ADMIRAL GROUP plc

Annual Report 2010

What we do:

Admiral Group is first and foremost a successful car insurer. Since launching in January 1993 we have grown every year and now have 2.75 million customers in five countries. We employ over 4,700 people in nine countries.

The Group's core market is the UK, with a 10% share of private car insurance through four brands; Admiral, Elephant, Diamond, and Bell. The Group also has car insurance businesses in Spain, Italy, France and the USA.

We also own Confused.com, one of the leading UK price comparison websites, and have similar businesses in Spain, France and Italy.

Why we are different:

Highly profitable
The Group has delivered year-on-year profit growth, reaching a record £266 million in 2010. Our Group combined ratio in 2010 was below 90%.

Fast growing
Five-year compound growth in turnover increased to 23% in 2010; year-on-year growth of 47%. We have increased customer numbers and revenue every year since launch.

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. We generate significant profits from insurance products underwritten outside the Group and generate high return on capital invested (59% in 2010).

Strongly cash generative
Admiral's 'capital-light' model enables it to return the majority of its profits to shareholders as dividends. The total dividend for 2010 was 18% higher than 2009 and represented 94% of post-tax earnings.

Contents:

Financial and operating highlights 2010

Profit before tax £265.5m 2009: £215.8m +23%	Return on capital 59% 2009: 54%
Earnings per share 72.3p 2009: 59.0p +23%	Turnover £1.58bn 2009: £1.08bn +47%
Full year dividend 68.1p 2009: 57.5p +18%	Net revenue £640.8m 2009: £507.5m +26%
UK Car Insurance profit £275.8m 2009: £206.9m +33%	Non-UK Car Insurance customers 195,000 2009: 121,000 +61%

- Strong growth in turnover, customer numbers, profits and dividend in 2010
- Three new businesses launched:
  - LeLynx.fr – French price comparison (January 2010)
  - Chiarezza.it – Italian price comparison (February 2010)
  - L'Olivier Assurances – French car insurance (December 2010)
- Number of Group employees grew by 26% to 4,740

Admiral Group – our markets

Admiral is one of the top three private car insurers in the UK with 10% of the market. The Group also owns Confused.com, one of the UK's leading price comparison websites (a distribution channel which accounts for over half of car insurance sales in the UK).

A key part of Group strategy is to exploit the knowledge, skills and resource in the established UK businesses to promote expansion overseas (in car insurance and price comparison).

Our progress to date:

France
LeLynx a price comparison website launched in January 2010

Our newest operation outside the UK is based in Paris. L'Olivier Assurances, a French car insurer started trading in December 2010

Italy
ConTe, our Italian car insurer launched in May 2008. It ended 2010 with over 86,000 customers, making it the largest Group business outside the UK

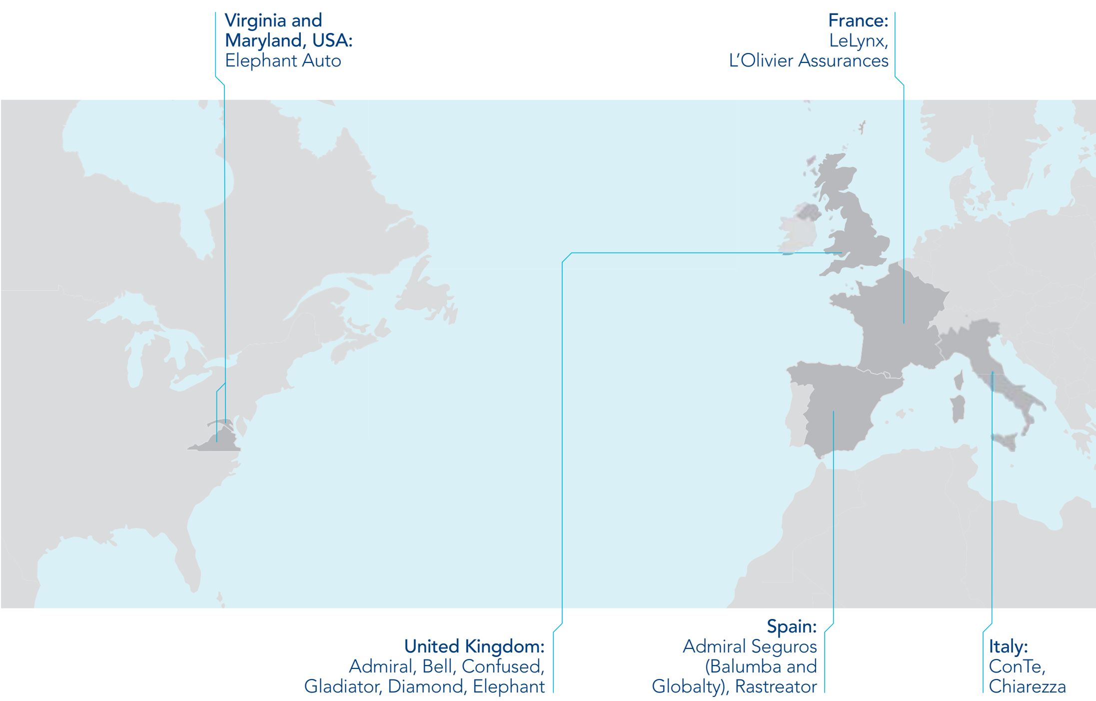
Chiarezza (Italian price comparison website) started trading February 2010

Spain
We launched our first business outside the UK in Spain in 2006. Balumba made its first full-year profit in 2010 and insured nearly 71,000 cars at the end of 2010. Balumba is now combined with our second Spanish car insurance brand, Globalty, to form Admiral Seguros España

Rastreator our Spanish price comparison website launched in March 2009

USA
The largest market we operate in is the USA (albeit only currently in Virginia and Maryland). Elephant Auto launched there in October 2009 and just completed its first full year

Where we operate



UK Car Insurance

Turnover	Combined ratio
£1,420m +51%	83.5%
2009: £939m	2009: 84.9%
Vehicles	**Pre-tax profit**
2.46m +32%	£275.8m +33%
2009: 1.86m	2009: £206.9m

- The Group's core business is UK private car insurance
- 2010 was a year of very strong growth in customers, premiums and profit
- Our estimated market share is now around 10%

Non-UK Car Insurance

Turnover	Vehicles
£78m +64%	195,000 +61%
2009: £47m	2009: 121,000
ConTe vehicle count	**Balumba operating profit**
86,500 +140%	£0.8m
2009: 35,500	2009: loss £1.3m

- The Group has four car insurers outside the UK
- Balumba (now part of Admiral Seguros along with Globalty), based in Spain made its first full year profit in 2010
- ConTe in Italy ended its second full year with 86,500 customers
- Elephant Auto in the USA completed its first full year of operation
- We launched L'Olivier Assurances in December 2010
- We exited the German car insurance market with the sale of AdmiralDirekt

Price Comparison

UK Highlights

UK revenue	Operating profit
£71.8m -10%	£16.9m -34%
2009: £80.1m	2009: £25.7m

Non-UK Highlights

Non-UK revenue	Rastreator quotes
£3.9m	1.3m +420%
2009: £0.4m	2009: 0.3m

- Confused.com endured a tough year in 2010, seeing revenue and profits fall
- Rastreator in Spain completed its first full year of operation in 2010, generating well over 1 million quotes
- LeLynx (France) and Chiarezza (Italy) launched in Q1 2010

Other Group activities

Highlights

Gladiator operating profit	Investment and interest income
£2.7m +13%	£9.5m +8%
2009: £2.4m	2009: £8.8m
Gladiator revenue	**Group cash plus investments**
£11.8m +11%	£910m +44%
2009: £10.6m	2009: £633m

- Gladiator grew revenue and profit despite high levels of competition in UK van insurance
- The Group is highly cash generative and has a cautious approach to investments

Chairman's statement

We will distribute 94% of 2010 post-tax earnings.

Alastair Lyons, CBE
Chairman

In my statement last year I reprised Admiral's strategy since becoming a public company in 2004, the first two elements 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

2010 was a year of marked progress against these strategic objectives. In turn this translated into strong growth in shareholder value, Admiral delivering a 33% Total Shareholder Return over the 12 months ending 31 December 2010. In accordance with our philosophy of giving all our staff a stake in what they create by making them shareholders, this excellent performance will mean employees will again realise the maximum award of £3,000 free shares in recognition of the achievement in full of the 2010 objectives within the Approved Free Share Scheme. Someone who has been employed since flotation now has the potential to hold 2,041 shares under this scheme worth £34,000.*

Our consistent strategy

- 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

* Based on the closing share price on 25 February 2011.

Big Weekend
Admiral has sponsored the Cardiff Big Weekend since 2004. Last year 260,000 people enjoyed the three day event.

Welsh Rugby
Admiral Group are delighted to sponsor the Welsh Rugby Union strip for the next three years.

In the UK, Admiral's strength in price comparison and significantly better than market average combined ratio again gave us the flexibility to achieve material growth in both market share and average premium. With a 32% growth in vehicle count during 2010 to some 2.5 million vehicles covered by Admiral brands we estimate that we are now one of the top three UK private motor insurers, holding around 10% of the UK market. UK Car Insurance profits rose 33% to £276 million.

Our expansion overseas also made considerable progress during 2010. Two days before Christmas saw the launch of L'Olivier, Admiral's new car insurance brand in France, following that of LeLynx.fr, our French price comparison business, early in 2010. We now have this complementary dual presence of motor insurer and price comparison website in 4 out of our 5 chosen markets. We have found that the price comparison launch helps stimulate growth in what are often immature price comparison markets to the benefit of the direct operation, while the direct operation provides a willing partner in markets where some players are resistant to the, in our view inevitable, emergence of price comparison.

Admiral's Non-UK Car Insurance turnover increased by 64% over 2009. ConTe in Italy advanced strongly, whilst in Spain, Balumba had 40% more customers by the year-end, despite difficult trading conditions. 2010 was our first full year in the US with Elephant Auto and, as such, was a year of building capability and learning how best to position ourselves in this new market. At the end of the year we announced the sale of our German insurance business, AdmiralDirekt. We have made no secret of the fact that we have found the German market the most difficult of those entered under our international expansion strategy and there was not, in our view, an early prospect of further investment delivering the required return for our shareholders.

The UK Price Comparison market continued intensely competitive during 2010 with very high levels of media activity from the four key players. Both turnover and profitability for Confused were consequently markedly down on 2009. In contrast, Rastreator, our aggregator in Spain, achieved very good growth in the year.

The strength of our advance in UK Car Insurance drove our Group result for 2010, pre-tax profits at £266 million being 23% ahead of the previous year. Admiral's capital-light business model, transferring a significant proportion of our underwriting risk to reinsurance partners, allows the majority of our earnings to be distributed as dividends. This year we will distribute 94% of post-tax earnings, our full year dividends amounting to 68.1 pence per share, 18% up on our declaration for 2009. Our normal dividend, growing in line with our growth in profits based on a 45% pay-out ratio, amounted to 32.4 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 35.7 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 £398 million, 52% of overall dividends.

We recognise that Admiral now represents a significant part of the communities in Wales where we are based. We identify closely with these communities and are delighted to sponsor the Welsh Rugby Union strip for the next three years. We continue to encourage our staff, wherever they are working, to play an active part in their local community and Admiral provides financial support to not-for-profit groups in which staff are involved. In 2010 we sponsored organisations and activities as diverse as the Alzheimer's Society Swansea, the National Theatre of Wales, and the Cardiff Mardi Gras.

Movember
Staff at Admiral's office in Halifax, Canada took part in the Movember fundraising event for prostate cancer. Colleagues in the UK operations also grew moustaches.

Swansea Bay 10k
Admiral has sponsored the Swansea Bay 10k road race for four years. 235 members of staff have taken part in the race, raising money for a variety of charities.

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. Every three years, of which 2010 was one such, this takes the form of an external review of our effectiveness. Whilst the overall conclusion was that the Board has continued to work very effectively in relation to most dimensions the review also identified clear areas of focus. In particular we recognise that several of our Non-Executive Directors are due to reach their maximum term in the next four years necessitating an effective process of succession planning leading to the recruitment of new directors with generous overlap to maintain continuity of knowledge and Board dynamics.

I am, therefore, delighted that Colin Holmes, until recently Tesco's UK Commercial Director for Fresh Foods and a member of Tesco's Group Executive Committee, has accepted our invitation to join the Board and provide succession to the role of Audit Chair when, in due course, Martin Jackson completes his three terms. Colin already has Non-Executive experience having been a member of the Board of Bovis Homes since 2006.

The review also underlined the importance of the Board increasing its exposure to senior managers across the Group in order to assist the Board's assessment of the bench strength available to support the broader executive succession planning and the Group's continued expansion. Whilst the straightforward nature of our business, being a monoline direct private motor insurer, means that Solvency II is less complex for Admiral than for more broadly-based competitors, we recognise the need to increase our depth in risk management to ensure that the models supporting Solvency II are appropriately embedded in our business.

I am often asked what is the principal reason for Admiral's success: the answer is a simple one – our people, embracing our Board, our executive team, our management, and our staff in all roles and across all geographies. It is they who develop the business models, have the creative intuition, and design and implement the processes that, when taken all together, engender success. To all our people my thanks on behalf of the Board for another very successful year.

Thank you!

Alastair Lyons, CBE
Chairman
1 March 2011

Performance

In this section:

Chief Executive's statement

For the seventh consecutive year, every year since we became a public company, Admiral Group has reported record profits and record turnover.

