40,000				
Margaret Johnson	—				
Lucy Kellaway	—				
Jean Park[*5]	—				

[*1] Geraint Jones was appointed to the Board on 13 August 2014

[*2] Kevin Chidwick left the Board on 13 August 2014

[*3] Total includes SIP shares both matured and awarded

[*4] Total includes 26,000 unvested DFSS shares, awarded to Geraint Jones before he was appointed CFO, that are not subject to performance conditions

[*5] Jean Park was appointed to the Board on 17 January 2014

There have been no changes to Directors' shareholdings since 31 December 2014.

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

Current Chief Financial Officer Geraint Jones' interests in shares under the DFSS and SIP (audited)

Type	At start of year	Awarded during year	Vested/matured during year	At end of year	Price at award (£)	Value at award date (£)	Value at 31/12/14 or maturity (£)	Date of award	Final vesting/ maturity date
DFSS	16,000	—	16,000	—	£16.39	£262,240	£216,024[*1]	15/04/2011	15/04/2014
DFSS	16,000	—	—	16,000	£10.73	£171,680	£211,680	11/10/2012	11/10/2015
DFSS	16,000	—	—	16,000	£12.09	£193,440	£211,680	10/10/2013	10/10/2016
DFSS	—	20,000	—	20,000	£13.74	£274,800	£264,600	15/04/2014	15/04/2017
DFSS	—	35,000	—	35,000	£12.27	£429,520	£463,050	22/09/2014	22/09/2017
SIP	90	—	90	—	£16.78	£1,510	£1,350[*1]	08/03/2011	08/03/2014
SIP	110	—	110	—	£13.52	£1,487	£1,418[*1]	05/09/2011	05/09/2014
SIP	128	—	—	128	£11.80	£1,510	£1,693	16/03/2012	16/03/2015
SIP	126	—	—	126	£11.82	£1,489	£1,667	03/09/2012	03/09/2015
SIP	112	—	—	112	£13.48	£1,510	£1,482	15/03/2013	15/03/2016
SIP	116	—	—	116	£12.83	£1,488	£1,535	02/09/2013	02/09/2016
SIP	—	100	—	100	£15.06	£1,506	£1,323	14/03/2014	14/03/2017
SIP	—	114	—	114	£13.06	£1,489	£1,508	05/09/2014	05/09/2017

[*1] Value at maturity

Annual Report on Remuneration continued

Former Chief Financial Officer Kevin Chidwick's interests in shares under the DFSS and SIP (audited)

Type	At start of year	Awarded during year	Vested/matured during year	At end of year	Price at award (£)	Value at award date (£)	Value at 31/12/14 or maturity (£)	Date of award	Final vesting/ maturity date
DFSS	50,000	—	50,000	—	£16.39	£819,500	£675,075[*1]	15/04/2011	15/04/2014
DFSS	52,250	—	—	52,250	£10.73	£560,643	£691,268	11/10/2012	11/10/2015
DFSS	52,250	—	—	52,250	£12.09	£631,703	£691,268	10/10/2013	10/10/2016
DFSS	—	35,000	—	35,000	£12.27	£429,520	£463,050	22/09/2014	22/09/2017
SIP	90	—	90	—	£16.78	£1,510	£1,350[*1]	08/03/2011	08/03/2014
SIP	110	—	110	—	£13.52	£1,487	£1,418[*1]	05/09/2011	05/09/2014
SIP	128	—	—	128	£11.80	£1,510	£1,693	16/03/2012	16/03/2015
SIP	126	—	—	126	£11.82	£1,489	£1,667	03/09/2012	03/09/2015
SIP	112	—	—	112	£13.48	£1,510	£1,482	15/03/2013	15/03/2016
SIP	116	—	—	116	£12.83	£1,488	£1,535	02/09/2013	02/09/2016
SIP	—	100	—	100	£15.06	£1,506	£1,323	14/03/2014	14/03/2017
SIP	—	114	—	114	£13.06	£1,489	£1,508	05/09/2014	05/09/2017

[*1] Value at maturity

The closing price of Admiral shares on 31 December 2014 was £13.23 per share. Performance conditions for DFSS awards made in 2012 and 2013 are the same as those for awards made in 2014, as detailed in the Remuneration Policy table.

By Order of the Board,

Annette Court
Chairman of the Remuneration Committee
4 March 2015

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2014.

Statutory disclosures

Group results and dividends

The profit for the year, after tax but before dividends, amounted to £281.6 million (2013: £286.9 million).

The Directors declared and paid dividends of £273.5 million during 2014 (2013: £255.8 million) – refer to note 11b for further details.

The Directors have proposed a final dividend of £136 million (49.0 pence per share) payable on 29 May 2015.

Employee policies

Detailed information on the Group's employment practices is set out in the Strategic Report and on the corporate website. The Group purchases appropriate liability insurance for all staff and Directors.

Diversity, ethics and human rights

Admiral Group respects and values the individuality and diversity of every employee. The Group's Equality, Diversity and Dignity at Work policy ensures that every employee is treated equally and fairly and that all employees are aware of their obligations. The Group is fully committed to the health and safety and the human rights of its employees regardless of their background. In addition, the Group maintains a number of employee codes of conduct regarding appropriate ethical standards in the workplace.

The Group's principles of respect for human rights, diversity, health and safety and workplace ethical standards not only apply to staff directly employed by Admiral, but also to staff employed by the Group's outsourced partner in Bangalore, India. To meet this commitment, Admiral Group maintains regular contact with its outsourcer's management team and the Group's senior managers visit the outsourcer on a regular basis, whilst the Group also provides training and development to ensure that the team uphold these principles. In addition, Admiral Group has appointed a manager based permanently at the outsourced operation, who is responsible for ensuring that the Group's principles are adhered to by the outsourced partner, and that the wellbeing of outsourced staff is monitored.

Gender diversity

The table below provides a breakdown of the gender of Company Directors and employees at the end of the financial year:

	Male	Female
Company Directors*1	7	4
Other senior managers*2	22	12
All employees	3,598	3,601

*1 Company Directors consists of the Board of Directors, as detailed on pages 42 to 43, excluding Penny James who was appointed to the Board on 1 January 2015

*2 Other senior managers is as defined in the Companies Act 2006 (Strategic Report and Directors' Report) and includes persons responsible for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, other than Company Directors. Any other Directors of undertakings included in the consolidated accounts that are not considered strategically significant have not been included

Contractual arrangements

The Group considers its co-insurance and reinsurance contracts, as described in the Strategic Report section on page 25 to be essential to the running of the Group's business. No other contractual arrangements are considered to be essential.

Financial instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in note 6 to the financial statements.

Directors and their interests

The present Directors of the Company are shown on pages 42 to 43 of this Report, whilst Directors' interests in the share capital of the Company are set out in the Remuneration Report on page 71.

Greenhouse gas emissions

The annual level of greenhouse gas emissions, resulting from activities for which the Group is responsible, in 2014 was 6,836 CO_2e (2013: 6,383 CO_2e), equivalent to 1.19 tonnes (2013: 1.11 tonnes) per employee*1. Please note that the comparative figures have changed since the 2013 Annual Report, reflecting a validation process and different locations included in the measure.

*1 Average employee number excludes employees from three offices for which data could not be collected.

The data has been prepared with reference to the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) and in accordance with the guidance for corporate reporting issued by the Department for Environment, Food and Rural Affairs (DEFRA).

There are no material exclusions from this data. Exclusions included figures for gas, air conditioning and water because the information was not available from the managing agents of the Group's multiple office locations. In addition, emissions data from the US, France and one of the Indian offices has been excluded due to difficulties in collecting complete and accurate data. These locations together total 8% (2013: 7%) of Group headcount and are therefore considered immaterial.

› Detailed information on the Group's environmental performance and the methodology for the measurement of greenhouse gas emissions is available on the corporate website, www.admiralgroup.co.uk.

Going concern

The Directors consider that the Group has adequate financial resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. In considering the appropriateness of this assumption, the Board has reviewed the Group's projections for the next 12 months and beyond, including cash flow forecasts and regulatory capital surpluses.

Share capital, AGM and related matters

Major shareholders

Other than as stated below, as far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company. Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

At 30 January 2015, the Company had received notifications in accordance with the FCA's DTRs of the following notifiable interests in the voting rights in the Company's issued share capital:

	Number of shares	%
Munich Re	28,599,400	10.26%
Manning & Napier Advisors	13,866,579	4.98%
Mackenzie Financial Corporation	11,790,994	4.23%

The interests of Directors and Officers and their connected persons in the issued share capital of the Company are given in the Remuneration Report.

Additional information for shareholders

Where not provided previously in this Directors' Report, the following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

At 31 December 2014, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital and shares issued during the year can be found in note 11d.

On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the Annual General Meeting and published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- Certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws).
- Pursuant to the Listing Rules of the FCA whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

The Company has not purchased any of its own shares during the period.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

There are a number of agreements that alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts. None are considered to be significant in terms of their impact on the business of the Group as a whole except for the long term co-insurance agreement in place with Great Lakes Reinsurance (UK) plc. Details relating to this agreement are contained in the Strategic Report.

Power to issue shares

At the last Annual General Meeting, held on 9 April 2014, authority was given to the Directors to allot unissued relevant securities in the Company up to a maximum of £91,127, equivalent to one third of the issued share capital as at 7 March 2014. This authority expires on the date of the Annual General Meeting to be held on 29 April 2015 and the Directors will seek to renew this authority for the following year.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company (up to a maximum of 5% of the issued share capital of the Company) for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the Annual General Meeting to be held on 29 April 2015 and the Directors will seek to renew this authority for the following year.

Appointments of Directors

The Company's Articles of Association (the Articles) give the Directors power to appoint and replace Directors. Under the Terms of Reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board of Directors. The Articles also require Directors to retire and submit themselves for election at the first Annual General Meeting following appointment and all Directors who held office at the time of the two preceding Annual General Meetings to submit themselves for re-election.

However, in accordance with the requirement under the UK Corporate Governance Code (the Code) for annual election of Directors, all Directors, except for Roger Abravanel, will submit themselves for re-election at the Group's Annual General Meeting on 29 April 2015.

Articles of Association

The Articles may only be amended by special resolution of the shareholders.

Power of the Directors

The Directors are responsible for managing the business of the Company and may exercise all powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Memorandum and Articles. The Articles, for example, contain specific provisions and restrictions concerning the Company's power to borrow money. Powers relating to the issuing of new shares are also included in the Articles and such authorities are renewed by shareholders at the Annual General Meeting each year.

Annual General Meeting (AGM)

It is proposed that the next AGM be held at The Old Library, Cardiff CF10 3ND on Wednesday 29 April 2015 at 2.00pm, notice of which will be sent to shareholders with the Annual Report.

Reporting, accountability and audit

UK Corporate Governance Code

> Admiral is subject to the UK Corporate Governance Code, published by the Financial Reporting Council (FRC) and available on their website, www.frc.org.uk.

The FRC issued a revised version of the Code in September 2014 which applies to companies with a financial year beginning on or after 1 October 2014. Therefore, the edition of the Code published in September 2012 applied throughout the financial year ending 31 December 2014. The Company's Annual Report and Accounts, taken as a whole, addresses the requirements of the 2012 Code.

During the year to 31 December 2014, the Company has in all respects complied with the provisions of the 2012 Code.

The Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU.
- For the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

The Directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The management report required by DTR 4.1.8R (contained in the Strategic Report and the Directors' Report) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Company's auditor, KPMG LLP, has indicated willingness to continue in office and resolutions to reappoint it and to authorise the Directors to fix its remuneration will be proposed at the Annual General Meeting.

By Order of the Board,

Mark Waters
Company Secretary
4 March 2015

Geraint Jones
Chief Financial Officer
4 March 2015

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Admiral Group plc for the year ended 31 December 2014 set out on pages 78 to 113. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

Insurance liabilities (£2,097.4 million)
Refer to page 51 (Audit Committee Statement), note 5d (accounting policy and financial disclosures).

- **The risk** – The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the inherent uncertainty of estimating claims not yet reported, future costs of settling claims, discount rates and whether customers will be awarded a lump sum claim or a periodic payment. The amounts involved are potentially significant and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective. One of the most significant uncertainties relates to the reserve held for large bodily injury claims and actual and potential Periodic Payment Order settlements (PPOs). The UK motor portfolio presents the biggest risk of material misstatement.
- **Our response** – Our audit procedures included testing the controls over the underwriting and claims process and performing substantive analysis over the trends in claims frequency and size. Using our actuarial specialists to support us, we assessed the level of reserves held for incurred claims through evaluating the competence, capability and objectivity of the Group's external actuary, assessing the actuarial methodologies employed, including the use of paid and incurred chain ladders and the average cost per claim method, challenging key judgements, for example the extent to which improvements in claims trends are taken into account in reserve projections, and benchmarking key assumptions against KPMG sourced market data. In respect of the amounts related to large bodily injury claims and actual and potential PPOs, we investigated the process for identifying and assessing the required reserve for large claims and for updating this reserve as more information becomes available, investigated the process for assessing cases that have the potential to be settled as PPOs and benchmarked the key assumptions made in calculating large bodily injury claims reserves, including mortality (in the case of PPO cases) and discount rates applied. The focus of our work is the UK Motor portfolio.

  In respect of the margin held above the actuarial best estimate, we assessed the rationale for this margin including consideration of the level of prudence within the margin, the consistency with which the underlying judgements have been applied in relation to the current year and prior periods and the existence of any management bias.

  We have also considered the adequacy of the Group's disclosures about the margin held above the actuarial best estimate, and the degree of estimation and sensitivity to key assumptions.

Co-insurance and reinsurance
Refer to page 51 (Audit Committee statement), note 5 (accounting policy and financial disclosures).

- **The risk** – The Group has in place a number of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either through co-insurance or quota share reinsurance contracts. For reinsurance contracts, there is judgement involved in the assessment of whether risk has been transferred, which impacts on the appropriate accounting including whether premium income and insurance claims are presented gross or net of reinsurance. A number of the reinsurance arrangements also include reinsurance caps, whereby the Group is limited as to the amount it can recover against insurance claims and operating expenses based on the cap in place. This impacts the underlying profit of the Group. For co-insurance contracts, the accounting is driven by the fact that the Group does not retain the underlying risks and rewards of the business underwritten. The outcome of these judgements affect the recognition and timing of revenue along with profit recognition and disclosure of income and expenses associated with these risk sharing agreements.
- **Our response** – Our audit procedures included critically assessing the contract terms for these arrangements to ascertain whether, taking into account relevant accounting standards, the appropriate risk transfer has occurred to support the treatment of the arrangement as co-insurance or quota share reinsurance. We reviewed the terms of the reinsurance caps, re-calculated the expected total cap cost and compared to the actual cap cost recognised, and assessed the appropriateness of the allocation between insurance claims and operating expenses. We have also considered the adequacy of the Group's disclosures and appropriateness of the presentation of transactions and balances relating to these arrangements.

Profit commission (£71.8 million)
Refer to page 51 (Audit Committee statement), note 5c (accounting policy and financial disclosures).

- **The risk** – The recognition of profit commission income from co-insurers and quota share reinsurers is initially in line with the loss ratios booked in the financial statements and will vary with movements in the loss ratios. The recognition of this income is therefore subject to the same level of estimation as the claims liability noted above until, in the case of quota share reinsurance, the relevant contracts are commuted, at which point no further profit commission is recognised. In addition, different contractual arrangements are in place with the Group's co-insurance and reinsurance partners and there is a risk that the differences in arrangements are not appropriately accounted for, resulting in significant misstatement.
- **Our response** – Our audit procedures included, in addition to our procedures over insurance liabilities noted above, forming an expectation of the profit commission income based on loss ratios applied and contractual terms of each arrangement, comparing this to actual profit commission income recognised and corroborating any changes to the profit commission arrangements during the year. We have also considered the adequacy of the Group's disclosures about the arrangements in place.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £18.5 million, determined with reference to a benchmark of Group profit before taxation (of which it represents 5%). We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.9 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 reporting components, we subjected four to audits for Group reporting purposes, two to specified risk focused audit procedures and one to a review of financial information (including enquiry). The components for which we performed specified risk focused procedures and a review of financial information were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for 94% of Group net revenue, 97% of Group profit before tax and 97% of Group total assets.

The remaining 6% of total Group net revenue, 3% of Group profit before tax and 3% of total Group assets is represented by 5 reporting components, none of which individually represented more than 2% of any of total Group net revenue, Group profit before tax or total Group assets.

For these remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed two component auditors as to the significant risk focused audit procedures to be performed. The procedures on the remaining components were performed by the Group audit team. The Group audit team approved the component materialities, which ranged from £500,000 to £16,500,000, having regard to the mix of size and risk profile of the Group across the components.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Statement does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 73, in relation to going concern; and
- the part of the Corporate Governance Statement on page 40 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
4 March 2015

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

		Year ended	
	Note	31 December 2014 £m	31 December 2013 £m
Insurance premium revenue		**1,099.7**	1,136.4
Insurance premium ceded to reinsurers		**(634.8)**	(653.4)
Net insurance premium revenue	5	**464.9**	483.0
Other revenue	7	**332.5**	327.8
Profit commission	5	**71.8**	99.3
Investment and interest income	6	**15.4**	14.3
Net revenue		**884.6**	924.4
Insurance claims and claims handling expenses		**(794.5)**	(826.7)
Insurance claims and claims handling expenses recoverable from reinsurers		**535.4**	523.7
Net insurance claims		**(259.1)**	(303.0)
Operating expenses and share scheme charges	8	**(501.8)**	(467.0)
Operating expenses and share scheme charges recoverable from co- and reinsurers	8	**231.6**	215.8
Net operating expenses and share scheme charges		**(270.2)**	(251.2)
Total expenses		**(529.3)**	(554.2)
Operating profit		**355.3**	370.2
Finance costs	6	**(4.6)**	—
Profit before tax		**350.7**	370.2
Taxation expense	9	**(69.1)**	(83.3)
Profit after tax		**281.6**	286.9
Profit after tax attributable to:			
Equity holders of the parent		**285.2**	287.0
Non-controlling interests (NCI)		**(3.6)**	(0.1)
		281.6	286.9
Earnings per share			
Basic	11	**103.0p**	104.6p
Diluted	11	**102.8p**	104.4p

Dividends declared and paid (total)	11	**273.5**	255.8
Dividends declared and paid (per share)	11	**100.0p**	94.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit for the period	**281.6**	286.9
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Movements in fair value reserve	**10.9**	—
Exchange differences on translation of foreign operations	**3.0**	(1.3)
Other comprehensive income for the period, net of income tax	**13.9**	(1.3)
Total comprehensive income for the period	**295.5**	285.6
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**298.6**	286.1
Non-controlling interests	**(3.1)**	(0.5)
	295.5	285.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	As at 31 December 2014 £m	 31 December 2013 £m
ASSETS			
Property and equipment	10	**32.3**	12.4
Intangible assets	10	**107.2**	92.8
Deferred income tax	9	**22.9**	17.0
Reinsurance assets	5	**829.8**	821.2
Trade and other receivables	6, 10	**82.0**	77.5
Financial assets	6	**2,547.4**	2,265.0
Cash and cash equivalents	6	**255.9**	187.9
Total assets		**3,877.5**	3,473.8
EQUITY			
Share capital	11	**0.3**	0.3
Share premium account		**13.1**	13.1
Other reserves		**13.2**	(0.2)
Retained earnings		**540.6**	502.6
Total equity attributable to equity holders of the parent		**567.2**	515.8
Non-controlling interests		**13.7**	8.3
Total equity		**580.9**	524.1
LIABILITIES			
Insurance contracts	5	**2,097.4**	1,901.3
Subordinated liabilities	6	**203.8**	—
Trade and other payables	6, 10	**965.8**	1,013.7
Current tax liabilities		**29.6**	34.7
Total liabilities		**3,296.6**	2,949.7
Total equity and total liabilities		**3,877.5**	3,473.8

These financial statements were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

Geraint Jones
Chief Financial Officer
Admiral Group plc

Company Number: 03849958

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit after tax		**281.6**	286.9
Adjustments for non-cash items:			
– Depreciation		**7.1**	7.3
– Amortisation of software		**4.6**	4.9
– Other gains and losses		**(0.2)**	0.2
– Share scheme charges	8	**23.2**	25.7
– Investment income on gilts		**(2.6)**	—
– Finance costs		**4.6**	—
Change in gross insurance contract liabilities		**196.1**	204.4
Change in reinsurance assets		**(8.6)**	(18.2)
Change in trade and other receivables, including from policyholders		**14.7**	14.3
Change in trade and other payables, including tax and social security		**(49.4)**	8.0
Taxation expense		**69.1**	83.3
Cash flows from operating activities, before movements in investments		**540.2**	616.8
Net cash flow into investments		**(286.3)**	(295.3)
Cash flows from operating activities, net of movements in investments		**253.9**	321.5
Taxation payments		**(77.0)**	(88.5)
Net cash flow from operating activities		**176.9**	233.0
Cash flows from investing activities			
Purchases of property, equipment and software		**(50.6)**	(10.1)
Interest and investment income received		**3.1**	—
Net cash used in investing activities		**(47.5)**	(10.1)
Cash flows from financing activities			
Non-controlling interest capital contribution		**8.5**	6.4
Proceeds on issue of subordinated liabilities		**200.0**	—
Transaction costs on issue of subordinated liabilities		**(0.8)**	—
Repayment of finance lease liabilities		**1.4**	(0.9)
Equity dividends paid	11	**(273.5)**	(255.8)
Net cash used in financing activities		**(64.4)**	(250.3)
Net increase/(decrease) in cash and cash equivalents		**65.0**	(27.4)
Cash and cash equivalents at 1 January		**187.9**	216.6
Effects of changes in foreign exchange rates		**3.0**	(1.3)
Cash and cash equivalents at end of period	6	**255.9**	187.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to the owners of the Company							
	Share capital £m	Share premium account £m	Fair value reserve £m	Foreign exchange reserve £m	Retained profit and loss £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2013	0.3	13.1	—	0.7	443.0	457.1	3.6	460.7
Profit for the period	—	—	—	—	287.0	287.0	(0.1)	286.9
Other comprehensive income								
Currency translation differences	—	—	—	(0.9)	—	(0.9)	(0.4)	(1.3)
Total comprehensive income for the period	—	—	—	(0.9)	287.0	286.1	(0.5)	285.6
Transactions with equity holders								
Dividends	—	—	—	—	(255.8)	(255.8)	—	(255.8)
Share scheme credit	—	—	—	—	25.7	25.7	—	25.7
Deferred tax charge on share scheme credit	—	—	—	—	2.1	2.1	—	2.1
Contributions by NCIs	—	—	—	—	0.3	0.3	5.5	5.8
Changes in ownership interests without a change in control	—	—	—	—	0.3	0.3	(0.3)	—
Total transactions with equity holders	—	—	—	—	(227.4)	(227.4)	5.2	(222.2)
As at 31 December 2013	0.3	13.1	—	(0.2)	502.6	515.8	8.3	524.1
At 1 January 2014	0.3	13.1	—	(0.2)	502.6	515.8	8.3	524.1
Profit for the period	—	—	—	—	285.2	285.2	(3.6)	281.6
Other comprehensive income								
Movements in fair value reserve	—	—	10.9	—	—	10.9	—	10.9
Currency translation differences	—	—	—	2.5	—	2.5	0.5	3.0
Total comprehensive income for the period	**—**	**—**	**10.9**	**2.5**	**285.2**	**298.6**	**(3.1)**	**295.5**
Transactions with equity holders								
Dividends	—	—	—	—	(273.5)	(273.5)	—	(273.5)
Share scheme credit	—	—	—	—	23.2	23.2	—	23.2
Deferred tax credit on share scheme credit	—	—	—	—	3.1	3.1	—	3.1
Contributions by NCIs	—	—	—	—	—	—	8.5	8.5
Total transactions with equity holders	**—**	**—**	**—**	**—**	**(247.2)**	**(247.2)**	**8.5**	**(238.7)**
As at 31 December 2014	**0.3**	**13.1**	**10.9**	**2.3**	**540.6**	**567.2**	**13.7**	**580.9**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. 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 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).

