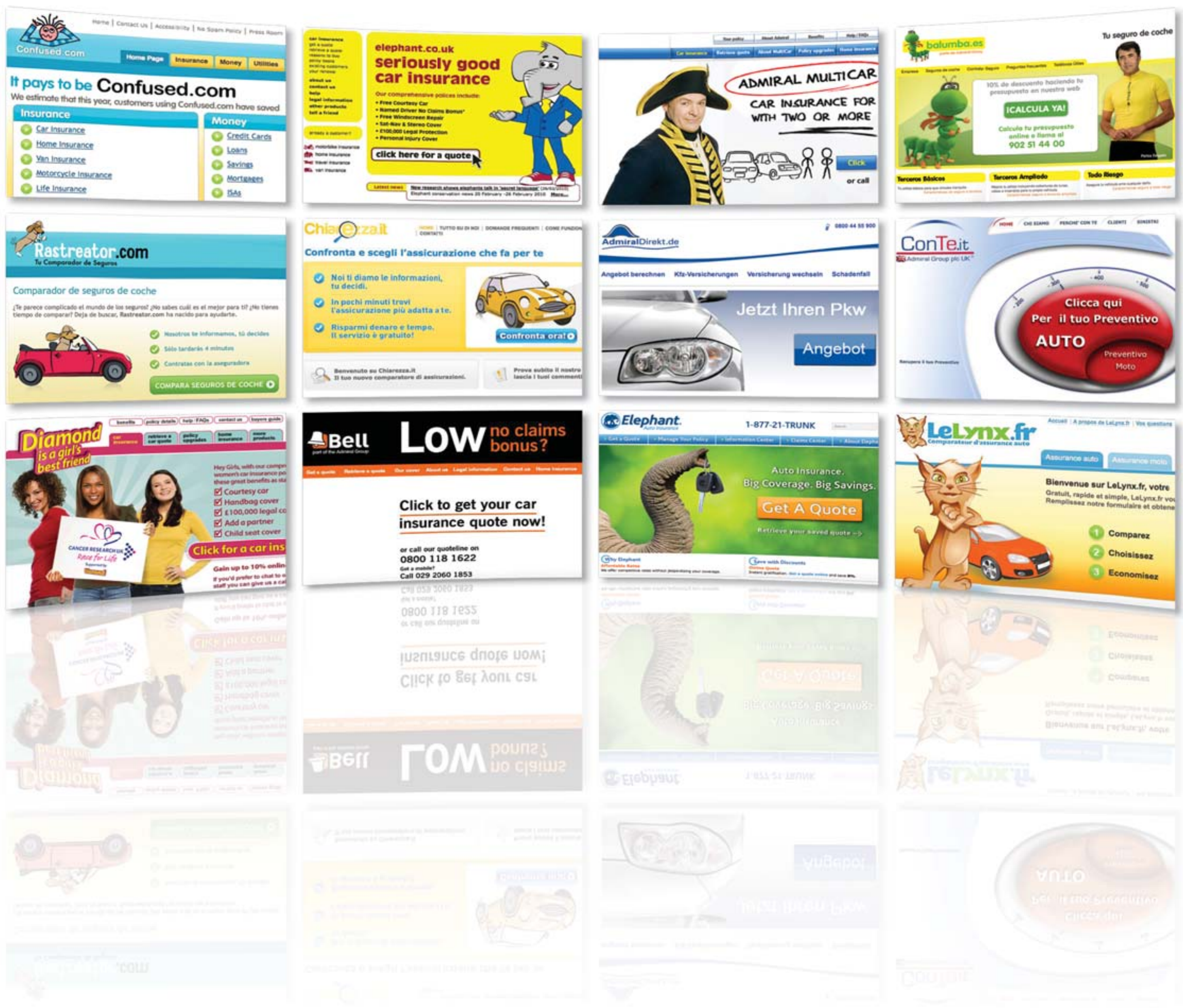
Annual Report 2009

ADMIRAL GROUP plc



Admiral Group plc
Annual Report 2009

What we do:

Admiral Group's core focus is internet and telephone delivery of car insurance. Since launching in January 1993 the Group has achieved consistent year-on-year growth and now has over two million customers and employs over 3,500 staff.

The Group's main market is the UK, with a 7% share of the private motor market through four brands; Admiral, Elephant, Diamond and Bell.

The Group also owns Confused.com, one of the leading UK price comparison websites.

In 2006 the Group began expanding organically in other markets and now has four non-UK car insurance operations (in Spain, Germany, Italy and the US) and three non-UK price comparison websites (in Spain, France and Italy).

Admiral is different:

Highly profitable

Strong underwriting profits and high ancillary revenues help us consistently achieve over 50% return on capital. In 2009 ROCE was 54%.

Fast growing

Consistent year-on-year growth, maintained in 2009 with an 18% rise in turnover.

Low risk profits

Admiral has no debt, a low risk investment portfolio, a conservative reserving methodology, and utilises reinsurance agreements to significantly reduce underwriting risk.

Strongly cash generative

Admiral's 'capital-light' model and high ancillary profits enable it to return the majority of its profits to shareholders as dividends. 2009's dividends represented 97% of post-tax profits.

For more information visit:
www.admiralgroup.co.uk

Financial highlights 2009

Profit before tax **+7%**

£215.8m
(2008: £202.5m)

Earnings per share **+7%**

59.0p
(2008: 54.9p)

Full year dividend **+10%**

57.5p
(2008: 52.5p)

Return on capital

54%
(2008: 57%)

Group turnover **+18%**

£1.08bn
(2008: £0.91bn)

Net revenue **+20%**

£507.5m
(2008: £422.8m)

UK Car Insurance profit **+15%**

£206.9m
(2008: £179.9m)

Turnover from Non-UK Car Insurance **+59%**

£47.2m
(2008: £29.7m)

Operational highlights 2009

Total customer numbers **+19%**

2.08m
(2008: 1.75m)

Overseas customers **+64%**

121,000
(2008: 73,700)

Elephant Auto –
US car insurer launched in Virginia, USA in October 2009

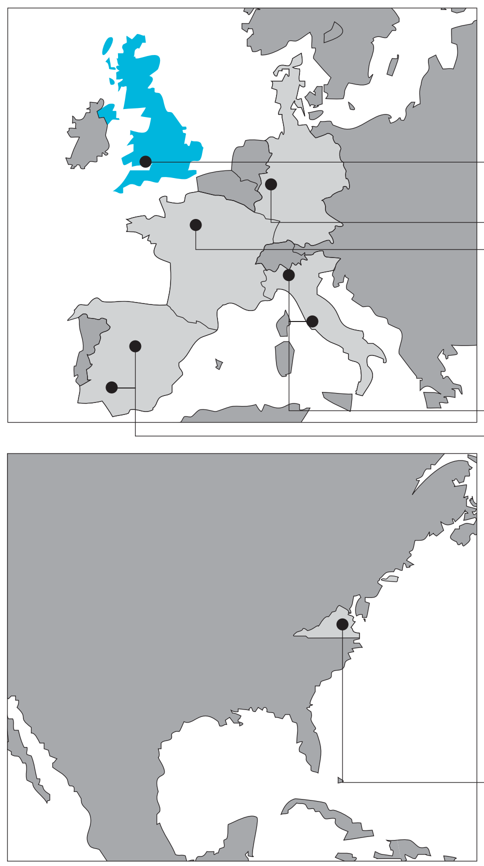
Rastreator.com –
Spanish price comparison website launched in March 2009

Admiral Group in 2009

Building an international business

The Group is the third largest private car insurer in the UK with a market share of around 7%. It also owns Confused.com, the UK's leading car insurance price comparison website.

Part of the Group's strategy is to exploit what it knows and does well in the UK, predominantly being internet and telephone delivery of car insurance, to promote expansion overseas.



Core Businesses:
Admiral started as a direct private car insurer in the UK in 1993. It now operates through four brands – Admiral, Bell, Diamond and elephant.co.uk.

Confused.com, the price comparison website started trading in 2002.

International Expansion, Germany:
AdmiralDirekt, German direct car insurer, launched in October 2007.

International Expansion, France:
LeLynx.fr, French price comparison website launched at the start of 2010.

International Expansion, Italy:
ConTe, direct car insurer, launched in May 2008.

At the start of 2010, the Group launched Chiarezza.it, an Italian price comparison website.

International Expansion, Spain:
The first step in international expansion, Balumba a direct car insurer, launched in October 2006.

Rastreator.com, the Group's Spanish price comparison website, launched in March 2009.

International Expansion, USA:
Elephant.com, US direct car insurer, launched in Virginia, in October 2009.

UK Car Insurance

- Operating through four brands, Admiral's core business is selling, administering and underwriting UK private car insurance
- The business has grown consistently and profitably since being set up from scratch in 1993, and now insures 1.9 million cars; around 7% of the UK's 26 million total
- The business has offices in Cardiff, Swansea and Newport in the UK and also has a call centre branch in Canada

Highlights for 2009

£939.1m
UK turnover
17% growth

1.86m
Number of UK customers
17% growth

£72
Ancillary income per vehicle

84.9%
Combined ratio

£206.9m
Pre-tax profits
15% growth

Non-UK Car Insurance

- The Group owns four, relatively new direct car insurers outside the UK
- Balumba, in Spain enjoyed its third full year of trading in 2009 and ended the year with 50,000 customers
- In Germany, AdmiralDirekt started underwriting in January 2008; finishing 2009 with 35,000 cars insured
- ConTe, in Italy sold its first policy in May 2008. It insured 35,500 cars at the end of 2009
- Most recently, in October 2009, Elephant Auto launched in Virginia USA

Highlights for 2009

£43m
Total premiums written
65% growth

121,000
Vehicles insured
64% growth

£9.5m
Pre-tax loss

Price Comparison

- Confused.com is one of the UK's leading insurance and financial services comparison websites
- In March 2009, the Group launched Rastreator.com, its first price comparison business outside the UK, in Spain
- In early 2010, two more non-UK websites started operating – LeLynx.fr in France and Chiarezza.it in Italy

Highlights for 2009

£80.5m
Total revenue

£24.9m
Price comparison pre-tax profit

£25.7m
Confused.com operating profit

32%
Confused.com operating margin

Other Group Activities

- The Group has a conservative approach to investment and manages a very low risk portfolio. Key priorities are capital preservation, low volatility and high levels of liquidity
- Gladiator, the Group's UK van insurance broker increased its customer numbers by 10% to over 93,000 in 2009

Highlights for 2009

£633m
Group cash and investments
14% growth

£8.8m
Investment and interest income
64% decrease

£2.4m
Gladiator pre-tax profit
14% decrease

Chairman's statement

"We will distribute 97% of 2009 post-tax earnings"

Alastair Lyons, CBE
Chairman

Since becoming a public company in 2004 Admiral's strategy has been clear and straightforward, being to:

- Grow our share of the UK private motor insurance market
- Exploit the knowledge, skills and resources attaching to our established UK businesses to promote our expansion overseas in both private motor and price comparison
- Learn by taking relatively small and inexpensive steps to test different approaches and identify the best way forward
- 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
- Extend this low-risk philosophy to our investment strategy, only employing cash deposits or money market funds
- Give all our staff a stake in what they create by making them shareholders
- Recognise the responsibility we have to the communities of which we are a part

The milestones of the past year mark another successful 12 months implementing this strategic direction.

With price comparison further increasing its share as a distribution channel for motor insurance, our UK private motor business had another very strong year, growing both its vehicle count and gross premiums by 17%. The 1.9 million cars covered by Admiral brands account, we estimate, for some 7% of the UK market making us the UK's third largest private motor insurer. This growth in our book in 2009 was accompanied by a 19% increase in profit derived from ancillary products and services.

As regards our expansion overseas, in October Elephant Auto Insurance sold its first policies in the state of Virginia, adding the US to the list of Spain, Germany, and Italy in which we have established private motor insurers over the past 4 years. As Henry Engelhardt discusses in his CEO's report, we have learned significantly more about each of these markets over the past 12 months. Balumba, our business in Spain, has focused with positive results on further reducing its loss ratio ahead of resuming policy growth. Our German business, AdmiralDirekt, also concentrated in its second year on its underwriting result, generating a steady flow of new business through the year rather than competing aggressively in the 1 January renewal market. In Italy ConTe now has 35,000 customers at the end of its first full financial year. Overall the Group now has some 120,000 customers outside the UK.

120,000

customers outside the UK.

57.5p

total dividends for 2009, +10% v 2008.

Against the backdrop of an estimated 20% growth in motor insurance price comparison, Confused maintained its share at close to one-third of this market, with profits comparable to 2008. We have now started to take the learning from Confused into other markets, launching Rastreator.com in Spain in March 2009, followed by LeLynx.fr in France and Chiarezza.it in Italy in early 2010. We are delighted to have Mapfre, Spain's leading insurance group, as our 25% partner in Rastreator.

Totally in line with our risk-sharing strategy were the agreements we announced in January this year with Munich Re and Hannover Re to broaden and lengthen our existing relationships with these very strongly rated reinsurance providers. Our association with Munich Re dates back to 2000 and may now go past 2020 with the advent of a new 15 year agreement for our US business and the extension of our agreements with them in Spain and Italy also to 15 year terms. We are very pleased to have the confidence of an institution of Munich Re's standing to justify its committal to such long-term agreements.

Given our very prudent investment philosophy, exceptionally low interest rates across our business ate into the strong growth in UK car insurance profits, leaving Group pre-tax profits at £216 million, 7% ahead of the previous year.

We will distribute 97% of post-tax earnings, our full year dividends amounting to 57.5 pence per share, 10% up on our declaration for 2008. Our normal dividend, growing in line with our growth in profits based on a 45% pay-out ratio, amounted to 26.5 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 special dividend of 31.0 pence per share. We have paid such a special dividend as part of every distribution we have made since becoming a public company – in total £303 million, 51% of overall dividends.

Every Admiral employee is included in our Free Share Schemes. As regards the Approved Free Share Scheme the achievement in full of the 2009 objectives will mean employees will again realise the maximum award of £3,000 free shares. Someone who has been employed since flotation now has the potential to hold 1,820 shares under this scheme worth £22,600*. In line with our straightforward remuneration philosophy of individual reward being simply a combination of base salary and performance-related shares our Discretionary Free Share Scheme has a much wider than normal coverage, with over 1,900 individuals currently holding awards in the scheme. Our strong earnings growth over 2007 to 2009 resulted in the 2007 scheme achieving a 98% vesting percentage.

We continue to encourage our staff, wherever they are working, to play an active part in their local community. Through our Community Chest giving scheme we supported around 150 organisations, charities, and sports teams during 2009 covering causes as disparate as the Ystradgynlais Community Car Scheme and Halifax County Soccer in Canada. The Admiral Cardiff Big Weekend was the UK's largest free festival during 2009.

Our Board has spent a lot of time during 2009 discussing the learning that we should take from the events of the last 18 months and the conclusions arrived at by Sir David Walker, the Financial Reporting Council, and the FSA. Each year we undertake an appraisal of the working of the Board and the Board committees, and of my effectiveness as chairman, and seek to identify how we can improve our Board process and its effectiveness in setting, and having oversight of the implementation of, the Group's strategy.

Particular areas of focus have been ensuring the Board spends its time on issues of significance, both operational and strategic, rather than on the reporting of detailed implementation; the management resource required by an ever larger and more complex business; and achieving adequate understanding by our Board of the increasing number of markets in which we have a presence.

Too often one fails to say "thank you" often enough – to recognise how good people feel when they know that they, and what they do, are appreciated. Let me, therefore, be absolutely clear how much I, on behalf of the Board of Admiral, appreciate what everyone has contributed to achieving another successful year, in particular the commitment, energy, and enthusiasm of our directors, managers, and staff.

Thank you!

Alastair Lyons
Chairman
25 February 2010

* based on the closing share price on 26 February 2010

Henry Engelhardt, CBE
Chief Executive Officer

2009 Awards

- 16th in Sunday Times Top 100 Companies to Work For (Special recognition for featuring in every year of the survey.)
- Management Today's 16th Most Admired Company and Britain's Most Admired Insurer

£1bn+

2009 Group turnover cleared £1bn for the first time

2009 was an ever-so-much-more-so year. That is to say, it was a lot like 2008 but ever-so-much-more-so. For those of you who are fans of the author Robert McCloskey, you will know that ever-so-much-more-so is a colourless, tasteless, odourless chemical which makes things, well, ever-so-much-more-so: sprinkle it on a soft bed, the bed becomes softer; add it to a fine glass of wine and the wine is even finer, etc. Well, I think somebody sprinkled it on Admiral Group and so 2009 was like 2008, only… ever-so-much-more-so.

In 2009 we made more money than ever before, we put two new pins in the Group map and took a giant step towards perpetuating our model well into the future. Here are the highlights:

- Record profits of £215.8 million
- Turnover clears £1,000,000,000 for the first time!
- Group combined ratio of 92%
- Launch of Elephant Auto, our insurance business in the USA
- Launch of Rastreator.com, a price comparison site in Spain
- 17% customer growth in the UK
- Confused profits of £25.7 million
- Balumba 2009 loss ratio at 83%
- Signed an even longer-term, long-term reinsurance agreement with Munich Re

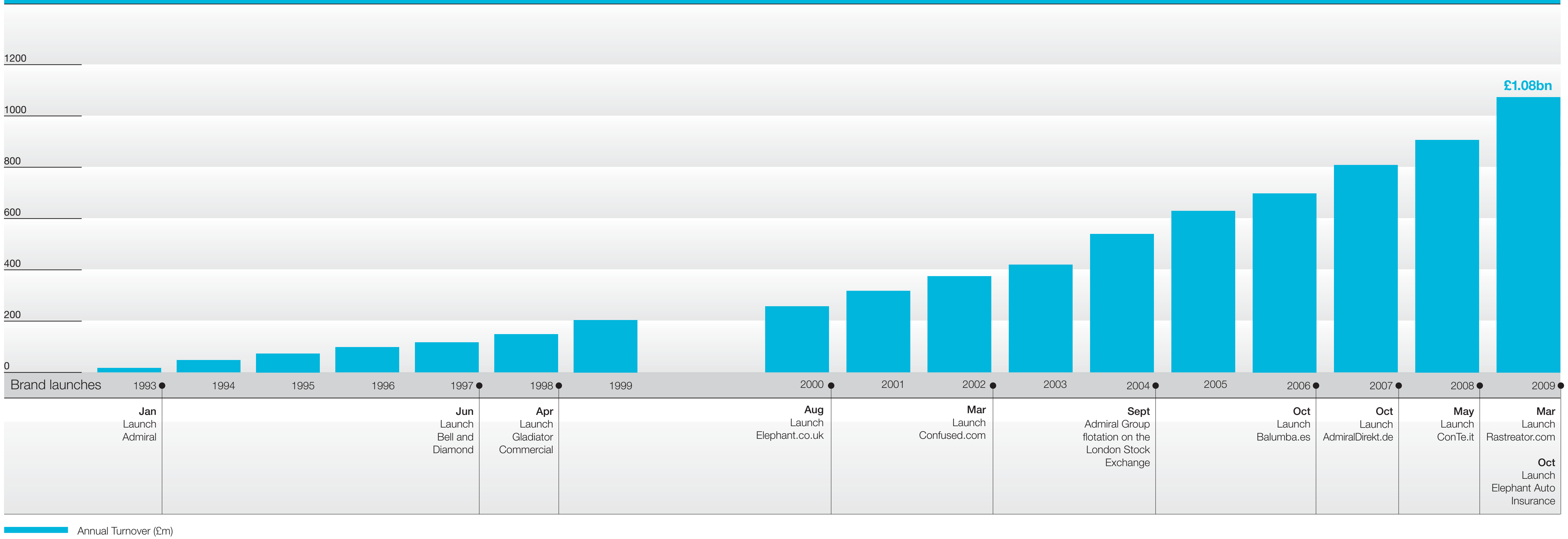
(Yet) Another analogy

2009 was the year of the ox. This was a year where we did a lot of hard labour, tilling the car insurance soil as it were. The hard work certainly isn't over yet but we're one year closer to meeting our goal of creating profitable, sustainable, growing businesses outside the UK. Meanwhile, 2009 in the UK was an ox on steroids.

The model lives on

We did three deals during the year that served to reinforce our low-risk, high-return-on-capital model. The biggest of these was with Munich Re, where they will be our reinsurance partner in the UK, Spain, Italy and the USA possibly to 2020 and beyond. The most important point to take from this deal is that it not only reduces our risk, it drastically reduces the amount of capital we'll need to grow our operations. In turn, this means that if we can create successful businesses outside the UK we will perpetuate the cash generative model we have established far into the future.

