Admiral Group plc

Working together for 20 years

About us

The Group's core UK car insurance business launched in 1993 and the Group has grown every year since. In the UK, the Group has an 11% share of private car insurance through four brands: Admiral, Elephant, Diamond and Bell. It also owns Confused.com, one of the leading UK price comparison websites. Outside the UK, Admiral operates car insurance businesses in Spain, Italy, France and the USA which now insure over 430,000 vehicles.

The Group also owns price comparison businesses in Spain, France and the USA. At the end of 2012 Admiral had 3.6 million customers in five countries. It employs over 6,500 people in eight countries.

Admiral's recent achievements include:

GREAT PLACE TO WORK® Best Workplaces 2012 Category: Large United Kingdom	**Winner** **Best Large UK Workplace 2012**
GREAT PLACE TO WORK® Best Workplaces 2012 Europe	**4th** **Best European Workplace 2012**
THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2012	**6th** **Best UK Companies to Work For 2012**

"We have a simple philosophy at Admiral: if people like what they do, they'll do it better. So we go out of our way to make this a good place to work. The result: happier staff, record profits."
Henry Engelhardt, CEO

Admiral

The Admiral Group celebrates its 20th birthday this year.
Turn to pages 2 and 3 to discover some of the key moments defining our success.

Financial Highlights

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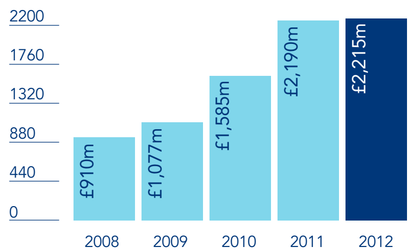
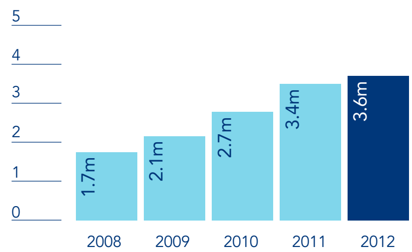
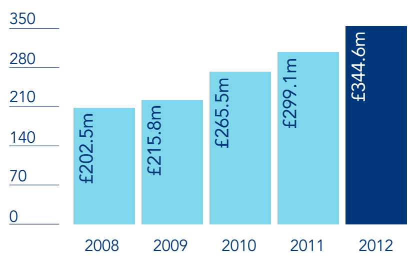
Turnover
£2,215m



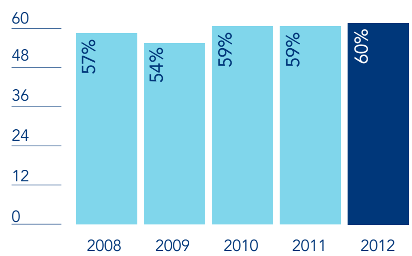
Vehicles insured
3.6m



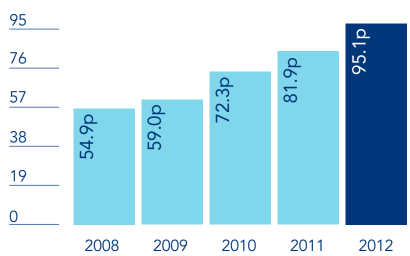
Profit before tax
£344.6m



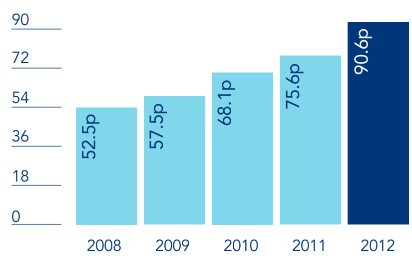
Return on capital
60%



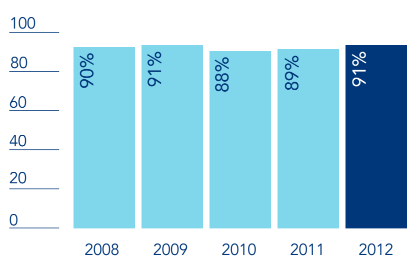
Earnings per share
95.1p



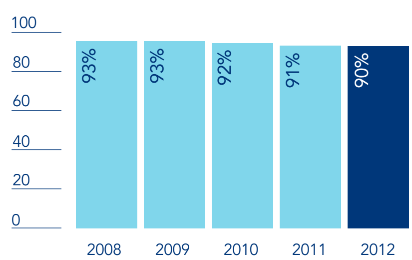
Full year dividend
90.6p



Staff satisfaction: I am happy at Admiral
91%



Following a claim, I would renew with Admiral
90%



Find out more
www.admiralgroup.co.uk

Admiral's 20 Years of Growth, 1993-2012

1993
2 January
Admiral launches in Cardiff with just one brand, zero insured vehicles and 57 members of staff. The first policy is sold over the telephone at 9.10am.

1993
2 August
The first ever Admiral TV commercial is broadcast.

1995
Admiral's website goes live.

1997
Admiral launches its Diamond and Bell Direct brands.

1998
Gladiator launches as a commercial vehicle insurance intermediary selling van insurance on behalf of a panel of insurers.

1999
Successful management buy-out of Admiral from the Brockbank Group, then owned by XL Capital Ltd. Barclays Private Equity backs the MBO.

Admiral enters into co- and re-insurance arrangements with Munich Re and Swiss Re. Both remain partners of Admiral today.

2000
Admiral launches its fifth brand, elephant.co.uk.

2002
Confused.com launches, as the Group's sixth brand and the UK's first car insurance price comparison website.

Munich Re acquires an 18.6% shareholding and Admiral's debt is refinanced with Lloyds TSB.

2004
On 23 September, Admiral floats on the London Stock Exchange with a share price of £2.75 and market capitalisation of £711 million.

2005
Admiral launches MultiCar, enabling UK customers to insure two or more cars on the same policy, with all cars eligible for a discount.

2006
Balumba.es launches in Seville, selling car insurance in Spain.

2007
AdmiralDirekt.de launches in Cologne, selling car insurance in Germany.

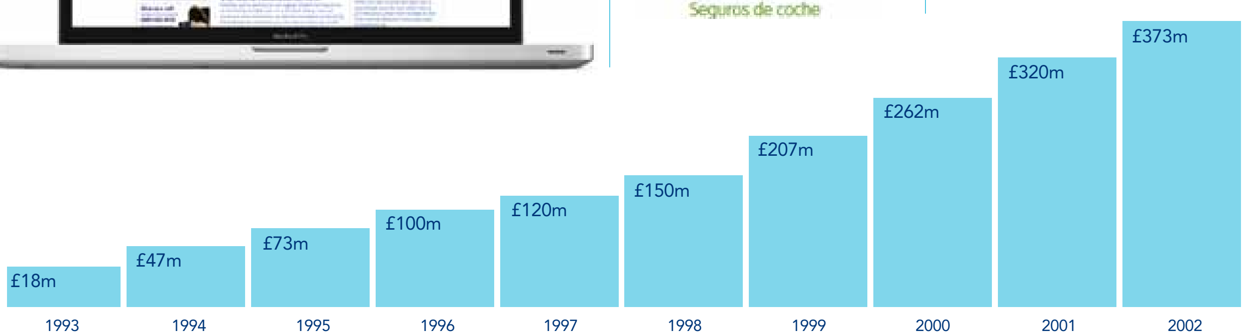
On 12 December, Admiral joins the FTSE 100 with a share price of £10.93 and market capitalisation of £2.9 billion.

2008
Conte.it launches in Rome, selling car insurance in Italy.

2009
Rastreator.com, a car insurance price comparison website, launches in Madrid, Spain.

Elephant Auto Insurance launches in Richmond, Virginia selling car insurance in the United States of America. Today it operates in Virginia, Maryland, Illinois and Texas.

Inspop Technologies Pvt. Ltd. launches in Haryana, India, to provide IT support to the Group's price comparison operations.



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2010

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

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

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

2011

AdmiralDirekt.de is sold to Itzehoer Versicherung.

2012

Chiarezza, the Group's Italian price comparison website, is sold to BlackFin Assurance Courtage.

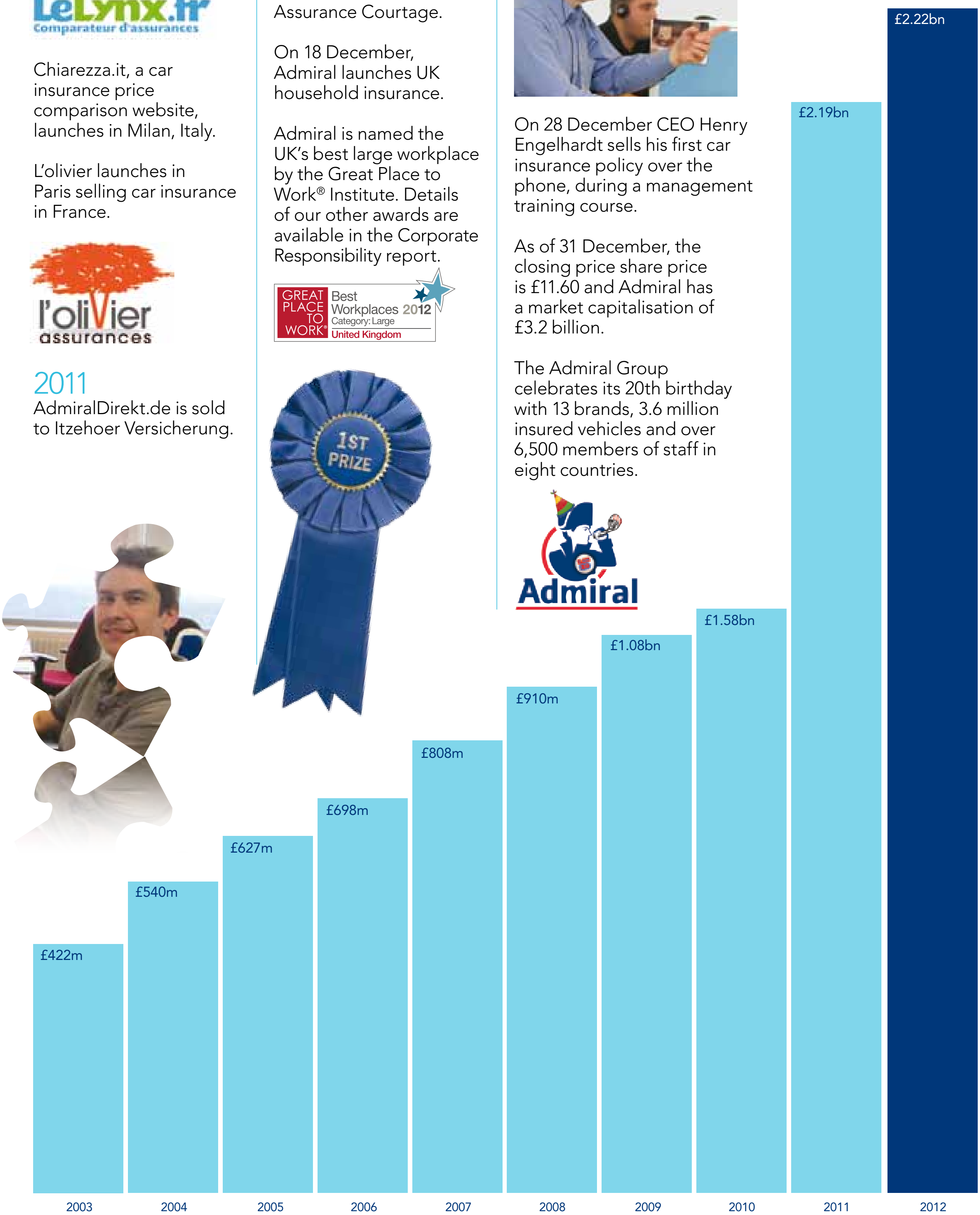
On 18 December, Admiral launches UK household insurance.

Admiral is named the UK's best large workplace by the Great Place to Work® Institute. Details of our other awards are available in the Corporate Responsibility report.

On 28 December CEO Henry Engelhardt sells his first car insurance policy over the phone, during a management training course.

As of 31 December, the closing price share price is £11.60 and Admiral has a market capitalisation of £3.2 billion.

The Admiral Group celebrates its 20th birthday with 13 brands, 3.6 million insured vehicles and over 6,500 members of staff in eight countries.



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Admiral's Markets and Businesses

Admiral is one of the largest and most profitable private car insurers in the UK. The Group also owns Confused.com, one of the UK's leading price comparison websites and Gladiator, a commercial vehicle insurance broker.

Outside the UK, the Group has four car insurance and three price comparison operations.

UK Car Insurance

Highlights

Turnover	Combined ratio
£1,936m	89.7%
2011: £1,966m -2%	2011: 91.3%
Vehicles	Pre-tax profit
3.02m	£372.8m
2011: 2.97m +2%	2011: £313.6m +19%

- The Group's core business is UK private car insurance – it accounts for 87% of turnover and 85% of customers.
- Market share in 2012 was stable at around 11%.
- Profit increased by 19% to £372.8 million.
- Lower combined ratio in 2012 versus 2011 primarily driven by higher reserve releases.

International Car Insurance

Highlights

Turnover	Vehicles
£163m	436,000
2011: £122m +33%	2011: 306,000 +42%
Combined ratio	Pre-tax loss
177%	£24.5m
2011: 164%	2011: Loss £9.5m

- The Group has four car insurers outside the UK, in Spain, Italy, the US and France.
- Continued growth in turnover and customers in each business.
- Combined ratio higher in 2012 versus 2011, predominantly due to growth in less mature markets.

Admiral employees
When an employee joins Admiral they receive a jigsaw piece, from Henry Engelhardt the CEO, to reinforce that every person is part of the Admiral picture.

Geographical locations

1. United Kingdom
Since 1993

2. India
Since 2001

3. Gibraltar
Since 2003

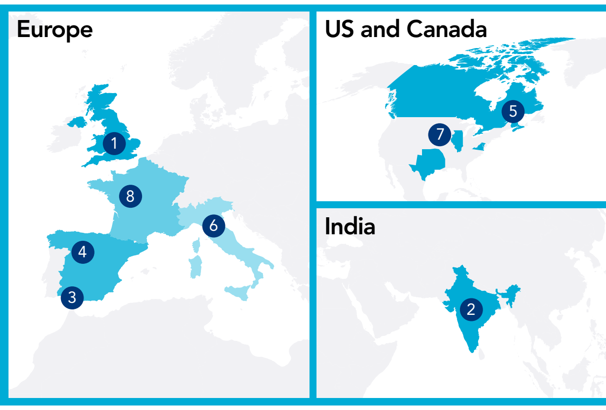
4. Spain
Since 2006

5. Canada
(Halifax, Nova Scotia)
Since 2007

6. Italy
Since 2008

7. US
(Texas, Virginia, Maryland and Illinois)
Since 2009

8. France
Since 2010



Price Comparison

Confused.com   Rastreator.com   LeLynx.fr

UK Highlights

UK revenue
£82.7m
2011: £77.6m +7%

Operating profit
£18.2m
2011: £16.1m +13%

International Highlights

International revenue*
£20.7m
2011: £12.4m +67%

International quotes*
4.3m
2011: 3.3m +29%

- Confused.com generated profit of £18.2 million in a fiercely competitive UK market.
- International price comparison operations grew strongly and improved productivity.
- The Group exited Italian price comparison market with the sale of Chiarezza in April.

* Revenue includes Chiarezza, quotes excludes Chiarezza

Other Group Activities

GLADIATOR

Highlights

Gladiator revenue
£12.5m
2011: £11.7m +7%

Investment & interest income
£15.9m
2011: £13.7m +16%

Gladiator operating profit
£2.5m
2011: £2.8m -11%

Group cash plus investments
£1,818m
2011: £1,393m +31%

- Gladiator decreased profit to £2.5 million due to an increasingly competitive commercial vehicle market.
- The Group remains low-risk in its investment strategy. Investment and interest income increased on higher total cash and investment balances.

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Chairman's statement

Profit before tax
£344.6m

2012	£344.6m
2011	£299.1m

Return on capital
60%

2012	60%
2011	59%

Earnings per share
95.1p

2012	95.1p
2011	81.9p

% of customers who would renew following a claim
90%

2012	90%
2011	91%

In my statement last year I commented that I was very confident, given the quality of our management and our staff, that 2012 would demonstrate their capability and commitment to put the 2011 issue of higher than expected claims behind us and restore lost shareholder value. This confidence has, I believe, been fully justified with pre-tax profits 15% higher at £345m; reserve releases from the 2010 and 2011 years; and a share price that was 36% higher at the end of the year than the start.

This level of profitability delivered a 60% return on capital employed and supported total dividends of 90.6 pence per share, which represents a distribution of 95% of our earnings. Our normal dividend, growing in line with our growth in profits based on a 45% pay-out ratio, amounted to 42.7 pence per share, whilst our available surplus, after taking into account our required solvency, provision for our overseas expansion plans, and a margin for contingencies, made possible a further special dividend of 47.9 pence per share.

Our UK Business

UK motor insurance is cyclical. As rates harden and profitability improves so too interest in growth increases amongst insurers, raising marketing spend; developing new offerings; and, in turn, leading to lower prices to grow share. This phase continues until the market recognises that the new business it is attracting is unprofitable for most, leading to a further turn. It makes good economic sense to grow in the up-cycle and refrain from chasing the market down in the down-cycle. This is even more the case for a player such as Admiral that has a significant combined ratio advantage over the market as a whole and can, therefore, afford to raise rates less quickly than the market as a whole when the cycle turns up. The UK market reached its low point in 2009, a year that saw a totally unsustainable overall market combined ratio of 127%, and then raised rates significantly over the subsequent two years to reflect the increasing cost of claims, in particular those relating to bodily injury. By contrast, in 2009 Admiral had achieved a combined ratio of 94% and was, therefore, able to take advantage of these market conditions to add material growth to its UK motor book, finishing 2011 almost 60% larger than two years previously. Similarly in 2012, as the second largest UK private motor insurer, we have not sought to add to the downward pressure on prices but have been content to hold our share broadly steady.

Alastair Lyons, CBE
Chairman

Admiral has always had a low appetite for risk. This is demonstrated by the fact that we reinsure 75% of our book either through co-insurance or quota share; we only invest in the highest quality assets with no equity exposure; and when we enter new markets we do so slowly through organic growth, adopting a test and learn approach. Nowhere is this low risk appetite more evident than our approach to reserving against motor claims. We establish initial reserves at the prudent end of potential outcomes, reviewing how claims develop in subsequent years and releasing parts of the reserve to profit as and when justified. In our reserving we seek to reflect not only what we know but what may happen, such as potential changes to discount rates and increasing numbers of periodic payment orders. Our approach to reserving is conservative; how conservative will vary with our assessment of the level of uncertainty and volatility to which our business is exposed.

Currently the UK motor market is undergoing significant change – the implementation of the EU gender directive; the OFT referral to the Competition Commission; the banning of referral fees; and the emergence of telematics offerings are all potentially disruptive events. Admiral has, however, built its business to embrace and profit from change, rather than fear it and we have been as transparent as we can as to the likely effects of these changes on our business. The management team has developed a flexible responsive, low-cost, data-rich business model that allows the effect of change to be identified quickly, measured accurately, and responded to effectively. By seeking to minimise bureaucracy, encourage individual managers to use their initiative, and avoid management by committee which leads to an absence of decision-taking and the abrogation of responsibility, we aim to react more quickly than our competitors to changes in our environment. Through our all-employee Free Share scheme we seek to motivate all of our people to work together to achieve the best outcome for what is their business, creating a total alignment between their interests and those of our

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shareholders. We were, therefore, delighted to be named best large UK workplace by the Great Place to Work® Institute in 2012.

The customer is at the centre of everything we do. We design our products and processes in order to meet their needs better than our competitors, and we are now pleased to be able to offer our UK customers household insurance alongside motor insurance. We seek feedback after every interaction in order to learn how we can improve our service. Last year we received over 140,000 individual items of feedback – in the critical area of claims processing over 90% of those claiming under their policy said that they would take motor insurance from us again. All departments have quality scores against their relevant key performance indicators, and compete to win Quality Awards. For customer-facing departments these quality measures underpin the regulatory assessment of our compliance with the principles of Treating Customers Fairly. We fully support initiatives that can reduce the overall cost of providing motor insurance, in turn making possible a reduction in the premiums insurers have to charge their customers. Minimising the potential for fraudulent claims and reducing incidental claims costs both have their part to play.

Admiral Overseas

We have continued to grow our overseas businesses at the measured pace dictated by a strategy of organic growth and within the constraints of the challenging economic environment, particularly as affects southern Europe. We are still very much at the stage of learning how best to compete in each of these markets and shall focus in the near term on building the businesses that we have established over the past six years. When each year I visit our international operations I always know that I am in Admiral, testament to the effectiveness with which our can-do culture, management ethos, and approach to our customers and employees have been exported.

We are already seeing the results of investing in price comparison in new markets in order to kick start the process of change to more active switching of car insurance provider by consumers. Market data shows price comparison growth in Italy, Spain and France and we are delighted to see others being attracted by our initiative to establish their own price comparison sites in markets where we provide motor insurance – the launch of Les Furets in France is a case in point. The more impact price comparison can have the stronger the potential for direct insurance in these markets.

Our Board

Over the past couple of years we have added to our Board beyond its normal size in anticipation of three of our Non-Executive Directors reaching the end of the nine years following which they are no longer regarded as independent under the UK Corporate Governance Code. By structuring this overlap we aim to maintain the continuity of Board process and the strength of personal interaction which underlies the effectiveness of the Board as a team. The first of these, Keith James, stood down at our 2012 AGM although he continues to bring his knowledge of our business and his wise counsel to bear through his chairmanship of our principal UK-regulated operating subsidiaries. May I take this opportunity to thank Keith for everything that he added to our debate during his time on the Board.

I would also like to extend this thanks more generally to all of our Non-Executives for the time they give and the commitment they make to our business. As our business expands and broadens, and against the backdrop of challenging economics and a demanding regulatory environment, what is expected of Non-Executives, and in particular Committee Chairs, bears little relation to the position that existed when Admiral floated in 2004. During 2012 all Non-Executives visited at least one of our overseas businesses in addition to the normal Board process. It is only by such active engagement with the business and the opportunity to spend time with management across many levels that Non-Executives can gain a real understanding of its underlying health and potential. In a business that has sustained profitable growth as its objective the depth and breadth of management is both the key enabler and the potential greatest inhibitor. Our Board, therefore, aims to assess not only the plans for immediate succession but, at least as, if not more, importantly, the emerging bench strength for five to 10 years time. Throughout 2012 we have had three senior managers join the Board in each of its meetings in order to broaden their understanding of the Group's strategy and Board process and contribute actively to Board deliberations.

Thank You

A business is only as good as its people and every individual has their particular contribution to the success of the whole. It is, therefore, everyone in Admiral across all the various markets and functions that now make up our Group that I must thank for what has been achieved in 2012. Whilst there are many elements to why Admiral is different, for me the most significant is that the management team has been successful in designing a business where the overwhelming majority of those I meet enjoy coming to work and through enjoying what they do, and the environment within which they work, are more successful in what they do. It is, therefore, no surprise that the average length of service of our 20 most senior UK managers is 13 years in a company that is itself just 20 years old. I am confident that this depth of focused knowledge and commitment within a supportive environment will lead to a continued strong performance within our markets.

Alastair Lyons, CBE
Chairman
5 March 2013

Chief Executive's statement

Turnover

£2,215m

2012	£2,215m
2011	£2,190m

Profit before tax

£344.6m

2012	£344.6m
2011	£299.1m

Earnings per share

95.1p

2012	95.1p
2011	81.9p

Full year dividend per share

90.6p

2012	90.6p
2011	75.6p

We've done the heavy lifting: the first 20 years. We've put the hole in the ground and we've got the cranes in place. All that's left to do is to build the metaphorical skyscraper.

We've had our ups and downs, good moments and, well, less good moments, over the first 7,304 days (we started on 2 January 1993 and there have been five leap years along the way, but who's counting?). In 20 years, we've done a lot of car insurance (total turnover? £13 billion, our combined ratio over the first 20 years? 84%), we've had a lot of laughs, lost (quite) a few hairs and gained a few pounds. But the net result is my belief that the next 20 years will make the first 20 seem downright pedestrian for Admiral Group. And if I do my job well, then when the next wave of management takes over, it will inherit a very strong foundation upon which to construct their skyscraper.