Adoption of new and revised standards
The Group has applied all adopted IFRS and interpretations endorsed by the EU at 31 December 2014, including all amendments to extant standards that are not effective until later accounting periods. This is inclusive of:

- **IFRIC Interpretation 21 Levies**
  IFRIC Interpretation 21 Levies was endorsed on 13 June 2014 and subsequently adopted by the Group. The IFRIC is effective for accounting periods beginning on or after 1 January 2014. It clarifies the IFRS requirements in relation to the timing of recognition of provisions for levies charged by public authorities. This is relevant to the Group in terms of its obligations to pay levies relating to insurance business, primarily to the Motor Insurers' Bureau, Financial Services Compensation Scheme and other regulatory bodies in the UK.

  The Group has aligned the timing of its recognition of provisions for levies to that required by the IFRIC. The impact of the adjustment in 2014 is a reduction in net operating expenses of £6.7 million. Whilst this is considered to be a change in accounting policy in line with IAS 8, no restatement of comparative information has been performed on materiality grounds.

- **IFRS 10, 11 and 12 ('the consolidation suite of standards')**
  Subsidiaries
  As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

  In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2014. No modifications of previous conclusions about control regarding the Group's investees were required.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2014 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. The following IFRSs have been issued but have not been applied by the Group in these financial statements:

- IFRS 9 Financial Instruments.
- IFRS 14 Regulatory Deferral Accounts.
- IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 10, 11 and 12 and IAS 1, 16, 27, 28, 38 and 41.

In 2014, the IASB issued the full, final version of IFRS 9. This version supersedes all previous versions. The standard has an effective date of 1 January 2018 although earlier application is permitted. The standard includes requirements relating to the recognition, measurement, impairment, de-recognition of assets along with general hedge accounting.

IFRS 15 was also issued during 2014 and applies to annual reporting periods beginning on or after 1 January 2017. The standard introduces a simple, five step principles-based model to be applied to the accounting of all contracts with customers.

The Group is currently assessing the impact of both IFRS 9 and IFRS 15 on its results, financial position and cash flows, along with any impacts of the other standards and amendments which have yet to be endorsed.

2. Basis of preparation
The accounts have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board has reviewed the Group's projections for the next 12 months and beyond, including cash flow forecasts and regulatory capital surpluses. During July 2014, the Group announced a successful, inaugural bond placement of £200 million, ten-year, tier two subordinated notes with a fixed interest charge of 5.5%.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic Report on pages 6 to 39. Further information regarding the financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 18 to 21. In addition notes 6 and 11 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

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

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

The 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. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, it is recognised by adjusting the carrying amount of the related asset or liability in the period of the change.

3. Critical accounting judgements and estimates

Judgements

In applying the Group's accounting policies as described in the notes to the financial statements, management has primarily applied judgement in the following two areas:

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

  A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

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

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

Estimation techniques used in calculation of claims provisions and profit commission

Estimation techniques are used in the calculation of the provisions for claims outstanding, which represent 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 is 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 potential outcome. 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 Group's independent actuarial advisors project best estimate claims reserves using a variety of recognised actuarial techniques.

The Group's reserving policy requires management to reserve within a range of potential outcomes above the projected best estimate outcome, to allow for unforeseen adverse claims development.

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

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

4. Group consolidation and operating segments

4a. Accounting policies

(i) Group consolidation

The Consolidated financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2014 and comparative figures for the year ended 31 December 2013. 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 principal subsidiaries, except Rastreator.com Limited, Inspop USA LLC, Admiral Law Limited, BDE Law Limited and the indirect holding in comparenow.com Insurance Agency LLC.

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

(ii) Foreign currency translation

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

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

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

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

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

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

4b. Segment reporting

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

UK Car Insurance

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

4. Group consolidation and operating segments continued

4b. Segment reporting continued

International Car Insurance

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

Price Comparison

The segment relates to the Group's price comparison websites; Confused.com in the UK, Rastreator in Spain, LeLynx in France and compare.com in the US. Each of the Price Comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as Rastreator, LeLynx and compare.com do not individually meet the threshold requirements in IFRS 8.

Other

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

Taxes are not allocated across the segments and, as with the corporate activities, are included in the reconciliation to the Consolidated Income Statement and Consolidated Statement of Financial Position.

An analysis of the Group's revenue and results for the year ended 31 December 2014, by reportable segment, are shown below. The accounting policies of the reportable segments are consistent with those presented in the notes to the financial statements for the Group.

	Year ended 31 December 2014					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Turnover[*1]	1,602.7	206.2	107.5	54.6	—	1,971.0
Net insurance premium revenue	394.3	58.1	—	12.5	—	464.9
Other Revenue and profit commission	272.2	7.1	107.5	17.5	—	404.3
Investment and interest income	11.5	0.2	—	—	—	11.7
Net revenue	678.0	65.4	107.5	30.0	—	880.9
Net insurance claims	(198.3)	(50.5)	—	(10.3)	—	(259.1)
Expenses	(81.7)	(34.8)	(110.3)	(17.6)	—	(244.4)
Segment profit/(loss) before tax	398.0	(19.9)	(2.8)	2.1	—	377.4
Other central revenue and expenses, including share scheme charges						(25.8)
Investment and interest income						3.7
Finance costs						(4.6)
Consolidated profit before tax						350.7
Taxation expense						(69.1)
Consolidated profit after tax						281.6
Other segment items:						
– Capital expenditure	65.1	21.3	1.0	1.5	—	88.9
– Depreciation and amortisation	30.6	22.1	1.5	0.2	—	54.4

[*1] Turnover is a non-GAAP measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to note 12 for further information

4. Group consolidation and operating segments continued

4b. Segment reporting continued

Revenue and results for the corresponding reportable segments for the year ended 31 December 2013 are shown below.

	Year ended 31 December 2013					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Turnover[*1]	1,698.9	187.8	112.7	30.8	—	2,030.2
Net insurance premium revenue	425.1	54.1	—	3.8	—	483.0
Other revenue and profit commission	293.4	6.6	112.7	14.4	—	427.1
Investment and interest income	12.4	—	—	—	—	12.4
Net revenue	730.9	60.7	112.7	18.2	—	922.5
Net insurance claims	(251.3)	(49.1)	—	(2.6)	—	(303.0)
Expenses	(85.7)	(33.7)	(92.3)	(13.2)	—	(224.9)
Finance costs	—	—	—	—	—	—
Segment profit/(loss) before tax	393.9	(22.1)	20.4	2.4	—	394.6
Other central revenue and expenses, including share scheme charges						(26.3)
Interest income						1.9
Consolidated profit before tax						370.2
Taxation expense						(83.3)
Consolidated profit after tax						286.9
Other segment items:						
– Capital expenditure	25.0	48.1	4.0	0.7	—	77.8
– Depreciation and amortisation	28.5	50.4	1.3	0.8	—	81.0

[*1] Turnover is a non-GAAP measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to note 12 for further information

Segment revenues

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

The total of Price Comparison revenues from transactions with other reportable segments is £9.5 million (2013: £10.8 million). These amounts have not been eliminated on consolidation as the Directors consider that not doing so results in a better overall presentation of the financial statements. The impact on the financial statements in the current and prior period is not material. There are no other transactions between reportable segments.

Within the UK Car Insurance segment, transactions between the Group's intermediary and the Group's insurance companies relating to vehicle commission totalling £13.3 million (2013: £18.4 million) have been eliminated (from the insurance expenses and other revenue lines in the income statement) on the basis that the non-elimination would have materially distorted the presentation of key performance indicators.

Revenues from external customers for products and services are consistent with the split of reportable segment revenues as shown on page 85.

Information about geographical locations

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

4. Group consolidation and operating segments continued
4b. Segment reporting continued
Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2014 are as follows:

	As at 31 December 2014					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	**29.0**	**2.5**	**0.7**	**0.1**	**—**	**32.3**
Intangible assets	**89.6**	**12.2**	**2.9**	**2.5**	**—**	**107.2**
Reinsurance assets	**677.5**	**137.9**	**—**	**14.4**	**—**	**829.8**
Trade and other receivables	**204.9**	**(4.2)**	**11.7**	**3.6**	**(134.0)**	**82.0**
Financial assets	**2,219.6**	**124.5**	**—**	**—**	**—**	**2,344.1**
Cash and cash equivalents	**101.8**	**38.6**	**49.0**	**16.4**	**—**	**205.8**
Reportable segment assets	**3,322.4**	**311.5**	**64.3**	**37.0**	**(134.0)**	**3,601.2**
Insurance contract liabilities	**1,839.4**	**228.7**	**—**	**29.3**	**—**	**2,097.4**
Trade and other payables	**900.7**	**42.4**	**7.4**	**15.3**	**—**	**965.8**
Reportable segment liabilities	**2,740.1**	**271.1**	**7.4**	**44.6**	**—**	**3,063.2**
Reportable segment net assets	**582.3**	**40.4**	**56.9**	**(7.6)**	**(134.0)**	**538.0**
Unallocated assets and liabilities						**42.9**
Consolidated net assets						**580.9**

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

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

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

The segment assets and liabilities at 31 December 2013 are as follows:

	As at 31 December 2013					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	8.2	2.6	1.0	0.6	—	12.4
Intangible assets	76.5	13.1	2.6	0.6	—	92.8
Reinsurance assets	705.0	111.4	—	4.8	—	821.2
Trade and other receivables	104.1	(11.0)	7.1	35.1	(57.8)	77.5
Financial assets	2,113.4	122.2	—	—	—	2,235.6
Cash and cash equivalents	101.6	35.7	38.7	8.6	—	184.6
Reportable segment assets	3,108.8	274.0	49.4	49.7	(57.8)	3,424.1
Insurance contract liabilities	1,690.4	198.5	—	12.4	—	1,901.3
Trade and other payables	959.9	36.0	6.5	11.3	—	1,013.7
Reportable segment liabilities	2,650.3	234.5	6.5	23.7	—	2,915.0
Reportable segment net assets	458.5	39.5	42.9	26.0	(57.8)	509.1
Unallocated assets and liabilities						15.0
Consolidated net assets						524.1

5. Premium, claims and profit commissions

5a. Accounting policies

(i) Revenue – premiums
Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders are recognised within policyholder receivables.

