Admiral Group Limited

Directors' report and financial statements

Registered number 03849958

31 December 2002

Contents

Directors and advisers

Chairman

A D Lyons *

Chief Executive

H A Engelhardt

Directors

M Aldag * (appointed 13 March 2003)
O J Clarke *
D K M James * (appointed 19 December 2002)
A C Probert
D G Stevens
W P Thompson *

* non-executive

Secretary

S D Clarke

Registered office

Capital Tower
Greyfriars Road
Cardiff CF10 3AZ

Auditors
KPMG Audit Plc
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff CF24 0TE

Actuaries

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Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Bankers

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113-116 Leadenhall Street
London EC3 4AX

Chief Executive's statement

Now that was a year!

Let me try and list what we accomplished during 2002:

- Added a new shareholder, Munich Re, which bought new shares in AGL as well as some of Barclays Private Equity and Ridgewood (XL Capital) shares and now owns 18.6% of the Group;
- Refinanced our debt, which paid off all the debt created with the MBO at the end of 1999;
- Applied for and received a license to trade from the FSC in Gibraltar;
- Gave more than 2.5m quotes and made over 40% of our new business sales via the internet;
- Had total turnover of £378 million*
- Made an all-time record profit of £55m**, an increase of 45% from last year.
- Celebrated the completion of (our first) 10 years of trading!
- Named the 7th Best Workplace in the UK and a member of the Top 100 Workplaces in the EU as judged by the Financial Times.

What We Do:

For those of you looking through our accounts for the first time, Admiral's primary business is to sell car insurance direct to the public in the UK. We operate through a number of targeted brands: Admiral (younger drivers, London), Bell Direct (credit card payers), Diamond (women) and Elephant.co.uk (internet users).

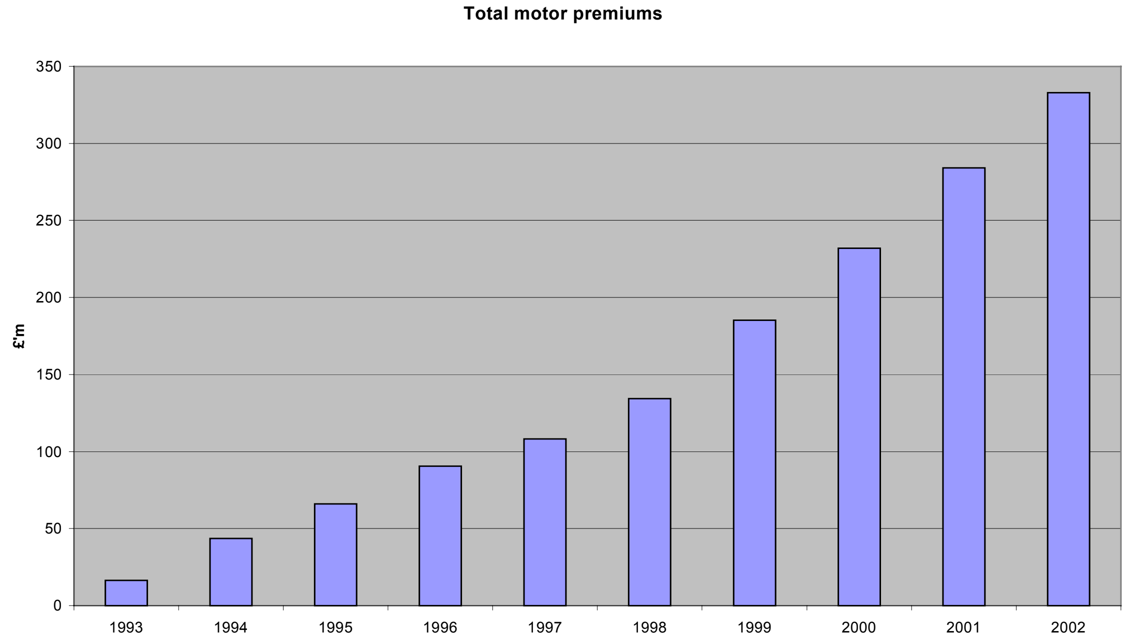
2002 was our 10th year of trading. The first 7 were under the auspices of a Lloyd's of London Managing Agent. However, toward the end of 1999, Management teamed up with Barclays Private Equity to buy the business. The result of this transaction was the creation of Admiral Group Ltd. (AGL) as the holding Company. This is the third set of accounts for AGL.

When we did the buyout we put in place long term co-insurance agreements with Munich Re, the world's largest reinsurer and another, highly rated, reinsurer for the majority of our premium. Since that original agreement we have re-negotiated the agreement with Munich Re for a longer duration.

Key Performance Measures:

Before ceding this premium to these reinsurers our total written premium for 2002 was £333m. This makes our total turnover for the year £378m*, up from £323m in 2001 (+17%). The direct brands customer count rose to 679,000 from 587,000 (+15.7%). All our growth has been organic. The total customer count, including Gladiator Commercial, reached 705,000, up from 608,500 (+15.8%).

Chief Executive's statement *(continued)*



In 2002 we ceded 80% of our premium to the two reinsurers. Our reinsurance arrangements have been slightly restructured going forward and AGL will hold 25% of the premium and risk for 2003 and 2004. AGL's net premium income was £69m in 2002.

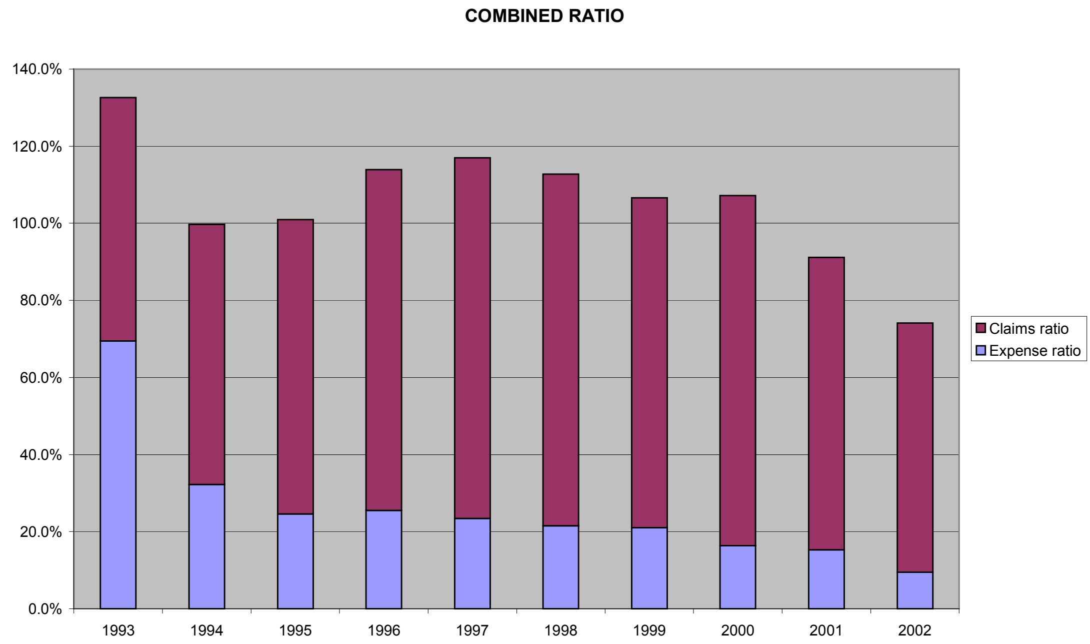
Here are a few more key numbers:

- Claims ratio 64.6% an improvement from 75.9%
- Expense ratio 9.5% an improvement from 15.4%
- Combined ratio 74.1% an improvement from 91.4%
- Income from products and services we do not underwrite up to £40m from £35m.

