8 March 2017

Admiral Group plc announces another year of strong growth and profit before tax of £284 million for the year to 31 December 2016

2016 Preliminary Results Highlights

	2016	**2015**	**% change**
Group's share of profit before tax – pre Ogden*1	£389.7 million	£376.8 million	+3%
Group's share of profit before tax – post Ogden*1	£284.3 million	£376.8 million	-25%
Group statutory profit before tax	£278.4 million	£368.7 million	-24%
Earnings per share – pre Ogden	109.6 pence	107.3 pence	+2%
Earnings per share – post Ogden	78.7 pence	107.3 pence	-27%
Full year dividend	114.4 pence	114.4 pence	0%
Return on equity*1	37%	49%	-24%
Group turnover*1	£2.58 billion	£2.12 billion	+22%
Group net revenue	£1.02 billion	£0.90 billion	+13%
Group customers*1	5.15 million	4.43 million	+16%
UK insurance customers*1	4.12 million	3.61 million	+14%
International car insurance customers*1	864,200	673,000	+28%
Group's share of price comparison profit*1	£2.7 million profit	£7.2 million loss	
Statutory price comparison result	£2.9 million loss	£15.5 million loss	
Solvency ratio (post dividend)*2	212%	206%	+3%

Almost 9,000 staff each receive free shares worth a total of £3,600 under the employee share scheme based on the full year 2016 results

*1 *Alternative Performance Measures – refer to the end of the report for definition and explanation.*
*2 *Refer to capital structure and financial position section later in the report for further information.*

Comment from David Stevens, Group Chief Executive Officer
"My first full year as CEO, and after 25 years of almost uninterrupted profit growth under my predecessor, profits are down a quarter! Not exactly a flying start!

On the other hand our ability to grow our businesses rapidly, both in the UK and overseas, and to absorb the shock of an eccentric government decision on discount rates while delivering a 37% return on equity and again paying a substantial dividend is a tribute to the health of the business and resilience of our model.

I am also delighted that for a record 17th year in a row, Admiral Group has continued its success in the Sunday Times Best Companies to Work For, placing 2nd, our joint highest position ever."

Dividend
The Directors have proposed a final dividend of 51.5 pence, representing a normal dividend of 15.0 pence per share and a special dividend of 36.5 pence per share. The dividend will be paid on 2 June 2017. The ex-dividend date is 11 May 2017 and the record date is 12 May 2017.

Management presentation
Analysts and investors will be able to access the Admiral Group management presentation which commences at 8.00 GMT on Wednesday 8 March 2017 by dialling + 44 (0)20 3059 8125. A copy of the presentation slides will be available at www.admiralgroup.co.uk

Chairman's Statement

Succession
As announced recently this will be my last statement as Chairman as I shall be retiring at the forthcoming AGM. Given Admiral's distinctive culture which underpins the success the business has achieved I have considered it my responsibility to ensure the Board should have a choice of strong internal candidates as my successor. I am very grateful to Penny James for leading the selection process which confirmed that the Board already had within its ranks individuals with the skills and experience to lead the Board through the challenges of the next five to ten years. I am delighted that as the outcome to that process the Board has selected Annette Court as my successor and I wish her every success.

If I may be excused a little nostalgia, when I became Chairman in June 2000 Admiral provided private car insurance in the UK to 512k customers with a 3% market share and employed 1,270 people just in Cardiff and Swansea. Turnover and profitability in 2000 were £262 million and £24 million respectively. We now have 5.2 million customers across 5 countries and employ almost 9,000 people across 16 sites and 8 countries. 2016 turnover and profits achieved £2.6 billion and £284 million, or £390 million if we back out the impact of the Ogden rate change – that's almost a 10-fold increase in turnover and a 16-fold increase in profitability in 16 years. We are valued at over £5 billion and are ranked 84 in the FTSE. We have 5 motor insurance businesses; 4 price comparison businesses; a household insurance business; 2 legal businesses; a start-up loans business and not to mention a price comparison incubator.

The essence of Admiral
On the one hand Admiral has changed enormously, on the other not very much at all. Fundamental to our success remains our culture – Admiral is different in the way in which we engage and lead our people: in demonstrating in so many practical ways that everyone matters regardless of their role: in how we motivate their aiming for continuous improvement in everything they do: in our use of teamwork and our openness to share and support others to do a great job, whether or not they are in the same department, business, or even country: in our use of wide share ownership, both actual and potential, as a driver of common purpose. To maintain a culture requires it to be continually reinforced – to be lived by our leaders in the way in which they interact with those they lead: to be trained into our people as part of our development plans: to be the basis on which we select those who should be promoted to greater responsibility. I consider one of our management's greatest achievements to be that as we have broadened our base, both geographically and by business-line, we have been able to establish that culture in these new businesses. Whichever of Admiral's offices I

visit, from Seville to Swansea, I know I am in Admiral because of the way in which our people interact with our customers and with each other; their quest to identify the small changes in what we do and how we do it that, taken together, create a big competitive difference; and their openness to discuss problems and willingness to embrace the thoughts of others.

Test and learn has always been core to Admiral's culture. Rather than spending a lot of time analysing an opportunity from every perspective and then committing a large investment we would rather make a small investment of time and/or money quickly and learn by doing. Partnering test and learn is the willingness to acknowledge openly when something hasn't worked and either change or move on recognising these as opportunities to improve rather than mistakes for which blame should be attributed. This approach of test and learn is central to our assessing which we will pursue seriously amongst the other business lines that could complement our core strengths in car insurance, either because our customers would view the new products as relevant to their existing relationship with Admiral or because the new line of business uses experience and skills that we have developed for car insurance. Our current piloting of personal loans is a case in point here, whilst our UK household insurance portfolio of 470,000 policies and already profitable 3 years after launch is a great example of a line of business that has passed successfully from pilot into full production.

Whilst we devote time and resource to exploring new opportunities outside of car insurance we also recognise fully that this remains our core focus with significant potential for growth beyond our current 13% market share as and when it is the right point in the cycle to grow. So the capability required to develop our business must be, and is, incremental to, rather than dilutive of, our core. We continue to invest as much thought and resource as we ever have in improving the effectiveness of our motor insurance proposition, whether it be in pricing analytics, claims management, or customer self-service. However we also recognise that if we are to develop successfully new lines of business such as personal loans we need to add new skills and experience to our existing management whilst at the same time assimilating this new talent within our distinctive culture.

We are also strong believers in the potential of partnership to combine the skills, experience and resources of others with those that Admiral has developed and to share both risk and reward when entering new markets, particularly those that require material levels of investment. Our long-term partnership with Munich Re has lasted for 17 years and is committed through to at least 2020 in the UK: we are partnering with Mapfre in Spanish and US price comparison and in Preminen, our price comparison incubator: White Mountains, the US insurance venture capital specialist, is also invested alongside Admiral in compare.com which has made strong progress again this year, increasing the number of insurer partners and, therefore, the number of quotes returned to customers, driving down cost per sale, and raising its penetration of its target markets. But changing the pattern of distribution in US auto insurance is a big nut to crack and we may take others into partnership along this journey.

2016 in overview

This year's performance is testament to our focussing successfully on our core UK motor business, our book growing by 11% to 3.6 million cars, a 13% market share whilst UK motor generated profits of £441 million (before the impact of the Ogden rate change), maintaining last year's level. The UK motor profit after the impact of the Ogden change is £336m. We have continued to take advantage of firm market conditions to move prices ahead a little more slowly than the average of the market allowing us to grow our book whilst returning a good underwriting result for Admiral and its reinsurance partners. Effective pricing supported by data analysis and predictive modelling, and really insightful claims management underpin our success and we are always looking for new ways to make risk analysis more reflective of the characteristics of the individual driver. In this vein we believe we are now the largest deployer of telematics in the UK.

2016 was broadly a year of growth across our insurance businesses outside the UK, taking advantage of the sound platforms that have now been created in Italy, the US, and Spain and the move in France last year to in-source all our operations as the precursor of growth. In the US we had 20% more customers at the end of 2016 than at the beginning, whilst our European operations grew by 31%. The insurance business model in the US is different to Europe with much higher new business acquisition costs, so growth requires investment. In Europe, there will also be periods when countries decide the market conditions are right to accelerate which may in turn justify further investment, as in Spain this year.

Our price comparison sector combines a highly competitive operation in a largely mature market (Confused); market-leading players with large market shares but whose challenge is growth in markets where there is little incentive for customers to look to switch insurers (Rastreator and LeLynx); and a business that is seeking to rewrite the rules of insurance customer engagement (compare.com). Across the piece our combined price comparison operations made a small profit, supported by encouraging progress by Confused as it seeks to establish a differentiated market positioning as 'No. 1 for car savings'.

For the last couple of months the resetting of the Ogden rate by the Ministry of Justice has represented a significant area of uncertainty outside of our control. The announcement on 27 February by the Lord Chancellor of the new rate of minus 0.75% has allowed this to be reflected within our 2016 accounts and represents a very material reduction from the previous 2.5% rate, increasing claims reserves by more than we would want to absorb within the, albeit significant, margin that we hold over best estimate. We have, therefore, reduced our second half reported results by £105 million, and to a much lesser extent the profits of subsequent years will also be reduced as the affected claims settle. Given, however, our strong capital position, this has not impacted our ability to maintain our 2016 final dividend at the level we declared in 2015. We anticipate that if market pricing adjusts future premiums to reflect the lower discount rate, there will be no significant impact on future business and its profitability after the change. We strongly support the ABI's call for a fundamental review of the basis on which the Ogden rate is set in order to ensure that the relevant compensation awards are set appropriately and welcome the intent of the Lord Chancellor and the Chancellor of the Exchequer to implement this review expeditiously.

A proposed final dividend of 51.5 pence per share brings dividends for the year to 114.4 pence per share, a yield of 6.3% on the £18.18 share price at the 2016 year end.

The team

May last year marked the retirement of Henry Engelhardt after 25 years as Chief Executive albeit I am delighted he is continuing to give us some of his time working in the UK and overseas. That the transition from Henry to David Stevens has been seamless is itself testament to Admiral's culture of teamwork and open management. Henry always said that he would time his retirement when he judged the business had the required depth of management and over the years the Board has focussed on understanding the talent emerging within the business and how it has been, and is planned to be, developed. It is, therefore, very gratifying to see David now ably supported by Cristina Nestares leading the UK Insurance business, with Alistair Hargreaves working alongside her, and by Milena Mondini leading the European insurance businesses. Cristina and Milena have both been with Admiral for 11 years having founded, and successfully developed, our Spanish and Italian insurance businesses and then broadened their management responsibilities leading to their current roles. Alistair has been with Admiral 8 years, having begun his career in finance and investor relations and then taken increasingly significant management roles within the UK motor business. Development and recruitment of management talent is a core enabler of Admiral's continued growth and development and I am very encouraged by the quality and potential of those I meet in middle and senior management positions as I spend time across our various businesses.

Thank you

I have thoroughly enjoyed every year I have chaired Admiral. It is a special business because of the way in which it does business, its absolute focus on delivering what the customer wants, and its beliefs that if people enjoy what they are doing and own part of the business that employs them they will do a better job. In the same way as Admiral seeks to assess the right price for each driver as an individual so it respects the contribution of each individual who works with us, caring about their well-being and giving them the opportunity to develop and progress to fulfil their individual potential. It is a company with which I am very proud to have been associated and I thank everyone in Admiral with whom I have worked for a great experience.

With a core business in such good form, a nursery of other businesses at varying stages of maturity, and a hothouse of opportunities which may or may not take root and get planted out, but most of all with the people we have in the business, I am confident that Admiral will continue to develop and prosper over the next 16 years as it has over the last.

Alastair Lyons
Chairman
7 March 2017

Chief Executive's Statement

Very few people can claim to have contributed as much to Admiral's success as Alastair Lyons. So it'd be wrong to start my first Chief Executive report with anything other than a tribute to his contribution over the last 16 years. The Board collectively, Admiral's senior managers, and Henry and myself in particular, have benefitted from his wisdom, experience and thoughtfulness, and during our (occasional) moments of crisis, his composure.

Perhaps most importantly, notwithstanding an apparently conservative profile as a chartered accountant and financial services veteran, Alastair has consistently been an encouraging supporter of Admiral's distinctiveness rather than an advocate of the apparently safe option of convergence to industry norms.

In his statement, Alastair has laid out the transformation, in scale and breadth, of Admiral over the 16 years of his stewardship. He describes how 2016 has been another year of substantial growth both in our core UK car insurance business and across the Group as a whole.

Rather than re-visit 2016 myself (and to duck the challenge of trying to find a pithy culinary metaphor to describe the year – see previous Chief Executive Statements), I'll look forward and answer a question some shareholders may be asking. Namely: "Should I sell Admiral and buy Insurtech?"

For those of you with limited time, or for whom the suspense is too much, the short answer, in my view, is "no". Read on for a longer answer.

Insurtech is generating lots of excitement. Visiting investment bankers, who historically would have arrived with fat packs on attractive big ticket acquisitions, now also include charts showing the explosive growth in Insurtech, along with a busy "Insurtech landscape" page, packed with the colourful logos of whizzily named Insurtech start-ups, bunched (sometimes shoe-horned) into helpful categories ("sharing economy", "P2P", "mobile insurance", "telematics", "auto comparison", "short term cover"). A big brand consulting firm recently shared the results of a survey suggesting that "insurance CEO's" expect new entrants to capture 30% of the insurance market over the next five years.

I disagree.

I say that not because the ideas emerging aren't interesting, far from it. Nor because many of the Insurtech pioneers aren't very bright and creative (and it's great to see that creativity focussed on insurance).

I disagree for two reasons.

The first reason is that many of the ideas won't work in practice. Many, while technologically feasible, even impressive, involve an under-appreciation of the complexity of insurance; the importance, for example, of avoiding customers you really don't want to insure or the challenge of engaging policyholders in a deeper interaction with their insurance when, in truth, most of our customers want the opposite. Insurtech start-ups promising on-again, off-again, item by item insurance are offering a consumer "benefit" that most of our customers wouldn't recognise as such.

The second reason is that Admiral already, in many important respects, is "Insurtech". The two most fundamental Insurtech sectors; "fundamental" in terms of their ability to transform the competitive landscape and substantially re-distribute market share, are "auto-comparison" and "telematics". On "auto-comparison" we are leading players with established, businesses in the UK, Spain and France and a pioneering, potentially transformational, US price comparison business in compare.com. And as for "telematics", we sell telematics-based car insurance in three countries and in the UK we are, by some margin, the largest player in the market with over 200,000 live policies. Beyond those sectors, our ever-evolving range of products ("air bnb" home insurance, Admiral short-term cover, insurance cover for the peer to peer car sharing sites) show we're not neglecting the interesting, if at this point more marginal, emerging opportunities.

Admiral's success has always been about embracing change when that's in the interest of our customers and shareholders. So stick with us and enjoy the best of insurance, and Insurtech, all in one bundle.

My priorities

My priorities for the forthcoming year are set out below. I expect them to remain my priorities for a number of years to come.

Ensure Admiral remains one of, if not the, best car insurers in the UK

Admiral has built its success on doing car insurance more effectively that its peers. Maintaining our lead in cost efficiency, rigorous risk selection and effective claims management has required Admiral to keep evolving and innovating and we need to continue to do so in the future.

Demonstrate Admiral can be a great car insurer beyond the UK

Our insurance operations beyond the UK are at different stages of development and relative competitive competence. Mobilising, ideally, all the collective talents of the Group, to ensure most, or all, of these operations become sources of sustainable profitable growth is a priority.

Develop sources of growth and profits beyond car insurance

Admiral's first major diversification from car insurance was household insurance, launched three years ago in the UK. I expect the second will be personal lending in the UK. Both take us into huge markets and, in both cases, our car insurance heritage provides some of the necessary skills and assets to succeed. Our priority will be to grow both, focussing on a long-term objective of developing sources of competitive advantage, not short-term top or bottom-line objectives.

Ensure Admiral stays a great place to work

I don't run Admiral purely for the benefit of shareholders. It's important that those of us who work for Admiral are glad we do, most of the time. Happily, what's good for staff is normally good for shareholders. A key reason for Admiral's success over the last 25 years has been the loyalty of talented staff to the company, and the collective sense of shared endeavour that has helped us do lots of things a little better than our competitors.

David Stevens
Chief Executive Officer
7 March 2017

Chief Financial Officer's Review

It's tempting to focus almost entirely on Ogden in writing a review of 2016's results, but whilst it deserves attention (and it's coming), there is more to talk about.

Given Ogden, the Group's share of pre-tax profit reduced materially to £284 million from £377 million last year. On a statutory basis, the reduction is similar, with Group profit before tax at £278 million compared to £369 million in 2015. Without the Ogden change, the Group's share of pre-tax profit would have been £390 million, of which the UK Insurance businesses would have contributed £441 million, in line with last year. Our combined international insurance businesses improved their result (£19 million loss v £22 million loss) whilst the comparison operations recorded a profit of £3 million after making losses of £7 million in 2015. On a statutory basis, the price comparison result is a loss of £3 million compared to a loss of £16 million last year.

Notwithstanding the Ogden impact, the strength of the Group's capital position has allowed us to propose a final dividend of 51.5 pence per share, in line with the final 2015 dividend (before adding the return of surplus capital that was paid a year ago).

If forced to describe the year in one word, for me it would be Growth. 2016 saw very strong advances in turnover (a record and 22% higher than 2015), customer numbers (another record at 5.2 million) and net revenue (up 13% to £1 billion). Whilst UK motor grew healthily, our businesses in other markets (including UK household) grew very nicely and continue to represent a bigger share of the Group's KPIs.