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

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

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

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

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

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

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

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

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

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

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

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

5b. Net insurance premium revenue

	31 December 2014 £m	31 December 2013 £m
Total motor insurance premiums written before co-insurance	**1,675.6**	1,737.6
Group gross premiums written after co-insurance	**1,102.1**	1,088.4
Outwards reinsurance premiums	**(644.9)**	(620.2)
Net insurance premiums written	**457.2**	468.2
Change in gross unearned premium provision	**(2.4)**	48.0
Change in reinsurers' share of unearned premium provision	**10.1**	(33.2)
Net insurance premium revenue	**464.9**	483.0

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

5. Premium, claims and profit commissions continued

5c. Profit commission

	31 December 2014 £m	31 December 2013 £m
Underwriting year		
2009 and prior	**5.3**	3.1
2010	**13.8**	24.9
2011	**27.8**	26.7
2012	**24.9**	44.6
Total profit commission	**71.8**	99.3

5d. Reinsurance assets and insurance contract liabilities

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

The Group is involved in issuing motor insurance contracts that transfer risk from policyholders to the Group and its underwriting partners.

Insurance risk involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued.

Reserving risk is the risk that the value of insurance liabilities established is insufficient to cover the ultimate cost of claims incurred at the balance sheet date, whether reported or unreported. Other risks include inadequate pricing and reinsurance policies, and inappropriate claims management processes and controls.

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

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

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

Reserving policies and controls

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

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

Co-insurance and reinsurance

As noted in the Strategic Report, the Group shares a significant amount of the motor insurance business generated with external underwriters. In 2014, 40% of the UK risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer. A further 35% of the UK risk was ceded under quota share reinsurance contracts. Co-insurance and reinsurance contracts are also used in the International Car Insurance businesses. Further detail can be found in the Strategic Report on page 30.

As well as these proportional arrangements, an excess of loss reinsurance programme is also purchased to protect the Group against very large individual claims and catastrophe losses.

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk. This is because, although the Group has historically written only one significant line of UK insurance business, the risks are spread across a large number of people and a wide regional base. The introduction of the international car insurance businesses in recent years and the launch of UK household business in 2012 will further contribute to the diversification of the Group's insurance risk as these businesses grow.

5. Premium, claims and profit commissions continued

5d. Reinsurance assets and insurance contract liabilities continued

(ii) Sensitivity of recognised amounts to changes in assumptions

The following table sets out the impact on equity and profit or loss at 31 December 2014 that would result from a 1% movement in the UK loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year 2011	2012	2013	2014
Booked loss ratio	68%	73%	82%	**92%**
Impact of 1% change (£m)	12.0	12.0	3.0	**1.6**

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

(iii) Analysis of recognised amounts

	31 December 2014 £m	31 December 2013 £m
Gross		
Claims outstanding[*1]	**1,596.0**	1,400.4
Unearned premium provision	**501.4**	500.9
Total gross insurance liabilities	**2,097.4**	1,901.3
Recoverable from reinsurers		
Claims outstanding[*1]	**538.2**	537.4
Unearned premium provision	**291.6**	283.8
Total reinsurers' share of insurance liabilities	**829.8**	821.2
Net		
Claims outstanding	**1,057.8**	863.0
Unearned premium provision	**209.8**	217.1
Total insurance liabilities – net	**1,267.6**	1,080.1

[*1] The claims outstanding recoverable from reinsurers at 31 December 2014 includes £21.4 million representing outstanding recoveries from excess of loss reinsurance contracts

The maturity profile of gross insurance liabilities at the end of 2014 is as follows:

	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	**542.6**	**547.3**	**506.1**
Unearned premium provision	**236.2**	**103.3**	**161.9**
Total gross insurance liabilities	**778.8**	**650.6**	**668.0**

The maturity profile of gross insurance liabilities at the end of 2013 was as follows:

	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	419.9	478.0	502.5
Unearned premium provision	235.4	103.1	162.4
Total gross insurance liabilities	655.3	581.1	664.9

5. Premium, claims and profit commissions continued
5d. Reinsurance assets and insurance contract liabilities continued
(iv) Analysis of UK car insurance claims incurred

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

	Financial year ended 31 December					
Analysis of claims incurred (gross amounts)	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**	Total £m
Underwriting year (UK only)						
2010 and prior	(360.3)	(249.9)	4.2	41.7	**28.1**	
2011	—	(444.5)	(329.7)	43.4	**51.4**	(679.6)
2012	—	—	(463.7)	(335.1)	**50.2**	(748.6)
2013	—	—	—	(421.2)	**(321.4)**	(742.6)
2014	—	—	—	—	**(421.9)**	(421.9)
UK gross claims incurred (excluding claims handling costs)	(360.3)	(694.4)	(789.2)	(671.2)	**(613.6)**	
International and other gross claims incurred	(39.4)	(65.6)	(113.9)	(132.6)	**(159.5)**	
Claims handling costs	(17.0)	(25.9)	(26.0)	(22.9)	**(21.4)**	
Total gross claims incurred	(416.7)	(785.9)	(929.1)	(826.7)	**(794.5)**	

	Financial year ended 31 December					
Analysis of claims incurred (net amounts)	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**	Total £m
Underwriting year (UK only)						
2010 and prior	(184.1)	(119.9)	2.9	41.7	**28.1**	
2011	—	(203.7)	(151.1)	39.7	**51.4**	(263.7)
2012	—	—	(191.3)	(139.6)	**50.2**	(280.7)
2013	—	—	—	(175.4)	**(133.9)**	(309.3)
2014	—	—	—	—	**(175.8)**	(175.8)
UK net claims incurred (excluding claims handling costs)	(184.1)	(323.6)	(339.5)	(233.6)	**(180.0)**	
International and other net claims incurred	(15.9)	(28.3)	(54.2)	(59.9)	**(70.2)**	
Claims handling costs	(8.5)	(11.9)	(10.8)	(9.5)	**(8.9)**	
Total net claims incurred	(208.5)	(363.8)	(404.5)	(303.0)	**(259.1)**	

	Financial year ended 31 December				
UK loss ratio development	2010	2011	2012	2013	**2014**
Underwriting year (UK only)					
2010	78%	77%	75%	70%	**67%**
2011	—	82%	76%	72%	**67%**
2012	—	—	84%	78%	**73%**
2013	—	—	—	85%	**82%**
2014	—	—	—	—	**92%**

5. Premium, claims and profit commissions continued

5d. Reinsurance assets and insurance contract liabilities continued

(v) Analysis of claims reserve releases (UK Car Insurance business only)

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

	Financial year ended 31 December				
Gross	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Underwriting year					
2010 and prior	40.7	10.3	4.2	41.7	**28.1**
2011	—	—	32.0	43.3	**51.4**
2012	—	—	—	30.8	**50.2**
2013	—	—	—	—	**18.4**
Total gross release (UK Car Insurance)	40.7	10.3	36.2	115.8	**148.1**
Total gross release (International Car Insurance)	—	—	—	—	**12.6**
Total gross release	40.7	10.3	36.2	115.8	**160.7**

	Financial year ended 31 December				
Net	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Underwriting year					
2010 and prior	23.5	10.3	2.9	41.7	**28.1**
2011	—	—	14.7	39.7	**51.4**
2012	—	—	—	12.8	**50.2**
2013	—	—	—	—	**7.7**
Total net release (UK Car Insurance)	23.5	10.3	17.6	94.2	**137.4**
Total net release (International Car Insurance)	—	—	—	—	**6.3**
Total net release	23.5	10.3	17.6	94.2	**143.7**
Analysis of net releases on UK Car Insurance:					
– Net releases on Admiral net share	23.1	7.8	16.3	53.3	**66.8**
– Releases on commuted quota share reinsurance contracts[*1]	0.4	2.5	1.3	40.9	**70.6**
Total net release as above	23.5	10.3	17.6	94.2	**137.4**

[*1] Admiral typically commutes quota share reinsurance contracts in its UK Car Insurance business 24 or 36 months following the start of the underwriting year. After commutation, any changes in claims costs on the commuted proportion of the business are reflected within claims costs and are separately analysed here. £70.6 million of releases on commuted quota share contracts is split as follows: 2012: £29.1 million; 2011: £27.9 million; 2010 and prior: £13.6 million

Profit commission is analysed in note 5c.

(vi) Reconciliation of movement in net claims provision

	31 December 2014 £m	31 December 2013 £m
Net claims reserve at start of period	**863.0**	660.4
Net claims incurred (excluding releases)	**392.9**	387.7
Net reserve releases	**(143.7)**	(94.2)
Movement in net claims reserve due to commutation	**273.6**	208.7
Net claims paid	**(328.0)**	(299.6)
Net claims reserve at end of period[*1]	**1,057.8**	863.0

[*1] The increase in net claims reserve from £863.0 million at 31 December 2013 to £1,057.8 million at 31 December 2014 is partly as a result of the increase in the size of gross claims reserves but largely due to the impact of commutations of reinsurance contracts in the UK Car Insurance business

5. Premium, claims and profit commissions continued
5d. Reinsurance assets and insurance contract liabilities continued
(vii) Reconciliation of movement in net unearned premium provision

	31 December 2014 £m	31 December 2013 £m
Net unearned premium provision at start of period	**217.1**	233.5
Written in the period	**457.2**	468.2
Earned in the period	**(464.5)**	(484.6)
Net unearned premium provision at end of period	**209.8**	217.1

6. Investments
6a. Accounting policies
(i) Investment income and finance costs
Investment income from financial assets comprises interest income and net realised gains on financial assets classified as 'fair value through profit or loss' and 'available for sale', and interest income on holdings in term deposits and gilts.

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

(ii) 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 (FVTPL), loans and receivables or held to maturity investments.

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 and short term debt securities are designated as FVTPL at inception.

This designation is permitted under IAS 39, as the investments in money market funds and short dated securities 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 and gilts are classified as held to maturity investments, which is consistent with the intention for which they were purchased.

The Group's holdings in Fixed Income and Asset Backed Securities are classified as available for sale (AFS) investments, which is consistent with the intention for which they were purchased.

This designation is permitted under IAS 39.

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

AFS Fixed income and Asset Backed Securities are stated at fair value.

Deposits and gilts 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.

Loans and 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 held at amortised cost 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 cash flows arising from the asset.

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

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

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. All cash and cash equivalents are measured at amortised cost.

6. Investments continued

6a. Accounting policies continued

(iii) Financial liabilities – subordinated notes

Initial recognition

The Group's financial liabilities comprising subordinated notes were initially recognised at fair value received, net of transaction costs incurred.

Subsequent measurement

Subordinated notes are measured at amortised cost using the effective interest method. Movements in the amortised cost are recognised through the income statement.

De-recognition of financial liabilities

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

(iv) Fair value measurement of assets held at amortised cost

The fair value of gilts and subordinated notes held at amortised cost is calculated with reference to quoted market valuations. See note 6d for a comparison of fair value and carrying value at the statement of financial position date.