The claims ratio reduction from 2001 is largely down to reserve releases from 2000 and 2001, accounting for 10 percentage points, virtually all of the difference. The loss ratio without releases still represents good value at 74%. We believe that this loss ratio will prove to be better than that of the market average for 2002.

The incredible 9.5% expense ratio figure is unlikely to be repeated next year, since it includes a non-recurring expense commission, which flatters the ratio by almost 8.5 percentage points. Our earned expense ratio, without this commission but also excluding non-recurring Lloyd's charges, was still an excellent 15.4% ***. This compares favourably with 18.2% on the same basis last year. Therefore, even without the benefit of the expense commission, our <u>combined</u> ratio stood at 80%. If you go a step further and back-out the reserve releases (but please don't forget to go back and amend our previous returns!) our combined ratio is <u>still</u> a very healthy 90%.

Chief Executive's statement *(continued)*



Other income moved forward due to the increased customer count as well as greater penetration of sales of ancillary products offset by some investment in future revenue streams. If you included the profits from Other Income in the combined ratio as a measure of the entire business, then the combined ratio would drop from 74.1% to 55.5%!

The UK Car Insurance Market Cycle: What Next?

Unfortunately, the cyclical nature of the UK car insurance market means that these lofty levels of profitability are not sustainable. The market is turning as I write this very report. The mathematics are not complicated: claims costs are still rising some 6-7% a year. Premiums aren't!

The market is at a precarious point, with a variety of forces pushing it one way while also pulling it the other. On the one hand you have poor investment returns and the forecast of poor returns going forward putting more pressure on underwriting profits. This helps to keep prices up. But you also have other firms in the market producing good results and many of these firms will try and grow their market share. This pushes prices down.

Marketing spend in the market is at an all-time high, which is a reflection of appetite for business. However, this spend has been 'stuck' on this high for some months now and, if history repeats itself, it will begin to recede sometime in late 2003 or early 2004.

The increased market share of direct response firms over time has, I believe, two effects on the market. First, it makes it more likely that the ad spend in the market will be higher than in the past, because that's the way these firms acquire business. Second, these firms have the ability to react more quickly to changes in market prices. Picture if you will the market like someone in a pitch black tunnel trying to guide himself down the centre by bouncing from one wall to the next. This is the market bouncing from raising prices to lowering prices. The effect of a larger, faster-moving direct response sector is to bring the sides of the tunnel closer together.

Interestingly, the current range of results between firms appears to be quite wide (some firms on one side of the tunnel, some on the other!). Some firms, like Admiral, have combined ratios below 90%, while others are still struggling to break even and have combined ratios above 100%. The speed and depth of the cycle will be determined by how much price-cutting the successful firms initiate and how long the less efficient firms can hold out.

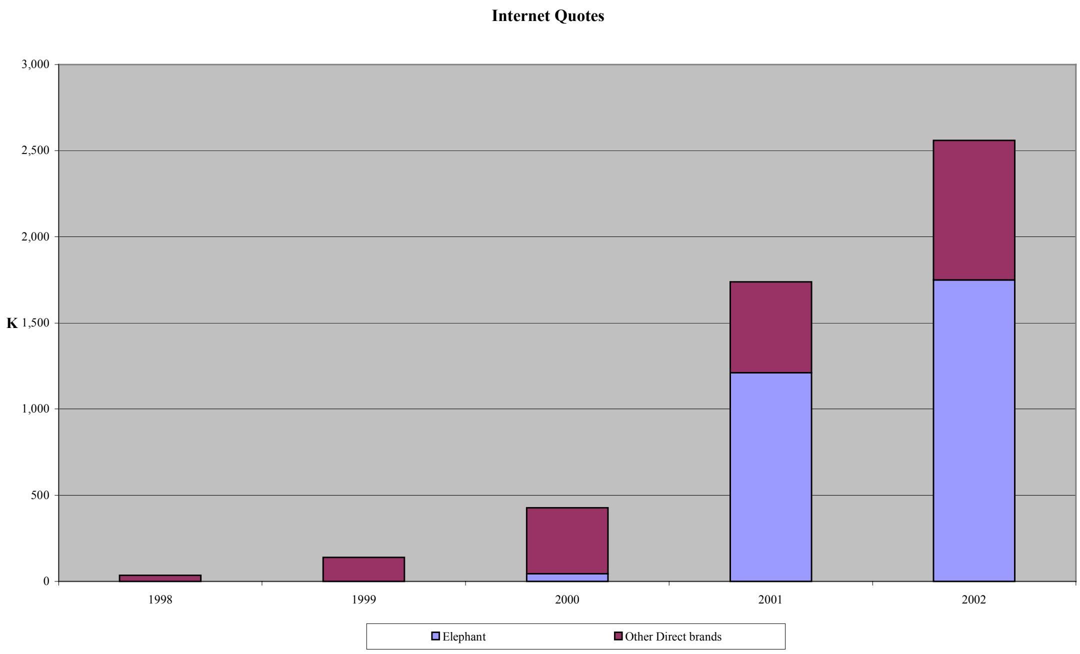
In the past we have predicted that this will be a more shallow market cycle, due to the factors above. At this writing there is no evidence that this will not be the case.

Chief Executive's statement *(continued)*

In short, this means that the underwriting returns will be less robust over the coming years. However, I believe AGL is well positioned to continue to outperform the market due to our better-than-market loss ratio, low expense ratio and the scale of our additional income.

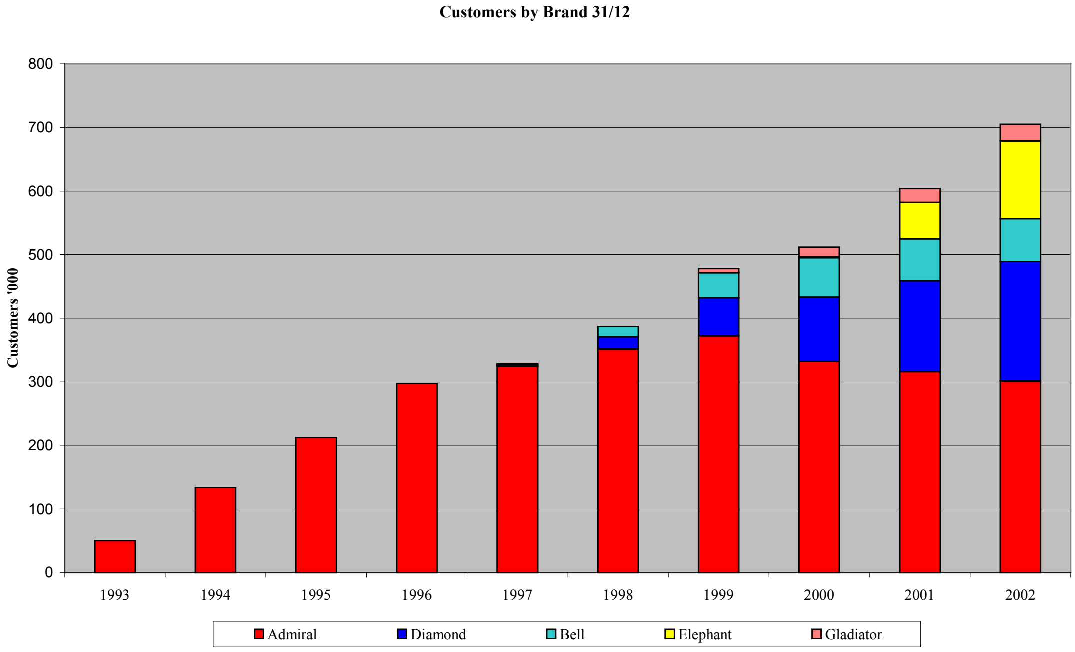
A Brief Explanation of Why Our Results Are So Good!