Turnover growth £m



Chief Executive's statement
continued

The second deal was to reinsure a further 33% of our US venture with Hannover Re, one of our UK partners. Again, this deal serves to reduce our short-term risk in return for some of our profits in future years.

The third deal was to sell 25% of our Spanish price comparison business, Rastreator.com, to Mapfre, Spain's leading insurer. Once again, this is a deal that sharply reduces the need for our own capital and, therefore, reduces our risk. It also begins a relationship with a highly respected insurance group.

As most of our philosophies go, this one too is quite simple: we are happy to share some of our future profits in return for:

- reduced risk; and
- less use of our own capital

The result is far less volatility in our results and, unusually for an insurance company, growth coupled with cash generation. The beauty of the way we run the model is illustrated by the fact that despite all our investment in future growth during 2009 we made more money than we've ever made before! (And this new record was achieved despite investment returns seemingly from the land of Lilliput.) And, even with growth rates nearing 20%, we are, once again, paying a record dividend.

Admiral, Confused and the UK car insurance market

What a great year! Lots of ever-so-much-more-so sprinkled here. We grew the number of vehicles insured by 17% and produced a combined ratio of 85%. During the year we raised rates by more than 12%. However, you will not see a 12% increase in our average premium as we continue to gently alter the composition of our portfolio towards somewhat lower premium business. Many of our competitors are suffering, with experts predicting a 2009 combined ratio for the market between 115%-120%. It is likely that the market will continue to raise prices in 2010, especially as investment returns are muted. We are in an enviable position of having a combined ratio well below 100% while many of our competitors do not.

Confused also had a good year in what continues to be a hyper-competitive market. Confused profits were £25.7 million, almost the same as 2008 (£25.6 million). Our excellent ad campaign featuring real customers, which paled only in comparison to the meerkat campaign from one of our competitors, allowed us to hold steady at around one third market share. There is no doubt that 2010 will again be a challenging year in the price comparison industry.

Balumba, Rastreator and the Spanish car insurance market

Balumba lost €1.4 million for the year, but only €300k in the second half. The challenge for Balumba in 2009 was to get its loss ratio under control and this was achieved through a lot of effort in pricing and claims handling. We needed to create a base of viable customers upon which we can build a business. The price paid for reducing the loss ratio from 102% for the 2008 year at the end of 2008 to 83% for the 2009 year at the end of 2009, was a slightly smaller business. The end of year customer base declined from 55,400 to 50,300. However, we are now in a position to grow the customer base again and, in fact, the base grew by 6% in the last three months of the year. As you can see by the expense ratio (63%), we are staffed up for a bigger business. The goal for 2010 is to grow efficiently into this expense base without sacrificing the loss ratio.

One of the great positive stories for us in 2009 was the birth and growth of Rastreator.com, our Spanish price comparison site. Rastreator (sort of 'tracker dog' when translated), came to life on March 30. In the autumn we ran our first television campaign and were positively surprised by the volume of quotes we immediately started to do. It appears that price comparison is on the ascendancy in Spain.

ConTe and the Italian car insurance market

ConTe completed its first full year of trading in 2009. We are very pleased with the progress of this operation. It ended the year with:

- 35,500 customers at year-end
- €12.5 million gwp
- 2009 calendar year loss ratio of 99%
- Expense ratio of 145%

Although the loss ratio for 2009 might look high, for a first year book of business in a new country it's actually quite encouraging (far better than Spain or Germany in either their first full year). However, a note of caution, the book is still very young and the numbers quite volatile.

It appears that some Italian insurers are suffering, as rates appear to have gone up in the latter part of the year. ConTe has put through three substantial rate increases since the first of December and is still selling at a brisk pace.

In February 2010 we launched our price comparison business in Italy, Chiarezza.it, which translates to 'clarity'.

AdmiralDirekt and the German car insurance market

The German market continues to be the most challenging market we're in. In its second full year, similar to our experience in Spain, it was necessary to dramatically raise rates and stem the flow of new business to improve the underwriting result. Due to the seasonal nature of the market, where the vast majority of renewals are on January 1, the results of all our pricing changes won't be known until later in 2010. To give you an understanding of the magnitude of the price changes we've made, in the 'season' of 2008 for business incepting on January 1, 2009 we wrote nearly 17,000 policies. A year later, for policies incepting on Jan. 1, 2010, the figure was just short of 3,200. However, we did write quite a bit of business during the year because of people changing cars, probably catalysed by the German government's cash for clunkers scheme. So at the end of the year the vital statistics looked like this:

- 35,000 customers, up 20,000 from 2008 (+133%)
- But only up 5,000 from Jan. 1, 2009 (+16.6%)
- €15 million gwp versus €5 million in 2008 (+200%)
- Loss ratio for 2009 at the end of 2009 of 109%
- Combined ratio of, gulp, 238%

"We have a simple philosophy: if people like what they do, they'll do it better."

Launch of Rastreator, Spain:

Rastreator.com
Tu Comparador de Seguros

Based in Madrid, the Group's first non-UK price comparison business launched in March 2009

For more information visit:
www.rastreator.com

Launch of Elephant Auto, USA:

Elephant
Auto Insurance

Elephant Auto, Admiral's only business outside Europe, started operations in Virginia, USA in October 2009

For more information visit:
www.elephant.com

One positive development in the market has been the growth of price comparison sites. In 2009 we did 4.7 million aggregator quotes, up substantially from 2008. However, the real force in the market is HUK Coburg, an uber-efficient mutual that, unlike other insurers, doesn't seem to be feeling much pain despite the cycle at or nearing its nadir. Other insurers appear to be raising rates, with about half the firms in the market raising their rates for January 1 business.

'USA, USA, USA'

The biggest seed we planted in 2009 went in the ground in Richmond, Virginia. Elephant Auto Insurance began trading in Virginia on October 5. Elephant is encouraged by the success Geico has enjoyed selling car insurance direct to consumers via phone and internet in the US. Geico's market share has grown almost 3 percentage points in the five years through 2008 (latest figures available), from 5.1% to 7.7%, which, to put this in perspective, is an increase of some $4 billion in written premium. We like other people to pave roads that we can then drive on.

The US is a complicated market, not in the least because it is really 51 different markets, due to state-by-state regulation (all 50 states plus Washington D.C. for those keeping count). Although Elephant launched in October it didn't write much business in 2009 as it used the time to ensure its systems worked and the pricing engine generated the correct rates. For the record, it wrote 204 vehicles in 2009 and had 4 claims.

We will take 33% of the risk on Elephant, with Munich Re and Hannover Re each taking 33% respectively. In 2010 Elephant will concentrate on getting things to work in Virginia before it considers trading in an additional state.

Vive La France!

On January 18, 2010 we launched LeLynx.fr, a price comparison business in France, a country we think is ripe for a move towards internet distribution of car insurance. At this point there's really not a whole lot more to say about this!

Elephant Auto Insurance began trading in Richmond, Virginia in October 2009.

All in all

So, in 2009 we did pretty much the same things we did in 2008, except ever-so-much-more-so. We grew both top and bottom lines in the UK. We continued to develop our operations in Spain, Germany and Italy and we planted a couple of new seeds, in Spain and the USA. Similar to 2008, I think it will be a year which is only really appreciated at some point in the not-to-distant future, in particular when the foreign operations have developed into growing, profitable, sustainable businesses. The big difference between 2008 and 2009 was the signing of the reinsurance deals, particularly with Munich Re. These deals give us the potential to carry our 50+% return on capital ratio many years into the future.

Another source of pride in our Company's development was the fact that we are one of only two firms to be included in the Sunday Times Best Companies To Work For in the UK list all 10 years it has been compiled. We have a very simple philosophy: if people like what they do, they'll do it better. So we go out of our way to make Admiral a great place to work. And the people who work here think it is.

So to all those many people who helped make 2009 another excellent year for Admiral Group: keep smiling!

Henry Engelhardt, CBE
Chief Executive Officer
25 February 2010

Kevin Chidwick, Admiral Group Finance Director, answers some frequently asked questions on Admiral's UK Car Insurance Business

Kevin Chidwick
Finance Director

UK Growth

How have you managed to grow the number of UK customers by 17% in 2009? Do you expect this growth to continue?

In 2009 the share of new business sales from price comparison (PC) websites increased by a fifth to around 45%. This is good news for us. In the last couple of years we've focused on PC distribution and have built around 15% market share of PC business. Compare this to our current 7% share of the whole market and you can see why this was a helpful driver of Admiral's growth.

The ongoing PC distribution shift and expected increases in premiums across the market is likely to provide a favourable environment in 2010. Another potential source of growth is our ability to innovate and stay at the forefront of distribution changes, maintaining our strong track record e.g. multi-brand strategy, first internet only brand, first car insurance price comparison website... We will let you know when we think we've got a new winning innovation!

Price comparison

What impact does the growth of price comparison, the resulting transparency of prices and frequent selection of the lowest price, have on your underwriting advantage?

The fact that PC sites increase transparency of prices plays to our strengths in two key respects:

1) In a market for a commoditised product bought predominantly on price, being the lowest cost provider is a powerful competitive advantage.

2) It makes good risk selection a more powerful differentiator, a purer determinant of relative loss ratio performance.

Price transparency exposes less efficient insurers with higher costs, who might otherwise make a good living off over-priced business.

For more information visit:
www.admiralgroup.co.uk

15%

Admiral's share of UK price comparison business.

17%

Admiral's UK expense ratio v 30% for the market

Underwriting mix

How has Admiral managed to maintain its superior loss ratio whilst increasing market share?

When Admiral launched in 1993 the focus was on younger, city drivers, an under-exploited subsection of the market. Although Admiral still has a disproportionate share of these types of drivers, for several years we have written business for the whole market, helping us to grow. Our strong pricing capability enables us to identify cross subsidies across the market, i.e. where lower risk customers pay more to compensate for higher risk customers, we price to take advantage of these cross subsidies.

The reason we have been able to do this better than others is down to many factors, however I'd highlight two key contributors, firstly our culture; we're focused on car insurance and car insurance alone and we're not afraid to do things differently, and secondly being data driven; we're hungry for data, ways to analyse data, and the results of our analysis drives our decisions.

Expenses

Can Admiral hold on to its expense ratio advantage?

We have an expense ratio of 17% versus the market's 30%. This is really 14% versus 27% if you exclude the MIB levies of around 3% which all car insurers pay. Our success is simple, low cost, light management, and without many of the complexities you may find in a large financial services company – the typical model of our competitors. Further, we're based in South Wales, which as well as being a beautiful place to be based, with world class employees, is also much less expensive than many other parts of the UK.

Premiums

How do you think Admiral's 12% increases in premiums in 2009 compared with the UK market? Do you expect increases to continue? How will premium rate increases translate to improvements in loss ratio performance?

We think our price increases were broadly consistent with increases in the market as a whole. I say this because the percentage of times our brands came top on price comparison websites at the start of 2009 and at the end of 2009 was about the same, which suggests our relative price competitiveness stayed about the same.

The increase in price transparency due to price comparison sites continues to make it more difficult for insurers to get announced premium increases to translate into increases in average premiums written, the 'price comparison drag' effect. This may result in premium increases continuing for longer than in previous cycles. We agree with predictions that there will be further increases in 2010. The market as a whole is still losing money and reserve releases and investment income have both shrunk dramatically. More price rises are needed.

Claims

What have been the key drivers of claims inflation in 2009?

Whilst it's difficult to talk about the market as a whole, I'm aware that some of our competitors have reported a sudden increase in bodily injury claims frequency in the second half of 2009. We've seen a continued increase in the proportion of claims with a bodily injury element, but our experience suggests this is a long-term trend rather than a sudden change. This pressure on claims is moderated by overall claims frequency in 2009 remaining low, with the exception of a blip of higher frequency in December 2009 and January 2010 due to the snow and bad weather. It takes time to see claims severity trends, but our current expectation for 2009 claims inflation is that it will be similar to 2008, relatively modest compared to earlier years, but well above RPI.

Ancillary income

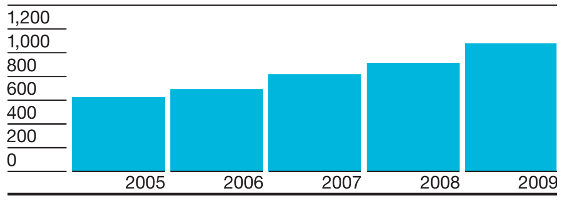
Do you think ancillary income per vehicle of around £70 is sustainable?

We've been successful at maintaining our ancillary income per vehicle since we floated in 2004 and we expect this to continue. One reason for this is that the ancillary revenue is generated from a range of products and services rather than a single product. Having a range of sources means that, of course, some things will be going well whilst others less well. It will also mean that there is always the threat of certain market or regulatory changes that could impact on some sources, but that other sources will be unaffected. The movement to price comparison has meant it has been more difficult to maintain penetration rates, but on the other hand the trend for increasing car insurance premiums has made it easier to defend or improve margins on ancillary products.

Group review

Group Turnover (£m)*

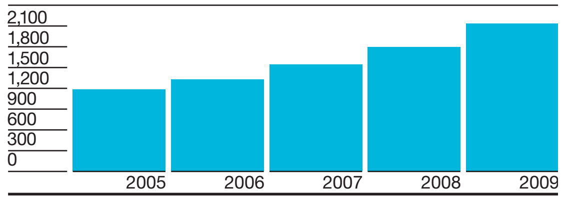
£1,077.4m



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

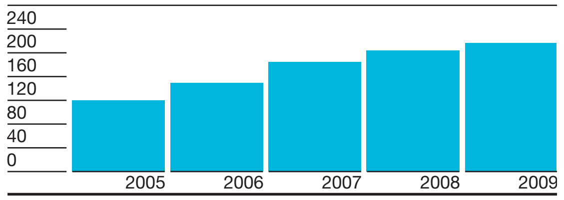
Customers (000s)

2,076



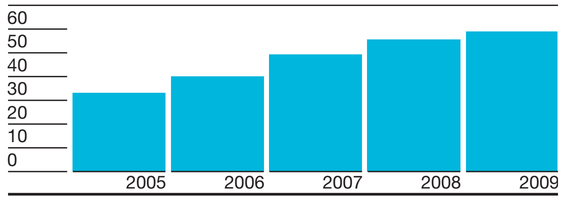
Pre-Tax Profit (£m)

£215.8m



Earnings per share (p)

59.0p



The Admiral Group had another positive year in 2009, with strong top line growth and a continued rise in profit before tax and earnings per share.

Turnover rose by 18% to £1.08 billion from £0.91 billion. This was largely driven by the same rate of growth in the number of customers across the Group, up to 2.08 million from 1.75 million. The Group also now has more than 120,000 customers outside the UK.

Pre-tax profit increased by 7% to £215.8 million. The rate of growth was below that seen in recent years for two main reasons – firstly, and most significantly, a £15 million (60%) fall in investment and interest income resulting from lower yields, and secondly, continuing investment in our new businesses overseas.

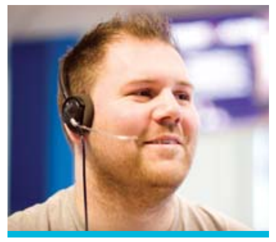
The core part of the Group remains the UK Car Insurance business, which generated 87% of turnover and 96% of pre-tax profit. The business grew significantly in 2009 and continues to build market share whilst remaining very profitable.

As part of the Group's growing international activities, two new businesses were launched in 2009: Rastreator.com, our Spanish price comparison website started offering car insurance quotes in March 2009, and later in the year Elephant Auto started selling private car insurance in Virginia, USA.

The Group's results are presented in three key segments – UK Car Insurance, Price Comparison and Non-UK Car Insurance. We summarise other Group items in a fourth section.

Two or more cars?
Click for a MultiCar quote!

UK Car Insurance



Admiral's core UK Car Insurance business employs over 2,600 people in South Wales, Halifax Nova Scotia and Bangalore India.

What we do

- We sell, administer and underwrite private car insurance in the UK through four brands – Admiral, Bell, Diamond and elephant.co.uk
- Our policies are distributed through price comparison websites and direct channels (our own websites and the telephone)
- We are the third largest private car insurer in the UK, with around 1.9 million vehicles insured, generating total premium of £800 million. We estimate the combined market share of our brands is around 7%
- We also generate ancillary income from products and services that complement the motor insurance
- Our main locations are Cardiff, Swansea and Newport, though we also service our customers from call centres in Nova Scotia, Canada and Bangalore, India

UK Car Insurance Strategy

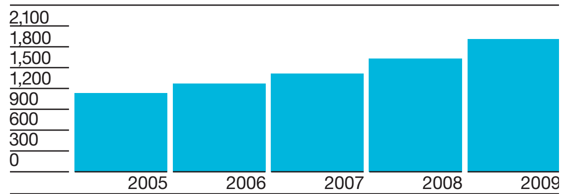
The strategy for our core UK business remains relatively simple:

- We aim to manage our existing client base and future growth in order to maximise profitability and return on capital over the medium to long term
- At the same time, we endeavour always to give excellent service to our customers, whilst providing a positive environment for our staff in which to work and develop in

UK Car Insurance Key Performance Indicators

UK Car Insurance Vehicle Numbers (000s)

1,862

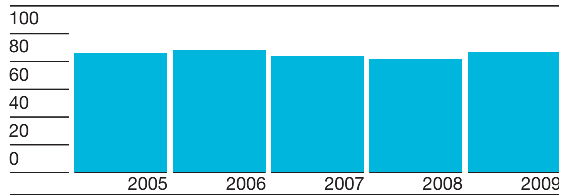


UK vehicles

- Five year compounded growth at 14%, accelerating in 2009 to 17%
- Our ability to grow arises from effective marketing, focused distribution, targeted pricing and innovative products

UK Car Insurance Combined Ratios (£)

84.9%

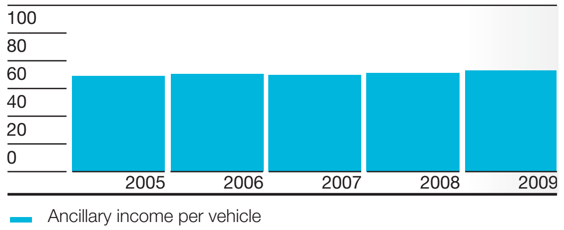


UK Combined Ratio

- Consistent and significant outperformance against the market
- Loss ratio advantage arises from targeted pricing and efficient claims handling
- Expense ratio advantage partly a factor of higher average premium portfolio, also efficient acquisition and a focus on cost control

UK Car Insurance Ancillary Income per Vehicle (£)

£72



- Significant profit generated from non-underwriting activities – further modest increase in contribution per customer in 2009
- Strong track record of maintaining ancillary income per vehicle such that ancillary profits generally increase in line with vehicle growth
- Continual development of products and services in response to changing customer needs and industry trends

UK Car Insurance Financial Performance

Non-GAAP*1 format income statement

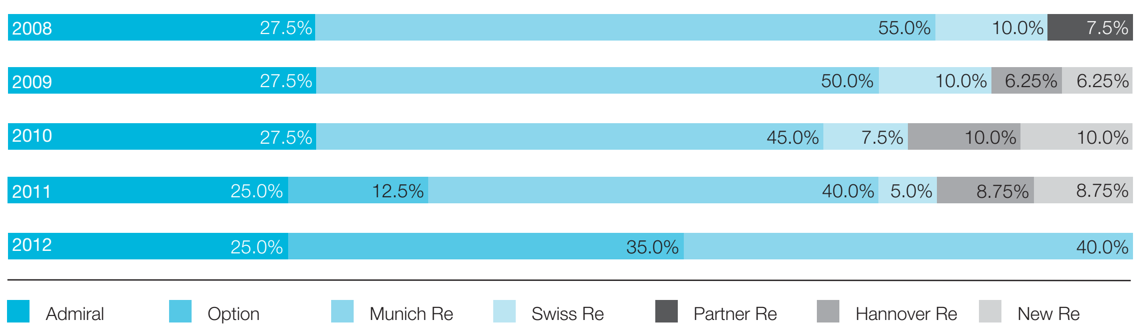
£m	2007	2008	2009
Turnover*2	714.9	804.8	939.1
Total premiums written*3	617.0	690.2	804.7
Net insurance premium revenue	140.2	161.9	199.1
Investment income	16.7	17.1	7.5
Net insurance claims	(97.0)	(105.1)	(138.7)
Net insurance expenses	(19.9)	(26.0)	(30.3)
Underwriting profit	40.0	47.9	37.6
Profit commission	20.4	34.7	54.2
Net ancillary income	75.8	89.0	106.3
Other revenue	6.0	8.3	8.8
UK Car Insurance profit	142.2	179.9	206.9

Key performance indicators

	2007	2008	2009
Reported loss ratio	66.7%	62.0%	66.9%
Reported expense ratio	16.7%	19.0%	18.0%
Reported combined ratio	83.4%	81.0%	84.9%
Written basis expense ratio	17.0%	17.0%	16.9%
Claims reserve releases	£29.5m	£38.0m	£31.3m
Releases as % of premium	21.0%	23.5%	15.7%
Profit commission as % of premium	14.6%	21.4%	27.2%
Vehicles insured at year-end	1.38m	1.59m	1.86m
Ancillary income per vehicle	£69.0	£70.7	£72.0

*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

UK Co-insurance & Reinsurance Arrangements



All employees, regardless of location, are entitled to receive shares in the Group's Approved Free Share Plan.