The Group's deposits are held with well rated institutions; as such the approximate fair value is the book value of the investment as impairment of the capital is not expected. The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

6b. Investment and interest income

	31 December 2014 £m	31 December 2013 £m
Investment income		
Investment return on money market funds	**5.4**	4.7
Interest income on short dated debt securities	**—**	1.5
Interest income on available for sale debt securities	**9.4**	—
Interest income on term deposits with credit institutions	**5.2**	6.2
Interest income on held to maturity gilt assets	**2.6**	—
	22.6	12.4
Unwind of discount on gilts	**(0.4)**	—
Notional accrual for reinsurers' share of investment return	**(8.3)**	—
	13.9	12.4
Interest receivable*1	**1.5**	1.9
Total investment and interest income	**15.4**	14.3

*1 Interest received during the year was £1.5 million (2013: £1.9 million)

6c. Finance costs

	31 December 2014 £m	31 December 2013 £m
Interest payable*1	**4.6**	—
Total finance costs	**4.6**	—

*1 Interest paid during the year was £nil (2013: £nil)

Finance costs represent interest payable on the £200 million subordinated notes.

6. Investments continued

6d. Financial assets and liabilities

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

	31 December 2014 £m	31 December 2013 £m
Financial assets		
Investments held at fair value through profit or loss		
Money market funds	909.2	1,406.1
Short dated debt securities	—	202.4
	909.2	1,608.5
Investments classified as available for sale		
Available for sale debt securities	822.7	—
	822.7	—
Investments classified as held to maturity		
Term deposits with credit institutions	263.1	288.4
Gilts	199.1	—
	462.2	288.4
Assets classified as loans and receivables		
Amounts owed by policyholders	353.3	368.1
Total financial assets per Consolidated Statement of Financial Position	2,547.4	2,265.0
Trade and other receivables	82.0	77.5
Cash and cash equivalents	255.9	187.9
	2,885.3	2,530.4
Financial liabilities		
Subordinated notes	203.8	—
Trade and other payables	965.8	1,013.7
Total financial liabilities per Consolidated Statement of Financial Position	1,169.6	1,013.7

The nominal £200 million subordinated notes were issued on 25 July 2014 at a fixed rate of 5.5% and have a redemption date of 25 July 2024.

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

There have been no defaults on any of the notes during the year. The Group has the option to defer interest payments on the notes but to date has not exercised this right. The aggregate fair value of subordinated dated notes at the balance sheet date is disclosed in the table below.

Fair value measurement

The measurement of investments at the end of the period, for investments held at fair value and short term debt securities held at fair value, is based on active quoted market values (level one).

The measurement of available for sale debt securities at the end of the period, is also based on active quoted market values (level one).

The deposits are held with well rated institutions; as such the approximate fair value is the book value of the investment as impairment of the capital is not expected. There is no quoted market for these holdings and as such a level two valuation is used. The book value of term deposits is £263.1 million (2013: £288.4 million).

The amortised cost carrying amount of receivables is a reasonable approximation of fair value. The fair values of gilts and subordinated notes (both level one valuations) together with their carrying values shown in the Consolidated Statement of Financial Position are as follows:

	31 December 2014		31 December 2013	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Gilts	199.1	216.2	—	—
Financial liabilities				
Subordinated notes	203.8	211.2	—	—

6. Investments continued

6d. Financial assets and liabilities continued

The maturity profile of financial assets and liabilities at 31 December 2014 is as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial assets				
Investments held at fair value	**605.4**	**303.8**	**—**	**—**
Term deposits with credit institutions	**—**	**48.6**	**104.5**	**110.0**
Short dated debt securities	**—**	**161.3**	**183.8**	**477.6**
Gilts	**—**	**0.9**	**—**	**198.2**
Receivables – amounts owed by policyholders	**—**	**353.3**	**—**	**—**
Total financial assets	**605.4**	**867.9**	**288.3**	**785.8**
Trade and other receivables	**—**	**82.0**	**—**	**—**
Cash and cash equivalents	**255.9**	**—**	**—**	**—**
	861.3	**949.9**	**288.3**	**785.8**
Financial liabilities				
Subordinated notes	**—**	**4.6**	**—**	**199.2**
Trade and other payables	**—**	**965.8**	**—**	**—**
	—	**970.4**	**—**	**199.2**

The maturity profile of financial assets and liabilities at 31 December 2013 was as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial assets				
Investments held at fair value	1,104.8	301.3	—	—
Term deposits with credit institutions	—	188.9	99.5	—
Short term debt securities	—	202.4	—	—
Gilts	—	—	—	—
Receivables – amounts owed by policyholders	—	368.1	—	—
Total financial assets	1,104.8	1,060.7	99.5	—
Trade and other receivables	—	77.5	—	—
Cash and cash equivalents	187.9	—	—	—
	1,292.7	1,138.2	99.5	—
Financial liabilities				
Subordinated notes	—	—	—	—
Trade and other payables	—	1,013.7	—	—
	—	1,013.7	—	—

6. Investments continued

6d. Financial assets and liabilities continued

Objectives, policies and procedures for managing financial assets and liabilities

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

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

Credit risk

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

Economic and financial market conditions have led the Directors to consider counterparty exposure more frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Group's risk appetite and, during 2014 and historically, no material credit losses have been experienced by the Group.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds which invest in a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. The detailed holdings are reviewed regularly by the Investment Committee.

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

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

The Group's maximum exposure to credit risk at 31 December 2014 is £3,047.4 million (2013: £2,644.8 million), being the carrying value of financial assets and cash, and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements. The Group does not use credit derivatives or similar instruments to mitigate exposure. The amount of bad debt expense relating to policyholder debt charged to the income statement in 2014 and 2013 is insignificant.

There were no significant financial assets that were past due at the close of either 2014 or 2013.

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

	Rating	**31 December 2014 £m**	31 December 2013 £m
Financial institutions – Credit institutions	AAA	**291.1**	413.0
Financial institutions – Credit institutions	AA	**625.8**	531.2
Financial institutions – Credit institutions	A	**1,216.0**	1,060.6
Financial institutions – Credit institutions	BBB and below	**119.6**	80.0
UK Government gilts	AA	**199.1**	—
Reinsurers	AA	**207.8**	190.8
Reinsurers	A	**16.3**	14.0

Interest rate risk

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

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

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

In 2014, the Group issued £200 million of subordinated notes with a ten year maturity and fixed rate coupon of 5.5%. This liability is valued at amortised cost and therefore neither the carrying value of the deposits, nor the interest payable, will be impacted by fluctuations in interest rates.

No sensitivity analysis to interest rates has been presented on the grounds of materiality.

6. Investments continued

6d. Financial assets and liabilities continued

Objectives, policies and procedures for managing financial assets and liabilities continued

Liquidity risk

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

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

A breakdown of the Group's other financial liabilities, trade payables and other payables is shown in note 10.

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

In practice, the Group's Directors expect actual cash flows to be consistent with this maturity profile except for amounts owed to co-insurers and reinsurers. Of the total amounts owed to co-insurers and reinsurers of £756.5 million (2013: £785.3 million), £585.7 million (2013: £629.3 million) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

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

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

Foreign exchange risks

Foreign exchange risks arise from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets.

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

The Group's exposures to net assets held in euros and dollars at the balance sheet date were £2.2 million and £72.0 million respectively (2013: £7.1 million and £60.2 million).

Fair value

For cash at bank and cash deposits and other receivables, the fair value approximates to the book value due to their short maturity. For assets held at fair value through profit and loss, their value equates to level one (quoted prices in active markets) of the fair value hierarchy.

For gilts and subordinated notes, the fair value is calculated with reference to the quoted market valuation. This is compared to carrying value earlier in this note.

6e. Cash and cash equivalents

	31 December 2014 £m	31 December 2013 £m
Cash at bank and in hand	**255.9**	187.9
Total cash and cash equivalents	**255.9**	187.9

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

7. Other Revenue

7a. Accounting policy

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

Contribution from additional products and fees and Other Revenue includes revenue earned on the sale of products supplementing the core motor insurance policy, administration and other charges paid by the policyholder, referral fees, revenue from policies paid by instalments and vehicle commission charges paid by co- and reinsurers. Revenue 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 revenue is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of amounts charged.

Commission from price comparison activities and broking commission earned by Gladiator is credited to revenue on the sale of the underlying insurance policy.

7. Other Revenue continued

7b. Contribution from additional products and fees and Other Revenue

	31 December 2014 £m	31 December 2013 £m
Contribution from additional products and fees	**185.6**	177.0
Price comparison revenue	**107.5**	112.7
Other Revenue	**39.4**	38.1
Total Other Revenue	**332.5**	327.8

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

8. Expenses

8a. Accounting policies

(i) Acquisition costs and operating expenses

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

(ii) Employee benefits

Pensions

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

Employee share schemes

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

For equity settled schemes, 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.

For cash settled schemes, the total charge expensed over the vesting period is determined by reference to the closing Admiral Group share price at the end of the period. Prior to the vesting of each scheme, the closing share price at the end of the reporting period is used as an approximation for the closing share price at the end of the vesting period. As with equity settled schemes, non-market vesting conditions also impact on the total charge expensed over the vesting period.

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 8f for further details on share schemes.

8b. Operating expenses and share scheme charges

	31 December 2014		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts	**91.9**	**(56.7)**	**35.2**
Administration and other marketing costs (insurance contracts)	**209.5**	**(162.0)**	**47.5**
Insurance contract expenses	**301.4**	**(218.7)**	**82.7**
Administration and other marketing costs (other)	**166.3**	**—**	**166.3**
Share scheme charges	**34.1**	**(12.9)**	**21.2**
Total expenses and share scheme charges	**501.8**	**(231.6)**	**270.2**

8. Expenses continued

8b. Operating expenses and share scheme charges continued

	31 December 2013		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts	85.5	(51.8)	33.7
Administration and other marketing costs (insurance contracts)	203.5	(150.5)	53.0
Insurance contract expenses	289.0	(202.3)	86.7
Administration and other marketing costs (other)	142.0	—	142.0
Share scheme charges	36.0	(13.5)	22.5
Total expenses and share scheme charges	467.0	(215.8)	251.2

The £47.5 million (2013: £53.0 million) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

Analysis of other administration and other marketing costs:

	31 December 2014 £m	31 December 2013 £m
Expenses relating to additional products and fees	**37.9**	34.4
Price comparison operating expenses	**110.3**	92.3
Other expenses	**18.1**	15.3
Total	**166.3**	142.0

Refer to note 12 for a reconciliation between insurance contract expenses and the reported expense ratio.