Some explanation of our excellent numbers lies with our ability to make the internet work. This is also a source of confidence in our future. Our 2002 internet results exceeded our forecasts and, in the absolute, are quite stunning. Of the more than 4m quotes we did last year 59% were done on the internet. 41% of all our sales came from these internet quotes. I believe that there is still a huge amount of growth in internet distribution. Studies show that more than 60% of the market have yet even to research car insurance on the internet. As a leader in the internet delivery of car insurance we are well placed for continued success through this channel in the coming years.



Elephant.co.uk was the biggest beneficiary in the continued growth in internet use. Elephant quote volumes jumped from 1.2m in 2001 to 1.7m in 2002. Elephant's end-of-year customer count reached 122,000. In addition, Elephant had the best claims ratio of all our brands for the 2002 year of account. However, Elephant was not the only internet winner in the group. In particular, Diamond transacted a much greater proportion of its business over the net than a year ago (36%, up from 14% in 2001).

Chief Executive's statement *(continued)*



Diamond's real accomplishment came in September, when, after 62 months of trading, it became the top selling brand, finally selling more new policies in a month than Admiral brand. However, two months later, Elephant (after just 26 months in business!) took over the Number 1 spot, which it held through the end of the year.

Bell Direct also made news during the year, by winning the 'Best UK Customer Service Contact Centre Award (up to 100 seats)' at the National Call Centre Awards in London. Although Bell is the smallest of the direct brands, its spirit and enthusiasm for quality and innovation serves to validate our strategy of keeping working groups small.

<u>Beyond Direct Response Car Insurance:</u>

It was also another good year for Gladiator Commercial. Gladiator sells van insurance, largely to private tradesmen, as an intermediary. Admiral Group does not take any underwriting risk with this business. At the end of 2002 Gladiator's customer count stood at 26,368 and it contributed pre-tax £1,100,000 to the Group's bottom line. Including Gladiator, the Group's customer count surpassed 700,000.

2002 also saw the launch of Confused.com, redeveloped using the Inspop platform. Confused.com has been reborn to be an intelligent, automated car insurance shopper. Simply put, all a customer has to do is put his or her details into Confused.com and Confused then goes out to all the major car insurance websites, populates the appropriate fields, and brings the customer back a list of prices. One-stop shopping! We will watch the development of this innovative website closely during 2003.

<u>Financial Management:</u>

On top of outstanding business results there was also a lot of successful financial management activity during the year.

The first achievement was refinancing the debt we acquired with the MBO in 1999. We repaid this debt, some £75m, with some of our cash and new loans from two banks, Lloyds TSB and Bank of Scotland, both of which have been excellent to deal with. We are now comfortably holding less debt than we had before, with a longer period in which to pay it down and a bigger business from which to pay it!

Chief Executive's statement *(continued)*

Financial Management *(continued)*:

The second financial transaction of the year was bringing Munich Re in as a shareholder. Munich Re now owns 18.6% of the Group, having bought shares from Barclays Private Equity and Ridgewood (XL Capital) as well as subscribing for a slice of new shares. It was a complicated transaction and we were all pleased to complete on December 24! Jingle Bells will never sound the same! We are very pleased to have Munich Re as an equity partner and will do everything in our power to ensure that they look back on this investment as one of the best they've ever made.

Barclays Private Equity is still the Group's largest shareholder, with 42.2% of the equity while management and staff own 32.3% in the revised structure. The balance, 6.9%, is held by Ridgewood (XL Capital).

Regulation:

Lastly we come to our changes going forward with regards to regulation. Our first 10 years saw us underwriting at Lloyd's of London. However, the Lloyd's concept of mutuality manifests itself through central fund charges on all Lloyd's members. As a motor insurer we are very unlikely to ever need to draw on the central fund, which makes the concept of mutuality work against us. The charges have grown over time to the point which makes staying in Lloyd's uneconomical. We decided early in the year that a structured exit from Lloyd's was in Admiral's best interest. Late in the year we received permission to begin trading from an insurance company we set up in Gibraltar (Admiral Insurance Gibraltar Ltd., AIGL). So, from January 1, 2003 we are no longer trading forward in Lloyd's, simply running off the back years.

Thank you and you and you and you and …

All in all it was a most satisfying year. I'd like to thank all the staff who worked so well during the year, but I'd like to pay a particular compliment for a job well done to the 14 senior managers who, in short, run the Company. These senior managers have worked for Admiral for a combined 125 years, an average of almost 9 years per person (not bad for a company that's only 10 years old!). From the outside looking in I suspect it appears that they run the Company in an effortless fashion. But I know better! I know that every day there are new challenges in running a business. These managers tackle the challenges head on. Only businesses with the right people running them are able to succeed year in, year out. Many thanks.

Henry Engelhardt

Chief Executive

Chief Executive's statement *(continued)*

Asterisks:

* Turnover

	2002 £'000	2001 £'000	
Gross written premium	**333,000**	284,415	Page 15 & note 3
Other income	**40,123**	35,432	Page 16 & note 7
Technical account investment income	**5,338**	3,147	Page 15
	378,461	322,994	

** Profit

	2002 £'000	2001 £'000	
Operating profit	**46,574**	31,266	Page 16
Add interest receivable	**1,229**	1,065	Page 16 & note 7
Add back amortisation	**4,285**	4,358	Page 16 & note 9
	3,103	1,500	Page 16 & note 25
	55,191	38,189	

*** Adjusted expense ratio

	2002 £'000	2001 £'000	
Earned premium	**81,336**	84,135	Page 15
Net technical expenses	**7,729**	12,927	Page 15 & note 5
Add non-recurring commission	**6,915**	4,777	Page 15 & note 5
Less non recurring Lloyd's costs	**(2,117)**	(2,372)	Page 15 & note 5
	12,527	15,332	
Adjusted expense ratio	**15.4%**	18.2%	

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activity, business review and future developments

The Group's principal activity continues to be the selling and administration of private motor insurance and related products.

Prior to the 2000 year, the Group placed all its underwriting business with Syndicates at Lloyd's managed by the XL Group. It continues to run off claims for the Syndicates under a run off agreement entered into at the time of the management buyout during 1999. For the 2000, 2001 and 2002 years, the Group placed its net share of the underwriting business with its own Lloyd's Syndicate – number 2004, the remainder being placed with major European reinsurers. Syndicate 2004 is supported by a Lloyd's Corporate Capital Vehicle, Admiral Syndicate Limited, which is a wholly owned subsidiary of Admiral Group Limited.

Lloyd's has been an expensive place to underwrite personal lines business, and, in common with a number of other Lloyd's vehicles, the Group has sought to set up underwriting vehicles outside of Lloyd's.

In November 2002, the Group was granted a license by the Financial Services Commission in Gibraltar for a new insurance company to be registered in Gibraltar, Admiral Insurance (Gibraltar) Limited ("AIGL"). This company will underwrite the Group net retained share of the direct motor insurance business from 1 January 2003. Syndicate 2004 will go into run off from 31 December 2002, ceasing to accept new business. Again, the Group will continue to run off the claims for Syndicate 2004.

Furthermore, during the year, the Group also completed the refinancing of a substantial amount of indebtedness that existed at the prior year-end. This refinancing involved repayment of all outstanding loan note balances (along with the additional consideration which was due in 2003), with a new commercial loan facility, repayable over the next six years. Further details of this refinancing are set out in note 18.

More detailed analysis of the group's activities, along with a review of the performance of the business are provided in the Chief Executive's statement on pages 2 to 8**.**

Group results and dividends

The profit for the year, after tax, amounted to £30.9m *(2001: £18.3m)*. No dividend is proposed *(2001: £nil)*.