Before we attack the next 20 years, let's take a look at the 20th!

In 2012 the return to form of the UK business was heart-warming to all of us. We enjoyed substantial reductions in the actuarial view of best estimate for the back years, which has in turn allowed us to release some reserves and increase the reserve stock for the future. The upshot of all this is a 15% increase in profits at Group level. Nice.

In addition, we did not chase growth. A common misconception seems to surround the question of policyholder growth and profit growth. If one tries to make a simple link between these two it would completely miss the third part of the triangle: margin. Prices in the market fell more than 10% in 2012. We chased it some of the way down but not all the way down. As a result we kept some integrity with regard to margin. We believe that to have chased the market further, such that we could present greater year-end policyholder growth, would have meant sacrificing profit in both the short- and long-term.

Henry Engelhardt, CBE
Chief Executive Officer

The UK car insurance market has, historically, been violently cyclical: some profitable years followed by big losses. There is no reason to believe that the market will stop being cyclical, although the extent of the future violence is as yet unknown. Therefore there will be far better opportunities to grow at the next turn in the cycle, when rates begin going up faster than claims inflation.

Admiral is in the enviable position of being profitable throughout the cycle. This allows us to choose when we grow and how much we grow and what margins we maintain.

It was also a good sign that Confused.com, for the first time in four years, made more profit than the year before. However, the trading environment for Confused will be even more challenging in 2013. The rate of aggregator growth in the market is slowing. This isn't a surprise for two reasons: first, so many people are already using price comparison that there aren't that many new people left! Secondly, as rates tumble in the market consumers get renewal notices with premiums lower than last year. This only serves to dampen their enthusiasm for shopping. Confused is doing a lot of interesting things however to try and insulate itself from the vagaries of the car insurance market. It has, for example, a very sophisticated offering of credit cards and it has developed a very nifty app to help drivers find parking wherever they're at in the UK.

2012 saw Admiral take a big but small step. After 19 years, 11 months and 16 days of having car insurance as the only stand-alone, underwritten product, we launched household insurance in the UK on 18 December, 2012. It's a big step because we have, for the first time, diversified the product range which we underwrite. It's a small step because the business is intended to be very small in the first year or two. Test and learn, test and learn…

The results outside the UK were mixed.

The insurance businesses made some strides towards being growing, profitable, sustainable businesses, however, these strides were not as long as anticipated. Overall the opportunities are well worth the investment but we do need to pick up our game and make more progress, more quickly.

The non-UK price comparison businesses each had a good year. The results for Rastreator and LeLynx, in Spain and France respectively, were better than expected. These two businesses are poised for great things, but achieving greatness is never easy.

2012 Winner Best Large UK Workplace

GREAT PLACE TO WORK® Best Workplaces 2012 Category: Large United Kingdom

Voted 4th Best Workplace in Europe

GREAT PLACE TO WORK® Best Workplaces 2012 Europe

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Following on from the success of Rastreator and LeLynx, just after the end of the year we launched the beta version of a price comparison site in the US, Comparenow.com. Until now no one has done European-style price comparison in the US and so Comparenow will plough new ground. Comparenow is attempting to change normal shopping patterns on a big scale and success is sure to be challenging and exciting in equal parts.

Admiral Group's strategy is not complicated. Based on the premise that the internet is an irresistible force, our strategy is to continue to progress in the UK market while taking what we know and do well, which is internet and telephone delivery of car insurance, beyond the UK. Translation: keep doing what we're doing but do it better than we did it last year.

And that in itself will be challenging because the bar was raised again in 2012 with a new record for profits (which we've done every year since we went public in 2004 and actually a few years before) and a return on capital of 60%.

Financial milestones are great but one of the most rewarding moments of the first 20 years came in 2012 when we were named the best large company to work for in the UK and the 4th best multinational company to work for in Europe, by the Great Place to Work® Institute. We have a simple philosophy at Admiral: if people like what they do, they'll do it better. So we go out of our way to make this a good place to work. The result: happier staff, record profits.

Finally, it was a year marked by a long-overdue action. In the last half of December David Stevens, co-founder and COO, several other senior managers and I went through an entry-level sales training course and then got on the phones with customers. So after 19 years and 50 weeks, I made my first sale!

This experience was a real eye-opener. We all learned a great deal about our business doing this but the biggest learning point was first-hand knowledge of how great the people who work for us are. It was a pleasure to be trained by them, helped by them, play games with them and learn from them. We all came away with a huge respect for our staff's ability to tackle the challenges created by a complicated product, systems, regulation, etc. and still give great customer service every day. We also came away reinforced in our belief that if you treat customers well they appreciate it and will treat you well too.

In sum, 2012 was the year of the kangaroo: it bounced around a little bit but it turns out to be pretty big, strong and energetic with the babies protected in the mother's pouch.

Great. We're off to a good start. Let's get on with the next 20 years.

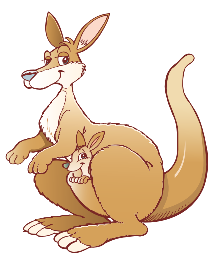
Henry Engelhardt, CBE
Chief Executive Officer
5 March 2013

Our business model

1. **Profitable**
   Focused on delivering year on year growth.
2. **Growing**
   100% organic, long-term approach to growth that adjusts according to market conditions.
3. **Low risk**
   No debt, cash balances conservatively managed and loss protection through the use of co- and reinsurance.
4. **Cash generative**
   Strong cash flow and high dividend payout ratio.
5. **Aligned interests**
   Significant share distribution throughout the organisation.
6. **High return on capital**
   Enabled by a capital light strategy.

Our strategic priorities

1. Grow profitably our share of the UK private motor insurance market.
2. Exploit the knowledge, skills and resources attaching to our established UK businesses to promote our expansion overseas in both private motor and price comparison.
3. Learn by taking relatively small and inexpensive steps to test different approaches and identify the best way forward.
4. Operate a 'capital-light' business model transferring a significant proportion of our underwriting risk to reinsurance partners, which in turn allows Admiral to distribute the majority of our earnings as dividends.
5. Give all our staff a stake in what they create by making them shareholders.
6. Recognise the responsibility we have to the communities of which we are a part.



2012 was the year of the kangaroo: it bounced around a little bit but it turns out to be pretty big, strong and energetic with the babies protected in the mother's pouch.

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UK Car Insurance Review

Twenty years ago, Admiral launched on a grey Saturday in Wales – the seventh of what ultimately became a couple of dozen Direct Line 'clones'; new players and subsidiaries of big, established insurers, copying the over-the-'phone 'cut out the middle man' model. For such a superficially dull industry, those twenty years have seen an astonishing pace of change.

For a start, of the top five private car insurers in 1993, only one made it into the top five in 2011 (Royal, Sun Alliance, AGF, Eagle Star, Direct Line in 1993 – Direct Line, Admiral, Aviva, LV & AXA in 2011).

Back in 1993, one in five customers made a claim each year and almost all of those were for bent metal or car theft. Twenty years on, it's heading towards one in ten making a claim, but most of the cost of those claims is now attributable to 'bodily injury'. Of course, most strikingly, none of the business in 1993 came via the internet, and only a minority over the 'phone. Now, almost three quarters of new customers start their journey on the internet.

But some things don't change. The market average expense ratio in 1993 was 26%. Last year, after two decades of industry consolidation, I.T. investment, adaption of direct distribution, exploitation of the internet, the industry average expense ratio was 26%. Admiral's was 13%; delivering an eighteenth year of better-than-industry average expense ratio, and a tenth year of beating it by over ten percentage points.

Our claims ratio has also bettered industry averages, at least since the millennium. Our rapid rise up the league tables to be the UK's second largest car insurer, by vehicles covered, is all down to this sustained superior underwriting performance over many years.

But that's history. What does the future hold? The headlines (unusually in the popular press, as well as the trade press) are dominated by the current slew of actual and potential legislative and regulatory change – the Competition Commission, hot on the heels of the OFT enquiry, the Jackson reforms, possible further changes to the administration of, and costs associated with bodily injury claims, the banning of gender-based rating, the newly-formed Financial Conduct Authority's focus on value for money add-ons. But it's not the ultimate outcome of this frenetic activity that will determine the health of Admiral's core UK operation in twenty years' time. Current and proposed changes, as long as they're implemented and enforced even-handedly and universally across the market, don't affect relative competitive strength, over anything but the very short-term. Nor do they affect overall industry profitability. It is, as it has always been, the ability to execute better than others in dozens of individually insignificant, but collectively important, ways, and to respond to fundamental underlying changes more quickly and more adeptly than competitors that will be the key to future success.

Late last year, we launched our first major product extension ever, with the launch of household insurance. One question we will be able to answer in twenty years, or possibly sooner, is whether we've developed an industry-beating competence in a second £6 billion market without losing our edge in the ever more massive car insurance market.

In terms of concrete future guidance on household, all I can really say is 'so far, so good'. Ten weeks in. For what that's worth.

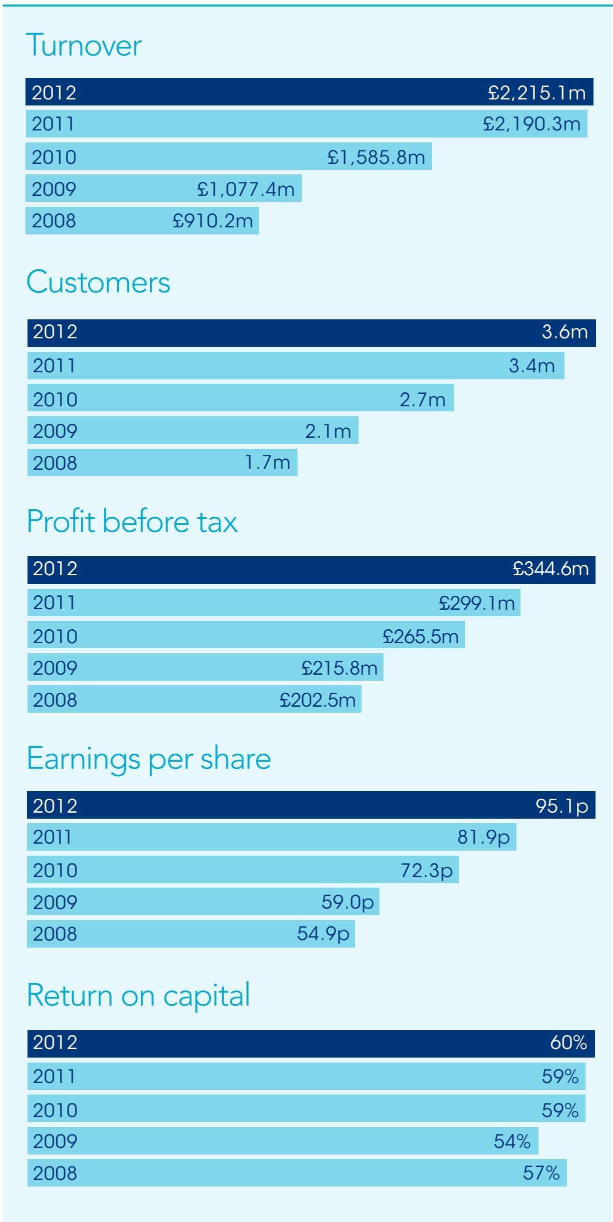
David G. Stevens

David Stevens, CBE
Chief Operating Officer
5 March 2013

David Stevens, CBE
Chief Operating Officer

Business Review

Group Financial Review



Admiral Group grew pre-tax profits in 2012 by 15% to £344.6 million (2011: £299.1 million) and earnings per share by 16% to 95.1 pence (2011: 81.9 pence).

Turnover increased slightly to £2,215.1 million (2011: £2,190.3 million), whilst net revenue rose 13% to £984.3 million (2011: £870.3 million). Customer numbers were 6% higher at the end of 2012 at 3.55 million (2011: 3.36 million).

UK Car Insurance delivered a profit of £372.8 million – up 19% on 2011's result of £313.6 million, primarily driven by higher net insurance premium revenue and an improved combined ratio (along with associated profit commission). Turnover for this core business accounted for 87% of the Group total (2011: 90%) and 85% of customers (2011: 88%). Growth in the UK was moderated in 2012 in response to market conditions in the UK market.

Admiral's international car insurance businesses continue to develop, with turnover rising 33% to £162.9 million (2011: £122.1 million) and customer numbers reaching 435,900 – an increase of 42% on a year earlier. The combined loss from the operations was, however, higher, at £24.5 million (2011: loss of £9.5 million). This was predominantly a result of growth in the younger businesses and some strengthening of back year claims reserves in the more mature businesses.

The Group's UK price comparison business, Confused.com, delivered a pre-tax profit of £18.2 million – around £2 million higher than 2011's result, on 7% higher revenue. Outside the UK, Admiral's international price comparison businesses (Rastreator.com in Spain and LeLynx.fr in France) made a combined loss of only £0.2 million (2011: loss of £5.6 million) whilst combined revenue increased by nearly 70%. The Group sold its Italian price comparison business Chiarezza.it in April 2012.

Admiral's capital-efficient and highly profitable business model led to return on capital employed of 60% (2011: 59%). A key feature of the business model is the extensive use of co- and reinsurance across the Group. During the first half of 2012 Admiral announced extensions to its UK reinsurance arrangements until at least the end of 2014. Admiral's long-term UK co-insurance agreement (covering 40% of the business) runs to at least the end of 2016.

Other Group key performance indicators include:

- Group loss ratio of 78.9%, in line with 2011 (an improved UK loss ratio offsetting a higher international ratio).
- Group expense ratio 17.7%, up from 16.8% in 2011 (an improved UK ratio offset by a higher international ratio).
- Group combined ratio at 96.6% (2011: 95.7%).

Total dividends paid and proposed for the financial year amount to 90.6 pence per share (£245 million), an increase of 20% on the previous year (2011: 75.6 pence; £203 million). The final dividend proposed is 45.5 pence per share (25% higher than the final 2011 dividend of 36.5 pence).

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

UK Car Insurance Review

UK Car Insurance KPIs

Vehicle base and growth

2012	3.02
2011	2.97
2010	2.46
2009	1.86
2008	1.59

- Sustained, organic growth: 17% compound annual growth over five years.
- 2% increase in vehicle base in 2012 (growth slowed due to market conditions).
- Over 11% share of UK market.

Motor combined ratios

2012	76.1%	13.6%
2011	77.3%	14.0%
2010	68.3%	15.2%
2009	68.1%	18.0%
2008	62.0%	19.0%

- Consistent outperformance compared to market in underwriting profitability.
- Combined ratio improved in 2012 to 90% from 91%.
- Expense ratio at 14% – around half the market average.

Other revenue per vehicle

2012	£79
2011	£84
2010	£84
2009	£77
2008	£76

- Significant profit generated alongside motor underwriting – £205 million profit generated in 2012.
- Other revenue per vehicle of £79 in 2012 (2011: £84).

(KPIs on staff and customers are included in the Corporate Responsibility section on page 24).

- The Group's core business is selling and underwriting private car insurance in the UK through four brands – Admiral, Bell, Diamond and elephant.co.uk
- Policies are distributed through price comparison websites and direct channels (Admiral's own websites and the telephone).
- Admiral accounts for around 11% of the UK private car insurance market in vehicle terms, insuring over three million cars at the end of 2012. Total UK premium in 2012 was over £1.7 billion.
- Admiral's main operations are in Cardiff, Swansea and Newport in South Wales; customers are also serviced from Nova Scotia, Canada and Bangalore, India.

UK Car Insurance Strategy

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

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

Non-GAAP*[1] format income statement

£m	2010	2011	2012
Turnover*[2]	1,419.7	1,966.0	1,936.2
Total premiums written*[3]	1,237.6	1,728.8	1,748.7
Net insurance premium revenue	269.4	418.6	455.6
Investment income	8.3	10.6	13.9
Net insurance claims	(192.6)	(335.5)	(355.1)
Net insurance expenses	(32.4)	(46.7)	(50.0)
Underwriting profit	**52.7**	**47.0**	**64.4**
Profit commission	67.0	61.8	108.4
Net ancillary income	142.4	181.5	170.9
Instalment income	13.7	23.3	29.1
UK Car Insurance profit before tax	**275.8**	**313.6**	**372.8**

*[1] GAAP = Generally Accepted Accounting Practice
*[2] Turnover (a non-GAAP measure) comprises total premiums written and other revenue
*[3] Total premiums written (non-GAAP) includes premium underwritten by co-insurers

Split of 2012 underwriting profit

£m	Motor	Ancillary	Total
Underwriting profit	59.6	4.8	**64.4**

Business Review continued

Key performance indicators

£m	2010	2011	2012
Reported motor loss ratio	68.3%	77.3%	76.1%
Reported motor expense ratio	15.2%	14.0%	13.6%
Reported motor combined ratio	83.5%	91.3%	89.7%
Written basis motor expense ratio	14.4%	13.2%	13.0%
Claims reserve releases	£23.5m	£10.3m	£17.6m
Vehicles insured at year-end	2.46m	2.97m	3.02m
Other revenue per vehicle	£84	£84	£79

UK Car Insurance – Co-insurance and Reinsurance

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

The two principal advantages of the arrangements are:

- Capital efficiency – The majority 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, the return on Group capital is higher than in an insurance company with a standard business model.
- Risk mitigation – Co-and reinsurers bear their proportional shares of claims expenses and hence provide protection should results worsen substantially.

Arrangements for 2012 to 2014

In early 2012 the Group was pleased to announce extensions to its arrangements such that capacity is fully placed until the end of 2014. The underwriting splits can be summarised as follows:

	2012	2013	2014
Admiral	25.00%	25.00%	25.00%
Great Lakes (Munich Re)	40.00%	40.00%	40.00%
New Re	13.25%	13.25%	13.25%
Hannover Re	8.75%	8.75%	8.75%
Swiss Re	7.50%	7.50%	9.00%
Mapfre Re	3.00%	3.00%	4.00%
XL Re	2.50%	2.50%	–
Total	**100.00%**	**100.00%**	**100.00%**

The proportion underwritten by Great Lakes (a UK subsidiary of Munich Re) is on a co-insurance basis, such that 40% of all motor premium and claims for the 2012 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

That contract will run until at least the end of 2016, and will see Great Lakes co-insure 40% of the UK business for the remaining period. Admiral has committed to retain at least 25% for the duration, whilst the allocation of the balance is at Admiral's discretion.

All other agreements are quota share reinsurance.

The European and US arrangements are explained below in the International Car Insurance section.

UK Car Insurance Review continued

UK Car Insurance Financial Performance

Commentary on Admiral's UK Car Insurance business result and its market is contained in Chief Operating Officer David Stevens' review on page 10.

As noted in the Group's interim 2012 results, the UK Car Insurance market became substantially more price competitive in 2012 than it had been over 2010 and 2011, over which period Admiral grew its business significantly. Whilst the number of customers continued to grow, the rate of growth was slowed significantly as Admiral opted to preserve margin rather than chase growth.

Total premium written in 2012 was broadly flat compared to 2011 at just over £1.7 billion, whilst the number of customers rose 2% year-on-year to 3.02 million at 31 December 2012. Vehicle count in the second half of the year was flat. Across new business and renewals, Admiral cut its rates by around 6% in 2012. Average written premium for the year was around £580, down 9% on 2011, due in part to rate cuts and in part to portfolio changes (notably a shift in favour of renewal business).

Profit from UK Car Insurance increased by 19% to £372.8 million (2011: £313.6 million).

UK Car Insurance Underwriting Result and Profit Commission

The UK combined ratio improved by around two percentage points in 2012 as follows:

UK Car Insurance Combined Ratio	2011	2012
Loss ratio excluding reserve releases	79.8%	80.0%
Reserve releases	2.5%	3.9%
Loss ratio net of releases	**77.3%**	**76.1%**
Expense ratio	14.0%	13.6%
Combined ratio	**91.3%**	**89.7%**

The loss ratio before releases was broadly flat in the year, though larger reserve releases (3.9% of net earned premium compared to 2.5%) led to an improved net loss ratio of 76.1%.

The higher level of releases compared to 2011 reflected the positive development during the year in projected ultimate outcomes on prior underwriting years (notably 2011 and 2010). Claims development in general during 2012 was encouraging; with no repeat of the spike in large bodily injury claims that occurred during H2 2011.

The projected ultimate combined ratio for Admiral for the 2012 accident year is 83%, compared to 82% for the 2011 year. The reported combined ratio for the UK market for 2011 was 105%.

Claims Reserving

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

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

The improved combined ratio, along with the significant growth in the size of the business since 2009, has led to a material increase in profit commission income recognised in 2012 – at £108.4 million compared to £61.8 million (though the comparative figure was subdued by the disappointing claims experience in 2011). Note 4c to the financial statements analyses profit commission income by underwriting year.

Total profit from car insurance underwriting and profit commission increased significantly, by 54% to £168.0 million from £108.8 million.

UK Car Insurance Other Revenue – Analysis of Contribution:

£m	2010	2011	2012
Ancillary contribution	168.3	213.9	205.2
Underwritten ancillary profit	–	–	4.8
Instalment income	13.7	23.3	29.1
Other revenue	**182.0**	**237.2**	**239.1**
Internal costs	(25.9)	(32.4)	(34.3)
Net other revenue	**156.1**	**204.8**	**204.8**
Other revenue per vehicle	**£84**	**£84**	**£79**

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. There is also some (less significant) income from other products unconnected to car insurance.

The most material contributors to net other revenue are:

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

Vehicle Commission

With effect from 1 April 2012, Admiral no longer earns Other Revenue from the sale of legal protection policies. In addition, the Group began charging its panel of co- and reinsurers a vehicle commission. Admiral's car insurance policies will continue to include legal protection as an integral feature and there has been no impact on customers in the level of cover or cost of policies as a result of this change. The planned overall economic impact of these two changes is not significant.

However, the accounting recognition and treatment of vehicle commission results in Other Revenue per vehicle in 2012 being reduced by approximately £6 (£16 million in total). Further detail on the intra-group element of vehicle commission is set out in note 3.

Referral Fees

As previously noted, personal injury referral fees will be banned with effect from 1 April 2013. In 2012 Admiral earned approximately £6 per vehicle insured (£18.6 million) from personal injury referral fees.

In additional, in 2012 Admiral earned around £5 per vehicle in credit hire referral fees (£13.6 million). Admiral notes that the UK Competition Commission has recently embarked upon a review of the car insurance market and a potential outcome of the review is a further ban on credit hire referral fees.

Regulatory Environment

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

The FSA regulates two Group companies involved in the business – EUI Limited (an insurance intermediary) and Admiral Insurance Company Limited (an insurer); whilst the FSC regulates Admiral Insurance (Gibraltar) Limited (also an insurer).

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

Business Review continued

International Car Insurance

The Group has four direct car insurance businesses operating outside the UK:

- Admiral Seguros (Seville, Spain): The most mature of the Group's international businesses, having traded since October 2006. The business trades via two brands – Balumba.es and Qualitas Auto.
- ConTe (Rome, Italy): Launched in May 2008, ConTe is the largest of the non-UK insurers within the Group.
- Elephant Auto (based in Richmond, Virginia, USA): Launched in October 2009 and provides car insurance in four US states (Virginia, Maryland, Illinois and Texas) with a market size greater than the UK.
- L'olivier Assurances (Paris, France): The Group's youngest (and smallest) international insurance business, launched in December 2010.

International Car Insurance Strategy

An important element of Group strategy is to exploit the knowledge, skills and resources attaching to Admiral's established UK businesses in order to promote expansion overseas in both private car insurance and price comparison. Admiral's objective is to create profitable, sustainable and growing businesses, aiming where possible to minimise any negative financial impact on the Group.

Admiral initially identified five markets into which expansion was desirable (based on, among other things, the size of the market and the nature of distribution and regulation), and having sold German insurer AdmiralDirekt.de in 2011, the Group has an active presence in the remaining four.

Overall business progress and performance is discussed in the following sections.