Our international operations in insurance and comparison continued to make meaningful and pleasing progress against their objectives.

It's inevitably hard to pick highlights, but some of mine would be:

- 720,000 – the number of new customers we welcomed to the Group in twelve months
- 1,035,000 – customers beyond UK Insurance, up 215,000 in a year
- 212% – solvency ratio after the Ogden impact and proposed final dividend
- 100% – all UK insurance new business now transacted on the new policy system, Guidewire
- Record profits at Rastreator in Spain and another profit (for the third successive financial year) from ConTe in Italy

Full detail on the results follows but let me cover a couple of things:

Ogden (inevitably), capital and dividend

Readers will be aware I'm sure, but in December 2016 we heard that a new Ogden discount rate was imminent (the first change since 2001). The announcement came at the end of February that the new rate would be minus 0.75% - a substantial reduction on the previous rate of 2.5%.

We estimate that the ultimate cost (net of reinsurance and tax) on open claims and claims arising on business written to the date of change of a move to minus 0.75% from 2.5% will be approximately £150 million.

The reduction in profit in 2016 means that a large portion of the impact of the change has been recognised already, with the balance (something in the order of £65 million post-tax) to be reflected in the coming years in the form of lower reserve releases and profit commission than would otherwise have been the case with an unchanged rate.

Ogden is of course only one variable involved in estimating the reserves, and as you would expect of Admiral, our booked reserves in the financial statements continue to include a prudent and significant margin above best estimates, the size of which is largely in line in relative terms with a year earlier.

The Solvency II balance sheet technical provisions are also now on a minus 0.75% Ogden basis.

After accounting for the proposed final dividend, the Group solvency ratio is a very satisfactory 212%. Excluding amounts relating to return of surplus capital, full year dividends for 2016 are held at their 2015 level of 102.5 pence per share.

The solvency ratio is above where we expect to operate in the medium to long term (no change on our previously indicated 125%-150%). However we consider it prudent to maintain a higher ratio in the near term as we move towards submission of our application to use an internal model to calculate our solvency capital requirement later in the year (we're still hoping to 'go live' with the model in 2018). For the foreseeable future, we envisage dividends will be in the order of 90-95% of earnings.

In terms of the future impact of higher injury costs resulting from the substantially lower discount rate, we expect that pricing action (including our own material pre-emptive rate changes in December 2016 and most likely more to follow) should mean profitability on business written after the date of the change will not be materially adversely affected.

Brexit

Another 2016 surprise (in a year full of them) was the result of the EU referendum in June.

Admiral currently has three insurers and two comparison businesses in continental Europe, all benefitting from passporting arrangements. Although the UK is very early in the process of extricating itself from the EU, there is clearly a risk we lose access to these markets via the passporting mechanism.

We are planning for potential outcomes and expect to be able to establish new entities and/or arrangements which should result in minimal disruption to our businesses and customers in those markets.

We also currently enjoy free movement of staff between our sites in Europe which might also be restricted. Again we'll work to ensure the impact on our staff is minimised to the extent possible under whatever arrangements are put in place.

Chairman

Finally, at the 2017 AGM we will say farewell to Alastair, our Chairman of over 16 years. David's tribute sums up Alastair's contribution eloquently so I'll just say that I've hugely admired Alastair as a Chairman and colleague since I've worked with him. We will miss him greatly. We're fortunate to have an extremely capable successor in Annette who's been on the Board since 2012. My best wishes go to both.

Geraint Jones
Chief Financial Officer
7 March 2017

2016 Group overview

The Group has seen strong growth in 2016 with turnover up 22% to £2.58 billion (2015: £2.12 billion). Net revenue increased by 13% to £1.02 billion (2015: £0.90 billion). Customer numbers were 16% higher at 5.15 million (2015: 4.43 million).

The Group’s share of pre-tax profits of £284.3 million (2015: £376.8 million) and statutory profit before tax of £278.4 million (2015: £368.7 million) have both been materially affected by the impact of the change by the UK Government to the UK discount rate (commonly referred to as the ‘Ogden discount rate’), used to value personal injury claims, which has reduced UK Insurance profits. See below for further information. If the rate had remained unchanged, the Group’s share of pre-tax profit would have been £390 million.

During 2016, the Group's UK Insurance business, consisting of UK Car and UK Household, enjoyed favourable market conditions and delivered strong growth in turnover to £2.06 billion (2015: £1.76 billion). Net revenue increased by 8% to £770.9 million (2015: £711.2 million). Customer numbers reached 4.1 million (2015: 3.6 million). The UK Insurance business accounts for 80% of Group turnover and customers (2015: 83% and 81% respectively).

Outside the UK, Admiral's International Insurance businesses grew combined turnover by 57% to £365.9 million (2015: £232.4 million). Net revenue increased by 49% to £107.3 million (2015: £72.2 million). Customer numbers grew by 28% to 864,000 (2015: 673,000). Encouraging progress was made in combined ratio terms, and in aggregate the segment recorded reduced losses of £19.4 million (down from £22.2 million) with the Group’s Italian insurer ConTe recording a profit for the third consecutive year.

Finally, Admiral’s Price Comparison businesses made a combined profit, again excluding minority interests’ shares, of £2.7 million (2015: loss £7.2 million). Confused.com in the UK grew revenue and saw a 29% increase in profit to £16.1 million from £12.5 million. The international price comparison businesses reported a reduced aggregate loss of £13.4 million (2015: loss £19.7 million) with growing profit in the European operations (£2.8 million, up from £1.8 million) offset by the loss in compare.com of £16.2 million (2015: loss £21.5 million).

Other Group key performance indicators include:

- Group loss ratio 72.0% post Ogden, 64.2% pre Ogden (2015: 65.1%) – an improved international ratio offset by an Ogden-impacted higher UK car insurance ratio;
- Group expense ratio 22.4% (2015: 20.5%) – an increased UK ratio reflecting an increase in acquisition costs resulting from growth offset by a small improvement in the international ratio; and
- Group combined ratio 94.4% post Ogden, 86.7% pre Ogden (2015: 85.6%).

Earnings per share

Earnings per share decreased by 27% to 78.7 pence (2015: 107.3 pence), reflecting the decrease in Group profit as a result of the change in the Ogden discount rate. If the rate had remained unchanged, earnings per share would have risen to 109.6 pence per share.

Dividends
The Group's dividend policy is to pay 65% of post-tax profits as a normal dividend and to pay a further special dividend comprising earnings not required to be held in the Group for solvency or buffers.

Notwithstanding the lower second half profits, the strength of the Group's capital position has allowed the Board to propose a final dividend of 51.5 pence per share (£144 million), as follows:

- 15.0 pence per share representing a normal element, based on the dividend policy of distributing 65% of post-tax profits; and
- A special element of 36.5 pence per share.

The final dividend is in line with the final 2015 dividend (excluding the return of surplus capital of 11.9 pence per share that was paid with the final 2015 dividend).

The total dividend for the 2016 financial year is 114.4 pence per share (including 11.9 pence return of surplus capital), in line with 2015 (which also included 11.9 pence return of surplus capital).

The payment date is 2 June 2017, ex-dividend date 11 May 2017 and record date 12 May 2017.

Return on equity
The impact of the changed Ogden discount rate on profit has led to a reduction in return on equity to 37% from 49%. Had the rate remained unchanged, return on equity would have been in line with 2015.

A key part of Admiral's business model is the extensive use of co- and reinsurance across the Group which provides both loss protection and capital relief and, when combined with high levels of profitability, leads to a superior return on equity.

Change in UK discount rate ('Ogden')
On 27 February 2017, the UK Government announced the outcome of the review of the discount rate (referred to as the Ogden discount rate) used for calculating the value of lump sum personal injury compensation. The new rate is minus 0.75% and will apply to all unsettled and new claims from 20 March 2017.

The estimated total impact, net of reinsurance and post tax, of the change to minus 0.75% from 2.5% is approximately £150 million.

The change in rate has been treated as an adjusting post balance sheet event and the UK motor actuarial best estimates and Solvency II technical provisions have been prepared on the basis of the new rate. The booked reserves in the financial statements continue to include a prudent and significant margin above the actuarial best estimates in line with the Group's reserving policy.

The majority of the financial impact in respect of premiums earned up to the date of change (£105 million pre-tax, £87 million post-tax), has been recognised in the form of reduced 2016 profits. The balance, along with the impact on business written but unearned at the date of change, will be recognised in the form of lower reserve releases and profit commission over the subsequent three to five financial years as the affected claims settle.

The Group anticipates that if UK market pricing adjusts future premiums to reflect the lower Ogden rate, there will be no significant impact on future business and its profitability after the change. The Group is confident that its strong capital position, along with its prudent approach to claims reserving, will allow it to manage the outcome without significant change to its business or long term financial outlook.

Investments and cash

Investment strategy

Admiral's investment strategy was unchanged in 2016 and the Group continued to invest in the same asset classes as previous years.

The main focus of the Group's 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

£m	**2014**	**2015**	**2016**
Fixed income and debt securities	1,021.8	1,428.2	1,469.2
Money market funds and other fair value instruments	909.2	627.7	781.0
Cash deposits	263.1	267.6	170.0
Cash	255.9	265.3	326.6
Total	**2,450.0**	**2,588.8**	**2,746.8**

Money market funds, fixed income and debt securities comprise the majority of the total; 82% at 31 December 2016 (2015: 79%).

Investment and interest income in 2016 was £53.1 million, an increase of £20.5 million on 2015 (£32.6 million). £9.2 million of the increase is due to a release of an accrual relating to quota share reinsurance arrangements, whilst £4.9m of the increase relates to unrealised gains on forward foreign exchange contracts. The balance is due to additional investment income earned on higher average balances.

The underlying rate of return for the year (excluding the reinsurance accrual) on the Group's cash and investments was 1.4% (2015: 1.3%).

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

Cash flow

£m	2014	2015	2016
Operating cash flow, before transfers to investments	521.9	487.2	525.1
Transfers to financial investments	(258.4)	(112.5)	(18.1)
Operating cash flow	263.5	374.7	507.0
Tax payments	(77.0)	(63.8)	(74.6)
Investing cash flows (capital expenditure)	(50.6)	(47.8)	(31.6)
Financing cash flows	(65.8)	(256.3)	(364.7)
Foreign currency translation impact	3.0	2.6	25.2
Net cash movement	**73.1**	**9.4**	**61.3**
Movement in unrealised gains on investments	10.9	(12.6)	35.2
Movement in accrued interest	22.8	29.5	43.4
Net increase in cash and financial investments	**365.2**	**138.8**	**158.0**

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

£m	2014	2015	2016
Profit after tax	**281.6**	**291.8**	**214.1**
Change in net insurance liabilities	187.5	148.7	206.8
Net change in trade receivables and liabilities	(34.7)	(55.7)	25.3
Non-cash income statement items	18.4	25.5	14.6
Taxation expense	69.1	76.9	64.3
Operating cash flow, before transfers to investments	**521.9**	**487.2**	**525.1**

Total cash plus investments increased by £158 million or 6% (2015: £139 million, 6%).

Capital structure and financial position

A key feature of the business model is the extensive use of co- and reinsurance across the Group. The Group's co-insurance and quota share reinsurance arrangements for the UK Car insurance business are in place until at least the end of 2018. In 2017 and 2018, the Group will reduce its net share of that business from 25% to 22%.

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.

The Group's regulatory capital from January 2016 is based on the Solvency II Standard Formula, with a capital add-on to reflect recognised limitations in the Standard Formula with respect to Admiral's business (predominantly in respect of profit commission arrangements in co- and reinsurance agreements and risks arising from claims including Periodic Payment Order (PPO) claims).

The capital add-on to the Standard Formula for 2017 is subject to the usual regulatory approval process. The Group plans to submit an application for approval to use an internal model to calculate capital requirements during 2017.

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). The estimated (and unaudited) Solvency II position for the Group at the date of this report was as follows:

Group capital position

Group	**£bn**
Eligible Own Funds (pre 2016 final dividend)	1.07
2016 final dividend	0.14
Eligible Own Funds (post 2016 final dividend)	0.93
Solvency II capital requirement*1	0.44
Surplus over regulatory capital requirement	**0.49**
Solvency ratio (post dividend)*2	**212%**

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

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

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

Solvency ratio sensitivities

UK Motor – incurred loss ratio +5%	-31%
UK Motor – 1 in 200 catastrophe event	-1%
UK Household – 1 in 200 catastrophe event	-2%
Interest rate – yield curve down 50 bps	-12%
Credit spreads widen 100 bps	-4%
Currency – 25% movement in euro and US dollar	-3%
ASHE – long term inflation assumption up 0.5%	-9%

Taxation

The tax charge reported in the Consolidated Income Statement is £64.3 million (2015: £76.9 million), which equates to 23.1% (2015: 20.9%) of profit before tax. The higher effective rate of taxation compared to 2015 results from the unrecognised deferred tax asset arising on losses in the Group's US businesses.

The Group's results are presented in the following sections as UK Insurance, International Car Insurance and Price Comparison.

UK Insurance

UK Insurance Review – Cristina Nestares, CEO UK Insurance

It's always fun to write an annual review like this – and always surprising when we look back and remember how much has happened and changed in just 12 months.

Clearly the reported results of the UK Car insurance business have been impacted by the change in the Ogden discount rate, but Alastair and Geraint have covered this in detail, so I will focus on the underlying business.

One of the more obvious achievements is the rate of growth of the car insurance segment. We grew by 11% during 2016, adding almost 350,000 to the customer base, which is about the same as we added in the previous four years combined. But the more encouraging aspect is that this wasn't achieved through chasing volume through price cuts and acquisition spend, but through sensible underwriting and leveraging the still-growing price comparison distribution channel that has facilitated our growth over the last ten years and more.

What do I mean by sensible underwriting? We've always approached pricing in a rational way, growing when we think it's the right time, and holding back when the market is looking less attractive. That means that we grew very modestly (in Admiral's historical context at least) over the previous two or three years, but grew significantly more during 2016 as the market continued to increase prices quite significantly. We've also seen some slight de-risking in our portfolio as some of our competitors have been changing prices to attract higher-premium (higher risk) drivers, and we've consciously decided not to follow.

Increasing market prices, whilst good for profitability, does however bring some additional scrutiny both from the media and regulators. Following the focus during the previous hardening part of the cycle, the Government announced a number of changes in February, which are aimed at reducing the costs of small bodily injury claims and therefore the cost of motor insurance. The Prisons and Courts Bill included a number of changes that will affect the process of dealing with minor whiplash claims, including tariff-based damages that award compensation based on the severity of the injury, and the banning of offers before medical evidence is obtained. The Government also announced its intention to increase the small claims limit for motor accident claims from £1,000 to £5,000. All of these changes will bring down the cost of claims, but will level the playing field and make it a little harder for insurers to obtain a competitive advantage. However, we think that Admiral is well placed because of the increased importance of a quick and efficient claims handling process, which is one of Admiral's historical strengths.

Whilst the return to growth in our car insurance business was encouraging, the 50% growth of our household business was particularly impressive, to end the year with nearly 470,000 customers. A key driver of that growth was an improvement in our online customer journey, but equally pleasing was that growth was driven both by a growing price comparison market and more customers being drawn directly to our household product.

Aside from top line growth, we benefitted from another relatively benign year in terms of weather events, and an improvement in claims frequency. We made some efficiency gains from our increased size and website development, and the small decrease in the underlying expense ratio (despite the addition of the Flood Re levy in the year) contributed to another improvement in the reported result. We expect distribution to continue moving towards price comparison in 2017, which will enable us to continue growing our book in a very familiar channel.

Finally, the mention of efficiency and an ability to react to changes (whether externally or internally driven) brings me onto the IT transformation process we have undertaken to replace the insurance policy system that we selected before we launched back in 1993. It served us amazingly well for the first 20+ years, but the Guidewire platform we've successfully rolled out over the last 12 months is a key development that will enable us to continue testing, learning and growing and succeeding. In summary, a big change that will paradoxically allow us to remain the same innovative company we've always been.

UK Insurance review

UK Insurance financial performance

£m	**2014**	**2015**	**2016**
Turnover*1	1,632.0	1,760.2	2,063.1
Total premiums written*1	1,481.5	1,590.4	1,862.6
Net insurance premium revenue	399.0	397.4	454.4
Underwriting profit*1	**161.7**	**198.3**	**109.2**
Profit commission and other income	236.2	245.9	229.3
UK Insurance profit before tax	**397.9**	**444.2**	**338.5**

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

Split of UK Insurance profit before tax

£m	**2014**	**2015**	**2016**
Car	398.0	443.0	335.8
Household	(0.1)	1.2	2.7
UK Insurance profit	**397.9**	**444.2**	**338.5**

Key performance indicators

	2014	**2015**	**2016**
Vehicles insured at year end	3.15m	3.30m	3.65m
Households insured at year end	0.16m	0.31m	0.47m
Total UK Insurance customers	3.31m	3.61m	4.12m

UK Insurance financial performance

UK insurance includes the results of the UK Car and UK Household insurance segments.

Admiral delivered strong growth in turnover and customers in its UK Insurance business in 2016, taking advantage of favourable market conditions with increasing prices and shopping activity. UK insurance turnover of £2.06 billion increased by 17% (2015: £1.76 billion) primarily due to growth in customer numbers in both UK Car and UK Household. Net revenue increased by 8% to £770.9 million (2015: £711.2 million). Increases in average premiums in UK Car insurance also contributed to a 17% increase in total premiums written to £1.86 billion (2015: £1.59 billion).

Profit was lower in 2016 at £338.5 million (2015: £444.2 million) due to the impact of the change in the Ogden discount rate which is discussed above. If the rate had remained unchanged, UK Insurance profit would have been £444 million.