Directors' interests

The present directors of the Company are shown on page 1.

The following directors were beneficially interested in the ordinary shares of the Company:

	Class of share	31 December 2002	31 December 2001
		Number	Number
H Engelhardt	B	33,201	33,201
H Engelhardt	C	2,930	2,930
D Stevens	B	16,600	16,600
D Stevens	C	2,600	2,600
A Probert	B	4,150	4,150
A Probert	C	850	850
O Clarke	A	723	723
A Lyons	C	872	-

Directors' report *(continued)*

Directors' interests *(continued)*

The 33,201 B Ordinary Shares relating to H Engelhardt are held in a Trust established in the name of Diane Marguerite Noel Briere De L'Isle-Engelhardt, his spouse.

Charitable and political donations

During the year the Group donated £50,737 (2001: £17,050) to various local and national charities. The Group has never made political donations.

Employee policies

In considering applications for employment from disabled people, the Group seeks to ensure that fair consideration is given to the abilities and aptitudes of the applicant, while having regard to the requirements of the job for which he or she has applied. Employees who become unable to carry out the job for which they are employed are given individual consideration, and depending on the nature, severity and duration of the disability, may be considered for alternative work and the Group continues to train and encourage the career development of disabled persons in its employment.

The Group provides employees with regular information on its performance, other information that concerns them, and provides a forum for employee representatives to give their views. As described in note 25, the Group operates an Employee Share Trust for the benefit of employees The charge to the 2002 profit and loss account in respect of this was £3,103,000 (2001: £1,500,000). Further, the Group has also established a non-contractual profit share scheme for staff, in which bonus payments are made according to Group profitability and numerous quality measures. The current year charge for the scheme is £555,000 (2001: £210,000)

Every member of staff is invited to attend an annual staff general meeting to achieve a common awareness throughout the Company of the financial and economic factors that affect the performance of the group.

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and resolutions to reappoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board,

Stuart Clarke

S Clarke
Company Secretary

Capital Tower
Greyfriars Road
Cardiff
CF10 3AZ

4 April 2003

Corporate Governance Report

The following report summarises the key elements of the Group's corporate governance practices. As the Group is not listed, it does not have to disclose compliance with formal rules on corporate governance (as set out in the Combined Code), however, the directors consider it useful to set out how the Group manages risk, and how the management of the Group's operations is carried on.

The Board of Directors

The Board of directors of Admiral Group Limited ("AGL") is structured to ensure an appropriate balance of executive and non-executive directors, and to represent all groups of shareholders. Currently it comprises a non-executive Chairman, non-executive representatives of the corporate shareholders, one further non-executive director and three executive directors. The names of all directors appear on page 1 of this report.

The Group has separated the roles of Chairman and Chief Executive, and each has separate, clearly defined responsibilities. The three executive directors have substantial experience in the Group's operations, and all have been with the Group since it commenced trading in January 1993.

In addition, two of the Group's subsidiary companies – Admiral Syndicate Management Limited and Admiral Insurance (Gibraltar) Limited have separate non-executive directors on their boards, over and above those referred to above.

The Board has overall responsibility for controlling the Group, making decisions relating to the Group's strategic direction, and measuring progress towards these. It is ultimately responsible to shareholders for financial and operational performance.

The Board meets at least six times a year and more if specific circumstances require it. It is provided with comprehensive reports before each meeting, covering both financial and operational aspects of the Group's activities.

Operational Committees

In order to ensure it has effective control over the Group's activities, the Group has established a number of committees, each with responsibility for a certain aspect of Group's operations. A summary of the activities and responsibilities of the key committees is set out below.

The key committees are as follows:

Committee	**Responsibility**
Audit Committee	To monitor the adequacy of the control environment within the Group, including approving the work programme for Internal Audit. Also, to approve the Group financial statements and review any reports on internal controls from the auditors. Finally, to ensure compliance with all aspects of regulation to which the Group is subject. The Committee is chaired by a non-executive director. . The Group's auditors attend at least one meeting annually.
Remuneration Committee	To consider and approve the remuneration of directors and the Company's structure of bonuses and share scheme incentivisation. The Remuneration Committee's membership consists of two non-executive directors and the Chief Executive.

Corporate Governance Report *(continued)*

Additional Committees

In addition to the high level committees above, there are a number of additional committees that are responsible for ensuring the efficient day to day operation of the Group and the implementation of the board's strategies and objectives. These include a Reinsurance Committee and Investment Committee. The Senior Managers of the Group meet monthly, as do the individual departmental managers. The individual brand managers also meet monthly with the Chief Executive to discuss business performance and issues.

Internal Control, Risk Management & Internal Audit

The ultimate responsibility for the Group's system of internal control and risk management lies with the board of directors. Whilst they have not delegated the responsibility for these matters, they have delegated the main supervision of them to the Audit Committee as detailed above.

The Audit Committee is responsible for agreeing in advance the work that Internal Audit carries out. Internal Audit plays a key role in identifying control weaknesses, and considering the level of all types of business risk to which the Group is exposed. The Audit Committee is also responsible for the establishment of systems and controls to prevent and detect fraud.

The Audit Committee recommends the approval of the Group financial statements to the main board of directors. Appropriate financial and accounting qualifications exist among the membership, and there is significant experience of the Group's accounting policies and practices to ensure appropriate discussion can take place and decisions made.

As a provider of financial services, the Group is subject to regulation from a number of different bodies – most notably the Financial Services Authority, and is consequently exposed to a level of regulatory risk. In order to mitigate this, the Group Compliance Officer takes responsibility for ensuring compliance with all appropriate regulation. A Risk Register produced by the Group identifies key regulatory risks. The Compliance Officer provides advice to senior management and to the relevant Committees and Boards of directors. The Compliance Officer has direct access to the boards of directors of all regulated entities in the Group.

FSC and Other Regulation

Admiral Syndicate Management Limited has had to comply with the FSA Lloyd's Specialist Sourcebook for some time, and this has meant that the Group has implemented a robust system of controls, systems and procedures across all aspects of its business.

Admiral Insurance (Gibraltar) Limited is regulated by the Financial Services Commission of Gibraltar. These FSC rules must comply with the appropriate EU insurance legislation.

The two main non underwriting trading subsidiaries of Admiral Group Limited are also members of the General Insurance Standards Council ("GISC"), and are both required to comply with the rules and guidance published by the regulator.

As referred to in the section on internal control above, it is the responsibility of the Compliance Officer to ensure that the Group is in full compliance with all guidance and regulation to which it is subject.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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;
- state whether applicable accounting standards have been applied, subject to any material departure disclosed and explained in the accounts and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

kpmg

KPMG Audit Plc
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United Kingdom

Independent auditors' report to the members of Admiral Group Limited

We have audited the financial statements on pages 15 to 37.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors are responsible for preparing the directors' report and, as described on page 13, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc **14 April 2003**
Chartered Accountants
Registered Auditor

Consolidated profit and loss account: technical account – general business

for the year ended 31 December 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Total premiums written	*3*		**333,000**		284,415
Gross premiums written	*3*	**69,089**		198,950	
Outward reinsurance premiums		**(3,662)**		(102,067)	
			65,427		96,883
Change in the gross provision for unearned premiums		**62,464**		(25,497)	
Change in the provision for unearned premiums, reinsurers' share		**(46,555)**		12,749	
			15,909		(12,748)
Earned premiums, net of reinsurance			**81,336**		84,135
Allocated investment return transferred from the non-technical account			**5,338**		3,147
Interest receivable	*7*		**807**		908
Total technical income			**87,481**		88,190
Claims incurred, net of reinsurance:					
Claims paid:					
Gross amount		**(68,083)**		(60,724)	
Reinsurers' share		**31,059**		28,198	
		(37,024)		(32,526)	
Change in the provision for claims:					
Gross amount		**(9,092)**		(66,491)	
Reinsurers' share		**(6,450)**		35,084	
		(15,542)		(31,407)	
Claims incurred, net of reinsurance			**(52,566)**		(63,933)
Balance in general business technical account before net operating expenses			**34,915**		24,257
Net operating expenses	*4*		**(7,729)**		(12,927)
Balance on the general business technical account			**27,186**		11,330