UK Car Insurance – Co-insurance and Reinsurance Arrangements

In 2009, Admiral underwrote a net 27.5% of UK premiums (in line with 2008). 50% of the UK total is underwritten by the Munich Re Group (specifically Great Lakes Reinsurance (UK) Plc) through a long-term co-insurance agreement, and 22.5% was proportionally reinsured to Swiss Re (10.0%), Hannover Re (6.25%) and New Re (6.25%).

The nature of the co-insurance is such that 50% of all motor premium and claims for the 2009 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

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

In 2010, Admiral will continue to underwrite 27.5% of the total, the remaining 72.5% being split 45.0% Great Lakes, Swiss Re 7.5%, Hannover Re and New Re 10.0% each.

Extensions to Munich Re Agreements

In January 2010, Admiral announced it had extended the agreements in place with Munich Re in the UK, Spain and Italy and had also signed a new long-term reinsurance arrangement in the USA. Munich Re's risk and profit sharing has facilitated the Group's business 'capital-light' business model for a decade and these significant extensions are very positive for its continuation.

In the UK, Admiral extended the current agreement for two further years, to at least the end of 2016. Munich Re will retain 40% of the UK risks for the additional years. Admiral has committed to retain at least 25% for the duration of this agreement whilst the allocation of the balance is at Admiral's discretion.

The European and US contracts are explained below in the Non-UK Car Insurance section.

UK Car Insurance Financial Performance

The Group's core business grew strongly in 2009, with 17% more vehicles insured at the end of the year compared to December 2008 and a similar increase in written premium.

Pre-tax profit increased by 15% to £206.9 million, despite having been held back somewhat by a significant (nearly £10 million or 56%) fall in investment income. Our investment strategy remains cautious and is set out in detail later. UK Car Insurance contributed over 95% of Group profit in the year.

Whilst, Admiral's UK results have been consistently profitable for some time, the UK private motor market as a whole remains significantly loss-making. These losses, coupled with a difficult investment environment and falling reserve cushions for most insurers have led to material increases in prices.

Admiral increased its base premium rates by around 12% in 2009, the largest annual increase for nearly a decade. However, Admiral's average written premium in 2009 did not change materially compared to 2008. This reflected portfolio mix changes and the growing influence of price comparison websites (which we estimate now generate around 45% of all new business transacted in the UK), where customers generally transact at the cheapest price, resulting in market average written premiums not rising at the same rate as reported price changes.

2009 underwriting profit fell to £37.6 million from £47.9 million, though was broadly flat if the fall in investment income is excluded. The reported combined ratio increased to 84.9% from 81.0%; the 4 point move being made up of a 1 point improvement in expense ratio and a 5 point higher loss ratio.

The higher loss ratio was despite an improvement in the 2009 ratio, and was a result of a lower contribution from prior year reserve releases. In 2008, releases contributed £38.0 million to the result, representing 23.5% of earned premium. The 2009 equivalent was £31.3 million or 15.7%. This fall reflects a market-wide return towards less dramatic levels than seen in recent years, which in turn resulted from overly pessimistic expectations of bodily injury claims inflation in the early 2000s.

The significantly improved profit commission terms on the co-insurance and reinsurance arrangements for recent underwriting years continue to be a major factor in the income statement, with the material increase in 2008 v 2007 being followed by a similar rise in 2009. Admiral's own underwriting result plus profit commission income amounted to £91.8 million in 2009 – 11% higher than 2008, despite the dramatic fall in investment income.

Admiral's UK expense ratio of 18% compares very favourably to the market average figure of around 30%. This significant (and sustained) advantage results in part from a portfolio with a higher average premium than the market, but also from lower infrastructure and acquisition costs. Admiral's written basis expense ratio improved modestly in 2009 to just under 17%.

Our claims reserving approach remains unchanged. We initially reserve conservatively, above independent actuarial projections of the ultimate outcomes. This results in a significant margin being held in reserves to allow for unforeseen adverse development in open claims and creates a position whereby Admiral makes above industry average reserve releases.

For more information visit:
www.admiral.com
www.bell.co.uk
www.diamond.co.uk
www.elephant.co.uk

In determining the quantum of releases from prior years, we seek to maintain a consistent level of prudence in reserves, taken together with 'reserves' of profit commission based on actuarial projections of ultimate loss ratios that are, however, yet to be recognised at the balance sheet date.

Net income from ancillary products and services continues to be a major source of UK profits. UK net ancillary profit increased (to £106.3 million from £89.0 million) at a faster rate than vehicle growth (19% v 17%) due to a small increase in the level of contribution per vehicle insured (to £72 from £71). Again, there were no major changes in the component parts of ancillary profit.

It is worth repeating that although Admiral does not underwrite all the car insurance generated for its own account, it does retain all ancillary income generated.

Ancillary contribution

Ancillary contribution is generated from a portfolio of insurance products that complement our core car insurance, and also fees generated over the life of the policy. There is also some (less material) income from other products unconnected to car insurance. (Contribution is reported net of the third party wholesale cost of the product.)

We classify ancillary contribution in three categories:

- Compulsory products – primarily legal expenses insurance
- Optional products – such as breakdown cover, personal injury insurance, car hire insurance
- Fees and other – administration fees, wasted leads, claims referral income

Regulatory environment

The UK car insurance business operates mainly under the regulation of the UK Financial Services Authority, and also, through a Gibraltar-based insurance company, under the Financial Services Commission in that territory.

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

All three companies are required to maintain capital to levels prescribed by the home regulator, and all three maintained significant surpluses above those required levels throughout the year.

Solvency II

The most significant area of regulatory change for a number of years is the Europe-wide Solvency II project, which will result (from the end of 2012) in new rules on solvency and risk management for European insurers.

Our two insurers – AICL and AIGL – will both be subject to the new regime, and the Group has been working to ensure the Group will be properly prepared for the introduction of the rules, with particular focus on systems of risk management and governance and also capital requirements.

Treating Customers Fairly (TCF)

FSA regulations require regulated companies to treat their customers fairly, and this has been an area of significant focus in recent years. The Group has had a TCF culture along with comprehensive management information in place for some years, and we report some of the data in the Customers section below.

Confused.com employs over 150 people in Cardiff.

Price Comparison

What we do

UK	Europe
• 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 via commissions paid by the product provider on the sale of an insurance policy or financial product • Confused is the UK's leading car insurance comparison website measured by sales generated	• Rastreator.com, our Spanish insurance comparison website, launched in March 2009 • Rastreator allows customers to compare car and motorcycle insurance prices

Price Comparison strategy

UK	Europe
• Confused's strategy is to become the comparison website of choice in the UK for financial products, and to maximise the value to the business of each customer relationship	• The Group's aim is to take what it knows and does well in the UK and expand this overseas. To date we have targeted three markets. • Rastreator.com successfully launched in Spain in March 2009 • The Group's French comparison website, LeLynx.fr, launched in Paris in January 2010 • Most recently, Chiarezza.it, based in Milan, Italy, started operating in February 2010

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

Price Comparison Financial Performance

Non-GAAP format income statement

£m	2007	2008	2009
Revenue:			
Motor	58.8	52.9	62.2
Other	10.3	13.2	18.3
Total	69.1	66.1	80.5
Operating expenses	(32.4)	(40.5)	(55.6)
Operating profit	36.7	25.6	24.9
Confused.com operating profit	36.7	25.6	25.7

Following the successful roll-out of Confused's new website early in the year accompanied by the 'Testimonials' TV campaign, the main story of 2009 was yet another year of fierce competition among the four key players in UK price comparison.

Despite having to spend aggressively on media to defend its market position, Confused delivered a profit in line with 2008. Whilst Confused maintained its share of car insurance price comparison at around one third (the market leading position), experience in the early part of 2010 provides no evidence that the tremendous levels of media activity from the major players will diminish in the near future.

Confused has continued to develop its product range beyond car insurance and the proportion of revenue generated from non-motor has once again increased, despite an 18% increase in motor revenue itself:

	2006	2007	2008	2009
Non-motor revenue % of total revenue	11%	15%	20%	23%

The most significant of the non-motor products remains household insurance comparison, but there is also notable contribution from van and life insurance as well as a growing capability in comparison of money products such as credit cards and loans.

Despite the substantial competitive pressures and increased media activity, Confused delivered a profit margin of around one third. This was down on 2008's result of 39%, but is a positive outcome in the context of the highly competitive UK price comparison market.

Rastreator.com

Having only started business in March 2009, the post-launch results for Rastreator in 2009 are not significant in the Group context.

The focus for Rastreator in 2010 is to work to become top of mind in insurance price comparison in Spain and also an important strategic partner for insurers based on sales volumes generated.

Alongside enjoying a successful period in operational terms, the Group also sold a 25% minority stake in Rastreator to Mapfre S.A. – Spain's largest insurer. This partial sale is consistent with Admiral's approach of working with partners who assist us in achieving profitable growth whilst at the same time reducing risk.

LeLynx.fr and Chiarezza.it

In early 2010, two further European price comparison businesses were launched in France (January) and Italy (February). Both opened for business on-time and under budget. In common with other Admiral international launches, both will have modest starts, and will focus during 2010 on developing their website, panel of insurers, and testing various marketing campaigns.

Regulatory environment

Confused is regulated by the UK FSA as an insurance intermediary and is subject to all relevant mediation rules, including those on solvency capital.

The European operations are all structured as branches of the UK regulated entity, with the UK regulatory permission passported into Europe.

Non-UK Car Insurance

What we do

- The Group now has four direct car insurance businesses operating outside the UK at varying stages of development
- Balumba, our first overseas business, which launched in Seville, Spain in October 2006, enjoyed its third full year of trading in 2009 and ended the year with 50,300 customers
- AdmiralDirekt (Cologne, Germany) launched a year after Balumba, writing business from January 2008. It had 35,000 insured vehicles at December 2009
- ConTe started operating in Rome, Italy in May 2008 and closed 2009 with 35,500 customers
- Most recently, the Group launched a US business, Elephant Auto, in Richmond, Virginia in October 2009

Non-UK Car Insurance Strategy

- As we noted earlier, an important element of Group strategy is to take what we do well in the UK and use our experience to establish profitable, sustainable businesses overseas. We will not do this quickly and we do not set market share or revenue targets within fixed timeframes
- We expect new operations to be relatively small, and loss making in their early years (how long will depend on the market), until the business is established and scale is achieved. Use of proportional reinsurance across all markets (see below) helps reduce the financial impact in the early years
- We have identified one further market based on our targeting criteria (France), which we are in the process of researching
- Our overseas strategy is summarised in the table below, where we also comment on our progress to date

Objective	Progress
1) Establish new, direct car insurance businesses in our five selected countries outside the UK (Spain, Germany, Italy, USA and France)	• Spain, Balumba.es, October 2006 • Germany, AdmiralDirekt.de, October 2007 • Italy, ConTe.it, May 2008 • USA, Elephant.com, October 2009 • France – market being researched
2) Develop each new operation into a profitable, sustainable business	• All businesses remain in early stages and as would be expected, none have yet reached profitability • Balumba in Spain was first to launch and during 2009 made good progress towards becoming a sustainable business
3) Minimise where possible the financial impact on the Group	• 65% reinsurance support in place in Europe • Elephant.com has reinsurance support for two thirds of its business • The Group takes a 'slow and steady' approach to expansion and aims to build sustainable businesses before pushing for significant growth

Non-UK Car Insurance Financial Performance

Non-GAAP format income statement

£m	2007	2008	2009
Turnover	16.5	29.7	47.2
Total premiums written	14.2	26.0	43.0
Net insurance premium revenue	2.0	7.9	12.8
Investment income	0.1	0.7	0.2
Net insurance claims	(2.8)	(9.5)	(13.0)
Net insurance expenses	(1.8)	(6.2)	(13.0)
Underwriting result	(2.5)	(7.1)	(13.0)
Net ancillary income	1.8	2.8	3.3
Other revenue	–	0.2	0.2
Non-UK Car Insurance result	(0.7)	(4.1)	(9.5)

Note - Pre-launch costs excluded

Key Performance Indicators

	Balumba	Admiral Direkt	ConTe	Total
2009				
Total premiums written (£m)	17.8	14.0	11.1	43.0
Vehicles insured at period-end	50,300	35,000	35,500	121,000
Result (£m)	(1.3)	(5.2)	(2.4)	(9.5)
2008				
Total premiums written (£m)	20.8	4.3	0.9	26.0
Vehicles insured at period-end	55,400	15,000	3,300	73,700
Result (£m)	(1.2)	(2.3)	(0.6)	(4.1)

Note – total figures include Elephant Auto business in 2009

Non-UK Co-insurance and Reinsurance

The risk sharing model that has been a feature of the UK business since 2000 is also used in Europe and the USA. As well as providing the capital for the majority of the underwriting, in return for a share of future profits, our co-insurance and reinsurance partners bear their proportional share of the post-launch expenses as well as the underwriting in all non-UK operations.

The arrangements in each market in Europe are similar and involve Admiral retaining 35% of the risks, the majority share of 65% being underwritten by Munich Re.

In the USA, Admiral's US insurer retains one third of the risks generated from January 2010, with the remaining two thirds split equally between Hannover Re and Munich Re. Both reinsurers bear their proportional share of expenses and underwriting, subject to certain caps on the reinsurers' total exposures.

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 in place for Germany, Italy and the USA include proportional sharing of ancillary profits.

Changes to Munich Re Agreements

As noted in the UK Car Insurance section above, in early 2010, Admiral signed revisions to the Munich Re agreements in both Spain and Italy to extend the terms to a total of 15 years (though with options for Munich Re to exit earlier subject to various conditions). Both agreements have also been revised to include a stronger alignment of long term interests and higher profit commissions for Admiral if results are very positive.

The German contract was not materially changed and still runs to at least the end of 2011.

Non-UK Car Insurance Financial Performance

Total premium written outside the UK rose to £43.0 million in 2009 from £26.0 million in 2008. The number of vehicles insured also rose strongly, to 121,000 from 73,700.

The eldest of the four operations – Balumba in Spain – is only just over three years old and as should be expected for new car insurance businesses, none has yet reached the scale or maturity to be profitable. When a business reaches this milestone will depend on the individual market, though we would not expect it to happen for at least four or five years.

The combined businesses lost a total of £9.5 million in 2009, up from £4.1 million in 2008. The higher loss is partly a factor of more businesses operating for the full period, and each business bearing a combined ratio in excess of 100% on a higher level of earned premium.

We have 615 people employed in our Non-UK Car Insurance operations, based in Seville, Cologne, Rome and Richmond, Virginia.

Balumba

After having contracted in size over the first half of 2009 whilst management focused on improving the loss ratio, Balumba started to grow again in the second half and ended the year with 50,300 customers. This is 10% fewer than at December 2008, but 4% more than at 30 June 2009.

The significant improvements made in the claims area, pricing and underwriting processes have led to a much more satisfactory loss ratio outcome for 2009 compared to earlier years.

Balumba – loss ratio development triangle

	Underwriting year 2007	2008	2009
After 12 months	137%	102%	83%
After 24 months	135%	109%	–
After 36 months	133%	–	–

As noted in our interim report, one consequence of holding back the growth of the business has been a less positive evolution of the expense ratio. For the first half of 2009, Balumba's expense ratio (on an accounting basis) was around 55% and this has worsened slightly to just over 60% for the full year. Management expect this measure to improve as the business grows.

Balumba continues to generate very positive ancillary contribution, with over €70 earned on average per customer. This strong performance has contributed to a positive movement in the overall result, with only £0.3 million of the full year loss of £1.3 million arising in the second half of the year.

The current focus in Spain is to recommence growing the portfolio at an acceptable level of acquisition cost, whilst remaining focused on achieving an acceptable loss ratio.

AdmiralDirekt

Germany continues to be the market which offers the greatest challenge among our new businesses. The 1 January renewal 'season' and an extremely competitive pricing environment are two of the factors that contribute.

Despite focusing on the replacement car market rather than the 1 January renewal season, AdmiralDirekt grew its customer base relatively significantly during the first half of 2009, finishing the year with around 35,000 cars insured compared to 15,000 a year earlier.

Even including the material impact of one very large claim (accounting for around 6 percentage points) the 2009 loss ratio has improved notably compared to 2008, though with a large proportion of customers being new, a relatively poor loss ratio is to be expected. Material price increases, a growing proportion of renewal customers as well as continued development in the claims area are among the actions taken by management to further the improvement into 2010.

AdmiralDirekt – loss ratio development triangle

	Underwriting year 2008	2009
After 12 months	141%	109%
After 24 months	128%	–

The high combined ratio on the portfolio (and lack of notable ancillary profit) resulted in AdmiralDirekt making a loss of £5.2 million in 2009.

ConTe

ConTe has grown in size significantly in the second half of 2009, moving from 3,300 customers at December 2008, to 15,000 at the end of June 2009 and up to 35,500 at the end of the year. Written premium in 2009 was £11.1 million.

A small base of earned premium is vulnerable to the impact of large claims, and one such claim in the second half of the year has led to a worsening of the loss ratio since we reported interim results. The 2009 ratio is still below 100%, and with the vast majority of the portfolio made up of new business customers, the result is encouraging.

ConTe – loss ratio development triangle

	Underwriting year 2008	2009
After 12 months	87%	98%
After 24 months	105%	–

ConTe made a loss of £2.4 million in the year.

Elephant Auto

The Group launched its latest new car insurance business in Virginia, USA in October 2009. The period from launch to the end of the year was used to test and embed the systems and very little business was written until the start of 2010.

The business currently just underwrites Virginia based risks, though it is actively researching a number of further states with a view to beginning to write business outside Virginia if and when the Virginia business produces satisfactory results.

Other Group Items

£m	2007	2008	2009
Gladiator operating profit	2.0	2.8	2.4
Group net interest income	7.8	6.6	1.1
Share scheme charges	(3.0)	(5.9)	(9.2)
Expansion costs	(1.4)	(0.8)	(2.0)
Other central overhead	(1.3)	(1.6)	(1.7)

Gladiator

Established in 1998 and based in Swansea, 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	2007	2008	2009
Revenue	7.5	9.5	10.6
Expenses	(5.5)	(6.7)	(8.2)
Operating profit	**2.0**	**2.8**	**2.4**
Operating margin	27%	29%	23%
Customer numbers	62,200	84,900	93,400

Gladiator has continued to grow its customer base – by 10% to 93,400 in 2009, but significant increases in competition in the market (resulting from growth in price comparison distribution and increased media spend) have led to notable pressure on margins.

Gladiator's operating profit margin reduced to around 23% from 29% in 2008, reflecting this increased competition. Operating profit fell from £2.8 million to £2.4 million.

Other income statement items

Other notable items in the income statement are:

- Net interest income – substantial reduction from £6.6 million to £1.1 million reflecting significantly lower cash returns
- Increased share scheme charges (£9.2 million v £5.9 million) – reflects increased staff numbers and a higher share price in 2009 which drives the accounting charge.

Investments and cash

Investment strategy

There has been no change to the Group's investment strategy, though there were relatively small changes in the allocation of funds between investment types in the year. See Fig 1.

The key element of Group-wide investment strategy is capital preservation, with additional priorities focussing on low volatility in returns and high levels of liquidity.

There has been some movement of cash out of money market funds into cash deposits (maximum term 12 months) in order to secure higher rates of return than were being generated by the funds. A level of liquidity has been sacrificed, but a high proportion of funds continue to be immediately available. Our objectives noted above have always been achieved.

Fig 1. **Cash and investments analysis**

	31 December 2009				
	UK Car Insurance £m	Price Comparison £m	Non-UK Car Insurance £m	Other £m	Total £m
Liquidity money market funds	208.5	–	29.2	–	237.7
Long-term cash deposits	178.5	–	5.0	–	183.5
Short-term cash deposits	–	–	–	20.0	20.0
Cash	112.9	9.0	21.3	48.6	191.8
Total	**499.9**	**9.0**	**55.5**	**68.6**	**633.0**

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

Given our strategy, returns on cash and invested funds were predictably low. Total investment and interest income in 2009 amounted to £8.8 million, over 60% lower than the £24.4 million earned in 2008. The weighted average return on invested funds was around 1.2% for the year.