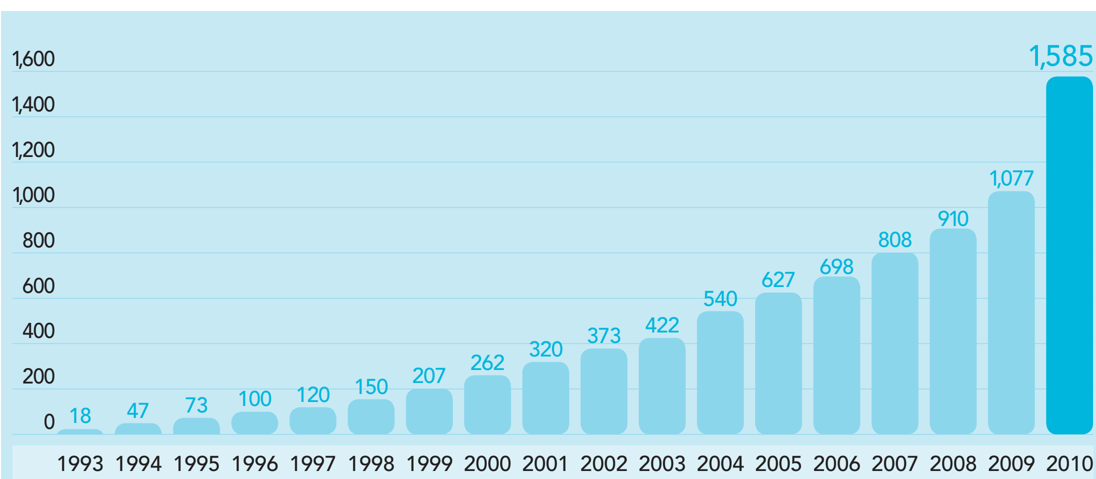
Henry Engelhardt, CBE
Chief Executive Officer

For the seventh consecutive year, every year since we became a public company, Admiral Group has reported record profits and record turnover. On the face of it I think most CEOs would be pleased with such results. Does it make sense to say that I am pleased, but far from satisfied? In my view, 2010 was a mixed year for the Group. There were some big triumphs but also some quite sobering moments and, in a lot of areas, it's too early to judge the quality of the work completed.

The big success was the UK motor insurance business. It's a snowball going like a freight train. Downhill. Wow!

Admiral Group has a core business that is fantastic and appears to be getting better. Trading conditions in the UK were more favourable than any time since 2000. And I'm pleased to say we were able to take full advantage. Big price hikes in the market pushed consumers to shop. We raised our rates some, but also took advantage of our combined ratio advantage in the market to gobble up market share.

Turnover growth £m





Launches in 2010
www.lolivier.fr – car insurance. www.chiarezza.it – price comparison. www.lelynx.fr – price comparison.

We are now home to about 10% of the UK private car insurance market by value. More details on this market and our performance are provided by David Stevens on the following pages.

Besides UK insurance there were other areas in the Group that did well, including:

- Growth and development of ConTe in Italy
- The continued growth of Rastreator, our price comparison business in Spain

However, there were also important businesses in the Group that underperformed or that ran into substantial challenges, including:

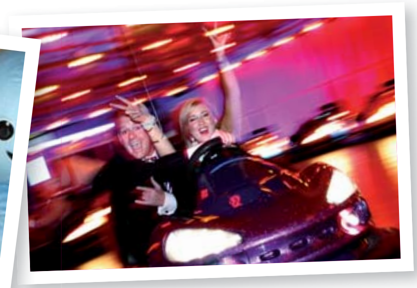
- AdmiralDirekt, our insurance operation in Germany, which we sold at the end of the year
- Slow growth of Elephant Auto in the USA
- Difficult trading conditions in Spain, which acted as a brake on the development of Balumba
- The fall in Confused's profits aligned with ongoing market share decline (Kevin Chidwick gives more details on this business later in this report)

Our other operations are all young and immature businesses that need to mature and improve.

The Board's decision to exit the German market after three years is a clear indication that 'young and immature' does not give even a new business carte blanche to underperform. So 2011 will be dedicated to improving our operations in Spain, Italy, the USA and France. There's no magic formula and success will definitely not be instantaneous, but our goal is to quickly put these businesses on a clear success trajectory. I'm pleased to say that I believe we have the right people in place to do this. I do believe that all of these operations will be successful, albeit, in time.

Already we are successful at exporting our award-winning culture. Our operations in Italy, Spain and the USA all gained entry to their respective country or area lists that measure employee satisfaction. It is a very good feeling to walk into an office, hundreds or even thousands of miles away from one's own, and know instantly it was cut from the same cloth. Now all we need to do is continue to grow ConTe profitably, get some price hikes in the Spanish market and generate cheaper quotes in greater volume in the USA!

2010 goes down as the Year of the Puppy Dog.



Children's party
Admiral staff enjoy dressing up to help entertain employee's children at the Christmas Party in Swansea.

Movie Madness
2,300 people attended Admiral's Movie Madness party at Cardiff International Arena in July and enjoyed funfair rides, movie-themed areas and entertainment from Madness.

Here are a few highlights from 2010

Overall:

- Record profits of £265.5 million
- 32% growth in customer numbers, from 2.08 million to 2.75 million
- Record turnover figure of £1.58 billion
- Record dividend declared, 35.5p/share
- 59% return on capital
- UK Children's Christmas Parties attendance tops 1,000!

balumba.es Seguros de coche

- 41% growth in customers, from 50,300 to 70,700
- First annual profit of £0.8 million, a change of £2.1 million from 2009

Chiarezza.it

- Did over 164,000 quotes from launch in February

ConTe.it ® Admiral Group plc UK

- 86,500 customers at year-end, up 144% from 2009
- Loss ratio after 12 months was 28 percentage points better in 2010 than 2009

Elephant Auto Insurance

- Gained licence and now trading in Maryland, as well as Virginia
- Loss ratio figures better than expectations

LeLynx.fr Comparateur d'assurance auto

- Did over 250,000 quotes from launch on January 18

Rastreator.com Tu Comparador de Seguros

- 420% growth in quotes in the year from 254,000 to 1,320,000

As you can see, on a lot of measures 2010 was a pretty good year. As you may remember (actually quite unlikely, so I'll remind you), 2009 was the Year of the Ox: a lot of hard-tilling of the insurance soil. I think 2010 goes down as the Year of the Puppy Dog. It was the Year of the Puppy Dog because when one looks at those highlights it looks like an incredibly cute, cuddly year with a lot of moments that you'll treasure forever. However, as with a puppy dog, sometimes it wee'd on the floor!

In sum, this is a good business and a good organisation. It will be better.

Time to say 'Thanks'. In particular I'd like to highlight the contribution of Andrew Probert, our former Finance Director, who, instead of being retired, was instrumental in achieving the sale of AdmiralDirekt. Finally, as one does, I've saved the best for last. Let me say 'Thanks!' to staff, partners and significant others, as those record profits and record turnover numbers didn't happen by themselves.

Henry Engelhardt, CBE
Chief Executive Officer
1 March 2011

Business review

In financial terms the Group enjoyed a very positive 2010, producing substantial top line growth, a significant rise in the number of customers and strong increases in pre-tax profit and dividends.

Group financial review

In financial terms the Group enjoyed a very positive 2010, producing substantial top line growth, a significant rise in the number of customers and strong increases in pre-tax profit and dividends. Three new businesses were launched in the year (two price comparison businesses – in France and Italy – plus a car insurer in France), while the decision was taken to exit the German car insurance market, with a deal to sell the AdmiralDirekt business concluded in early 2011.

Favourable conditions in the Group's core UK car insurance market were the main driver of a 47% increase in turnover to £1,585 million from £1,077 million. The UK Car Insurance business accounted for 90% of the 2010 total. The number of customers across the Group increased by almost one third to 2.75 million, and 2010 ended with over 195,000 vehicles insured outside the UK.

Pre-tax profit increased by 23% to £265.5 million, again strongly driven by UK Car Insurance where profits increased by one third to £275.8 million. Significant increases in earned premium and ancillary profits were the key contributors to the increase.

The Group's investment in young and new overseas businesses continued in 2010; total losses outside the UK (excluding pre-launch costs) amounting to £12.9 million, up from £10.3 million last year. Encouragingly, Balumba in Spain made its first full year profit (£0.8 million, after making a loss of £1.3 million in 2009). The Group operates seven businesses outside the UK – four car insurers (Balumba in Spain, ConTe in Italy, Elephant Auto in the USA and L'Olivier in France) and three price comparison websites (Rastreator in Spain, LeLynx in France and Chiarezza in Italy).

Confused had a tough year in the UK price comparison market, and saw revenue fall by 10% to £71.8 million and profit decline by 34% to £16.9 million.

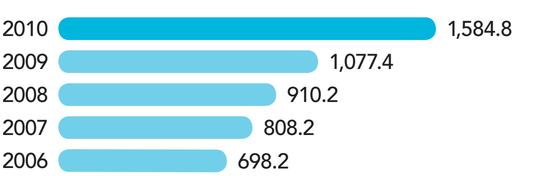
Other Group highlights include:

- Group combined ratio at 89%, improved from 92% in 2009
- Net revenue up 26% to £641 million

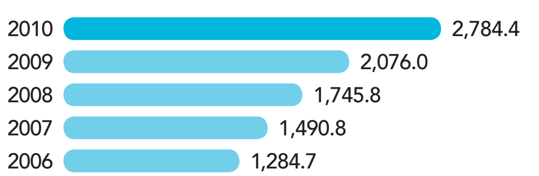
Total dividends for the 2010 financial year will amount to 68.1 pence per share (£183 million in total), up 18% on the previous year (57.5 pence; £153 million).

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

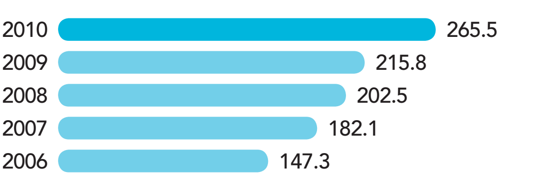
Group Turnover (£m) **£1,584.8m**



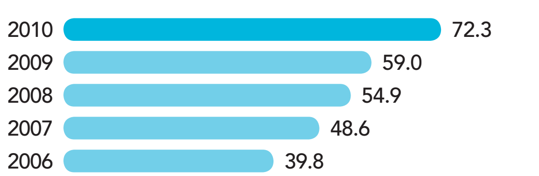
Group Customers (000s) **2,748.4**



Pre-Tax Profit (£m) **£265.5m**



Earnings per share (p) **72.3p**



Turnover comprises total premiums written and other revenue

90%

Our UK Car Insurance business represents 90% of our combined Group turnover in 2010.

UK Car Insurance

What we do

- The Group's core business is selling and underwriting private car insurance in the UK through four brands – Admiral, Bell, Diamond and Elephant
- Our policies are distributed through price comparison websites and direct channels (our own websites and the telephone)
- We estimate that we account for around 10% of the UK market in value terms, insuring 2.5 million cars at the end of 2010. Total UK premium in 2010 was over £1.2 billion
- Our main operations are in Cardiff, Swansea and Newport in South Wales, and we also service our customers from call centres in Halifax, Nova Scotia, Canada and Bangalore, India

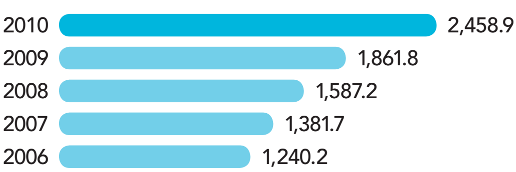
UK Car Insurance strategy

The strategy for our UK business is unchanged and remains relatively simple:

- We aim to manage our existing customer 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 in which our staff can work and develop

UK Car Insurance vehicle numbers (000s)

2,459



- Five year compound growth now at 19%, year-on-year growth at 32%
- Strong growth is a result of concentration on the price comparison distribution channel, effective pricing discipline and innovative products

UK Car Insurance combined ratios (%)

83.5%

- 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 (£)

£77

- Significant profit generated from non-underwriting activities – 36% increase in 2010 results from significant increase in vehicles and modest increase in income per vehicle
- Track record of maintaining ancillary income per vehicle – ancillary profits generally increase in line with vehicle growth
- Continual development of products and services in response to changing customer needs and industry trends

(We include KPIs on staff and customers in the Corporate Responsibility section later in the Business Review)

3,500+
Admiral's core UK Car Insurance business employs over 3,500 people in South Wales, Halifax, Nova Scotia, Canada and Bangalore, India.

UK Car Insurance

Non-GAAP*1 format income statement

£m	2008	2009	2010
Turnover*2	804.8	939.1	1,419.7
Total premiums written*3	690.2	804.7	1,237.6
Net insurance premium revenue	161.9	199.1	269.4
Investment income	17.1	7.5	8.3
Net insurance claims	(105.1)	(138.7)	(192.6)
Net insurance expenses	(26.0)	(30.3)	(32.4)
Underwriting profit	47.9	37.6	52.7
Profit commission	34.7	54.2	67.0
Net ancillary income	89.0	106.3	142.4
Other revenue	8.3	8.8	13.7
UK Car Insurance profit before tax	**179.9**	**206.9**	**275.8**

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

Key performance indicators

	2008	2009	2010
Reported loss ratio	62.0%	66.9%	68.3%
Reported expense ratio	19.0%	18.0%	15.2%
Reported combined ratio	81.0%	84.9%	83.5%
Written basis expense ratio	17.0%	16.9%	14.4%
Claims reserve releases	£38.0m	£31.3m	£23.5m
Releases as % of net premium	23.5%	15.7%	8.7%
Profit commission as % of net premium	21.4%	27.2%	24.9%
Vehicles insured at year-end	1.59m	1.86m	2.46m
Ancillary income per vehicle	£70.7	£72.0	£77.0

UK Car Insurance – Co-insurance and Reinsurance

One of the key features of Admiral's business model (in and outside the UK) is significant use of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either though co-insurance or reinsurance contracts. All contracts include profit commission arrangements which allow Admiral to retain a significant portion of the profit generated.