Consolidated profit and loss account: non-technical account

for the year ended 31 December 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Balance on the general business technical account			**27,186**		11,330
Investment income		**6,515**		4,334	
Net unrealised losses on investments		**(1,042)**		(1,076)	
Investment expenses and charges		**(135)**		(112)	
Other income	7	**40,123**		35,432	
Other charges:					
Amortisation of goodwill		**(4,285)**		(4,358)	
Employee Share Trust	25	**(3,103)**		(1,500)	
Staff profit share expense	6	**(555)**		(210)	
Other		**(12,792)**		(9,427)	
		(20,735)		(15,495)	
Allocated investment return transferred to the technical account		**(5,338)**		(3,147)	
			19,388		19,936
Operating profit			**46,574**		31,266
Interest receivable	7		**1,229**		1,065
Interest payable	7		**(4,852)**		(4,896)
Profit on ordinary activities before tax	5		**42,951**		27,435
Tax on profit on ordinary activities	8		**(12,014)**		(9,099)
Profit for the financial year after tax			**30,937**		18,336
Dividends proposed			-		-
Retained profit for the financial year transferred to reserves	21		**30,937**		18,336

There were no material acquisitions in the financial year, and no operations were discontinued. All income and expenditure therefore relates to continuing operations.

There are no recognised gains and losses in either year other than those reported above in the profit and loss account.

Consolidated balance sheet
at 31 December 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Assets					
Intangible fixed assets	*9*		**66,260**		71,945
Investments					
Other financial investments	*12*		**110,877**		93,912
Reinsurers' share of technical provisions					
Provision for unearned premiums	*19*	**-**		46,555	
Claims outstanding	*19*	**53,407**		59,857	
			53,407		106,412
Debtors					
Debtors arising out of direct insurance operations	*14*	**68,985**		71,150	
Debtors arising out of reinsurance operations		**-**		4,931	
Other debtors		**4,743**		6,191	
			73,728		82,272
Other assets					
Cash at bank and in hand		**62,996**		33,218	
Tangible fixed assets	*13*	**6,681**		7,261	
			69,677		40,479
Prepayments and accrued income					
Deferred acquisition costs		**1,655**		5,632	
Other prepayments and accrued income		**1,788**		4,860	
			3,443		10,492
Total assets			**377,392**		405,512

Consolidated balance sheet *(continued)*
at 31 December 2002

	Note	2002		2001	
		£000	**£000**	£000	£000
Liabilities					
Capital and reserves					
Called up share capital	*20*	**25**		23	
Share premium account	*21*	**15,746**		-	
Profit and loss account	*21*	**53,182**		22,245	
Shareholders' funds attributable to equity interests			**68,953**		22,268
Technical provisions					
Provision for unearned premiums	*19*	**30,645**		93,109	
Claims outstanding	*19*	**124,478**		115,386	
			155,123		208,495
Creditors – amounts due, falling within one year					
Creditors arising out of reinsurance operations		**52,238**		37,571	
Loan notes & other loans	*18*	**2,839**		16,670	
Other creditors including taxation and social security	*15*	**15,760**		23,271	
Accruals and deferred income	*16*	**25,998**		28,779	
			96,835		106,291
Creditors – amounts due, falling after one year					
Loan notes & other loans	*18*	**45,000**		45,697	
Other creditors	*15*	**2,343**		2,789	
Other accruals and deferred income	*16*	**5,718**		19,972	
			53,061		68,458
Provisions for liabilities and charges	*17*		**3,420**		-
Total liabilities			**377,392**		405,512

These financial statements were approved by the board of directors on 4 April 2003 and were signed on its behalf by:

Andrew Probert

A Probert
Director

Parent company balance sheet
at 31 December 2002

	Note	**2002** £000	**2002** £000	2001 £000	2001 £000
Fixed assets					
Investments	*10*		**92,302**		80,702
Current assets					
Debtors (amounts owed by subsidiaries)		**23,075**		22,039	
Cash at bank and in hand		**6,931**		17,263	
		30,006		39,302	
Creditors: amount due, falling within one year:					
Loan notes & other loans	*18*	**(2,839)**		(16,670)	
Other creditors	*15*	**(459)**		(3,586)	
Accruals and deferred income	*16*	**(240)**		(139)	
		(3,538)		(20,395)	
Net current assets			**26,468**		18,907
Total assets less current liabilities			**118,770**		99,609
Creditors: amounts due, falling after more than one year:					
Loan notes & other loans	*18*	**(45,000)**		(45,697)	
Accruals and deferred income	*16*	**-**		(17,100)	
			(45,000)		(62,797)
Net assets			**73,770**		36,812
Capital and reserves					
Called up share capital	*20*		**25**		23
Share premium account	*21*		**15,746**		-
Profit and loss account	*21*		**57,999**		36,789
			73,770		36,812

These financial statements were approved by the board of directors on 4 April 2003 and were signed on its behalf by:

Andrew Probert

A Probert
Director

Group cash flow statement

for the year ended 31 December 2002

	Note	**2002**		2001	
		£000	**£000**	£000	£000
Net cash inflow from operating activities	*24*		**78,292**		88,211
Servicing of finance					
Net interest paid			**(8,505)**		(1,610)
Taxation					
Corporation tax paid			**(10,079)**		(8,237)
Capital expenditure					
Purchases of fixed assets		**(2,808)**		(5,015)	
Sales of fixed assets		**180**		4	
Net purchases of fixed assets			**(2,628)**		(5,011)
Acquisitions			**-**		(125)
Equity dividends paid			**-**		-
Financing					
Issues of ordinary shares		**15,748**		-	
Drawdown of new loans		**60,000**		-	
Repayment of loan notes and other loans		**(68,757)**		(22,451)	
Net movement in finance lease capital		**(586)**		3,088	
Deferred consideration		**(15,700)**		-	
			(9,295)		(19,363)
			47,785		53,865
Cash flows were invested as follows:					
Increase in cash holdings			**29,778**		16,961
Decrease in restricted cash holdings			**-**		(12,099)
Debt securities and other fixed income securities			**18,007**		49,003
Net investment of cash flows			**47,785**		53,865

Notes
(forming part of the financial statements)

1 Basis of preparation

The group financial statements, which consolidate the financial statements of the Company and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The balance sheet of the parent Company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

The Group has adopted FRS 19 (Deferred Tax) in these financial statements. Deferred taxation, which requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Previously, deferred tax was provided for using the tax rates estimated to arise when the timing differences reversed and was accounted for to the extent that it was probable that a liability or asset would crystallise. Under FRS 19 deferred tax is provided using the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. The directors do not consider that the impact of adopting the standard on the brought forward profit and loss reserve was material, and hence no prior period adjustment was made in the Group and Consolidated accounts.

The results of all directly and indirectly owned subsidiary undertakings are included in the consolidated accounts. One of the Companies that was incorporated during the year – Admiral Insurance (Gibraltar) Limited - has its first accounting reference date at 31 December 2003. Accounts have been draw up for the Company (and audited) as at 31 December 2002 for inclusion in these consolidated financial statements. Refer to notes 10 & 11 for further detail on group investments.

The accounts of all group companies are made up to 31 December.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent Company is not presented.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the group's financial statements.