UK Car Insurance financial review

£m	2014	2015	2016
Turnover*1	1,602.7	1,708.2	1,987.0
Total premiums written*1	1,453.1	1,539.7	1,789.3
Net insurance premium revenue	394.3	386.5	437.4
Investment income	11.5	26.1	39.3
Net insurance claims	(198.3)	(161.3)	(304.7)
Net insurance expenses	(44.6)	(52.1)	(61.0)
Underwriting profit*1	**162.9**	**199.2**	**111.0**
Profit commission	71.8	85.2	52.7
Underwriting profit plus profit commission	**234.7**	**284.4**	**163.7**
Net other income	140.7	131.9	138.6
Instalment income	22.6	26.7	33.5
UK Car Insurance profit before tax	**398.0**	**443.0**	**335.8**

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

Split of underwriting profit

£m	2014	2015	2016
Motor	144.2	183.2	93.6
Additional products	18.7	16.0	17.4
Underwriting profit	**162.9**	**199.2**	**111.0**

Key performance indicators

	2014	2015	2016
Reported motor loss ratio*1,*2	68.6%	64.1%	73.3%
Reported motor expense ratio*1,*3	14.4%	16.9%	17.5%
Reported motor combined ratio	83.0%	81.0%	90.8%
Written basis motor expense ratio	16.0%	16.3%	16.5%
Reported total combined ratio*1,*4	79.5%	78.2%	87.5%
Claims reserve releases – original net share*1,*5	£66.8m	£84.6m	£58.3m
Claims reserve releases – commuted reinsurance*1,*6	£70.6m	£88.8m	£17.1m
Total claims reserve releases	£137.4m	£173.4m	£75.4m
Vehicles insured at year end	3.15m	3.30m	3.65m
Other Revenue per vehicle	£67	£63	£62

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

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

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

*4 Reported total combined ratio includes additional products underwritten by Admiral.

*5 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.

*6 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.

UK Car Insurance financial performance

UK Car Insurance benefited from continued success in attracting and retaining motor customers in a competitive UK market and this, together with higher average motor premiums, contributed to an increase in UK Car turnover of 16% to £1.99 billion (2015: £1.71 billion). Net revenue increased by 7% to £748.6 million (2015: £700.3 million). The number of vehicles insured in the UK business increased by 11% to 3.65 million (2015: 3.30 million). Admiral continued to increase its prices during 2016 and saw average premiums written increase by approximately 4%.

Profit

As a result of the impact of the change in Ogden, profit was lower in 2016 (£335.8 million v £443.0 million in 2015). Excluding the Ogden impact, profit would have been £441 million. The combined ratio increased to 87.5% (2015: 78.2%), or 77.8% pre Ogden. The underlying UK Car insurance profit was also impacted by a number of other factors:

- Significantly higher net insurance premium revenue (£437.4 million v £386.5 million) resulting from the growth in the portfolio over the past year
- Underlying positive back year claims development, though lower reserve releases on the portion of reserves originally reinsured but now commuted
- Higher expense ratio of 17.5% (2015: 16.9%) as a result of strong growth in new business
- Higher contribution from Other Revenue sources (£172.1 million v £158.6 million) resulting from growth in the portfolio, with Other Revenue per Vehicle stable when compared with 2015
- Higher investment return (£39.3 million v £26.1 million) as explained in the Investments and Cash section above

Underwriting result and profit commission

The UK Car Insurance motor combined ratio is shown below:

UK Car Insurance motor combined ratio	**2014**	**2015**	**2016**
Loss ratio excluding reserve releases from original net share and commuted reinsurance	86.9%	87.7%	87.7%
Reserve releases – original net share	18.3%	23.6%	14.4%
Loss ratio net of releases – original net share*1	**68.6%**	**64.1%**	**73.3%**
Expense ratio	14.4%	16.9%	17.5%
Combined ratio – original net share*1	**83.0%**	**81.0%**	**90.8%**

*1 Ratios calculated on original net share use 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 was 90.8% (2015: 81.0%) (both figures exclude the impact of reserve releases from commuted reinsurance contracts) and was materially impacted by the change in Ogden discount rate and the resulting increase in ultimate loss ratios. Despite the Ogden impact, the Group continued to see positive claims development during 2016 that resulted in improvements in the projected ultimate loss ratios, especially for the 2012 to 2015 underwriting years.

Excluding reserve releases, the loss ratio remained flat at 87.7% (2015: 87.7%). Excluding the Ogden impact, the loss ratio before reserve releases would have improved to 85.6% as a result of the more favourable loss ratio assumptions for business earned during 2016 compared to 2015.

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 actuarial best estimates. This is designed to create a margin held in reserves to allow for unforeseen adverse development in open claims and typically results in Admiral making above industry average reserve releases. Admiral's booked claims reserves continue to include a significant margin above projected best estimates of ultimate claims costs.

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

The projected ultimate loss ratio for Admiral for the 2016 accident year is 82%, which is in line with the projection of the previous year at the same point in its development despite the Ogden discount rate change.

The earned motor expense ratio increased modestly to 17.5% from 16.9% mainly reflecting the increase in acquisition costs resulting from the strong growth in the business. The written basis expense ratio also increased to 16.5% from 16.3% for similar reasons.

The projected ultimate combined ratio (ultimate loss ratio plus written expense ratio) for Admiral for the 2016 accident year is 98%. The reported combined ratio for the UK market (excluding Admiral) for 2015, excluding reserve releases was 115%.

UK Car Insurance – co-insurance and reinsurance

Admiral makes significant use of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either through co-insurance or quota share reinsurance contracts. These arrangements include profit commission terms 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.

The Munich Re Group will underwrite 40% of the UK motor business until at least 2020. 30% of this total is on a co-insurance basis, with the remaining 10% under a quota share reinsurance agreement from 2017 onwards.

The Group also has other quota share reinsurance arrangements confirmed to the end of 2018 covering 38% of the business written.

The Group has reduced its net underwriting share from 25% to 22% with effect from 2017.

The nature of the co-insurance proportion underwritten by Munich Re (via Great Lakes, a subsidiary of Munich Re) is such that 30% of all motor premium and claims for the 2017 year will accrue directly to Great Lakes and will 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. This share was 40% previously.

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.

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

At 31 December 2016, all material UK quota share reinsurance contracts for underwriting year up to and including 2014 had been commuted. All reinsurance for the 2015 and 2016 years remain in effect.

UK Household Insurance – reinsurance
The Group's Household business is also supported by proportional reinsurance arrangements covering 70% of the risk. For the 2016 year the business is shared between Munich Re, 40% and Swiss Re, 30%. The arrangements for 2017 will remain the same. In addition, the Group has non-proportional reinsurance to cover the risk of catastrophes stemming from weather events.

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

In 2016 Admiral recognised UK car insurance profit commission revenue of £52.7 million down from £85.2 million in 2015. If reserve releases from business that was originally ceded under quota share reinsurance contracts that have since been commuted, are added to profit commission, the total for 2016 would be £69.8 million compared to £174.0 million in 2015, a decrease of 60%. The decrease arose mainly due to less positive development of prior year booked loss ratios as a result of the change in Ogden discount rate.

Note 5c to the financial statements analyses profit commission income by underwriting year.

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

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

During 2016, reinsurance contracts covering the 2014 underwriting year were commuted. Whilst there is a satisfactory level of confidence in the ultimate outcome of that year, Admiral's prudent approach to booking loss ratios, which tend to improve over time from an initial cautious level to the ultimate outcome, has meant that the 2014 year is booked at a loss making combined ratio. Refer to note 5 (vi) of the financial statements for analysis of reserve releases on commuted quota share reinsurance contracts.

The ultimate projection of the 2014 year continues to show a profitable outcome.

A further impact of the 2014 year commutation is a release of an accrual held for notional investment income relating to the funds-withheld nature of the contract. As noted on page 5, movements in the notional investment income accruals resulted in an increase in investment income of £9.2 million compared to 2015.

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
- Revenue from other insurance products, not underwritten by Admiral
- Fees such as administration fees and referral income
- Interest charged to customers paying for cover in instalments

Contribution from Other Revenue (net of costs) increased by 9% to £189.5 million (2015: £174.6 million). Whilst there were a number of smaller offsetting changes within the total, the main reason for the increase is the growth in the portfolio in the year.

Other revenue was equivalent to £62 per vehicle (gross of costs; 2015: £63). Net Other Revenue (after deducting costs) per vehicle was £54, in line with 2015.

UK Car Insurance Other Revenue – analysis of contribution:

£m	2014	2015	2016
Contribution from additional products and fees	177.8	173.7	185.7
Contribution from additional products underwritten by Admiral*1	18.7	16.0	17.4
Instalment income	22.6	26.7	33.5
Other revenue	**219.1**	**216.4**	**236.6**
Internal costs	(37.1)	(41.8)	(47.1)
Net other revenue	**182.0**	**174.6**	**189.5**
Other revenue per vehicle*2	**£67**	**£63**	**£62**
Other revenue per vehicle net of internal costs	£58	£54	£54

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

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

Instalment income

Instalment income reflects amounts charged to customers paying for cover in instalments. During 2016 Admiral earned £33.5 million from instalment income, up 25% on the prior period (2015: £26.7 million) for a number of reasons including an increase in average premium, customer numbers and the proportion of customers paying by instalment.

Additional products underwritten by Admiral

Besides car insurance, there are a number of other products underwritten by Admiral that are core to providing motor insurance to customers (personal injury insurance, breakdown cover and car hire cover). Contribution from these products underwritten by Admiral during 2016 was £17.4 million (2015: £16.0 million). This is included in underwriting profit in the income statement, but reallocated to Other Revenue for the purpose of management key performance indicators.

UK Household Insurance financial performance

£m	2014	2015	2016
Turnover*1	29.3	52.0	76.1
Total premiums written*1	28.4	50.7	73.3
Underwriting loss*1	**(1.2)**	**(0.9)**	**(1.8)**
Profit commission and other income	1.1	2.1	4.5
UK Household insurance profit before tax	**(0.1)**	**1.2**	**2.7**

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

Key performance indicators

	2014	2015	2016
Reported household loss ratio	72.3%	75.2%	76.5%
Reported household expense ratio	53.2%	33.0%	34.1%
Reported household combined ratio	125.5%	108.3%	110.6%
Households insured at year end	162,600	310,400	468,700

UK Household Insurance financial performance
UK Household Insurance was launched in December 2012 under the Admiral brand.

The number of properties insured increased by 51% to 469,000 (2015: 310,000) and turnover increased by 46% to £76.1 million (2015: £52.0 million). Net revenue increased by 72% to £22.3 million (2015: £13.0 million). Profit from Household doubled from a year earlier to £2.7 million (2015: £1.2 million). Its expense ratio is already materially lower than the UK market ratio.

Regulatory environment
The UK 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).

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

International Car Insurance

International Car Insurance review

Spain – Sarah Harris – CEO, Admiral Seguros
After achieving breakeven on an underwriting year basis in 2015, our focus in Spain in 2016 has been on sustainable growth. We increased customer numbers by 18% with pleasing technical results.

It was a year of change in the Spanish market, with the introduction of the new "Baremo" regulating indemnities paid in bodily injury cases. The Baremo change increases claims costs, especially for more serious injuries. It adds pressure to an auto-insurance market that reported underwriting losses in 2015 for the first time in more than a decade.

We had hoped that the Baremo would trigger a price reaction and insurance shopping. Many companies did raise prices towards the beginning of the year, but changes were muted and not enough to encourage consumers to shop around. We expect 2016 will turn out to be another unprofitable year for the market as a whole.

In this context we made strong progress against our growth objective. Both acquisition and retention processes were significantly improved. We modernized our website allowing customers to buy from us more easily. Investment in our Qualitas Auto brand - via a campaign starring Pierce Brosnan - raised brand awareness to 57%. Meanwhile, strong technical results allowed us to reduce prices and take a larger share of the price comparison channel.

And the outlook for 2017? At a market level we don´t expect much change. Our focus will continue to be on scaling up the business in a sustainable way.

Italy – Costantino Moretti – CEO, ConTe
ConTe closed for the third year in a row in profit. Market average premium fell by 4.5% but in the last quarter we have seen timid signals of market cycle upturn including a slight increase in claims frequency and the end of the average premium downtrend. Despite this scenario, we consciously decided to grow in 2016 and our active customer base grew by over 30% year-on-year up to 415,000. This result is a mix of three effects: an increase in quote volumes of price comparison sites; the improvement of our customer journey; and the growth in brand awareness generated by the new TV campaign and the second year of the Serie B Football League sponsorship. To better serve our customers, we are continuing to invest in technology and develop our services.

The direct channel now represents around 12% of the overall motor market in Italy and the comparison sites are growing at an encouraging pace.

The back years continue to develop well and the latest actuarial projections indicate that 2011 was profitable on an underwriting basis as is already the case for 2012, 2013 and 2014.

Putting together all the pieces of the puzzle, 2016 was a good year, where ConTe grew again and invested to reinforce technological capabilities and brand awareness and, as a consequence, built a solid basis for sustainable growth in the future.

USA – Kevin Chidwick – CEO, Elephant Auto
The US car insurance market grew again in 2016. Definitive numbers are not yet available, but general consensus is that premium increases are outrunning claims inflation following last year's deterioration in the industry loss ratio. We estimate claims inflation to be running at c.3-5% and premium increases at c.5-7%. 2016 has seen claims frequency increasing across the industry as miles driven has increased. Texas in particular has seen some large price increases this year as unusually severe weather events in the first half of the year caused claims to spike in the state.

Elephant also grew again in 2016. Written premium increased 46% to $198m, as we increased our turnover in each of our existing states as well as launching into two new states in the year. Elephant started writing car insurance in Indiana and Tennessee in 2016. We continued to see very satisfactory results from our marketing initiatives and were able to increase our share of sales in both Texas and Virginia despite price increases applied to both states. The loss ratio improved nicely in the year. We also saw some expense ratio improvement from economies of scale, offset by an increase in our marketing investment. The combined effect of this was an improvement in the combined ratio on a written basis of 11 percentage points.

Elephant expects to continue to grow in 2017 and to see further improvement in the combined ratio as a result of further progress on each of the core metrics as we move the business towards the goal of profitability. We do not anticipate further new states in the next 12 months, rather an increased investment in our existing states and development of the marketing efforts in the two new states launched in 2016.

France – Pascal Gonzalvez – CEO, L'olivier - assurance auto
Despite challenging market conditions (stable market prices and a flat aggregator market), L'olivier – assurance auto managed to play its cards right with strong growth.

We grew the business substantially again and we ended the year up, with 61% more customers. The effects of “Loi Hamon” (the law that made the switching process much smoother) are becoming more tangible.

L’olivier accelerated its branding efforts with two new TV spots focused on service quality, helping to demonstrate to customers that direct insurance and good quality are not mutually exclusive. As a consequence, we managed to capture more customers than ever from traditional channels willing to switch to a direct insurer. On top of the branding efforts, we kept building strong foundations in 2016. Technical results improved significantly thanks to our distinctive pricing process in the market, helping us to build a clear competitive advantage in a high combined ratio market.

Market profitability didn’t improve in 2016. Indeed, for the second consecutive year, the highly competitive environment hampered insurers’ willingness to increase motor insurance prices. Consequently, market combined ratio remained high (it is expected to be around 104-105%). In the past, weak technical results were offset by investment results but in a low interest rate environment, this is not sustainable anymore. In this context, motor insurance prices are expected to increase in 2017 by 2-3% and several insurers have already announced some price increases (though more discreetly than in the previous years to avoid media noise).

With strong foundations, L’olivier – assurance auto is well prepared to scale up the business over the coming years and 2017 should be another year of strong growth.

International Car Insurance review

International Car Insurance financial performance

£m	**2014**	**2015**	**2016**
Turnover*1	206.2	232.4	365.9
Total premiums written*1	185.4	213.3	331.3
Net insurance premium revenue	58.1	62.3	91.3
Investment income	0.2	–	0.4
Net insurance claims	(50.5)	(50.9)	(75.5)
Net insurance expenses	(34.0)	(40.1)	(46.2)
Underwriting result*1	(26.2)	(28.7)	(30.0)
Net other income	6.3	6.5	10.6
International Car Insurance result	**(19.9)**	**(22.2)**	**(19.4)**

Key performance indicators

	2014	2015	2016
Loss ratio*2	77%	77%	76%
Expense ratio*2	50%	49%	49%
Combined ratio*3	127%	126%	125%
Combined ratio, net of Other revenue*4	116%	115%	113%
Vehicles insured at period end	592,600	673,000	864,200

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

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

*3 Combined ratio is calculated on Admiral's net share of premiums and excludes Other Revenue. It excludes the impact of reinsurer caps. Including the impact of reinsurer caps the reported combined ratio would be 2016: 133%; 2015: 146%; 2014: 145%.

*4 Combined ratio, net of Other Revenue is calculated on Admiral's net share of premiums and includes Other Revenue. Including the impact of reinsurer caps the reported combined ratio, net of Other Revenue would be 2016: 122%; 2015: 136%; 2014: 134%.

Geographical analysis*1

2016	Spain	Italy	France	US	Total
Vehicles insured at period end	189,200	415,500	91,500	168,000	864,200
Turnover (£m)	49.8	118.2	38.3	159.6	365.9

2015	Spain	Italy	France	US	Total
Vehicles insured at period end	160,700	315,300	56,800	140,200	673,000
Turnover (£m)	38.6	77.9	21.2	94.7	232.4

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

International Car Insurance financial performance

Admiral's international insurance businesses continued to grow by 28%, adding over 191,000 customers during the year. Turnover grew by 57% to £365.9 million (2015: £232.4 million). Net revenue increased by 49% to £107.3 million (2015: £72.2 million). Turnover and customers in these businesses represent 14% (2015: 11%) and 17% (2015: 15%) of the Group totals respectively.