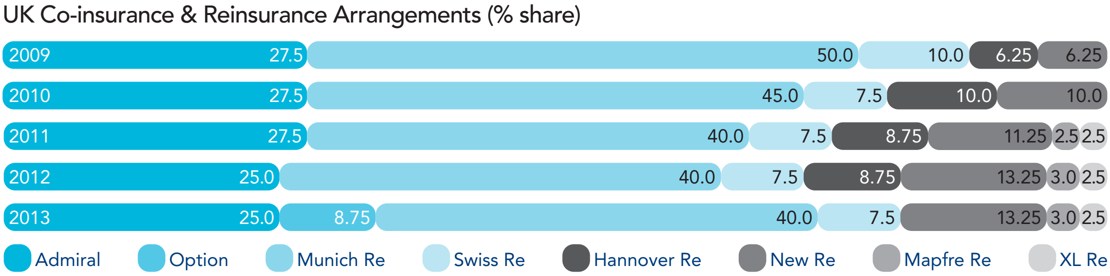
The two principal advantages of the arrangements are:

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

In 2010, Admiral underwrote a net 27.5% of UK premiums (in line with 2009 and 2008). 45% of the 2010 UK total is underwritten by the Munich Re Group (specifically Great Lakes Reinsurance (UK) Plc) through a long-term co-insurance agreement, with a further 27.5% being proportionally reinsured to Hannover Re (10.0%), New Re (10.0%) and Swiss Re (7.5%).

The nature of the co-insurance is such that 45% of all motor premium and claims for the 2010 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.

UK Co-insurance & Reinsurance Arrangements (% share)



Top 10 Departments
Swansea New Business department scooped the award for best department to work for at Admiral's own Top 10 Departments awards.

Ministry of Fun
Staff celebrate Elvis' birthday as part of a Ministry of Fun activity.

New arrangements for 2011 and beyond

During 2010, the Group signed new contracts to come into force in 2011 with two new quota share partners. Mapfre Re and XL Re will both underwrite 2.5% of the UK business in 2011. The remainder is split: Admiral's net share at 27.5%; Great Lakes (co-insurance) 40.0%; New Re 11.25%; Hannover Re 8.75% and Swiss Re 7.5%.

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

The European and USA arrangements are explained in the Non-UK Car Insurance section on page 16.

UK Car Insurance Financial Performance

Commentary on UK market conditions is included in David Stevens' Review (see page 15).

Total premiums written in the UK increased by 54% to £1,237.6 million (2009: £804.7 million), whilst the number of vehicles insured at year-end rose by 32% to 2.46 million (2009: 1.86 million).

Admiral's premium rates rose, on average, by just over 25% during the year, whilst the average premium for transacted business increased by around 16% year-on-year (the difference in percentages reflecting the timing of rate rises over the course of the year). Our estimation is that our price rises lagged those in the market, the resultant increase in our competitiveness, combined with the continued growth of price comparison contributing to the significant growth in vehicles insured in 2010.

The 2010 loss ratio, before the impact of reserve releases is 77%, an improvement on the 83% reported in 2009. The reduction is predominantly a result of the positive impact of price rises on premiums earned in the year. The price changes in 2010 should continue to benefit the loss ratio in 2011.

Reserve releases in 2010 equated to 9% of net UK premium revenue (£23.5 million), down from 16% (£31.3 million) in 2009. The reduction reflects the recent shift in contribution between releases and profit commission in respect of business written in prior periods (refer to the claims reserving note below).

After taking the lower level of releases into account, the 2010 loss ratio was 68.3% compared to 66.9% for 2009.

Claims reserving

Admiral's policy is initially to reserve conservatively, above independent and internal projections of ultimate loss ratios. 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.

As profit commission income is recognised in the income statement in line with loss ratios accounted for on our own claims reserves, the reserving policy means that profit commission income is also deferred and released over time.

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. In recent periods the contribution to the total margin deriving from profit commission has increased significantly.

The 2010 expense ratio of 15.2% showed a notable improvement on the 18.0% reported in 2009. This was partly due to increases in average premiums, but also reflects continued efficiencies in operations as the business grows. Admiral's UK expense ratio is approximately half the market average.

The combined ratio in 2010 was 83.5%, marginally better than the 84.9% for 2009. The improvement in expense ratio was in part offset by the slight worsening in the reported loss ratio. The latest market information available for 2009 shows a total combined ratio of 123% (Admiral's advantage over this figure being spread relatively evenly between the loss and expense ratio elements).

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

Dress up
Swansea Renewals staff enjoy dressing up as part of a competition to win a trip to New York.

Including investment income of £8.3 million (2009: £7.5 million), underwriting profit in 2010 rose significantly to £52.7 million from £37.6 million in 2009. Of this increase, around £10 million relates to higher net insurance premium revenue, with the majority of the remaining £5 million derived from the improved combined ratio. Investment income is discussed further below.

Profit commission income from co-insurance and reinsurance partners grew strongly in 2010, to £67.0 million from £54.2 million in 2009 (an increase of 24%). This equated to around 25% of net insurance premium revenue, largely in line with 2009.

Strong growth in customer numbers translated into a significant increase in ancillary profit in 2010. Net ancillary contribution (after overhead cost allocation), increased by 34% to £142.4 million (2009: £106.3 million). The increase was ahead of vehicle count growth due to an increase in the contribution earned per vehicle (£77 v £72 in 2009). Note that whilst the year-end vehicle count rose by 32% in 2010, the average number of vehicles insured (on which the income per vehicle KPI is measured) increased by 24%.

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 significant) income from other products unconnected to car insurance.

We classify ancillary contribution in three categories:

- Compulsory products – 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

Overall, the high level of growth and continued strong performance across the Group's core business led to a one third increase in pre-tax profits to £275.8 million (2009: £206.9 million).

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 surpluses above those required levels throughout the year.

Solvency II

The Group's two EU insurance companies (AICL and AIGL) will be subject to the regulations of Solvency II – the EU's new regulatory regime for insurers which comes into force in 2013. The Group's Solvency II Implementation Committee (chaired by the Chief Financial Officer) continued to work towards ensuring the Group is ready to comply with the new rules in advance of January 2013, and during 2010 focused primarily on the following areas:

- Participating in Quantitative Impact Study (QIS) 5 on the proposed new solvency requirement rules
- Developing and documenting the risk management and governance framework across the Group
- Applying to join the FSA's Internal Model pre-application process
- Boosting the level of resource working on the project

David Stevens, Admiral Group Chief Operating Officer, reports on the UK car insurance market.

UK Car Insurance market review

David Stevens, CBE
Chief Operating Officer

I am told that in surfing slang, a 'double-up' occurs when two waves combine to create an extra powerful wave. In 2010, Admiral enjoyed a 'pumpin' double-up', a high adrenalin combination of continued rapid growth in sales via price comparison and a dramatic hike in car insurance prices.

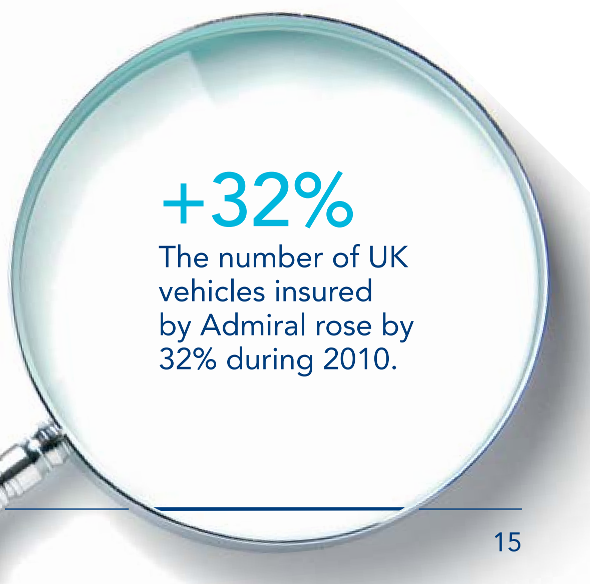
The ghastliness of the market results on 2009 (at 123% combined), the exhaustion of material reserve cushions for most players and the lack of investment income led some smaller competitors to exit and most bigger ones to increase rates dramatically during 2010. HSBC closed down their largely broker business with a valedictory combined ratio of over 200%, and RBSI finally put their broker-distributed book of private motor out of its misery with the withdrawal of NIG. The pain wasn't limited to broker-sourced business. Quinn, the higher premium direct specialist, went into administration in March. More importantly, the bigger players concluded enough was enough and pushed through a series of rate increases. Overall new business prices rose by well over 30%, and some segments, notably younger drivers, saw increases of over 50%.

Our challenge throughout the year was to handle the resulting flood of new business that came our way, despite our own rapid, if slightly lagging, price increases. Our own rates rose by just over 25% across new business and renewals during the year.

The number of vehicles insured by Admiral rose by 32% during 2010. That sort of growth carries risks in any business, but particularly in an insurance business. Admiral employed 800 more people at the end of the year than at the beginning (itself a joy in these difficult economic times). By year end, over a third of our staff had been with us for less than a year. It is a tribute to the quality and enthusiasm of our managers, from team managers upwards, and of those new recruits, that the business has coped so well with this very substantial increase in its size. An increase in our customer retention ratios, despite the substantial year-on-year rate increases, and a further reduction in the average time taken to settle a claim are two examples of the measures that reassure us that these new staff are reinforcing, and not diluting, our success. Another source of reassurance is that we gained our highest ever rank in the Sunday Times Best Companies to Work For 2011 survey. We came ninth, up from sixteenth in 2010.

The rapid growth of the business in 2010 fed through to the bottom line. There's a strong link between customer numbers and ancillary revenues, so a record number of policyholders led to our highest ever level of ancillary income (£142 million). Higher volumes and higher average premium per policy (+8% on an earned basis, +16% on a written basis) helped us to our lowest ever expense ratio, and to a record underwriting profit of £53 million. The time lag between our increases in average written premiums translating into higher average earned premiums, and our conservative approach to early year reserving means that the profit impact of an improving claims ratio is yet to impact fully our reported profits.

Ultimately, waves always break – the rate of growth in price comparison sales will slow, the cycle will always turn. Some of our competitors will rely on the market-wide cyclical turn to float them back to marginal, and probably temporary, profitability, but others may have used the shock of recent losses as a catalyst to reinvent themselves as leaner, cleverer competitors. Our own challenge will be twofold. Firstly, to be as efficient, as nimble and as pleasant a place to work while insuring one in every ten cars in the UK, as we were when we only insured one in every twenty. The second will be to spot the next wave a-coming and line up the board in preparation.



Non-UK locations
Admiral's Non-UK insurance businesses are based in Seville, Rome, Richmond and Paris.

Non-UK Car Insurance

What we do

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

- Balumba (Seville, Spain) is our most mature non-UK business, having enjoyed its fourth full year of trading in 2010. It finished the year with 71,000 customers and recorded its first full year profit in 2010
- ConTe (Rome, Italy) launched in May 2008 and finished 2010 with nearly 87,000 customers
- Elephant Auto (Richmond, Virginia, USA) started trading in October 2009
- L'Olivier (Paris, France) is the Group's newest business, having launched in December 2010

Non-UK Car Insurance strategy

An important element of Group strategy is to use existing expertise in UK car insurance and export this to overseas markets, aiming to create profitable, sustainable and growing businesses. We do not expect to do this quickly and 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.

Whilst there was good news in 2010 as Balumba recorded its first full year profit, the decision was also made to exit the German car insurance market. AdmiralDirekt, our German insurer which had been writing business since the start of 2008, was sold to a German mutual in early 2011. Further information is contained below.

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 five selected countries outside the UK (Spain, Germany, Italy, USA and France)	• Spain, Balumba, October 2006 • Germany, AdmiralDirekt, October 2007 – now sold • Italy, ConTe, May 2008 • USA, Elephant Auto, October 2009 • France – L'Olivier, December 2010
2) Develop each new operation into a profitable, sustainable business	• All businesses remain in early stages • Balumba has recorded its first full year profit • ConTe is our largest business outside the UK with 86,500 customers • AdmiralDirekt was sold in January 2011
3) Minimise where possible the financial impact on the Group	• 65% reinsurance support in place in Europe (except France, 70%) • Elephant Auto 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 • The Directors will not persevere in markets where there is no strong probability of success

195,000+

Total number of non-UK vehicles insured at the end of 2010, (2009: 121,000).

Non-UK Car Insurance Financial Performance

Non-GAAP format income statement

£m	2008	2009	2010
Turnover	29.7	47.2	77.6
Total premiums written	26.0	43.0	71.0
Net insurance premium revenue	7.9	12.8	18.7
Investment income	0.7	0.2	0.1
Net insurance claims	(9.5)	(13.0)	(15.9)
Net insurance expenses	(6.2)	(13.0)	(16.5)
Underwriting result	**(7.1)**	**(13.0)**	**(13.6)**
Net ancillary income	2.8	3.3	5.3
Other revenue and charges	0.2	0.2	0.3
Non-UK Car Insurance result	**(4.1)**	**(9.5)**	**(8.0)**

Note – Pre-launch costs excluded

Key Performance Indicators

2010	Balumba	Admiral Direkt	ConTe	Elephant Auto	Total
Total premiums (£m)	23.6	13.5	30.5	3.4	71.0
Vehicles insured	70,700	32,100	86,500	5,700	195,000
Result (£m)	0.8	(3.2)	(2.6)	(3.0)	(8.0)
2009					
Total premiums (£m)	17.8	14.0	11.1	0.1	43.0
Vehicles insured	50,300	35,000	35,500	200	121,000
Result (£m)	(1.3)	(5.2)	(2.4)	(0.6)	(9.5)

Non-UK Co-insurance and Reinsurance

Significant use of reinsurance is also a feature of the Group's insurance operations outside the UK.

The arrangements in Europe are generally similar and involve Admiral retaining 35% of the risks, the majority share of 65% being underwritten by Munich Re. The exception is France, where Admiral retains a net 30%, with 70% reinsured among three reinsurers.

Following the sale of AdmiralDirekt in early 2011, all premium written and earned in 2011 in Germany is 100% reinsured to the acquiring company, Itzehoer. The only risk retained by the Group relates to the development of open claims on accidents prior to 1 January 2011. The total exposure is not material.

In the USA, Admiral's insurer retains one third of the underwriting, with the remaining two thirds shared between two reinsurers. Both 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, France and the USA include proportional sharing of ancillary profits.