Basis of accounting for general insurance business

General business is accounted for on an annual basis.

Premiums

General business written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

For general business accounted for on the annual basis, the provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

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.

Notes *(continued)*

2. Accounting policies *(continued)*

Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the period together with the movement in the provision of outstanding claims.

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses. Anticipated reinsurance recoveries are disclosed separately as assets.

Guarantee fund levies

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme and Motor Insurers' Bureau before completion of the financial statements. Provision is also made if it is more likely than not that a levy will be raised based on premium income which has already been recognised in the financial statements.

Investments

Listed investments are stated at mid-market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.
Investments in subsidiary undertakings are valued at cost less any provision for impairment in value.

Investment return

Interest receivable is accounted for on an accruals basis. Dividend income, grossed up where appropriate by the imputed tax credit, is recognised when the related investment goes "ex-dividend".

Realised gains or losses represent the difference between net sales proceeds and purchase price or in the case of investments valued at amortised cost, the latest carrying value.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

Investment return (including realised and the movement in unrealised investment gains and losses) on investments attributable to the general business and associated shareholders' funds is reported in the technical account for general business.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	-	4 years
Fixtures, fittings and equipment	-	4 years
Computer equipment and software	-	2 to 4 years
Improvement to short lease-hold properties	-	4 years

Notes *(continued)*

2. Accounting policies (continued)

Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised on a straight line basis over its estimated useful life. The useful life of each acquisition is determined at the time of acquisition, and reviewed annually to ensure the life assigned remains appropriate.

Foreign currencies

Assets and liabilities denominated mainly in a foreign currency are translated using the closing rate method. Exchange differences on operating net assets are taken to reserves. Other exchange differences are dealt with in the profit and loss account through either the non-technical or technical account.

Leases

The rental costs relating to operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

Assets acquired under finance leases or hire purchase contracts are included in tangible fixed assets at an amount equal to the cost that would have been payable on purchase 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.

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 suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

3. Analysis of underwriting results

All business written during both financial years is direct private motor insurance written in the United Kingdom. During 2001 and 2002, the group share of business written was all underwritten by Syndicate 2004.

Year ended 31 December 2002

	£000
Motor insurance - total premiums	**333,000**
Coinsurer share of total premiums	**(266,400)**
Group share of total premiums	**66,600**
Release of excess prior year cancellation provision	**2,489**
Gross premium written	**69,089**

Notes *(continued)*

3. Analysis of underwriting results *(continued)*

Year ended 31 December 2001

	£000
Motor insurance - total premiums	**284,415**
Coinsurer share of total premiums	**(85,265)**
Group share of total premiums	**199,150**
Under provision for cancellations in previous years	**(200)**
Gross premium written	**198,950**

4. Net operating expenses – Technical account

	2002 £000	2001 £000
Gross acquisition costs incurred	**5,121**	12,046
Deferred acquisition costs	**3,977**	(5,632)
Expense commission receivable	**(6,915)**	(4,777)
Gross reinsurance commission receivable	**(42,698)**	(31,155)
Deferred element of gross reinsurance commission receivable	**(4,364)**	4,364
Administrative expenses	**50,491**	35,709
Lloyd's charges	**2,117**	2,372
	7,729	12,927

The increase in administrative expenses for the Group is due to the change in coinsurance arrangements, and is offset by higher reinsurance commission receivable.

5. Profit on ordinary activities before tax

Operating profit is stated after charging the following items:

	2002 £000	2001 £000
Financing & refinancing costs:		
Initial financing (see note below)	**607**	911
2002 refinancing	**1,515**	-
Costs relating to new share issues	**50**	-
Operating lease rentals:		
Machinery and equipment	**-**	-
Buildings	**1,326**	1,326
Auditor's remuneration:		
Audit fees (including Company £6,000 (2001: £5,000))	**111**	70
Other services: Refinancing & new share issues	**341**	-
Other (including Company £13,000 (2001: £nil))	**60**	11
Loss on disposal of assets	**166**	2

Notes *(continued)*

5. Profit on ordinary activities before tax *(continued)*

Costs of initial financing relate to the costs of a one-off stop-loss reinsurance programme purchased in 2000 for £2.1m that has been expensed in line with estimated premiums over the three years to 31 December 2002. £607,000 was expensed in the current year (2001: £911,000).

6. Employees

Staff costs (including directors)

	2002	2001
	£000	£000
Salaries	**22,069**	18,549
Social security	**1,844**	1,673
Other pension costs	**250**	210
Staff profit share scheme	**555**	210
Employee share trust charge (see note 25)	**3,103**	1,500
	27,821	22,142

Pension costs relate to contributions made by the Group into the Group Personal Pension Plan, a matching scheme open to all employees except for directors and subject to a maximum annual contribution of £3,000 per employee.

Number of staff (including directors)

	Average for the year	
	2002	2001
	Number	Number
Direct customer contact staff	**1,140**	1,071
Support staff	**254**	251
	1,394	1,322

Directors' emoluments

	2002	2001
	£000	£000
Emoluments (including Company £65,000)	**827**	569
Emoluments of the highest paid director (including Company £nil)	**312**	237

No contributions were made into pension schemes on behalf of directors.

Notes *(continued)*

7. Net interest and other income receivable

	2002	2001
	£000	£000
Bank and other interest receivable		
Allocated to technical account	**807**	908
Allocated to non-technical account	**1,229**	1,065
	2,036	1,973
Interest payable		
Commercial loan interest payable	**820**	-
Loan note interest payable	**2,838**	3,595
Finance lease interest	**304**	339
Bank interest	**-**	3
Other interest	**890**	959
	4,852	4,896
Other income		
Revenue from related sales	**34,759**	28,392
Commissions from broker operations	**3,350**	3,522
Instalment income	**1,836**	3,518
Other	**178**	-
	40,123	35,432

8. Taxation on profit on ordinary activities

	2002	2001
	£000	£000
UK corporation tax		
Current year at 30% (2001: 30%)	**9,123**	8,780
(Over) / under provision relating to prior years	**(529)**	319
Deferred taxation movement (note 17)	**3,420**	-
	12,014	9,099

Notes *(continued)*

8. Taxation on profit on ordinary activities *(continued)*

Factors affecting tax charge for the period:

	2002 £000	2001 £000
Profits on ordinary activities before taxation	**42,951**	27,435
Corporation tax thereon at 30%	**12,885**	8,231
Syndicate profits taxed on Lloyd's basis	**(4,997)**	(813)
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**1,350**	1,284
Other timing differences	**(104)**	87
Impact of using lower tax rate	**(11)**	(9)
Current tax charge per accounts (as above)	**9,123**	8,780

9. Intangible assets - goodwill

	Group £000
Cost	
At 1 January 2002	80,279
Addition	-
Valuation adjustment (see below)	(1,400)
At 31 December 2002	**78,879**
Amortisation	
At 1 January 2002	8,334
Charged in the year	4,285
At 31 December 2002	**12,619**
Net book amount	
At 31 December 2002	**66,260**
At 31 December 2001	71,945

As at 31 December 2001, the goodwill valuation contained an amount of £17.1m relating to further consideration payable in respect of the acquisition of Admiral Insurance Services Limited in 1999. This was settled during the year at a discount of £1.4m, and goodwill has been revalued accordingly.

Notes *(continued)*

10. Investments in group undertakings

	2002 Company Cost £000	2001 Company Cost £000
Shares in group undertakings	**92,302**	80,702

A £1.4m decrease has been included in the cost of the investment in Admiral Insurance Services Limited. This is due to the adjustment to the calculation of the fair value of the consideration paid for the Company following the settlement of the deferred element of the consideration during the year. Refer to note 9 for further detail.