International Car Insurance Financial Performance

Non-GAAP format income statement*1

£m	2010	2011	2012
Turnover	77.6	122.1	162.9
Total premiums written	71.0	112.5	148.5
Net insurance premium revenue	18.7	27.2	43.3
Investment income	0.1	0.2	0.1
Net insurance claims	(15.9)	(28.3)	(49.4)
Net insurance expenses	(16.5)	(16.2)	(27.4)
Underwriting result	**(13.6)**	**(17.1)**	**(33.4)**
Net ancillary income	5.3	8.0	8.9
Other revenue and charges	0.3	(0.4)	–
International Car Insurance result	**(8.0)**	**(9.5)**	**(24.5)**

Note – Pre-launch costs excluded

Key Performance Indicators*1

£m	2010	2011	2012
Reported loss ratio	85%	104%	114%
Reported expense ratio	88%	60%	63%
Reported combined ratio	**173%**	**164%**	**177%**
Vehicles insured	195,000	306,000	436,000
Other revenue per vehicle	£34	£32	£25

*1 Figures include Admiral Direkt (sold in January 2011)

International Car Insurance Co-insurance and Reinsurance

Reinsurance arrangements for the 2012 year remained the same as 2011 in all countries, with Admiral retaining 35% (Spain and Italy), 30% (France) and one third (USA) of the underwriting risk respectively.

The arrangements for 2013 will remain the same, other than in Spain, where Admiral will retain 30% of the risk, down from 35% in 2012. The balance of 70% will be shared equally between Munich Re and Swiss Re.

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

International Car Insurance Financial Performance

Admiral's international insurance businesses (in aggregate and individually) continued to grow, adding 130,000 customers and ending 2012 42% larger than a year earlier. Turnover grew 33% to £162.9 million (2011: £122.1 million).

Growth in the younger businesses, along with some adverse prior year claims development in the more mature operations, led to a higher combined ratio however, which increased to 177% from 164%. The higher combined ratio, in conjunction with higher net insurance premium revenue led to a higher loss, of £24.5 million in 2012, up from £9.5 million in 2011.

As the Group's new insurance operations grow, it is expected that they will make losses until appropriate scale has been achieved. Although the 2012 loss was higher than anticipated, the Group is satisfied with the progress each business continues to make towards the goal of becoming a sustainable, growing, profitable operation.

Regulatory Environment

Admiral's European insurance operations are subject to the same regulation as the UK car insurance business, details of which are summarised above.

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.

Business review continued

Price Comparison

UK
Price Comparison
- Confused.com is an insurance and financial services comparison website.
- Operating in the UK, the site allows consumers to compare a range of general insurance and financial services products across price and policy benefits.
- Confused's income is primarily generated from commissions paid by the product provider on the sale of an insurance policy or financial product.
- Confused is one of the UK's leading car and home insurance comparison websites.

Price Comparison Strategy
- Confused's strategy is focused on car insurance comparison and is aimed at making Confused the most competitive car insurance price comparison website in the UK market.

International
Price Comparison
- At the end of 2012, the Group had two price comparison businesses operating outside the UK:
  - In Spain, Rastreator.com (launched in March 2009) offers comparison on motor, home, motorcycle and life insurance.
  - LeLynx.fr in France (launched January 2010) offers comparison on a similar range of products.

Price Comparison Strategy
- A key part of the Group's overall strategy is to exploit UK expertise in insurance and price comparison and export this overseas.
- To date Admiral has targeted four markets (Spain, France, Italy and the USA).
- The Group disposed of its Italian operation (Chiarezza.it) in April 2012.
- In early 2013, Admiral launched comparenow.com – a price comparison business based in the USA.

Success in delivering against the strategy for price comparison is measured against a large number of key performance indicators which are common across the UK and international businesses. These include market share, quote volumes, conversion rates, sales volumes, income per sale, revenue per customer and cost per sale.

Price Comparison Financial Performance

Non-GAAP format income statement

£m	2010	2011	2012
Revenue:			
Car insurance price comparison	59.6	72.2	82.5
Other	16.1	18.2	21.0
Total	75.7	90.4	103.5
Operating expenses	(63.6)	(79.9)	(85.5)
Operating profit	**12.1**	**10.5**	**18.0**
Confused.com profit	16.9	16.1	18.2
International Price Comparison result*	(4.8)	(5.6)	(0.2)
	12.1	**10.5**	**18.0**

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

UK Price Comparison – Confused.com
Confused.com continues to operate in the very competitive UK price comparison market, which has been dominated by four businesses for a number of years. Media spend remained high, though growth in the number of car insurance policies distributed via the channel in 2012 was lower than in prior years.

Against this backdrop, Confused.com delivered an improved result, with revenue 7% higher at £82.7 million (2011: £77.6 million) and profit up £2.1 million to £18.2 million (2011: £16.1 million). Market share in car insurance price comparison was stable.

Revenue from non-car insurance comparison sources increased in actual terms and continued to represent around one fifth of total revenue. Confused.com's operating margin improved slightly to 22% (2011: 21%).

International Price Comparison

Following the sale of the Italian price comparison operation (Chiarezza) during H1 2012 and the launch in Q1 2013 of a new operation in the USA, Admiral now operates three price comparison businesses outside the UK: in Spain (Rastreator), France (LeLynx) and the USA (comparenow.com).

The combined revenue from the operations in 2012 (on a like-for-like basis) increased by 67% to £21 million, with 29% more quotes delivered. Both Rastreator and LeLynx have strong positions and brands in their respective markets.

The combined result for International Price Comparison was a loss of £0.2 million – notably improved from a £5.6 million loss in 2011.

The disposal of Chiarezza had an insignificant impact on the income statement.

In March 2013, Admiral launched a new price comparison operation in the USA (based in Virginia), trading as comparenow.com. The initial investment in the new business is not expected to be material in the context of the Group. Pre-launch costs are included in Other Group Items, below.

Regulatory Environment

Confused.com is regulated by the UK FSA 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. Comparenow.com is a regulated insurance agency in Virginia, USA.

Other Group Items

£m	2010	2011	2012
Gladiator operating profit	2.7	2.8	2.5
Group net interest income	1.1	2.9	1.9
Share scheme charges	(15.0)	(18.6)	(20.6)
Expansion costs	(1.1)	(0.8)	(2.1)
Other central overhead	(2.1)	(1.8)	(3.4)

Gladiator

Gladiator is a commercial vehicle insurance broker offering van insurance and associated products, typically to small businesses. Distribution is via telephone and internet (including price comparison websites).

Non-GAAP income statement and key performance indicators

£m	2010	2011	2012
Revenue	11.8	11.7	12.5
Expenses	(9.1)	(8.9)	(10.0)
Operating profit	**2.7**	**2.8**	**2.5**
Operating margin	23%	24%	20%
Customer numbers	94,500	87,900	94,800

The van insurance broking market remained competitive during 2012, and although Gladiator increased revenue to £12.5 million (2011: £11.7 million), operating margin was lower at 20% and resulting operating profit fell to £2.5 million from £2.8 million.

Gladiator increased its customer base by around 8% to 94,800.

Share Scheme Charges

These costs relate to the Group's two share schemes, further detail on which is set out in the notes to the financial statements. The increase in the charge relates to a higher number of shares awarded in 2012 compared to 2011 (resulting from increased headcount across the Group).

UK Household Insurance

In December 2012, the Group launched a UK household insurance product, underwritten within the Group and based in the Group's Cardiff offices. Common with other launches, initial plans are modest, and the business is supported by proportional reinsurance covering 70% of the underwriting risk (shared between Munich Re, 40% and Swiss Re, 30%).

Investments and Cash

Investment Strategy

Admiral maintained a low-risk investment strategy throughout the year, with a broadly consistent allocation of funds to the three main asset categories (cash at bank, cash deposits and money market funds) as in recent years.

The key focus of the Group's investment strategy is capital preservation, with additional priorities including low volatility of returns and high levels of liquidity.

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

Cash and Investments Analysis

	31 December 2012				
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Total £m
Money market funds and short-dated debt securities	1,074.5	76.7	–	74.6	1,225.8
Cash deposits	370.5	5.3	–	–	375.8
Cash	125.0	50.2	25.4	16.0	216.6
Total	**1,570.0**	**132.2**	**25.4**	**90.6**	**1,818.2**

	31 December 2011				
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Total £m
Money market funds	761.1	66.0	–	35.0	862.1
Cash deposits	290.7	6.3	–	–	297.0
Cash	117.8	38.9	8.8	59.1	224.6
Total	**1,169.6**	**111.2**	**8.8**	**94.1**	**1,383.7**

The only notable change in asset allocation during 2012 was a higher proportion invested in money market funds and short-dated debt securities and a move away from cash compared to 2011. All investment objectives continue to be met.

Investment and interest income in 2012 was £15.9 million, up 16% on 2011 (£13.7 million). The rate of return was similar to 2011, at slightly less than 1%.

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

£m	2010	2011	2012
Operating cash flow, before transfers to investments	522.0	779.1	742.0
Transfers to financial investments	(240.8)	(493.9)	(441.9)
Operating cash flow	281.2	285.2	300.1
Tax and interest payments	(69.5)	(95.3)	(79.7)
Investing cash flows (capital expenditure)	(11.1)	(13.2)	(10.9)
Financing cash flows (largely dividends)	(164.9)	(197.8)	(214.8)
Foreign currency translation impact	(0.8)	(1.0)	(2.7)
Net cash movement	**34.9**	**(22.1)**	**(8.0)**
Net increase in cash and financial investments	**276.9**	**473.8**	**434.5**

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

£m	2010	2011	2012
Profit after tax	**193.6**	**221.3**	**258.4**
Change in net insurance liabilities	129.7	244.3	200.0
Net change in trade receivables and liabilities	101.4	203.7	163.0
Non-cash income statement items	25.4	32.0	34.4
Tax and net interest expense	71.9	77.8	86.2
Operating cash flow, before transfers to investments	**522.0**	**779.1**	**742.0**

The key features to note are:

- Total cash plus investments increased by £435 million or 31% (2011: £474 million, 52%), the lower rate of growth resulted from lower growth in the UK business; somewhat offset by higher growth internationally.
- The net change in actual cash balances was small, as funds were transferred into investments.

Other Financial Items

Taxation

The taxation charge in the income statement is £86.2 million (2011: £77.8 million), which equates to 25.0% (2011: 26.0%) of profit before tax. The average rate of UK Corporation Tax in 2012 was 24.5%.

Earnings Per Share

Basic earnings per share rose by 16% to 95.1 pence from 81.9 pence. The change is in line with profit growth.

Dividends

The Directors have proposed a final dividend for the financial year of 45.5 pence per share. Total dividends for the year amount to 90.6 pence per share, 20% higher than the 75.6 pence per share distributed in respect of 2011.

The final dividend is made up of a 21.4 pence normal element based on the stated dividend policy of distributing 45% of post-tax profits, and a further special element of 24.1 pence. The special dividend is calculated with reference to distributable reserves after considering capital that is required to be held a) for regulatory purposes; b) to fund expansion activities; and c) as a further prudent buffer against unforeseen events.

The payment date is 24 May 2013, ex-dividend date 1 May and record date 3 May.

Capital Structure, Financial Position

The Group continues to manage its capital to ensure that all entities within the Group are able to continue as going concerns and also to ensure that regulated entities comfortably meet regulatory capital requirements. Excess capital above these levels within subsidiaries is paid up to the Group holding company in the form of dividends on a regular basis.

Capital continues to be held in equity form, with no debt.

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 minimum capital requirements and surplus position at the end of the 2012 for those companies, along with the overall Group position was as follows:

£m	AIGL	AICL	Group
Net assets less goodwill	£170m	£85m	£395m
Minimum capital requirement	£78m	£25m	£122m
Surplus over minimum requirement	**£92m**	**£60m**	**£273m**
Total regulatory capital requirement			£240m
Surplus over regulatory capital requirement			**£155m**

The Directors note the delay in the progress towards implementing the Solvency II regulatory regime in the EU. As previously noted, the Directors do not believe, based on current guidance, that there will be a material change in the level of the Group's capital surplus under the new regime.

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

At 31 January 2013, the Company had received notifications in accordance with the FSA's DTRs of the following notifiable interests, in the voting rights in the Company's issued share capital:

	Number of shares	%
Munich Re	27,899,400	10.2%
Morgan Stanley	18,110,492	6.6%
BlackRock, Inc	13,755,935	5.0%
Manning & Napier Advisors	11,056,280	4.0%
Power Corporation of Canada	9,719,702	3.6%

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

Principal Risks and Uncertainties

The table below sets out the principal risks currently faced by the Group, with further significant risks noted below. The report on Corporate Governance later in the Annual Report describes the risk management framework in place throughout the Group.

Risk	Impact	Mitigating Factors
1. UK Car Insurance – erosion of competitive advantage Admiral has typically been able to produce a significant combined ratio advantage over the UK market as a whole. There is a risk that this advantage and/or the level of underwriting profit (and associated profit commission) generated by Admiral could erode. An example of how this risk might arise is a failure to successfully adapt to the EU Gender Directive which came into effect in December 2012.	The impact on the business would be a worse UK Car Insurance result and lower return on capital employed. A sustained and uncorrected erosion of competitive advantage could affect the ability of the Group to extend its reinsurance arrangements, which might in turn mean the Group having to hold more capital.	A wide range of factors contribute to Admiral's combined ratio outperformance of the UK market. These include: • Experienced and focused senior management and teams in key business areas including pricing, claims management, operations, IT and marketing • A highly data-driven and analytical approach to business decisions • Continuous appraisal of and investment in staff, systems and processes • A track record of innovation and an ability to react quickly to market conditions and developments • A keen focus on maintaining a low-cost infrastructure and efficient acquisition costs.
2. UK & International Car Insurance – claims shocks The Group is exposed to underwriting risk through its underwriting of motor insurance policies.	The impact on the Group would be that claims costs could rise significantly above historic or expected levels, reducing the Group's profitability. This might be for a number of reasons, including: • Legislative changes (for example, periodic payment orders, Ogden discount rate changes, the EU Gender Directive) • Weather-related or man-made catastrophe events (for example severe storm or flood) • Very large, non-catastrophe individual claims • Fraud or other changes in claimant behaviour • Significant increases in large bodily injury claims cost inflation.	Many of the potential causes of claims shocks are outside the control of the Group and the focus is, therefore, generally on how to prepare for and react to the occurrence of such events. For very large claims (catastrophe and otherwise) the Group purchases excess of loss reinsurance, which mitigates the loss to the selected deductible amount (typically between £5 million and £7 million at the total claim level). The current economic environment has led management to have an increased focus on the identification and prevention of claims fraud, including material investment in systems and staff. In the case of legislative changes impacting existing claims, the Group holds a buffer in booked reserves to cover significant changes. To cover other potential claims shocks, the Group continues to hold an additional buffer in its reserves in excess of the projected ultimate outcomes.
3. Geographic and product expansion – risk of failure The Group has launched eight new operations outside the UK in the past six years, and launched a UK Household insurance product in December 2012. There is an ongoing risk that one or more of the operations fail to become a sustainable long-term business.	The impact on the Group could be higher than planned losses (and potentially closure costs) and distraction of key management. A collective failure of these businesses would threaten the Group's objective to diversify its earnings by expanding in overseas locations.	The Group's approach to expansion is cautious. The overseas insurance businesses start small and are all backed by proportional reinsurance support which provides substantial mitigation against start-up losses in the early years. New price comparison businesses also focus on modest starts with low set-up costs and relatively small initial media spend budgets. This tends to mean that the losses a new operation can incur are minimised whilst management assess the likelihood of the business succeeding. The Directors are mindful of management stretch and regularly assess the suitability of the management structure in place for the Group's international operations.

Risk	Impact	Mitigating Factors
4. Other revenue – potential diminution There is a risk that the level of ancillary profit earned per customer will diminish. This might be due to regulatory or legal changes, or customer or market behaviour.	The impact on the Group would be less profit earned on the car insurance portfolios and a lower return on capital employed. The most immediate risk to ancillary profits arises from regulatory intervention and most notably the referral of UK motor insurance to the Competition Commission. Whilst there are a range of possible outcomes from this study, Admiral is supportive of any changes that are likely to lead to lower claims costs.	Admiral earns other revenue from a portfolio of products and seeks to minimise reliance on any single item. This would mitigate the impact of a regulatory change which might affect a particular product or income stream. Admiral continuously assesses the value of the products it offers, and makes changes to ensure the products continue to offer value to policyholders.
5. UK Price Comparison – effects of continued competition There is a highly competitive UK market with four main businesses currently attempting to increase their market share through aggressive media activity. Admiral is dependent on the four main UK price comparison websites as an important source of new business and growth. The growth in this distribution channel could slow, cease or reverse, or Admiral could lose one or more of the websites as a source of leads.	The impact on Confused.com of higher levels of competition in the price comparison market, either through the aggressive activities of existing players or the entry of significant new participants would be to lower profits. However, a more competitive market might benefit the car insurance business through lower acquisition costs. The impact on the UK Car Insurance business of losing one or more of the websites would be a potentially material reduction in new business volumes.	The Group's ownership of Confused.com, which is one of the leading UK price comparison websites and operates independently of the UK car insurance business, helps to mitigate the risk of over-reliance on this distribution channel. Admiral also contributes materially to the revenues of the other price comparison businesses and therefore it is not considered probable that a material source of new business would be lost. The management of Confused.com maintain an awareness of the risks of continued competition. Management analyse the success or otherwise of all media activity.
6. Co-insurance and reinsurance arrangements Admiral uses proportional co-insurance and reinsurance across its insurance businesses to reduce its own capital needs (and increase return on the capital it does hold) and to mitigate the cost and risk of establishing new operations. There is a risk that such support will not be available in the future if the results of either the UK business or (more realistically) one or more of the international operations are not satisfactory to the co- and/or reinsurers.	The impact on the Group would be the need to raise additional capital to support underwriting. This could be in the form of equity or debt. Return on capital would likely be lower than current levels.	Admiral mitigates risks to its reinsurance arrangements by ensuring that it has a strongly rated and diverse range of partners. Admiral has enjoyed a long-term relationship with one of the world's strongest reinsurers, Munich Re, which has supported Admiral since 2000. The Group also has strong relationships with a number of other reinsurers, including Amlin, Hannover Re, Mapfre Re, New Re, Swiss Re and XL Re (avoiding reliance on a single partner). In the UK, co- and reinsurance arrangements have been agreed up to the end of 2014, reflecting confidence in the Admiral UK car insurance business. Pricing on these deals was in line with existing arrangements. The long-term co-insurance agreement with Munich Re will remain in place (at 40% of the business) until at least the end of 2016.
7. Credit risk Admiral is primarily exposed to credit risk in the form of a) default of reinsurer; b) failure of banking or investment counterparty.	The impact of the materialisation of a major credit event on the Group may, dependent on its nature and severity, require additional capital to be raised. The Group would also need to ensure that it had sufficient liquid assets to meet its claims and other liabilities as they fell due.	The mitigation of these risks is discussed in note 5c of the financial statements.

The Board also considers the following risks to be significant:

- **Operational risk –** for example, major fraud (considered to be relatively low impact, and mitigated by a wide range of internal controls) and the resilience of IT systems.
- **IT Development risk –** failure to invest in appropriate technology to support the Group's future business development, mitigated by regular review of the effectiveness of the Group's IT capability by executive management and the Board.
- **People risk –** failure to recruit, develop and retain suitable talent. Further detail on how Admiral interacts with its employees is set out in the Corporate Responsibility section following.

Corporate Responsibility

Corporate Responsibility at Admiral encompasses four key areas:
- Employees
- Customers
- Charity and Community
- Environment.

Employees

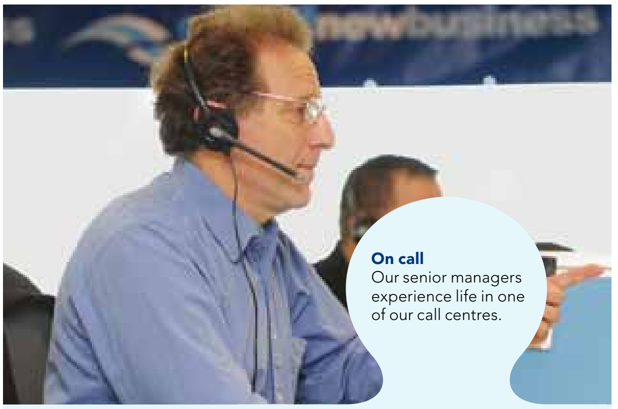
'If people like what they do, they will do it better.'

This simple philosophy runs throughout the Group, in both our UK and overseas offices – and it works! In order to understand why our approach works so well, it is useful to understand the key characteristics of working life at Admiral:

i) Communication ii) Equality
iii) Reward and Recognition iv) Fun

Communication at Admiral is open, transparent and two-way. Employees are provided with a wide range of communication tools to assist in understanding our goals and objectives. We work to communicate these in as many ways as possible. For example, everyone is invited to participate in online chats with senior management. This year we have held three online chats featuring our CEO Henry Engelhardt, and one featuring our COO David Stevens. Other communication tools include our annual Staff General Meeting (SGM), internal newsletters, team briefings, suggestion schemes and staff forums.

We have a really simple approach to **Equality**. Everyone should be treated the same. There are no executive dining rooms, no company cars, no dress code, and everyone has their own desk.



On call
Our senior managers experience life in one of our call centres.

This year, eight of our senior managers visited our New Business call centre for two weeks of intensive sales training before taking live telephone calls from our customers. The team included Henry Engelhardt (CEO) and David Stevens (COO).

None of the managers have worked in our contact centres previously, but after gaining hands-on-experience on the 'frontline' of our business they have an increased understanding of the needs of our customers and the day-to-day challenges faced by our staff.

Fundamental to equality, and also important for **Reward and Recognition**, is our performance-related pay structure and share ownership scheme. At Admiral we like to reward and recognise our employees for both their own personal achievement, and the overall performance of the Group.

We reward and recognise our employees for the overall success of the Group through the share ownership scheme, a key feature of the remuneration of employees.

Further details of our salary structure and our share schemes are available in the Remuneration Report on page 47.

Staff survey results

Survey question	2006	2007	2008	2009	2010	2011	2012
Morale is good within Admiral	76%	89%	90%	93%	89%	90%	93%
Morale is good within my department	87%	82%	90%	86%	84%	85%	87%
I am happy at Admiral	92%	87%	90%	91%	88%	89%	91%
Every effort is made to understand the thoughts and opinions of employees	74%	73%	86%	87%	88%	88%	91%
I am proud to be associated with Admiral	91%	91%	94%	96%	95%	95%	96%
I would recommend Admiral as a good place to work	90%	90%	94%	95%	94%	95%	96%
I am more likely to stay at Admiral because of the share schemes	69%	71%	71%	79%	78%	79%	79%
Admiral is truly customer-orientated	90%	88%	90%	90%	86%	87%	90%
Admiral treats its customers fairly	86%	84%	87%	88%	86%	86%	88%

As of 31 December 2012 an employee who joined us on 1 January 2005 would have received a total of 2,496 shares, of which 1,821 would now be matured and 1,184 could be sold free of income tax and national insurance. If none of the matured shares had been sold, these shares would be worth £21,124 (based on the share price of £11.60 on 31 December 2012).

The Board firmly believes that share ownership motivates employees, decreases attrition and makes it easier to recruit successfully. According to our staff survey 79% of employees say they are more likely to stay with Admiral because of the share schemes.

Fun plays a vital role in helping us to ensure that our employees enjoy their work, encouraging each and every individual to produce excellent results. Organised activities for our staff are often weird, wild and wonderful, but they are also a great tool for motivation.

So how do we know our approach works? Our staff tell us. One of the most important tools we use to measure employee satisfaction is an anonymous survey that collects views on what it is like to work for Admiral. The survey results are analysed by department and each department manager shares the findings with their team, exploring any issues and concerns before making improvements.

The key results concerning morale, and whether employees feel that their opinions are important, are provided in the table on the previous page. There are no specific targets with respect to the survey results as the Executive team use the data to identify trends in employee perception, rather than absolute values.

This year we are pleased to announce that more employees than ever before would recommend Admiral as a good place to work – 96% of employees answered positively to this question – the highest number since the survey began in 1999. Likewise, the number of employees who believe that Admiral strives to understand the thoughts and opinions of its employees is higher than ever before, at 91%.