Non-UK Car Insurance Financial Performance

Total premium written outside the UK rose to £71.0 million in 2010 from £43.0 million in 2009 (+ 65%). The number of vehicles insured also continued to rise strongly, moving to 195,000, 61% higher than the 121,000 at the end of 2009. Non-UK vehicles now account for 7% of the Group's total customer base.

In performance terms, 2010 was a mixed year outside the UK. Balumba, the Group's most mature operation completed its fourth full year of trading and recorded its first full year profit of £0.8 million. Whilst the headline result is positive, the combined ratio for 2010 remained around 150%, meaning Balumba still has work to do.

650+
At the end of 2010, Admiral's Non-UK Car Insurance businesses employed over 650 people.

There was further positive news with the on-time, under-budget launch of L'Olivier, the Group's French car insurer, in Paris in December. As with other launches, business volumes will be small for some time whilst different marketing approaches are tested and pricing is calibrated. ConTe in Italy also had a positive year, growing its customer base by over 140% and showing encouraging signs of becoming a sustainable business in the short-term.

Elephant Auto in the US, which completed its first full year of operation in 2010, generated a lower than anticipated level of quote volumes at reasonable cost, and ended the year with only 5,700 vehicles insured. The low level of premium that followed resulted in a very high expense ratio (though the loss ratio is encouraging, albeit on small volumes).

The decision was taken in 2010 to sell our German insurer, AdmiralDirekt which had starting writing business in January 2008. The German market posed a number of challenges for the Group, including conservative customers, a small number of dominant and successful incumbents and an operationally challenging 'busy season' leading up to 1 January renewals. The Board therefore concluded that the chances of creating a sustainable business in the foreseeable future were not high.

In aggregate, our Non-UK Car Insurance businesses made losses of £8.0 million in 2010, down from £9.5 million in 2009. In context, the 2010 loss is less than 3% of UK Car Insurance profits. Each business is considered in more detail below.

Balumba

Balumba grew the number of vehicles it insures by over 40% in 2010, closing the year with nearly 71,000 customers (its highest ever level). However, conditions in the Spanish market were tough given the state of the Spanish economy, with very low levels of new or used car sales, very little movement in premium rates and no growth in the market share of direct insurers. Excluding the impact of currency movement, total premium written increased by around 30% to £24 million. Balumba's rates were broadly unchanged over 2010 as a whole.

Balumba's focus on improving the loss ratio continues to yield positive results, with much more satisfactory loss ratio experience in the most recent periods. See Fig. 1.

On an earned basis, the loss ratio for 2010 was 92%, down from 100% in 2009.

Despite growing by 40% in volume terms, a focus on cost control led to Balumba's operating expenses falling in 2010, and this led to an improvement in the expense ratio.

Taking the loss and expense ratios together, the combined ratio on a reported basis improved to 148% from 163% last year. Despite the better outcome, the combined ratio is still materially ahead of where it needs to be and Balumba management continue to focus on its improvement.

The positive contribution from ancillaries to Balumba's result continued in 2010, with in excess of €75 in contribution generated per policy sold and renewed. This was modestly higher than in 2009, and in total led to Balumba making a profit for the year of £0.8 million.

Fig. 1.

Balumba – loss ratio development

	Underwriting year			
	2007	2008	2009	2010
After 12 months	137%	102%	83%	87%
After 24 months	135%	109%	89%	–
After 36 months	133%	111%	–	–
After 48 months	133%	–	–	–

Christmas carols
The team at Admiral Seguros celebrate Christmas with some carol-singing 'Feliz Navidad!'

11th best workplace in Italy
Admiral Group's Italian direct insurance brand, ConTe is named the 11th best workplace in Italy.

AdmiralDirekt

For reasons noted above, AdmiralDirekt was sold to a German insurer (Itzehoer Versicherungen) in a deal that concluded in early January 2011.

The transaction involved a sale of the trade and certain assets of the business; the consideration for which was not materially different to the carrying value of the assets in the balance sheet at the year-end.

The sale also involved signing a new reinsurance arrangement with Itzehoer, resulting in all premium earned from 1 January 2011 onwards being fully reinsured to Itzehoer. All expenses incurred from January 2011 onwards are also borne by the buyer. The only remaining economic exposure the Group has in Germany is the development of claims relating to accidents prior to 1 January 2011. At the balance sheet date, net reserves for these claims totalled only £1 million.

AdmiralDirekt's result for 2010 was a loss of around £3 million, notably better than the £5 million loss in 2009. The combined ratio was over 50 percentage points better in 2010 (183% v 238%), with the improvement being spread over the loss and expense ratios. Earned premium was broadly flat at £4 million across 2009 and 2010.

There should be no material impact to the Group's income statement relating to the AdmiralDirekt business in the future.

ConTe

Market conditions in Italy were positive for ConTe in 2010, with significant increases in premium rates in the market being a catalyst for strong growth. ConTe's customer base increased from 35,500 at the start of the year to over 86,500 at the end. Total premiums (excluding currency impacts) increased by over 150% to £30 million. ConTe's base premium rates increased relatively significantly during the year, by around 16% on average across new business and renewals.

This strong growth was accompanied by a positive loss ratio outcome on the 2010 underwriting year, which was at 70% after 12 months, compared to 98% for the 2009 year. The 2010 ratio includes a significant allowance for incurred but not reported (IBNR) claims. See Fig. 2.

On an earned basis, the 2010 loss ratio improved to 84% from 98% in 2009.

Operating costs were a key area of focus in ConTe, and expense ratios are developing positively as the business grows. On a written basis, the expense ratio in 2010 improved to 45% (from 80%) whilst on an earned basis the improvement was to 70% from 145%.

After net ancillary contribution of around £1 million, ConTe made a loss of £2.6 million in 2010, broadly in line with 2009, but on substantially higher earned premium (£6.7 million v £1.9 million).

Fig. 2.

ConTe – loss ratio development

	Underwriting year		
	2008	2009	2010
After 12 months	87%	98%	70%
After 24 months	105%	103%	–
After 36 months	119%	–	–

Paris Launch
The L'Olivier team celebrate their launch, Christmas 2010.

Elephant Auto

Elephant completed its first full year of operation in 2010, having launched in October 2009. Although still early days for the business, volumes (in quote and sales terms) were below expectation and full year premium only totalled around £4 million. Elephant insured around 5,700 cars at the end of the year.

One of the key positive features of the first year's performance was the loss ratio, which (excluding loss adjustment costs) despite being on gross earned premium of only around £2.4 million, finished the year at around 60% including IBNR.

Elephant is currently focusing on its marketing activity in order to generate higher volumes at an acceptable acquisition cost. Having only operated in Virginia in 2010, Elephant also started selling in adjacent Maryland in early 2011 to improve the efficiency of its advertising.

In 2010, Elephant made a loss of around £3 million.

L'Olivier Assurances

The Group's new French car insurer launched in Paris late in 2010. The short-term strategy will be based on test and learn and volumes are not expected to be significant for some time. Pre-launch costs were well below £1 million.

The approach taken in the French market is different to other launches in the sense that much of the operational side of the business is outsourced to a specialist external company. This means far greater certainty over expenses and should result in a lower combined ratio in the early stages of the business's development.

The Group's new French car insurer launched in Paris in late 2010.

Price Comparison

Hot 'dogs'
Confused.com celebrates launch of pet insurance with hot dogs for all staff.

What we do

In the UK

- 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 one of the UK's leading car and home insurance comparison websites

In Europe

We have three price comparison businesses operating outside the UK:

- In Spain, Rastreator (launched in 2009) offers comparison on motor, home, motorcycle and life insurance
- LeLynx in France (launched January 2010) offers comparison on a similar range of products
- Chiarezza in Italy (launched February 2010) currently offers comparison on motor insurance only

Price Comparison Strategy

UK

- 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

Europe

- A key part of the Group's overall strategy is to exploit its UK expertise in insurance and price comparison and expand this overseas
- To date we have targeted three markets (Spain, France, Italy), and we now have comparison websites (alongside car insurers) operational in these markets

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

Launch in France
Admiral's second Non-UK Price Comparison site LeLynx launches in France on 18 January 2010.

...and in Italy too
Chiarezza, Admiral's Italian Price Comparison site launches shortly afterwards in February 2010.

Price Comparison Financial Performance

Non-GAAP format income statement

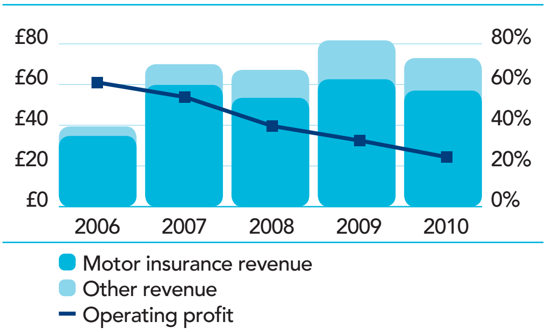
£m	2008	2009	2010
Revenue:			
Motor	52.9	62.2	59.6
Other	13.2	18.3	16.1
Total	66.1	80.5	75.7
Operating expenses	(40.5)	(55.6)	(63.6)
Operating profit	**25.6**	**24.9**	**12.1**
Confused.com profit	25.6	25.7	16.9
Non-UK Price Comparison loss	–	(0.8)	(4.8)
	25.6	**24.9**	**12.1**

UK Price Comparison – Confused.com

In 2010, Confused endured its toughest year since launch, recording falls in market share, revenue and operating profit. UK price comparison remains a fiercely competitive market, with substantial amounts spent on advertising by the four main incumbents. Chief Financial Officer Kevin Chidwick, who has Board responsibility for Confused, comments further on the market and Confused's position within it in his review (see opposite).

Revenue at Confused fell by around 10% to £71.8 million (2009: £80.1 million). The key cause was a disappointing media campaign during the year which led to falls in market share in motor and home insurance comparison. Revenue from products other than motor insurance totalled £15.9 million (2009: £18.3 million), 22% of the total (2009: 23%).

Confused revenue (£m) and profit (%)



Operating expenses were broadly flat at just under £55 million, meaning Confused delivered an operating profit of £16.9 million, one third lower than 2009's result. As a consequence of flat expenses and falling revenue, the operating margin percentage fell to 23.5% from 32.0%.

Non-UK Price Comparison

Rastreator

Having launched in March 2009, Rastreator completed its first full year of operation in 2009. Revenue totalled £3.3 million, and the loss of £1.0 million represented an encouraging result after just 22 months in business.

Rastreator increased the range of products on which it offers comparison during 2010, and now provides quotes on motor, motorcycle, home and life insurance. Motor insurance leads account for over 90% of Rastreator's total revenue.

LeLynx & Chiarezza

Having traded for less than a full year at the end of 2010, figures for these two new operations are not yet significant. Combined revenue was around £0.6 million, and the two businesses made an aggregate loss of £3.8 million as they developed market presence through advertising. Further detail will be provided as the businesses become more significant.

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 UK companies, with the UK insurance intermediary permission passported into Europe.

Confused.com review

Kevin Chidwick, Admiral Group Chief Financial Officer, answers some frequently asked questions about our UK Price Comparison business.

Kevin Chidwick,
Chief Financial Officer

Q: How did Confused do in 2010?

Confused had a tough time in 2010. The main story of the year was the success of our competitors' TV campaigns and the disappointing results from our own. The meerkat (Compare the Market) and the opera singer (Go Compare) both delivered well for their respective companies, whilst at the same time we rolled out arguably our least successful TV campaign since Confused began. We pulled the campaign in the middle of the year once the results became apparent, but by then the damage had been done. Towards the end of the year a new advertising campaign was working better and we enter 2011 in better shape than we were at this time last year.

Less than 10 years ago, Confused pretty much created the car insurance price comparison market and so it was inevitable that its very high market share (and margins) would be reduced as new players came in. And indeed, this is what has happened in the last couple of years. But it is a source of disappointment that we lost as much share as we did and we have to hold our hands up and concede that at least some of that was of our own making.

Profits fell from £25.7 million in 2009 to £16.9 million in 2010. Margins declined as it became more expensive to get customers and we saw our market share of car insurance price comparison drop from 27% to 23% during the course of the year.

Q: Is Confused still losing market share?

Towards the end of the year it appeared that Confused's share of car insurance sales was holding steady. It is not rising, but it has at least stopped falling. But price comparison customers are demanding and can switch between price comparison sites easily, so it is a hard battle to hold on to or to win customers. The quality and appeal of our advertising is important, but in the long term it is more important that we consistently deliver a product which gives customers a compelling reason to use Confused. That comes from providing a comparison service that gives customers a comprehensive range of very competitive prices for the products they want to compare. And it is also about providing a customer experience that is straightforward, quick, and easy to use.

We are very focused on the quality of the customer experience with the Confused website. We have a number of initiatives in place to improve that process and we hope our customers will notice the difference. We are also actively working on improving the competitiveness of the prices our customers see when they get their quotes and also the breadth of providers on the panels.

Q: How are non-car insurance products performing for Confused?

The revenue from products other than car insurance is typically around 20-25% of Confused's total income, and they remain pretty stable at this level. The main contributors are home insurance, other insurance lines and energy products.

Q: How is the new marketing campaign doing?

It is early days, but so far so good. We are encouraged by the results since the new Confused advertising campaign launched at the end of last year, but it is still too early to say whether it will be truly successful or not.

It is fair to say that 2010 has been a tough year for Confused. But the business remains profitable with good margins and a significant position in its market. It provides a great service for millions of customers every year and is a well known and well liked brand. It is an important part of the Admiral Group and has, I believe, with good management and some luck, a great future.