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

	Country of incorporation	**Class of shares held**	**Principal activity**	**Held directly or indirectly**
Admiral Insurance Services Limited	England and Wales	Ordinary	Service company to Lloyd's Syndicate	Directly
Able Insurance Services Limited	England and Wales	Ordinary	Intermediary	Directly
Admiral Insurance (Gibraltar) Limited	Gibraltar	Ordinary	Insurance company	Directly
Admiral Syndicate Management Limited	England and Wales	Ordinary	Lloyd's managing agency	Directly
Admiral Syndicate Limited	England and Wales	Ordinary	Lloyd's corporate Capital vehicle	Directly
Confused.com Limited	England and Wales	Ordinary	Non trading	Indirectly
Inspop.com Limited	England and Wales	Ordinary	Internet services	Directly

11. Group structure

During the year, the Group incorporated a company in Gibraltar, Admiral Insurance (Gibraltar) Limited ("AIGL") with a share capital subscription of £13m. This company will underwrite the Group share of the motor insurance business generated from January 2003. AIGL received a license to do so from the Financial Services Commission in Gibraltar during November 2002.

12. Other financial investments

Group	**Historic cost at 31 December 2002 £000**	**Market value at 31 December 2002 £000**	Historic cost at 31 December 2001 £000	Market value at 31 December 2001 £000
Debt securities and other fixed income securities	**91,141**	**90,099**	67,320	66,244
Deposits with credit institutions	**20,778**	**20,778**	27,668	27,668
	111,919	**110,877**	94,988	93,912

Notes *(continued)*

13. Tangible fixed assets

Group	Improvements to short leasehold buildings £000	Computer equipment and software £000	Office equipment £000	Furniture and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2002	1,566	12,794	2,588	1,526	3	18,477
Additions	36	2,562	163	40	7	2,808
Disposals	-	(356)	-	(3)	-	(359)
At 31 December 2002	**1,602**	**15,000**	**2,751**	**1,563**	**10**	**20,926**
Depreciation						
At 1 January 2002	973	7,881	1,309	1,051	2	11,216
Charge for the year	236	2,110	423	271	1	3,041
Disposals	-	(12)	-	-	-	(12)
At 31 December 2002	**1,209**	**9,979**	**1,732**	**1,322**	**3**	**14,245**
Net book amount						
At 31 December 2002	**393**	**5,021**	**1,019**	**241**	**7**	**6,681**
At 31 December 2001	593	4,913	1,279	475	1	7,261

Net book amounts for the group include the following amounts related to leased assets:

	2002 £000	2001 £000
Computer equipment and software	**3,438**	2,201
Office equipment	**140**	52
Furniture and fittings	**64**	161
	3,642	2,414

The Company does not hold any fixed assets other than investments in subsidiaries as set out in note 10.

14. Debtors arising out of direct insurance operations

	Company 2002 £000	**Group 2002 £000**	Company 2001 £000	Group 2001 £000
Amounts owed by policyholders	**-**	**68,234**	-	70,200
Commissions due	**-**	**751**	-	950
	-	**68,985**	-	71,150

Notes *(continued)*

15. Other creditors including taxation and social security

	Company 2002 £000	**Group 2002 £000**	Company 2001 £000	Group 2001 £000
Amounts due, falling within one year:				
Corporation tax payable	**-**	**4,060**	-	5,543
Other tax and social security	**-**	**1,148**	-	3,323
Finance leases	**-**	**1,418**	-	1,559
Other	**459**	**9,134**	-	12,846
Amounts owed to group companies	**-**	**-**	3,586	-
	459	**15,760**	3,586	23,271

	Company 2002 £000	**Group 2002 £000**	Company 2001 £000	Group 2001 £000
Amounts due, falling after one year:				
Finance leases	**-**	**2,343**	-	2,789

16. Accruals and deferred income

	Company 2002 £000	**Group 2002 £000**	Company 2001 £000	Group 2001 £000
Amounts due, falling within one year:				
Premiums booked relating to the following year	**-**	**11,417**	-	10,850
Claims handling expenses	**-**	**4,267**	-	3,438
Motor Insurers' Bureau	**-**	**6,517**	-	6,351
Deferred income	**-**	**3,472**	-	2,747
Other	**240**	**325**	139	5,393
	240	**25,998**	139	28,779

	Company 2002	**Group 2002**	Company 2001 £000	Group 2001 £000
Amounts due, falling after one year:				
Claims handling expenses	**-**	**759**	-	836
Deferred consideration (see note below)	**-**	**-**	17,100	17,100
Employee Share Trust	**-**	**4,839**	-	1,736
Deferred income	**-**	**120**	-	300
	-	**5,718**	17,100	19,972

As discussed in note 10, the deferred consideration was settled during the year.

Notes *(continued)*

17. Provision for deferred tax

Group

	2002 £000	2001 £000
Balance at 1 January	**-**	-
Movement in period, being charge to profit and loss account	**3,420**	-
Balance at 31 December 2002	**3,420**	-

At the year end, there was an unprovided deferred tax asset of £1,222,000 (2001: £2,854,000).

The net balance provided at the end of the current year is made up of a gross deferred tax liability of £3,698,000 relating to the tax treatment of Lloyd's Syndicates, and a deferred tax asset of £278,000 in respect of capital allowance related timing differences.

There was no deferred tax asset or liability provided in the Company accounts. There was an unprovided asset of £176,000 (2001: £353,000) relating to carried forward losses at the year end.

18. Loans

During the year, the Company undertook a significant refinancing exercise, which resulted in the repayment of all loan notes that were previously in existence. In place of these liabilities, on 1 October 2002 the Company entered into a £50m facility with Lloyds TSB and Bank of Scotland.

The facility consists of a £40m term loan, along with a £10m revolving credit facility. The term loan is to be repaid according to a set repayment schedule over six years from October 2002.

Interest is charged on amounts drawn down under the facility based on three elements:

a) LIBOR

b) A margin – as set out in the facility agreement, varying between 1.25% and 2.25%

c) A "mandatory costs" contribution – currently around 0.01%

Accrued interest is paid off at the end of interest periods selected by the Company. It is envisaged that these periods will be of three month duration on an ongoing basis.

Security granted in respect of the facility is in the form of fixed and floating charges over most Group assets (excluding assets subject to regulatory restriction) and charges over the shares in some subsidiary companies.

Amounts outstanding (including accrued interest) at 31 December were as follows:

Repayable:	**2002 £000**	2001 £000
Within one year	**2,839**	16,670
Two to five years	**28,000**	45,697
Greater than five years	**17,000**	-
	47,839	62,367

Notes *(continued)*

19. Technical provisions & estimation techniques

2002	**Gross £000**	**Reinsurance £000**	**Net £000**
Claims outstanding	**124,478**	**53,407**	**71,071**
Unearned premiums	**30,645**	**-**	**30,645**
At end of year	**155,123**	**53,407**	**101,716**

2001	Gross £000	Reinsurance £000	Net £000
Claims outstanding	115,386	59,857	55,529
Unearned premiums	93,109	46,555	46,554
At end of year	208,495	106,412	102,083

Analysis of claims reserves movements:

2002	**Gross £000**	**Reinsurance £000**	**Net £000**
Claims reserve brought forward	**115,386**	**59,857**	**55,529**
Provision movement – current accident year	**26,448**	**2,228**	**24,220**
Releases of prior year provisions – 2000 accident year	**(6,844)**	**(3,422)**	**(3,422)**
2001 accident year	**(10,512)**	**(5,256)**	**(5,256)**
Claims reserve carried forward	**124,478**	**53,407**	**71,071**

2001	Gross £000	Reinsurance £000	Net £000
Claims reserve brought forward	48,895	24,447	24,448
Provision movement – current accident year	74,337	39,333	35,004
Releases of prior year provisions – 2000 accident year	(7,846)	(3,923)	(3,923)
Claims reserve carried forward	115,386	59,857	55,529

Notes *(continued)*

19. Technical provisions & estimation techniques *(continued)*

Estimation Techniques

Estimation is necessary to:

a) predict the final claims costs arising from policies already written, and

b) determine the price to be quoted for new business so as to maximise future returns

Accurate estimation of final claims costs requires forecasts of claims which have not yet occurred, and also the likely final outcome of those which have been reported, but are not yet settled

Analyses of claims by development month is key in forecasting claims not yet arisen, ie by comparing the frequency of claims observed for the current underwriting year with that for previous underwriting years at the same development month. These contribute to actuarial projections of the final outcome, which take account also of external market conditions

The best early estimates of final claim size are obtained by the accurate setting of claim reserves by claims staff. These reserves are based upon previous final outcomes of claims of similar type, and also, especially for injury claims, upon a knowledge of current judicial decisions.