This year we organised a new event in the form of an **Admiral Talent Show**, a contest open to all of our UK and overseas employees. The aim was to showcase the most talented performers from across the Group in a variety of acts including singing, dancing and comedy. Auditions were held in our offices in South Wales as well as in the USA, Canada, France, Italy, Spain and India. The response was fantastic, and all of the judges were impressed by the standard of performing talent.

The finalists from each country were invited to compete against each other at the Wales Millennium Centre in Cardiff, performing in front of a group of senior managers from each of the countries in which we operate. The event was won by French band, Lollipop, with second and third places going to singers Lewis Cook from Cardiff and Niki Lester from the USA, respectively.

The event enabled us to unite our international and UK employees, giving them a chance to get to know each other. This is just one way in which we have encouraged our staff to have fun this year, upholding the vibrant culture of working life at Admiral.

All singing, all-dancing
Admiral's Talent Show brought our staff together.

Name of award	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sunday Times 100 Best Companies to Work For	32nd	42nd	46th	60th	20th	20th	21st	57th	37th	16th	9th	**6th**
Best Workplaces in the UK	32nd	42nd	7th	16th	17th	8th	Top 10	10th	6th	10th	9th	**1st**
Best Workplaces in Europe									16th	26th	21st	**4th**

Corporate Responsibility continued

As a Group we participate in a number of independently managed surveys including The Sunday Times 100 Best Companies to Work For and the Great Place to Work® Institute's Best Workplaces in the UK and Best Workplaces in Europe.

Again this year we have continued to win awards for employee satisfaction, adding to those we have achieved previously. Notably, we were named the best large UK employer by the Great Place to Work® Institute.

Customers

Ensuring that we give a great service to our customers is essential to the future growth of our business, both in the UK and overseas.

There are many initiatives in place to ensure that customers are treated fairly, efficiently and with respect including:

- Customer-focused measures programme.
- Treating Customers Fairly (TCF) reporting.
- Comment form analysis.
- Complaints analysis.

Every department has its own set of customer-focused measures to gauge performance. The measures are updated each year to challenge departments to make continual improvements. The programme is reported every month in our internal magazine and intranet, and the best departments are rewarded at our prestigious Quality Awards.

We work within the regulatory framework of the Financial Services Authority (FSA) in the UK. One of the FSA's statutory objectives is to help customers get a fair deal. There is a comprehensive monthly Treating Customers Fairly (TCF) Management Information pack, pulling together specific measures that demonstrate we are consistently treating our customers fairly. Over 150 individual TCF measures have now been adopted.

A report is produced each month and discussed at the UK Risk Management Committee (RMC), with process or behavioural changes agreed where appropriate. Please refer to the Corporate Governance section of this report for further details of the Risk Governance framework.

The TCF management information is embedded in our culture. If either a red or amber grade occurs the department manager investigates the issues and provides information on the reason for the score, along with a plan to improve the results. The table below displays some of the key measures from the TCF report.

Celebrating star performance
Our Quality Awards reward those who provide excellent customer service.

The annual **Quality Awards** celebrate achievements from across the Group in our customer-focused measures programme.

Awards include, 'Best Measures Performance', 'Treating Customers Fairly Winner' and 'Best Complaint Prevention Winner', amongst others.

Our Quality Awards encourage employees to perform well in quality measures throughout the year in order to increase both their own individual quality score, and that of their department. This helps to ensure that we are compliant with TCF requirements and that our customers are treated fairly.

During 2012 the percentage of Financial Ombudsman Service complaints found in favour of Admiral was 69%, whereas the target is >75%. This is an area that has been below target for a number of years and the details of the decisions are closely reviewed to help identify further improvements to Admiral's products, services and processes.

We encourage our customers to provide us with feedback on our services. The main way in which we do this is through our **Customer Comment Form**, which is a key measure of the TCF report. The Customer Comment Form enables our customers to rate the service of our call centre staff on a scale of one to ten in four key areas including 'helpfulness', 'efficiency', 'communication' or 'knowledge', and 'politeness'.

TCF Measure	2008	2009	2010	2011	2012	Target
Complaints per 1,000 vehicles	1.1	1.1	1.2	1.3	1.2	< 1.4
% Financial Ombudsman Service (FOS) complaints found in favour of Admiral	78%	67%	68%	66%	69%	> 75%
Customer Service call answer rate	95%	93%	91%	94%	92%	> 90%
Claims call answer rate	92%	93%	94%	96%	94%	> 90%
Customer Services Comment Form score	9.4	9.4	9.3	9.3	9.0	> 9.0
Claims Service Comment Form score	8.8	8.8	8.7	9.0	9.1	> 8.5
% Customers who would renew following a claim	93%	93%	92%	91%	90%	> 85%

We are currently trialling a new way of obtaining customer feedback via SMS text messaging, with a view to increasing the level of direct feedback that we receive. Our Claims department are now gathering most of their customer feedback via SMS, and we plan to introduce this method to other departments in the future.

The feedback gained from our Customer Comment Form analysis and SMS feedback allows us to pinpoint areas in need of improvement, and to identify employees who could benefit from further training. This enables us to continue to provide excellent customer service as the business continues to grow.

Charity and Community

Admiral plays a positive role in the community through charitable giving and sponsorship of local community partnerships. We promote payroll giving and provide matched funding for eligible employee initiatives. In 2012, we donated £141,000 to various local and national charities (2011: £194,000) and £285,000 (2011: £232,000) to subsidise local events for the public. The amount the Group donates fluctuates annually due to changes in sponsorship initiatives and employee demand for matched funding.

No journey too tough
One team completed a sponsored walk to the top of Pen-y-Fan mountain – the highest peak in South Wales.

An apple a day;
We provide fresh fruit for all our employees.

90-Day Challenge

Since 2008 we have had a close relationship with the Prince's Trust, the UK's leading youth charity dedicated to helping disadvantaged young people to enter into work, education or training. We have won the Prince's Trust Cymru (Wales) regional fundraising competition each of the last three years.

This year, we built upon this achievement by raising even more money! In September our CEO, Henry Engelhardt, set our UK employees an exciting objective in the form of the 90-Day Challenge. Each department had to compete against each other to raise the most money within 90 days, through any means they could think of. Fundraising activities included cake sales, sponsored walks, raffles and online auctions.

Through the hard work and generosity of our employees we managed to raise just over £50,000 for the Prince's Trust through our 90-Day Challenge, bringing the total raised for the charity in 2012 to well over £100,000.

We would like to thank all of our staff for their commitment in supporting the Prince's Trust, and we look forward to further supporting the charity in 2013.

Cake sale
Our Claims department held a cake sale to support the Prince's Trust.

Corporate Responsibility continued

SEAT Young Driver Scheme

We have been dedicated sponsors of the SEAT Young Driver scheme since its launch in October 2009. This nationwide scheme enables 11 to 17-year-olds to complete driving lessons with fully-qualified driving instructors long before they can even sit their test, using simulated road systems set up on private ground and featuring obstacles like traffic lights, junctions and roundabouts.

The objective of the scheme is to help reduce the death toll amongst young, inexperienced, drivers. In 2010, we found that 17 and 18-year-old motorists are twice as likely to have a road accident as someone in their 30s, three times as likely as someone in their 40s and six times as likely as someone aged over 50. However, Swedish research shows that young driver accident rates can be reduced by learning to drive over a longer time period and at a younger age (OECD and the European Conference of Ministers of Transport, 2006).

With 20 venues now open and 10 more due to open by March 2013, the Young Driver programme has delivered over 75,000 lessons, with plans for a further 75,000 in 2013. The scheme is proven to work; only 9% of Young Driver participants experience a crash within the first 6 months of passing their test, compared to the national average of 20%.

We support the Young Driver scheme because it enables us to play a role in increasing the number of well-trained, responsible young drivers on UK roads, resulting in fewer accidents amongst this traditionally high-risk group. This will help us to provide low-cost car insurance for young drivers.

Making young drivers safer
Admiral is a key sponsor of SEAT's Young Driver Scheme.

Environment

We are committed to:

- Raising and maintaining employee awareness of, and ensuring that everyone is actively engaged in, activities to reduce our environmental impact.
- Measuring and monitoring key aspects of our environmental performance and regularly reviewing progress to reduce the amount of resources consumed per employee.
- Complying with the requirement, expected to be effective from October 2013, to report annual levels of greenhouse gas emissions in line with guidance provided by the Department for Environment, Food and Rural Affairs (Defra) in partnership with the Department for Energy and Climate Change (DECC).

The main source of our carbon emissions is the consumption of electricity and gas in our offices. At present we lease buildings rather than owning them outright, which means that we are largely dependent upon the managing agents of our properties to make changes which reduce water and energy consumption.

We encourage our employees to recycle wherever possible, and our Facilities department continue to discuss ways to reduce our UK energy consumption with the Carbon Trust.

Full details of our Corporate Responsibility strategy are available on our corporate website, www.admiralgroup.co.uk, including further examples of what we do for our employees, our customers, charity and community and the environment.

Corporate Governance

Overview
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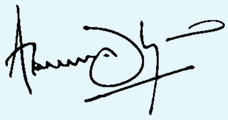
Introduction from the Chairman

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

This Report sets out the governance framework and the approach that it has taken in 2012 to achieve the standards of good corporate governance for which it is accountable to the Group's shareholders. It describes how the principles set out in the UK Corporate Governance Code (the 'Code') have been applied, and details the extent to which the Group has complied with the principles and provisions of the Code during the year under review.

This Report is structured in order to demonstrate to shareholders that the Group has considered and complied with each section of the Code: Leadership; Effectiveness; Accountability and Relations with Shareholders. Remuneration is dealt with in the separate Remuneration Report.



Alastair Lyons, CBE
Chairman

Alastair Lyons, CBE
Chairman

The Admiral Board

Alastair Lyons, CBE (59)
Non-Executive Chairman, appointed July 2000
Nomination Committee Chairman

Current appointments
Non-Executive Chairman of Serco Group plc
Non-Executive Chairman of the Towergate Insurance Group
Deputy Chairman of Bovis Homes Group plc
Senior Independent Director at the Phoenix Group

Background and experience
In his executive career Alastair has been Chief Executive of the National Provident Institution and of the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc.

He was also a Non-Executive Director for the Department for Transport and the Department for Work and Pensions.

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

David Stevens, CBE (50)
Chief Operating Officer, appointed in 1999
Group Risk Committee member

Background and experience
David is a founder Director of Admiral and was recruited in 1991 to set up the Admiral business. David was part of the management team that led the MBO in 1999.

Prior to joining Admiral David worked at McKinsey & Co, in the Financial Interest Group, and Cadbury Schweppes in the UK and the USA.

David has an MBA from INSEAD and he was awarded a CBE in 2010 for service to business and the community in Wales.

Henry Engelhardt, CBE (54)
Chief Executive Officer, appointed in 1999

Background and experience
Henry is a founder Director of Admiral and was recruited by the Brockbank Group in 1991 to set up the Admiral business.

Henry was part of the management team that led the MBO in 1999.

Prior to joining Admiral, Henry was the original Marketing and Sales Manager for Churchill Insurance.

Henry has an MBA from INSEAD and he was awarded an honorary CBE in 2008 for services to business in Wales.

Manfred Aldag, (62)
Non-Executive Director, appointed in 2003

Current appointments
Munich Re Chief Executive Manager responsible for UK and Ireland.

Background and experience
Manfred graduated from University of Essen with a degree in Economics and Business Management. Since 1981, Manfred has been working for Munich Re.

Kevin Chidwick, (49)
Chief Financial Officer, appointed in September 2006

Background and experience
Kevin is responsible for finance, compliance and investments, as well as the subsidiary Elephant Auto.

Kevin joined Admiral in 2005, becoming Finance Director in September 2006. Prior to Admiral Kevin has worked in UK financial services for over 25 years and he has held a number of senior roles in other insurance organisations, including being the Finance Director of Engage Mutual Assurance and Cigna UK.

Kevin is a Fellow of the Chartered Institute of Certified Accountants and has an MBA from London Business School.

Martin Jackson, (64)
Non-Executive Director, appointed in August 2004
Group Risk Committee Chairman
Remuneration Committee member

Current appointments
Non-Executive Director of IG Group Holdings plc

Background and experience
Martin was the Chairman of the Admiral Group Audit Committee from August 2004 until January 2012, when he became Chairman of the newly formed Group Risk Committee.

Martin was the Group Finance Director of Friends Provident plc between 2001 and 2003 and Friends Provident Life Office between 1999-2001.

Prior to this he was the Group Finance Director at London & Manchester Group plc from 1992, up to the date of its acquisition by Friends Provident Life Office.

Martin is a Fellow of the Institute of Chartered Accountants.

Margaret Johnson, OBE (54)
Non-Executive Director, appointed in September 2006
Audit Committee member
Remuneration Committee member

Current appointments
Group Chief Executive Officer of Leagas Delaney

Background and experience
Margaret has worked for the international advertising agency Leagas Delaney for the past 15 years.

Margaret was awarded an OBE in 2013 in recognition of her services to the creative industries and her voluntary work for charities.

Colin Holmes, (47)
Non-Executive Director, appointed in December 2010
Audit Committee Chairman
Nomination Committee member

Current appointments
Non-Executive Director and Chairman of the Remuneration Committee of Bovis Homes Group plc and Chairman of GO Outdoors Ltd.

Background and experience
Colin was formerly a member of the Executive Committee of Tesco plc and during his 22 year career at Tesco he held a wide range of positions, including UK Finance Director and CEO of Tesco Express.

Colin is a Chartered Management Accountant.

Lucy Kellaway, (53)
Non-Executive Director, appointed in September 2006
Nomination Committee member

Current appointments
Lucy is a management columnist on the Financial Times.

Background and experience
In her 20 years at the Financial Times Lucy has been an oil correspondent, a Lex columnist and Brussels correspondent. Lucy is an author of various books.

Roger Abravanel, (66)
Non-Executive Director, appointed in March 2012
Remuneration Committee member

Current appointments
Non-Executive Director serving on, amongst others, the Boards of: Luxottica Group S.p.A; Teva Pharmaceutical Industries Ltd; Banca Nazionale del Lavoro S.p.A and COFIDE S.p.A.

Board member of the Italian Institute of Technology.

Chairman of the INSEAD Advisory Group in Italy.

Background and experience
Roger has significant international consulting experience having been with McKinsey and Co. from 1972 until his retirement as Director Emeritus in 2006.

John Sussens, (67)
Senior Independent Non-Executive Director, appointed in August 2004
Remuneration Committee Chairman
Group Risk Committee member

Current appointments
Non-Executive Director of Vesuvius plc

Background and experience
John was the Group Managing Director of Misys plc between 1998 and 2004, having been on the Board of the Company since 1989.

Prior to joining Misys, John was Manufacturing Director at JC Bamford Excavators Ltd.

John was a Non-Executive Director at Chubb plc between 2001 and 2003.

Annette Court, (50)
Non-Executive Director, appointed in March 2012
Group Risk Committee member
Audit Committee member

Current appointments
Non-Executive Director of Jardine Lloyd Thompson Group plc

Background and experience
Between 2007 and 2010 Annette was CEO of Europe General Insurance for Zurich Financial Services and a member of the Group Executive Committee.

Annette is former CEO of the Direct Line Group, formerly known as RBS Insurance. In this role Annette was also a member of the RBS Group Executive Management Committee.

Annette has previously served as a member on the Board of the Association of British Insurers (ABI).

Corporate Governance continued

The UK Corporate Governance Code

The Board complied with the Code in all respects during 2012 except for Code E.1.1, which requires that the Senior Independent Director should attend meetings with a range of shareholders. The Company has a comprehensive programme of meetings and dialogue with institutional investors and the Chairman makes himself available for meetings with the largest 10 such investors. The views of investors expressed through this dialogue are communicated to the Board as a whole on a regular basis through the Investor Relations report. All Directors can, therefore, develop an understanding of issues or concerns of major shareholders should any be raised. Feedback from shareholders suggests that these arrangements for communication between the Company and its shareholders continue to be viewed by them as effective. The Senior Independent Director is always available to meet with individual shareholders on request to ensure the Board is aware of any shareholder concerns that cannot be resolved through the routine mechanisms for investor communications.

The Admiral Group Board

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

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

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

The Board met on seven occasions in 2012 with five of these meetings being held over two days. The Board also held a strategy day devoted entirely to analysis and challenge by the Directors, and particularly the Non-Executive Directors, of the strategic objectives of the Group's UK and international businesses. The Chairman visits each of the Group's overseas operations every year and Non-Executive Directors are invited to join either him or the Chief Executive on one or more of their overseas visits each year. In addition, the Non-Executive Directors and the Chairman met during the year without the Executive Directors being present. In order to increase their understanding of the operation of the Group below Board level, the Non-Executive Directors and the Chairman also attended two dinners with members of the Group's senior management team without the Executive Directors being present.

Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Group to perform their duties. Where Directors are unable to attend meetings they receive papers for that meeting giving them the opportunity to raise any issues with the Chairman in advance of the meeting. The number of scheduled Board meetings and Committee meetings of which they are a member attended by each Director during 2012 is provided in the table below.

	Scheduled Board meetings	Audit Committee meetings	Group Risk Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
Total meetings held	**7**	**4**	**4**	**1**	**5**
Alastair Lyons (Chairman)	7			1	
Henry Engelhardt (Chief Executive Officer)	7				
David Stevens (Chief Operating Officer)	7		4		
Kevin Chidwick (Chief Financial Officer)	7				
Roger Abravanel(i)	7				3
Manfred Aldag	6				
Annette Court(ii)	7	4	4		
Colin Holmes(iii)	7	4		1	1
Martin Jackson(iv)	7	1	4		5
Keith James(v)	3	2			
Margaret Johnson	7	4			5
Lucy Kellaway	7			1	
John Sussens	5		2		4

(i) Roger Abravanel was appointed to the Board with effect from 6 March 2012. Roger became a member of the Remuneration Committee with effect from 26 April 2012. During the year, Roger attended one of the scheduled Board meetings as an observer before he was formally appointed to the Board.
(ii) Annette Court was appointed to the Board with effect from 21 March 2012. Annette became a member of the Audit and Group Risk Committees on appointment. During the year, Annette attended two of the scheduled Board meetings, one Group Risk Committee and one Audit Committee meeting as an observer before she was formally appointed to the Board.
(iii) Colin Holmes stepped down from the Remuneration Committee with effect from 26 April 2012 and became a member of the Nomination Committee.
(iv) Martin Jackson stepped down as Chair of the Audit Committee with effect from 1 January 2012 to become Chair of the Group Risk Committee. He stepped down as a member of the Audit Committee with effect from 26 April 2012.
(v) Keith James stepped down from the Board, Audit and Nomination Committees at the AGM in April 2012.

Corporate Governance continued

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

The Company Secretary

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

Board Effectiveness

The performance and effectiveness of the Board and its Committees is fundamental to the success of the Group and there is a rigorous evaluation each year to assess how well the Board, its Committees, the Directors and the Chairman are performing. It is the Group's policy that every three years an external consultant, who has no connection with the Company, carries out a formal review of the Board's performance and such an evaluation process took place in 2010. The Board will undergo an external review in 2013 as the Group seeks to further enhance the effectiveness of the Board.

The evaluation process in 2012 was led by the Chairman with support from the Company Secretary. The process consisted of the completion, by all Directors, of a comprehensive questionnaire evaluating the performance of the Board and its Committees. The questionnaire considered board processes and their effectiveness, Board composition, Board objectives, Board support, and content of discussion and focus at Board meetings and invited Directors to indicate where specific improvements could be made. Completion of the questionnaire by each Director was followed by one-to-one discussions between each Director and the Chairman where the Board's role and structure, process, relationships, and any emerging issues were discussed.

The overall results of the evaluation were considered by the Chairman and the principal recommendations presented by him for review and discussion by the Board in January 2013. The evaluation concluded that good progress had been achieved in most of the areas identified for action in the last Board evaluation and that the Board and its Committees had continued to work very effectively in relation to most dimensions. Improvements have been seen in many of the areas of focus identified in the evaluation undertaken in 2011. These included the process of individual Non-Executive Directors accompanying the Chairman and Chief Executive on at least one of their overseas visits made during the year with such visits enabling Non-Executive Directors to get a more in-depth understanding of the operational and strategic challenges faced by the business. The importance of effective succession planning and identifying talented individuals across the Group who have senior management potential has continued to be a particular area of focus during the year. The Board has been mindful that several Non-Executive Directors will shortly reach nine years' service on the Board.

In addition, the Chairman has concluded that each Director contributes effectively and demonstrates full commitment to his/her duties. As a result of the evaluation undertaken in 2012, the following emerged as areas of particular focus:

- Recognising that over the next three to four years there was likely to be succession of a number of Directors, the importance was stressed of having a structured succession plan that delivered the competencies and experience required amongst Directors, in particular where Committee Chairs were involved, and ensured that these various moves took place in the right order;
- Greater utilisation to be made by the Group of the competencies and experience of Non-Executive Directors in order that they could be available for informal input into topics, if helpful, for Executive Directors and other senior managers between Board meetings;
- To alter the process of business review so as to review each Group business in-depth once a year, combining an assessment of what had been achieved since last review against what had been planned; how the prior year's actual and planned performance sit in comparison with those for earlier years; and to agree what might be expected to be achieved over the next 12 months, identifying the KPIs against which progress would be measured.

In addition to the annual Board Effectiveness Review and in order to provide regular information as to the effective functioning of the Board and its meeting processes, following each Board meeting the Directors provide feedback, via the completion of an online questionnaire, as to the effectiveness of each Board meeting including the efficacy of the presentation of discussion topics and whether time available for the meeting was used effectively.

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

The Roles of the Chairman and Chief Executive

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

Board Balance and Independence

The Board continues to give careful consideration to its structure and balance in the context of the need to refresh Board and committee membership in an orderly manner so as to maintain the continuity of Board process and the strength of personal interaction which underlies the effectiveness of the Board as a team. The Board remains satisfied that it has the appropriate balance of skills, experience, independence and knowledge of the Group to enable it and its Committees to discharge its duties and responsibilities effectively, as required by the Code.

The Board currently comprises twelve Directors, the Chairman (who was independent on appointment), three Executive Directors, seven independent Non-Executive Directors, and one Non-Executive Director, Manfred Aldag, who is employed by a significant shareholder and is not, therefore, considered independent. There is no requirement that the significant shareholder has representation on the Board and, accordingly, Mr. Aldag's appointment is subject to the same appointment and removal process as the other Board Directors. As can be seen from the Directors' biographies on page 30, the Directors have a broad range of skills and experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct which are integral to the success of the Group.

Although Colin Holmes holds, with Alastair Lyons, a cross-directorship in Bovis Homes Group PLC, the Board has determined that Colin Holmes remains independent in character and judgement and that his holding of a cross-directorship does not affect his ability to present an objective, rigorous and constructive challenge to the assumptions and viewpoints presented by management and the Board.

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

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

Corporate Governance continued

Although the Chairman has served in that role since June 2000 the Board remains of the view that he should continue in office and the Company's leading institutional investors have also confirmed their support for the Board's express intent. The Chairman, along with all the Directors, seeks election by shareholders annually.

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

John Sussens has been appointed as the Senior Independent Non-Executive Director. He is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive, or Group Chief Financial Officer has failed to resolve or for which such contact is inappropriate. He is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new Chairman, when appropriate.

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

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

Professional Development

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

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

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

Relations with Shareholders

The Company attaches considerable importance to communications with shareholders and engages with them on a variety of issues. The Investor Relations team has day-to-day primary responsibility for managing communications with institutional shareholders through a combination of briefings to analysts and institutional shareholders, both at the half-year and full year results. A number of analysts and investors visited the Group's Cardiff office during the year to meet with the Executive Directors and senior management in order to get a better understanding of how the Group operates and how it intends to achieve its strategic and operational objectives. Senior executives from the Group's overseas businesses also visit the UK in order to present to, and meet with, analysts and investors. Site visits and individual discussions with the Executive Directors are also arranged throughout the year with individual shareholders. Regular dialogue with shareholders helps to ensure that the Company's strategy is understood and that any issues are addressed in a constructive way.