Other Group items

£m	2008	2009	2010
Gladiator operating profit	2.8	2.4	2.7
Group net interest income	6.6	1.1	1.1
Share scheme charges	(5.9)	(9.2)	(15.0)
Expansion costs	(0.8)	(2.0)	(1.1)
Other central overhead	(1.6)	(1.7)	(2.1)

Gladiator

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

Non-GAAP income statement and key performance indicators

£m	2008	2009	2010
Revenue	9.5	10.6	11.8
Expenses	(6.7)	(8.2)	(9.1)
Operating profit	**2.8**	**2.4**	**2.7**
Operating margin	29%	23%	23%
Customer numbers	84,900	93,400	94,500

Gladiator's customer base remained broadly flat over the course of 2010 as the van insurance market remained very competitive. The business was, however, able to increase the amount of revenue earned from each relationship.

Operating profit consequently increased to £2.7 million from £2.4 million, whilst the operating margin percentage was flat at 23%.

Share scheme charges

The charge in the income statement related to the Group's two share schemes increased to £15.0 million from £9.2 million for two key reasons:

- Higher share price at award: The weighted average share price for shares awarded in 2010 was £13.90 compared to £9.90 in 2009 (+40%)
- Higher number of shares awarded: In 2010, a total of 2.4 million shares were awarded under the Group's schemes – 10% higher than in 2009, reflecting growth in Group headcount

Investments and Cash

Investment strategy

Once again, there was no change in investment strategy, and the Group's funds were held either in money market funds, term deposits or as cash at bank.

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

Cash and investments analysis

	31 December 2010				
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Total £m
Money market funds	333.8	29.8	–	–	363.6
Long-term cash deposits	283.0	6.6	–	10.0	299.6
Cash	90.6	40.3	11.2	104.6	246.7
Total	**707.5**	**76.7**	**11.2**	**114.6**	**909.9**

	31 December 2009				
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Total £m
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	21.3	9.0	48.6	191.8
Total	**499.9**	**55.5**	**9.0**	**68.6**	**633.0**

The allocation of funds between the two main investment types (money market funds and term deposits) has remained relatively stable over the year and all investment objectives continue to be met.

Winter Wonderland
Admiral sponsors the open air ice rinks in both Cardiff and Swansea city centres. As part of the sponsorship, employees enjoy a free skating session.

Average balances held during 2010 were notably higher than 2009, mostly due to the significant increase in business written in the UK. Total investment and interest income rose to £9.5 million (from £8.8 million). The average rate of return on invested sterling funds (composing the vast majority of total balances) was just over 1% in 2010.

Around 67% of the funds are available without notice (2009: 68%), providing the Group with satisfactory levels of liquidity.

Strong cash generation continues to be a feature of the Group's businesses, enabling the distribution of the majority of post-tax profits.

£m	2008	2009	2010
Operating cash flow, before transfers to investments	251.5	286.4	522.0
Transfers to financial investments	(76.0)	(10.5)	(240.8)
Operating cash flow	175.5	275.9	281.2
Tax and interest payments	(56.9)	(49.1)	(69.5)
Investing cash flows (capital expenditure)	(11.3)	(11.8)	(11.1)
Financing cash flows (largely dividends)	(128.7)	(142.2)	(164.9)
Foreign currency translation impact	9.9	(5.3)	(0.8)
Net cash movement	**(11.5)**	**67.5**	**34.9**
Net increase in cash and financial investments	**63.8**	**77.8**	**276.9**

The significant increase in total cash plus investments reflects the substantial growth of the UK business in 2010.

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

£m	2008	2009	2010
Profit after tax	**144.9**	**156.9**	**193.6**
Change in net insurance liabilities	37.6	51.1	129.7
Net change in trade receivables and liabilities	(5.8)	(4.6)	101.4
Non-cash income statement items	17.2	24.1	25.4
Tax and net interest expense	57.6	58.9	71.9
Operating cash flow, before transfers to investments	**251.5**	**286.4**	**522.0**

The key features to note are:

- Profit after tax increased by 23%, whilst operating cash inflow (before movements into investments) increased by 82%
- Operating cash flow is significantly higher than prior years due to the significant increase in the size of the UK Car Insurance business, coupled with the fact that quota share arrangements are now largely on a funds withheld basis, meaning the majority of reinsured premium cash remains within the Group

Safaricom Marathon
A group of eight Admiral employees took part in the Safaricom Marathon in Kenya. The run through a Kenyan wildlife reserve is organised by Tusk, the wildlife charity sponsored by elephant.co.uk

No Fit State
Jakko, a member of the No Fit State Circus performs at Admiral's offices as part of the Company's sponsorship of the alternative circus company.

Other financial items

Taxation
The taxation charge reported in the income statement is £71.9 million (2009: £58.9 million), which equates to 27.1% (2009: 27.3%) of profit before tax.

Earnings per share
Basic earnings per share rose by 23% to 72.3 pence from 59.0 pence. The change is in line with pre- and post-tax profit growth.

Dividends
The Directors have proposed a final dividend for 2010 of 35.5 pence per share. This payment is 19% higher than the second interim dividend for 2009 (29.8 pence) and brings the total dividend for 2010 to 68.1 pence (18% higher than the 57.5 pence paid out in relation to 2009).

The payment date is 10 June 2011, ex-dividend date 18 May 2011 and record date 20 May 2011.

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.

The Group's dividend policy is to make distributions after taking into account capital that is required to be held, a) for regulatory purposes; b) to fund expansion activities; and c) as a further prudent buffer against unforeseen events. This policy gives the Directors flexibility in managing the Group's capital.

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

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

At 31 January 2011, 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	10.1%
BlackRock	22,912,988	8.5%
AXA	10,535,465	3.9%
Fidelity	9,135,340	3.4%
Legal & General	8,083,216	3.0%
Morgan Stanley	7,984,063	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.

The Directors have proposed a final dividend for 2010 of 35.5 pence per share. This payment is 19% higher than the second interim dividend for 2009 (29.8 pence).

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

Principal risks and uncertainties

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

Risk	Description and Impact	Mitigation
1. UK Car Insurance – erosion of competitive advantage	Admiral has typically been able to produce an advantage over the UK market in combined ratio terms of around 30 percentage points. There is a risk that this advantage and/or the level of underwriting profit generated by Admiral could erode. A number of factors might contribute to this, including: a) Flat or falling average premiums as Admiral's portfolio trends 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 (for example due to legislation on gender discrimination) d) Adverse changes in claims costs or ability to handle claims Admiral has also been able to increase its market share significantly over recent years, and (to varying degrees) is dependent on the four main UK price comparison websites as an important source of new business and growth. The growth in this distribution channel could slow, cease or reverse, or Admiral could lose one or more of the websites as a source of leads. The impact on the business would be a less profitable UK Car Insurance result and lower return on capital employed.	Admiral's UK business has grown every year since the business was launched in the early 1990s, and has enjoyed regular outperformance against the market throughout that time. We now insure 10% of the UK market and our combined ratio advantage is at one of its highest levels. The Directors remain confident that the key strengths of the business which contribute to the outperformance (including 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. The Directors believe further growth is achievable in the short to medium term without significantly undermining Admiral's combined ratio advantage. Further growth could bring benefits such as economies of scale and additional data which are likely to be beneficial for pricing. The Group's ownership of Confused.com, one of the leading UK price comparison websites helps to mitigate the risk of over-reliance on this distribution channel. Admiral also contributes materially to the revenues of the other businesses and therefore it is not considered probable that a material source of new business would be lost.
2. UK and Non-UK Car Insurance – claims shocks	The Group is exposed to underwriting risk through its underwriting of motor insurance policies. There is a risk that claims costs could rise significantly above historic or expected levels, for a number of reasons including: a) Legislative changes (for example, periodic payment orders, Ogden discount rate changes) b) Weather-related catastrophe events (for example severe storm or flood) c) Very large, non-catastrophe individual claims d) Fraud or other changes in claimant behaviour	Many of the potential causes of claims shocks are outside the control of the Group and focus, therefore, is generally on how to prepare and react to the occurrence of such events. In the case of legislative changes impacting existing claims, the Group holds an appropriate and explicit buffer in reserves to cover significant changes. In the case of the Ogden discount rate which has the potential to be changed, the ultimate loss ratios projected by our independent actuaries include a buffer to allow for a reduction in the discount rate from 2.5% to 0.5%. We continue to hold an additional buffer in our reserves over and above these projected ultimate outcomes. For very large claims (catastrophe and otherwise) the Group purchases excess of loss reinsurance, which mitigates the loss to the selected deductible amount (typically around £5 million at the total claim level). The Group is mindful that many insurers have recently reported increases in bodily injury claims costs, potentially due to fraud. Whilst this has not been a marked feature of our portfolio, claims and other senior management track a wide range of key performance indicators to assess changes in trends, and resource continues to be strengthened in the claims fraud function.

Risk	Description and Impact	Mitigation
3. International expansion – risk of failure	The Group has launched eight new operations outside the UK in the past five years. AdmiralDirekt in Germany was sold in early 2011, but there is a continuing risk that one or more of the operations also fails to become a sustainable long-term business. The impact on the Group could be higher than planned losses (and potentially closure costs) and distraction of key management.	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 a new operation can 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. As demonstrated by the sale of AdmiralDirekt, the Directors are not prepared to let unprofitable businesses continue to generate losses where there is limited foreseeable chance of success.
4. 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's risk management framework leads to potential risks to ancillaries being identified and monitored, providing management time to respond appropriately to any such regulatory changes and minimise financial impacts where possible.
5. UK Price Comparison – effects of continued competition	Confused.com operates in a highly competitive UK market with four main businesses attempting to increase their market share through aggressive media activity. Confused suffered the effects of a poor media campaign in 2010, and experienced a fall in market share and profits. There is a risk that this trend continues in 2011 and beyond. The impact on the business would be reduced profitability in the future.	The Directors recognise that Confused's recent performance was disappointing and largely attribute this to the poor media campaign during 2010. In the UK market, the impact of a poor campaign is felt quickly in the form of lost market share and higher average cost per lead. Confused management continually analyse the success or otherwise of all media activity and will withdraw non-performing campaigns as soon as practicable. The Directors believe Confused is a fundamentally strong business and is well positioned to rebuild its 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.
6. Co-insurance and reinsurance arrangements	Admiral uses proportional co-insurance and reinsurance across its insurance businesses to reduce its own capital needs (and increase return on the capital it does hold) and to mitigate the cost and risk of establishing new operations. There is a risk that such support will not be available in the future if the results of either the UK business or (more realistically) one or more of the international operations are not satisfactory to the co- and/or reinsurers. The impact on the Group would be the need to raise additional capital to support underwriting. This could be in the form of equity (either reduced dividends or new equity) or debt. Return on capital would potentially be lower than current levels.	Admiral has enjoyed a long-term relationship with one of the world's strongest reinsurers, Munich Re, which has supported Admiral since 2000. The Group also has strong relationships with a number of other reinsurers, including Amlin, Hannover Re, Mapfre Re, New Re, Swiss Re and XL Re (avoiding reliance on a single partner). In the UK, co- and reinsurance arrangements have been agreed up to the end of 2013, including deals with new partners to the Group. Pricing on these deals was in line with existing arrangements. The long-term co-insurance agreement with Munich Re will remain in place (at 40% of the business) until at least the end of 2016. Outside the UK, there is no current evidence to suggest that partners will withdraw support when the opportunity becomes contractually available to them, and it is important to note that capital within the Non-UK businesses is materially lower than for the UK.

The Board also considers the following risks to be significant:

- Credit risk – default of reinsurer (discussed in note 17 to the financial statements)
- Credit risk – failure of banking or investment counterparty (also discussed in note 17)
- Operational risk – major fraud (considered to be relatively low impact and mitigated by a wide range of internal controls)

Governance

In this section:

Corporate Responsibility

Charity cycle ride
Staff from Gladiator ride from Swansea to Paris to support Charity MNDA.

Introduction

Throughout 2010 we continued to ensure that Corporate Responsibility (CR) is a part of everyone's role at Admiral.

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

- Employees
- Customers
- Charitable giving and Community
- Environment

Again in 2010 the Group won a number of awards supporting our commitment to CR and these are detailed in the following sections.

The Group corporate website (admiralgroup.co.uk) contains a copy of this report together with further information on some of the Group's key policies with respect to our employees, Health & Safety, and environmental reporting.

Employees

The people working at Admiral are our key asset. It is not something we just say but something we truly believe. 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. During 2010, as with every year since 1996 our UK employees have completed an anonymous 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.

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. This is a real exercise, and during 2010 management changes have been instigated after following up survey results.

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.

The survey results in the key areas measuring morale, association with Admiral and how employees feel Admiral treats its customers have stayed at very high levels for 2010. During 2010, the number of vehicles insured in the UK increased by 32% to 2.46 million. This led to some resource shortfalls in a number of areas during March, April and May 2010 with significant recruitment of staff taking place during the second half of the year. This led to scores on the whole being lower than the 2009 survey and something that remains high on the agenda of the senior management team for 2011.

85% of UK and Canadian employees completed the survey with 3,083 responses. See Fig. 1.

Fig. 1.

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

Admiral Group continued its fantastic run in The Sunday Times 100 Best Companies to Work For list with our highest ranking – ninth!

Admiral was again listed as one of The Sunday Times 100 Best Companies to Work For. This is the eleventh year since its first publication and we continue to be very proud to have been included in all 11 years. It provides confirmation that the efforts made to make Admiral a great place to work are real and not just words in a report.

In the 2011 list we were extremely pleased to be placed in ninth position – an excellent result for Admiral and everyone who works within the Group. See Fig. 2.

The organisers of the event 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 2011 and are based on questionnaires completed by UK employees, randomly selected by the organisers. For the 2011 results, surveyed during November 2010, 1,237 (2010: 1,100) employees provided responses – a response rate of 77% (2010: 75%) of those receiving the questionnaires.

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

The Board and senior managers are very pleased that the results continue to improve, especially in how staff feel about the Company, their personal growth within the Group, and how they feel about their pay and benefits compared to similar positions in other companies.

Employees are provided with a wide range of communication tools to assist in understanding 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). At this year's event speeches by Directors, Senior management and guest speakers were replaced by chat show style interviews hosted by ITV Wales presenter Frances Donovan. The SGM is the one occasion each year where all UK employees are brought together and in 2010 three separate SGMs took place on the one day as Newport was added to the list of venues.