The combined ratio improved marginally to 125% (2015: 126%). Continued improvement in ConTe's prior years claims development and higher net insurance premium revenue has been offset by continued investment in operations in France and the US, resulting in an decreased loss of £19.4 million in 2016 (2015: £22.2 million). The expense ratio has remained level at 49% (2015: 49%). The expense ratio is high in comparison to Admiral's UK business because of high acquisition costs as the businesses grow and also the continued need to build scale. There are also market specific reasons why the expense ratios are higher, for example higher acquisition costs in the US cause a strain on the expense ratio when the business is growing.

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) which launched in 2006 is the oldest of Admiral's international operations and operates under two brands, Balumba and Qualitas Auto. Admiral Seguros focused on growth in

2016, following the achievement of break-even on an underwriting year basis in 2015, and took advantage of market conditions resulting in growth of 18% and ending the year with 189,200 customers at the end of 2016.

The Group's largest international operation is ConTe in Italy, which insured 415,500 vehicles at the end of 2016, up 32% on 2015. ConTe was launched in 2008 and in 2016 continued to experience positive development in the projected ultimate outcomes of most underwriting years allowing further reserve releases in 2016 and a third year of profits. Despite this, ConTe continues to hold a prudent margin in its claims reserves above actuarial best estimate.

Admiral's youngest and smallest international insurance business is L'olivier - assurance auto, which launched in 2010 in France. L'olivier insured 91,500 vehicles at the end of 2016, up over 60% on the prior year and has focused on growth and accelerating brand development during the year.

The consolidated result of Admiral's insurance operations in Spain, Italy and France was a loss of £3.7 million, almost 50% down on 2015 (2015: £7.0 million). The combined ratio net of other revenue (excluding the impact of reinsurer caps) improved to 99% from 103% primarily due to improved claims experience.

In the USA, Admiral underwrites motor insurance in six states (Virginia, Maryland, Illinois, Texas, Indiana and Tennessee) through its Elephant Auto business, which launched at the end of 2009. At the end of 2016 Elephant Auto insured over 168,000 vehicles, up 20% year-on-year. Turnover was £159.6 million, up almost 70% on the prior year (2015: £94.7 million). Elephant's result for the period was a loss of £15.7 million, which is broadly consistent with £15.2 million in 2015, despite significant growth, and reflects the ongoing investment in the business. Elephant Auto's combined ratio net of other revenue improved from 134% in 2015 to 130% in 2016.

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 2016 year Admiral retained 35% (Italy), 30% (France and Spain) and 33% (USA) of the underwriting risk respectively. The arrangements for 2017 will remain the same.

All contracts are subject to certain caps on the co-insurers and 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.

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 above, 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.

Price Comparison

Price Comparison Review

UK – Martin Coriat – CEO, Confused.com
Confused.com has seen a lot of changes in the market since it pioneered insurance comparison back in 2002, creating a growing and profitable industry while offering transparency and savings to British consumers.

The UK car insurance price comparison market is characterised as mature and highly competitive; with 70% penetration of annual new business car insurance sales and four leading players spending in excess of £150 million on marketing each year.

In 2016 the high level of competition was further evidenced by the closure of Google's comparison operation. However, 2016 was also a year of strong growth for the market. Rising car insurance premiums, +14% as per the Confused.com/Willis Towers Watson Car Insurance Price Index, coupled with an all-time high in car sales for both new and used cars, helped to stimulate shopping. Current estimates indicate the market grew by around 8% in the year.

Confused.com benefited from this market growth but also its new strategic direction, taken half way through the year, to focus on motor-related products and services. As a result, Confused.com's revenue, profit and profit margin all increased to £86 million, £16.1 million and 19% respectively. (2015: £75 million; £12.5 million; and 17%).

A number of significant projects have been completed in the last 18 months, including investment in our platform to improve conversion with a redesign of our website to allow better customer experience. In addition, we have reviewed our online marketing capabilities and established a new brand position as a car savings specialist to improve acquisition costs and grow our customer base.

The regulatory agenda was quite busy in 2016 and we are constantly working with the regulator to build an even more consumer focused product and offer in an ever changing technological landscape.

2016 has seen Confused.com successfully focus its attention on what it does best: saving customers money on their car insurance. Looking to 2017, I know that every day, every week and every month is a battle that we must work hard to try and win.

Spain – Fernando Summers – CEO, Rastreator
During 2016 we continued with our growth, in terms of traffic, quotes and sales and therefore in results. We have consolidated our leadership position not only in car insurance comparison but also in other insurance products, and in our other verticals, telephony and finance.

We are already working with more than 150 partners, which include most of the biggest service providers in Spain - insurers, telecoms and banks. We have increased our reach and site visit frequency across all product lines, building on our brand awareness and preference.

We continue to work on our data strategy and we are well placed to be a strategic partner in terms of information and data not only for our partners, but also for other companies linked to our products.

For 2017 we will continue working on growth, converting our leads into sales, consolidation of our role as the multiproduct price comparison leader of the market and improving our existing products and value proposition.

France – Elena Betés – European Price Comparison Director
2016 was a challenging year for LeLynx.fr.

Based on the 2015 results, our expectations of the impact of Loi Hamon, in terms of changing behavior in 2016, were optimistic, however, the aggregator market only grew by 1%. The French consumer has not yet taken advantage of the opportunity to change their insurance provider, even if the process has been simplified substantially.

In an effort to unblock the market and as a way to build trust, LeLynx launched a TV campaign based on a well known celebrity.

Our vision is still positive on the French market and we remain competitive in an increasingly crowded environment. We are focused on maintaining our position as one of the market leaders, based on delivering a superior product and customer experience.

USA – Andrew Rose – CEO, compare.com
While there are some differences among the 51 distinct auto insurance markets, an overall steady economy with sustained low gas prices has led to an increase in miles driven among US consumers. In 2016, that led to higher frequency for many of our insurance partners and they took action with higher rates for consumers. This was both an opportunity as rate increases drive more consumers to shop and a challenge for us as carriers shrink risk appetite and convert at lower levels. We continued optimizing both our national and state-by-state advertising investments in light of the market conditions and our product offering to take advantage of this swing in the auto insurance pricing cycle.

Compare.com made significant strides this year on both the quality of our product offering and the efficiency of our customer acquisition. We nearly doubled our number of auto insurance brands under contract, our average number of rates returned nationwide and the number of policies we helped our carrier partners bind. We also launched a second product for customers looking for bundled auto and property policies, which is how many US consumers prefer to shop. Over the same period this year, our acquisition costs have dropped by nearly two thirds proving that we can compete on acquisition economics at a level only achieved by a few large personal lines insurance carriers in the US market. We outgrew our office building this year and moved our staff into a new space three times the size and customized to support the growth of our open and fun culture.

In early 2016, we also saw our largest auto insurance comparison competitor – Google – make the decision to withdraw for their own strategic reasons, which gave us the opportunity to use earmarked IT resources to broaden our relationships with key partners into even more states. We even added a partner in Hawaii, so we can now quote in 50 of the 51 markets. Other players continued to press into the comparison market with similar, but different, models. The state-by-state and carrier-by-carrier nature of the US insurance market gives us a solid foothold as the largest auto insurance comparison site in the US.

While delivering a smaller than planned loss in 2016 it was on a smaller than planned business. We remain very cognizant that we are one of Admiral's largest investments and while we do have the great opportunity to transform the US market we do not yet have the guarantee of doing so. In fact we anticipate delivering continued losses in 2017 depending on the dynamics and scale of the business and the overall behavior of the market.

While the US price comparison market starts 2017 still in its infancy, the potential remains enormous. A recent survey by Acxiom shows consumers are six times more likely to buy their insurance via a comparison site than in the past. Compare.com has built the carrier network as well as the acquisition funnel to be the leading player as consumers continue to adopt this better way to shop for insurance products. We remain cautiously optimistic about our opportunity for success in transforming the landscape of the US insurance market.

Price Comparison review

Price Comparison financial review

£m	**2014**	**2015**	**2016**
Revenue			
Car insurance price comparison	81.0	82.3	97.7
Other	26.5	25.8	31.5
Total Revenue	107.5	108.1	129.2
Expenses	(110.3)	(123.6)	(132.1)
Loss before tax	**(2.8)**	**(15.5)**	**(2.9)**
Confused.com profit	15.8	12.5	16.1
International price comparison result	(18.6)	(28.0)	(19.0)
	(2.8)	**(15.5)**	**(2.9)**
Group's share of profit/(loss) before tax *1			
Confused.com profit	15.8	12.5	16.1
International price comparison result	(12.2)	(19.7)	(13.4)
	3.6	**(7.2)**	**2.7**

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

UK Price Comparison – Confused.com

The UK price comparison market remained very competitive in 2016, but favourable market conditions (rising prices and more shopping activity) saw more visitors to Confused.com's website and consequently higher quote volumes. Despite this competitive environment, Confused.com achieved a strong result, with revenue 14% higher than 2015 at £85.7 million (2015: £75.4 million) from growth of 8% in the UK price comparison market as well as a new driver-centric strategy supported by new marketing . Profit increased by 29% to £16.1 million (2015: £12.5 million).

Confused.com's operating margin improved to 19% (2015: 17%).

International Price Comparison
Admiral operates three price comparison businesses outside the UK: in Spain (Rastreator), France (LeLynx) and the US (compare.com). Admiral Group owns 75% of Rastreator, with the remaining 25% owned by Mapfre. Admiral Group owns 71% of compare.com, with the remaining 29% owned by White Mountains and Mapfre.

The combined revenue from the European operations in 2016 increased to £36.2 million (2015: £28.6 million), reflecting nearly 10% more quotes provided to customers and improved conversion rates. Both Rastreator and LeLynx have strong brand recognition in their respective markets. The Group's share of the combined result for Rastreator and LeLynx was a profit of £2.8 million (2015: £1.8 million), the increase reflecting strong performance from Rastreator which continues to build on its multi-product strategy covering insurance, telephony and utilities, amongst other product lines, and which doubled its profits in 2016, offset by marketing investment in LeLynx. Statutory profit before tax increased to £3.9 million (2015: £2.3 million).

The Group continues to invest in compare.com, its US comparison operation based in Virginia. During 2016 Admiral's share of compare.com's loss reduced to £16.2 million before tax (2015: £21.5 million) reflecting a focus in key states on efficient advertising and reducing acquisition costs. Statutory loss before tax decreased to £22.8 million (2015: £30.3 million). The Group plans continued investment in compare.com during 2017 and anticipates that the Group's share of compare.com's losses for 2017 will be in the range of $15-25 million.

The combined result for International Price Comparison was therefore a loss of £13.4 million (2015: loss £19.7 million) – the profit from the European operations offset by investment in compare.com. Statutory loss before tax was £19.0 million (2015: £28.0 million).

Preminen, the Group's newest price comparison operation continues to explore the potential of price comparison in new markets overseas, in partnership with Mapfre.

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

Other Group items financial review

£m	**2014**	**2015**	**2016**
UK Commercial Vehicle operating profit	2.2	1.5	2.0
Other interest and investment income	3.7	6.5	13.4
Share scheme charges	(21.2)	(27.2)	(31.9)
Business development costs	(0.7)	(1.9)	(5.8)
Other central overheads	(3.9)	(5.6)	(4.1)
Finance charges	(4.6)	(11.1)	(11.4)

The Group operates a UK Commercial Vehicle insurance broker (Gladiator) offering van insurance and associated products, typically to small businesses, via telephone and the internet, including price comparison websites. Gladiator has increased customer numbers from 146,600 to 170,800 at the end of 2016 and operating profit increased to £2.0 million (2015: £1.5 million).

Other interest and investment income includes £4.9 million (2015: £nil) of unrealised gains on forward foreign exchange contracts which have been impacted during 2016 by downward movements in the value of sterling. These gains have the potential to reverse over time if the sterling rate recovers before the contracts expire.

Share scheme charges relate to the Group's two employee share schemes (refer to note 8 to the financial statements). The increase in the charge is due to an increase in the number of awards reflecting the increasing Group headcount.

Business development costs include costs associated with potential new ventures, including investment in Admiral Loans and Preminen, the Group's price comparison incubator.

Finance charges of £11.4 million (2015: £11.1 million) mainly represents interest on the £200 million subordinated notes issued in July 2014 (refer to note 6 to the financial statements).

UK Exit from the European Union ('Brexit')

On 23 June 2016, the UK voted in a referendum to leave the EU. At the date of this report, the timetable for and details of the implementation of this decision remain unclear.

Market volatility, including that which resulted from the Brexit vote (notably very significant reductions in risk free interest rates) adversely impacted the Group's solvency position reported in the interim results in August 2016. This was due to an increased regulatory valuation of claims liabilities, in particular in relation to longer dated potential PPO claims, and hence reduced capital. Since August 2016, market volatility has reduced, risk free interest rates have increased and the Group has received approval to use a volatility adjusted yield curve in discounting claim liabilities. This has led to a reduced regulatory valuation of claims liabilities and a stronger solvency position.

As discussed above, the solvency ratio remains very strong at 212% after the proposed final dividend is accounted for. The Directors are satisfied this represents a very satisfactory level of surplus above regulatory requirements and buffers.

Brexit also brings additional risks including:

- potential further market volatility, particularly in interest and exchange rates
- the potential for the uncertainty or the emerging terms of exit regarding Brexit to trigger or exacerbate less favourable economic conditions in the UK and other countries in which Admiral operates (though it is worth noting that car insurance has tended to be resilient to economic downturns)
- potential changes to or withdrawal of the right of UK financial services firms to trade in Europe without the need for locally regulated entities ('passporting')
- potential changes to the rules relating to the free movement of people between the UK and EU member states

The Group is making plans to be able to deal with the withdrawal of passporting, should this transpire, after the UK's exit from the EU is finalised and will continue to closely monitor developments over the coming months and years.

At the current time the Group does not foresee a material adverse impact on day to day operations (including customers or staff), whilst recognising that other issues may emerge over time.

Principal Risks and Uncertainties

The Group's 2016 Annual Report will contain an analysis of the Principal Risks and Uncertainties identified by the Group's Enterprise Risk Management Framework, along with the impacts of those risks and actions taken to mitigate them.

Disclaimer on forward-looking statements

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

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

Consolidated income statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £m	31 December 2015 £m
Insurance premium revenue		**1,353.6**	1,130.2
Insurance premium ceded to reinsurers		**(804.8)**	(663.2)
Net insurance premium revenue	5	**548.8**	467.0
Other revenue	7	**360.6**	319.8
Profit commission	5	**54.3**	85.4
Investment and interest income	6	**53.1**	32.6
Net revenue		**1,016.8**	904.8
Insurance claims and claims handling expenses		**(1,103.8)**	(769.1)
Insurance claims and claims handling expenses recoverable from reinsurers		**709.2**	542.6
Net insurance claims		**(394.6)**	(226.5)
Operating expenses and share scheme charges	8	**(648.8)**	(548.0)
Operating expenses and share scheme charges recoverable from co- and reinsurers	8	**316.4**	249.5
Net operating expenses and share scheme charges		**(332.4)**	(298.5)
Total expenses		**(727.0)**	(525.0)
Operating profit		**289.8**	379.8
Finance costs	6	**(11.4)**	(11.1)
Profit before tax		**278.4**	368.7
Taxation expense	9	**(64.3)**	(76.9)
Profit after tax		**214.1**	291.8
Profit after tax attributable to:			
Equity holders of the parent		**222.2**	300.0
Non-controlling interests (NCI)		**(8.1)**	(8.2)
		214.1	291.8
Earnings per share			
Basic	11	**78.7p**	107.3p
Diluted	11	**78.5p**	107.1p

Dividends declared and paid (total)	11	**349.8**	274.6
Dividends declared and paid (per share)	11	**126.3p**	100.0p

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Year ended 31 December 2016 £m	31 December 2015 £m
Profit for the period	**214.1**	291.8
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Movements in fair value reserve	**30.3**	(12.6)
Deferred tax charge in relation to movement in fair value reserve	**(0.5)**	—
Exchange differences on translation of foreign operations	**21.2**	2.6
Other comprehensive income for the period, net of income tax	**51.0**	(10.0)
Total comprehensive income for the period	**265.1**	281.8
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**271.3**	289.5
Non-controlling interests	**(6.2)**	(7.7)
	265.1	281.8

Consolidated statement of financial position

As at 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
ASSETS			
Property and equipment	10	**32.0**	34.9
Intangible assets	10	**162.3**	142.3
Deferred income tax	9	**8.4**	20.6
Reinsurance assets	5	**1,126.4**	878.7
Insurance and other receivables	6, 10	**784.9**	537.1
Financial investments	6	**2,420.2**	2,323.5
Cash and cash equivalents	6	**326.6**	265.3
Total assets		**4,860.8**	4,202.4
EQUITY			
Share capital	11	**0.3**	0.3
Share premium account		**13.1**	13.1
Other reserves		**51.8**	2.7
Retained earnings		**505.7**	599.6
Total equity attributable to equity holders of the parent		**570.9**	615.7
Non-controlling interests		**10.8**	17.2
Total equity		**581.7**	632.9
LIABILITIES			
Insurance contracts	5	**2,749.5**	2,295.0
Subordinated and other financial liabilities	6	**224.0**	223.9
Trade and other payables	6, 10	**1,292.2**	1,015.0
Current tax liabilities		**13.4**	35.6
Total liabilities		**4,279.1**	3,569.5
Total equity and total liabilities		**4,860.8**	4,202.4

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 7 March 2017 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 2016

	Note	Year ended 31 December 2016 £m	Restated[*1] 31 December 2015 £m
Profit after tax		**214.1**	291.8
Adjustments for non-cash items:			
– Depreciation		**10.5**	8.2
– Amortisation of software		**12.6**	6.1
– Other gains and losses		**—**	3.2
– Share scheme charges	8	**33.2**	29.5
– Investment and interest income	6	**(53.1)**	(32.6)
– Finance costs	6	**11.4**	11.1
– Taxation expense	9	**64.3**	76.9
Change in gross insurance contract liabilities		**454.5**	197.6
Change in reinsurance assets		**(247.7)**	(48.9)
Change in insurance and other receivables		**(254.6)**	(103.5)
Change in trade and other payables, including tax and social security		**279.9**	47.8
Cash flows from operating activities, before movements in investments		**525.1**	487.2
Purchases of financial instruments		**(646.6)**	(1,011.7)
Proceeds on disposal/ maturity of financial instruments		**616.9**	890.6
Interest and investment income received		**11.6**	8.6
Cash flows from operating activities, net of movements in investments		**507.0**	374.7
Taxation payments		**(76.4)**	(63.8)
Taxation receipts		**1.8**	—
Net cash flow from operating activities		**432.4**	310.9
Cash flows from investing activities:			
Purchases of property, equipment and software		**(31.6)**	(47.8)
Net cash used in investing activities		**(31.6)**	(47.8)
Cash flows from financing activities:			
Non-controlling interest capital contribution		**(0.2)**	10.7
Proceeds on issue of financial liabilities		**—**	20.0
Finance costs paid		**(11.3)**	(11.0)
Repayment of finance lease liabilities		**(3.4)**	(1.4)
Equity dividends paid	11	**(349.8)**	(274.6)
Net cash used in financing activities		**(364.7)**	(256.3)
Net increase in cash and cash equivalents		**36.1**	6.8
Cash and cash equivalents at 1 January		**265.3**	255.9
Effects of changes in foreign exchange rates		**25.2**	2.6
Cash and cash equivalents at end of period	6	**326.6**	265.3

[*1] Refer to note 2 for details.