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

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

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

The Group maintains a corporate website (www.admiralgroup.co.uk) containing a wide range of information of interest to institutional and private investors.

Conflicts of Interest

In compliance with the requirements of the Companies Act 2006 regarding Directors' duties in relation to conflicts of interest, the Group's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits as it thinks fit. The Company has put in place procedures to deal with conflicts of interest. These procedures include each Board member completing, annually, a conflict of interest questionnaire that sets out any situation in which they, or their connected persons have, or could have, a direct or indirect interest that could conflict with the interests of the Company. Any current directorships that they, or their connected persons hold, any advisory roles or trusteeships held, together with any companies in which they hold more than 1% of the issued share capital are also disclosed. These procedures were reviewed by the Board in January 2013 and it was concluded that they had operated effectively in 2012.

Board Committees

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

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

The Audit Committee

The membership at the end of the year was: Colin Holmes (Chair), Margaret Johnson and Annette Court.

The Company Secretary acts as Secretary to the Committee. The Committee usually meets four times per year and has an agenda linked to events in the Company's financial calendar.

The Board considers that the members of the Committee have the appropriate competence and experience to carry out their duties and further considers that Colin Holmes (Committee Chair), as a Chartered Management Accountant, has the appropriate recent and relevant financial experience having previously been the UK Finance Director for Tesco plc, and until 2010 a member of its Group Executive Committee.

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

Other individuals such as the Chief Financial Officer, Chief Operating Officer, Chief Executive, Chairman of the Board, the heads of Risk, Compliance, and Internal Audit and representatives of different parts of the Group may be invited to attend all or part of any meeting as and when appropriate. The external auditors were invited to attend all of the Committee's meetings held in 2012, excepting when their own performance was to be reviewed.

Colin Holmes
Chairman of the Audit Committee

The Audit Committee's primary responsibilities are:

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

Summary of Key Activities During 2012

During the year the Committee reviewed the following:

- The Annual Report and interim results;
- Reports from the internal audit departments within the Group on the effectiveness of the Group's risk management and internal control procedures, details of key audit findings, and actions taken by management to manage and reduce the impact of the risks identified;
- Reports from the external auditors on the principal findings from their review of the Company's systems and controls, and on their key issues and conclusions on the half and full year reporting;
- Reports from the Chair of the Group Risk Committee on the principal risks faced by the Group and the work undertaken by the Committee to ensure risk is appropriately managed;
- Presentations from independent actuaries to assist the Committee in concluding on the adequacy of the Group's reserves;
- Reports from the external auditors on their proposed audit scope, fees, audit, and auditor independence;
- Performance and effectiveness of the internal audit department;
- All reports from internal audit including management responses to the conclusions set out in the reports;
- The effectiveness of the Group's arrangements for handling allegations from whistleblowers and procedures for detecting fraud;
- The Committee also had presentations and discussions on a range of important issues including the approach to reserving within the Group, a review of large claims and a review of the control environment in the Group's Italian business;
- Its own terms of reference; and
- Its own effectiveness.

During the year the Committee reviewed its policy on non-audit services that sets out the procedure for approval, by the Committee, of expenditure with the Group's auditors of over £30,000, including the process where it is necessary for approval of such work to be given outside of the normal Committee meeting timetable. Such circumstances will require the approval of the Audit Committee Chair who will consider and approve such fees on behalf of the Committee. Such approval of fees in excess of £30,000 will then be notified by the Committee Chair to the next Committee meeting following approval. The Group's auditors, KPMG Audit plc, provide some non-audit services, the majority of which comprise compliance services related to various taxation issues within the Group, and which are not considered by the Committee to compromise their independence as auditors. The level of non-audit fees is reviewed at each Committee meeting and details are included in note 6 to the financial statements.

The Committee undertakes an annual review to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements, the progress achieved against the agreed audit plan, and the competence with which the auditors handled the key accounting and audit judgements. Following this review the Committee concluded that the auditor, KPMG, remained independent and provided a service that was robust and fit for purpose. There are no contractual obligations that restrict the Group's choice of external auditor. It was agreed that a decision on whether to re-tender the external audit should be made at least every five years. The last such tender was carried out in 2006. In view of the high quality of service received by the Group; the fresh perspective provided by the recent rotation of the audit engagement partner in 2011; and the continued competitiveness of their audit fee, the Committee recommended that a re-tender process should not be undertaken in 2012 but that the relationship with and effectiveness of KPMG should be kept under review. A resolution for the reappointment of KPMG as auditors will, therefore, be proposed at the forthcoming AGM. The Company is mindful of the September 2012 Corporate Governance Code, which applies to its next reporting period and includes a provision to put the external audit out to tender at least every ten years.

In accordance with agreed parameters, the overseas operations in Spain and Italy have their own locally based internal auditors, who report to their respective country heads. All reports are evaluated by the Head of Internal Audit to ensure the quality and effectiveness of the reported findings. In addition, the UK internal audit department carries out high level governance reviews of all foreign operations, assessing the internal control frameworks and system of risk management.

The Head of Internal Audit in the UK attends all Audit Committee meetings and provides a range of presentations and papers to the Committee, through which the Committee monitors the effectiveness of the Group's internal controls. Members of the Committee also receive all issued audit reports, enabling them to challenge the reports' content and related recommendations. The overseas internal auditors attend Committee meetings periodically. The Committee approves the internal audit programmes at the start of each calendar year whilst the effectiveness and workload of the internal audit functions, and the adequacy of available resources are monitored throughout the year.

The Audit Committee has unrestricted access to the Group's documents and information, as well as to its employees and external professional advisers.

As part of the Committee's detailed annual review of its performance and processes, each Committee member completed a comprehensive online questionnaire designed to provide objective assessment of the Committee's performance, including its effectiveness in monitoring internal and external audit. The Committee discussed the results of the review and it was concluded that the Committee and the audit process were effective and that the Committee had full access to all the information it required; that the Committee had appropriate terms of reference; and that it had achieved its remit.

The Group Risk Committee

Membership at the end of the year was: Martin Jackson (Chair); John Sussens, David Stevens and Annette Court.

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

The duties and responsibilities of the Committee are set out in Terms of Reference that were approved by the Board in January 2013. The responsibilities of the Committee can be summarised as:

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

Martin Jackson
Chairman of the Group Risk Committee

Summary of Key Activities in 2012

During the year the Committee:

- Reviewed the Group's risk appetite and profile of material risks;
- Considered the adequacy of risk mitigation measures and contingency plans;
- Reviewed the Group's risk strategy in the context of the Group's agreed strategic objectives;
- Monitored the Group's progress towards implementation of Solvency II;
- Approved the design and reviewed the results of the stress and scenario testing programme;
- Received an external presentation on Enterprise-wide Risk Management benchmarking;
- Reviewed in-depth analysis of a number of the Group's most significant risk areas, including insurance risk in the UK car insurance operation;
- Reviewed management information on conduct risk within the Group;
- Reviewed its own terms of reference;
- Reviewed its own effectiveness and sought to identify potential improvements that could be made to the Committee's oversight of risk management in the Group.

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

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

The Nomination Committee

The membership at the year-end was Alastair Lyons (Chairman), Colin Holmes and Lucy Kellaway. The Company Secretary acts as Secretary to the Committee. The Committee invites the Chief Executive to attend meetings when it deems appropriate. The Committee met on one occasion during 2012.

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

Non-Executive Directors Roger Abravanel and Annette Court joined the Board in March 2012, following a formal, rigorous and transparent recruitment process led by external consultants, instructed by the Committee, who identified and shortlisted potential candidates. Following this process, and separate interviews with Committee and Board members, the Committee unanimously recommended to the Board that Roger and Annette should be appointed to the Board.

During the year, the Committee kept under review the size of the Board and the balance of its composition particularly in the context of the continuing need to assess the balance of skills, knowledge, independence, diversity and experience on the Board and the impending retirement, over the next five years, of a number of current Non-Executive Directors who are approaching nine years' service.

Alastair Lyons, CBE
Chairman of the
Nomination Committee

The Board, at their meeting in December 2012, considered the Group's current Succession Plan which considered the senior roles within the Group and identified whether there was emergency short-term cover in place in the event that the individual left the organisation, and whether there was a permanent replacement available within the organisation, or whether the position would need to be filled externally. It also identified where there were individuals who, with further experience and guidance, would be capable of moving into particular senior management roles.

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

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

The Group remains strongly supportive of the principle of boardroom diversity, of which gender is an important, but not the only aspect. What is important is diversity of thought, experience, and approach and each new appointment must complement what already exists at the Board table. Accordingly, appointments will always be made on merit against objective criteria, including diversity, and not just to achieve an externally prescribed number.

The Group already has strong female representation in both management and at Board level. On our Executive Committees women comprise 33% of that for the UK and 41% for our International operations. In addition, of the total employees across the Group in the UK, 49% are women. Given women already constitute 25% of our plc Board the Group has already met the target set for 2015 by Lord Davies in his report: Women on Boards. The Group remains committed to providing equal opportunities, eliminating discrimination and encouraging diversity amongst its workforce both in the UK and overseas.

Remuneration Committee

Full details of the membership, responsibilities and activities of the Remuneration Committee can be found in the Directors' Remuneration Report set out on pages 47 to 56.

Corporate Governance continued

Internal Control and Risk Management

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

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's internal controls; that it has been in place for the year ended 31 December 2012; and that, up to the date of approval of the Annual Report and Accounts, it is regularly reviewed by the Board and accords with the internal control guidance for Directors provided in the Code.

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

There are several key elements to the risk management environment throughout the Group. These include the setting of risk management strategy, risk appetite and risk policy by the GRC; enforcement of that policy by the Chief Executive; delivery of the policy by the Risk Management Committee and the Group's other UK and overseas entities by the application of the Group's systems of internal control and risk management; and the overall assurance provided by internal audit to the Audit Committee that the systems operate effectively. The Board recognises that the day-to-day responsibility for implementing these policies must lie with the Senior Management whose operational decisions must take into account risk and how this can be controlled effectively. The GRC will report on its activities to the Audit Committee in support of the overall assurance provided by the Audit Committee that the Group's risk management and compliance systems operate effectively.

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

The GRC, UK RMC and other UK and overseas committees receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units. The UK RMC, the Group's other UK and overseas committees and the Audit Committee also receive regular reports from the relevant Internal Audit functions, which include recommendations for improvement of the control and operational environment. Twice a year the Chairman of the Group Risk Committee provides a comprehensive report to the Board on the Group's risk appetite, risk strategy and risk management policy with focus on a consideration of the principal assessed exposures and the effectiveness of the mitigation strategies adopted. In addition, the Board receives reports from the Chairman of the Audit Committee as to its activities, together with copies of the minutes of the UK RMC and the GRC and Audit Committees.

The Audit Committee's ability to provide the appropriate assurance to the Board depends on the provision of periodic and independent confirmation, primarily by Internal Audit, that the controls established by management are operating effectively and where appropriate provides a high-level challenge to the steps being taken by the GRC to implement the risk management strategy. The Internal Audit functions undertake regular reviews of internal control systems and business processes, identifying control weaknesses and making recommendations to management on improvements where necessary.

In March 2013 the Board carried out the annual review of the effectiveness of the Group's system of internal controls for the 2012 year, also taking account of events since 31 December 2012, by considering documentation from the Audit Committee including the Internal Audit Annual Report prepared by the Group's Head of Internal Audit.

The Board confirms that there were no significant issues arising during the year under review. However, the Board continues to review the adequacy of the risk management and control framework. As the Group's operations grow, the Board looks for opportunities to make improvements and add appropriate resources when necessary.

Going Concern

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

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

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2012.

Business Review

The Company is the holding Company for the Admiral Group of companies. The Group's principal activity continues to be the selling and administration of private motor insurance and related products.

The information that fulfils the requirements of the Business review, as required by Section 417 of the Companies Act 2006, and which should be treated as forming part of this report by reference are included in the following sections of the annual report:

- Chairman's statement
- Chief Executive's statement
- Business review.

Group Results and Dividends

The profit for the year, after tax but before dividends, amounted to £258.4 million (2011: £221.3 million).

The Directors declared and paid dividends of £219.3 million during 2012 (2011: £198.8 million) – refer to note 10b for further details.

The Directors have declared a final dividend of £124.5 million (45.5 pence per share), payable on 24 May 2013.

Share capital

Refer to the Business Review for the disclosure of substantial shareholdings in accordance with Chapter 5 of the Transparency and Disclosure rules.

Financial Instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in note 5c to the financial statements.

Directors and their Interests

The present Directors of the Company are shown on pages 30 and 31 of this report, whilst Directors' interests in the share capital of the Company are set out in the Remuneration Report on pages 48 to 56.

Charitable and Political Donations

During the year the Group donated £141,000 (2011: £194,000) to various local and national charities. The amount the Group donates fluctuates annually due to changes in sponsorship initiatives and employee demand for matched funding. The Group has never made political donations. Refer to the Business Review for further details.

Employee Policies

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

Creditor Payment Policy

It is the policy of the Group to pay all purchase invoices by their due date, and appropriate quality measures are in place to monitor and encourage this. At the end of the year outstanding invoices represented 16 days purchases (2011: 14 days). The Group is a signatory to the prompt payment code.

Contractual Arrangements

The Group considers its coinsurance and reinsurance contracts, as described in the Business Review section on page 11 to be essential to the running of the Group's business. No other contractual arrangements are considered to be essential.

Additional Information for Shareholders

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

At 31 December 2012, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital and shares issued during the year can be found in note 10d.

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

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

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

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

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

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

Power to Issue Shares

At the last Annual General Meeting, held on 26 April 2012, authority was given to the Directors to allot unissued relevant securities in the Company up to a maximum of £89,535, equivalent to one third of the issued share capital as at 21 March 2012. This authority expires on the date of the Annual General Meeting to be held on 25 April 2013 and the Directors will seek to renew this authority for the following year.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company (up to a maximum of 5% of the issued share capital of the Company) for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the Annual General Meeting to be held on 25 April 2013 and the Directors will seek to renew this authority for the following year.

Appointments of Directors

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

However, in accordance with the requirement under the UK Corporate Governance Code for annual election of Directors all Directors will submit themselves for re-election at the Group's Annual General Meeting on 25 April 2013.

Articles of Association

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

Power of the Directors

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

Annual General Meeting

It is proposed that the next AGM be held at Cardiff City Hall, Cathays Park, Cardiff CF10 3ND on Thursday 25 April 2013 at 2.00pm, notice of which will be sent to shareholders with the Annual Report.

Directors' Report continued

Directors' Responsibilities

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

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

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

In preparing each of the Group and Parent Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

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

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

Responsibility Statement

The Directors confirm that to the best of their knowledge:
- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities and financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' report includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of Information to Auditors

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

Auditor

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

By order of the Board,

Mark Waters
Company Secretary
5 March 2013

Kevin Chidwick
Chief Financial Officer
5 March 2013

A Statement to Shareholders from the Chairman of the Remuneration Committee

Dear Shareholder,
I am pleased to introduce the Directors' Remuneration report (the 'Report') for the year ended 31 December 2012, which has been prepared by the Remuneration Committee (the 'Committee') and approved by the Board.

This Report covers the reporting period from 1 January 2012 to 31 December 2012 and provides details of the activities of the Committee and remuneration policy of the Company.

The UK Government Department of Business Innovation & Skills (BIS) is currently proposing changes to the structure and contents of Directors' Remuneration Reports (DRRs). The Committee has decided to adopt a number of these proposed changes early; therefore after this brief introduction, the Report is divided into three sections:

- A Policy Report which will detail Admiral's remuneration policies and links to Group strategy;
- An Implementation Report, which will focus on the remuneration arrangements and outcomes for the year under review; and
- A third section containing information required this year under the existing regulations.

2012 has been another strong year for the Group despite a challenging external environment. The Group increased profits in the year by 15% to £344.6 million with a return on capital employed of 60% which supported total dividends for the financial year of 90.6 pence per share, and represents a distribution of 95% of our earnings. The Group's strategy remains to continue to maximise our position in the UK while taking what we know and do well, which is internet and telephone delivery of car insurance and price comparison, to our overseas insurance and price comparison businesses.

During the year ended 31 December 2012, the Committee met on five separate occasions. The key matters considered included:

- Reviewing salary and fee proposals for the Executive Directors, the Chairman and Senior Management;
- Reviewing the appropriateness of the performance conditions for both the Discretionary Free Share Scheme (DFSS) and Free Share Incentive Plan (SIP) awards;
- Reviewing the Company's performance against the performance conditions applicable to the DFSS and SIP awards and where appropriate authorising the vesting of awards;
- Reviewing and authorising the grant of awards under both DFSS and SIP plans;
- Reviewing the Committee's terms of reference and recommending amendments to the Board for approval; and
- Reviewing the efficiency of DFSS awards for overseas businesses.

John Sussens
Chairman of the Remuneration Committee
5 March 2013

John Sussens
Chairman of the
Remuneration Committee

Directors' Remuneration Report

Policy Report

Compliance Statement

This Remuneration report has been prepared according to the requirements of the Companies Act 2006 (the Act), the Listing Rules of the UK Listing Authority and under Regulation 11 of and Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations). In addition, the Board has applied the principles of good corporate governance set out in the UK Corporate Governance Code (the 'Governance Code'), and has considered the guidelines issued by its leading shareholders and bodies such as the Association of British Insurers and the National Association of Pension Funds.

In accordance with Section 439 of the Companies Act, an advisory resolution to approve this report will be proposed at the Annual General Meeting ('AGM') of the Company to be held on 25 April 2013. The detail in this report sets out how the remuneration principles have been applied in 2012.

Key Principles of Admiral Remuneration Arrangements

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

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

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

Remuneration Policy Table

This section of our report describes the key components of the remuneration arrangements for Executive Directors and Non-Executive Directors for 2013 and beyond. No changes to the structure of remuneration are proposed for 2013.

Purpose and link to strategy	Operation	Opportunity and performance metrics
Base salary To attract and retain talent by setting base salaries at levels appropriate for the business	Salaries are reviewed annually Salary levels/increases take account of: • Scope and responsibility of the position; • Individual performance and effectiveness, and experience of the individual in the role; • Market pay levels; • Average increase awarded across the Group	Henry Engelhardt: £381,425 (increase of 4.5% from 1 July 2012) Kevin Chidwick: £438,900 (increase of 4.5% from 1 October 2012) David Stevens: £360,535 (increase of 4.5% from 1 September 2012)
Pension To provide retirement benefits	The Group operates a Personal Pension Plan, a Defined Contribution scheme This is available to all employees following completion of their probationary period	The Group matches employee contributions up to a maximum of 6% of base salary with maximum employer contribution of £9,000 Henry Engelhardt and David Stevens have declined to be included in the plan
Other benefits To provide market-competitive benefits	Includes: • Death in service scheme; • Private medical cover; • Permanent health insurance All benefits are non-pensionable	Henry Engelhardt: £547 Kevin Chidwick: £512 David Stevens: £512
Discretionary Free Share Scheme (DFSS) To motivate and reward longer-term performance, grow market share profitably, reduce staff attrition, and further strengthen the alignment of the interests of shareholders and staff	Kevin Chidwick participates in the DFSS (the other Executive Directors have declined to participate given their significant shareholdings). Grants are made at the discretion of the Committee Awards, generally made as a specific number of shares, vest after three years subject to performance and continued employment	Maximum opportunity: £1,000,000 or 600% of base salary if lower Award size for 2012: 52,250 shares, with a value on the date of award of £560,643 Awards vest by reference to growth in the Group's EPS in excess of a risk-free return, defined as average three-month LIBOR, over a three-year period (10% of shares vest for matching LIBOR; full vesting for outperforming LIBOR by 10% p.a.; straight-line vesting in between) The Committee feels EPS vs. LIBOR is a strong indicator of long-term shareholder return
DFSS bonus To further align incentive structures with shareholder interests through the delivery of dividend equivalents	Bonus is calculated to be equivalent to dividends that would have been payable during the year on DFSS shares awarded but not vested	Linked to Admiral dividend
Approved Free Share Incentive Plan (SIP)	All UK staff participate in the SIP (except Henry Engelhardt and David Stevens who have declined to participate). Grants are made twice a year based on the results of each half-year	Maximum opportunity: £3,000 per annum
Executive shareholding policy To support shareholder alignment	Executive Directors have agreed to (acquire and) retain a beneficial shareholding equal to at least 100% of base salary, which can be built up over a period of five years from the date of appointment	100% of base salary
Fees To remunerate Non-Executive Directors	The Chairman fee is determined by the Committee after consultation with the Executive Directors. The Chairman, as with the founding Directors, holds a significant shareholding in the Group and this is reflected in the size of his fee, which is materially below that of Chairmen of organisations of similar size and complexity. The non-executive directors' fees are determined by the Chairman together with the Executive Directors. Fees take into account the time commitment, responsibilities, and the skills and experience required	Non-Executive Chairman: £218,000 Non-Executive Director base fee: £50,000 Senior independent Director: £5,000 Committee Chairman: • Audit: £20,000 • Risk: £20,000 • Remuneration: £5,000 • Nomination: £5,000 Committee member: • Audit: £12,000 • Risk: £12,000
Kevin Chidwick expenses for relocation to USA	Kevin Chidwick was reimbursed for expenses incurred in his relocation to the USA in January 2012	£260,000

Directors' Remuneration Report continued

Note:
Approximately 1,800 employees from across the Group, as well as Kevin Chidwick, participate in the DFSS. The Committee recommends for approval by the Board awards to the CFO and other employees under the DFSS. For the CFO, all share awards are subject to the above performance criterion. For staff below Group Board level awards will be split. 50% of the award will be subject to the above performance criterion, and the other 50% will have no performance criteria attached other than the requirement that the recipient remains an employee of the Group at the date of vesting. Award sizes vary by organisational level. All holders of DFSS awards receive the DFSS bonus.

Remuneration Arrangements for Founding Directors

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

Details of Directors' Service Contracts

The following table summarises the notice periods relating to the service contracts of the Executive Directors serving at March 2013.

	Notice – Director (months)	Notice – Company (months)
Henry Engelhardt	12	12
Kevin Chidwick	12	12
David Stevens	12	12

There is no provision in the Executive Directors' contracts for compensation to be payable on early termination of their contract over and above the notice period element.

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

	Term	Commencement date	Notice period
Alastair Lyons	3 years	1 July 2010	Three months' written notice
Roger Abravanel	3 years	6 March 2012	One month's written notice
Manfred Aldag	Indefinite	n/a	Terminable on one month's notice from either party – automatically terminates should he cease employment with Munich Re
Annette Court	3 years	21 March 2012	One month's written notice
Colin Holmes	3 years	3 December 2010	One month's written notice
Martin Jackson	1 year	1 December 2012	One month's written notice
Margaret Johnson	3 years	4 September 2012	One month's written notice
Lucy Kellaway	3 years	4 September 2012	One month's written notice
John Sussens	1 years	1 December 2012	One month's written notice

Given the short notice periods applicable, mitigation issues are unlikely to arise.

Termination Payments

The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

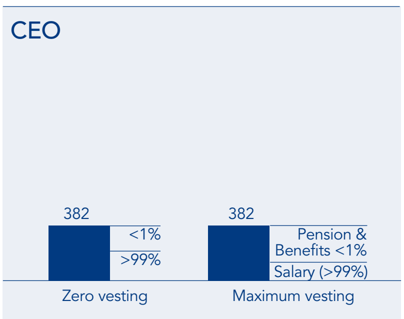
Under normal circumstances, good leavers are entitled to receive termination payments in lieu of notice based on base salary and compensation for loss of benefits. The notice period for all Executive Directors is one year.

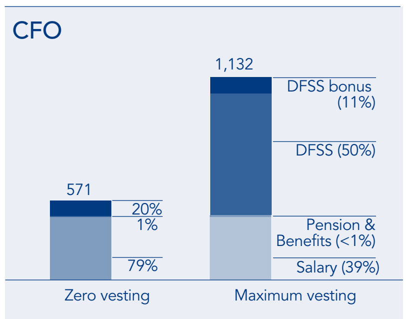
In the event an Executive leaves for reasons of death, injury, disability, redundancy, retirement, or any other reason which the Remuneration Committee in its absolute discretion permits, any outstanding long-term incentive awards will be pro-rated for time and performance and will vest after the end of the performance period. Upon a change of control of the Company, awards will be pro-rated for time and vest immediately based on the extent to which the Committee determines that the performance conditions have been met or are likely to be met.