The Group continues to generate significant amounts of cash, enabling the Group to pay the majority of after-tax profits to shareholders in the form of dividends. The Group has no debt.

£m	2007	2008	2009
Operating cash flow, before transfers to investments	213.2	251.5	286.4
Transfers to financial investments	(76.8)	(76.0)	(10.5)
Operating cash flow	136.4	175.5	275.9
Tax and interest payments	(49.8)	(56.9)	(49.1)
Investing cash flows	(5.4)	(11.3)	(11.8)
Financing cash flows	(117.1)	(128.7)	(142.2)
Foreign currency translation impact	0.4	9.9	(5.3)
Net cash movement	**(35.5)**	**(11.5)**	**67.5**
Net increase in cash and financial investments	**42.5**	**63.8**	**77.8**

All years show growth in the total value of cash and investments, and this growth has escalated over time as the total size of the business grows.

Aside from continued growth, the only notable change in 2009 compared to 2008 is that less operating cash flow was moved into financial investments. This is largely a timing difference, with a significant movement from cash to investments occurring in January 2010.

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

£m	2007	2008	2009
Profit after tax	**127.4**	**144.9**	**156.9**
Change in net insurance liabilities	11.7	37.6	57.1
Net change in trade receivables and liabilities	10.7	(5.8)	(4.6)
Non-cash income statement items	8.4	17.2	24.1
Tax and net interest expense	55.0	57.6	58.9
Operating cash flow, before transfers to investments	**213.2**	**251.5**	**286.4**

Other financial items

Taxation

The taxation charge reported in the income statement is £58.9 million, which equates to 27.3% of profit before tax.

Earnings per share

Basic earnings per share rose by 7% to 59.0 pence from 54.9 pence. This rate of growth is in line with pre-tax profit growth.

Dividends

The Directors have declared a second interim dividend for 2009 of 29.8 pence in place of a final dividend. In line with the Group's dividend strategy, this comprises a 13.7 pence normal element and a 16.1 pence special distribution, representing an increase of 12% on the final dividend paid in respect of 2008.

The payment date is 1 April 2010, ex-dividend date 10 March and record date 12 March.

The total dividend declared for 2009 (57.5 pence) is 10% higher than the 52.5 pence distributed in respect of 2008.

Capital structure, financial position

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.

At Group level, capital is managed in conjunction with dividend policy. As noted above, the policy is to make distributions after taking into account capital that is required to be held for regulatory purposes; for expansion activities; and also as a further prudent buffer against unforeseen events. This policy gives the Directors flexibility in managing the capital requirements of the Group.

The Group's capital continues to be held in equity form, with no debt.

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 5 March 2010, 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	27,079,400	10.2%
BlackRock Inc	12,872,216	4.8%
Fidelity	12,771,422	4.8%
Capital Group	12,766,870	4.8%
Newton Investment Managers Ltd	10,547,511	4.0%
Jupiter Asset Management Ltd	9,675,157	3.6%
College Retirement Equities Fund (CREF)	7,949,963	3.0%

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

Risk	Description and impact	Mitigation
1. UK Car Insurance – erosion of competitive advantage	As the UK business continues to steadily gain market share, there is a risk that Admiral's advantage – both in loss and expense ratio terms – will erode. Measured by the combined ratio, Admiral's UK Car Insurance underwriting is typically around 25 to 30 percentage points more profitable than the market. Various factors might contribute to the erosion: a) Flat or falling average premiums as Admiral's portfolio tends towards the market average (expense ratio impact) b) A need to either cut rates, or increase rates at a slower rate than the market in order to continue growth (loss and expense ratio impacts) c) A deterioration in ability to price effectively The impact on the business would be a loss profitable underwriting result and lower return on capital employed.	Admiral's UK business has grown consistently since the business was launched in the early 1990's, and has enjoyed regular outperformance against the market throughout that time. The Directors are confident that the key strengths of the business which contribute to the outperformance (targeted pricing and claims handling on the loss ratio side; lower cost infrastructure, efficient acquisition costs and cost control on the expense ratio side) are sustainable. In addition, the Directors believe further growth is achievable in the medium term without undermining Admiral's combined ratio advantage. Further growth could bring benefits such as economies of scale and additional data points which are likely to be beneficial for pricing.
2. International expansion – risk of failure	The Group has launched seven new operations outside the UK in the past four years. There is a risk that one or more of the new operations does not become a sustainable long-term business. The impact on the Group could be higher than planned losses (and potentially closure costs) and distraction to key management.	The Group's approach to expansion is cautious. Our 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 the new operations could incur are minimised whilst management assess the likelihood of the business succeeding. The Directors are mindful of management stretch and monitor this risk on a regular basis. At present the Board is confident there is a suitable management structure in place for the Group's international operations.
3. Ancillary profits – potential diminution	There is a risk that over the medium to long term, 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.	Admiral earns ancillary profits from a portfolio of products and seeks to minimise reliance on any single item. This would mitigate the impact of a regulatory change which affected a particular product or income stream. The Group have risk management processes in place such that potential risks to ancillaries are identified and monitored, providing management the time to respond appropriately to any such regulatory changes and minimise financial impacts where possible.
4. UK Price Comparison – effects of continued competition	Confused.com operates in a highly competitive market with four businesses attempting to increase their market share through aggressive media activity. There is a risk that despite Confused currently enjoying a market leading position, it will not succeed in maintaining this position or will have to advertise even more aggressively to defend share. The impact on the business would be reduced profitability in the future.	The Directors believe Confused is a strong business and is well positioned to continue to defend its positive position in the UK price comparison market. There is also scope to increase and improve Confused's offering in products beyond car insurance – most notably in 'money', which is a key element of Confused's strategy. Even taking the above into account, there is obviously still uncertainty over the future profit levels of the business, as it depends to a significant extent on the actions of Confused's competitors.
5. Risk sharing structures	Admiral uses proportional co-insurance and reinsurance across its car 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 one or more of the international operations are not satisfactory. The impact on the Group would be the need to raise additional capital to support the underwriting. This could be in the form of equity (either reduced dividends or new equity) or debt.	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 a strong relationship with other major reinsurers, including Hannover Re and Swiss Re. Admiral has long-term reinsurance contracts in place and in early 2010, significant extensions to the existing contracts for the UK, Spain and Italy were agreed. At the same time, new long-term contracts were signed with Munich Re and Hannover Re to support the new US business. Admiral has relationships with a number of reinsurers reducing reliance on an individual reinsurer.

Corporate responsibility

Introduction

Corporate Responsibility (CR) is embedded throughout the business – in our approach to recruitment and how we treat our employees, our approach to customer service, the contribution we make to our communities and to charities, and how we view our impact upon the environment – CR is a part of everyone's role at Admiral.

This report gives an overview of our approach and highlights some of our achievements during 2009 and the challenges for 2010.

The CR report outlines what we do in the key areas of corporate responsibility:

- Employees
- Customers
- Charitable giving and Community
- Environment

During 2009 we won a number of awards supporting our commitment to CR and these are detailed in each section of the CR report.

We are particularly proud to have been included in the 'Management Today' Most Admired Companies award. The award is voted on by the top companies in the UK across nine criteria. Admiral came 16th overall this year, (2008 – 81st) and was named as Britain's Most Admired Insurer.

Employees

The people working at Admiral are our key asset. We have a simple philosophy – if people like what they do, they will do it better. So we go out of our way to ensure a good working environment. Each year our UK employees have completed an anonymous web-based survey to collect views on what it is like working for Admiral. The survey includes questions relating to a wide range of topics including morale, development, management, communication and social aspects of working at Admiral. In 2009 the survey also included our Canadian employees. During 2010 we are planning to roll out the survey to our overseas businesses.

The survey results are analysed by department and each department manager is expected to share the survey results with their team, explore issues and concerns, and then make recommendations to address them.

The key results relating to morale and whether employees feel that their opinions are important are provided in the table below. There are no specific targets with respect to the survey results as the Executive team use the results to look at trends within the scores rather than absolute values.

It is pleasing that all of the survey results in the key areas measuring morale, association with Admiral and how employees feel Admiral treats its customers have improved during 2009 except for the measure 'Morale is high in my department'. Whilst the score for this measure was still at an impressive 86% the Executive team take responsibility for looking at the areas of the business where morale is lowest.

90% of UK and Canadian employees completed the survey with over 2600 responses. See Fig 1.

Fig 1

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

For more information visit:
www.admiralgroup.co.uk

Perhaps the best measures of our employees' assessment of their working environment are the independent surveys they have completed.

We are very proud to have been included in **The Sunday Times 100 Best Companies to Work For** in all 10 years since its first publication and received special recognition for being one of only two companies to have achieved this. In the 2010 list we were extremely pleased to be placed in 16th position – an excellent result for Admiral and everyone who works for Admiral. See Fig 2.

Using a methodology refined over the past seven years, the organisers have identified the eight key factors that define the best companies to work for in Britain.

Leadership: how people feel about the head of the company and its most senior managers.
My company: feelings about the company people work for as opposed to the people they work with.
My manager: people's feelings towards their day-to-day managers.
Personal growth: to what extent people feel stretched by their job.
My team: people's feelings about their colleagues.
Fair deal: how happy employees are with their pay and benefits.
Giving something back: how much companies are thought to put back into society and the community.
Wellbeing: how people feel about stress, pressure and the balance between their work and home life.

The final results were announced on 25 February 2010 and are based on questionnaires completed by UK employees, randomly selected by the organisers. For the 2010 results, surveyed during November 2009, 1,100 employees provided responses – a response rate of 75% of those receiving the questionnaires.

The table below provides the overall scores (out of 7) compared to the previous two years. See Fig 3.

The scores have improved in all areas with significant improvements in how employees feel about their pay and benefits compared to similar positions in other companies. The score representing how employees feel about Admiral's charitable giving also improved significantly.

It is important for employees to understand the Company's goals and objectives. We work to communicate this in as many ways as possible. Everyone is encouraged to attend the annual Staff General Meeting (SGM). The SGM is arranged to enable employees to hear the views of the Executive Directors and some of the Non-Executive Directors on a wide range of subjects which in 2009 included the performance of the Group and the market within which we operate; the experiences of Non-Executive Directors within and outside of the Group; and the Group's share plans. We believe that being well-informed improves motivation and makes Admiral a better place to work.

Fig 2

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Position	32	42	46	60	20	20	21	57	37	16

Fig 3

Survey Factor	2008	2009	2010	2010 v 2009
Leadership	5.56	5.64	5.77	+2.3%
My Company	5.35	5.47	5.58	+2.0%
My Manager	5.64	5.69	5.74	+0.8%
Personal growth	5.12	5.10	5.17	+1.4%
My Team	5.80	5.79	5.86	+1.2%
Fair deal	3.86	4.03	4.32	+7.2%
Giving something back	4.70	4.81	4.99	+3.7%
Wellbeing	5.15	5.12	5.19	+1.3%

In the UK, Admiral tracks 'Treating Customers Fairly' with over 150 individual measures.

Share ownership is a key feature of the remuneration of employees. All employees, regardless of location, are eligible to receive shares in the Group's Approved Free Share Plan. Awards under this plan are made twice a year, following the interim and final results announcements. The level of awards is linked to the financial performance over the six-month period compared to the same period 12 months ago. Overseas employees receive equivalent awards within the Group's Discretionary Free Share Scheme.

The awards to date are shown in the table below. An employee who was working at Admiral before 1 January 2005 would have received, up to the end of 2009, 1,820 shares. If none of the shares had been sold, these shares would be worth £21,640 on 31 December 2009 (based on the closing share price of £11.89). 851 of the 1,820 shares have reached maturity and are available to sell. See Fig 4.

The Board firmly believes that share ownership motivates employees, decreases attrition and improves the Group's recruitment prospects in the regions where its offices are located. Indeed, 79% of employees say they are more likely to stay employed with Admiral because of the share schemes.

In addition to the Approved Free Share Scheme, the Group operates the Discretionary Free Share Scheme or DFSS. Unlike many plans of this type the awards are spread throughout the organisation from senior managers to star performers. Star performers are employees who have excelled in their role during the year and who would not normally receive DFSS shares. As at 31 December 2009, 1,900 individuals held awards in the scheme. Our strong earnings growth over 2007 to 2009 resulted in the 2007 scheme achieving a 98% vesting percentage.

The Remuneration Committee report provides details of the performance measures for vesting of the DFSS.

The Group is also committed to providing a consistently safe and effective working environment for all employees (and contractors, customers and members of the public). In doing so it will, as a minimum, comply with local health and safety legislation, but will exceed those requirements should it be necessary to do so in order to deliver its objectives.

Customers

Taking care of our customers is key to the current and future success of the Group. As at 31 December 2009 the Group had 2.08 million customers, up 18% from 1.75 million the year before.

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

- Measures programme
- Monitoring programme
- Comment form analysis
- Treating customers fairly reporting
- Complaints analysis

Fig 4

Award no.	Award date	No. shares per employee	Total Shares awarded	No. of employees receiving award	Employees still at Admiral on maturity date	Annualised Leaver Percentage
1	19 Sep 2005	411	585,675	1,425	1142	6.6%
2	16 Mar 2006	227	350,942	1,546	1252	6.3%
3	5 Sep 2006	213	350,811	1,647	1383	5.3%
4	9 Mar 2007	151	277,387	1,837	Not matured	–
5	4 Sep 2007	182	353,444	1,942	Not matured	–
6	7 Mar 2008	162	337,770	2,085	Not matured	–
7	22 Aug 2008	163	352,732	2,406	Not matured	–
8	6 Mar 2009	171	477,432	3,378	Not matured	–
9	28 Aug 2009	140	396,200	3,557	Not matured	–

96% of staff would recommend Admiral as a good place to work.

Every department has a unique set of quality measures to gauge performance. The measures are updated each year to challenge departments to make continual improvements. The programme is reported every month in the internal Company magazine and awards are presented each year for the best departments. The annual measures bonus provides a financial incentive for employees to drive incremental change throughout the business and was paid out again in full for the 2009 year.

As well as this programme, quality representatives throughout Admiral monitor the service the Company provides through the thousands of comment forms it receives back from customers every month. By listening to customer comments, we can improve the quality of service we provide.

The Group works 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. The Compliance department in the UK has completed a Treating Customers Fairly (TCF) Management Information pack, pulling together specific measures that demonstrate we are consistently treating our customers fairly. This will be rolled out to our overseas motor insurance businesses.

A detailed report is produced each month together with a summary, providing details of measures that have been graded red. The report is discussed at the Risk Management Committee (see Corporate Governance section of this report for details on the RMC) and process or behavioural changes agreed where appropriate.

During 2009 changes were made to a number of procedures as a result of the monitoring contained within the report. For example, where complaints have been escalated to the Financial Ombudsman Service (FOS) the percentage where FOS found in favour of the Company dropped to 67% during 2009. As a result the Quality department have been looking at the internal procedures that cause complaints to be escalated to FOS and are liaising directly with the FOS. On a monthly basis TCF measure scores have resulted in script changes and extra training.

The TCF management information is now embedded in the culture of the Company. 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 contains some of the key measures from the TCF report: See Fig 5.

Fig 5

TCF Measure	2008	2009	Targets
Complaints per 1,000 vehicles	1.14	1.06	<1.04
% FOS complaints found in favour of Admiral	78%	67%	>75%
Customer service call answer rate	95%	93%	>90%
Claims call answer rate	92%	93%	>90%
Customer Comment form score	9.37	9.39	>9
Claims Service Customer Comment forms	8.80	8.75	>8.5
% Customer who would renew following a claim	93%	93%	>85%
Call answer rate for complaint lines	91%	93%	>90%

There are over 150 individual TCF measures, each of which is benchmarked to allow the RMC to take an overall view as to whether customers are being treated fairly. During 2009 the average red grades amounted to 1.23%. 91% of the measures throughout the period achieved a green grade.

Each quarter the Central Complaints Department produce a report analysing the complaints received and causes. The report provides a summary of the root causes of the complaints and actions taken to reduce the risk of complaints due to specific procedures or behaviour.

Charitable and Community

Admiral aims to play a positive role in the community through charitable fundraising and encouraging employees to engage with local community partners. We promote payroll giving and provide matched funding for eligible employee initiatives.

Our charity and community programme focuses on serving the communities near our office locations in Cardiff, Swansea and Newport and since 2007 our overseas locations. The Admiral Community Chest is a fund set up by the Company to provide financial support to employees and their families directly involved with local charities and organisations. The fund has been running for over seven years and in that time we have been able to contribute to over 500 charities and organisations. During 2009, over 160 local organisations throughout the Group's locations were supported.

The Group also sponsors events within the local community, ranging from the Admiral Cardiff Big Weekend to the Admiral Swansea 10k run.

More information on how Admiral supports local charities and the communities in which its employees live can be found on the Group's corporate website, admiralgroup.co.uk.

Environment

As a motor insurer we are well aware of the human and economic cost of floods, storms and extreme weather. Climate change is a risk that is currently on the agenda of all large consumers of resources. Whilst Admiral Group is a relatively small producer of CO_2 emissions, it is still committed to reducing its impact on the environment. From green energy purchasing to carbon footprint measurement, and from the recycling of office waste to the sourcing of paper from sustainably managed forests, we continue to make progress in this area.

The Group's impact on the environment stems from its use of resources to run its offices in Cardiff, Swansea and Newport and its overseas branches in Spain, Germany, Italy, Canada and now the US. The Group does not own the properties that it occupies and is, therefore, reliant upon the cooperation of the managing agents of the properties to make changes that reduce the consumption of energy and water. The figures quoted include all of the Group's offices.

The Group remains committed to:

- Raising and maintaining employee awareness of, and ensuring that everyone is actively engaged in, activities to reduce the impact of the Group's operations on the environment
- Measuring, monitoring and reporting on the key aspects of the Group's environmental performance and regularly reviewing progress to reduce the amount of resources consumed per employee
- Reporting key environmental performance indicators, taking into account the ABI's Guidelines on Responsible Investment Disclosure and guidance provided by the Department for Environment, Food and Rural Affairs (Defra) See Fig 6.

Fig 6

Impact Area	Usage 2009	Consumption measure 2009	Usage 2010	Consumption measure 2010
Energy ('000 kWh)	5,670	221 kWh/m²	7,009	222 kWh/m²
Green Energy ('000 kWh)	1,844	72 kWh/m²	2,146	68 kWh/m²
CO_2 (tonnes)*	3,497	1.06 tonnes per employee	4,285	1.14 tonnes per employee
Water (m³)	19,859	6.03 per employee	22,810	6.30 per employee
Waste management:				
Total waste	340,926 kg		406,747 kg	
Waste to landfill	176,596 kg		195,609 kg	
Waste recycled	164,330 kg	48% recycled	211,148 kg	52% recycled
Travel				
Car miles	272,656	83 miles per employee	449,536	124 miles per employee
Rail miles	405,630	223 miles per employee	449,924	124 miles per employee
Air miles	1,789,535	543 miles per employee	1,754,475	484 miles per employee

*The carbon emissions have been calculated using the Carbon Trust Calculator, which uses the emissions factors published by Defra in April 2008.

During 2009, over 160 local organisations throughout the Group's locations were supported

The main source of the Group's carbon emissions is the consumption of electricity and gas in its offices. There are large variations in the consumption between offices and the Facilities manager and team will be increasing the level of monitoring to ensure each site is using resources as efficiently as possible.

Water usage increased to 6.3 cubic metres per employee. This was a result of a major leak in the Cardiff offices during 2009 that emptied both main header tanks each containing 10,000 gallons of water.

Employees are encouraged to recycle where possible and each floor has an environmental representative tasked with increasing the levels of recycling and awareness. During 2009 the UK offices introduced the Bike to Work scheme, which enables employees to purchase bicycles tax efficiently to increase cycling to work and decrease use of motor vehicles.

We also introduced the *lift*share scheme during 2009 in conjunction with *lift*share. *lift*share is the largest car-share network in the UK and provides a free service to the local business community by providing a car-share scheme helping to reduce parking issues, saving employees money and reducing local pollution and congestion. As well as providing this facility, the Group operates an interest-free loan scheme for advance payment of public transport costs.

The facilities department is in discussion with the Carbon Trust with the aim of reducing energy consumption. A number of schemes relating to lighting and computer use are being discussed.

Environmental Risks

The Group has reviewed the risks facing its business operations as a result of climate change. The volume of motor insurance claims for any given portfolio of business is to a large degree dependent upon weather conditions. The risk associated with climate change is the potential change to claims frequency through the impact of more extreme weather patterns.