Consolidated statement of changes in equity
For the year ended 31 December 2016

	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 2015	0.3	13.1	10.9	2.3	540.6	**567.2**	13.7	**580.9**
Profit/(loss) for the period	—	—	—	—	300.0	**300.0**	(8.2)	**291.8**
Other comprehensive income								
Movements in fair value reserve	—	—	(12.6)	—	—	**(12.6)**	—	**(12.6)**
Currency translation differences	—	—	—	2.1	—	**2.1**	0.5	**2.6**
Total comprehensive income for the period	—	—	**(12.6)**	**2.1**	**300.0**	**289.5**	**(7.7)**	**281.8**
Transactions with equity holders								
Dividends	—	—	—	—	(274.6)	**(274.6)**	—	**(274.6)**
Share scheme credit	—	—	—	—	29.5	**29.5**	—	**29.5**
Deferred tax credit on share scheme credit	—	—	—	—	4.7	**4.7**	—	**4.7**
Contributions by NCIs	—	—	—	—	(0.1)	**(0.1)**	10.7	**10.6**
Changes in ownership interests without a change in control	—	—	—	—	(0.5)	**(0.5)**	0.5	**—**
Total transactions with equity holders	—	—	—	—	**(241.0)**	**(241.0)**	**11.2**	**(229.8)**
As at 31 December 2015	**0.3**	**13.1**	**(1.7)**	**4.4**	**599.6**	**615.7**	**17.2**	**632.9**
At 1 January 2016	0.3	13.1	(1.7)	4.4	599.6	**615.7**	17.2	**632.9**
Profit/(loss) for the period	—	—	—	—	222.2	**222.2**	(8.1)	**214.1**
Other comprehensive income								
Movements in fair value reserve	—	—	30.3	—	—	**30.3**	—	**30.3**
Deferred tax charge in relation to movement in fair value reserve	—	—	(0.5)	—	—	**(0.5)**	—	**(0.5)**
Currency translation differences	—	—	—	19.3	—	**19.3**	1.9	**21.2**
Total comprehensive income for the period	—	—	**29.8**	**19.3**	**222.2**	**271.3**	**(6.2)**	**265.1**
Transactions with equity holders								
Dividends	—	—	—	—	(349.8)	**(349.8)**	—	**(349.8)**
Share scheme credit	—	—	—	—	33.2	**33.2**	—	**33.2**
Deferred tax credit on share scheme credit	—	—	—	—	0.5	**0.5**	—	**0.5**
Contributions by NCIs	—	—	—	—	—	**—**	(0.2)	**(0.2)**
Changes in ownership interests without a change in control	—	—	—	—	—	**—**	—	**—**
Total transactions with equity holders	—	—	—	—	**(316.1)**	**(316.1)**	**(0.2)**	**(316.3)**
As at 31 December 2016	**0.3**	**13.1**	**28.1**	**23.7**	**505.7**	**570.9**	**10.8**	**581.7**

Notes to the financial statements

For the year ended 31 December 2016

1. General information

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

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

Adoption of new and revised standards

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

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exemption.

The application of these amendments has not had a material impact on the Group's results, financial position and cash flows.

In 2016, the following standards, both with an effective date of 1 January 2018, were endorsed by the EU:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 – Financial Instruments

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.

In late 2016, the IASB confirmed that the effective date for IFRS 17 'Insurance Contracts' will be 1 January 2021, with the full standard expected to be issued during the first half of 2017. The 2021 effective date means that the timescale is in line with that specified in an amendment to IFRS 4, the existing Insurance Contracts standard, which permits the deferral of the adoption of IFRS 9 for up to three years from the 1 January 2018 effective date. The Group expects to take advantage of this deferral approach and delay its adoption of IFRS 9 until 1 January 2021 to align with the effective date of IFRS 17.

Following the issuance of the full and final version of IFRS 17, the Group plans to perform a detailed impact assessment of the implementation of IFRS 17 and IFRS 9 on its results, financial position and cash-flows during 2017.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued during 2014 and applies to annual reporting periods beginning on or after 1 January 2018. The standard introduces a simple, five step principles-based model to be applied to the accounting of all contracts with customers.

Revenue from insurance contracts and financial instruments is outside the scope of the IFRS 15. The Group's detailed assessment of the impact of the standard on its results, financial position and cash-flows is currently in progress. The primary focus of this work is the other revenue generated by a portfolio of products that supplement the core car and household insurance policies and revenue generated by the Group's price comparison businesses. Management's preliminary assessment of the impact of this standard is that it is not expected to have a material impact on the Group's financial statements.

Standards yet to be endorsed by the EU

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2016 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 16 Leases;
- IFRS 14 Regulatory Deferral Accounts;
- Amendments to IFRS 2, 4, 10 and 12 and IAS 7, 12, and 40;
- Annual improvements to IFRS standard 2014-2016 cycle;
- IFRIC interpretation 22.

IFRS 16 – Leases

IFRS 16 Leases was issued in early 2016. The standard specifies how firms will recognise, measure, present and disclose leases. It presents a single lessee accounting model and requires that assets and liabilities relating to leases of greater than 12 months are recognised in the Consolidated Statement of Financial Position. The standard will apply to reporting periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of IFRS 16 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 this requirement, the Directors have taken into account the following:

- The Group's projections for the next 12 months and beyond, in particular the profit forecasts, regulatory capital surpluses and levels and sources of liquidity.
- The risks included on the Group's risk register that could impact on the Group's financial performance, levels of liquidity and solvency over the next 12 months.

- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

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

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

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out earlier in this announcement. Further information regarding the financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described earlier in this announcement. 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 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. 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.

Re-presentation of comparative information

Comparative amounts within the consolidated cash flow statement relating to investments have been re-presented. Net cash flows into investments have been analysed into purchases of financial instruments and proceeds from financial instruments. Additionally, investment return and interest income on financial investments are now captured within the adjustments to profit after tax for non-cash items. There is no impact on total cash and cash equivalents or on net cash flow from operating activities for any period.

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 area:

- 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. All reinsurance contracts (both excess of loss and quota share contracts) held by the Group have been assessed and it has been concluded that all contracts transfer significant insurance risk and have therefore been classified and accounted for as reinsurance contracts within these financial statements.

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

- Calculation of insurance claims reserves:

  The Group's reserving methodology requires management to set insurance claims reserves for the purpose of the financial statements, within a range of potential outcomes above the projected best estimate outcome, to allow for unforeseen adverse claims development. Management applies judgement in determining where, within this range of potential outcomes, the insurance claims reserves should sit. Refer to the section on estimation techniques below for further detail on the calculation of the projected best estimate outcome.

- 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.

As noted above, 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 2016 and comparative figures for the year ended 31 December 2015. 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 Admiral Law Limited, BDE Law Limited, Inspop USA LLC, the indirect holding in comparenow.com Insurance Agency LLC, Rastreator.com Limited, the indirect holding in Comparaseguros Correduría de Seguros, S.L., Sociedad Unipersonal, Preminen Price Comparison Holdings Limited, the indirect holding in Preminen Dragon Price Comparison Limited and the indirect holding in Long Yu Science and Technology (Beijing) Co. Limited.

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 pounds sterling, rounded to the nearest £0.1 million, 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 Insurance

The segment consists of the underwriting of car insurance, household insurance and other products that supplement the car insurance policy within the UK. 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.

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 - assurance auto 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 businesses: 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 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 2016, by reportable segment, is 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 2016					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations[*2] £m	Total £m
Turnover[*1]	**2,063.1**	**365.9**	**129.2**	**17.6**	**(20.8)**	**2,555.0**
Net insurance premium revenue	**454.4**	**94.3**	**—**	**0.1**	**—**	**548.8**
Other Revenue and profit commission	**277.2**	**12.6**	**129.2**	**16.7**	**(20.8)**	**414.9**
Investment and interest income	**39.3**	**0.4**	**—**	**—**	**—**	**39.7**
Net revenue	**770.9**	**107.3**	**129.2**	**16.8**	**(20.8)**	**1,003.4**
Net insurance claims	**(317.9)**	**(76.5)**	**—**	**(0.2)**	**—**	**(394.6)**
Expenses	**(114.5)**	**(50.2)**	**(132.1)**	**(14.7)**	**20.8**	**(290.7)**
Segment profit/(loss) before tax	**338.5**	**(19.4)**	**(2.9)**	**1.9**	**—**	**318.1**
Other central revenue and expenses, including share scheme charges						**(41.7)**
Investment and interest income						**13.4**
Finance costs						**(11.4)**
Consolidated profit before tax						**278.4**
Taxation expense						**(64.3)**
Consolidated profit after tax						**214.1**
Other segment items:						
– Intangible and tangible asset additions	**46.2**	**28.9**	**0.4**	**4.2**	**—**	**79.7**
– Depreciation and amortisation	**39.0**	**22.2**	**1.3**	**3.8**	**—**	**66.3**

*1 Turnover is an Alternative Performance Measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 12 for further information.

*2 Eliminations are in respect of the intra-group trading between the Group's price comparison and UK and International insurance entities.

Revenue and results for the corresponding reportable segments for the year ended 31 December 2015 are shown below.

	Restated[*1] Year ended 31 December 2015					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations[*3] £m	Total £m
Turnover[*2]	1,760.2	232.4	108.1	18.1	(14.2)	2,104.6
Net insurance premium revenue	397.4	64.5	—	5.1	—	467.0
Other Revenue and profit commission	287.7	7.7	108.1	15.9	(14.2)	405.2
Investment and interest income	26.1	—	—	—	—	26.1
Net revenue	711.2	72.2	108.1	21.0	(14.2)	898.3
Net insurance claims	(169.5)	(51.6)	—	(5.4)	—	(226.5)
Expenses	(97.5)	(42.8)	(123.6)	(14.1)	14.2	(263.8)
Segment profit/(loss) before tax	444.2	(22.2)	(15.5)	1.5	—	408.0
Other central revenue and expenses, including share scheme charges						(34.7)
Investment and interest income						6.5
Finance costs						(11.1)
Consolidated profit before tax						368.7
Taxation expense						(76.9)
Consolidated profit after tax						291.8
Other segment items:						
– Intangible and tangible asset additions	62.3	18.7	1.4	4.1	—	86.5
– Depreciation and amortisation	26.9	16.1	1.5	3.8	—	48.3

*1 2015 comparatives have been restated to be consistent with the segment splits applied in 2016, whereby UK Household Insurance is included within the UK Insurance segment. Previously the results of the UK Household business were reported within the Other segment as they were not considered a material part of the UK result.

*2 Turnover is an Alternative Performance Measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 12 for further information.

*3 Eliminations are in respect of the intra-group trading between the Group's price comparison and UK and International insurance entities.

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 £20.8 million (2015: £14.2 million) which has been eliminated on consolidation. There are no other transactions between reportable segments.

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

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country, are shown within the 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.

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2016 are as follows:

	As at 31 December 2016					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	**26.8**	**4.0**	**1.2**	—	—	**32.0**
Intangible assets	**73.8**	**23.0**	**1.8**	**63.7**	—	**162.3**
Reinsurance assets	**881.4**	**244.7**	—	**0.3**	—	**1,126.4**
Insurance and other receivables	**890.3**	**132.8**	**14.8**	**(185.6)**	**(67.4)**	**784.9**
Financial investments	**2,145.0**	**45.6**	**12.2**	—	—	**2,202.8**
Cash and cash equivalents	**178.0**	**100.6**	**33.0**	**8.0**	—	**319.6**
Reportable segment assets	**4,195.3**	**550.7**	**63.0**	**(113.6)**	**(67.4)**	**4,628.0**
Insurance contract liabilities	**2,359.9**	**385.4**	—	**4.2**	—	**2,749.5**
Trade and other payables	**1,147.7**	**122.1**	**11.3**	**11.1**	—	**1,292.2**
Reportable segment liabilities	**3,507.6**	**507.5**	**11.3**	**15.3**	—	**4,041.7**
Reportable segment net assets	**687.7**	**43.2**	**51.7**	**(128.9)**	**(67.4)**	**586.3**
Unallocated assets and liabilities						**(4.6)**
Consolidated net assets						**581.7**

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

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

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

The segment assets and liabilities at 31 December 2015 are as follows:

	Restated[*1] As at 31 December 2015					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	30.6	3.0	1.3	—	—	34.9
Intangible assets	62.1	14.2	2.3	63.7	—	142.3
Reinsurance assets	719.4	159.0	—	0.3	—	878.7
Insurance and other receivables	576.6	41.5	19.2	(25.4)	(74.8)	537.1
Financial investments	2,042.4	43.2	—	—	—	2,085.6
Cash and cash equivalents	93.8	94.3	59.5	11.8	—	259.4
Reportable segment assets	3,524.9	355.2	82.3	50.4	(74.8)	3,938.0
Insurance contract liabilities	2,031.6	257.3	—	6.1	—	2,295.0
Trade and other payables	939.5	55.5	9.1	10.9	—	1,015.0
Reportable segment liabilities	2,971.1	312.8	9.1	17.0	—	3,310.0
Reportable segment net assets	553.8	42.4	73.2	33.4	(74.8)	628.0
Unallocated assets and liabilities						4.9
Consolidated net assets						632.9

*1 2015 comparatives have been restated to be consistent with the segment splits applied in 2016, whereby UK Household Insurance is included within the UK Insurance segment. Previously the results of the UK Household business were reported within the Other segment as they were not considered a material part of the UK result.

5. Premium, claims and profit commissions

5a. Accounting policies

(i) Revenue – premiums

Premiums relating to insurance contracts are recognised as revenue, net of insurance premium tax, proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders 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. Profit commission receivable from reinsurance contracts is accounted for in line with IFRS 4, whereas profit commission receivable from co-insurance contracts is in line with IAS 18.

(iii) Insurance contracts and reinsurance assets

Premiums

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

Claims

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

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

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

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

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

Co-insurance

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

Reinsurance assets

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

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

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

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

5b. Net insurance premium revenue

	31 December 2016 £m	31 December 2015 £m
Total motor insurance premiums written before co-insurance	**2,193.9**	1,805.2
Group gross premiums written after co-insurance	**1,482.0**	1,199.9
Outwards reinsurance premiums	**(883.6)**	(709.8)
Net insurance premiums written	**598.4**	490.1
Change in gross unearned premium provision	**(128.4)**	(69.7)
Change in reinsurers' share of unearned premium provision	**78.8**	46.6
Net insurance premium revenue	**548.8**	467.0

The Group's share of its 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.

5c. Profit commission

	31 December 2016 £m	31 December 2015 £m
Underwriting year (UK car only)		
2011 and prior	**16.7**	31.4
2012	**9.6**	36.9
2013	**26.4**	16.9
2014	—	—
2015	—	—
2016	—	—
Total UK Car profit commission	**52.7**	85.2
Underwriting year (UK Household only)		
2014 and prior	—	—
2015	**0.7**	0.2
2016	**0.9**	—
Total UK Household profit commission	**1.6**	0.2
Total profit commission	**54.3**	85.4

*1 Profit commission for the UK Car business relates solely to co-insurance arrangements and profit commission for the UK Household business relates solely to reinsurance arrangements.

5d. Reinsurance assets and insurance contract liabilities

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

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

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

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

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

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

Reserve Risk

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

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

range above projected best estimate outcomes to allow for unforeseen adverse claims development.

As noted in the Strategic Report, the Group shares a significant amount of the motor insurance business generated with external underwriters. In 2015, 40% of the UK car insurance 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 earlier in this announcement.

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.

Premium Risk

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

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

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

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

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

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

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk. This is because, although the Group has historically written only one significant line of UK insurance business, the risks are spread across a large number of people and a wide regional base. The 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.