8c. Staff costs and other expenses

	31 December 2014		31 December 2013	
	Total £m	Net £m	Total £m	Net £m
Salaries	**155.3**	**57.9**	148.5	49.2
Social security charges	**14.6**	**6.1**	16.7	5.7
Pension costs	**5.4**	**1.9**	4.1	1.4
Share scheme charges (see note 8f)	**34.1**	**10.7**	36.0	9.0
Total staff expenses	**209.4**	**76.6**	205.3	65.3
Depreciation charge:				
– Owned assets	**6.8**	**2.7**	7.2	2.6
– Leased assets	**0.3**	**0.1**	0.1	—
Amortisation charge:				
– Software	**4.6**	**2.0**	4.9	1.9
– Deferred acquisition costs	**—**	**42.7**	—	68.8
Operating lease rentals:				
– Buildings	**11.2**	**3.7**	11.4	3.6
Auditor's remuneration (including VAT):				
– Fees payable for the audit of the Company's annual accounts	**—**	**—**	—	—
– Fees payable for the audit of the Company's subsidiary accounts	**0.3**	**0.2**	0.3	0.2
– Fees payable for other services	**0.3**	**0.1**	0.3	0.1
Net foreign exchange (gains)/losses	**(1.4)**	**(1.4)**	1.5	1.5
Analysis of fees paid to the auditor for other services:				
– Tax compliance services	**0.1**	**—**	0.1	—
– Tax advisory services	**0.2**	**0.1**	0.2	0.1
– Other services	**—**	**—**	—	—
Total as above	**0.3**	**0.1**	0.3	0.1

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

Refer to the Corporate Governance Report for details of the Audit Committee's policy on fees paid to the Company's auditor for non-audit services. The ratio of non-audit fees to audit fees in 2014 was 109% (2013: 108%).

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

8. Expenses continued
8d. Staff numbers (including Directors)

	Average for the year	
	2014 Number	2013 Number
Direct customer contact staff	**5,179**	5,145
Support staff	**1,738**	1,420
Total	**6,917**	6,565

8e. Directors' remuneration
(i) Directors' remuneration

	31 December 2014 £m	31 December 2013 £m
Directors' emoluments	**2.0**	2.0
Amounts receivable under long term incentive schemes	**0.9**	0.8
Company contributions to money purchase pension plans	**—**	—
Total	**2.9**	2.8

(ii) Number of Directors

	2014 Number	2013 Number
Retirement benefits are accruing to the following number of Directors under:		
– Money purchase schemes	**2**	1
– Defined benefit schemes	**—**	—

8f. Staff share schemes
Analysis of share scheme costs (per the Consolidated Income Statement):

	31 December 2014 £m	31 December 2013 £m
SIP charge (i)	**8.6**	7.6
DFSS charge (ii)	**12.6**	14.9
Total share scheme charges	**21.2**	22.5

The share scheme charges reported above are net of the co- and reinsurers share of the cost and therefore differ from the gross charge reported in note 8c (2014: £34.1 million; 2013: £36.0 million) and the gross credit to reserves reported in the Consolidated Statement of Changes in Equity (2014: £23.2 million; 2013: £25.7 million).

The Consolidated Cash Flow Statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cash flows 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 qualified for awards under the SIP based upon the performance of the Group in each half-year period. The current maximum award for each year is £3,000 per employee. 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 policy section of the Directors' 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 2014 scheme is 2,680,858 (2013 scheme: 2,348,549).

The amount of award that actually vests is 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 three year period the award applies to. For the 2014 and 2013 schemes, 50% of the shares awarded at the start of the three year vesting period are subject to these performance conditions.

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.

8. Expenses continued

8f. Staff share schemes continued

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

Awards under the DFSS are not eligible for dividends (although a discretionary bonus is currently paid equivalent to the dividend that would have been paid on the respective shareholding) 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 Directors' Remuneration Report).

Number of free share awards committed at 31 December 2014

	Awards outstanding*1	Vesting date
SIP H211 scheme	598,400	March 2015
SIP H112 scheme	617,778	September 2015
SIP H212 scheme	533,792	March 2016
SIP H113 scheme	603,432	September 2016
SIP H213 scheme	514,500	March 2017
SIP H114 scheme	575,016	September 2017
DFSS 2012 scheme 1st award	181,668	March 2015
DFSS 2012 scheme 2nd award	1,979,752	October 2015
DFSS 2013 scheme 1st award	173,348	March 2016
DFSS 2013 scheme 2nd award	2,175,201	October 2016
DFSS 2014 scheme 1st award	203,292	March 2017
DFSS 2014 scheme 2nd award	2,477,566	September 2017
Total awards committed	**10,633,745**	

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

During the year ended 31 December 2014, awards under the SIP H210 and H111 schemes and the DFSS 2011 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 2014

	Original awards	Awards vested
SIP H210 scheme	346,590	279,990
SIP H111 scheme	489,280	380,160
DFSS 2011 scheme 1st award	1,634,732	1,486,410
DFSS 2011 scheme 2nd award	157,312	102,121

9. Taxation

9a. Accounting policy

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

(i) Current tax

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

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

(ii) Deferred tax

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes. It is calculated at the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised.

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

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

9. Taxation continued

9b. Taxation

	31 December 2014 £m	31 December 2013 £m
Current tax		
Corporation tax on profits for the year	**72.2**	83.4
(Over)/under provision relating to prior periods	**(0.4)**	0.4
Current tax charge	**71.8**	83.8
Deferred tax		
Current period deferred taxation movement	**(1.8)**	0.1
Over provision relating to prior periods – deferred tax	**(0.9)**	(0.6)
Total tax charge per Consolidated Income Statement	**69.1**	83.3

Factors affecting the total tax charge are:

	31 December 2014 £m	31 December 2013 £m
Profit before tax	**350.7**	370.2
Corporation tax thereon at effective UK corporation tax rate of 21.50% (2013: 23.25%)	**75.4**	86.1
Expenses and provisions not deductible for tax purposes	**(0.9)**	0.2
Impact of change in UK tax rate on deferred tax balances	**—**	2.7
Adjustments relating to prior periods	**(1.3)**	(0.2)
Impact of different overseas tax rates	**(11.2)**	(5.6)
Unrecognised deferred tax	**7.1**	—
Other differences	**—**	0.1
Total tax charge for the period as above	**69.1**	83.3

9c. Deferred income tax asset

Analysis of deferred tax asset

	Tax treatment of share schemes £m	Capital allowances £m	Carried forward losses £m	Other differences £m	Total £m
Balance brought forward at 1 January 2013	**(3.8)**	**(1.9)**	**(5.7)**	**(3.8)**	**(15.2)**
Tax treatment of share scheme charges through income or expense	1.8	—	—	—	1.8
Tax treatment of share scheme charges through reserves	(2.1)	—	—	—	(2.1)
Capital allowances	—	(1.4)	—	—	(1.4)
Carried forward losses	—	—	(2.1)	—	(2.1)
Other difference	—	—	—	2.0	2.0
Balance carried forward at 31 December 2013	**(4.1)**	**(3.3)**	**(7.8)**	**(1.8)**	**(17.0)**
Tax treatment of share scheme charges through income or expense	2.4	—	—	—	2.4
Tax treatment of share scheme charges through reserves	(3.1)	—	—	—	(3.1)
Capital allowances	—	(1.3)	—	—	(1.3)
Carried forward losses	—	—	(5.6)	—	(5.6)
Other difference	—	—	—	1.7	1.7
Balance carried forward at 31 December 2014	**(4.8)**	**(4.6)**	**(13.4)**	**(0.1)**	**(22.9)**

9. Taxation continued

9c. Deferred income tax asset continued

Analysis of deferred tax asset continued

The UK corporation tax rate reduced from 23% to 21% on 1 April 2014. The average effective rate of tax for 2014 is 21.50% (2013: 23.25%). It will fall to 20% in April 2015. Deferred tax has therefore been calculated at 20% where the temporary difference is expected to reverse after this date.

The deferred tax asset relating to carried forward losses of £13.4 million (2013: £7.8 million) relates to losses incurred in the Group's US businesses, Elephant Auto and compare.com, and is calculated at the local US rate of tax (35%).

Elephant Auto (asset recognised: £3.6 million; remaining unused losses: £33 million) – the asset is expected to be recovered over the next seven years. The recognised asset has been limited to the amount supported by forecast cash flows over the next seven years. Whilst profits are expected to be available after 2021, the Group considers these longer term forecasts to be more uncertain and has therefore not recognised an asset that would only be supported by profits beyond the seven year period.

compare.com (asset recognised: £9.8 million; remaining unused losses: £nil) – the asset is expected to be fully recovered over the next five years. The recognised asset has been limited to the amount supported by forecast cash flows over the next five years. The forecasts and underlying assumptions have been reviewed and approved by the Board. In addition, the forecasts have been stressed for both revenue and profit reductions and the asset remains recoverable under the stressed scenarios.

The Group considers full recovery of the assets to be probable in both cases.

At 31 December 2014 the Group had unused tax losses amounting to £33 million (2013: £nil), relating to these businesses, for which no deferred tax asset has been recognised.

10. Other assets and other liabilities

10a. Accounting policy

(i) Property and equipment, and depreciation

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

Improvements to short leasehold buildings	– four to ten years
Computer equipment	– two to four years
Office equipment	– four years
Furniture and fittings	– four years
Motor vehicles	– four years

(ii) Impairment of property and equipment

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

(iii) 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 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.

(iv) Intangible assets

Goodwill

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

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

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

The goodwill held on the balance sheet at 31 December 2014 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 CGUs) and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the income statement and are not subsequently reversed.

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

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond this period are considered, but not included in the calculation. The discount rate applied to the cash flow projections in the value in use calculations is 6.8% (2013: 9.8%), based on the Group's weighted average cost of capital, which is in line with the market (source: Bloomberg).

10. Other assets and other liabilities continued
10a. Accounting policy continued
(iv) Intangible assets continued

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

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

Deferred acquisition costs

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

Software

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

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

10b. Property and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	Total £m
Cost					
At 1 January 2013	7.3	31.6	12.9	5.0	56.8
Additions	1.2	1.7	0.1	0.3	3.3
Disposals	—	(0.5)	—	—	(0.5)
At 31 December 2013	8.5	32.8	13.0	5.3	59.6
Depreciation					
At 1 January 2013	5.3	22.6	8.7	3.7	40.3
Charge for the year	1.0	3.9	1.7	0.7	7.3
Disposals	—	(0.4)	—	—	(0.4)
At 31 December 2013	6.3	26.1	10.4	4.4	47.2
Net book amount					
At 1 January 2013	2.0	9.0	4.2	1.3	16.5
Net book amount					
At 31 December 2013	2.2	6.7	2.6	0.9	12.4
Cost					
At 1 January 2014	8.5	32.8	13.0	5.3	59.6
Additions*1	16.9	6.8	1.0	2.5	27.2
Disposals	(0.5)	(0.1)	—	—	(0.6)
At 31 December 2014	24.9	39.5	14.0	7.8	86.2
Depreciation					
At 1 January 2014	6.3	26.1	10.4	4.4	47.2
Charge for the year	1.7	3.6	1.2	0.6	7.1
Disposals	(0.4)	—	—	—	(0.4)
At 31 December 2014	7.6	29.7	11.6	5.0	53.9
Net book amount					
At 31 December 2014	**17.3**	**9.8**	**2.4**	**2.8**	**32.3**

*1 The increase in additions is due to investment in the fit-out of new premises

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

	31 December 2014 £m	31 December 2013 £m
Computer equipment	**2.5**	—

10. Other assets and other liabilities continued

10c. Intangible Assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
At 1 January 2013	62.3	20.3	9.9	92.5
Additions	—	67.7	6.8	74.5
Amortisation charge	—	(68.8)	(4.9)	(73.7)
Disposals	—	—	(0.5)	(0.5)
At 31 December 2013	62.3	19.2	11.3	92.8
Additions	—	38.3	23.4	61.7
Amortisation charge	—	(42.7)	(4.6)	(47.3)
Disposals	—	—	—	—
At 31 December 2014	**62.3**	**14.8**	**30.1**	**107.2**

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. Refer to the accounting policy for goodwill for further information.