The Group assesses the potential costs associated with a number of disaster scenarios such as a major storm in the South East, major flood on the East Coast, and a complete flooding of the Thames in the London area. Reinsurance cover is purchased to provide significant protection in the event of catastrophes of this nature.

Challenges for 2010

The Group faces a continual challenge to recruit, train, motivate and retain employees across its whole business. Whilst it appears that morale across the Group is excellent, there are small areas where this is not the case and it will be a challenge to identify and increase the morale within these areas to match how employees feel about the Company as a whole.

Measuring and managing our carbon footprint is no easy task and there are challenges on a number of levels. We strive to improve our collection of data across the business so that our carbon emissions can be reported with increased accuracy across all of our operations.

The Admiral Group Board

Key:
▲ Audit Committee member
● Remuneration Committee member
■ Nominations Committee member

Alastair Lyons, CBE (56) – Chairman■
Alastair was appointed Chairman of the Company in July 2000. He is also Non-Executive Chairman of Legal Marketing Services, In Retirement Services, and Cardsave, and Deputy Chairman of Bovis Homes. He has previously 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. Alastair was also a Non-Executive Director of the Department for Transport and of the Department for Work and Pensions. A Fellow of the Institute of Chartered Accountants, he was awarded the CBE in the 2001 Birthday Honours for services to social security.

Henry Engelhardt, CBE (52) – Chief Executive Officer
Henry is a founder Director of Admiral and was recruited by the Brockbank Group in 1991 to set up the Admiral business. He was part of the management team that led the MBO in 1999. Prior to joining Admiral, he was Marketing and Sales Manager for Churchill Insurance. He has substantial experience in direct response financial services in the United Kingdom, United States and France. He has an MBA from Insead. Henry was awarded an honorary CBE in April 2008 for services to business in Wales.

Kevin Chidwick (46) – Finance Director
Kevin is responsible for finance and investments as well as Admiral's subsidiaries Confused.com and Elephant in the USA. He joined Admiral in 2005, becoming Finance Director in September 2006. Prior to Admiral, Kevin has been in UK financial services for over 25 years. He has held a number of senior roles in other insurance organisations including Finance Director positions at Engage Mutual Assurance and Cigna UK. He is a fellow of the Chartered Institute of Certified Accountants and has an MBA from London Business School.

David Stevens (48) – Chief Operating Officer
David is a founder Director of Admiral. Initially the Marketing Director, he was appointed Director responsible for pricing in 1996 and claims and pricing in 1999. He was appointed as Chief Operating Officer in 2004. He joined Admiral in 1991 from McKinsey & Co. where he worked in the Financial Interest Group, London office. Prior to working for McKinsey & Co, he worked for Cadbury Schweppes in the United Kingdom and the United States. David has an MBA from Insead.

Manfred Aldag (59) – Non-Executive Director■
Manfred was appointed a Non-Executive Director of the Company in 2003 as a representative of Munich Re. He graduated from University of Essen and has a degree in Economics/Business Management (Diplom-Kaufmann). He has worked for Munich Re since September 1981 and is currently the Senior Executive Manager responsible for United Kingdom/Ireland.

Martin Jackson (61) – Non-Executive Director▲●
Martin was appointed Non-Executive Director and Chairman of the Audit Committee in August 2004. He was the Group Finance Director of Friends Provident plc between 2001 and 2003 and Friends' Provident Life Office between 1999 and 2001. Prior to that he was the Group Finance Director at London & Manchester Group plc from 1992 to 1998, up to the date of its acquisition by Friends' Provident Life Office. Martin is also a Non-Executive Director of IG Holdings plc, Homeserve Membership Limited and Rothesay Life Limited. He is a Fellow of the Institute of Chartered Accountants.

Keith James, OBE (65) – Non-Executive Director▲■
Keith was appointed a Non-Executive Director in December 2002. He is Chairman of the Nominations Committee and is also the independent Chairman of Admiral Insurance Company Limited and Inspop.com Limited. He is also a Non-Executive Director of Julian Hodge Bank Limited and Hodge Life Assurance Company Limited and is Non-Executive Chairman of International Greetings plc. He is a solicitor and was the Chairman of Eversheds LLP from June 1995 to April 2004. He was a Non-Executive Director of Bank of Wales plc between 1988 and 2001 and AXA Insurance Company Limited between 1992 and 2000. Keith was awarded an OBE in 2005 for services to business and the community in Wales.

Margaret Johnson (51) – Non-Executive Director▲●
Margaret was appointed Non-Executive Director of the Company in September 2006. She is currently Group CEO of the international advertising agency Leagas Delaney and has been with that Company for the past 13 years. Margaret joined the Group's Audit and Remuneration Committees on appointment to the Board.

Lucy Kellaway (50) – Non-Executive Director■
Lucy joined the board as a Non-Executive Director in September 2006. She is the management columnist on the Financial Times and author of various books. In 20 years on the FT she has been oil correspondent, a Lex columnist and Brussels correspondent. Lucy also joined the Nominations Committee on appointment to the Board.

John Sussens (64) – Non-Executive Director●
John was appointed the Senior Independent Non-Executive Director in August 2004, and is Chairman of the Remuneration Committee. He is also a Non-Executive Director of Cookson plc and Anglo & Overseas Trust Plc. He was the Group Managing Director of Misys plc between 1998 and May 2004 having been on the Board of the Company since 1989. Prior to joining Misys, he was Manufacturing Director at JC Bamford Excavators Limited. He was a Non-Executive Director at Chubb plc between 2001 and 2003.

Directors' report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2009.

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 is 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 £156.9 million (2008: £144.9 million).

The Directors declared and paid dividends of £142.4 million during 2009 (2008: £128.5 million) – refer to note 13 for further details.

The Directors have declared a second interim dividend of £79.4 million (29.8 pence per share), payable on 1 April 2010.

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 17 to the financial statements.

Directors and their interests

The present Directors of the Company are shown on pages 32 and 33 of this report, whilst Directors' interests in the share capital of the Company are set out in the Remuneration report.

Charitable and political donations

During the year the Group donated £147,000 (2008: £106,000) to various local and national charities. The Group has never made political donations. Refer to the Business review for further detail.

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 15 days purchases (2008: 20).

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 2009, 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 24.

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

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

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws)
- pursuant to the Listing Rules of the 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 Resinsurance (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 28 April 2009, authority was given to the Directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to one third of the shares in issue. This authority expires on the date of the Annual General Meeting to be held on 28 April 2010 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 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 28 April 2010 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.

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 the Cardiff City Hall, Cathays Park, Cardiff CF10 3ND on Wednesday 28 April 2010 at 3.00pm, notice of which will be sent to shareholders with the Annual Report.

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).

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a 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
- 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
25 February 2010

Corporate governance

The Combined Code on Corporate Governance

This report explains key features of the Group's governance structure, how it applies the principles set out in the revised Combined Code on Corporate Governance (the 'Code'), and the extent to which the Company has complied with the provisions of the Code. In addition, over the last 12 months the Company, as a large financial institution, has considered the conclusions and recommendations made in the corporate governance reviews undertaken by Sir David Walker, the Financial Reporting Council and the FSA. The Company will continue to monitor how it is proposed that the recommendations made in these various reports and reviews should be implemented and will seek to ensure that it is fully compliant with any resulting changes to the current corporate governance regime.

The Board complied with the Code in all respects during 2009 except for Code D.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 had individual meetings with the majority of 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 both providing leadership, either directly or through its committees of Directors, and delegating authority to the Executive team in a manner that will promote the success of the Group and is consistent with good coporate governance practice. The Board is accountable to shareholders for setting and achieving the Group's strategic objectives and for the creation and delivery of strong sustainable financial and operational performance. The Board is also responsible to the Financial Services Authority (FSA) for ensuring compliance with the Group's UK regulatory obligations.

The Board has adopted a formal schedule of matters specifically reserved to it which is reviewed on an annual basis (this was last carried out on 15 December 2009). 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
- Key business policies in relation to health and safety and environmental matters
- New Board appointments
- Dividend policy and proposals for dividend payments
- Major acquisitions, disposals, and other transactions outside delegated limits

The Board met on seven occasions in 2009. The Board also held a strategy day and visited its operations in Germany and Spain. In addition, the Non-Executive Directors and the Chairman met during the year without the Executive Directors being present. 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 Directors are, therefore, 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 frequent contact between meetings, where necessary, to progress the Group's business.

The Directors
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 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
During the year the Board carried out a detailed evaluation of itself, the Chairman, and its committees in order to identify areas for improvement to ensure that that the Group's strategy is implemented as effectively as possible. The process was led by the Chairman and facilitated by the Company Secretary and consisted of the completion of a comprehensive questionnaire evaluating the Board and committees' processes; their effectiveness; and where improvements could be considered. 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 evaluation concluded that the Board and its Committees performed well during the year and are effective in meeting their objectives and fulfilling their obligations. In addition, the Chairman has concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

A final detailed report was circulated to, and discussed by, the Board and a number of recommendations for improvement in certain processes were agreed including:

- A move for Board meetings to be held over two days to allow the Board to consider more effectively the operational and strategic issues that affect the Group, given the breadth of markets in which it now operates
- The introduction of an annual presentation by the Executive team on each of the key markets in which the Group operates in order to assess strategic objectives and to make changes to implementation plans where necessary
- An increase in the Board's exposure to the next level of senior management in order to support the Board's assessment of the Group's succession planning process

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, conducts the performance appraisal of the Chief Executive. The performance of the Chairman is reviewed by the Non-Executive Directors, led by the Senior Independent Director ('SID'), taking into account the views of the Executive Directors. The SID gave personal feedback to the Chairman and was able to confirm that the performance of the Chairman continues to be effective, and that the Chairman continues to demonstrate commitment to his role.

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. The number of full Board meetings and Committee meetings attended by each Director during 2009 is provided in the table below.

	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
Total meetings held	7	4	2	4
Alastair Lyons (Chairman)	7		2	
Henry Engelhardt (Chief Executive Officer)	7			
David Stevens (Chief Operating Officer)	7			
Kevin Chidwick (Finance Director)	7			
Manfred Aldag	7			
Martin Jackson	7	4		4
Keith James	7	4	2	
Margaret Johnson	7	4		4
Lucy Kellaway	7		2	
John Sussens	7			4

The roles of the Chairman and Chief Executive
The Board has approved a statement of the 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; the running of the business in accordance with the strategy agreed by the Board; and implementing specific Board decisions relating to the operation of the Group. The statement of division of responsibilities and matters reserved for decision by the Board were reviewed in December 2009.

Board balance and independence
The Board currently comprises ten Directors; the Chairman (who was independent on appointment), three Executive Directors, five 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. The Board has accepted the Nomination Committee's assessment of the independence of the five Non-Executive Directors 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.

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 one further three-year period and the Board may invite the Non-Executive Director to serve for a further three-year period, 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.

In the view of the Board, 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.

Details of the Chairman's other commitments are included in the Chairman's biography. The Chairman does perform a number of other non-executive roles outside the Group but the Board is satisfied that these are not such as to interfere with the performance of his duties within 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 Finance Director has failed to resolve or for which such contact is inappropriate. He is also responsible for leading the the Board's discussion on the Chairman's performance and the appointment of a new Chairman, when appropriate.

In accordance with the Company's Articles, which provide that a set number of directors retire by rotation and stand for re-election at each AGM, Martin Jackson, Keith James, Margaret Johnson, and Lucy Kellaway will retire by rotation and seek re-election by shareholders at the forthcoming AGM.

Given that the Chairman has served in his role since June 2000 he will now seek re-election by shareholders annually. As the Board was minded to ask him to continue in office notwithstanding that he had completed nine years as Chairman, the Company's leading institutional investors were approached to seek their views. They confirmed their support for the Board's expressed intent.

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 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. 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.

The Board receives presentations from senior managers within the various Group companies on a regular basis.

Relations with shareholders

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 monthly 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 monthly 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.

The Chairmen of the Audit, Remuneration, and Nomination Committees attend the Company's Annual General Meeting along with the other Directors, and are available to answer shareholders' questions on the activities of the committees they chair.

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 were amended at the 2009 Annual General Meeting to allow the Board to authorise potential conflicts of interest that may arise and to impose such limits as it thinks fit. Following the aforementioned amendment the Company has put in place updated procedures in place 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 conflict of interest procedures have operated effectively throughout 2009.

Board Committees

The principal committees of the Board – Audit, Remuneration, and Nomination – all comply fully with the requirements of the Combined Code. They are all chaired by an independent Director and exclusively comprise, or, in the case of the Nomination Committee (where the Chairman of the Board is a member), have a majority of, independent Directors. The committees are constituted with appropriate written terms of reference that are reviewed annually and minutes of the committee meetings are circulated to the Board.

The Audit Committee

Constitution and membership

The membership throughout the year was Martin Jackson (Chairman), Keith James, and Margaret Johnson. The Company Secretary acts as Secretary to the Committee. Appointments to the Committee 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 Committee meets at least three times per year and has an agenda linked to events in the Company's financial calendar.

The Committee has formal terms of reference which were reviewed by the Committee during the year and approved by the Board in February 2010.

The Board considers that the members of the Committee have the appropriate competence and experience to carry out their duties and further considers that Martin Jackson (Committee Chairman) has the appropriate recent and relevant financial experience having held the position of Group Finance Director of Friends Provident Plc between 2001 and 2003 and being a fellow of the Institute of Chartered Accountants, which imposes requirements for Continuing Professional Development. 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, Head of Finance, 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 suggested by the Code.

Other individuals such as the Finance Director, Chief Operating Officer, Chief Executive Officer, 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 are invited to attend meetings of the Committee on a regular basis.

Summary of key activities during 2009

During the year the Committee reviewed the following:

- The Annual Report and interim results
- Reports from the Group's internal audit department on the effectiveness of the Group's risk management procedures, details of key audit findings, and actions taken by management
- Effectiveness of the Group's system of internal control including within its overseas operations, particularly gaining assurance that the compliance, internal control and risk management processes were operating effectively for each of the overseas entities
- Reports from the external auditors on their proposed audit scope, fees, audit, and auditor independence
- Performance of the internal audit department, with input from the external review referred to below
- The Group's 'whistleblowing' procedures

The Committee reviewed its policy on non-audit services that, amongst other things, requires that the Committee approve all proposals for expenditure with the Group's auditors of over £30,000 on non-audit services. The policy was last reviewed on 14 December 2009. 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 the Report and Accounts.

The Head of Internal Audit is invited to all 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. Committee members receive copies of all internal audit reports and are given the opportunity to raise questions on the content and recommendations contained within the reports. The Committee approves the internal audit programme at the start of each calendar year and monitors the progress made in achieving the plan.

During the year, the Committee received a presentation from the Group's actuaries on reserving methodology. They also provided market insights and identified emerging trends.

The Committee also approves the annual compliance review plan and receives copies of the resulting reports. The Head of Compliance, who has responsibility for the Compliance and Risk management functions, provides the Committee with quarterly Compliance and Risk Reports summarising activities in these areas.

The Committee has a policy that provision of external audit services be tendered every five years other than in exceptional circumstances. This was last carried out in 2006 when the decision was made to retain the services of the incumbent external auditors. At the same time the external audit partner was rotated.

In addition to the evaluation of the Committee's effectiveness undertaken by the Board, the Committee also carried out a more detailed review of its own performance. The key finding was that governance of overseas operation and the interaction with the Committee remit should be kept under continual review as the overseas operations grow.

The Nominations Committee

The membership throughout the year was Keith James (Chairman), Lucy Kellaway, and Alastair Lyons. The Company Secretary acts as Secretary to the Committee. The Committee invites the Chief Executive to attend meetings when it deems appropriate.

The Committee has formal terms of reference which were reviewed during the year and were approved by the Board in February 2010. The Committee met on two occasions during 2009.

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 of Directors. The Committee also ensures plans are in place for orderly succession for appointments to the Board, and reviews the succession plans for other senior management positions. Responsibility for making senior management appointments rests with the Chief Executive.

During 2009, the Committee continued to discuss with the Executive team the succession planning across the Group to identify and develop those individuals within the organisation who have the potential and necessary skills to succeed the current members of the Executive team. Following these discussions a Succession Plan was produced by the People Services Manager and presented to the Committee at the meeting in July 2009. This Succession Plan 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, 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 would be capable of moving into particular roles following the gaining of further experience.

The Committee also reviewed the current size, structure, and composition of the Board, to assess whether further appointments are necessary to maintain an appropriate balance of skills and experience within the Board, thereby ensuring that it can continue to provide effective leadership of the Company to support its successful operation within its various marketplaces.

Remuneration Committee

The membership throughout the year was John Sussens (Chairman), Martin Jackson, and Margaret Johnson. The Company Secretary acts as Secretary to the Committee. The Committee invites the Chief Executive and Chairman to attend meetings where it deems appropriate.

The Committee has formal terms of reference which were reviewed during the year and were approved by the Board in February 2010. The Committee met four times during 2009.

During the year the Committee carried out the following activities:

- Reviewed the Group's overall remuneration policy and strategy
- Recommended for approval individual remuneration packages for Executive Directors, and the Company Secretary
- Reviewed the rules and performance measures of the Group share schemes and recommended for approval the grant, award, allocation or issue of shares under such schemes

A separate Remuneration report is included within the Annual Report.

During the year the Committee purchased consultancy services from Kepler Associates. In addition, the Company Secretary circulates market survey results as appropriate to enable the Committee to make judgements on the levels of remuneration appropriate for the Directors and to review the remuneration of the Group's senior executives. PricewaterhouseCoopers also provided advice on the composition and structure of the Group's share plans during the year.

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 2009; and that, up to the date of approval of the Annual Report 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. In order to ensure these responsibilities are properly discharged, the Board has delegated the task of supervising risk management and internal control to the Risk Management Committee (RMC) in the UK and appropriate management committees for overseas entities.

There are several key elements to the risk management environment throughout the Group. These include the setting of risk management policy at Board level; enforcement of that policy by the Chief Executive; delivery of the policy by the RMC via the Group's systems of internal control and risk management; and the overall assurance provided by the Audit Committee that the systems operate effectively. The Group will continue to review its risk management structure in the light of any changes that are made to the current corporate governance regime following the recommendations of the Walker review and the subsequent guidance from the FSA.

The Board recognises that the day-to-day responsibility for implementing these policies must lie with the Executive team whose operational decisions must take into account risk and how this can be controlled effectively. The Head of Compliance and the Risk Officer take responsibility for ensuring management are aware of their risk management obligations; providing them with support and advice; and ensuring that the risk management strategy is properly communicated. The head of each business unit or business area is required, with the support of the Risk Manager, to undertake a full assessment process to identify and quantify the risks that their departments face or pose to the Group and the adequacy of the controls in place to mitigate or reduce those risks. Reports are produced showing the most significant risks identified and the controls in place. Internal Audit and the Compliance function use the risk registers to plan their programme of audits to ensure that the controls described are actually in place.

The RMC receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units. The RMC and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement in the control and operational environment. The Board undertakes periodic structured reviews of the Group's risk map, focusing on the principal assessed exposures and the effectiveness of the mitigation strategies adopted. It receives reports from the Chairman of the Audit Committee as to its activities, together with copies of the minutes of both the RMC and the Audit Committee. In February 2010 the Board carried out the annual assessment for the 2009 year by considering documentation from the Audit Committee, taking account of events since 31 December 2009, which includes the Internal Audit Annual Report prepared by the Group's Head of Internal Audit.

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 to implement the risk management strategy.

The Board confirms that there were no significant issues arising during the year under review.

The Risk Management Committee

The Committee's members include the three Executive Directors, the Head of Compliance (who chairs the meetings), the Risk Officer, and senior management representatives.

The Committee's principal responsibilities are to:

- Consider risk management best practice and recommend its inclusion within the risk management strategy and policy adopted by the Board
- Ensure that the risk management policy approved by the Board is implemented effectively throughout the UK operations
- Identify and monitor any UK regulatory issues and ensure that their resolution and action is appropriately recorded
- Assess and monitor reinsurance protection
- Advising management committees for the Group's overseas operations

The Committee has formal terms of reference that are reviewed on an annual basis. The Committee meets around eight times a year and each Committee member receives an agenda and papers in a timely manner allowing the Committee to make informed decisions and take appropriate actions.

The Committee develops policies to ensure compliance with regulation and ensures that appropriate action is taken by the management team to implement compliant systems and procedures.

Internal Audit

The Internal Audit function assists management by providing them with timely, independent assurance that the controls established are operating effectively. This includes regular reviews of internal control systems and business processes, including compliance systems and procedures, and identification of control weaknesses and recommendations to management on improvements.