(ii) Event after the reporting period – Ogden discount rate change

On 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rate, which is used in the calculation of personal injury claims compensation in the UK. The change reduced the discount rate from 2.5% to minus 0.75%. This change has been reflected in the gross and reinsurers share of insurance liabilities reported in these financial statements. Refer to the following section for sensitivities in this key assumption.

(iii) Sensitivity of recognised amounts to changes in assumptions

Ogden discount rate

As noted above, the gross and reinsurers share of insurance liabilities in these financial statements are prepared on the basis of an Ogden discount rate of minus 0.75%. On 27 February 2017, the Lord Chancellor also announced a consultation that considers options for reform in the setting of this rate, resulting in potential for further changes in the rate.

The sensitivity of a change in this assumption by 75 basis points (both an increase and decrease) is shown in the table below. The impact is presented is the total impact of the change on the Group's pre-tax profit on an ultimate basis. It should be noted that not all of the ultimate impact would necessarily be recognised immediately.

	2016 Gross £m	2016 Net £m
Impact of increase in assumed Ogden discount rate of 75 basis points (to 0%)	125.7	68.7
Impact of decrease in assumed Ogden discount rate of 75 basis points (to minus 1.5%)	(198.1)	(102.1)

The net impacts are stated net of co-insurance reinsurance and include the impact on net insurance claims along with the associated profit commission movements that result from the change in the Ogden rate.

Underwriting year loss ratios – UK Car Insurance

In addition to the sensitivity above, the following table sets out the impact on equity and post-tax profit or loss at 31 December 2016 that would result from a 1% movement (both increase and decrease) in the UK Car insurance loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year			
	2013	2014	2015	2016
Booked loss ratio	70%	84%	87%	88%
Impact of 1% change (£m)	11.4	6.8	3.0	1.8

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

(iv) Analysis of recognised amounts

	31 December 2016 £m	31 December 2015 £m
Gross		
Claims outstanding*1	**2,030.8**	1,725.0
Unearned premium provision	**718.7**	570.0
Total gross insurance liabilities	**2,749.5**	2,295.0
Recoverable from reinsurers		
Claims outstanding	**701.6**	544.8
Unearned premium provision	**424.8**	333.9
Total reinsurers' share of insurance liabilities	**1,126.4**	878.7
Net		
Claims outstanding	**1,329.2**	1,180.2
Unearned premium provision	**293.9**	236.1
Total insurance liabilities – net	**1,623.1**	1,416.3

*1 Gross claims outstanding at 31 December 2016 is presented before the deduction of salvage and subrogation recoveries totalling £37.7 million.

The maturity profile of gross insurance liabilities at the end of 2016 is as follows:

	< 1 year £m	**1–3 years £m**	**> 3 years £m**
Claims outstanding	**754.4**	**700.1**	**576.3**
Unearned premium provision	**718.7**	**—**	**—**
Total gross insurance liabilities	**1,473.1**	**700.1**	**576.3**

The maturity profile of gross insurance liabilities at the end of 2015 was as follows:

Restated*1	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	503.5	492.0	729.5
Unearned premium provision	570.0	—	—
Total gross insurance liabilities	1,073.5	492.0	729.5

*1 Maturity profile for 2015 has been restated to recognise the maturity of the unearned premium provision within 1 year. The analysis presented previously presented the maturity of claims liabilities expected to arise from the provision.

(v) Analysis of claims incurred

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

	Financial year ended 31 December										
Analysis of claims incurred (gross amounts)	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Underwriting year (UK insurance)											
2007 and prior	(158.5)	(33.2)	32.0	5.0	8.5	(0.5)	(0.6)	0.0	(2.9)	(2.7)	
2008	—	(146.4)	(94.5)	16.8	4.6	(1.5)	(0.6)	1.2	0.0	(0.5)	**(220.9)**
2009	—	—	(176.8)	(121.7)	(6.0)	(3.6)	6.2	7.3	0.0	3.2	**(291.4)**
2010	—	—	—	(260.4)	(257.2)	9.8	36.7	19.5	13.5	4.1	**(434.0)**
2011	—	—	—	—	(444.3)	(329.7)	43.3	51.4	47.9	(0.9)	**(632.3)**
2012	—	—	—	—	—	(463.7)	(334.7)	49.8	69.2	8.6	**(670.8)**
2013	—	—	—	—	—	—	(431.1)	(325.5)	53.6	44.4	**(658.6)**
2014	—	—	—	—	—	—	—	(438.2)	(347.1)	25.6	**(759.7)**
2015	—	—	—	—	—	—	—	—	(428.4)	(411.2)	**(839.6)**
2016	—	—	—	—	—	—	—	—	—	(529.4)	**(529.4)**
UK insurance gross claims incurred	(158.5)	(179.6)	(239.3)	(360.3)	(694.4)	(789.2)	(680.8)	(634.5)	(594.2)	(858.8)	
Underwriting year (International insurance)											
2007 and prior	(7.9)	(12.4)	0.3	0.1	(0.1)	(0.1)	(0.1)	0.0	0.0	0.0	
2008	—	(11.1)	(12.7)	(0.4)	(0.6)	(0.4)	(0.2)	0.2	0.1	0.1	**(25.0)**
2009	—	—	(10.8)	(13.9)	(3.1)	(3.9)	0.1	1.4	0.2	0.0	**(30.0)**
2010	—	—	—	(17.6)	(26.1)	(7.1)	0.1	3.5	1.0	0.5	**(45.7)**
2011	—	—	—	—	(35.7)	(42.7)	1.2	5.7	1.7	4.0	**(65.8)**
2012	—	—	—	—	—	(58.0)	(53.7)	0.7	4.0	6.0	**(101.0)**
2013	—	—	—	—	—	—	(68.2)	(57.8)	4.2	7.7	**(114.1)**
2014	—	—	—	—	—	—	—	(85.2)	(65.5)	4.4	**(146.3)**
2015	—	—	—	—	—	—	—	—	(92.6)	(101.6)	**(194.2)**
2016	—	—	—	—	—	—	—	—	—	(138.9)	**(138.9)**
International insurance gross claims incurred	(7.9)	(23.5)	(23.2)	(31.8)	(65.6)	(112.2)	(120.8)	(131.5)	(146.9)	(217.8)	
Other gross claims incurred	0.0	(2.9)	(10.5)	(7.6)	0.0	(1.7)	(2.2)	(7.1)	(5.4)	(0.1)	
Claims handling costs	(6.2)	(7.8)	(10.1)	(17.0)	(25.9)	(26.0)	(22.9)	(21.4)	(22.6)	(27.1)	
Total gross claims incurred	(172.6)	(213.8)	(283.1)	(416.7)	(785.9)	(929.1)	(826.7)	(794.5)	(769.1)	(1,103.8)	

Analysis of claims incurred (net amounts)	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
	Financial year ended 31 December										
Underwriting year (UK insurance)											
2007 and prior	(93.5)	(10.9)	22.2	2.9	8.9	(0.5)	(0.6)	0.0	(2.9)	(1.2)	
2008	—	(89.5)	(57.7)	10.2	4.6	(1.5)	(0.6)	1.2	0.0	1.6	**(131.7)**
2009	—	—	(96.9)	(67.0)	(4.8)	(3.6)	6.2	7.3	0.0	4.8	**(154.0)**
2010	—	—	—	(130.2)	(128.6)	8.4	36.7	19.5	13.5	8.8	**(171.9)**
2011	—	—	—	—	(203.7)	(151.1)	39.7	51.4	47.9	8.4	**(207.4)**
2012	—	—	—	—	—	(196.0)	(139.3)	49.8	69.2	19.4	**(196.9)**
2013	—	—	—	—	—	—	(184.4)	(135.0)	38.4	49.3	**(231.5)**
2014	—	—	—	—	—	—	—	(187.0)	(144.1)	(16.3)	**(347.7)**
2015	—	—	—	—	—	—	—	—	(182.1)	(162.0)	**(344.1)**
2016	—	—	—	—	—	—	—	—	—	(219.4)	**(219.4)**
UK insurance net claims incurred	(93.5)	(100.4)	(132.4)	(184.1)	(323.6)	(344.3)	(242.3)	(192.8)	(160.1)	(306.7)	
Underwriting year (International insurance)											
2007 and prior	(2.8)	(4.3)	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	
2008	—	(3.9)	(4.8)	(0.1)	(0.2)	(0.2)	(0.1)	0.1	0.0	0.0	**(9.2)**
2009	—	—	(4.4)	(5.6)	(1.6)	(2.0)	0.0	0.7	0.1	0.0	**(12.8)**
2010	—	—	—	(7.1)	(11.5)	(3.5)	0.0	1.7	0.5	0.2	**(19.7)**
2011	—	—	—	—	(14.9)	(18.7)	0.4	2.9	0.8	2.0	**(27.5)**
2012	—	—	—	—	—	(24.2)	(22.8)	(0.8)	2.0	2.2	**(43.6)**
2013	—	—	—	—	—	—	(26.6)	(23.5)	1.7	4.8	**(43.6)**
2014	—	—	—	—	—	—	—	(31.6)	(23.3)	1.8	**(53.1)**
2015	—	—	—	—	—	—	—	—	(33.4)	(39.6)	**(73.0)**
2016	—	—	—	—	—	—	—	—	—	(47.9)	**(47.9)**
International insurance net claims incurred	(2.8)	(8.2)	(9.2)	(12.8)	(28.3)	(48.6)	(49.1)	(50.5)	(51.6)	(76.5)	
Other net claims incurred	0.0	(1.3)	(4.4)	(3.1)	0.0	(0.8)	(2.1)	(6.9)	(5.4)	(0.2)	
Claims handling costs	(3.5)	(4.7)	(5.7)	(8.5)	(11.9)	(10.8)	(9.5)	(8.9)	(9.4)	(11.2)	
Total net claims incurred	(99.8)	(114.6)	(151.7)	(208.5)	(363.8)	(404.5)	(303.0)	(259.1)	(226.5)	(394.6)	

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

UK Car Insurance loss ratio development	2012	2013	2014	2015	**2016**
	Financial year ended 31 December				
Underwriting year (UK car only)					
2012	84%	78%	73%	66%	**64%**
2013	—	85%	82%	76%	**70%**
2014	—	—	92%	89%	**84%**
2015	—	—	—	87%	**87%**
2016	—	—	—	—	**88%**

(vi) Analysis of claims reserve releases

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

Gross	Financial year ended 31 December 2012 £m	2013 £m	2014 £m	2015 £m	**2016 £m**
Underwriting year (UK insurance)					
2012 and prior	36.2	115.8	129.7	128.3	**41.7**
2013	—	—	18.4	53.4	**49.3**
2014	—	—	—	16.0	**42.8**
2015	—	—	—	—	**1.9**
Total gross release (UK Insurance)	36.2	115.8	148.1	197.7	**135.7**
Total gross release (International Insurance)	—	—	12.6	14.0	**21.0**
Total gross release	36.2	115.8	160.7	211.7	**156.7**

Net	Financial year ended 31 December 2012 £m	2013 £m	2014 £m	2015 £m	**2016 £m**
Underwriting year (UK Insurance)					
2012 and prior	17.6	94.2	129.7	128.3	**41.7**
2013	—	—	7.7	38.4	**49.3**
2014	—	—	—	6.7	**(16.4)**
2015	—	—	—	—	**0.8**
Total net release (UK Insurance)	17.6	94.2	137.4	173.4	**75.4**
Total net release (International Insurance)	—	—	6.3	6.5	**9.9**
Total net release	17.6	94.2	143.7	179.9	**85.3**
Analysis of net releases on UK Insurance:					
– Net releases on Admiral net share	16.3	53.3	66.8	84.6	**58.3**
– Releases on commuted quota share reinsurance contracts[*1]	1.3	40.9	70.6	88.8	**17.1**
Total net release as above	17.6	94.2	137.4	173.4	**75.4**

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

	Financial year ended 31 December 2012 £m	2013 £m	2014 £m	2015 £m	**2016 £m**
Underwriting year					
2012 and prior	1.3	40.9	70.6	72.5	**22.6**
2013	—	—	—	16.3	**28.8**
2014	—	—	—	—	**(34.3)**
2015	—	—	—	—	—
Total releases on commuted quota share reinsurance contracts	1.3	40.9	70.6	88.8	**17.1**

Included within releases on commuted quota share contracts are accruals for additional reserves arising from the commutation of 2014 year UK motor quota share contracts. Refer to the business review earlier in this report for further detail.

Profit commission is analysed in note 5c.

(vii) Reconciliation of movement in claims provision

	31 December 2016		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	**1,725.0**	**(544.8)**	**1,180.2**
Claims incurred (excluding releases)	**1,233.4**	**(764.8)**	**468.6**
Reserve releases	**(156.7)**	**71.4**	**(85.3)**
Movement in claims provision due to commutation	**—**	**186.2**	**186.2**
Claims paid and other movements *1	**(770.9)**	**350.4**	**(420.5)**
Claims provision at end of period*2	**2,030.8**	**(701.6)**	**1,329.2**

	31 December 2015		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	1,596.0	(538.2)	1,057.8
Claims incurred (excluding releases)	963.4	(566.3)	397.1
Reserve releases	(211.7)	31.8	(179.9)
Movement in claims provision due to commutation	—	233.8	233.8
Claims paid and other movements *1	(622.7)	294.1	(328.6)
Claims provision at end of period*2	1,725.0	(544.8)	1,180.2

*1 Net claims paid in the year to 31 December 2016 includes salvage and subrogation recoveries of £37.7 million which have been reclassified to insurance and other receivables.

*2 The increase in net claims reserve from £1,180.2 million at 31 December 2015 to £1,329.2 million at 31 December 2016 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.

(viii) Reconciliation of movement in net unearned premium provision

	31 December 2016		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	**570.0**	**(333.9)**	**236.1**
Written in the period	**1,482.0**	**(883.6)**	**598.4**
Earned in the period	**(1,333.3)**	**792.7**	**(540.6)**
Unearned premium provision at end of period	**718.7**	**(424.8)**	**293.9**

	31 December 2015		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	501.4	(291.6)	209.8
Written in the period	1,199.9	(709.8)	490.1
Earned in the period	(1,131.3)	667.5	(463.8)
Unearned premium provision at end of period	570.0	(333.9)	236.1

6. Investments

6a. Accounting policies

(i) Investment income and finance costs

Investment income from financial assets comprises distributions as well as net realised and unrealised gains on financial assets classified as 'fair value through profit or loss' (FVTPL), interest income and net realised gains from assets classified as 'available for sale' (AFS), 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 liability (or group of financial assets or financial liabilities) and allocates the interest income or expense over the expected life of the asset or liability.

(ii) Financial assets – investments and receivables

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at FVTPL, AFS assets, 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 are designated as FVTPL at inception.

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

The Group's holdings in Fixed Income and Asset Backed Securities are classified as AFS investments, which is consistent with the intention for which they were purchased.

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.

Transaction costs associated with the purchase of all financial assets are expensed within the income statement as incurred.

Subsequent measurement

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

AFS fixed income and asset backed securities are stated at fair value. Unrealised changes in the fair value of these assets are recognised in Other Comprehensive Income (OCI). Interest income on debt securities is recognised within profit or loss using the effective interest rate method.

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 fair value or 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.

Identified impairments of financial assets are recognised in the income statement, except in the case of assets classified as AFS where unrealised gains have been recognised through OCI. In this instance, impairments of the asset are first set against the unrealised gain in OCI with any excess being recognised in the income statement.

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 attached 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.

(iii) Financial liabilities

Initial recognition

The Group's financial liabilities comprise subordinated notes and other financial liabilities initially recognised at fair value received, net of transaction costs incurred.

Subsequent measurement

Subsequent measurement is 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 fair value approximates to the book value of the investment based on the interest rates of the instruments, credit risk movements and durations of the assets. The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

6b. Investment and interest income

	31 December 2016 £m	31 December 2015 £m
Investment income		
Investment return on assets classified as FVTPL	**2.9**	2.2
Gains on forward contracts	**6.5**	—
Interest income on AFS debt securities	**23.4**	19.2
Interest income on term deposits with credit institutions	**4.7**	4.7
Interest income on held to maturity gilt assets*1	**6.2**	6.1
	43.7	32.2
Unwind of discount on gilts	**(0.8)**	(0.8)
Release of accrual for reinsurers' share of investment returns	**9.2**	—
	52.1	31.4
Interest receivable on cash and cash equivalents*1	**1.0**	1.2
Total investment and interest income	**53.1**	32.6

*1 Interest received during the year was £11.6 million (2015: £8.6 million)

6c. Finance costs

	31 December 2016 £m	31 December 2015 £m
Interest payable*1	**11.4**	**11.1**
Total finance costs	**11.4**	**11.1**

*1 Interest paid during the year was £11.3 million (2015: £11.0 million)

Finance costs represent interest payable on the £200 million subordinated notes and other financial liabilities.

6d. Financial assets and liabilities

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

	31 December 2016 £m	31 December 2015 £m
Investments held at fair value through profit or loss		
Money market funds	**776.3**	627.7
Derivative financial instruments	**4.7**	—
	781.0	627.7
Investments classified as available for sale		
Available for sale debt securities	**1,271.8**	1,230.0
	1,271.8	1,230.0
Investments classified as held to maturity		
Term deposits with credit institutions	**170.0**	267.6
Gilts	**197.4**	198.2
	367.4	465.8
Total financial investments	**2,420.2**	2,323.5
Insurance and financial assets		
Insurance receivables	**606.6**	437.0
Trade and other receivables	**178.3**	100.1
Cash and cash equivalents	**326.6**	265.3
Total financial assets	**3,531.7**	3,125.9
Financial liabilities		
Subordinated notes	**204.0**	203.9
Other borrowings	**20.0**	20.0
Trade and other payables	**1,292.2**	1,015.0
Total financial liabilities	**1,516.2**	1,238.9

Financial liabilities are inclusive of £200 million subordinated notes issued on 25 July 2014 at a fixed rate of 5.5% with a redemption date of 25 July 2024.