10d. Trade and other receivables

	31 December 2014 £m	31 December 2013 £m
Trade receivables	**78.4**	73.9
Prepayments and accrued income	**3.6**	3.6
Total trade and other receivables	**82.0**	77.5

10e. Trade and other payables

	31 December 2014 £m	31 December 2013 £m
Trade payables	**24.6**	16.9
Amounts owed to co-insurers and reinsurers	**756.5**	785.3
Finance leases due within 12 months	**1.4**	0.1
Other taxation and social security liabilities	**20.9**	20.6
Other payables	**82.2**	90.1
Accruals and deferred income (see below)	**80.2**	100.7
Total trade and other payables	**965.8**	1,013.7

Of amounts owed to co-insurers and reinsurers, £585.7 million (2013: £629.3 million) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2014 £m	31 December 2013 £m
Premium receivable in advance of policy inception	**50.9**	60.7
Accrued expenses	**11.1**	22.0
Deferred income	**18.2**	18.0
Total accruals and deferred income as above	**80.2**	100.7

10. Other assets and other liabilities continued

10f. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2014			At 31 December 2013		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**1.4**	**—**	**1.4**	0.1	—	0.1
Between one and five years	**—**	**—**	**—**	—	—	—
More than five years	**—**	**—**	**—**	—	—	—
	1.4	**—**	**1.4**	0.1	—	0.1

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

10g. Financial commitments

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

	31 December 2014 £m	31 December 2013 £m
Minimum payments due on operating leases		
Within one year	**8.5**	5.3
Within two to five years	**36.9**	8.2
Over five years	**115.5**	1.8
Total commitments	**160.9**	15.3

Operating lease payments represent rentals payable by the Group for its office properties. The increase in operating lease commitments from the prior period is due to the agreement of long term lease agreements relating to new premises in South Wales.

10h. Contingent liabilities

The Group is, from time to time, engaged in legal matters or disputes (including, but not limited to, employment, regulatory matters and data protection) which might result in an outflow of benefits from the Group. Where the Group is able to reliably estimate probable losses, provision is made. The Group has not disclosed estimates of the potential financial effect of contingent liabilities arising from matters where the impact is highly unlikely to be material, or where it is not practicable to do so, or, in cases where it is practicable, where disclosure could prejudice conduct of the matters.

In particular, the Group's US insurance operation is subject to legal action in relation to alleged breach of consumer protection legislation. At the balance sheet date, the outcome and duration of the legal action is highly uncertain and it is not possible to make a reliable estimate of the outcome.

11. Share capital

11a. Accounting policies

(i) Share capital

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

(ii) Dividends

Dividends are recorded in the period in which they are declared and paid.

11b. Dividends

Dividends were declared and paid as follows:

	31 December 2014 £m	31 December 2013 £m
March 2013 (45.5 pence per share, paid June 2013)	**—**	123.1
August 2013 (48.9 pence per share, paid October 2013)	**—**	132.7
March 2014 (50.6 pence per share, paid May 2014)	**138.3**	—
August 2014 (49.4 pence per share, paid October 2014)	**135.2**	—
Total dividends	**273.5**	255.8

The dividends declared in March represent the final dividends paid in respect of the 2012 and 2013 financial years. The dividends declared in August are interim distributions in respect of 2013 and 2014.

A final dividend of 49.0 pence per share (£136 million) has been proposed in respect of the 2014 financial year. Refer to the Chairman's Statement and Strategic Report for further detail.

11. Share capital continued

11c. Earnings per share

	31 December 2014 £m	31 December 2013 £m
Profit for the financial year after taxation attributable to equity shareholders	**285.2**	287.0
Weighted average number of shares – basic	**276,885,828**	274,311,039
Unadjusted earnings per share – basic	**103.0p**	104.6p
Weighted average number of shares – diluted	**277,334,765**	274,813,144
Unadjusted earnings per share – diluted	**102.8p**	104.4p

The difference between the basic and diluted number of shares at the end of 2014 (being 448,937; 2013: 502,105) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 8 for further detail.

11d. Share capital

	31 December 2014 £m	31 December 2013 £m
Authorised		
500,000,000 ordinary shares of 0.1 pence	**0.5**	0.5
Issued, called up and fully paid		
278,689,742 ordinary shares of 0.1 pence	**0.3**	—
276,141,432 ordinary shares of 0.1 pence	**—**	0.3
	0.3	0.3

During 2014 2,548,310 (2013: 2,617,838) new ordinary shares of 0.1 pence were issued to the trusts administering the Group's share schemes.

748,310 (2013: 917,838) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme to give a closing number at 31 December 2014 of 7,232,394 (31 December 2013: 6,484,084). These shares are entitled to receive dividends.

1,800,000 (2013: 1,700,000) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme to give a closing number at 31 December 2014 of 12,861,948 (31 December 2013: 11,061,948). The Trustees have waived the right to dividend payments, other than to the extent of 0.001 pence per share, unless and to the extent otherwise directed by the Company from time to time.

The number of shares in issue at flotation was 258,595,400.

11e. Objectives, policies and procedures for managing capital

The Group manages its capital to ensure that all entities within the Group are able to continue as going concerns and also to ensure that regulated entities meet regulatory requirements with an appropriate margin. Excess capital above these levels within subsidiaries is paid up to the Group holding company in the form of dividends on a regular basis.

The Group's dividend policy is to make distributions after taking into account capital that is required to be held a) for regulatory purposes; b) to fund expansion activities; and c) as a further buffer against unforeseen events. This policy gives the Directors flexibility in managing the Group's capital.

The Group's regulatory capital requirements are discussed in the Group Financial Review within the Strategic Report.

11. Share capital continued

11f. Group subsidiary companies

The Parent Company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of shares held	% Ownership	Principal activity
Able Insurance Services Limited	England and Wales	Ordinary	100	Insurance Intermediary
Admiral Insurance (Gibraltar) Limited	Gibraltar	Ordinary	100	Insurance Company
Admiral Insurance Company Limited	England and Wales	Ordinary	100	Insurance Company
Admiral Law Limited	England and Wales	Ordinary	90	Legal Company
Admiral Life Limited	England and Wales	Ordinary	100	Dormant
Admiral Syndicate Limited	England and Wales	Ordinary	100	Non Trading
Admiral Syndicate Management Limited	England and Wales	Ordinary	100	Dormant
BDE Law Limited	England and Wales	Ordinary	90	Legal Company
Bell Direct Limited	England and Wales	Ordinary	100	Dormant
comparenow.com Insurance Agency LLC	United States of America	Ordinary	67.79 (indirect)	Insurance Intermediary
Confused.com Limited	England and Wales	Ordinary	100	Dormant
Diamond Motor Insurance Services Limited	England and Wales	Ordinary	100	Dormant
Elephant Insurance Company	United States of America	Ordinary	100	Insurance Company
Elephant Insurance Services Limited	England and Wales	Ordinary	100	Dormant
Elephant Insurance Services LLC	United States of America	Ordinary	100	Insurance Intermediary
EUI (France) Limited	England and Wales	Ordinary	100	Insurance Intermediary
EUI Limited	England and Wales	Ordinary	100	Insurance Intermediary
Inspop Technologies Private Limited	India	Ordinary	100	Internet technology supplier
Inspop USA LLC	United States of America	Ordinary	67.79	Insurance Intermediary
Inspop.com (France) Limited	England and Wales	Ordinary	100	Insurance Intermediary
Inspop.com Limited	England and Wales	Ordinary	100	Insurance Intermediary
Rastreator.com Limited	England and Wales	Ordinary	75	Insurance Intermediary

For further information on how the Group conducts its business across the UK, Europe and the US, refer to the Strategic Report.

11g. Related party transactions

Details relating to the remuneration and shareholdings of key management personnel are set out in the Directors' Remuneration Report. 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 Executive Directors of Admiral Group plc are key management personnel. Aggregate compensation for the Executive Directors is disclosed in the Directors' Remuneration Report on pages 60 to 72.

12. Reconciliations

The following tables reconcile significant key performance indicators and non-GAAP measures included in the Strategic Report to items included in the financial statements.

12a. Reconciliation of turnover to reported total premiums written and Other Revenue as per the financial statements

	31 December 2014 £m	31 December 2013 £m
Total premiums written before co-insurance arrangements per note 5b of financial statements	**1,675.6**	1,737.6
Other Revenue per note 7b of financial statements	**332.5**	327.8
	2,008.1	2,065.4
UK vehicle commission*1	**(50.8)**	(48.1)
Other*2	**13.7**	12.9
Turnover as per note 4b of financial statements	**1,971.0**	2,030.2

*1 During 2012 Admiral ceased earning Other Revenue from the sale of non-optional legal protection policies. At the same point, the Group began charging its panel of co- and reinsurers a vehicle commission. The substance of these changes meant that the total premiums written increased by the amount of revenue that was previously earned from the sale of non-optional legal protection policies. The vehicle commission included within Other Revenue is therefore eliminated from the turnover measure to avoid double counting

*2 Other reconciling items represent co-insurer and reinsurer shares of Other Revenue in the Group's International Car Insurance businesses

12b. Reconciliation of claims incurred to reported Group loss ratio, excluding releases on commuted reinsurance

	31 December 2014		31 December 2013	
	UK Car £m	**Group £m**	UK Car £m	Group £m
Net insurance claims	**188.9**	**259.1**	243.3	303.0
Less: net claims handling expenses	**(8.9)**	**(8.9)**	(9.5)	(9.5)
Add back reserve releases on commuted reinsurance	**70.6**	**70.6**	40.9	40.9
Adjusted net claims	**250.6**	**320.8**	274.7	334.4
Net insurance premium revenue	**365.1**	**464.9**	403.9	483.0
Reported loss ratio	**68.6%**	**69.0%**	68.0%	69.2%

12c. Reconciliation of expenses related to insurance contracts to reported Group expense ratio

	31 December 2014		31 December 2013	
	UK Car £m	**Group £m**	UK Car £m	Group £m
Net insurance expenses	**43.5**	**82.7**	51.2	86.7
Add: net claims handling expenses	**8.9**	**8.9**	9.5	9.5
Adjusted net expenses	**52.4**	**91.6**	60.7	96.2
Net insurance premium revenue	**365.1**	**464.9**	403.9	483.0
Reported expense ratio	**14.4%**	**19.7%**	15.0%	19.9%

PARENT COMPANY FINANCIAL STATEMENTS
PARENT COMPANY BALANCE SHEET

	Note	As at 31 December 2014 £m	As at 31 December 2013 £m
Non-current assets			
Shares in Group undertakings	5	**243.1**	212.6
Intangible assets		**0.7**	—
Other investments	6	**203.2**	29.5
Current assets			
Amounts owed from subsidiary undertakings		**1.5**	8.0
Trade and other receivables	7	**1.4**	0.1
Cash at bank and in hand		**50.0**	3.3
		52.9	11.4
Creditors – falling due within one year			
Other creditors	8	**(73.6)**	(63.4)
		(73.6)	(63.4)
Net current liabilities		**(20.7)**	(52.0)
Total assets less current liabilities		**426.3**	190.1
Creditors – falling due after one year			
Subordinated liabilities	9	**(203.8)**	—
		(203.8)	—
Net assets		**222.5**	190.1
Capital and reserves			
Called up share capital	11	**0.3**	0.3
Share premium account	10	**13.1**	13.1
Capital redemption reserve		**—**	—
Profit and loss account		**209.1**	176.7
		222.5	190.1

These financial statements were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

Geraint Jones
Chief Financial Officer
Admiral Group plc

Company number: 03849958

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

1. Basis of preparation

The accounts have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board has reviewed the Company's projections for the next 12 months and beyond, including cash flow forecasts and regulatory capital surpluses.