BHBi Consultancy Limited carried out an external assessment of the Group's Internal Audit function in November 2009. The purpose of the assessment was to assess Internal Audits conformity with the standards set by The Institute of internal Auditors; evaluate Internal Audit's effectiveness in carrying out its defined duties and responsibilities; and identify opportunities to enhance its management and work processes. The assessment concluded that the Internal Audit function operates effectively and recommended some process improvements in relation to updating its Charter to recognise the IIA Standards & Code of Ethics, as well as proposing undertaking a benchmarking process to review current resource against peer organisations.

Going concern

The financial statements 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 12 months and beyond, including cash flow forecasts and regulatory capital surpluses. The Group has no debt.

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

Remuneration report

Scope of report

The remuneration report summarises the Group's remuneration policy and particularly its application with respect to the Directors. The report also describes how the Group applies the principles of good corporate governance in relation to Directors' remuneration in accordance with the Combined Code and Directors' Remuneration Report Regulations 2002.

Remuneration Committee

The Committee is appointed by the Board and comprises only Non-Executive Directors. The Committee is chaired by John Sussens, the Senior Independent Non-Executive Director, with the other members being Martin Jackson and Margaret Johnson. The Chairman and Chief Executive are invited to meetings where the Committee considers it appropriate to obtain their advice on Group strategy and performance and senior executive pay strategy. During the year ended 31 December 2009, the Committee met on four separate occasions. Its remit includes recommending the remuneration of the Chairman, the Executive Directors, and the Company Secretary; review of the remuneration of senior management; and review of the awards made under the performance related incentive schemes.

The Committee's terms of reference, which are reviewed at least annually and approved by the Board, are available on the Group's corporate website and are summarised in the Corporate Governance Report. The Committee reviewed them on 14 December 2009.

The Committee presents a summary of its principal activities to shareholders through this Remuneration report, and the Committee Chairman attends the AGM to answer questions from shareholders on the activities of the Committee and its remuneration policies.

The members of the Committee do not have any personal financial interests, or any conflicts from cross-directorships, that relate to the business of the Committee. The members do not have any day-to-day involvement in the running of the Group.

During the year the Committee purchased consultancy services from Kepler Associates. In addition, the Company Secretary circulates market survey results as appropriate.

Remuneration policy

The Group is committed to the primary objective of maximising shareholder value over time whilst at the same time ensuring that there is a strong link between performance and reward. The Committee reviews the framework and remuneration packages of the Executive Directors and the most senior managers. The main principles underlying the remuneration policy are:

- Competitive – The Group aims to pay below-median salaries but with attractive performance-related incentives, which provide individuals with the potential for competitive total reward packages for superior performance
- Performance linked – A significant part of Executive Directors' (excluding Henry Engelhardt and David Stevens) and senior managers' reward, remains shareholder aligned given that it is determined by the Group's earnings growth versus LIBOR. Failure to achieve threshold levels of growth in the Group's earnings results in reduced or no payout under the Group's long-term incentive plan. Executive Directors have agreed to retain a minimum 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
- Transparent – All aspects of the remuneration structure are clear to employees and openly communicated

The Group operates the following benefits:

- Death in Service scheme, paying three times salary available to all employees following completion of their probationary period
- Group Personal Pension Plan, matching employee contributions up to a maximum 6% of base salary with maximum employer contribution of £4,800. This is available to all employees following completion of their probationary period. (Henry Engelhardt and David Stevens have declined to be included in the plan)
- Private Medical Cover, available to approximately 120 management level staff
- Permanent Health Insurance policy covering the same staff that are eligible for Private Medical Cover
- Approved 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
- Discretionary Free Share Scheme (DFSS). Awards under the DFSS are distributed on a wider basis than is the case for most plans of this type. The Committee believes that as the DFSS develops, and awards continue to vest it will have the effect of reducing staff attrition and strengthening further the alignment of the interests of staff and shareholders

Of the Group's current executive directors, only Kevin Chidwick (Finance Director) participates in this scheme, as Henry Engelhardt and David Stevens have declined to be included.

The performance criterion to determine how many shares vest under the DFSS is the growth in earnings per share (EPS) in excess of a risk free return, defined as average three-month LIBOR, over a three-year period. The Committee feels that this is a good indicator of long-term shareholder return with which to align staff incentivisation. The Committee recommends for approval by the Board awards to the Finance Director and other employees under the DFSS.

The EPS targets are such that for full vesting of shares to occur, the average EPS growth over the three-year performance period would have to be approximately 12% per annum (assuming LIBOR averages 2% over the period). Only 10% of shares vest for matching LIBOR over the three-year period. There is then a linear relationship up to full vesting of the award whereby 2.5% of the award vests for each point over LIBOR.

The plan allows for a maximum award of £400,000 or 600% of basic salary if lower. However, in order to ensure that the Group's remuneration structure remains competitive, the Board is proposing at the Group's forthcoming AGM that, subject to shareholder approval, the maximum award be increased to £1,000,000 or 600% of basic salary if lower.

From 2009, for staff below Group Board level awards will be split. 50% of the award will be subject to the above performance criteria. The other 50% will have no performance criteria attaching. The change was made in order to help the Group to attract high calibre staff by providing more certainty over the outcome of vesting awards.

In addition, 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 feels that having a Group-wide bonus equivalent to the dividend flow received by investors further aligns the incentive structure with shareholders.

The Committee is conscious of the maximum allowable awards under the Group's share schemes and controls are in place to ensure that awards do not exceed 10% of share capital over the 10 year period from 1 January 2005.

Executive Directors are allowed, although none currently do, to 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.

Executive Directors' remuneration

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 of below-median base salary (compared to market rates as assessed by the Committee) 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. Their remuneration was reviewed in September 2008. Henry Engelhardt was awarded a rise of 4.7% taking his salary to £335,000 with effect from 1 July and David Stevens' salary was unchanged at £320,000.

The Committee aims to ensure that the remuneration of the Finance Director is fair and in total, in line with market rates, and is designed to reward achieving increases in shareholder value.

In addition to benefits such as private medical cover, permanent health insurance, death in service cover and eligibility for the Group's Personal Pension Plan, there are two main elements to the Finance Director's remuneration package:

- Basic annual salary
- Awards under the DFSS

With effect from 1 October 2009 Kevin Chidwick's base salary was increased by 20% to £360,000. Whilst the increase in Kevin Chidwick's base salary is above inflation the Committee felt that the increased responsibilities taken on during the year justified such an increase. £360,000 remains below the median base salary of FTSE 100 Finance Directors.

Kevin Chidwick received an award of 45,009 DFSS shares on 13 April 2009 with a value at the date of the award of £400,000. The awards represent the maximum number of shares that could vest after a three-year period and are subject to the performance criteria described above.

Directors' service contracts

The following table summarises the notice periods relating to the service contracts of the Executive Directors serving at 31 December 2009:

	Notice Director (months)	Notice Company (months)
Kevin Chidwick	12	12
Henry Engelhardt	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 and notice
Alastair Lyons	3 years commencing 1 July 2007, terminable by either party giving three months' written notice.
Manfred Aldag	Indefinite (terminable on one month's notice from either party) – automatically terminates should he cease employment with Munich Re.
Martin Jackson	3 years commencing 1 December 2009, terminable by either party giving one month's written notice.
Keith James	3 years commencing 1 December 2009, terminable by either party giving one month's written notice.
Margaret Johnson	3 years commencing 4 September 2009, terminable by either party giving one month's written notice.
Lucy Kellaway	3 years commencing 4 September 2009, terminable by either party giving one month's written notice.
John Sussens	3 years commencing 1 December 2009, terminable by either party giving one month's written notice.

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

Non-Executive Directors' remuneration

The Remuneration Committee decides the remuneration of the Chairman after consultation with the Executive Directors and review of market data. The remuneration of the Non-Executive Directors, including the remuneration of the Committee Chairman, is decided by the full Board. The Non-Executive Directors do not participate in meetings when Non-Executive Director fees are discussed.

The fee structure for Non-Executive Directors was reviewed at the end of 2008 and remains the same in 2009:

	(£)
Base fee	40,000
Plus:	
Member of Audit Committee	5,000
Senior Independent Director	5,000
Chair of Audit Committee	10,000
Chair of Nomination Committee	3,000
Chair of Remuneration Committee	5,000

Non-Executive Directors are not entitled to bonus payments or pension arrangements, nor do they participate in the Group's long-term incentive plans.

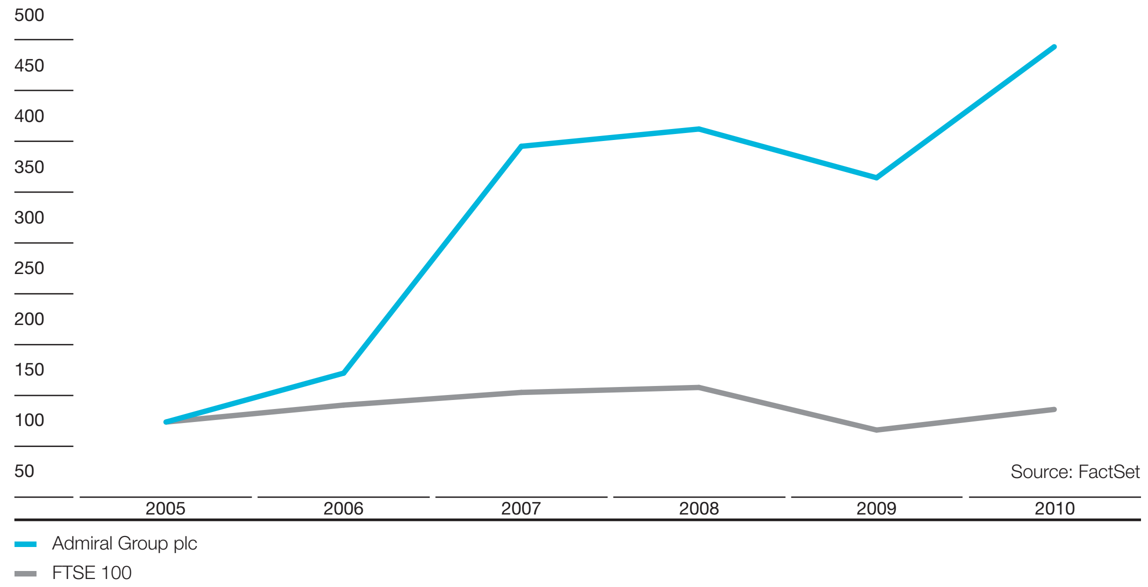
The fee payable to Alastair Lyons in respect of his appointment as Chairman of the Board in 2009 is £150,000 p.a. which is reviewed annually. The appointment may be terminated by the Chairman on three months' notice to the Company.

Non-Executive Directors do not have service contracts but each has a letter of appointment. The letters of appointment all require a period of one month's notice should the Non-Executive Director wish to resign.

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 1 January 2005 up to 31 December 2009. 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:



Directors' shareholdings – Audited

Directors' interests in the ordinary shares of the Company are set out below:

	Ordinary shares of 0.1p	
	31 December 2009	31 December 2008
Executive Directors		
Kevin Chidwick*	38,822	18,679
Henry Engelhardt**	40,490,720	40,490,720
David Stevens	10,234,000	10,084,000
Non-Executive Directors		
Alastair Lyons	562,152	562,152
Manfred Aldag	–	–
Martin Jackson	–	–
Keith James	44,500	44,500
Margaret Johnson	–	–
Lucy Kellaway	–	–
John Sussens	8,000	8,000

* Includes 1,182 shares within the Group's SIP details of which are shown below. Of these 213 have reached their three-year maturity date.
** Include amounts held by family members.

Directors' remuneration – Audited

Remuneration for the year ended 31 December 2009 was as follows:

	Base salary and fees (£000)	Bonuses and other (£000)	Benefits (£000)	2009 Total (£000)	2008 Total (£000)
Executive Directors					
Kevin Chidwick*1	315	32	5	**352**	290
Henry Engelhardt	328	–	1	**329**	313
David Stevens	320	–	1	**321**	283
Chairman and Non-Executive Directors					
Alastair Lyons	150	–	–	**150**	90
Manfred Aldag	6	–	–	**6**	6
Martin Jackson	50	–	–	**50**	36
Keith James*2	73	–	–	**73**	60
Margaret Johnson	45	–	–	**45**	34
Lucy Kellaway	40	–	–	**40**	31
John Sussens	50	–	–	**50**	38
Totals	**1,377**	**32**	**7**	**1,416**	**1,181**

*1 Kevin Chidwick received a bonus of £32,000 in lieu of dividends on shares awarded (but not yet vested) under the Group's DFSS bonus plan.

*2 Keith James fees include £10,650 for chairing the Board of Admiral Insurance Company Limited and £13,350 for chairing the Board of Inspop.com Limited.

Awards made under the Discretionary Free Share Scheme (DFSS) and Free Share Incentive Plan (SIP)

The table below sets out the awards made to directors under the DFSS and SIP, including the dates of the awards, the value at the time of the award and vesting date.

Awards to Kevin Chidwick under the DFSS and SIP:

Type	At start of year	Awarded during year	Vested during year	At end of year	Price at award (£)	Value at award date (£)	Value at 31/12/09* (£)	Date of award	Final vesting/ maturity date
DFSS	21,186	–	21,186	–	£6.136	£130,000	£251,602	18/04/06	18/04/09
DFSS	18,480	–	18,480	–	£6.764	£125,000	£219,727	04/09/06	04/09/09
DFSS	23,000	–	–	23,000	£10.50	£241,500	£273,470	18/04/07	18/04/10
DFSS	48,667	–	–	48,667	£8.08	£393,229	£578,651	29/04/08	29/04/11
DFSS	–	45,009	–	45,009	£8.89	£400,000	£535,157	13/04/09	13/04/12
SIP	213	–	–	213	£6.764	£1,440	£2,533	06/09/06	06/09/09
SIP	151	–	–	151	£10.284	£1,552	£1,795	09/03/07	09/03/10
SIP	182	–	–	182	£8.264	£1,504	£2,164	04/09/07	04/09/10
SIP	162	–	–	162	£9.181	£1,487	£1,926	07/03/08	07/03/11
SIP	163	–	–	163	£9.195	£1,499	£1,938	22/08/08	22/08/11
SIP	–	171	–	171	£8.738	£1,494	£2,033	06/03/09	06/03/12
SIP	–	140	–	140	£10.67	£1,494	£1,665	28/08/09	28/08/12

* The closing price of Admiral shares on 31 December 2009 was £11.89 per share.

For details of Directors' responsibilities, please refer to the biographies section.

This report was approved by the Board of Directors on 25 February 2010 and is signed on its behalf by the Committee Chairman:

John Sussens
Remuneration Committee Chairman

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 2009 set out on pages 51 to 81. 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 auditors

As explained more fully in the Directors' responsibilities statement set out on pages 35 and 36, 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 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 APB's website at www.frc.org.uk/apb/scope/UKP

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 2009 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
- the information given in the Corporate Governance Statement set out on pages 42 and 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 auditor; and
- 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 43, in relation to going concern; and
- the part of the Corporate Governance statement on page 37 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Chris Moulder
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 2LP

2 March 2010

Consolidated income statement

for the year ended 31 December 2009

	Note:	Year ended: 31 December 2009 £m	31 December 2008 £m
Insurance premium revenue		386.4	301.4
Insurance premium ceded to reinsurers		(174.5)	(131.6)
Net insurance premium revenue	5	**211.9**	**169.8**
Other revenue	6	232.6	193.9
Profit commission	7	54.2	34.7
Investment and interest income	8	8.8	24.4
Net revenue		**507.5**	**422.8**
Insurance claims and claims handling expenses		(283.1)	(213.8)
Insurance claims and claims handling expenses recovered from reinsurers		131.4	99.2
Net insurance claims		**(151.7)**	**(114.6)**
Expenses	9	(130.8)	(99.8)
Share scheme charges	9,24	(9.2)	(5.9)
Total expenses		**(291.7)**	**(220.3)**
Profit before tax	10	**215.8**	**202.5**
Taxation expense	12	(58.9)	(57.6)
Profit after tax		**156.9**	**144.9**
Profit after tax attributable to:			
Equity holders of the parent		156.9	144.9
Non-controlling interests		–	–
		156.9	**144.9**
Earnings per share:			
Basic	14	59.0p	54.9p
Diluted	14	59.0p	54.9p
Dividends declared (total)	13	142.4	128.5
Dividends declared (per share)	13	54.2p	49.2p

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Year ended: 31 December 2009 £m	31 December 2008 £m
Profit for the period	**156.9**	**144.9**
Other comprehensive income		
Exchange differences on translation of foreign operations	(5.3)	9.9
Other comprehensive income for the period, net of income tax	**(5.3)**	**9.9**
Total comprehensive income for the period	**151.6**	**154.8**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	151.6	154.8
Non-controlling interests	–	–
	151.6	**154.8**

Consolidated statement of financial position

as at 31 December 2009

	Note	As at: 31 December 2009 £m	31 December 2008 £m
ASSETS			
Property, plant and equipment	15	12.1	11.0
Intangible assets	16	77.0	75.7
Reinsurance assets	18	212.9	170.6
Financial assets	17	630.9	586.9
Trade and other receivables	17,19	32.7	25.5
Cash and cash equivalents	17,20	211.8	144.3
Total assets		**1,177.4**	**1,014.0**
EQUITY			
Share capital	24	0.3	0.3
Share premium account		13.1	13.1
Other reserves		5.0	10.3
Retained earnings		281.8	251.8
Total equity attributable to equity holders of the parent		**300.2**	**275.5**
Non-controlling interests		0.6	–
Total equity		**300.8**	**275.5**
LIABILITIES			
Insurance contracts	18	532.9	439.6
Deferred income tax	23	5.7	10.3
Trade and other payables	17,21	306.8	270.1
Current tax liabilities		31.2	18.5
Total liabilities		**876.6**	**738.5**
Total equity and total liabilities		**1,174.4**	**1,014.0**

These financial statements were approved by the Board of Directors on 25 February 2010 and were signed on its behalf by:

Kevin Chidwick
Director

Consolidated cash flow statement

for the year ended 31 December 2009

	Note	31 December 2009 £m	31 December 2008 £m
Profit after tax		**156.9**	**144.9**
Adjustments for non-cash items:			
– Depreciation		5.1	3.7
– Amortisation of software		2.2	1.4
– Change in unrealised gains on investments		0.2	0.8
– Other gains and losses		2.9	–
– Share scheme charge	24	13.7	11.3
Change in gross insurance contract liabilities		93.4	76.5
Change in reinsurance assets		(42.3)	(38.9)
Change in trade and other receivables, including from policyholders		(41.1)	(36.5)
Change in trade and other payables, including tax and social security		36.5	30.7
Taxation expense		58.9	57.6
Cash flows from operating activities, before movements in investments		**286.4**	**251.5**
Net cash flow into investments		(10.5)	(76.0)
Cash flows from operating activities, net of movements in investments		275.9	175.5
Taxation payments		(49.1)	(56.9)
Net cash flow from operating activities		**226.8**	**118.6**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(11.8)	(11.3)
Net cash used in investing activities		**(11.8)**	**(11.3)**
Cash flows from financing activities:			
Capital element of new finance leases		1.4	0.5
Repayment of finance lease liabilities		(1.2)	(0.7)
Equity dividends paid		(142.4)	(128.5)
Net cash used in financing activities		**(142.2)**	**(128.7)**
Net increase/(decrease) in cash and cash equivalents		**72.8**	**(21.4)**
Cash and cash equivalents at 1 January		144.3	155.8
Effects of changes in foreign exchange rates		(5.3)	9.9
Cash and cash equivalents at end of period	20	**211.8**	**144.3**

Consolidated statement of changes in equity

for the year ended 31 December 2009

	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 2008	0.3	13.1	0.4	223.8	–	237.6
Profit for the period	–	–	–	144.9	–	144.9
Other comprehensive income						
Currency translation differences	–	–	9.9	–	–	9.9
Total comprehensive income for the period	**–**	**–**	**9.9**	**144.9**	**–**	**154.8**
Transactions with equity holders						
Dividends	–	–	–	(128.5)	–	(128.5)
Share scheme credit	–	–	–	11.3	–	11.3
Deferred tax credit on share scheme credit	–	–	–	0.3	–	0.3
Total transactions with equity holders	**–**	**–**	**–**	**(116.9)**	**–**	**(116.9)**
As at 31 December 2008	0.3	13.1	10.3	251.8	–	275.5
At 1 January 2009	0.3	13.1	10.3	251.8	–	275.5
Profit for the period	–	–	–	156.9	–	156.9
Other comprehensive income						
Currency translation differences	–	–	(5.3)	–	–	(5.3)
Total comprehensive income for the period	**–**	**–**	**(5.3)**	**156.9**	**–**	**151.6**
Transactions with equity holders						
Dividends	–	–	–	(142.4)	–	(142.4)
Issue of shares to non-controlling interests	–	–	–	–	0.6	0.6
Share scheme credit	–	–	–	13.7	–	13.7
Deferred tax credit on share scheme credit	–	–	–	1.8	–	1.8
Total transactions with equity holders	**–**	**–**	**–**	**(126.9)**	**0.6**	**(126.3)**
As at 31 December 2009	0.3	13.1	5.0	281.8	0.6	300.8

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Notes to the financial statements

1. General information and basis of preparation

General information

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

The financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2009 and comparative figures for the year ended 31 December 2008. 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. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (IAS) 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions.