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

There have been no defaults on any of the notes during the year. The Group has the option to defer interest payments on the notes but to date has not exercised this right. The aggregate fair value of subordinated dated notes at the balance sheet date is disclosed in the table below.

The Group holds a revolving credit facility of £100 million which expires in July 2018. As at 31 December 2016, £20 million was drawn under this agreement and is included as other borrowings in the table above.

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 AFS 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 £170.0 million (2015: £267.6 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 2016		31 December 2015	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Gilts	**197.4**	**225.4**	198.2	211.7
Financial liabilities				
Subordinated notes	**204.0**	**212.9**	203.9	202.4

The maturity profile of financial assets and liabilities at 31 December 2016 is as follows:

	On demand £m	**< 1 year £m**	**Between 1 and 2 years £m**	**> 2 years £m**
Financial investments				
Investments held at fair value	**776.3**	**4.7**	**—**	**—**
Term deposits with credit institutions	**—**	**60.0**	**40.0**	**70.0**
Available for sale debt securities	**2.5**	**324.4**	**224.4**	**720.5**
Gilts	**—**	**0.9**	**—**	**196.5**
Total financial investments	**778.8**	**390.0**	**264.4**	**987.0**
Insurance receivables	**—**	**606.6**	**—**	**—**
Trade and other receivables	**—**	**178.3**	**—**	**—**
Cash and cash equivalents	**326.6**	**—**	**—**	**—**
Total financial assets	**1,105.4**	**1,174.9**	**264.4**	**987.0**
Financial liabilities				
Subordinated notes	**—**	**4.8**	**—**	**199.2**
Other borrowings	**—**	**20.0**	**—**	**—**
Trade and other payables	**—**	**1,292.2**	**—**	**—**
Total financial liabilities	**—**	**1,317.0**	**—**	**199.2**

The maturity profile of financial assets and liabilities at 31 December 2015 was as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial investments				
Investments held at fair value	627.7	—	—	—
Term deposits with credit institutions	107.6	40.0	50.0	70.0
Available for sale debt securities	437.2	117.1	201.1	474.6
Gilts	—	0.8	—	197.4
Total financial investments	1,172.5	157.9	251.1	742.0
Insurance receivables	—	437.0	—	—
Trade and other receivables	—	100.1	—	—
Cash and cash equivalents	265.3	—	—	—
Total financial assets	1,437.8	695.0	251.1	742.0
Financial liabilities				
Subordinated notes	—	4.7	—	199.2
Other borrowings	—	20.0	—	—
Trade and other payables	—	1,015.0	—	—
Total financial liabilities	—	1,039.7	—	199.2

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 2016 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 and the parameters set for managing the Fixed Income Mandates. Both forms of investment hold 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 2016 is £3,263.0 million (2015: £2,913.3 million), being the carrying value of financial investments 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 2016 and 2015 is insignificant.

There were no significant financial assets that were past due at the close of either 2016 or 2015.

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

	Rating	**31 December 2016 £m**	31 December 2015 £m
Financial institutions – Credit institutions	AAA	**269.3**	247.8
Financial institutions – Credit institutions	AA	**733.8**	679.4
Financial institutions – Credit institutions	A	**1,305.6**	1,230.3
Financial institutions – Credit institutions	BBB and below	**236.0**	234.0
UK Government gilts	AA	**197.4**	198.2
Reinsurers	AA	**277.1**	266.8
Reinsurers	A	**29.1**	9.2

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.

The Group also holds a financial liability in the form of £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.

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 £938.0 million (2015: £764.7 million), £610.1 million (2015: £554.3 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 risk

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

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

The Group's exposure to net assets and profits in currencies other than the reporting currency is immaterial other than for US dollars. The Group's exposure to net assets held in dollars at the balance sheet date was £70.5 million (2015: £87.3 million).

The loss before tax derived from business carried out in the US was £39.1 million (2015: £45.9 million). If the Sterling rates with US dollars had strengthened/weakened by 10%, the Group's profit before tax for the year would increase/decrease by £3.6 million (2015: £4.2 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 2016 £m	31 December 2015 £m
Cash at bank and in hand	**326.4**	265.3
Short-term deposits	**0.2**	—
Total cash and cash equivalents	**326.6**	265.3

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.

7b. Contribution from additional products and fees and Other Revenue

	31 December 2016 £m	31 December 2015 £m
Contribution from additional products and fees	**199.0**	182.4
Price comparison revenue*1	**108.4**	93.9
Other revenue	**53.2**	43.5
Total Other Revenue	**360.6**	319.8

*1 Price comparison revenue excludes £20.8 million (2015: £14.2 million) of income from other Group companies.

Refer to the business review earlier in this 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.

(iii) Leases

Operating leases

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. The Group has entered into a number of non-cancellable operating lease arrangements for properties and other assets. The leases have varying terms, escalation values and renewal rights.

Operating lease payments, including the effects of any lease incentives, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

8b. Operating expenses and share scheme charges

	31 December 2016		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts*1	**98.0**	**(75.4)**	**22.6**
Administration and other marketing costs (insurance contracts)	**293.9**	**(222.6)**	**71.3**
Insurance contract expenses	**391.9**	**(298.0)**	**93.9**
Administration and other marketing costs (other)	**206.6**	**—**	**206.6**
Share scheme charges	**50.3**	**(18.4)**	**31.9**
Total expenses and share scheme charges	**648.8**	**(316.4)**	**332.4**

	31 December 2015		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts*1	77.5	(57.8)	19.7
Administration and other marketing costs (insurance contracts)	238.5	(175.1)	63.4
Insurance contract expenses	316.0	(232.9)	83.1
Administration and other marketing costs (other)	188.2	—	188.2
Share scheme charges	43.8	(16.6)	27.2
Total expenses and share scheme charges	548.0	(249.5)	298.5

*1 Acquisition of insurance contracts expense excludes £20.8 million (2015: £14.2 million) of aggregator fees from other Group companies.

The £71.3 million (2015: £63.4 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 2016 £m	31 December 2015 £m
Expenses relating to additional products and fees	**49.9**	43.0
Price comparison operating expenses	**132.1**	123.6
Other expenses	**24.6**	21.6
Total	**206.6**	188.2

Refer to note 12 for a reconciliation between insurance contract expenses and the reported expense ratio.

8c. Staff costs and other expenses

	31 December 2016		31 December 2015	
	Total £m	**Net £m**	Total £m	Net £m
Salaries	**203.7**	**79.4**	179.6	67.6
Social security charges	**18.8**	**7.6**	16.2	6.9
Pension costs	**6.8**	**2.3**	5.6	2.0
Share scheme charges (see note 8f)	**50.3**	**31.9**	43.8	27.2
Total staff expenses	**279.6**	**121.2**	245.2	103.7
Depreciation charge:				
– Owned assets	**8.6**	**3.3**	7.9	2.1
– Leased assets	**1.9**	**0.5**	0.3	0.1
Amortisation charge:				
– Software	**12.6**	**4.1**	6.1	3.1
– Deferred acquisition costs	**—**	**43.2**	—	34.0
Operating lease rentals:				
– Buildings	**13.3**	**4.2**	14.0	4.5
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	**0.2**	**0.2**	0.4	0.3
– Fees payable for audit related assurance services pursuant to legislation or regulation	**0.2**	**0.1**	—	—
– Fees payable for other services*1	**—**	**—**	0.4	0.1
Analysis of fees paid to the auditor for other services:				
– Tax compliance services	**—**	**—**	0.1	—
– Tax advisory services	**—**	**—**	0.1	—
– Other services	**—**	**—**	0.2	0.1
Total as above	**—**	**—**	0.4	0.1

*1 Fees payable to the auditor for other services in year ended 31 December 2015 were paid to the previous auditor, KPMG LLP.

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 2016 was 82% (2015: 88%).

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

8d. Staff numbers (including Directors)

	Average for the year	
	2016 Number	2015 Number
Direct customer contact staff	**5,993**	5,868
Support staff	**2,605**	1,989
Total	**8,598**	7,857

8e. Directors' remuneration

(i) Directors' remuneration

	31 December 2016 £m	31 December 2015 £m
Directors' emoluments	**1.6**	1.7
Amounts receivable under SIP and DFSS share schemes	**0.4**	0.3
Company contributions to money purchase pension plans	**—**	—
Total	**2.0**	2.0

(ii) Number of Directors

	2016 Number	2015 Number
Retirement benefits are accruing to the following number of Directors under:		
– Money purchase schemes	**2**	2
– Defined benefit schemes	**—**	—

8f. Staff share schemes

Analysis of share scheme costs (per the Consolidated Income Statement):

	31 December 2016 £m	31 December 2015 £m
SIP charge (i)	**9.9**	8.7
DFSS charge (ii)	**22.0**	18.5
Total share scheme charges	**31.9**	27.2

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 (2016: £50.3 million; 2015: £43.8 million) and the gross credit to reserves reported in the Consolidated Statement of Changes in Equity (2016: £33.2 million; 2015: £29.5 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 maximum award for each year is £3,600 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 2016 scheme is 3,247,136 (2015 scheme: 3,019,188).

The amount of 2016 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 2016 scheme, 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.

For awards in 2015 and onwards there are now three performance conditions which the 50% not guaranteed to vest are subject to. These are three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE, weighted equally.

Performance measure	Performance range	
	Threshold	Maximum
EPS growth vs. LIBOR	Growth in line with LIBOR	Growth of 10% p.a. in excess of LIBOR
TSR vs. FTSE 350 (excluding investment companies)	Median	Upper Quartile
ROE	25%	55%

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 2016

	Awards outstanding*1	Vesting date
SIP H213 scheme	514,500	March 2017
SIP H114 scheme	575,016	September 2017
SIP H214 scheme	536,613	March 2018
SIP H115 scheme	636,612	August 2018
SIP H215 scheme	523,877	March 2019
SIP H116 scheme	501,785	September 2019
DFSS 2014 scheme 1st award	203,292	March 2017
DFSS 2014 scheme 2nd award	2,481,806	September 2017
DFSS 2015 scheme 1st award	190,275	March 2018
DFSS 2015 scheme 2nd award	2,828,913	September 2018
DFSS 2016 scheme 1st award	199,346	March 2019
DFSS 2016 scheme 2nd award	3,047,790	September 2019
Total awards committed	**12,239,825**	

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

During the year ended 31 December 2016, awards under the SIP H212 and H113 schemes and the DFSS 2013 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 2016

	Original awards	Awards vested
SIP H212 scheme	533,792	417,312
SIP H113 scheme	603,432	455,648
DFSS 2013 scheme 1st award	173,348	108,227
DFSS 2013 scheme 2nd award	2,175,665	1,432,540

The weighted average market share price at the date of exercise for shares exercised during the year was £20.09 (2015: £15.42).

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.

9b. Taxation

	31 December 2016 £m	31 December 2015 £m
Current tax		
Corporation tax on profits for the year	**53.2**	70.9
(Over) provision relating to prior periods	**(1.0)**	(1.0)
Current tax charge	**52.2**	69.9
Deferred tax		
Current period deferred taxation movement	**7.2**	7.5
Under/(Over) provision relating to prior periods	**4.9**	(0.5)
Total tax charge per Consolidated Income Statement	**64.3**	76.9

Factors affecting the total tax charge are:

	31 December 2016 £m	31 December 2015 £m
Profit before tax	**278.4**	368.7
Corporation tax thereon at effective UK corporation tax rate of 20.0% (2015: 20.25%)	**55.7**	74.7
Expenses and provisions not deductible for tax purposes	**0.8**	1.4
Non-taxable income	**(7.2)**	(4.8)
Impact of change in UK tax rate on deferred tax balances	—	0.3
Adjustments relating to prior periods	**3.2**	(1.5)
Impact of different overseas tax rates	**(7.0)**	(12.9)
Unrecognised deferred tax	**18.9**	19.7
Other differences	**(0.1)**	—
Total tax charge for the period as above	**64.3**	76.9

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 2015	**4.8**	**4.6**	**13.4**	**0.1**	**22.9**
Tax treatment of share scheme charges through income or expense	(2.4)	—	—	—	(2.4)
Tax treatment of share scheme charges through reserves	4.7	—	—	—	4.7
Capital allowances	—	(1.9)	—	—	(1.9)
Carried forward losses	—	—	(3.5)	—	(3.5)
Other difference	—	—	—	0.8	0.8
Balance carried forward at 31 December 2015	**7.1**	**2.7**	**9.9**	**0.9**	**20.6**
Tax treatment of share scheme charges through income or expense	(1.9)	—	—	—	(1.9)
Tax treatment of share scheme charges through reserves	0.5	—	—	—	0.5
Capital allowances	—	(5.1)	—	—	(5.1)
Carried forward losses	—	—	(5.0)	—	(5.0)
Other difference	—	—	—	(0.7)	(0.7)
Balance carried forward at 31 December 2016	**5.7**	**(2.4)**	**4.9**	**0.2**	**8.4**

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

The UK corporation tax rate reduced from 21% to 20% on 1 April 2015. The average effective rate of tax for 2016 is 20.00% (2015: 20.25%). Further reductions to the main rate of corporation tax to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were enacted on 26 October 2015 and 15 September 2016 respectively. This will reduce the Group's future current tax charge accordingly.

The deferred tax asset at 31 December 2016 has been calculated based on the rate at which each timing difference is most likely to reverse.

The deferred tax asset relating to carried forward losses of £4.9 million relates to losses incurred in the Group's US price comparison business compare.com, and is calculated at the local US rate of tax (35%). 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.

At 31 December 2016 the Group had unused tax losses amounting to £142.7 million (2015: £89.6 million), relating to the Group's US businesses Elephant Auto and compare.com, 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 2016 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 6.5% (2015: 5.9%), based on the Group's weighted average cost of capital, which is in line with the market (source: Bloomberg).

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.

(v) Provisions, contingent liabilities and contingent assets

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

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

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

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 2015	24.9	39.5	14.0	7.8	86.2
Additions	0.8	8.8	1.2	0.4	11.2
Disposals	—	(0.5)	—	—	(0.5)
At 31 December 2015	25.7	47.8	15.2	8.2	96.9
Depreciation					
At 1 January 2015	7.6	29.7	11.6	5.0	53.9
Charge for the year	2.4	3.8	1.0	1.0	8.2
Disposals	—	(0.1)	—	—	(0.1)
At 31 December 2015	10.0	33.4	12.6	6.0	62.0
Net book amount					
At 1 January 2015	17.3	9.8	2.4	2.8	32.3
Net book amount					
At 31 December 2015	15.7	14.4	2.6	2.2	34.9
Cost					
At 1 January 2016	25.7	47.8	15.2	8.2	96.9
Additions	1.3	3.4	1.1	0.8	6.6
Disposals	—	—	(0.2)	—	(0.2)
Foreign exchange movement	0.6	0.9	0.9	0.4	2.8
At 31 December 2016	27.6	52.1	17.0	9.4	106.1
Depreciation					
At 1 January 2016	10.0	33.4	12.6	6.0	62.0
Charge for the year	2.0	6.5	1.0	1.0	10.5
Disposals	—	—	(0.1)	—	(0.1)
Foreign exchange movement	0.4	0.6	0.6	0.1	1.7
At 31 December 2016	12.4	40.5	14.1	7.1	74.1
Net book amount					
At 31 December 2016	**15.2**	**11.6**	**2.9**	**2.3**	**32.0**

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

	31 December 2016 £m	31 December 2015 £m
Computer equipment	**4.4**	5.7

10c. Intangible assets

	Goodwill £m	Deferred acquisition costs*1 £m	Software*2 £m	Total £m
At 1 January 2015	62.3	14.8	30.1	107.2
Additions	—	35.8	39.5	75.3
Amortisation charge	—	(34.0)	(6.1)	(40.1)
Disposals	—	—	(0.1)	(0.1)
At 31 December 2015	62.3	16.6	63.4	142.3
Additions	—	48.5	24.6	73.1
Amortisation charge	—	(43.2)	(12.6)	(55.8)
Disposals	—	—	(0.3)	(0.3)
Foreign exchange movement	—	1.5	1.5	3.0
At 31 December 2016	**62.3**	**23.4**	**76.6**	**162.3**

*1 Deferred acquisition costs additions and amortisation charges from prior periods have been re-presented to reflect appropriate net of reinsurance movements in each period. There are no changes to the carried forward or brought forward deferred acquisition costs balance for any period.

*2 Software additions include £21.1 million relating to internal development (2015: £31.3 million)

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 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. Insurance and other receivables

	31 December 2016 £m	31 December 2015 £m
Insurance receivables*1	**606.6**	437.0
Trade receivables	**172.4**	92.1
Prepayments and accrued income	**5.9**	8.0
Total insurance and other receivables	**784.9**	537.1

*1 Insurance receivables at 31 December 2016 includes £37.7 million in respect of salvage and subrogation recoveries.