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 adoption of new accounting standards during the year has not had a material impact on either the current year or comparative figures.

The Admiral Group plc Company financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and in accordance with the provisions of Section 396 to the Companies Act 2006.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented. Under FRS 1 Cash Flow Statements the Company is exempt from having to present a cash flow statement on the grounds that its cash flows are included in the Group's published Consolidated financial statements.

The Parent Company audit fee is not disclosed in these accounts as it is disclosed in the Consolidated financial statements for Admiral Group plc, which precede them at note 8c.

Refer to note 11 of the Consolidated financial statements for disclosure of related party transactions.

2. Investments

Shares in Group undertakings are valued at cost less any provision for impairment in value.

3. Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

4. Employee share schemes

The Group operates a number of share schemes for its employees. For equity settled 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 in the Parent Company's subsidiaries, with a corresponding increase in equity in the Parent Company.

Refer to note 8 of the Consolidated financial statements for further details on share schemes.

5. Shares in Group undertakings

	£m
Investments in subsidiary undertakings:	
At 1 January 2013	192.3
Additions	20.3
At 31 December 2013	212.6
Additions	30.5
At 31 December 2014	**243.1**

A full list of the Company's subsidiaries is disclosed in note 11 of the Consolidated financial statements.

6. Other investments

	£m
Other investments:	
At 1 January 2013	74.6
Disposals	(45.1)
At 31 December 2013	29.5
Additions	199.1
Disposals	(25.4)
At 31 December 2014	**203.2**

Other investments are money market liquidity funds and gilts. Refer to note 6 of the Group financial statements details of the Group's investments, including money market liquidity funds and gilts.

7. Trade and other receivables – due within one year

	31 December 2014 £m	31 December 2013 £m
Trade and other receivables	**0.1**	0.1
Corporation tax recoverable	**1.3**	—
	1.4	0.1

8. Other creditors – due within one year

	31 December 2014 £m	31 December 2013 £m
Trade payables and other liabilities	**1.4**	0.4
Amounts owed to subsidiary undertakings	**72.2**	—
Corporation tax payable	**—**	63.0
	73.6	63.4

9. Other Creditors – due after one year

	31 December 2014 £m	31 December 2013 £m
Subordinated notes	**203.8**	—
	203.8	—

The Company issued subordinated notes in 2014. Refer to note 6 of the Group financial statements for details of the subordinated notes issue.

10. Reconciliation of movements in shareholders' funds

Company figures	Share capital £m	Share premium account £m	Retained profit and loss £m	Total equity £m
At 1 January 2013	0.3	13.1	203.5	216.9
Retained profit for the period	—	—	203.3	203.3
Dividends	—	—	(255.8)	(255.8)
Issues of share capital	—	—	—	—
Share scheme charges	—	—	25.7	25.7
As at 31 December 2013	0.3	13.1	176.7	190.1
Retained profit for the period	—	—	282.7	282.7
Dividends	—	—	(273.5)	(273.5)
Issues of share capital	—	—	—	—
Share scheme charges	—	—	23.2	23.2
As at 31 December 2014	**0.3**	**13.1**	**209.1**	**222.5**

11. Share Capital

Full details of the Company's share capital are included in note 11 of the Consolidated financial statements.

Basis of preparation

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

Income statement

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Total premiums	**1,675.6**	1,737.6	1,897.2	1,841.3	1,308.6
Net insurance premium revenue	**464.9**	483.0	498.9	445.8	288.1
Other Revenue	**332.5**	327.8	361.1	349.0	276.2
Profit commission	**71.8**	99.3	108.4	61.8	67.0
Investment and interest income	**15.4**	14.3	15.9	13.7	9.5
Net revenue	**884.6**	924.4	984.3	870.3	640.8
Net insurance claims	**(259.1)**	(303.0)	(404.5)	(363.8)	(208.5)
Net expenses	**(270.2)**	(251.2)	(235.2)	(207.4)	(166.8)
Operating profit	**355.3**	370.2	344.6	299.1	265.5
Finance costs	**(4.6)**	—	—	—	—
Profit before tax	**350.7**	370.2	344.6	299.1	265.5

Balance sheet

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Property and equipment	**32.3**	12.4	16.5	17.6	13.6
Intangible assets	**107.2**	92.8	92.5	87.5	82.9
Deferred income tax	**22.9**	17.0	15.2	10.3	12.4
Reinsurance assets	**829.8**	821.2	803.0	639.8	357.0
Trade and other receivables	**82.0**	77.5	55.3	52.1	47.9
Financial assets	**2,547.4**	2,265.0	2,005.1	1,583.0	1,004.7
Cash and cash equivalents	**255.9**	187.9	216.6	224.6	246.7
Assets held for sale	**—**	—	—	—	1.5
Total assets	**3,877.5**	3,473.8	3,204.2	2,614.9	1,766.7
Equity	**580.9**	524.1	460.7	394.4	350.7
Insurance contracts	**2,097.4**	1,901.3	1,696.9	1,333.7	806.6
Subordinated liabilities	**203.8**	—	—	—	—
Trade and other payables	**965.8**	1,013.7	1,006.5	856.6	561.0
Current tax liabilities	**29.6**	34.7	40.1	30.2	48.4
Total liabilities	**3,877.5**	3,473.8	3,204.2	2,614.9	1,766.7

GLOSSARY

Accident year	The year in which an accident occurs, also referred to as the earned basis.
Actuarial best estimate	The probability-weighted average of all future claims and cost scenarios calculated using historical data, actuarial methods and judgement.
Claims reserves	A monetary amount set aside for the future payment of incurred claims that have not yet been settled, thus representing a balance sheet liability.
Co-insurance	An arrangement in which two or more insurance companies agree to underwrite insurance business on a specified portfolio in specified proportions. Each co-insurer is directly liable to the policyholder for their proportional share.
Combined ratio	The sum of the loss ratio and the expense ratio.
Commutation	An agreement between a ceding insurer and the reinsurer that provides for the valuation, payment and complete discharge of all obligations between the parties under a particular reinsurance contract.
Expense ratio	The ratio can be calculated on an earned or written basis. Expressed as a percentage, of (i) net operating expenses, either divided by (ii) written or earned premiums, net of reinsurance.
Insurance market cycle	The tendency for the insurance market to swing between highs and lows of profitability over time, with the potential to influence premium rates (also known as the 'underwriting cycle').
Loss ratio	The loss ratio can be calculated on an accident year or underwriting year basis, and is expressed as a percentage of (i) claims incurred, divided by (ii) net premiums.
Net claims	The cost of claims incurred in the period, less any claims costs recovered under reinsurance contracts. It includes both claims payments and movements in claims reserves.
Net insurance premium revenue	Also referred to as net earned premium. The element of premium, less reinsurance premium, earned in the period.
Premium	A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract. Written premium refers to the total amount the policyholder has contracted for, whereas earned premium refers to the recognition of this premium over the life of the contract.
Profit commission	A provision found in some reinsurance and co-insurance agreements that provides for profit sharing.
Reinsurance	Contractual arrangements whereby the Group transfers part or all of the insurance risk accepted to another insurer. This can be on a quota share basis (a percentage share of premiums, claims and expenses) or an excess of loss basis (full reinsurance for claims over an agreed value).
Total/Gross/Net premiums written	Total = total premiums written, including co-insurance. Gross = total premiums written, including reinsurance but excluding co-insurance. Net = total premiums written, excluding reinsurance and co-insurance.
Turnover	A non-GAAP measure, turnover is the sum of 'total premiums written' and 'Other Revenue'.
Ultimate loss ratio	The projected ratio for a particular accident year or underwriting year, often used in the calculation of underwriting profit and profit commission.
Underwriting year	The year in which the policy was incepted, also referred to as the written basis. Claims incurred are allocated to the calendar year in which the policy was underwritten.
Written/Earned basis	A policy can be written in one calendar year but earned over a subsequent calendar year.

Directors

Alastair Lyons, CBE
Non-Executive Chairman

Henry Engelhardt, CBE
Chief Executive Officer

Geraint Jones
Chief Financial Officer

David Stevens, CBE
Chief Operating Officer

Roger Abravanel
Non-Executive Director

Manfred Aldag
Non-Executive Director

Annette Court
Non-Executive Director

Colin Holmes
Non-Executive Director

Penny James
Non-Executive Director

Margaret Johnson, OBE
Non-Executive Director

Lucy Kellaway
Non-Executive Director

Jean Park
Non-Executive Director

Company Secretary

Mark Waters
Ty Admiral
David Street
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Cardiff CF10 4AX

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Registrar

Capita Asset Services
The Registry
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Beckenham
Kent BR3 4TU

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London EC1A 1HQ

UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP

Solicitors

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10 Upper Bank Street
London E14 5JJ

Corporate website

The Group's corporate website is at www.admiralgroup.co.uk. A range of information about the Admiral Group is presented, including the Group's history: financial reports and press releases; corporate responsibility and governance.

The website also includes the contact details for investor relations.

Financial calendar

Final 2014 dividend

7 May 2015 – Ex dividend date
8 May 2015 – Record date
29 May 2015 – Payment date

Annual General Meeting

29 April 2015

Interim results

19 August 2015

The Group does not produce printed copies of interim results for shareholders unless requested.

The interim results will be available on the corporate website from 19 August 2015.

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Cardiff CF10 3AZ

Admiral Group businesses

UK

Car Insurance:
Admiral www.admiral.com
elephant.co.uk www.elephant.co.uk
Diamond www.diamond.co.uk
Bell www.bell.co.uk

Price Comparison:
Confused.com www.confused.com

Household Insurance:
Admiral Household www.admiral.com/home-insurance

Van Insurance:
Gladiator www.gladiator.co.uk

Spain

Car Insurance:
Balumba www.balumba.es
Qualitas Auto www.qualitasauto.com

Price Comparison:
Rastreator www.rastreator.com

Italy

Car Insurance:
ConTe www.conte.it

USA

Car Insurance:
Elephant Auto www.elephant.com

Price Comparison:
compare.com www.compare.com

France

Car Insurance:
L'olivier Assurances www.lolivier.fr

Price Comparison:
LeLynx www.lelynx.fr

FSC www.fsc.org RECYCLED Paper made from recycled material FSC® C022913

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consultancy, design and production by designportfolio
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Design Portfolio plants ten trees for each of its corporate report projects, in association with Trees for Cities.

2014 was an award winning year!

2nd place in the
Sunday Times Best Big
Companies to Work For listings, 2014

3rd Best
Large UK Workplace
Great Place to Work Institute, 2014

3rd Best
Multinational Workplace in Europe,
Great Place to Work Institute's Best
Multinationals in Europe, 2014

23rd Best
Best Large Workplace in Canada
(Admiral Halifax)

11th Best
Small to Medium Workplace in Italy
(ConTe)

5th Best
Workplaces PYMES (SMEs) in Spain
Great Place to Work Institute, 2014
(Rastreator)

8th Best
Company to Work for in Spain
(Admiral Seguros: Balumba and Qualitas Auto)

4th Best
Large Employer in the
Richmond Times Dispatch Sterling Award
(Elephant Auto)