Fig. 2.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	20011
Position	32	42	46	60	20	20	21	57	37	16	9

Fig. 3.

Survey Factor	2008	2009	2010	2011	2011 v 2010
Leadership	5.56	5.64	5.77	5.91	+2%
My Company	5.35	5.47	5.58	5.82	+4%
My Manager	5.64	5.69	5.74	5.85	+2%
Personal growth	5.12	5.10	5.17	5.41	+5%
My Team	5.80	5.79	5.86	5.94	+1%
Fair deal	3.86	4.03	4.32	4.57	+6%
Giving something back	4.70	4.81	4.99	5.12	+3%
Wellbeing	5.15	5.12	5.19	5.30	+2%

2010 saw the MDs of our four international car insurance brands take to the stage providing an overview of our overseas operations.

Share ownership is a key feature of the remuneration of employees. A full explanation of how both of the Group's share plans work is provided within the Remuneration Committee report. All UK employees are eligible to receive shares in the Group's Approved Free Share Plan. Overseas employees receive equivalent awards within the Group's Discretionary Free Share Plan.

The table below provides details of awards given to employees that have matured and are now available to staff to sell. An employee who was working at Admiral before 1 January 2005 would have access to 1,346 shares – of which 638 could be sold free of income tax and national insurance. If none of the shares had been sold, these shares would be worth £22,141 (based on the share price of £16.45 on 3 March 2010). 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, 78% (2009: 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 Plan, the Group operates the Discretionary Free Share Plan 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.

Health & Safety

The Group is 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 & Safety legislation, but will exceed those requirements should it be necessary to do so in order to deliver its objectives. More details on the Group's Health & Safety policy can be found in the full CSR report on the Group's corporate website – admiralgroup.co.uk.

Customers

Ensuring that we give a great service to our customers is essential to the future growth of the business, both in the UK and our overseas businesses. As at 31 December 2010 the Group had 2.75 million customers, up 32% from 2.08 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
- Issuing shares to 'star performing' employees

Every department has its own 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 to the best departments.

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

Fig. 4.

Award no.	Award date	No. of 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	1,142	6.6%
2	16 Mar 2006	227	350,942	1,546	1,252	6.3%
3	5 Sep 2006	213	350,811	1,647	1,383	5.3%
4	9 Mar 2007	151	277,387	1,837	1,552	5.2%
5	4 Sep 2007	182	353,444	1,942	1,671	4.7%
6	7 Mar 2008	162	337,770	2,085	1,803	4.5%

Charitable donations
Staff raise money for victims of Haiti's earthquake.

Stress Down Day
Employees from the claims department donned pyjamas and slippers to support the Samaritans Stress Down Day.

department in the UK completes a monthly Treating Customers Fairly (TCF) Management Information pack, pulling together specific measures that demonstrate we are consistently treating our customers fairly. This is now being adopted in the developing overseas motor insurance businesses.

A detailed report is produced each month together with a summary, providing details of any 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.

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.

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 2010 the average red grades for the measures amounted to 2.58% (2009: 1.23%). 88% of the measures throughout the period achieved a green grade (2009: 91%).

The average red grades increased during 2010 mainly as a result of increased volumes of new business early in 2010 causing call answer rates to fall below 90% in March, April and May. Increased recruitment during this period and for the rest of 2010 resulted in improved call answer rates such that an average of over 90% was achieved for the year. In addition Financial Ombudsman Service (FOS) complaints found in the Group's favour continued to be below 75%. The Risk Management Committee monitors the FOS complaints that are found in favour of the customer and reviews each one to understand the type of complaints that are escalated to FOS. During 2010 a total of 241 complaints were received by FOS (2009: 265).

Each quarter the Central Complaints Department produce a report analysing the complaints received and of the 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.

When a complaint is escalated to Central Quality, a dedicated team of Complaint Executives will investigate and discuss the customer's concerns. If the customer raises any improvements we can make to the business, the Complaint Executives will pass a suggestion to the Complaint Prevention

Fig. 5.

TCF Measure	2008	2009	2010	Targets
Complaints per 1,000 vehicles	1.14	1.06	1.19	<1.04
% Financial Ombudsman Service (FOS) complaints found in favour of Admiral	78%	67%	68%	>75%
Customer service call answer rate	95%	93%	91%	>90%
Claims call answer rate	92%	93%	94%	>90%
Customer Comment form score	9.37	9.39	9.31	>9
Claims Service Customer Comment forms	8.80	8.75	8.65	>8.5
% Customer who would renew following a claim	93%	93%	92%	>85%
Call Answer rate for complaint lines	91%	93%	93%	>90%

Coordinator. This can be related to a document, system or a procedural problem.

The role of the Complaint Prevention Coordinator is to investigate whether a suggestion can be successfully incorporated into or used to change business processes that may be the cause of complaints.

Another aspect of complaint analysis is identifying training needs and general standards of customer service. Using complaints, we can identify human errors and gaps in knowledge. In addition to ensuring individual feedback is given, we analyse this information and identify trends or patterns which require improvement on a wider scale.

Charitable and Community

Admiral plays 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.

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

The Group is 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)

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 mainly due to the age and the extent of control the Company can exert over the purchase of electricity that can be exerted.

The Group's carbon emission, electricity/gas consumption, waste recycling and water consumption are all reported in the full Corporate Responsibility report available on the Group's corporate website – admiralgroup.co.uk

The Facilities Department continues to discuss methods of reducing energy consumption within the UK locations with the Carbon Trust. A number of initiatives taken in 2010 have resulted in the lower energy consumption per square metre of office space during 2010. In addition more sites will be purchasing 'Green electricity' in 2011.

We continued to encourage recycling where possible and each floor has an environmental representative tasked with increasing the levels of recycling and awareness.

Challenges for 2011

We noted that during 2010 the Group faced a continual challenge to recruit, train, motivate and retain employees across its whole business. This challenge was made all the more significant as volumes surpassed those budgeted for. Planning tools within the business allowed the senior management team to react to the growth, increasing recruitment and training during 2010. The feedback from employees to both the internal staff survey and The Sunday Times 100 Best Companies to Work For award during 2010 has been extremely positive. We must continue to ensure that Admiral remains a great place to work in 2011.

The Admiral Group Board

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1. Alastair Lyons, CBE (57)
Chairman □

Alastair was appointed Chairman of the Company in July 2000. He is also Non-Executive Chairman of Serco, Deputy Chairman of Bovis Homes, Senior Independent Director at the Phoenix Group, and a Non-Executive Director of the Towergate Insurance Group. 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 for the Department for Transport and the Department for Work and Pensions. A Fellow of the Institute of Chartered Accountants, he was awarded a CBE in the 2001 Birthday Honours for services to social security.

2. Henry Engelhardt, CBE (53)
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.

3. Kevin Chidwick (47)
Chief Financial Officer

Kevin is responsible for finance, compliance, legal and investments as well as the subsidiary Confused.com. He joined Admiral in 2005, becoming Chief Financial Officer 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 the London Business School.

4. David Stevens, CBE (49)
Chief Operating Officer
David is a founder Director of Admiral. Initially the Marketing Director, he was appointed Director responsible for pricing in 1995 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. David was awarded a CBE in 2010 for services to business and the community in Wales.

5. Lucy Kellaway (51)
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.

6. Manfred Aldag (60)
Non-Executive Director
Manfred was appointed a Non-Executive Director of the Company in 2003 as a representative of Munich Re. He graduated from the 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 Chief Executive Manager responsible for United Kingdom/Ireland.

7. Margaret Johnson (52)
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 14 years. Margaret joined the Group's Audit and Remuneration Committees on appointment to the Board.

8. Martin Jackson (62)
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 Group Holdings plc, Homeserve Membership Limited and Rothesay Life Limited. He is a Fellow of the Institute of Chartered Accountants.

9. Keith James, OBE (66)
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.

10. John Sussens (65)
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.

11. Colin Holmes (45)
Non-Executive Director △○
Colin was appointed a Non-Executive Director in December 2010 and joined the Audit and Remuneration Committees upon appointment. Colin is a Chartered Management Accountant and has over 20 years of financial, commercial and operational experience gained through a number of executive positions within Tesco plc. Until recently, he was Tesco's UK Commercial Director for Fresh Foods and a member of the Group Executive Committee of Tesco plc. Colin has also been an independent Non-Executive Director on the Board of Bovis Homes Group plc since 2006 and Chairman of their Remuneration Committee since 2008.

Key:
△ Audit Committee member
○ Remuneration Committee member
□ Nominations Committee member

Directors' report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2010.

Business review

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

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

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

Group results and dividends

The profit for the year, after tax but before dividends, amounted to £193.6 million (2009: £156.9 million).

The Directors declared and paid dividends of £164.7 million during 2010 (2009: £142.4 million) – refer to note 13 for further details.

The Directors have declared a final dividend of £95.3 million (35.5 pence per share), payable on 10 June 2011.

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 34 and 35 of this report, whilst Directors' interests in the share capital of the Company are set out in the Remuneration report on pages 51 and 52.

Charitable and political donations

During the year the Group donated £168,000 (2009: £147,000) to various local and national charities. The Group has never made political donations. Refer to the Business review for further details.

Employee policies

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

Creditor payment policy

It is the policy of the Group to pay all purchase invoices by their due date, and appropriate quality measures are in place to monitor and encourage this. At the end of the year outstanding invoices represented 16 days purchases (2009: 15).

Contractual arrangements

The Group considers its co-insurance and reinsurance contracts, as described in the Business review section on page 12, to be essential to the running of the Group's business. No other contractual arrangements are considered to be essential.

Additional information for shareholders

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

At 31 December 2010, 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 26.

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 (AGM) and published on the Company's website after the meeting.

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

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

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

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

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

Power to issue shares

At the last AGM, held on 28 April 2010, 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 AGM to be held on 6 May 2011 and the Directors will seek to renew this authority for the following year.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company (up to a maximum of 5% of the issued share capital of the Company) for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the AGM to be held on 6 May 2011 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 Nominations Committee for approval by the Board of Directors. The Articles also require Directors to retire and submit themselves for election at the first AGM following appointment and all Directors who held office at the time of the two preceding AGMs, to submit themselves for re-election.

However, in accordance with the requirement under the UK Corporate Governance Code for annual election of Directors and best practice guidance that has been issued, all Directors will submit themselves for re-election at the Group's AGM on 6 May 2011.

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 AGM each year.

Annual General Meeting

It is proposed that the next AGM be held at Cardiff City Hall, Cathays Park, Cardiff CF10 3ND on Friday 6 May 2011 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).

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

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

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

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

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

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

Responsibility statement

The Directors confirm that to the best of their knowledge:

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

Disclosure of information to auditors

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

Auditor

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

By order of the Board,

Mark Waters
Company Secretary
1 March 2011

Corporate Governance

The Combined Code on Corporate Governance

This report sets out the Group's approach to achieving in 2010 the standards of good corporate governance for which it is accountable to the Group's shareholders. It has been prepared in accordance with the principles set out in the Combined Code on Corporate Governance (the 'Combined Code'), and details the extent to which the Company has complied with the principles and provisions of the Combined Code. In addition, following the release by the Financial Reporting Council (FRC) of the new UK Corporate Governance Code (the 'Governance Code'), that became effective for accounting periods beginning on or after 29 June 2010, the Group has considered the requirements of the Governance Code and is taking appropriate steps to ensure compliance with them where it does not already do so.

The Board complied with the Combined Code in all respects during 2010 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 corporate governance practice. The Board is accountable to shareholders for setting and achieving the Group's strategic objectives, for the creation and delivery of strong sustainable financial and operational performance for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met and for ensuring that it operates within appropriately established risk parameters. The Group is responsible to the Financial Services Authority (FSA) for ensuring compliance with the Group's UK regulatory obligations and for ensuring that dealings with the FSA are handled in a constructive, cooperative and transparent manner.

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 24 August 2010). Matters reserved to the Board include the approval of:

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

The Board met on seven occasions in 2010 with six of these meeting being held over two days. The Board also held a strategy day and visited its operations in Italy. These overseas visits are used to combine the formal business of the Board with an opportunity for Board members, through informal discussion with local management, to obtain a deeper understanding of local market conditions and gain an appreciation of the operational and strategic challenges faced by each of the Group's overseas operations. The Chairman visits each of these operations every year. 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 Company Secretary

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

Board effectiveness

The performance and effectiveness of the Board and its Committees is fundamental to the success of the Group and there is a rigorous evaluation each year to assess how well the Board, its Committees, the Directors and the Chairman are performing. In accordance with the Group's policy of every three years using an external consultant to carry out a formal review of the Board's performance, an external consultant, who has no connection with the Company, was used by the Group to lead the evaluation process in 2010.

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

The overall results of the evaluation were summarised in a report prepared by the external consultant who also presented the principal recommendations for review and discussion by the Board in February 2011.

The evaluation concluded that good progress had been achieved in most of the areas identified for action in the last independent Board review in 2007 and that the Board and its Committees had continued to work very effectively in relation to most dimensions. In addition, the Chairman has concluded that each Director contributes effectively and demonstrates full commitment to his/her duties. The following emerged as areas of particular focus going forward:

- Non-Executive rotation as individual Directors reach their maximum term over the next four years
- Maintenance of Non-Executive knowledge and understanding of an increasingly broad and complex business
- Moving still further the balance of Board consideration towards the strategic and away from the operational
- Agreeing clear criteria for the evaluation of performance by line of business and how most effectively to report this to the Board

The Chief Executive, to whom they report, appraises annually the performance of the individual Executive Directors. The Chairman, taking into account the views of the other Directors, reviews the performance of the Chief Executive. The performance of the Chairman is reviewed by the Non-Executive Directors, led by the Senior Independent Director ('SID'), taking into account the views of the Executive Directors. Following the latest review, the SID considered and discussed with the Chairman the comments and feedback relating to the Chairman's performance, that had been received from the Directors as part of the Board evaluation questionnaire. Following these discussions with the Chairman, the SID was able to confirm that the performance of the Chairman continues to be effective, and that the Chairman continues to demonstrate appropriate 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 of which they are a member attended by each Director during 2010 is provided in the table opposite.