10e. Trade and other payables

	31 December 2016 £m	31 December 2015 £m
Trade payables	**35.6**	35.1
Amounts owed to co-insurers	**247.5**	186.9
Amounts owed to reinsurers	**690.5**	577.8
Finance leases due within 12 months	**0.1**	2.8
Other taxation and social security liabilities	**40.1**	28.3
Other payables	**112.4**	88.5
Accruals and deferred income (see below)	**166.0**	95.6
Total trade and other payables	**1,292.2**	1,015.0

Of amounts owed to reinsurers, £610.1 million (2015: £554.3 million) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2016 £m	31 December 2015 £m
Premium receivable in advance of policy inception	**92.4**	53.1
Accrued expenses	**53.1**	24.4
Deferred income	**20.5**	18.1
Total accruals and deferred income as above	**166.0**	95.6

10f. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2016			At 31 December 2015		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**0.1**	—	**0.1**	2.8	—	2.8
Between one and five years	—	—	—	—	—	—
More than five years	—	—	—	—	—	—
	0.1	—	**0.1**	2.8	—	2.8

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 2016 £m	31 December 2015 £m
Minimum payments due on operating leases		
Within one year	**12.0**	10.4
Within two to five years	**42.1**	37.0
Over five years	**119.3**	125.1
Total commitments	**173.4**	172.5

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

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 2016 £m	31 December 2015 £m
March 2015 (49.0 pence per share, paid May 2015)	—	134.4
August 2015 (51.0 pence per share, paid October 2015)	—	140.2
March 2016 (63.4 pence per share, paid June 2016)	**175.4**	—
August 2016 (62.9 pence per share, paid October 2016)	**174.4**	—
Total dividends	**349.8**	274.6

The dividends declared in March represent the final dividends paid in respect of the 2014 and 2015 financial years. The dividends declared in August are interim distributions in respect of 2015 and 2016.

A final dividend of 51.5 pence per share (£144 million) has been proposed in respect of the 2016 financial year. Refer to the Chairman's Statement and Strategic Report for further detail.

11c. Earnings per share

	31 December 2016 £m	31 December 2015 £m
Profit for the financial year after taxation attributable to equity shareholders	**222.2**	300.0
Weighted average number of shares – basic	**282,419,324**	279,627,738
Unadjusted earnings per share – basic	**78.7p**	107.3p
Weighted average number of shares – diluted	**283,033,681**	280,018,741
Unadjusted earnings per share – diluted	**78.5p**	107.1p

The difference between the basic and diluted number of shares at the end of 2016 (being 614,357; 2015: 391,003) 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 2016 £m	31 December 2015 £m
Authorised		
500,000,000 ordinary shares of 0.1 pence	**0.5**	0.5
Issued, called up and fully paid		
284,352,270 ordinary shares of 0.1 pence	**0.3**	—
281,587,953 ordinary shares of 0.1 pence	—	0.3
	0.3	0.3

During 2016 2,764,317 (2015: 2,898,211) new ordinary shares of 0.1 pence were issued to the trusts administering the Group's share schemes.

764,317 (2015: 948,211) 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 2016 of 8,944,922 (31 December 2015: 8,180,605). These shares are entitled to receive dividends.

2,000,000 (2015: 1,950,000) 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 2016 of 16,811,948 (31 December 2015: 14,811,948). 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. There is one class of share with no unusual restrictions.

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.

11f. Group related undertakings

The Parent Company's subsidiaries are as follows:

Subsidiary	Class of shares held	% Ownership	Principal activity
Incorporated in England and Wales			
Registered office: 9th Floor Brunel House, Fitzalan Road, Cardiff, CF24 0EB			
Admiral Law Limited	Ordinary	90	Legal company
Registered office: Admiral House, Queensway, Newport, NP20 4AG			
BDE Law Limited	Ordinary	90	Legal company
Registered office: Capital Tower, Greyfriars Road, Cardiff, CF10 3AZ			
EUI Limited	Ordinary	100	Insurance Intermediary
Registered office: Ellipse Ground Floor, Padley Road, Swansea, SA1 8AN			
Able Insurance Services Limited	Ordinary	100	Insurance Intermediary
Registered office: Greyfriars House, Greyfriars Road, Cardiff, CF10 3AL			
Inspop.com (France) Limited	Ordinary	100	Insurance Intermediary
Inspop.com Limited	Ordinary	100	Insurance Intermediary
Rastreator.com Limited	Ordinary	75	Insurance Intermediary
Registered office: Tŷ Admiral, David Street, Cardiff, CF10 2EH			
Admiral Insurance Company Limited	Ordinary	100	Insurance company
Admiral Life Limited	Ordinary	100	Dormant
Admiral Syndicate Limited	Ordinary	100	Dormant
Admiral Syndicate Management Limited	Ordinary	100	Dormant
Bell Direct Limited	Ordinary	100	Dormant
Confused.com Limited	Ordinary	100	Dormant
Diamond Motor Insurance Services Limited	Ordinary	100	Dormant
Elephant Insurance Services Limited	Ordinary	100	Dormant
Admiral Financial Services Limited	Ordinary	100	Financial services company
EUI (France) Limited	Ordinary	100	Insurance Intermediary
Preminen Price Comparison Holdings Limited	Ordinary	50	Insurance Intermediary
Preminen Dragon Price Comparison Limited	Ordinary	50 (indirect)	Insurance Intermediary
Incorporated in Gibraltar			
Registered office: 1st Floor, 24 College Lane, Gibraltar, GX11 1AA			
Admiral Insurance (Gibraltar) Limited	Ordinary	100	Insurance company
Incorporated in India			
Registered office: 514 JMD Regent Square, Mehrauli Gurgaon Road, Gurgaon, 122001, India			
Inspop Technologies Private Limited	Ordinary	100	Internet technology supplier
Incorporated in Spain			
Registered office: Paseo Castellana 163 4 Izq, 28046 Madrid			
Comparaseguros Correduría de Seguros, S.L., Sociedad Unipersonal	Ordinary	75 (indirect)	Insurance Intermediary
Incorporated in the United States of America			
Registered office: Deep Run 1; Suite 400, 9950 Mayland Drive, Henrico, VA 23233			
Elephant Insurance Company	Ordinary	100	Insurance company
Elephant Insurance Services LLC	Ordinary	100	Insurance Intermediary
Registered office: 140 East Shore Drive, Suite 300, Glen Allen, VA 23059			
comparenow.com Insurance Agency LLC	Ordinary	71.1 (indirect)	Insurance Intermediary
Inspop USA LLC	Ordinary	71.1	Insurance Intermediary
Incorporated in China			
Registered office: Room 1806, Block 16 Jianwai SOHO, No. 39 East 3rd Ring Road, Chaoyang District, Beijing			
Long Yu Science and Technology (Beijing) CO., Limited	Ordinary	20.5 (indirect)	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 will be disclosed in the Directors' Remuneration Report in the Group's 2016 Annual Report.

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 gross premiums written and Other Revenue as per the financial statements

	31 December 2016 £m	31 December 2015 £m
Gross premiums written after co-insurance per note 5b of financial statements	**1,482.0**	1,199.9
Premiums underwritten through co-insurance arrangements	**711.9**	605.3
Total premiums written before co-insurance arrangements	**2,193.9**	1,805.2
Other Revenue per note 7b of financial statements	**360.6**	319.8
	2,554.5	2,125.0
UK vehicle commission*1	**(20.9)**	(31.8)
Other*2	**21.4**	11.4
Turnover as per note 4b of financial statements	**2,555.0**	2,104.6
Intra-group income elimination*3	**20.8**	14.2
Total turnover	**2,575.8**	2,118.8

*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.

*3 Intra-group income elimination relates to price comparison income earned in the Group from other Group companies.

12b. Reconciliation of claims incurred to reported loss ratios, excluding releases on commuted reinsurance

	31 December 2016			31 December 2015		
	UK Car	**International Car**	**Group**	UK Car	International Car	Group
	£m	**£m**	**£m**	£m	£m	£m
Net insurance claims	**290.1**	**76.5**	**394.5**	150.5	51.6	226.5
Net claims handling expenses	**(11.0)**	**—**	**(11.2)**	(9.4)	—	(9.4)
Reinsurer cap impact	**—**	**(6.4)**	**(6.4)**	—	(2.9)	(2.9)
Reserve releases on commuted reinsurance	**17.1**	**—**	**17.1**	88.8	—	88.8
Other adjustment*1	**—**	**(1.0)**	**(1.0)**	—	(0.6)	(0.6)
Adjusted net claims	**296.2**	**69.1**	**393.0**	229.9	48.1	302.4
Net insurance premium revenue	**404.3**	**94.3**	**548.8**	358.6	64.5	467.0
Other adjustment*1	**—**	**(3.0)**	**(3.0)**	—	(2.2)	(2.2)
Adjusted net insurance premium revenue	**404.3**	**91.3**	**545.8**	358.6	62.3	464.8
Reported loss ratio	**73.3%**	**75.7%**	**72.0%**	64.1%	77.2%	65.1%

*1 Other adjustments relate to additional products underwritten in the Group's international car insurance businesses. The contribution from these products is reported as ancillary income and as such the amounts are excluded for the purpose of calculation of loss and expense ratios.

12c. Reconciliation of expenses related to insurance contracts to reported expense ratios

	31 December 2016			31 December 2015		
	UK Car	**International Car**	**Group**	UK Car	**International Car**	Group
	£m	**£m**	**£m**	£m	**£m**	£m
Net insurance expenses	**46.2**	**41.1**	**94.0**	41.5	37.0	83.1
Net claims handling expenses	**11.0**	**—**	**11.2**	9.4	—	9.4
Reinsurer cap impact	**—**	**(1.5)**	**(1.5)**	—	(9.8)	(9.8)
Intra-group expenses elimination*1	**13.7**	**7.1**	**20.8**	9.5	4.7	14.2
Other adjustment*2	**—**	**(2.0)**	**(2.0)**	—	(1.6)	(1.6)
Adjusted net expenses	**70.9**	**44.7**	**122.5**	60.4	30.3	95.3
Net insurance premium revenue	**404.3**	**94.3**	**548.8**	358.6	64.5	467.0
Other adjustment*1	**—**	**(3.0)**	**(3.0)**	—	(2.2)	(2.2)
Adjusted net insurance premium revenue	**404.3**	**91.3**	**545.8**	358.6	62.3	464.8
Reported expense ratio	**17.5%**	**49.0%**	**22.4%**	16.9%	48.6%	20.5%

*1 The intra-group expenses elimination amount relates to aggregator fees charged by the Group's price comparison entities to other Group companies.

*2 Other adjustments relate to additional products underwritten in the Group's international car insurance businesses. The contribution from these products is reported as ancillary income and as such the amounts are excluded for the purpose of calculation of loss and expense ratios.

12d. Reconciliation of statutory profit before tax to Group's share of profit before tax

	31 December 2016 £m	31 December 2015 £m
Statutory profit before tax per the Consolidated Income Statement	**278.4**	368.7
Non-controlling interest share of profit before tax	**5.9**	8.1
Group's share of profit before tax (Post Ogden)	**284.3**	376.8
Impact of reduction in UK Ogden discount rate	**105.4**	—
Group's share of profit before tax (Pre Ogden)	**389.7**	376.8

13. Statutory Information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Consolidated financial summary

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

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Total premiums	**2,193.9**	1,805.2	1,675.6	1,737.6	1,897.2
Net insurance premium revenue	**548.8**	467.0	464.9	483.0	498.9
Other Revenue	**360.6**	319.8	332.5	327.8	361.1
Profit commission	**54.3**	85.4	71.8	99.3	108.4
Investment and interest income	**53.1**	32.6	15.4	14.3	15.9
Net revenue	**1,016.8**	904.8	884.6	924.4	984.3
Net insurance claims	**(394.6)**	(226.5)	(259.1)	(303.0)	(404.5)
Net expenses	**(332.4)**	(298.5)	(270.2)	(251.2)	(235.2)
Operating profit	**289.8**	379.8	355.3	370.2	344.6
Finance costs	**(11.4)**	(11.1)	(4.6)	—	—
Profit before tax	**278.4**	368.7	350.7	370.2	344.6

Balance sheet

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Property and equipment	**32.0**	34.9	32.3	12.4	16.5
Intangible assets	**162.3**	142.3	107.2	92.8	92.5
Deferred income tax	**8.4**	20.6	22.9	17.0	15.2
Reinsurance assets	**1,126.4**	878.7	829.8	821.2	803.0
Insurance and other receivables	**784.9**	537.1	435.3	445.6	458.8
Financial investments	**2,420.2**	2,323.5	2,194.1	1,896.9	1,601.6
Cash and cash equivalents	**326.6**	265.3	255.9	187.9	216.6
Total assets	**4,860.8**	4,202.4	3,877.5	3,473.8	3,204.2
Equity	**581.7**	632.9	580.9	524.1	460.7
Insurance contracts	**2,749.5**	2,295.0	2,097.4	1,901.3	1,696.9
Subordinated and other financial liabilities	**224.0**	223.9	203.8	—	—
Trade and other payables	**1,292.2**	1,015.0	965.8	1,013.7	1,006.5
Current tax liabilities	**13.4**	35.6	29.6	34.7	40.1
Total equity and total liabilities	**4,860.8**	4,202.4	3,877.5	3,473.8	3,204.2

Alternative Performance Measures

Throughout this report, the Group uses a number of Alternative Performance Measures (APMs); measures that are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements.

These APMs are used by the Group, alongside GAAP measures, for both internal performance analysis and to help shareholders and other users of the Annual Report and financial statements to better understand the Group's performance in the period in comparison to previous periods and the Group's competitors.

The table below defines and explains the primary APMs used in this report. Financial APMs are usually derived from financial statement items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated. Non financial KPIs incorporate information that cannot be derived from the financial statements but provide further insight into the performance and financial position of the Group.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

Turnover	Turnover is defined as total premiums written (as below) and other revenue. It is reconciled to financial statement line items in note 12a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the revenue generated by the Group and analysis of this measure over time provides a clear indication of the growth in this revenue. The measure was developed as a result of the Group's business model. The core UK Car insurance business has historically shared a significant proportion of the risks with Munich Re, a third party insurance Group, through a co-insurance arrangement, with the arrangement subsequently being replicated in some of the Group's international insurance operations. Premiums, and claims accruing to the external co-insurer are not reflected in the Group's income statement and therefore presentation of this metric enables users of the Annual Report to see the scale of the Group's insurance operations in a way not possible from taking the income statement in isolation.
Total Premiums Written	Total premiums written are the premiums written within the Group, including co-insurance. It is reconciled to financial statement line items in note 12a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the total premiums written by the Group's insurance intermediaries and analysis of this measure over time provides a clear indication of the growth in premiums, irrespective of how co-insurance agreements have changed over time. The reasons for presenting this measure are consistent with that for the Turnover APM noted above.

Group's share of Profit before Tax	Group profit before tax represents the Group's share of profit before tax, excluding the impact of Non-controlling Interests. It is reconciled to statutory profit before tax in note 12d to the financial statements. This measure is useful in presenting the limit of the Group's exposure to the expenditure incurred in starting up new businesses and demonstrates the 'test-and-learn' strategy employed by the Group to expansion into new territories. In 2016, Group's share of Profit before Tax is presented on a 'Pre Ogden' and a 'Post Ogden basis. 'Pre Ogden' represents the Group's share of profit before tax before the impact of the reduction in the UK Ogden discount rate confirmed by the Lord Chancellor in February 2017.
Underwriting result (profit or loss)	For each insurance business an underwriting result is presented showing the segment result prior to the inclusion of profit commission, other income contribution and instalment income. It demonstrates the insurance result, i.e. premium revenue and investment income less claims incurred and insurance expenses.
Loss Ratio	Reported loss ratios are expressed as a percentage of claims incurred divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 12b to the accounts and explanation is as follows. UK reported motor loss ratio: Within the UK insurance segment we separately present motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the impact of reserve releases on commuted reinsurance contracts and ii) exclude claims handling costs that are reported within claims costs in the income statement. International insurance loss ratio: As for the UK motor loss ratio, the international insurance loss ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to exclude the claims element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer claims costs would distort the underlying performance of the business. Group loss ratios: Group loss ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) exclude the impact of reserve releases on commuted reinsurance contracts, ii) exclude claims handling costs that are reported within claims costs in the income statement and iii) exclude the claims element of the impact of international reinsurer caps.

Expense Ratio	Reported expense ratios are expressed as a percentage of net operating expenses divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 12c to the accounts and explanation is as follows. UK reported motor expense ratio: Within the UK insurance segment we separately present motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) include claims handling costs that are reported within claims costs in the income statement and ii) include intra-group aggregator fees charged by the UK price comparison business to the UK insurance business. International insurance expense ratio: As for the UK motor loss ratio, the international insurance expense ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the expense element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer expenses would distort the underlying performance of the business and ii) include intra-group aggregator fees charged by the overseas price comparison businesses to the international insurance businesses. Group expense ratios: Group expense ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) include claims handling costs that are reported within claims costs in the income statement, ii) include intra-group aggregator fees charged by the Group's price comparison businesses to the Group's insurance businesses and iii) exclude the expense element of the impact of international reinsurer caps.
Combined Ratio	Reported combined ratios are the sum of the loss and expense ratios as defined above. Explanation of these figures is noted above and reconciliation of the calculations are provided in notes 12b and 12c.
Return on Equity	Return on equity is calculated as profit before tax for the period attributable to equity holders of the Group divided by the average total equity attributable to equity holders of the Group in the year. This average is determined by dividing the opening and closing positions for the year by two. The relevant figures for this calculation can be found within the Statement of Changes in Equity.
Group Customers	Group customer numbers are the total number of car, household and van policyholders within the Group This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the Group's customer base and analysis of this measure over time provides a clear indication of the growth. It is also a useful indicator of the growing significance to the Group of the different lines of business and geographic regions.
Effective Tax Rate	Effective tax rate is defined as the approximate tax rate derived from dividing the Group's profit before tax by the tax charge going through the income statement. It is a measure historically presented by the Group and enables users to see how the tax cost incurred by the Group compares over time and to current corporation tax rates.