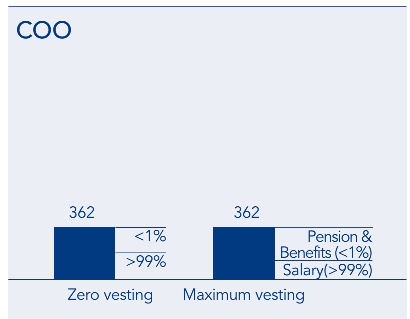
For all other leavers, outstanding awards will lapse. The Committee retains discretion to alter these provisions (as permitted by the relevant Plan Rules) on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

Pay-for-Performance: Scenario Analysis

The following chart shows the potential split between the different elements of the Executive Directors' total remuneration under two different performance scenarios: 'Zero vesting', and 'Maximum vesting'. The Company is unable to provide a 'target' scenario as it does not operate an annual performance-related bonus scheme with threshold targets and maximum payment levels.







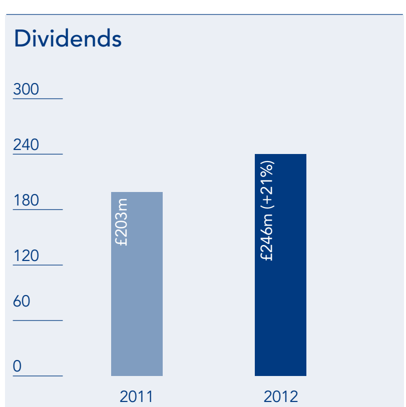
The charts above exclude the effect of any Company share price appreciation. For this reason, were the CFO's DFSS shares vest in full, his actual total remuneration may exceed the £ value shown in the chart above.

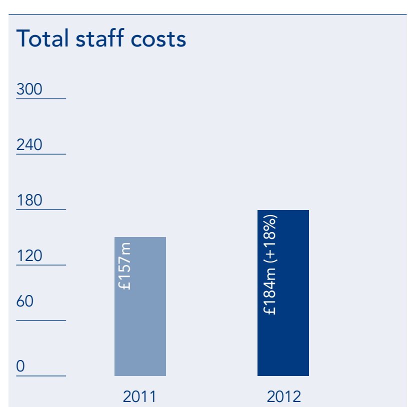
Component	'Zero vesting'	'Maximum vesting'
Base salary	Annual base salary for 2013	Annual base salary for 2013
Pension	£9,000 annual contribution for CFO; no contribution for CEO or COO	£9,000 annual contribution for CFO; no contribution for CEO or COO
Benefits	Taxable value of annual benefits provided	Taxable value of annual benefits provided
DFSS	0% vesting	100% vesting
DFSS bonus	Based on DFSS bonus paid in 2012	Based on DFSS bonus paid in 2012

Distribution Statement

The table below shows the percentage change in profit after tax, dividends, and total employee compensation spend from the financial year ended 31 December 2011 to the financial year ended 31 December 2012.

Percentage Change from Financial Year ended 2011 to 2012





Considerations of Conditions Elsewhere in the Group

In making remuneration decisions, the Committee also considers the pay and employment conditions elsewhere in the Group.

The increase to the CEO, CFO and COO's base salary for 2012 of 4.5%, is in line with the average increase across the Group of 4.5%.

Implementation Report

Remuneration Committee Membership in 2012

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

At the end of 2012 the Committee consisted of Martin Jackson, Margaret Johnson, and Roger Abravanel under the Chairmanship of John Sussens, the Senior Independent Director. Colin Holmes stepped down from the Committee in March 2012 and Roger Abravanel joined the Committee with effect from that date. The Committee met five times during the year.

The Chairman and CEO are invited to meetings where the Committee considers it appropriate to obtain their advice on Group strategy and performance and Senior Executive pay strategy. The members of the Committee do not have any personal financial interests (other than shareholdings), or any conflicts, that relate to the business of the Committee. During the year under review, the Committee was aware of the cross-directorships held by Colin Holmes and Alastair Lyons, who are both Directors of Bovis Homes Group plc. Although not applicable given Colin Holmes is no longer a member of the Committee, the Committee had satisfied itself as to the independence of Colin Holmes. However, he had chosen to take no part in decisions on the Chairman's remuneration. The Committee members do not have any day-to-day involvement in the running of the Group.

Adviser to the Committee

During the year, in order to enable the Committee to reach informed decisions on executive remuneration, advice on market data and trends was obtained from independent consultants, Kepler Associates. Kepler reports directly to the Committee Chairman and is a signatory to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Kepler does not provide any other services to the Group. The fees paid to Kepler in respect of work carried out in 2012 (based on time and materials) totalled £4,500.

In addition, the Committee received advice on the structure of the Group's share schemes from PricewaterhouseCoopers LLP (PwC). The fees paid to PwC totalled £15,360. The Company Secretary also circulates market survey results as appropriate.

Total Actual Remuneration

To aid transparency for our shareholders, the table below sets out the total actual remuneration received by each Executive Director for the year to 31 December 2012, in line with the BIS single total figure definition.

Director	1. Base salary	2. Benefits	3. Pension	4. DFSS and SIP	5. DFSS bonus	6. Relocation	Total remuneration
Henry Engelhardt	£373,212	£547	n/a	n/a	n/a	n/a	£373,759
Kevin Chidwick	£424,725	£512	£9,000	£535,846	£122,612	£260,000	£1,352,695
David Stevens	£350,175	£512	n/a	n/a	n/a	n/a	£350,687

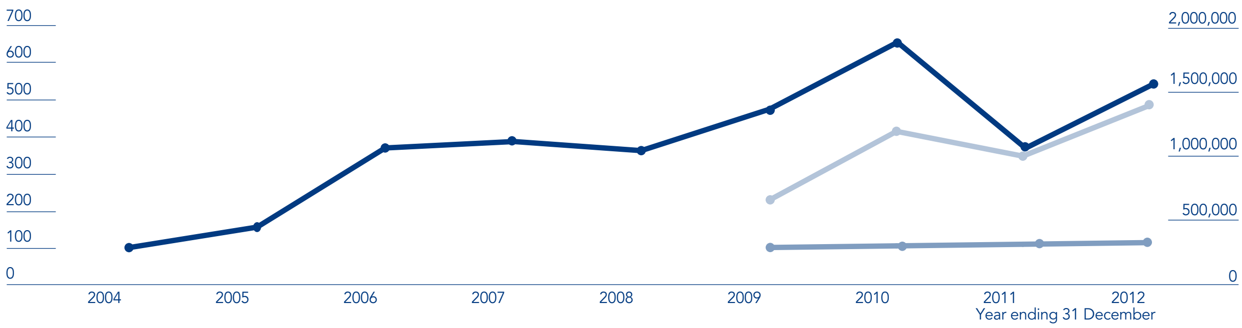
Director	1. Fee	Total remuneration
Alastair Lyons	£218,400	£218,400
Roger Abravanel	£50,000	£50,000
Manfred Aldag	£6,000	£6,000
Annette Court	£74,000	£74,000
Colin Holmes	£70,000	£70,000
Martin Jackson	£70,000	£70,000
Keith James	£38,167	£38,167
Margaret Johnson	£62,000	£62,000
Lucy Kellaway	£50,000	£50,000
John Sussens	£72,000	£72,000

The figures have been calculated as follows:

1. Base salary/fee: amount earned for the year.
2. Benefits: the taxable value of annual benefits received in the year.
3. Pension: the value of the Company's contribution during the year.
4. DFSS: the value at vesting of shares vesting on performance over the three-year period ending 31 December 2012. Given that vesting occurs in April, after the Remuneration Report is finalised, the DFSS element of the single figure is based upon the average share price in the last three months of the calendar year in question.
5. DFSS bonus: the value at grant of bonus equivalent to dividends that would have been payable during the year on DFSS shares awarded but not yet vested.
6. Kevin Chidwick was paid £260,000 in January 2012 to reimburse him for expenses incurred in relation to his relocation to the USA after taking on CEO, responsibility for the Group's US Insurer Elephant Auto.

Comparison of Overall Performance and Pay

The graph below illustrates CEO and CFO total remuneration vs. TSR performance since 31 December 2004.



Left axis: TSR (£100 invested on 31 December 2004).
Right axis: CFO total actual remuneration (£000 p.a.).
Right axis: CEO total actual remuneration (£000 p.a.).

Base salary

The Committee approved the following base salaries for the Executive Directors in 2012:

Director	2011 salary	2012 salary	% change	Effective date
Henry Engelhardt	£365,000	£381,425	4.5%	1 July 2012
Kevin Chidwick	£420,000	£438,900	4.5%	1 October 2012
David Stevens	£345,000	£360,525	4.5%	1 September 2012

Pensions

The Company operates a Group Personal Pension Plan, where employee contributions are matched up to a maximum 6% of base salary with maximum employer contribution of £9,000. This is available to all employees following completion of their probationary period.

Kevin Chidwick is included in the plan and is subject to the maximum employer contribution limit of £9,000. The Company contributed £9,000 in 2012. Henry Engelhardt and David Stevens have declined to be included in the plan.

Discretionary Free Share Scheme (DFSS)

Awards made during the year

Kevin Chidwick and many members of the management team participate in this plan. Awards are generally made as over a specific number of shares, and vest after a three-year performance period with vesting determined by performance targets and employment conditions. Of the Group's current Executive Directors, only Kevin Chidwick participates in this scheme, as Henry Engelhardt and David Stevens have declined to be included given their significant shareholdings.

Awards made up to 2012 vest based on growth in EPS in excess of a risk-free return, defined as average three-month LIBOR, over a three-year period. 10% of shares vest for matching LIBOR, full vesting occurs for outperforming LIBOR by 10% p.a., with straight-line vesting in between. No vesting occurs for EPS growth below LIBOR.

Type of award	Discretionary Free Share Scheme
Face value of awards granted in 2012	CEO: n/a
	CFO: 52,250 shares on 11 October 2012 with a value at the date of award of £560,643
	COO: n/a
Performance period	3 years from 1 January 2012
Performance conditions	Growth in EPS vs. LIBOR
Threshold (10% vests)	Growth in line with LIBOR over 3 years
Maximum (100% vests)	Growth of 10% p.a. in excess of LIBOR over 3 years

Additional Information

Awards Vesting during the Year and in 2013

The awards vesting during the year and in 2013 are subject to the same performance conditions as described above. The table below details the Company's EPS performance vs. LIBOR and vesting outcomes over the performance periods.

Performance period	Vesting date	Admiral EPS index	LIBOR index	Outperformance	% vesting	Value for CFO (£000)
1 Jan 2009 – 31 Dec 2011	April 2012	149 points	103 points	46 points	100%	£530,710[1]
1 Jan 2010 – 31 Dec 2012	April 2013	161 points	102 points	59 points	100%	£533,391[2]

1 Calculated based on number of shares vesting in April 2012 (45,009) multiplied by the share price at the vesting date (£11.79).
2 Calculated based on the number of shares vesting in April (and December) 2013 (48,010) multiplied by the average share price over the final three months of 2012 (£11.11).

DFSS bonus

The Group pays a bonus to all holders of DFSS shares. The bonus equates to the dividend payable on an equivalent number of the ordinary shares of the Group. The Committee continues to feel that having a Group-wide bonus equivalent to the dividend flow received by investors further aligns the incentive structure with shareholders.

In 2012, Kevin Chidwick received a DFSS bonus of £122,612 (2011: £106,692).

Free Share Incentive Plan (SIP)

The SIP is available to all UK staff (Henry Engelhardt and David Stevens have declined to be included in the plan). The maximum annual award under the SIP is £3,000 per employee. Shares awarded under the SIP are forfeited if the employee leaves within three years of the award. Awards are made twice a year, based on the results of each half-year. Overseas staff receive an award under the Discretionary Free Share Scheme equivalent to the SIP award made to UK employees.

Dilution

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

Total Shareholdings of Directors

Executive Directors have agreed to (acquire and) retain a beneficial shareholding equal to at least 100% of base salary, which can be built up over a period of five years from the date of appointment.

As at March 2013, the Directors have the following shareholdings:

	Shares held	
	Beneficially Owned outright	Subject to performance conditions
Henry Engelhardt	37,005,472	–
Kevin Chidwick	83,926	150,260
David Stevens	10,631,950	–
Alastair Lyons	492,152	–
Roger Abravanel	–	–
Manfred Aldag	1,919	–
Annette Court	–	–
Colin Holmes	40,000	–
Martin Jackson	–	–
Margaret Johnson	–	–
John Sussens	80,000	–

Shareholder context

The table below shows the advisory vote on the 2012 Remuneration Report at the April 2012 AGM relating to the financial year 2011.

	For	Against	Abstentions
Votes	97.67%	1.88%	0.45%

This section contains information that will be required for the 2012 DRR under current regulations, but which will no longer be required for the 2013 Directors' Remuneration Report.

Directors' Remuneration – Audited

Remuneration for the year ended 31 December 2012 was as follows:

	Base salary and fees	Bonuses	Benefits	**2012 Total**	2011 Total
Executive Directors					
Kevin Chidwick*1	£424,725	£122,612	£269,512	£816,849	£517,000
Henry Engelhardt	£373,212	–	£547	£373,759	£358,000
David Stevens	£350,175	–	£512	£350,687	£336,000
Chairman and Non-Executive Directors					
Alastair Lyons	£218,400	–	–	£218,400	£210,000
Roger Abravanel	£50,000	–	–	£50,000	–
Manfred Aldag	£6,000	–	–	£6,000	£6,000
Annette Court	£74,000	–	–	£74,000	–
Colin Holmes	£70,000	–	–	£70,000	£64,000
Martin Jackson	£70,000	–	–	£70,000	£70,000
Keith James*2	£38,167	–	–	£38,167	£104,000
Margaret Johnson	£62,000	–	–	£62,000	£62,000
Lucy Kellaway	£50,000	–	–	£50,000	£50,000
John Sussens	£72,000	–	–	£72,000	£64,000
Totals	**£1,858,679**	**£122,612**	**£270,571**	**£2,251,862**	**£1,841,000**

*1 Kevin Chidwick received bonuses of £122,612 in lieu of dividends on shares awarded (but not yet vested) under the Group's DFSS bonus plan (consistent with all DFSS scheme participants). He also received £260,000 in January 2012 to reimburse him for expenses incurred in relation to his relocation to the USA.

*2 Keith James stepped down from the Board at the AGM in April 2012. His fees include £7,500 for chairing the Board of Admiral Insurance Company Limited, £15,000 for chairing the Board of Inspop.com Limited and £15,000 for chairing the Group's International Price Comparison Board.

Directors' Remuneration Report continued

Awards to Kevin Chidwick under the DFSS and SIP:

Type	At start of year	Awarded during year	Vested/ matured during year	At end of year	Price at award (£)	Value at award date (£)	Value at 31/12/12 or maturity (£)	Date of award	Final vesting/ maturity date
DFSS	45,009	–	45,009	–	£8.89	£400,130	£530,710	13/04/2009	13/04/2012
DFSS	45,010	–	–	45,010	£13.29	£598,182	£522,116	30/04/2010	30/04/2013
DFSS	3,000	–	–	3,000	£15.51	£46,530	£34,800	15/12/2010	15/12/2013
DFSS	50,000	–	–	50,000	£16.39	£819,500	£580,000	15/04/2011	15/04/2014
DFSS	–	52,250	–	52,250	£10.73	£560,643	£606,100	11/10/2012	11/10/2015
SIP	171	–	171	–	£8.74	£1,494	£2,679	06/03/2009	06/03/2012
SIP	140	–	140	–	£10.67	£1,494	£2,479	28/08/2009	28/08/2012
SIP	121	–	–	121	£12.36	£1,495	£1,404	05/03/2010	05/03/2013
SIP	100	–	–	100	£14.90	£1,490	£1,160	27/08/2010	27/08/2013
SIP	90	–	–	90	£16.78	£1,510	£1,044	08/03/2011	08/03/2014
SIP	110	–	–	110	£13.52	£1,487	£1,276	05/09/2011	05/09/2014
SIP	–	128	–	128	£11.80	£1,510	£1,485	16/03/2012	16/03/2015
SIP	–	126	–	126	£11.82	£1,489	£1,462	03/09/2012	03/09/2015

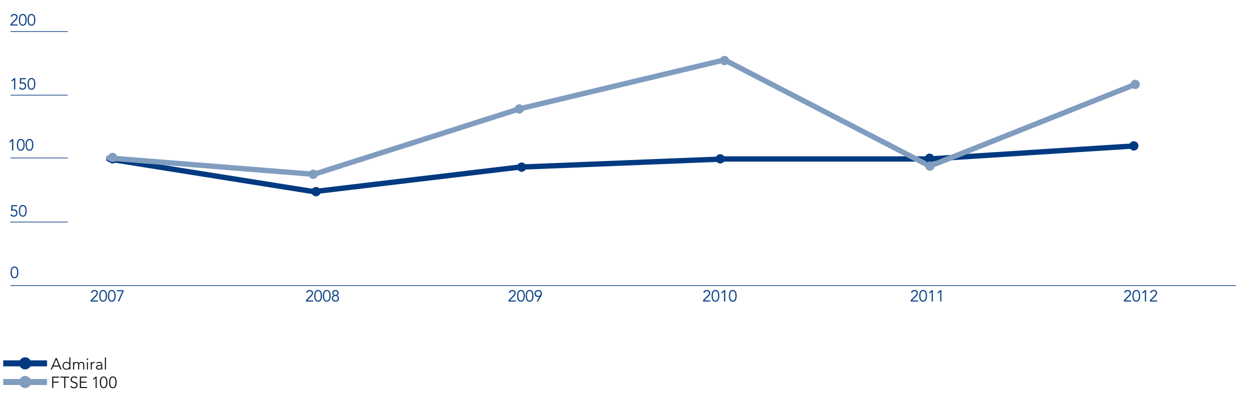
The closing price of Admiral shares on 31 December 2012 was £11.60 per share.

* 100% of the DFSS award made in April 2009 vested during 2012. The earnings per share index for the performance period (2009 to 2011 years, inclusive) was 149 points, compared to the LIBOR index for the same period of 108 (outperformance of 41 points). 10% of the award is achieved for meeting LIBOR, with a further 2.5% for each point of outperformance (up to a maximum of 100%).

Total Shareholder Return (TSR)

The following graph sets out a comparison of Total Shareholder Return for Admiral Group plc shares with that of the FTSE 100 Index, of which the Company is a constituent. The graph measures the period from 31 December 2007 up to 31 December 2012. TSR is defined as the percentage change over the period, assuming reinvestment of income.

The Directors consider this to be the most appropriate index against which the Company should be compared.



Source: Datastream

Other Directorships

Executive directors are permitted to, although none currently do, accept appointments as Non-Executive Directors of companies with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be passed to the Company.

Independent auditor's report to the members of Admiral Group plc

We have audited the financial statements of Admiral Group plc for the year ended 31 December 2012 set out on pages 58 to 93. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 29 to 43 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 46 in relation to going concern;
- the part of the Corporate Governance Statement on pages 32 to 37 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

5 March 2013

Consolidated Income Statement

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Insurance premium revenue		1,156.5	959.7
Insurance premium ceded to reinsurers		(657.6)	(513.9)
Net insurance premium revenue	4	**498.9**	**445.8**
Other revenue	6	361.1	349.0
Profit commission	4	108.4	61.8
Investment and interest income	5	15.9	13.7
Net revenue		**984.3**	**870.3**
Insurance claims and claims handling expenses		(929.1)	(785.9)
Insurance claims and claims handling expenses recoverable from reinsurers		524.6	422.1
Net insurance claims		**(404.5)**	**(363.8)**
Operating expenses	7	(214.6)	(188.8)
Share scheme charges	7	(20.6)	(18.6)
Total expenses		**(639.7)**	**(571.2)**
Profit before tax		**344.6**	**299.1**
Taxation expense	8	(86.2)	(77.8)
Profit after tax		**258.4**	**221.3**
Profit after tax attributable to:			
Equity holders of the parent		258.4	221.2
Non-controlling interests		–	0.1
		258.4	**221.3**
Earnings per share:			
Basic	10	95.1p	81.9p
Diluted	10	94.9p	81.7p
Dividends declared and paid (total)	10	219.3	198.8
Dividends declared and paid (per share)	10	81.6p	74.6p

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Profit for the period	**258.4**	**221.3**
Other comprehensive income		
Exchange differences on translation of foreign operations	(2.7)	(1.0)
Other comprehensive income for the period, net of income tax	**(2.7)**	**(1.0)**
Total comprehensive income for the period	**255.7**	**220.3**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	255.9	220.2
Non-controlling interests	(0.2)	0.1
	255.7	**220.3**

Consolidated Statement of Financial Position

	Note	As at 31 December 2012 £m	As at 31 December 2011 £m
ASSETS			
Property and equipment	9	16.5	17.6
Intangible assets	9	92.5	87.5
Deferred income tax	8	15.2	10.3
Reinsurance assets	4	803.0	639.8
Trade and other receivables	5, 9	55.3	52.1
Financial assets	5	2,005.1	1,583.0
Cash and cash equivalents	5	216.6	224.6
Total assets		**3,204.2**	**2,614.9**
EQUITY			
Share capital	10	0.3	0.3
Share premium account		13.1	13.1
Other reserves		0.7	3.2
Retained earnings		443.0	377.3
Total equity attributable to equity holders of the parent		**457.1**	**393.9**
Non-controlling interests		3.6	0.5
Total equity		**460.7**	**394.4**
LIABILITIES			
Insurance contracts	4	1,696.9	1,333.7
Trade and other payables	5, 9	1,006.5	856.6
Current tax liabilities		40.1	30.2
Total liabilities		**2,743.5**	**2,220.5**
Total equity and total liabilities		**3,204.2**	**2,614.9**

These financial statements were approved by the Board of Directors on 5 March 2013 and were signed on its behalf by:

Kevin Chidwick
Director
Admiral Group plc
Company Number: 03849958

Consolidated Cash Flow Statement

	Note	31 December 2012 £m	31 December 2011 £m
Profit after tax		**258.4**	**221.3**
Adjustments for non-cash items:			
– Depreciation		6.6	6.1
– Amortisation of software		4.1	3.3
– Change in unrealised gains on investments		(0.6)	(1.9)
– Other gains and losses		0.6	0.9
– Share scheme charge	7	23.7	23.6
Change in gross insurance contract liabilities		363.2	527.1
Change in reinsurance assets		(163.2)	(282.8)
Change in trade and other receivables, including from policyholders		13.1	(88.4)
Change in trade and other payables, including tax and social security		149.9	292.1
Taxation expense		86.2	77.8
Cash flows from operating activities, before movements in investments		**742.0**	**779.1**
Net cash flow into investments		(441.9)	(493.9)
Cash flows from operating activities, net of movements in investments		300.1	285.2
Taxation payments		(79.7)	(95.3)
Net cash flow from operating activities		**220.4**	**189.9**
Cash flows from investing activities:			
Proceeds from investing activities		–	3.9
Purchases of property, equipment and software		(10.9)	(16.8)
Net cash used in investing activities		**(10.9)**	**(12.9)**
Cash flows from financing activities:			
Non controlling interest capital contribution		4.6	–
Capital element of new finance leases		–	1.0
Repayment of finance lease liabilities		(0.1)	(0.3)
Equity dividends paid	10	(219.3)	(198.8)
Net cash used in financing activities		**(214.8)**	**(198.1)**
Net decrease in cash and cash equivalents		**(5.3)**	**(21.1)**
Cash and cash equivalents at 1 January		224.6	246.7
Effects of changes in foreign exchange rates		(2.7)	(1.0)
Cash and cash equivalents at end of period	5	**216.6**	**224.6**

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Retained profit and loss £m	Non-controlling interests £m	Total equity £m
At 1 January 2011	0.3	13.1	4.2	332.7	0.4	350.7
Profit for the period	–	–	–	221.2	0.1	221.3
Other comprehensive income						
Currency translation differences	–	–	(1.0)	–	–	(1.0)
Total comprehensive income for the period	**–**	**–**	**(1.0)**	**221.2**	**0.1**	**220.3**
Transactions with equity-holders						
Dividends	–	–	–	(198.8)	–	(198.8)
Share scheme credit	–	–	–	23.6	–	23.6
Deferred tax charge on share scheme credit	–	–	–	(1.4)	–	(1.4)
Total transactions with equity-holders	**–**	**–**	**–**	**(176.6)**	**–**	**(176.6)**
As at 31 December 2011	0.3	13.1	3.2	377.3	0.5	394.4
At 1 January 2012	0.3	13.1	3.2	377.3	0.5	394.4
Profit for the period	–	–	–	258.4	–	258.4
Other comprehensive income						
Currency translation differences	–	–	(2.5)	–	(0.2)	(2.7)
Total comprehensive income for the period	**–**	**–**	**(2.5)**	**258.4**	**(0.2)**	**255.7**
Transactions with equity-holders						
Dividends	–	–	–	(219.3)	–	(219.3)
Share scheme credit	–	–	–	23.7	–	23.7
Deferred tax credit on share scheme credit	–	–	–	1.5	–	1.5
Transactions with non-controlling interests	–	–	–	1.4	3.3	4.7
Total transactions with equity-holders	**–**	**–**	**–**	**(192.7)**	**3.3**	**(189.4)**
As at 31 December 2012	0.3	13.1	0.7	443.0	3.6	460.7

Notes to the Financial Statements

1. General information and basis of preparation

General information

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

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Company has elected to prepare its Parent Company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP).