The roles of the Chairman and Chief Executive

The Board has approved a statement that sets out the clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is primarily responsible for the leadership and workings of the Board, setting its agenda, and monitoring its effectiveness. The Chairman is not involved in the day-to-day management of the business. Save for matters reserved for decision by the Board, the Chief Executive, with the support of the other Executive Directors, is responsible for proposing the strategy to be adopted by the Group; 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 2010.

Board balance and independence

The Board currently comprises eleven Directors, the Chairman (who was independent on appointment), three Executive Directors, six 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.

In December 2010 the Board appointed Colin Holmes as an independent Non-Executive Director. Appointments to the Board are the responsibility of the Board as a whole, acting on the advice and recommendations of the Nominations Committee. Colin Holmes' appointment followed a formal, rigorous and transparent procedure implemented and led by the Nominations Committee. Although Colin Holmes holds, with Alastair Lyons, a cross-directorship in Bovis Homes Group Plc, the Board has determined that Colin Holmes remains independent in character and judgement and that his holding of a cross-directorship will not affect his ability to present an objective, rigorous and constructive challenge to the assumptions and viewpoints presented by management and the Board nor will it affect his time commitment to the role. Colin Holmes will be subject to election by shareholders at the forthcoming Annual General Meeting (AGM).

The Board has accepted the Nominations Committee's assessment of the independence of the six 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. 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.

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

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

	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
Total meetings held	**7**	**6**	**3**	**8**
Alastair Lyons (Chairman)	7		3	
Henry Engelhardt (Chief Executive)	7			
David Stevens (Chief Operating Officer)	7			
Kevin Chidwick (Chief Financial Officer)	7			
Manfred Aldag	5			
Colin Holmes*	1			1
Martin Jackson	7	6		8
Keith James	7	6	3	
Margaret Johnson	7	6		8
Lucy Kellaway	7		3	
John Sussens	6			7

* Colin Holmes was appointed to the Board on 3 December 2010.

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

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 Chief Financial Officer has failed to resolve or for which such contact is inappropriate. He is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new Chairman, when appropriate.

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

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

Professional development

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

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

The Board receives presentations from senior managers within the various Group companies on a regular basis and opportunity is also created for Non-Executive Directors to make informal visits to different parts of the Group and to meet with local management.

Relations with shareholders

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

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

This is supplemented by feedback to the Board on meetings between management and investors. External analysts' reports are circulated to all Directors. In addition, the Investor Relations team produces a 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 Company's AGM provides a valuable opportunity for the Board to communicate with its shareholders all of whom are invited to attend the AGM. The Chairmen of the Audit, Remuneration, and Nominations Committees attend the AGM along with the other Directors and are available to answer shareholders' questions on the activities of the Committees they chair.

Shareholders are also invited to ask questions during the meeting and have an opportunity to meet with Directors after the formal business of the meeting has been concluded. Details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the Company's website following the meeting.

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

Conflicts of Interest

In compliance with the requirements of the Companies Act 2006 regarding Directors' duties in relation to conflicts of interest, the Group's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits as it thinks fit. The Company has put in place updated procedures to deal with conflicts of interest. These procedures include each Board member completing, annually, a conflict of interest questionnaire that sets out any situation in which they, or their connected persons have, or could have, a direct or indirect interest that could conflict with the interests of the Company. Any current Directorships that they, or their connected persons hold, any advisory roles or trusteeships held, together with any companies in which they hold more than 1% of the issued share capital are also disclosed. These conflict of interest procedures have operated effectively throughout 2010.

Board Committees

The Board has delegated authority to a number of permanent Committees to deal with matters in accordance with written terms of reference. The principal Committees of the Board – Audit, Remuneration, and Nominations – 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 Nominations 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 to ensure that they remain appropriate and reflect any changes in good practice and governance. These terms of reference are available on request from the Company Secretary and can also be found on the Company's website: www.admiralgroup.co.uk. The minutes of the Committee meetings are also circulated to the Board. Committees are authorised to obtain outside legal or other independent professional advice if they consider it necessary.

The Audit Committee

Constitution and membership

The membership at the end of the year was Martin Jackson (Chairman), Keith James, Margaret Johnson and Colin Holmes (appointed 3 December 2010). The Company Secretary acts as Secretary to the Committee. Appointments to the Committee are made on the recommendation of the Nominations Committee and are for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. The 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 December 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. In addition, Colin Holmes is a Chartered Management Accountant and has considerable recent and relevant financial experience having previously been the UK Finance Director for Tesco PLC and until 2010 a member of its Group Executive Committee.

The Committee is kept up to date with changes to Accounting Standards and relevant developments in financial reporting, company law, and the various regulatory frameworks through presentations from the Group's external auditors, 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 and have been updated in accordance with the requirements of the Governance Code.

Other individuals such as the Chief Financial Officer, Chief Operating Officer, Chief Executive, Chairman of the Board, the heads of Risk, Compliance, and Internal Audit and representatives of different parts of the Group may be invited to attend all or part of any meeting as and when appropriate. The external auditors are invited to attend meetings of the Committee on a regular basis.

The Chairman of the Committee reports to the subsequent meeting of the Board on the key issues covered by the Committee, and the Board also receives copies of the minutes of each meeting. The Chairman of the Committee attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities.

Summary of key activities during 2010

During the year the Committee reviewed the following:

- The Annual Report and interim results
- Reports from the Internal Audit departments within the Group on the effectiveness of the Group's risk management and internal control procedures, details of key audit findings, and actions taken by management to manage and reduce the impact of the risk identified
- 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
- Reports from the external auditors on their proposed audit scope, fees, audit, and auditor independence
- Performance of the internal audit department
- The effectiveness of the Group's arrangements in relation to its '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 November 2010. 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 Annual Report.

During the year the Committee carried out a review of its policy of carrying out a tender process for external audit services every five years other than in exceptional circumstances. It was agreed that a decision on whether to complete an external audit re-tender should be reviewed at least every five years and if deemed appropriate a tender for external audit services would be carried out. The last such tender was undertaken in 2006. Following the annual external audit effectiveness review the Committee concluded that the auditor, KPMG was fit for purpose and recommended that a re-tender process should not be undertaken in 2010 but that the relationship and the effectiveness of KPMG should be kept under review.

In accordance with agreed parameters, the expanding overseas operations in Spain and Italy have or will have their own locally based internal auditors report to the respective country heads. Notwithstanding this, the UK Internal Audit department also carries out reviews of the quality and effectiveness of these overseas Internal Audit functions and where no such function exists reviews the overall system of risk management and internal controls in the overseas businesses.

The Head of Internal Audit in the UK 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. The overseas internal auditors attend Committee meetings periodically. 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 programmes at the start of each calendar year and the activities; the effectiveness and workload of the Internal Audit functions and the adequacy of available resources are monitored throughout the year against progress made in achieving the plans.

The Audit Committee has unrestricted access to Company documents and information, as well as to employees of the Company and external professional advisers.

During the year, the Committee received presentations from senior managers on the risk management procedures that are in place in their key departments in order that the Committee could consider and evaluate the nature of the risks that each key department faces and gain assurance as to the appropriateness and efficacy of the Group's risk management and risk mitigation procedures.

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.

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

The Nominations Committee

The membership at the year-end 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 December 2010. The Committee met on three occasions during 2010.

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

During 2010, based on an assessment of the size of the Board, the balance of its composition and the length of service of some of the existing Board members, the Board decided to initiate a search for an additional Non-Executive Director. The Nominations Committee led this process. The balance of skills, knowledge and experience on the Board was evaluated, and the Committee developed the appropriate specification identifying the need for the successful candidate to have recent and relevant financial experience in order that they may replace the existing Audit Committee Chairman, Martin Jackson, at such time as he decides to step down from that role. The Committee instructed external consultants to advise on and lead the identification and shortlisting of potential candidates. All members of the Committee interviewed the shortlisted candidates and unanimously recommended to the Board that Colin Holmes should be appointed to the Board. The Board approved the Committee's recommendation and Colin Holmes was formally appointed to the Board on 3 December 2010.

During 2010, 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 and senior management. The Committee, at the meeting in October 2010 considered the Group's current Succession Plan together with a Training and Development Plan that had also been produced. The 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 senior management roles following the gaining of further experience. In addition, the Training and Development Plan identified those individuals within the Group who it was felt could become permanent replacements for senior roles on receipt of the necessary training and development.

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

The Committee continues to review 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 the various marketplaces in which it operates.

Remuneration Committee

The membership at the year-end was John Sussens (Chairman), Martin Jackson, Margaret Johnson and Colin Holmes (appointed 3 December 2010). 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 and updated during the year and were approved by the Board in December 2010. The Committee met eight times during 2010.

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 Report and Accounts.

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. PwC also provided advice on the 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 2010; and that, up to the date of approval of the Annual Report and Accounts, it is regularly reviewed by the Board and accords with the internal control guidance for Directors provided in the Code.

A key element of the control system is that the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility. 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 the Group's other UK and 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 and the Group's other UK and overseas entities 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 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 Officer, to undertake a full process of assessment 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 functions use the risk registers to plan their programme of audits around the most significant risks to the Group to ensure that the controls described are actually in place.

The RMC and other UK and overseas Committees receive 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, the Group's other UK and overseas Committees and the Audit Committee also receive regular reports from their respective Internal Audit functions, which include recommendations for improvement of 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 2011 the Board carried out the annual review of the effectiveness of the Group's system of internal controls for the 2010 year by considering documentation from the Audit Committee, taking account of events since 31 December 2010, 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 (UK Car Insurance)

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; and
- Assess and monitor reinsurance protection

The relevant UK and overseas management Committees discharge similar responsibilities for the Group's other UK and 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 determines that appropriate action is taken by the management team to implement compliant systems and procedures.

Internal Audit

The Internal Audit functions assist 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.

Going concern

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board has reviewed the Group's projections for the next twelve months 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

This remuneration report has been prepared according to the requirements of the Companies Act 2006 (the Act), the Listing Rules of the UK Listing Authority and under Regulation 11 of and Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations). In addition, the Board has applied the principles of good corporate governance set out in the Combined Code (the 'Code') and has sought, where applicable, to apply the principles of the UK Corporate Governance Code (the 'Governance Code') which will come into effect for financial years beginning on or after 29 June 2010. The purpose of this report is to set out the Group's remuneration policy and particularly its application with respect to the Directors.

Remuneration Committee

The Board sets the Group's remuneration policy and, through the authority delegated to it by the Board, the Committee is responsible for making recommendations to the Board on the structure and implementation of the remuneration policy across the Group. 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, Margaret Johnson and Colin Holmes, who was appointed to the Committee on 3 December 2010. 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 2010, the Committee met on eight 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 composition of and 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 2010.

The Committee presents a summary of its principal activities to shareholders through this remuneration report, and the Committee Chairman attends the Annual General Meeting (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, in order to enable the Committee to reach informed decisions on executive remuneration, the Committee purchased consultancy services, including external research on market data and trends, from independent consultants, Kepler Associates. In addition, the Committee received advice on the structure of the Group's share schemes from PwC. The Company Secretary also 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. This is reflected in the Group's stated remuneration policy of paying competitive, performance linked and shareholder aligned remuneration packages comprising basic salaries coupled with participation in performance-based share schemes to generate competitive total reward packages for superior performance. The Board is satisfied that the adoption of this policy continues to meet the objectives of attracting and retaining executives of the highest quality across the Group.

The Committee reviews the framework and remuneration packages of the Executive Directors and the most senior managers. The main principles underlying the remuneration policy are:

- **Competitive** – The Group aims to combine salaries with attractive performance-related incentives, which provide individuals with the potential for competitive total reward packages for superior performance. Accordingly, base salaries reflect the role, job size and responsibility together with individual performance and effectiveness. Prevailing market and economic conditions and governance trends are also considered, as are general salary levels throughout the organisation

- **Performance linked** – A significant part of the 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 and Permanent Health Insurance, available to approximately 120 management level staff
- 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 further strengthening the alignment of the interests of staff and shareholders

Of the Group's current Executive Directors, only Kevin Chidwick (Chief Financial Officer) 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 Chief Financial Officer 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.

Following shareholder approval at the Group's 2010 AGM, the plan allows for a maximum award of £1,000,000 or 600% of basic salary if lower.

For the Chief Financial Officer, all share awards are subject to the above performance criteria.

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 other than the requirement that the recipient is an employee of the Group at the date of vesting. The change was made in order to assist the Group in attracting 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 Group has controls in place to ensure that shares awarded under both schemes operated by the Group within any rolling ten-year period do not exceed 10% of the number of ordinary shares in the capital of the Group in issue at the time of each award.

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, as set out below, provide a sufficient alignment of their interest in the performance of the Group with the interests of other shareholders.

In light of this, their remuneration packages consist only of a modest 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 during the year. Henry Engelhardt was awarded a rise of 4.5% taking his salary to £350,000 with effect from 1 April. David Stevens was awarded a rise of 3.1% to £330,000 with effect from 1 April.

The Committee aims to ensure that the overall remuneration of the Chief Financial Officer, Kevin Chidwick, is a fair reflection of his role and responsibilities, 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 Chief Financial Officer's remuneration package:

- Basic annual salary
- Awards under the DFSS

With effect from 1 October 2010 Kevin Chidwick's base salary was increased by 11.1% to £400,000. Whilst the increase in Kevin Chidwick's base salary is above inflation the Committee felt that the increased responsibilities taken on during the year and his wider contribution to the Group justified such an increase.

Kevin Chidwick received an award of 45,010 DFSS shares on 30 April 2010 with a value at the date of the award of £598,182 and an additional award of 3,000 DFSS shares on 15 December 2010 with a value at the date of award of £46,530. 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 2010.