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

Adoption of new and revised standards

The Group has applied all adopted IFRS and interpretations endorsed by the EU at 31 December 2009, including all amendments to extant standards that are not effective until later accounting periods, except for those listed below:

- IFRIC 12 Service concession arrangements
- IFRIC 15 Agreements for the construction of real estate
- IFRIC 16 Hedges of a net investment of a foreign operation
- IFRIC 17 Distribution of non-cash assets to owners
- IFRIC 18 Transfer of assets from customers
- Amendments to IAS 32 Classification of rights issues

IFRIC 16 Hedges of a net investment of a foreign operation is effective for periods beginning on or after 1 July 2009 and the Group has elected not to adopt the Amendment in advance of the effective date. As the Group does not hedge its net investment in foreign operations, this interpretation is not expected to have a material impact on the Group's financial statements.

IFRICs 12, 15, 17 and 18, and the amendment to IAS 32 are effective for periods beginning on or after 30 March 2009, 1 January 2010, 1 November 2009, 1 November 2009 and 1 February 2010 respectively. None of these interpretations have been applied during the current accounting period, and on adoption will not have a material impact on the Group's financial statements.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2009 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. These are as follows:

- Improvements to IFRSs (2009)
- Amendments to IFRS 2 Group cash-settled share-based payment transactions
- Amendments to IFRS 1 Additional exemptions for first-time adopters
- Revised IAS 24 Related party disclosures
- IFRS 9 Financial instruments
- IFRIC 19 Extinguishing financial liabilities with equity instruments
- Amendment to IFRIC 14 Prepayments of a minimum funding requirement

IFRS 9, Financial Instruments is the only new standard, all the others being improvements, amendments to standards, interpretations or revisions of current standards.

This standard was issued in November 2009 by the IASB and focuses on the classification and measurement of financial instruments. Under the new standard only two possible classifications arise, rather than the four existing classifications currently available under IAS 39, and will result in all financial assets being valued at amortised cost or fair value through profit or loss. Financial liabilities are excluded from the scope of this standard.

Based on the Group's current financial assets, this standard is not expected to have a material impact on the Group's financial statements in future periods.

In addition, it is not anticipated that any of the other improvements, amendments to standards, interpretations or revisions of current standards above will have a material impact on the Group's financial statements in future periods.

The following IFRS have been adopted and applied by the Group for the first time in these financial statements:

- Amendments to IAS 1 Presentation of financial statements: a revised presentation
- Amendments to IFRS 2 Share-based payment: vesting conditions and cancellations
- Amendments to IAS 32 and IAS 1 Puttable financial instruments and obligations arising on liquidation
- Amendments to IFRS1 and IAS 27 Cost of investment in a subsidiary, jointly controlled entity or associate
- Amendments to IFRS 7 Improving disclosures about financial instruments
- Amendments to IFRIC 9 and IAS 39 Embedded derivatives
- IAS 23 Borrowing costs
- IFRIC 13 Customer loyalty programmes
- Improvements to IFRSs (2008)
- Revised IFRS 3 Business combinations
- Amendments to IAS 27 Consolidated and separate financial statements
- Amendment to IAS 39 Financial instruments: recognition and measurement: eligible hedged items
- Revised IFRS 1 First time adoption of IFRS

Following adoption of IAS 1 Presentation of financial statements: a revised presentation, the Group now presents all income and expenses in two separate statements, namely the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income. It also presents a Consolidated Statement of Changes in Equity as a primary statement for the first time and has renamed the Consolidated Balance Sheet the Consolidated Statement of Financial Position. There are no changes to the recognition, measurement or disclosure of transactions as a result of the adoption of this standard.

The requirements of IFRS 7, Financial instruments, disclosures are met through note 17 to the financial statements. This includes the enhanced disclosures about fair value measurements required under the amendment to IFRS 7 that has been adopted for the first time.

None of the other standards or interpretations adopted for the first time have had a material impact on the consolidated financial results or position of the Group for the year ended 31 December 2009.

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 12 months and beyond, including cash flow forecasts and regulatory capital surpluses. The Group has no debt.

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

The accounting policies set out in note 3 to the financial statements have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

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

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

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

2. Critical accounting judgements and estimates

Judgements:

In applying the Group's accounting policies as described in note 3, management has primarily applied judgement in the classification of the Group's contracts with reinsurers as quota share reinsurance contracts. A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of the contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make these judgements.

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

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

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

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

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

The claims provisions are subject to independent review by the Group's actuarial advisors. For further detail on objectives, policies and procedures for managing insurance risk, refer to note 18 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. Significant accounting policies

a) Revenue recognition

Premiums, ancillary income and profit commission
Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover.

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

Under some of the co-insurance and reinsurance contracts under which motor premiums are shared or ceded, profit commission may be earned on a particular year of account, which is usually subject to performance criteria such as loss ratios and expense ratios. The commission is dependent on the ultimate outcome of any year, with income being recognised based on loss and expense ratios used in the preparation of the financial statements.

Revenue from Price Comparison and Gladiator
Commission from these activities is credited to income on the sale of the underlying insurance policy.

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

b) Foreign currency translation

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

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

Translation differences on monetary items, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the foreign exchange reserve in equity.

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

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction)
(iii) All resulting exchange differences are recognised as a separate component of equity

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

c) Insurance contracts and reinsurance assets

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

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

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

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

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

Provision for unexpired risks is made where necessary for the estimated amount required over and above unearned premiums to meet future claims and related expenses.

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

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

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

d) Intangible assets

Goodwill
All business combinations are accounted for using the purchase method. Goodwill has been recognised in acquisitions of subsidiaries, and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

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

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

The Goodwill held on the balance sheet at 31 December 2009 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 net realisable value and the value in use of the CGU.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond this period are considered, but not included in the calculation. The discount rate applied to the cash flow projections in the value in use calculations is 8.9% (2008: 9.2%), based on the Group's weighted average cost of capital (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.

Deferred acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the unearned premiums provision at the balance sheet date. This balance is held as an intangible asset. It is amortised over the term of the contract as premium is earned.

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

e) Property, plant and equipment and depreciation

All property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write off the cost less residual values of the assets over their useful economic lives. These useful economic lives are as follows:

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

Impairment of property, plant and equipment
In the case of property plant and equipment, carrying values are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The carrying value is the higher of the net realisable value and the asset's value in use. Impairment losses are recognised through the income statement.

f) Leased assets

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

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

g) Financial assets – investments and receivables

Initial recognition
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments. The Group has not held any derivative instruments in the years ending 31 December 2009 and 31 December 2008.

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

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

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

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

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

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

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

Impairment of financial assets
The Group assesses at each balance sheet date whether any financial assets or groups of financial assets are impaired. Financial assets are impaired where there is evidence that one or more events occurring after the initial recognition of the asset, may lead to a reduction in the estimated future 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 cashflows from that asset have expired or when the Group transfers the asset and all the attaching substantial risks and rewards relating to the asset, to a third party.

h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term deposits with original maturities of three months or less.

i) Share capital

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

j) Employee benefits

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

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

The total charge expensed over the vesting period is determined by reference to the fair value of the free shares granted as determined at the grant date (excluding the impact of non-market vesting

conditions). Non-market conditions such as profitability targets as well as staff attrition rates are included in assumptions over the number of free shares to vest under the applicable scheme.

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

Refer to note 24 for further details on share schemes.

k) Taxation

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

Current tax
Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Current tax related to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax
Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the carrying amount of assets and liabilities for accounting purposes, and the amounts used for taxation purposes. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

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

The principal temporary differences arise from depreciation of property and equipment, share scheme charges and the tax treatment of overseas profits. The resulting deferred tax is charged or credited in the income statement, except in relation to share scheme charges where the amount of tax benefit credited to the income statement is limited to an equivalent credit calculated on the accounting charge. Any excess is recognised directly in equity.

l) Government grants

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

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

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

m) Sale of shares to non-controlling interest

On the sale of shares to a non-controlling interest a consolidated gain or loss is recognised in the Consolidated Income Statement. The gain or loss is calculated as the difference between the Group's share of the consideration received in exchange for the non-controlling interest, and the carrying value of the non-controlling share of net assets.

The non-controlling interest is recognised as a separate component of equity.

4. Operating segments

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 the generation of ancillary income in the UK. The Directors consider the results of these activities to be reportable as one segment as the activities carried out in generating the income are not independent of each other and are performed as one business. This mirrors the approach taken in management reporting.

Price Comparison
The segment relates to the Group's price comparison websites Confused.com in the UK and Rastreator.com in Spain. Rastreator.com was launched in May 2009, and is therefore included in this price comparison segment for the first time in 2009.

Non-UK Car Insurance
The segment consists of the underwriting of car insurance and the generation of ancillary income outside of the UK. It specifically covers the Group operations Balumba.es in Spain, AdmiralDirekt.de in Germany, ConTe.it in Italy and for the first time in 2009, Elephant.com in Virginia, USA which launched in October 2009. None of these operations are reportable on an individual basis, based on the threshold requirements in IFRS 8.

Other
The 'other' segment is designed to be comprised 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.

2008 comparatives have been restated to remove other corporate revenue, expenses and balances from the 'other' segment. These are included in the relevant reconciliations to the Consolidated income statement and balance sheet.

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.

Segment income, results and other information

An analysis of the Group's revenue and results for the year ended 31 December 2009, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in note 3 for the Group.

	31 December 2009				
	UK Car Insurance £m	Price Comparison £m	Non-UK Car Insurance £m	Other £m	Segment total £m
Turnover*	939.1	80.5	47.2	10.6	1,077.4
Net insurance premium revenue	199.1	–	12.8	–	211.9
Other revenue and profit commission	188.6	80.5	4.2	10.6	283.9
Investment and interest income	7.5	–	0.2	–	7.7
Net revenue	395.2	80.5	17.2	10.6	503.5
Net insurance claims	(138.7)	–	(13.0)	–	(151.7)
Expenses	(49.6)	(55.6)	(13.7)	(8.2)	(127.1)
Segment profit/(loss) before tax	206.9	24.9	(9.5)	2.4	224.7
Other central revenue and expenses					(10.0)
Interest income					1.1
Consolidated profit before tax					215.8
Taxation expense					(58.9)
Consolidated profit after tax					156.9
Other segment items:					
Capital expenditure	6.3	0.7	4.1	0.7	11.8
Depreciation and amortisation	9.9	0.5	4.3	0.2	14.9

Restated revenue and results for the corresponding reportable segments for the year ended 31 December 2008 are shown below:

	31 December 2008 (restated)				
	UK Car Insurance £m	Price Comparison £m	Non-UK Car Insurance £m	Other £m	Segment total £m
Turnover*	804.9	66.1	29.7	9.5	910.2
Net insurance premium revenue	161.9	–	7.9	–	169.8
Other revenue and profit commission	149.3	66.1	3.7	9.5	228.6
Investment and interest income	17.1	–	0.6	–	17.7
Net revenue	328.3	66.1	12.2	9.5	416.1
Net insurance claims	(105.1)	–	(9.5)	–	(114.6)
Expenses	(43.3)	(40.5)	(6.8)	(6.9)	(97.5)
Segment profit/(loss) before tax	179.9	25.6	(4.1)	2.6	204.0
Other central revenue and expenses					(8.2)
Interest income					6.7
Consolidated profit before tax					202.5
Taxation expense					(57.6)
Consolidated profit after tax					144.9
Other segment items:					
Capital expenditure	15.3	0.9	9.6	0.1	25.9
Depreciation and amortisation	13.4	0.3	2.1	0.1	16.0

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

Segment revenues

The UK and Non-UK Car Insurance reportable segments derive all insurance premium income from external policyholders. Revenue within these segments is not derived from an individual policyholder that represents 10% or more of the Group's total revenue.

The total of Price Comparison revenues from transactions with other reportable segments is £13.3 million (2008: £11.1 million). These amounts have not been eliminated in order to avoid distorting expense and combined ratios which are key indicators of insurance business. There are no other transactions between reportable segments.

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

Information about geographical locations

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

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2009 are as follows:

	31 December 2009					
	UK Car Insurance £m	Price Comparison £m	Non-UK Car Insurance £m	Other £m	Eliminations £m	Segment total £m
Plant, property and equipment	6.3	1.2	3.8	0.8	–	12.1
Intangible assets	71.8	0.1	5.1	–	–	77.0
Reinsurance assets	190.9	–	22.0	–	–	212.9
Financial assets	582.9	–	48.0	–	–	630.9
Trade and other receivables	108.8	16.8	1.2	7.7	(101.8)	32.7
Cash and cash equivalents	112.9	9.0	21.2	0.7	–	143.8
Reportable segment assets	1,073.6	27.1	101.3	9.2	(101.8)	1,109.4
Insurance contract liabilities	497.0	–	35.9	–	–	532.9
Trade and other payables	294.4	2.3	6.6	2.9	–	306.2
Reportable segment liabilities	791.4	2.3	42.5	2.9	–	839.1
Reportable segment net assets	282.2	24.8	58.8	6.3	(101.8)	270.3
Unallocated assets and liabilities						30.5
Consolidated net assets						300.8

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 Non-UK 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 and other payables.

The restated segment assets and liabilities at 31 December 2008 are as follows:

	31 December 2008 (restated)					
	UK Car Insurance £m	Price Comparison £m	Non-UK Car Insurance £m	Other £m	Eliminations £m	Segment total £m
Plant, property and equipment	6.6	1.1	3.1	0.2	–	11.0
Intangible assets	68.8	–	6.9	–	–	75.7
Reinsurance assets	149.5	–	21.1	–	–	170.6
Financial assets	549.7	–	37.2	–	–	586.9
Trade and other receivables	105.8	6.5	1.5	5.6	(93.9)	25.5
Cash and cash equivalents	50.4	15.6	18.2	2.0	–	86.2
Reportable segment assets	930.8	23.2	88.0	7.8	(93.9)	955.9
Insurance contract liabilities	406.9	–	32.7	–	–	439.6
Trade and other payables	261.7	4.1	4.4	2.3	(46.5)	226.0
Reportable segment liabilities	668.6	4.1	37.1	2.3	(46.5)	665.6
Reportable segment net assets	262.2	19.1	50.9	5.5	(47.4)	290.3
Unallocated assets and liabilities						(14.8)
Total net assets						275.5

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5. Net insurance premium revenue

	31 December 2009 £m	31 December 2008 £m
Total motor insurance premiums before co-insurance	847.7	716.3
Group gross premiums written after co-insurance	439.9	334.6
Outwards reinsurance premiums	(207.4)	(140.2)
Net insurance premiums written	232.5	194.4
Change in gross unearned premium provision	(53.5)	(33.2)
Change in reinsurers' share of unearned premium provision	32.9	8.6
Net insurance premium revenue	211.9	169.8

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

6. Other revenue

	31 December 2009 £m	31 December 2008 £m
Ancillary revenue	129.5	109.8
Price Comparison revenue	80.6	66.1
Other revenue	22.5	18.0
Total other revenue	232.6	193.9

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

7. Profit commission

	31 December 2009 £m	31 December 2008 £m
Total profit commission	54.2	34.7

Source of profit commission:

	Financial year:			
Underwriting year:	2006 £m	2007 £m	2008 £m	2009 £m
2004 and prior	14.9	10.5	8.1	0.4
2005	4.7	8.4	8.8	1.4
2006	0.3	1.7	9.3	4.2
2007	–	–	8.5	33.1
2008	–	–	–	13.5
2009	–	–	–	1.6
Total	19.9	20.6	34.7	54.2

8. Investment and interest income

	31 December 2009 £m	31 December 2008 £m
Net investment return	7.7	17.7
Interest receivable	1.1	6.7
Total investment and interest income	8.8	24.4

9. Expenses and share scheme charges

	31 December 2009			31 December 2008		
	Insurance contracts £m	Other £m	Total £m	Insurance contracts £m	Other £m	Total £m
Acquisition of insurance contracts	17.3	–	17.3	12.5	–	12.5
Administration and other marketing costs	26.0	87.5	113.5	19.7	67.6	87.3
Expenses	43.3	87.5	130.8	32.2	67.6	99.8
Share scheme charges	–	9.2	9.2	–	5.9	5.9
Total expenses and share scheme charges	43.3	96.7	140.0	32.2	73.5	105.7

Analysis of other administration and other marketing costs:

	31 December 2009 £m	31 December 2008 £m
Ancillary sales expenses	20.0	17.9
Price Comparison operating expenses	55.6	40.6
Other expenses	11.9	9.1
Total	87.5	67.6

The £26.0 million (2008: £19.7 million) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

The gross amount of expenses, before recoveries from co-insurers and reinsurers is £265.0 million (2008: £211.2 million). This amount can be reconciled to the total expenses and share scheme charges above of £140.0 million (2008: £105.7 million) as follows:

	31 December 2009 £m	31 December 2008 £m
Gross expenses	265.0	211.2
Co-insurer share of expenses	(80.6)	(72.8)
Expenses, net of co-insurer share	184.4	138.4
Adjustment for deferral of acquisition costs	(6.1)	(6.0)
Expenses, net of co-insurer share (earned basis)	178.3	132.4
Reinsurer share of expenses (earned basis)	(38.3)	(26.7)
Total expenses and share scheme charges	140.0	105.7

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

	31 December 2009 £m	31 December 2008 £m
Insurance contract expenses from above	43.3	32.2
Add: claims handling expenses	5.5	4.7
Adjusted expenses	48.8	36.9
Net insurance premium revenue	211.9	169.8
Reported expense ratio	23.0%	21.8%

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10. Staff costs and other expenses

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

	31 December 2009 £m	31 December 2008 £m
Salaries	75.9	60.7
Social security charges	10.5	7.7
Pension costs	0.7	0.7
Share scheme charges (see note 24)	13.7	11.3
Total staff expenses	100.8	80.4
Depreciation charge:		
– Owned assets	3.8	2.7
– Leased assets	1.3	1.1
Amortisation charge:		
– Software	2.3	1.4
– Deferred acquisition costs	7.6	10.8
Operating lease rentals:		
– Buildings	5.7	3.9
Auditor's remuneration:		
– Fees payable for the audit of the Company's annual accounts	–	–
– Fees payable for the audit of the Company's subsidiary accounts	0.2	0.2
– Fees payable for other services	0.1	0.2
Loss on disposal of property, plant and equipment	–	–
Net foreign exchange (losses)/gains	(0.2)	0.2
Analysis of fees paid to the auditor for other services:		
Tax services	0.1	0.2
Other services	–	–
Total as above	0.1	0.2

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

11. Staff numbers (including Directors)

	Average for the year 2009 Number	2008 Number
Direct customer contact staff	2,695	2,354
Support staff	846	525
Total	3,541	3,085

12. Taxation

	31 December 2009 £m	31 December 2008 £m
Current tax		
Corporation tax on profits for the year	63.0	50.1
Overprovision relating to prior periods	(1.2)	(4.7)
Current tax charge	61.8	45.4
Deferred tax		
Current period deferred taxation movement	(2.8)	12.1
(Over)/under provision relating to prior periods – deferred tax	(0.1)	0.1
Total tax charge per income statement	58.9	57.6

Factors affecting the tax charge are:

	31 December 2009 £m	31 December 2008 £m
Profit before tax	215.8	202.5
Corporation tax thereon at UK corporation tax rate of 28% (2008: 28.5%)	60.4	57.7
Expenses and provisions not deductible for tax purposes	(0.6)	0.4
Other differences	0.3	(0.4)
Adjustments relating to prior periods	(1.2)	(0.1)
Tax charge for the period as above	58.9	57.6

13. Dividends

Dividends were declared and paid as follows:

	31 December 2009 £m	31 December 2008 £m
March 2008 (23.2p per share, paid May 2008)	–	60.5
July 2008 (26.0p per share, paid September 2008)	–	68.0
March 2009 (26.5p per share, paid May 2009)	69.6	–
August 2009 (27.7p per share, paid October 2009)	72.8	–
Total dividends	142.4	128.5

The dividends declared in March represent the final dividends paid in respect of the 2007 and 2008 financial years. Dividends declared in July 2008 and August 2009 are interim distributions in respect of 2008 and 2009.