Historic claim triangles – where monthly changes observed in claim costs for claims reported some months previously are assumed to apply to claims currently being reported – are also used to estimate final claim costs and loss ratios, although the main emphasis is on the accurate setting of reserves noted above.

To maximise future returns it is most important to set an appropriate price, which tends to attract profitable and discourage loss making business. For this, there are in place statistical pricing models, which analyse the historic claims costs arising from segments of the business, and adjust the prices where costs have been out of line with the premiums. Multivariate techniques are used which take account of all the rating factors together, which determine the correct risk for each business segment, if necessary by individual claim type.

The claims provisions are subject to annual independent review by external actuaries.

20. Called up share capital

	2002	2001
	£000	£000
Authorised		
5,970,000 / 6,000,000 A ordinary shares of 10p each	**597**	600
2,000,000 B ordinary shares of 10p each	**200**	200
2,000,000 C ordinary shares of 10p each	**200**	200
29,836 D ordinary shares of 10p each	**3**	-
20,164 E ordinary shares of 10p each	**2**	-
	1,002	1,000

Notes *(continued)*

20. Called up share capital *(continued)*

	2002 £000	2001 £000
Issued, called up and fully paid		
132,488 / 162,324 A ordinary shares of 10p each	**13**	16
60,176 B ordinary shares of 10p each	**6**	6
12,042 / 11,170 C ordinary shares of 10p each	**1**	1
29,836 D ordinary shares of 10p each	**3**	-
20,164 E ordinary shares of 10p each	**2**	-
	25	23

During the year, the Group allocated 872 fully paid up C ordinary shares of 10p each, and 20,164 fully paid up E ordinary shares of 10p each. Total consideration in respect of these issues was £15,747,920.

Further, 29,836 issued A ordinary shares were converted into the same number of new D ordinary shares.

Rights of shares

In the event of a winding up of the Company or other return of capital, the assets of the Company available for distribution to shareholders will be distributed amongst the holders of the ordinary shares pari passu, as if they were all shares of the same class. This is provided that, after the distribution of the first £500m of such balance, the Deferred Shares (as defined in the Company'' Articles of Association) (if any) shall be entitled to receive an amount equal to the nominal value of such Deferred Shares. Any payment made to the holders of shares of a particular class shall be made in proportion to the numbers of shares of the relevant class held by each of them.

Immediately prior to a Sale or Listing (a "Conversion Date"), 61,552 A ordinary shares, 13,861 D ordinary shares and 9,368 E ordinary shares shall convert into the same number of fully paid Deferred Shares ("The Conversion") which have limited rights.

21. Movements on shareholders funds

	Share Capital £'000	Share Premium £'000	Profit and loss account £'000	Total £'000
Group				
At 1 January 2002	23	-	22,245	22,268
Issue of share capital	2	15,746	-	15,748
Retained profit for the financial year	-	-	30,937	30,937
At 31 December 2002	**25**	**15,746**	**53,182**	**68,953**

Notes *(continued)*

21. Movements on shareholders funds (continued)

	Share Capital	Share Premium	Profit and loss account	Total
	£'000	**£'000**	**£'000**	**£'000**
Company				
At 1 January 2002	23	-	36,789	36,812
Issue of share capital	2	15,746	-	15,748
Retained profit for the financial year	-	-	21,210	21,210
At 31 December 2002	**25**	**15,746**	**57,999**	**73,770**

22. Commitments

Annual commitments of the group under non-cancellable operating leases are as follows:

	2002		2001	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
Operating leases which expire:				
Within one year	-	-	-	-
In the second to fifth years inclusive	**1,506**	-	1,506	-
Over five years	-	-	-	-
	1,506	-	1,506	-

At the year-end, the Group had contracted to spend around £335,000 on fixed assets over 2003 and 2004 (2001: £500,000 over three years). The Company itself does not hold tangible fixed assets, and was not committed to any expenditure after 31 December 2002.

23. Contingent liabilities

The Group had no contingent liabilities at the year-end, other than those arising out of insurance contracts, and other agreements entered into in the normal course of business.

Notes *(continued)*

24. Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2002	2001
	£000	£000
Operating profit	**46,574**	31,266
Add back:		
Depreciation charge	**3,041**	2,409
Amortisation charge	**4,285**	4,358
Unrealised losses on investments	**1,042**	1,076
Loss on disposal of tangible fixed assets	**166**	2
Change in gross technical provisions	**(53,372)**	91,988
Change in reinsurers' share of technical provisions	**53,005**	(48,159)
Change in debtors and prepayments	**15,593**	(6,072)
Change in creditors excluding tax and social security	**10,133**	16,931
Change in tax and social security creditor	**(2,175)**	(5,588)
Net cash inflow from operating activities	**78,292**	88,211

25. Employee Share Trust

During 2000 the Group established an Employee Share Trust, under which 14,706 C ordinary shares are to be made available to a trust in which the Group's employees are allocated units. These shares will be issued to Group employees on the earlier of a sale or flotation of the Company's shares. Awards for participation in the scheme are made annually by the trustees of the Group's Employee Share Trust.

The Group is making provision for the costs of making the shares available under the terms of the trust, and is spreading the cost of doing this over the period leading up to the date at which the directors estimate the awards will be made. Details of the charge for the current and preceding years are shown in note 6.

26. Related Party Transactions

The following related party transaction took place during the year:

Settlement of outstanding loan notes:

As discussed in note 18, during 2002 the Company settled the loan notes which had been outstanding, and replaced these with a new commercial loan facility.

Three of the Company's directors were loan note holders, along with one of the director's spouse. In addition, a number of the Group's major shareholders also received final settlements in respect of their indebtedness. The final repayments made to each are set out below:

Notes *(continued)*

26. Related Party Transactions *(continued)*

	Loan capital £000	Accrued interest * £000	Total payment £000
Barclays Industrial Development Limited	9,993	1,756	11,749
Barclays Private Equity PVLP Limited Partnership	9,993	1,756	11,749
Brockbank Underwriting Limited	3,270	575	3,845
Brockbank Syndicate Management Limited	18,532	2,608	21,140
H A Engelhardt	4,709	662	5,371
D G Stevens **	2,354	331	2,685
A C Probert	589	83	672
Others, including Admiral staff	1,533	174	1,707

* *Net of income tax deduction where payment is to an individual*
** *Includes repayments made to Mr Stevens' spouse*

The rate of interest accruing on the above loan notes was 6%. There are no further amounts due either to, or from, any directors, or to or from any of the Barclays entities at the end of 2002.

Furthermore, the deferred consideration which was payable as part of the Management Buyout deal was also settled as part of the same transaction. £15.7m was paid to Brockbank entities named above. No further amounts are due relating to the MBO.