Adoption of new and revised standards

The Group has applied all adopted IFRS and interpretations endorsed by the EU at 31 December 2012, including all amendments to extant standards that are not effective until later accounting periods.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2012 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. These are as follows:

- IFRS 9 Financial Instruments
- Government Loans (Amendments to IFRS 1)
- Improvements to IFRSs 2009-2011
- Transition guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

None of these standards, amendments to standards or interpretations of current standards above will have a material impact on the Group's financial statements in future periods.

In addition, none of the standards or interpretations adopted for the first time in the year have had a material impact on the consolidated financial results or position of the Group for the year ended 31 December 2012.

Basis of preparation

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

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further information regarding the company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Business Review on pages 11 to 21 Further information regarding the financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Business Review on pages 20 to 21. In addition notes 5 and 10 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The accounting policies set out in the notes to the financial statements have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The financial statements are prepared on the historical cost basis, except for the revaluation of financial assets classified as at fair value through profit or loss.

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

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is reviewed if this revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. 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.

Notes to the Financial Statements continued

2. 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 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.

Estimation techniques used in calculation of claims provisions:

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

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

The claims reserves are subject to independent review by the Group's actuarial advisors. Management's reserving policy is to reserve at a level above best estimate assumptions to allow for unforeseen adverse claims development. For further detail on objectives, policies and procedures for managing insurance risk, refer to note 4 of the financial statements.

Future changes in claims reserves also impact profit commission income, as the recognition of this income is dependent on the loss ratio booked in the financial statements, and cash receivable is dependent on actuarial projections of ultimate loss ratios.

3. Group consolidation and operating segments

3a 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 2012 and comparative figures for the year ended 31 December 2011. The financial statements of the Company's subsidiaries are consolidated in the Group financial statements. The Company controls 100% of the voting share capital of all its principal subsidiaries, except Rastreator.com Limited and Inspop USA LLC. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (IAS) 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions in the consolidated financial statements.

(ii) Foreign currency translation:

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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); and
- All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity.

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

3b Segment reporting

The Group has four reportable segments, as described below. These segments represent the principal split of business that is regularly reported to the Group's Board of Directors, which is considered to be the Group's chief operating decision maker in line with IFRS 8, Operating Segments.

UK Car Insurance:
The segment consists of the underwriting of car insurance and other products that supplement the car insurance policy. It also includes the generation of ancillary income 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 income 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 ancillary income from underwriting car insurance outside of the UK. It specifically covers the Group operations Admiral Seguros in Spain, ConTe in Italy, L'olivier Assurances in France and Elephant Auto in the USA. None of these operations are reportable on an individual basis, based on the threshold requirements in IFRS 8.

Price Comparison:
The segment relates to the Group's price comparison websites Confused in the UK, Rastreator in Spain and LeLynx in France. The Group's price comparison operation in Italy, Chiarezza was sold in 2012. Each of the Price Comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as LeLynx and Rastreator 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. Currently there is only one such segment, the Gladiator commercial van insurance broking operation, and so it is the results and balances of this operation comprises the 'other' segment.

The Group launched a UK Household insurance product at the end of 2012. There are no transactions relating to household insurance within any of the segments reported below.

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 2012, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in the notes to the financial statements for the Group.

	31 December 2012					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Turnover*	1,936.2	162.9	103.5	12.5	–	2,215.1
Net insurance premium revenue	455.6	43.3	–	–	–	498.9
Other revenue and profit commission	342.7	10.8	103.5	12.5	–	469.5
Investment and interest income	13.9	0.1	–	–	–	14.0
Net revenue	812.2	54.2	103.5	12.5	–	**982.4**
Net insurance claims	(355.1)	(49.4)	–	–	–	(404.5)
Expenses	(84.3)	(29.3)	(85.5)	(10.0)	–	(209.1)
Segment profit/(loss) before tax	**372.8**	**(24.5)**	**18.0**	**2.5**	**–**	**368.8**
Other central revenue and expenses, including share scheme charges						(26.1)
Interest income						1.9
Consolidated profit before tax						**344.6**
Taxation expense						(86.2)
Consolidated profit after tax						**258.4**
Other segment items:						
Capital expenditure	6.1	3.1	0.9	0.1	–	10.2
Depreciation and Amortisation	28.8	26.2	1.0	0.3	–	56.3

*Turnover is a non-GAAP measure and consists of total premiums written (including co-insurers share) and other revenue.

Notes to the Financial Statements continued

Revenue and results for the corresponding reportable segments for the year ended 31 December 2011 are shown below.

					31 December 2011	
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Turnover*	1,966.0	122.2	90.4	11.7	–	2,190.3
Net insurance premium revenue	418.6	27.2	–	–	–	445.8
Other revenue and profit commission	299.0	9.7	90.4	11.7	–	410.8
Investment and interest income	10.6	0.2	–	–	–	10.8
Net revenue	728.2	37.1	90.4	11.7	–	867.4
Net insurance claims	(335.5)	(28.3)	–	–	–	(363.8)
Expenses	(79.1)	(18.3)	(79.9)	(8.9)	–	(186.2)
Segment profit/(loss) before tax	**313.6**	**(9.5)**	**10.5**	**2.8**	**–**	**317.4**
Other central revenue and expenses, including share scheme charges						(21.2)
Interest income						2.9
Consolidated profit before tax						**299.1**
Taxation expense						(77.8)
Consolidated profit after tax						**221.3**
Other segment items:						
Capital expenditure	12.4	2.9	1.1	0.4	–	16.8
Depreciation and amortisation	37.8	11.8	1.2	0.3	–	51.1

*Turnover is a non-GAAP measure and consists of total premiums written (including co-insurers share) and other revenue.

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 £13.0m (2011: £14.9m). These amounts have not been eliminated on consolidation as the Directors consider that not doing so results in a better overall presentation of the financial statements. The impact on the financial statements in the current and prior period is not material. There are no other transactions between reportable segments.

Within the UK Car Insurance segment, transactions between the Group's intermediary and the Group's insurance companies relating to vehicle commission totalling £7.0m have not been eliminated (from the insurance expenses and other revenue lines in the income statement) in order to ensure consistency between the financial statements and key performance indicators quoted in the business review. There is no profit impact of the non-elimination.

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

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country are shown within the International Car Insurance reportable segment shown above. The revenue and results of the two International Price Comparison businesses, Rastreator and LeLynx 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 2012 are as follows.

	31 December 2012					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Property and equipment	11.6	2.8	1.7	0.4	–	16.5
Intangible assets	77.6	13.8	1.0	0.1	–	92.5
Reinsurance assets	717.1	85.9	–	–	–	803.0
Trade and other receivables	98.7	(20.6)	9.1	9.5	(41.4)	55.3
Financial assets	1833.2	97.3	–	–	–	1,930.5
Cash and cash equivalents	125.0	50.2	25.4	5.6	–	206.2
Reportable segment assets	2,863.2	229.4	37.2	15.6	(41.4)	3,104.0
Insurance contract liabilities	1,543.0	153.9	–	–	–	1,696.9
Trade and other payables	961.8	31.9	6.5	6.3	–	1,006.5
Reportable segment liabilities	2,504.8	185.8	6.5	6.3	–	2,703.4
Reportable segment net assets	358.4	43.6	30.7	9.3	(41.4)	400.6
Unallocated assets and liabilities						60.1
Consolidated net assets						460.7

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 Car Insurance, Price Comparison and International Car Insurance segments is not allocated in arriving at segment profits. This is consistent with regular management reporting.

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

The segment assets and liabilities at 31 December 2011 are as follows.

	31 December 2011					
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Property and equipment	12.1	3.1	1.8	0.6	–	17.6
Intangible assets	78.4	8.5	0.5	0.1	–	87.5
Reinsurance assets	570.3	69.5	–	–	–	639.8
Trade and other receivables	118.7	(5.5)	(0.2)	9.0	(69.9)	52.1
Financial assets	1,464.8	83.2	–	–	–	1,548.0
Cash and cash equivalents	117.8	38.9	8.8	4.4	–	169.9
Reportable segment assets	2,362.1	197.7	10.8	14.1	(69.9)	2,514.8
Insurance contract liabilities	1,215.4	118.3	–	–	–	1,333.7
Trade and other payables	816.1	28.3	6.6	5.6	–	856.6
Reportable segment liabilities	2,031.5	146.5	6.6	5.6	–	2,190.2
Reportable segment net assets	330.6	51.2	4.2	8.5	(69.9)	324.6
Unallocated assets and liabilities						69.8
Consolidated net assets						394.4

4. Premium, Claims and Profit Commissions

4a Accounting policies

(i) Revenue recognition – premiums:

Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders are recognised within policyholder receivables.

(ii) Revenue recognition – 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 an agreed threshold.

(iii) Insurance contracts and reinsurance assets:

- Premiums

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

- Claims

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

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

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

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

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

- Co-insurance

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

- Reinsurance assets

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

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

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

4b Net insurance premium revenue

	31 December 2012 £m	31 December 2011 £m
Total motor insurance premiums written before co-insurance	1,897.2	1,841.3
Group gross premiums written after co-insurance	1,167.2	1,128.4
Outwards reinsurance premiums	(679.1)	(622.0)
Net insurance premiums written	488.1	506.4
Change in gross unearned premium provision	(10.7)	(168.7)
Change in reinsurers' share of unearned premium provision	21.5	108.1
Net insurance premium revenue	498.9	445.8

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

4c Profit commission

	31 December 2012 £m	31 December 2011 £m
Underwriting year:		
2009 and prior	(2.3)	2.3
2010	9.4	46.8
2011	98.1	12.7
2012	3.2	–
Total profit commission	108.4	61.8

4d Reinsurance assets and insurance contract liabilities

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

The Group is involved in issuing motor insurance contracts that transfer risk from policyholders to the Group and its underwriting partners.

Insurance risk primarily involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued.

The key reserving risk is that the frequency and/or value of the claims arising exceeds expectation and the value of insurance liabilities established.

The Board of Directors is responsible for the management of insurance risk, although as mentioned in note 5, it has delegated the task of supervising risk management to the Group Risk Committee.

The Board implements certain policies in order to mitigate and control the level of insurance risk accepted by the Group. These include underwriting partnership arrangements, pricing policies and claims management and administration policies.

Notes to the Financial Statements continued

A number of the key elements of these policies and procedures are detailed below:

- **Co-insurance and reinsurance:**

As noted in the business review, the Group cedes a significant amount of the motor insurance business generated to external underwriters. In 2012, 40% of the UK risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer. A further 35% of the UK risk was ceded under quota share reinsurance contracts. Co-insurance and reinsurance contracts are also used in the International car insurance businesses. Further detail can be found in the business review on page 13 and 17.

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.

- **Data driven pricing:**

The Group's underwriting philosophy is focused on a sophisticated data-driven approach to pricing and underwriting and on exploiting the competitive advantages direct insurers enjoy over traditional insurers through:
– Collating and analysing more comprehensive data from customers;
– Tight control over the pricing guidelines in order to target profitable business sectors; and
– Fast and flexible responsiveness to data analysis and market trends.

The Group is committed to establishing premium rates that appropriately price the underwriting risk and exposure. Rates are set utilising a larger than average number of underwriting criteria.

The Directors believe that there is a strong link between the increase in depth of data that the Group has been able to collate over time and the lower than average historic reported loss ratios enjoyed by the Group.

- **Effective claims management:**

The Group adopts various claims management strategies designed to ensure that claims are paid at an appropriate level and to minimise the expenses associated with claims management. These include:
– An effective, computerised workflow system (which along with the appropriate level of resources employed helps reduce the scope for error and avoids significant backlogs);
– Use of an outbound telephone team to contact third parties aiming to minimise the potential claims costs and to ensure that more third parties utilise the Group approved repairers; and
– Use of sophisticated and innovative methods to check for fraudulent claims.

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 line of insurance business, the risks are spread across a large number of people and a wide regional base.

(ii) Sensitivity of recognised amounts to changes in assumptions:
The following table sets out the impact on equity and profit or loss at 31 December 2012 that would result from a 1 per cent movement in the UK loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year			
	2009	2010	2011	2012
Booked loss ratio	77%	75%	76%	84%
Impact of 1% change (£m)	5.3	8.3	12.0	6.0

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

(iii) Analysis of recognised amounts:

	31 December 2012 £m	31 December 2011 £m
Gross:		
Claims outstanding	1,147.7	781.1
Unearned premium provision	549.2	552.6
Total gross insurance liabilities	1,696.9	1,333.7
Recoverable from reinsurers:		
Claims outstanding	487.3	334.2
Unearned premium provision	315.7	305.6
Total reinsurers' share of insurance liabilities	803.0	639.8
Net:		
Claims outstanding	660.4	446.9
Unearned premium provision	233.5	247.0
Total insurance liabilities – net	893.3	693.9

The maturity profile of gross insurance liabilities at the end of 2012 is as follows:

	< 1 Year £m	1 – 3 years £m	> 3 years £m
Claims outstanding	344.1	391.7	411.9
Unearned premium provision	549.2	–	–
Total gross insurance liabilities	893.3	391.7	411.9

The maturity profile of gross insurance liabilities at the end of 2011 was as follows:

	< 1 Year £m	1 – 3 years £m	> 3 years £m
Claims outstanding	234.3	266.6	280.2
Unearned premium provision	552.6	–	–
Total gross insurance liabilities	786.9	266.6	280.2

Notes to the Financial Statements continued

(iv) Analysis of UK claims incurred:

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

	Financial year ended 31 December				
	2009	2010	2011	2012	Total
Analysis of claims incurred (Net amounts):	£m	£m	£m	£m	£m
Underwriting year (UK only):					
2009 and earlier	(132.4)	(53.9)	8.7	(5.5)	
2010	–	(130.2)	(128.6)	8.4	(250.3)
2011	–	–	(203.7)	(151.1)	(354.8)
2012	–	–	–	(191.3)	(191.3)
UK net claims incurred (excluding claims handling costs)	(132.4)	(184.1)	(323.6)	(339.5)	
International net claims incurred	(13.6)	(15.9)	(28.3)	(54.2)	
Claims handling costs and other amounts	(5.7)	(8.5)	(11.9)	(10.8)	
Total net claims incurred	(151.7)	(208.5)	(363.8)	(404.5)	

	Financial year ended 31 December			
	2009	2010	2011	2012
UK loss ratio development:	£m	£m	£m	£m
Underwriting year (UK only):				
2007	72%	70%	69%	69%
2008	79%	74%	72%	73%
2009	84%	75%	77%	77%
2010		78%	77%	75%
2011			82%	76%
2012				84%

(v) Analysis of net claims provision releases (UK business only):

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

	Financial year ended 31 December			
	2009 £m	2010 £m	2011 £m	2012 £m
Underwriting year:				
2009 and prior	31.3	23.5	8.7	(5.5)
2010	–	–	1.6	8.4
2011	–	–	–	14.7
Total net release	31.3	23.5	10.3	17.6
Net releases on Admiral net share[1]	31.3	23.1	7.8	16.3
Releases on commuted quota share reinsurance contracts[1]	–	0.4	2.5	1.3
Total net release as above	31.3	23.5	10.3	17.6

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

(vi) Reconciliation of movement in net claims provision:

	31 December 2012 £m	31 December 2011 £m
Net claims provision at start of period	446.9	269.0
Net claims incurred	393.7	351.9
Movement in net claims provision due to commutation	102.2	44.0
Net claims paid	(282.4)	(218.0)
Net claims provision at end of period	660.4	446.9

(vii) Reconciliation of movement in net unearned premium provision:

	31 December 2012 £m	31 December 2011 £m
Net unearned premium provision at start of period	247.0	180.6
Written in the period	488.1	506.4
Earned in the period	(501.6)	(440.0)
Net unearned premium provision at end of period	233.5	247.0

5. Investments
5a Accounting policies
(i) Investment income:
Investment income from financial assets comprises interest income and net gains (both realised and unrealised) on financial assets classified as fair value through profit and loss and interest income on held to maturity deposits.

(ii) Financial assets – investments and receivables:
- **Initial recognition**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, 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 financial assets at fair value through profit or loss (FVTPL) at inception.

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

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

- **Subsequent measurement**

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

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

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

Notes to the Financial Statements continued

- **Impairment of financial assets**

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

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

- **Derecognition of financial assets**

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

(iii) 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.

5b Investment and interest income

	31 December 2012 £m	31 December 2011 £m
Net investment return	14.0	10.8
Interest receivable	1.9	2.9
Total investment and interest income	15.9	13.7

Interest received during the year was £1.9m (2011: £2.9m).

5c Financial assets and liabilities

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

	31 December 2012 £m	31 December 2011 £m
Financial assets:		
Investments held at fair value	1,025.4	862.1
Held to maturity deposits with credit institutions	375.8	297.0
Held to maturity short dated debt securities	200.4	–
Receivables – amounts owed by policyholders	403.5	423.9
Total financial assets per consolidated statement of financial position	2,005.1	1,583.0
Trade and other receivables	55.3	52.1
Cash and cash equivalents	216.6	224.6
	2,277.0	1,859.7
Financial liabilities:		
Trade and other payables	1,006.5	856.6

All investments held at fair value are invested in AAA-rated money market liquidity funds. These funds target a short term cash return with capital security and low volatility and continue to achieve these goals.

The approximate fair value of held to maturity deposits plus short dated debt securities is £562.8m (2011: £280.8m) based on a calculation to discount expected cashflows arising at the Group's weighted average cost of capital (WACC). The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

The maturity profile of financial assets and liabilities at 31 December 2012 is as follows:

	On demand £m	< 1 Year £m	Between 1 and 2 years £m	> 2 Years £m
Financial assets:				
Investments held at fair value	1,025.4	–	–	–
Held to maturity deposits with credit institutions	–	213.8	162.0	–
Held to maturity short dated debt securities	–	200.4	–	–
Receivables – amounts owed by policyholders	–	403.5	–	–
Total financial assets	1,025.4	817.7	162.0	–
Trade and other receivables	–	55.3	–	–
Cash and cash equivalents	216.6	–	–	–
	1,242.0	873.0	162.0	–
Financial liabilities:				
Trade and other payables	–	1,006.5	–	–

The maturity profile of financial assets and liabilities at 31 December 2011 was as follows:

	On demand £m	< 1 Year £m	Between 1 and 2 years £m	> 2 Years £m
Financial assets:				
Investments held at fair value	862.1	–	–	–
Held to maturity deposits with credit institutions	–	175.3	79.2	42.5
Receivables – amounts owed by policyholders	–	423.9	–	–
Total financial assets	862.1	599.2	79.2	42.5
Trade and other receivables	–	52.1	–	–
Cash and cash equivalents	224.6	–	–	–
	1,086.7	651.3	79.2	42.5
Financial liabilities:				
Trade and other payables	–	856.6	–	–

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 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 2012 and historically no material credit losses have been experienced by the Group.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds which invest in a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. The detailed holdings are reviewed regularly by the Investment Committee.

Notes to the Financial Statements continued

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. In addition, most reinsurance contracts are operated on a funds withheld basis, which substantially reduces credit risk, as the Group holds 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 2012 is £2,221.7m (2011: £1,807.6m) being the carrying value of financial assets and cash. 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 2011 and 2012 is insignificant.

There were no significant financial assets that were past due at the close of either 2012 or 2011.

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

	Rating	31 December 2012 £m	31 December 2011 £m
Financial institutions – Money market funds	AAA	1,025.4	862.1
Financial institutions – Credit institutions	AAA	60.1	–
Financial institutions – Credit institutions	AA	169.2	178.2
Financial institutions – Credit institutions	A	506.4	98.0
Financial institutions – Credit institutions	BBB	57.1	20.8
Reinsurers	AA	117.8	–
Reinsurers	A	196.3	88.3
Reinsurers	BBB	6.5	–

- 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. This relates primarily to investments held at fair value.

As noted above, the Group invests in money market liquidity funds, which in turn invest in a mixture of very short dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial paper.

The funds are not permitted to have an average maturity greater than 60 days and hence are not subject to large movements in yield and value resulting from changes in market interest rates (as longer duration fixed income portfolios can experience). Returns are likely to closely track the LIBID benchmark and hence while the Group's investment return will vary according to market interest rates, the capital value of these investment funds will not be impacted by rate movements. The interest rate risk arising is therefore considered to be minimal.

During the year the Group has placed funds into two segregated mandates. The guidelines of the investments retain the credit quality of the money market liquidity funds, whilst holding the securities on a hold to maturity basis. As the duration of the securities is short there is no material interest rate risk relating to these investments.

The Group also holds a number of fixed rate, longer-term deposits with strongly rated credit institutions. These are classified as held to maturity and valued at amortised cost. Therefore neither the capital value of the deposits, or the interest return 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 are immediately available.

A breakdown of the Group's financial liabilities – trade and other payables is shown in note 9. In terms of the maturity profile of these liabilities, all amounts will mature within 3 – 6 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 £723.5m (2011: £579.4m), £609.6m (2011: £432.9m) 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 4.

The maturity profile for financial assets is included at the start of this note. The Group's Directors believe that the cash flows arising from these assets will be consistent with this profile.

Liquidity risk is not, therefore considered to be significant.

- Foreign exchange risks

Foreign exchange risks arise from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets.

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

The Group's exposures to net assets held in euros and dollars at the balance sheet date were £13.3m and £46.7m respectively.

Fair value

For cash at bank and cash deposits, 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 1 (quoted prices in active markets) of the fair value hierarchy.

5d Cash and cash equivalents

	31 December 2012 £m	31 December 2011 £m
Cash at bank and in hand	216.6	224.6
Total cash and cash equivalents	216.6	224.6

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.

6. Other Revenue

6a Accounting policy

(i) Ancillary and other revenue:

Ancillary and other revenue includes revenue earned on the sale of ancillary products, 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 ancillary amounts charged.

Commission from price comparison activities and earned by Gladiator is credited to revenue on the sale of the underlying insurance policy.

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6b Ancillary and other revenue

	31 December 2012 £m	31 December 2011 £m
Ancillary revenue	215.7	223.3
Price comparison revenue	103.5	90.4
Other revenue	41.9	35.3
Total other revenue	361.1	349.0

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

7. Expenses
7a Accounting policies
(i) Acquisition costs, reinsurer vehicle commission and operating expenses:
Acquisition costs incurred in obtaining new and renewal business are charged to the income statement over he period in which those premiums are earned. Vehicle commissions relating to new and renewal business is also recognised 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.

Insurance contract expenses, which comprise of the acquisition costs, vehicle commissions and operating expenses referred to above are included in the income statement net of recoveries from co-insurers and reinsurers.

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

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

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

Refer to note 7e for further details on share schemes.