A second interim dividend of 29.8p per share has been declared in respect of the 2009 financial year. Refer to the Chairman's statement and Business review for further detail.

14. Earnings per share

	31 December 2009	31 December 2008
Profit for the financial year after taxation (£000s)	156.9	144.9
Weighted average number of shares – basic	265,712,457	263,821,341
Unadjusted earnings per share – basic	59.0p	54.9p
Weighted average number of shares – diluted	266,062,457	264,188,008
Unadjusted earnings per share – diluted	59.0p	54.9p

The difference between the basic and diluted number of shares at the end of 2009 (being 350,000) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 24 for further detail.

15. Property, plant and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	Total £m
Cost					
At 1 January 2008	2.7	13.3	5.0	2.0	23.0
Additions	1.3	3.5	1.8	0.4	7.0
Disposals	–	–	–	–	–
At 31 December 2008	4.0	16.8	6.8	2.4	30.0
Depreciation					
At 1 January 2008	1.3	9.2	3.3	1.5	15.3
Charge for the year	0.6	1.9	0.9	0.3	3.7
Disposals	–	–	–	–	–
At 31 December 2008	1.9	11.1	4.2	1.8	19.0
Net book amount					
At 1 January 2008	1.4	4.1	1.7	0.5	7.7
Net book amount					
At 31 December 2008	2.1	5.7	2.6	0.6	11.0
Cost					
At 1 January 2009	4.0	16.8	6.8	2.4	30.0
Additions	1.2	3.6	1.0	0.8	6.6
Disposals	(0.2)	(0.3)	(0.1)	–	(0.6)
At 31 December 2009	5.0	20.1	7.7	3.2	36.0
Depreciation					
At 1 January 2009	1.9	11.1	4.2	1.8	19.0
Charge for the year	0.9	2.7	1.1	0.4	5.1
Disposals	–	(0.1)	(0.1)	–	(0.2)
At 31 December 2009	2.8	13.7	5.2	2.2	23.9
Net book amount					
At 31 December 2009	2.2	6.4	2.5	1.0	12.1

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

	31 December 2009 £m	31 December 2008 £m
Computer equipment	1.6	1.6

16. Intangible assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
Carrying amount:				
At 1 January 2008	62.3	4.6	2.1	69.0
Additions	–	14.6	4.3	18.9
Amortisation charge	–	(10.8)	(1.4)	(12.2)
Disposals	–	–	–	–
At 31 December 2008	62.3	8.4	5.0	75.7
Additions	–	8.6	5.2	13.8
Amortisation charge	–	(7.6)	(2.2)	(9.8)
Disposals	–	–	(2.7)	(2.7)
At 31 December 2009	62.3	9.4	5.3	77.0

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.

17. Financial assets and liabilities

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

	31 December 2009 £m	31 December 2008 £m
Financial assets:		
Investments held at fair value	237.7	310.8
Held to maturity deposits with credit institutions	183.5	100.0
Receivables – amounts owed by policyholders	209.7	176.1
Total financial assets per consolidated balance sheet	630.9	586.9
Trade and other receivables	32.7	25.5
Cash and cash equivalents	211.8	144.3
	875.4	756.7
Financial liabilities:		
Trade and other payables	306.8	270.1

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

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

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

Objectives, policies and procedures for managing financial assets and liabilities
The Group's activities expose it primarily to the significant financial risks of credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Board of Directors has delegated the task of supervising risk management and internal control to the Risk Management Committee (RMC). 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.

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.

The Group has a policy of primarily investing in AAA-rated 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.

The Group also holds a number of fixed rate, longer-term deposits with UK credit institutions rated A or above. 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.

Credit risk
The Group defines credit risk as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. 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 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 credit institutions with a financial strength rating of A or above.

To mitigate the risk arising from exposure to reinsurers, the Group only conducts business with companies of specified financial strength ratings. In addition, most contracts are operated on a funds withheld basis, which substantially reduces credit risk.

The other principal form of credit risk is in respect of amounts due from policyholders 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 fair value of receivables from policyholders represents the maximum exposure to credit risk. 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 2008 and 2009 is insignificant.

There were no significant financial assets that were past due at the close of either 2009 or 2008.

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

	Rating	31 December 2009 £m	31 December 2008 £m
Financial institutions – Money market funds	AAA	237.7	310.8
Financial institutions – Credit institutions	AA	85.0	115.6
Financial institutions – Credit institutions	A	310.3	128.7
Reinsurers	A	96.0	64.5

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 may be exposed to foreign exchange risk through its expanding operations in Europe. Although the relative size of the European operations means that the risks are relatively small, increasingly volatile foreign exchange rates 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 hedges certain items of foreseen expenditure using forward contracts and other similar instruments. None were outstanding at the balance sheet date.

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 has traditionally been strongly cash generative due to the large proportion of profit 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 features, meaning that the vast majority of the Group cash and investments are immediately available. The current uncertainty in credit markets is not likely to impact this.

A breakdown of the Group's financial liabilities – trade and other payables is shown in note 20. In terms of the maturity profile of these liabilities, all amounts may potentially mature within three to six months of the balance sheet date except for a minority of finance lease liabilities which will expire after 12 months. (Refer to note 21 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 £154.4 million (2008: £147.9 million), £91.3 million (2007: £77.5 million) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

All financial assets will mature within 12 months. 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.

Fair value
The carrying value of all of the Group's financial assets equate to fair value. For money market funds, cash at bank and deposits, the fair value approximates to the book value due to their short maturity.

Objectives, policies and procedures for managing capital
Refer to Business review for objectives, policies and procedures for managing capital and external capital requirements.

18. Reinsurance assets and insurance contract liabilities

A) 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 17, it has delegated the task of supervising risk management to the Risk Management Committee (RMC).

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.

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

i) Co-insurance and reinsurance
As noted in the Business review, the Group cedes a significant amount of the motor insurance business written to external underwriters. In 2009, 50% of the UK risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 22.5% was ceded under quota share reinsurance contracts.

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.

ii) 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
- 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.

iii) 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
- 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 only writes one line of insurance business, the risks are spread across a large number of people and a wide regional base.

B) Sensitivity of recognised amounts to changes in assumptions
The following table sets out the impact on equity at 31 December 2009 that would result from a 1% worsening in the UK loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year 2005	2006	2007	2008	2009
Loss ratio	66.0%	74.5%	71.5%	79.0%	84.0%
Impact of 1% change (£m)	2.0	2.2	3.7	3.5	1.3

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.

C) Analysis of recognised amounts

	31 December 2009 £m	31 December 2008 £m
Gross:		
Claims outstanding	323.5	282.3
Unearned premium provision	209.4	157.3
Total gross insurance liabilities	532.9	439.6
Recoverable from reinsurers:		
Claims outstanding	114.1	103.8
Unearned premium provision	98.8	66.8
Total reinsurers' share of insurance liabilities	212.9	170.6
Net:		
Claims outstanding	209.4	178.5
Unearned premium provision	110.6	90.5
Total insurance liabilities – net	320.0	269.0

D) Analysis of UK claims incurred
The following tables illustrate the development of net UK Car Insurance claims incurred for the past five financial periods, including the impact of re-estimation of claims provisions at the end of each financial year. The first table shows actual 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.

Analysis of claims incurred (Net amounts):	Financial year ended 31 December: 2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Total £m
Underwriting year (UK only):						
Earlier years	(22.1)	18.3	14.3	9.6	0.9	
2005	(74.3)	(54.3)	12.5	11.0	1.8	(103.3)
2006	–	(67.6)	(53.1)	10.5	7.9	(102.3)
2007	–	–	(67.3)	(42.0)	11.6	(97.7)
2008	–	–	–	(89.5)	(57.7)	(147.2)
2009	–	–	–	–	(96.9)	(96.9)
UK net claims incurred (excluding claims handling expenses)	(96.4)	(103.6)	(93.6)	(100.4)	(132.4)	
Non-UK net claims incurred	–	–	(2.8)	(9.5)	(13.6)	
Claims handling costs and other amounts	(4.1)	(3.5)	(3.4)	(4.7)	(5.7)	
Total net claims incurred	(100.5)	(107.1)	(99.8)	(114.6)	(151.7)	

UK loss ratio development:	Financial year ended 31 December: 2005	2006	2007	2008	2009
Underwriting year:					
2005	85%	82%	75%	67%	66%
2006		90%	87%	79%	75%
2007			89%	80%	72%
2008				88%	79%
2009					84%

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

	Financial year ended 31 December 2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
Underwriting year:					
2000	0.4	1.1	0.7	0.4	0.4
2001	5.0	1.9	1.5	0.5	0.5
2002	5.2	2.3	1.3	–	0.3
2003	4.6	5.1	3.2	2.3	1.2
2004	2.1	7.9	7.6	6.4	(1.6)
2005	–	2.6	12.6	11.0	1.8
2006	–	–	2.6	10.5	7.9
2007	–	–	–	6.9	11.6
2008	–	–	–	–	9.2
Total net release	17.3	20.9	29.5	38.0	31.3
Net premium revenue	139.5	145.0	142.2	169.8	211.9
Release as % of net premium revenue	12.4%	14.4%	20.7%	22.4%	14.8%

F) Reconciliation of movement in net claims provision

	31 December 2009 £m	31 December 2008 £m
Net claims provision at start of period	178.5	166.5
Net claims incurred	146.2	109.8
Net claims paid	(115.3)	(97.8)
Net claims provision at end of period	209.4	178.5

G) Reconciliation of movement in net unearned premium provision:

	31 December 2009 £m	31 December 2008 £m
Net unearned premium provision at start of period	90.5	64.9
Written in the period	232.5	194.4
Earned in the period	(212.4)	(168.8)
Net unearned premium provision at end of period	110.6	90.5

19. Trade and other receivables

	31 December 2009 £m	31 December 2008 £m
Trade receivables	32.5	22.3
Prepayments and accrued income	0.2	3.2
Total trade and other receivables	32.7	25.5

20. Cash and cash equivalents

	31 December 2009 £m	31 December 2008 £m
Cash at bank and in hand	191.8	140.3
Cash on short term deposit	20.0	4.0
Total cash and cash equivalents	211.8	144.3

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.

21. Trade and other payables

	31 December 2009 £m	31 December 2008 £m
Trade payables	10.7	10.8
Amounts owed to co-insurers and reinsurers	154.4	147.9
Finance leases due within 12 months	0.3	0.2
Other taxation and social security liabilities	10.9	9.5
Other payables	29.1	18.8
Accruals and deferred income (see below)	101.3	82.9
Total trade and other payables	306.8	270.1

Of amounts owed to co-insurers and reinsurers, £93.1 million (2008: £77.5 million) is held under funds withheld arrangements.

Finance leases due after 12 months	0.1	–

Analysis of accruals and deferred income:

	31 December 2009 £m	31 December 2008 £m
Premium receivable in advance of policy inception	53.9	45.6
Accrued expenses	35.3	29.3
Deferred income	12.1	8.0
Total accruals and deferred income as above	101.3	82.9

22. Obligations under finance leases

Analysis of finance lease liabilities:

	31 December 2009			31 December 2008		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	0.3	–	0.3	0.2	–	0.2
Between one and five years	0.1	–	0.1	–	–	–
More than five years	–	–	–	–	–	–
	0.4	–	0.4	0.2	–	0.2

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

23. Deferred income tax liability

	31 December 2009 £m	31 December 2008 £m
Brought forward at start of period	10.3	(1.6)
Movement in period	(4.6)	11.9
Carried forward at end of period	5.7	10.3

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

Analysis of net deferred tax liability:

	31 December 2009 £m	31 December 2008 £m
Tax treatment of share scheme charges	(4.4)	(2.4)
Capital allowances	(1.6)	–
Other differences	(0.6)	(0.1)
Unremitted overseas income	12.3	12.8
Deferred tax liability at end of period	5.7	10.3

Deferred tax on unremitted overseas income has been provided to the extent that it is likely to reverse in the foreseeable future.

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

Amounts credited/(charged) to income or expense:

	31 December 2009 £m	31 December 2008 £m
Tax treatment of Lloyd's Syndicates	–	0.5
Tax treatment of share scheme charges	0.3	0.1
Capital allowances	1.6	0.1
Other differences	0.5	(0.1)
Unremitted overseas income	0.5	(12.8)
Net deferred tax credited/(charged) to income	2.9	(12.2)

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.

24. Share capital

	31 December 2009 £m	31 December 2008 £m
Authorised:		
500,000,000 ordinary shares of 0.1p	0.5	0.5
Issued, called up and fully paid:		
266,477,291 ordinary shares of 0.1p	0.3	–
264,541,810 ordinary shares of 0.1p	–	0.3
	0.3	0.3

During 2009 1,935,461 (2008:1,820,384) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

751,513 (2008: 589,384) 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.

1,183,948 (2008: 1,231,000) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

Staff share schemes:
Analysis of share scheme costs (per income statement):

	31 December 2009 £m	31 December 2008 £m
SIP charge (note i)	3.6	2.5
DFSS charge (note ii)	5.6	3.4
Total share scheme charges	9.2	5.9

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2009: £13.7 million, 2008: £11.3 million) and the gross credit to reserves reported in the Consolidated statement of changes in equity.

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.

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

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

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

(ii) The Discretionary Free Share Scheme (the DFSS)
Under the DFSS, details of which are contained in the Remuneration 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 2008 scheme is 1,438,426 (2008 scheme: 1,393,283).

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 2009 scheme, 50% (2008 scheme: 100%) of the shares awarded at the start of the three year vesting period are subject to these performance conditions.

The range of performance-related awards is as follows:

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

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

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

Number of free share awards committed at 31 December 2009:

	Awards outstanding (*1)	Vesting date
SIP H206 scheme	277,387	April 2010
SIP H107 scheme	353,444	September 2010
SIP H207 scheme	337,770	April 2011
SIP H108 scheme	352,732	September 2011
SIP H208 scheme	477,432	April 2012
SIP H109 scheme	396,200	September 2012
DFSS 2007 scheme, 1st award	1,210,781	April 2010
DFSS 2007 scheme, 2nd award	26,350	December 2010
DFSS 2008 scheme 1st award	1,306,081	April 2011
DFSS 2008 scheme 2nd award	87,202	November 2011
DFSS 2009 scheme 1st award	1,311,686	April 2012
DFSS 2009 scheme 2nd award	126,740	August 2012
Total awards committed	6,263,805	

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

During the year ended 31 December 2009, awards under the SIP H205 and H106 schemes and the DFSS 2006 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 2009:

	Original Awards	Awards vested
SIP H205 scheme	350,942	288,971
SIP H106 scheme	350,811	296,283
DFSS 2006 scheme 1st award	603,720	543,079
DFSS 2006 scheme 2nd award	77,248	72,369

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

Operating leases expiring:	31 December 2009 £m	31 December 2008 £m
Within one years	–	–
Within two to five years	4.1	4.1
Over five years	31.6	31.6
Total commitments	35.7	35.7

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

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

	31 December 2009 £m	31 December 2008 £m
Expenditure contracted to	–	0.9

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

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

Of these principal subsidiaries, Elephant Insurance Company and Elephant Insurance Services, LLC started trading in the year.

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

27. Related party transactions
There were no material transactions with related parties occurring during 2009 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the Remuneration report. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

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

Parent Company balance sheet

as at 31 December 2009

	Note:	Year ended: 31 December 2009 £m	31 December 2008 £m
Fixed asset investments	4	119.2	108.6
Current assets			
Cash at bank and in hand		65.1	57.2
		65.1	57.2
Creditors – falling due within one year			
Other creditors	5	(66.8)	(64.3)
		(66.8)	(64.3)
Net current liabilities		(1.7)	(7.2)
Total assets less current liabilities		117.5	101.4
Net assets		**117.5**	**101.4**
Capital and reserves	6		
Called up share capital	7	0.3	0.3
Share premium account		13.1	13.1
Capital redemption reserve		–	–
Profit and loss account		104.1	88.0
		117.5	**101.4**

These financial statements were approved by the Board of Directors on 25 February 2010 and were signed on its behalf by:

Kevin Chidwick
Director

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 Parent Company financial statements 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 12 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.

In these financial statements the following new standards, abstracts and amendments to standards have been adopted for the first time:

- Amendment to FRS 29 Financial instruments: disclosures
- Amendment to FRS 20 Vesting conditions and cancellations
- Improvements to FRSs

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

The amendments to the disclosure requirements of FRS 29 mirror those of the international standard IFRS 7, the requirements of which are met in note 17 to the Group financial statements. The disclosures focus on investments held at fair value through profit or loss, which are not held in the Parent Company.

The amendment to FRS 20, vesting conditions and cancellations amends the definition of vesting conditions, to include only service and performance conditions. This clarification has not impacted the share scheme accounting in the Parent Company

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 296 to the Companies Act 2006.

As permitted by Section 230 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 10.

Refer to note 27 of the Consolidated financial statements for disclosure of related party transactions.

2. Investments

Investments in subsidiary 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. Fixed asset investments

	£m
Investments in subsidiary undertakings:	
At 1 January 2008	106.6
Additions	2.0
At 31 December 2008	108.6
Additions	10.6
At 31 December 2009	119.2

The Company's principal subsidiaries (all of which are 100% directly owned) are disclosed in note 26 of the Group financial statements.

5. Other creditors – due within one year

	31 December 2009 £m	31 December 2008 £m
Deferred income tax	12.3	12.8
Corporation tax payable	20.2	8.9
Amounts owed to subsidiaries	34.3	42.6
Other creditors	–	–
	66.8	64.3

6. 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 2008	0.3	13.1	135.6	149.0
Retained profit for the period	–	–	69.6	69.6
Dividends	–	–	(128.5)	(128.5)
Issues of share capital	–	–	–	–
Share scheme charges	–	–	11.3	11.3
As at 31 December 2008	0.3	13.1	88.0	101.4
Retained profit for the period	–	–	144.8	144.8
Dividends	–	–	(142.4)	(142.4)
Issues of share capital	–	–	–	–
Share scheme charges	–	–	13.7	13.7
As at 31 December 2009	0.3	13.1	104.1	117.5

7. Share capital

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

Five year review

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Total motor premiums	**847.7**	**716.3**	**631.3**	**566.6**	**533.6**
Net insurance premium revenue	211.9	169.8	142.2	145.0	139.5
Other revenue	232.6	193.9	176.9	131.6	93.4
Profit commission	54.2	34.7	20.5	19.9	14.7
Investment and interest income	8.8	24.4	24.6	14.5	15.5
Net revenue	**507.5**	**422.8**	**364.2**	**311.0**	**263.1**
Net insurance claims	(151.7)	(114.6)	(99.8)	(107.1)	(100.5)
Total expenses	(140.0)	(105.7)	(82.0)	(55.5)	(40.9)
Operating profit	**215.8**	**202.5**	**182.4**	**148.4**	**121.7**

Balance sheet

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Property, plant and equipment	12.1	11.0	7.7	7.5	4.6
Intangible assets	77.0	75.7	69.1	66.8	66.5
Financial assets	630.9	586.9	481.8	395.9	378.7
Reinsurance assets	212.9	170.6	131.7	74.7	54.2
Deferred income tax	–	–	1.6	–	–
Trade and other receivables	32.7	25.5	22.6	16.9	9.4
Cash and cash equivalents	211.8	144.3	155.8	191.2	150.2
Total assets	**1,177.4**	**1,014.0**	**870.3**	**753.0**	**663.6**
Equity	**300.8**	**275.6**	**237.6**	**219.1**	**181.4**
Insurance contracts	532.9	439.6	363.1	294.4	254.1
Financial liabilities	–	–	–	–	22.0
Deferred income tax	5.7	10.3	–	1.0	3.6
Trade and other payables	306.8	270.0	239.6	215.1	182.9
Current tax liabilities	31.2	18.5	30.0	23.4	19.6
Total liabilities	**1,177.4**	**1,014.0**	**870.3**	**753.0**	**663.6**

Directors and advisers

Directors

Alastair Lyons, CBE
(Non-Executive Director)

Henry Engelhardt, CBE
(Chief Executive Officer)

Kevin Chidwick
(Finance Director)

David Stevens
(Chief Operating Officer)

Manfred Aldag
(Non-Executive Director)

Martin Jackson
(Non-Executive Director)

Keith James, OBE
(Non-Executive Director)

Margaret Johnson
(Non-Executive Director)

Lucy Kellaway
(Non-Executive Director)

John Sussens
(Senior Independent Non-Executive Director)

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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

Second interim 2009 dividend
10 March 2010 – Ex dividend date
12 March 2010 – Record date
1 April 2010 – Payment date

Annual General Meeting
28 April 2010

Interim results
25 August 2010

Interim dividend payment
October 2010

Interim results 2010
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 25 August 2010.

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Annual Report 2009

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