7b Operating expenses and share scheme charges

	31 December 2012			31 December 2011		
	Insurance contracts £m	Other £m	Total £m	Insurance contracts £m	Other £m	Total £m
Acquisition of insurance contracts	50.6	–	50.6	36.2	–	36.2
Administration and other marketing costs	26.7	137.3	164.0	26.7	125.9	152.6
Expenses	77.3	137.3	214.6	62.9	125.9	188.8
Share scheme charges	–	20.6	20.6	–	18.6	18.6
Total expenses and share scheme charges	77.3	157.9	235.2	62.9	144.5	207.4

Analysis of other administration and other marketing costs:

	31 December 2012 £m	31 December 2011 £m
Ancillary sales expenses	35.9	33.8
Price comparison operating expenses	85.5	79.9
Other expenses	15.9	12.2
Total	137.3	125.9

The £26.7m (2011: £26.7m) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

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

	31 December 2012 £m	31 December 2011 £m
Insurance contract expenses from above	77.3	62.9
Add: claims handling expenses	10.8	11.9
Adjusted expenses	88.1	74.8
Net insurance premium revenue	498.9	445.8
Reported expense ratio	17.7%	16.8%

7c Staff costs and other expenses

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

	31 December 2012 £m	31 December 2011 £m
Salaries	137.1	114.5
Social security charges	13.8	10.3
Pension costs	1.0	1.3
Share scheme charges (see note 7e)	32.5	30.8
Total staff expenses	184.4	156.9

Depreciation charge:		
– Owned assets	5.4	5.4
– Leased assets	1.2	0.7
Amortisation charge:		
– Software	4.1	3.3
– Deferred acquisition costs	48.0	41.8
Operating lease rentals:		
– Buildings	10.5	7.9
Auditor's remuneration (including VAT):		
– Fees payable for the audit of the Company's annual accounts	–	–
– Fees payable for the audit of the Company's subsidiary accounts	0.3	0.2
– Fees payable for other services	0.3	0.3
Net foreign exchange losses	–	0.8
Analysis of fees paid to the auditor for other services:		
Tax compliance services	0.1	0.1
Tax advisory services	0.2	0.2
Other services	–	–
Total as above	0.3	0.3

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 2012 was 124% (2011: 119%).

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

Notes to the Financial Statements continued

7d Staff numbers (including Directors)

	Average for the year	
	2012 Number	2011 Number
Direct customer contact staff	4,991	4,264
Support staff	1,231	1,060
Total	6,222	5,324

7e Staff share schemes

Analysis of share scheme costs (per income statement):

	31 December 2012 £m	31 December 2011 £m
SIP charge (note i)	6.6	6.0
DFSS charge (note ii)	14.0	12.6
Total share scheme charges	20.6	18.6

The share scheme charges reported above are net of the co-insurer's share of the cost and therefore differ from the gross charge reported in note 7c (2012: £32.5m, 2011: £30.8m) and the gross credit to reserves reported in the consolidated statement of changes in equity (2012: £23.7m, 2011: £23.6m).

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 qualify for awards under the SIP based upon the performance of the Group in each half-year period. The current maximum award for each year is £3,000 per employee.

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

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

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

Under the DFSS, details of which are contained in the remuneration policy section of the 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 2012 scheme is 2,149,566 (2011 scheme: 1,791,234).

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

For the 2011 and 2010 schemes, 50% of the shares awarded at the start of the three year vesting period are subject to these performance conditions.

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

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

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 Remuneration report).

Number of free share awards committed at 31 December 2012:

	Awards outstanding (*1)	Vesting date
SIP H209 scheme	377,641	March 2013
SIP H110 scheme	352,100	August 2013
SIP H210 scheme	346,590	March 2014
SIP H111 scheme	489,170	September 2014
SIP H211 scheme	598,528	March 2015
SIP H112 scheme	619,164	September 2015
DFSS 2010 scheme 1st award	1,542,453	April 2013
DFSS 2010 scheme 2nd award	121,051	August 2013
DFSS 2011 scheme 1st award	1,634,732	April 2014
DFSS 2011 scheme 2nd award	157,312	September 2014
DFSS 2012 scheme 1st award	181,668	March 2015
DFSS 2012 scheme 2nd award	1,967,898	October 2015
Total awards committed	8,388,307	

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

During the year ended 31 December 2012, awards under the SIP H208 and H109 schemes and the DFSS 2009 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 2012:

	Original Awards	Awards vested
SIP H208 scheme	477,432	396,549
SIP H109 scheme	396,200	340,060
DFSS 2009 scheme, 1st award	1,313,865	1,166,379
DFSS 2009 scheme, 2nd award	127,020	81,855

Notes to the Financial Statements continued

8. Taxation

8a 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, or that are expected to apply in the period when the liability is settled or the asset is realised.

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

The principal temporary differences arise from depreciation of property and equipment 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.

8b Taxation

	31 December 2012 £m	31 December 2011 £m
Current tax		
Corporation tax on profits for the year	88.4	80.3
Under/(over) provision relating to prior periods	1.2	(3.2)
Current tax charge	89.6	77.1
Deferred tax		
Current period deferred taxation movement	(2.8)	(0.8)
(Over)/under provision relating to prior periods – deferred tax	(0.6)	1.5
Total tax charge per income statement	86.2	77.8

Factors affecting the total tax charge are:

	31 December 2012 £m	31 December 2011 £m
Profit before tax	344.6	299.1
Corporation tax thereon at effective UK corporation tax rate of 24.5% (2011: 26.5%)	84.4	79.3
Expenses and provisions not deductible for tax purposes	1.4	0.1
Difference in tax rates	0.7	0.5
Adjustments relating to prior periods	(0.4)	(1.7)
Other differences	0.1	(0.4)
Total tax charge for the period as above	86.2	77.8

8c Deferred income tax (asset)

	31 December 2012 £m	31 December 2011 £m
Brought forward at start of period	(10.3)	(12.4)
Movement in period	(4.9)	2.1
Carried forward at end of period	(15.2)	(10.3)

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

Analysis of net deferred tax (asset):

	31 December 2012 £m	31 December 2011 £m
Tax treatment of share scheme charges	(3.8)	(3.6)
Capital allowances	(1.9)	(1.5)
Carried forward losses	(5.7)	(2.6)
Other differences	(3.8)	(2.6)
Deferred tax (asset) at end of period	(15.2)	(10.3)

The UK corporation tax rate reduced from 26% to 24% on 1 April 2012. The average effective rate of tax for 2012 is 24.5% (2011: 26.5%). It will fall to 23% in April 2013, and is expected to fall to 22% in April 2014 although this change has not yet been substantively enacted. Deferred tax has therefore been calculated at 23% where the temporary difference is expected to reverse after this date.

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

Amounts credited/(charged) to income or expense:

	31 December 2012 £m	31 December 2011 £m
Tax treatment of share scheme charges	(1.3)	(1.9)
Capital allowances	0.4	0.2
Carried forward losses	3.1	1.3
Other difference	1.2	(0.3)
Net deferred tax credited/(charged) to income	3.4	(0.7)

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

Notes to the Financial Statements continued

9. Other assets and other liabilities

9a 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:

Motor vehicles	–	4 years
Fixtures, fittings and equipment	–	4 years
Computer equipment	–	2 to 4 years
Improvements to short leasehold properties	–	4 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 purchase method. Goodwill has been recognised in acquisitions of subsidiaries, and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

The classification and accounting treatment of acquisitions occurring before 1 January 2004 have not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004 due to the exemption available in IFRS 1 (First time adoption). In respect of acquisitions prior to 1 January 2004, goodwill is included at the transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP, which was tested for impairment at the transition date. On transition, amortisation of goodwill has ceased as required by IAS 38.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGU's) according to business segment and is reviewed annually for impairment.

The Goodwill held on the balance sheet at 31 December 2012 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 9.0% (2011: 11.3%), 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 corresponds to the unearned premiums provision at the balance sheet date. This balance is held as an intangible asset. It is amortised over the term of the contract as premium is earned.

Software:
Purchased software is recognised as an intangible asset and amortised over its expected useful life (generally between two and four years). The carrying value is reviewed every six months for evidence of impairment, with the value being written down if any impairment exists. Impairment may be reversed if conditions subsequently improve.

9b 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 2011	5.2	24.1	8.5	3.4	41.2
Additions	1.5	4.5	2.9	1.5	10.4
Disposals	–	(0.3)	–	–	(0.3)
At 31 December 2011	6.7	28.3	11.4	4.9	51.3
Depreciation					
At 1 January 2011	3.5	15.5	6.0	2.6	27.6
Charge for the year	0.9	3.5	1.2	0.5	6.1
Disposals	–	–	–	–	–
At 31 December 2011	4.4	19.0	7.2	3.1	33.7
Net book amount					
At 1 January 2011	1.7	8.6	2.5	0.8	13.6
Net book amount					
At 31 December 2011	2.3	9.3	4.2	1.8	17.6
Cost					
At 1 January 2012	6.7	28.3	11.4	4.9	51.3
Additions	0.6	3.4	1.5	0.1	5.6
Disposals	–	(0.1)	–	–	(0.1)
At 31 December 2012	7.3	31.6	12.9	5.0	56.8
Depreciation					
At 1 January 2012	4.4	19.0	7.2	3.1	33.7
Charge for the year	0.9	3.6	1.5	0.6	6.6
Disposals	–	–	–	–	–
At 31 December 2012	5.3	22.6	8.7	3.7	40.3
Net book amount					
At 31 December 2012	2.0	9.0	4.2	1.3	16.5

Notes to the Financial Statements continued

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

	31 December 2012 £m	31 December 2011 £m
Computer equipment	3.0	2.8

9c Intangible assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
At 1 January 2011	62.3	14.9	5.7	82.9
Additions	–	43.3	6.4	49.7
Amortisation charge	–	(41.8)	(3.3)	(45.1)
Disposals	–	–	–	–
At 31 December 2011	62.3	16.4	8.8	87.5
Additions	–	51.9	5.5	57.4
Amortisation charge	–	(48.0)	(4.1)	(52.1)
Disposals	–	–	(0.3)	(0.3)
At 31 December 2012	62.3	20.3	9.9	92.5

Goodwill relates to the acquisition of Group subsidiary EUI Limited (formerly Admiral Insurance Services Limited) in November 1999. It is allocated solely to the UK Car Insurance segment. As described in the accounting policies, the amortisation of this asset ceased on transition to IFRS on 1 January 2004. All annual impairment reviews since the transition date have indicated that the estimated recoverable value of the asset is greater than the carrying amount and therefore no impairment losses have been recognised. Refer to the accounting policy for goodwill for further information.

9d Trade and other receivables

	31 December 2012 £m	31 December 2011 £m
Trade receivables	54.8	51.1
Prepayments and accrued income	0.5	1.0
Total trade and other receivables	55.3	52.1

9e Trade and other payables

	31 December 2012 £m	31 December 2011 £m
Trade payables	13.0	12.1
Amounts owed to co-insurers and reinsurers	723.5	579.4
Finance leases due within 12 months	0.8	0.9
Other taxation and social security liabilities	22.9	21.9
Other payables	71.5	51.0
Accruals and deferred income (see below)	174.8	191.3
Total trade and other payables	1,006.5	856.6

Of amounts owed to co-insurers and reinsurers, £609.6m (2011: £432.9m) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2012 £m	31 December 2011 £m
Premium receivable in advance of policy inception	115.4	110.1
Accrued expenses	41.4	55.8
Deferred income	18.0	25.4
Total accruals and deferred income as above	174.8	191.3

9f Obligations under finance leases
Analysis of finance lease liabilities:

	At 31 December 2012			At 31 December 2011		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	0.8	–	0.8	0.9	–	0.9
Between one and five years	–	–	–	–	–	–
More than five years	–	–	–	–	–	–
	0.8	–	0.8	0.9	–	0.9

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

9g Financial commitments
The Group was committed to total minimum obligations under operating leases on land and buildings as follows:

Operating leases expiring	31 December 2012 £m	31 December 2011 £m
Within one year	0.2	–
Within two to five years	12.3	12.0
Over five years	15.5	20.3
Total commitments	28.0	32.3

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

In addition, the Group had entered into contracts at the end of 2012 in relation to the lease and fit-out of new premises in Cardiff and Newport, which are currently under construction and due for completion in 2014. There were no equivalent contracts in place at the end of 2011.

10. Share capital
10a 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.

10b Dividends
Dividends were declared and paid as follows.

	31 December 2012 £m	31 December 2011 £m
March 2011 (35.5p per share, paid May 2011)	–	94.5
August 2011 (39.1p per share, paid October 2011)	–	104.3
March 2012 (36.5p per share, paid June 2012)	98.0	–
August 2012 (45.1p per share, paid October 2012)	121.3	–
Total dividends	219.3	198.8

The dividends declared in March represent the final dividends paid in respect of the 2010 and 2011 financial years. The dividends declared in August are interim distributions in respect of 2011 and 2012.

A final dividend of 45.5p per share (£124.5m) has been proposed in respect of the 2012 financial year. Refer to the Chairman's statement and business review for further detail.

Notes to the Financial Statements continued

10c Earnings per share

	31 December 2012 £m	31 December 2011 £m
Profit for the financial year after taxation attributable to equity shareholders (£m)	258.4	221.2
Weighted average number of shares – basic	271,714,535	269,903,301
Unadjusted earnings per share – basic	95.1p	81.9p
Weighted average number of shares – diluted	272,403,242	270,782,526
Unadjusted earnings per share – diluted	94.9p	81.7p

The difference between the basic and diluted number of shares at the end of 2012 (being 688,707; 2011: 879,225) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 7 for further detail.

10d Share capital

	31 December 2012 £m	31 December 2011 £m
Authorised:		
500,000,000 ordinary shares of 0.1p	0.5	0.5
Issued, called up and fully paid:		
273,523,594 ordinary shares of 0.1p	0.3	–
270,726,075 ordinary shares of 0.1p	–	0.3
	0.3	0.3

During 2012, 2,797,519 (2011: 2,217,350) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

1,177,519 (2011: 717,350) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme. These shares are entitled to receive dividends.

1,620,000 (2011: 1,500,000) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

10e 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 comfortably meet regulatory requirements. 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 prudent buffer against unforeseen events. This policy gives the Directors flexibility in managing the Group's capital.

Capital continues to be held in equity form, with no debt.

10f Group subsidiary companies

The Parent Company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of shares held	% Ownership	Principal activity
EUI Limited	England and Wales	Ordinary	100	General insurance intermediary
EUI (France) Limited	England and Wales	Ordinary	100	General insurance intermediary
Admiral Insurance Company Limited	England and Wales	Ordinary	100	Insurance Company
Admiral Insurance (Gibraltar) Limited	Gibraltar	Ordinary	100	Insurance Company
Able Insurance Services Limited	England and Wales	Ordinary	100	Intermediary
Inspop.com Limited	England and Wales	Ordinary	100	Internet insurance intermediary
Elephant Insurance Company	United States of America	Ordinary	100	Insurance Company
Elephant Insurance Services, LLC	United States of America	Ordinary	100	Insurance intermediary
Rastreator.com Limited	England and Wales	Ordinary	75	Internet insurance intermediary
Inspop Technologies Private Limited	India	Ordinary	100	Internet technology supplier
Inspop.com (France) Limited	England and Wales	Ordinary	100	Internet insurance intermediary
Inspop.com (Italy) Limited	England and Wales	Ordinary	100	Internet insurance intermediary
Admiral Syndicate Limited	England and Wales	Ordinary	100	Dormant
Admiral Syndicate Management Limited	England and Wales	Ordinary	100	Dormant
Admiral Life Limited	England and Wales	Ordinary	100	Dormant
Bell Direct Limited	England and Wales	Ordinary	100	Dormant
Confused.com Limited	England and Wales	Ordinary	100	Dormant
Diamond Motor Insurance Services Limited	England and Wales	Ordinary	100	Dormant
Elephant Insurance Services Limited	England and Wales	Ordinary	100	Dormant
Inspop USA LLC	United States of America	Ordinary	78.76%	Internet insurance intermediary
Comparenow.com Insurance Agency LLC	United States of America	Ordinary	78.76% (Indirect)	Internet insurance intermediary
Tooley Shelf Company 1 Limited	England and Wales	Ordinary	100	Dormant
Tooley Shelf Company 2 Limited	England and Wales	Ordinary	100	Dormant

For further information on how the Group conducts its business across UK, Europe and the USA, refer to the business review.

10g Related party transactions

(i) Mapfre:

In 2012, the Group participated in transactions with Mapfre S.A. during the normal course of its Car Insurance and Price Comparison operations. Mapfre is a related party of Admiral Group due to its 25% minority interest in Group subsidiary Rastreator.com Limited. Details of the transactions with Mapfre and balances outstanding as at 31 December in respect of price comparison business are given in the table below.

	31 December 2012 £m	31 December 2011 £m
Total transactions in the course of price comparison business with Rastreator.com	0.7	0.7
Balances outstanding at 31 December	0.2	0.1

(ii) Other:

Details relating to the remuneration and shareholdings of key management personnel are set out in the remuneration report (audited section). Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

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

Parent Company Financial Statements

Parent Company balance sheet

	Note	Year ended 31 December 2012 £m	31 December 2011 £m
Fixed assets – investments			
Shares in group undertakings	5	192.3	142.5
Other investments		74.6	35.0
Current assets			
Amounts owed from subsidiary undertakings		3.1	–
Cash at bank and in hand		10.4	54.7
		13.5	54.7
Creditors – falling due within one year			
Other creditors	6	(63.5)	(63.8)
		(63.5)	(63.8)
Net current liabilities		(50.0)	(9.1)
Total assets less current liabilities		216.9	168.4
Net assets		**216.9**	**168.4**
Capital and reserves	7		
Called up share capital	8	0.3	0.3
Share premium account		13.1	13.1
Capital redemption reserve		–	–
Profit and loss account		203.5	155.0
		216.9	**168.4**

These financial statements were approved by the Board of Directors on 5 March 2013 and were signed on its behalf by:

Kevin Chidwick
Director
Admiral Group plc
Company Number: 03849958

Notes to the Parent Company Financial Statements

Parent Company accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

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

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

The adoption of new accounting standards during the year has not had a material impact on either the current year or comparative figures.

The Admiral Group plc Company financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and in accordance with the provisions of Section 396 to the Companies Act 2006.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented. Under FRS 1 (Cash flow statements) the Company is exempt from having to present a cash flow statement on the grounds that its cash flows are included in the Group's published consolidated financial statements.

The Parent Company audit fee is not disclosed in these accounts as it is disclosed in the Consolidated financial statements for Admiral Group plc, which precede them at note 7.

Refer to note 10 of the Consolidated financial statements for disclosure of related party transactions.

2. Investments
Shares in Group undertakings are valued at cost less any provision for impairment in value.

3. Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Refer to note 7 of the consolidated financial statements for further details on share schemes.

Notes to the Parent Company Financial Statements continued

5. Shares in Group undertakings

	£m
Investments in subsidiary undertakings:	
At 1 January 2011	125.0
Additions	17.5
At 31 December 2011	142.5
Additions	49.8
At 31 December 2012	192.3

A full list of the Company's subsidiaries is disclosed in note 10 of the Group financial statements.

6. Other creditors – due within one year

	31 December 2012 £m	31 December 2011 £m
Trade payables and other liabilities	0.4	0.1
Corporation tax payable	63.1	49.3
Amounts owed to subsidiaries	–	14.4
	63.5	63.8

7. Reconciliation of movements in shareholders' funds

Company figures	Share capital £m	Share premium account £m	Retained profit and loss £m	Total equity £m
At 1 January 2011	0.3	13.1	132.6	146.0
Retained profit for the period	–	–	197.6	197.6
Dividends	–	–	(198.8)	(198.8)
Issues of share capital	–	–	–	–
Share scheme charges	–	–	23.6	23.6
As at 31 December 2011	0.3	13.1	155.0	168.4
Retained profit for the period	–	–	244.1	244.1
Dividends	–	–	(219.3)	(219.3)
Issues of share capital	–	–	–	–
Share scheme charges	–	–	23.7	23.7
As at 31 December 2012	0.3	13.1	203.5	216.9

8. Share capital

Full details of the Company's share capital are included in the consolidated financial statements above.

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Total premiums	**1,897.2**	**1,841.3**	**1,308.6**	**847.7**	**716.3**
Net insurance premium revenue	498.9	445.8	288.1	211.9	169.8
Other revenue	361.1	349.0	276.2	232.6	193.9
Profit commission	108.4	61.8	67.0	54.2	34.7
Investment and interest income	15.9	13.7	9.5	8.8	24.4
Net revenue	**984.3**	**870.3**	**640.8**	**507.5**	**422.8**
Net insurance claims	(404.5)	(363.8)	(208.5)	(151.7)	(114.6)
Total expenses	(235.2)	(207.4)	(166.8)	(140.0)	(105.7)
Operating profit	**344.6**	**299.1**	**265.5**	**215.8**	**202.5**

Balance sheet

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Property and equipment	16.5	17.6	13.6	12.1	11.0
Intangible assets	92.5	87.5	82.9	77.0	75.7
Deferred income tax	15.2	10.3	12.4	–	–
Reinsurance assets	803.0	639.8	357.0	212.9	170.6
Trade and other receivables	55.3	52.1	47.9	32.7	25.5
Financial assets	2,005.1	1,583.0	1,004.7	630.9	586.9
Cash and cash equivalents	216.6	224.6	246.7	211.8	144.3
Assets held for sale	–	–	1.5	–	–
Total assets	**3,204.2**	**2,614.9**	**1,766.7**	**1,177.4**	**1,014.0**
Equity	**460.7**	**394.4**	**350.7**	**300.8**	**275.6**
Insurance contracts	1,696.9	1,333.7	806.6	532.9	439.6
Deferred income tax	–	–	–	5.7	10.3
Trade and other payables	1,006.5	856.6	561.0	306.8	270.0
Current tax liabilities	40.1	30.2	48.4	31.2	18.5
Total liabilities	**3,204.2**	**2,614.9**	**1,766.7**	**1,177.4**	**1,014.0**

Directors and Advisers

Directors
Alastair Lyons, CBE
(Non-Executive Director)

Henry Engelhardt, CBE
(Chief Executive Officer)

Kevin Chidwick
(Chief Financial Officer)

David Stevens, CBE
(Chief Operating Officer)

Roger Abravanel
(Non-Executive Director)

Manfred Aldag
(Non-Executive Director)

Annette Court
(Non-Executive Director)

Colin Holmes
(Non-Executive Director)

Martin Jackson
(Non-Executive Director)

Keith James, OBE (retired 26 April 2012)
(Non-Executive Director)

Margaret Johnson, OBE
(Non-Executive Director)

Lucy Kellaway
(Non-Executive Director)

John Sussens
(Senior Independent Non-Executive Director)

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Solicitor
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Further Information

Corporate website
The Group's corporate website is at www.admiralgroup.co.uk. A range of information about the Admiral Group is presented, including the Group's history; financial reports and press releases; corporate responsibility and governance.

The website also includes contact details for investor relations and any other information.

Financial calendar
Final 2012 dividend
1 May 2013 – Ex dividend date
3 May 2013 – Record date
24 May 2013 – Payment date

Interim Management Statement
25 April 2013

Annual General Meeting
25 April 2013

Interim results
29 August 2013

The Group does not produce printed copies of interim results for shareholders unless requested.

The interim results will be available on the corporate website from 29 August 2013.

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Cardiff
CF10 3AZ

Admiral Group businesses

UK
Car Insurance:
Admiral
www.admiral.com

elephant
www.elephant.co.uk

Diamond
www.diamond.co.uk

Bell
www.bell.co.uk

Price Comparison:
Confused.com
www.confused.com

Van Insurance:
Gladiator
www.gladiator.co.uk

Spain
Car Insurance:
Balumba
www.balumba.es

Car Insurance:
Qualitas Auto brand
www.qualitasauto.com

Price Comparison:
Rastreator
www.rastreator.com

Italy
Car Insurance:
ConTe
www.conte.it

USA
Car Insurance:
Elephant Auto
www.elephant.com

Price Comparison:
Comparenow
www.comparenow.com

France
Car Insurance:
L'olivier Assurances
www.lolivier.fr

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