	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 2010, 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.
Colin Holmes	3 years commencing 3 December 2010, terminable by either party giving one month's written notice.
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. The remuneration of the Non-Executive Directors, including the remuneration of the Committee Chairmen, 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 and amended in 2010 and the revised fee structure is set out below:

	£
Base fee	45,000
Plus:	
Member of Audit Committee	12,000
Senior Independent Director	5,000
Chair of Audit Committee	20,000
Chair of Nominations Committee	5,000
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.

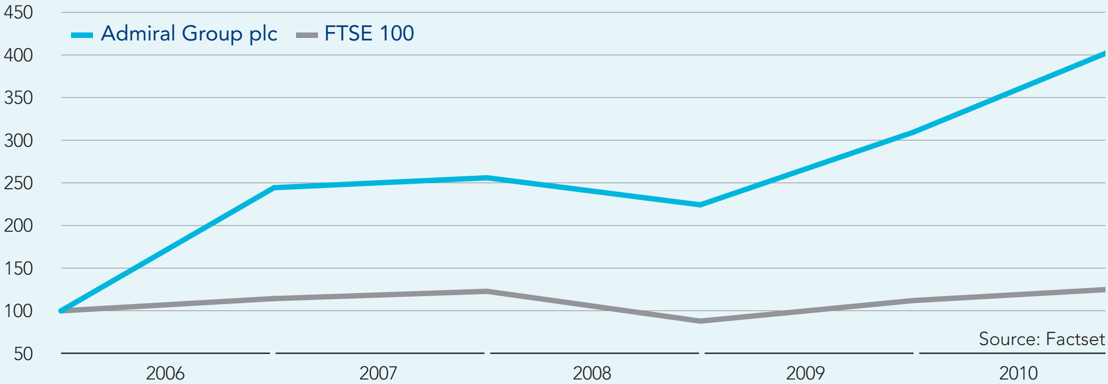
The fee payable to Alastair Lyons in respect of his appointment as Chairman of the Board in 2010 is £180,000 pa which is reviewed annually. The appointment may be terminated by the Chairman on three months' notice to the Company.

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. These letters of appointment are available for inspection at the Company's registered office during normal business hours and at the AGM.

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 2006 up to 31 December 2010. 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 2010	31 December 2009
Executive Directors		
Kevin Chidwick*	50,067	38,822
Henry Engelhardt**	40,490,720	40,490,720
David Stevens	10,234,000	10,234,000
Chairman and Non-Executive Directors		
Alastair Lyons	562,152	562,152
Manfred Aldag	–	–
Colin Holmes	–	–
Martin Jackson	–	–
Keith James	44,500	44,500
Margaret Johnson	–	–
Lucy Kellaway	–	–
John Sussens	8,000	8,000

* Includes 1,403 shares within the Group's SIP details of which are shown overleaf. Of these, 546 have reached their three-year maturity date.
** Include amounts held by family members.

Directors' remuneration – Audited

Remuneration for the year ended 31 December 2010 was as follows:

	Base salary and fees (£000)	Bonuses and other (£000)	Benefits (£000)	2010 Total (£000)	2009 Total (£000)
Executive Directors					
Kevin Chidwick*1	370	80	5	455	352
Henry Engelhardt	343	–	1	344	329
David Stevens	323	–	1	324	321
Chairman and Non-Executive Directors					
Alastair Lyons	180	–	–	180	150
Manfred Aldag	6	–	–	6	6
Colin Holmes	5	–	–	5	–
Martin Jackson	65	–	–	65	50
Keith James*2	100	–	–	100	73
Margaret Johnson	57	–	–	57	45
Lucy Kellaway	45	–	–	45	40
John Sussens	55	–	–	55	50
Totals	1,549	80	7	1,636	1,416

*1 Kevin Chidwick received bonuses of £80,000 in lieu of dividends on shares awarded (but not yet vested) under the Group's DFSS bonus plan.

*2 Keith James' fees include £7,500 for chairing the Board of Admiral Insurance Company Limited, £15,000 for chairing the Board of Inspop.com Limited and £15,000 for chairing the Group's Non-UK Price Comparison Board.

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 31/12/010 or maturity (£)	Date of award	Final vesting/ maturity date
DFSS	23,000	–	22,499	–	£10.50	£241,500	£279,742	18/04/07	16/03/10
DFSS	48,667	–	–	48,667	£8.08	£393,229	£737,305	29/04/08	29/04/11
DFSS	45,009	–	–	45,009	£8.89	£400,130	£681,886	13/04/09	13/04/12
DFSS	–	45,010	–	45,010	£13.29	£598,182	£681,901	30/04/10	30/04/13
DFSS	–	3,000	–	3,000	£15.51	£46,530	£45,450	15/12/10	15/12/13
SIP	151	–	151	–	£10.284	£1,552	£1,901	09/03/07	09/03/10
SIP	182	–	182	–	£8.264	£1,504	£2,861	04/09/07	04/09/10
SIP	162	–	–	162	£9.181	£1,487	£2,454	07/03/08	07/03/11
SIP	163	–	–	163	£9.195	£1,499	£2,469	22/08/08	22/08/11
SIP	171	–	–	171	£8.738	£1,494	£2,591	06/03/09	06/03/12
SIP	140	–	–	140	£10.67	£1,494	£2,121	28/08/09	28/08/12
SIP	–	121	–	121	£12.36	£1,495	£1,833	05/03/10	05/03/13
SIP	–	100	–	100	£14.896	£1,490	£1,515	27/08/10	27/08/13

* The closing price of Admiral shares on 31 December 2010 was £15.15 per share.

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

This report was approved by the Board of Directors on 1 March 2011 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 2010 set out on pages 55 to 89. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

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 2010 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 46 and 47 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 47, in relation to going concern
- the part of the Corporate Governance Statement on page 39 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Chris Moulder
(Senior Statutory Auditor)

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

1 March 2011

Financial statements

In this section:

Consolidated income statement
for the year ended 31 December 2010

	Note:	Year ended: 31 December 2010 £m	31 December 2009 £m
Insurance premium revenue		574.6	386.4
Insurance premium ceded to reinsurers		(286.5)	(174.5)
Net insurance premium revenue	5	**288.1**	**211.9**
Other revenue	6	276.2	232.6
Profit commission	7	67.0	54.2
Investment and interest income	8	9.5	8.8
Net revenue		**640.8**	**507.5**
Insurance claims and claims handling expenses		(416.7)	(283.1)
Insurance claims and claims handling expenses recoverable from reinsurers		208.2	131.4
Net insurance claims		**(208.5)**	**(151.7)**
Operating expenses	9, 10	(151.8)	(130.8)
Share scheme charges	9, 26	(15.0)	(9.2)
Total expenses		**(375.3)**	**(291.7)**
Profit before tax		**265.5**	**215.8**
Taxation expense	12	(71.9)	(58.9)
Profit after tax		**193.6**	**156.9**
Profit after tax attributable to:			
Equity holders of the parent		193.8	156.9
Non-controlling interests		(0.2)	–
		193.6	**156.9**
Earnings per share:			
Basic	14	72.3p	59.0p
Diluted	14	72.2p	59.0p

Dividends declared and paid (total)	13	164.7	142.4
Dividends declared and paid (per share)	13	62.4p	54.2p

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Year ended: 31 December 2010 £m	31 December 2009 £m
Profit for the period	**193.6**	**156.9**
Other comprehensive income		
Exchange differences on translation of foreign operations	(0.8)	(5.3)
Other comprehensive income for the period, net of income tax	**(0.8)**	**(5.3)**
Total comprehensive income for the period	**192.8**	**151.6**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	193.0	151.6
Non-controlling interests	(0.2)	–
	192.8	**151.6**

Consolidated statement of financial position
as at 31 December 2010

	Note:	As at: 31 December 2010 £m	31 December 2009 £m
ASSETS			
Property, plant and equipment	15	13.6	12.1
Intangible assets	16	82.9	77.0
Reinsurance assets	18	357.0	212.9
Financial assets	17	1,004.7	630.9
Deferred income tax	24	12.4	–
Trade and other receivables	17, 19	47.9	32.7
Cash and cash equivalents	17, 20	246.7	211.8
Assets held for sale	15, 21	1.5	–
Total assets		**1,766.7**	**1,177.4**
EQUITY			
Share capital	26	0.3	0.3
Share premium account		13.1	13.1
Other reserves		4.2	5.0
Retained earnings		332.7	281.8
Total equity attributable to equity holders of the parent		**350.3**	**300.2**
Non-controlling interests		0.4	0.6
Total equity		**350.7**	**300.8**
LIABILITIES			
Insurance contracts	18	806.6	532.9
Deferred income tax	24	–	5.7
Trade and other payables	17, 22	561.0	306.8
Current tax liabilities		48.4	31.2
Total liabilities		**1,416.0**	**876.6**
Total equity and total liabilities		**1,766.7**	**1,177.4**

These financial statements were approved by the Board of Directors on 1 March 2011 and were signed on its behalf by:

Kevin Chidwick
Director
Admiral Group plc

Company Number: 03849958

Consolidated cash flow statement
for the year ended 31 December 2010

	Note:	31 December 2010 £m	31 December 2009 £m
Profit after tax		**193.6**	**156.9**
Adjustments for non-cash items:			
– Depreciation		4.6	5.1
– Amortisation of software		2.7	2.2
– Change in unrealised gains on investments		(1.3)	0.2
– Other gains and losses		0.9	2.9
– Share scheme charge	26	18.5	13.7
Change in gross insurance contract liabilities		273.7	93.4
Change in reinsurance assets		(144.0)	(42.3)
Change in trade and other receivables, including from policyholders		(152.9)	(41.1)
Change in trade and other payables, including tax and social security		254.3	36.5
Taxation expense		71.9	58.9
Cash flows from operating activities, before movements in investments		**522.0**	**286.4**
Net cash flow into investments		(240.8)	(10.5)
Cash flows from operating activities, net of movements in investments		281.2	275.9
Taxation payments		(69.5)	(49.1)
Net cash flow from operating activities		**211.7**	**226.8**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(11.1)	(11.8)
Net cash used in investing activities		**(11.1)**	**(11.8)**
Cash flows from financing activities:			
Capital element of new finance leases		0.4	1.4
Repayment of finance lease liabilities		(0.6)	(1.2)
Equity dividends paid	13	(164.7)	(142.4)
Net cash used in financing activities		**(164.9)**	**(142.2)**
Net increase in cash and cash equivalents		**35.7**	**72.8**
Cash and cash equivalents at 1 January		211.8	144.3
Effects of changes in foreign exchange rates		(0.8)	(5.3)
Cash and cash equivalents at end of period	20	**246.7**	**211.8**

Consolidated statement of changes in equity

for the year ended 31 December 2010

	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 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
At 1 January 2010	0.3	13.1	5.0	281.8	0.6	300.8
Profit for the period	–	–	–	193.8	(0.2)	193.6
Other comprehensive income						
Currency translation differences	–	–	(0.8)	–	–	(0.8)
Total comprehensive income for the period	**–**	**–**	**(0.8)**	**193.8**	**(0.2)**	**192.8**
Transactions with equity holders						
Dividends	–	–	–	(164.7)	–	(164.7)
Share scheme credit	–	–	–	18.5	–	18.5
Deferred tax credit on share scheme credit	–	–	–	3.3	–	3.3
Total transactions with equity holders	**–**	**–**	**–**	**(142.9)**	**–**	**(142.9)**
As at 31 December 2010	0.3	13.1	4.2	332.7	0.4	350.7

Index to the financial statements

Notes to the financial statements

In this section:

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 2010 and comparative figures for the year ended 31 December 2009. 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 in the consolidated financial statements.

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 2010, including all amendments to extant standards that are not effective until later accounting periods.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2010 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. These are as follows:

- IFRS 9 Financial Instruments
- Amendments to IFRS 7 Financial Instruments: Disclosures
- Improvements to IFRSs (Issued May 2010)
- Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)
- Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1)

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. This includes an option to measure equities at fair value, but with movements in fair value taken to the other comprehensive income statement with non-recycling of realised gains.

Based on the Group's current financial assets, which are all held at fair value through profit or loss which will continue to be a valid classification under IFRS 9, 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 IFRSs have been adopted and applied by the Group for the first time in these financial statements:

- Amendment to IAS 32 Classification of Rights Issues
- Revised IAS 24 Related Party Disclosures
- Improvements to IFRSs (Issued April 2009)
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 1 Additional exemptions for First Time adopters
- Amendments to IFRS1 Limited Exemption from Comparative IFRS 7 disclosures for First Time adopters
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- 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

None of these 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 2010.

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 represent a projection of the ultimate cost of settling claims that have occurred prior to the balance sheet date and remain unsettled at the balance sheet date.

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

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

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

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

The claims provisions are subject to independent review by the Group's actuarial advisors. Management's reserving policy is to reserve at a level above best estimate projections to allow for unforeseen adverse claims development. Refer to page 13 for further detail. 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. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders on deferred revenue are recognised within policyholder receivables.

Revenue earned on the sale of ancillary products and revenue 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 revenue 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 revenue being recognised when loss and expense ratios used in the preparation of the financial statements move below an agreed threshold.

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

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); and

(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 (net of deferred acquisition costs) to meet future claims and related expenses.

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

Reinsurance assets:
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on the insurance contracts issued by the Group are classified as reinsurance contracts. A contract is only accounted for as 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 Consolidated statement of financial position at 31 December 2010 is allocated solely to the UK Car Insurance segment.

Impairment of goodwill:
The annual impairment review involves comparing the carrying amount to the estimated recoverable amount (by allocating the goodwill to CGUs) and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the income statement and are not subsequently reversed.

The recoverable amount is the greater of the fair value of the asset less costs to sell and the value in use of the CGU.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond this period are considered, but not included in the calculation. The discount rate applied to the cash flow projections in the value in use calculations is 11.5 % (2009: 8.9%), based on the Group's weighted average cost of capital, which is in line with the market. (Source: Bloomberg).

The key assumptions used in the value in use calculations are those regarding growth rates and expected changes in pricing and expenses incurred during the period. Management estimates growth rates and changes in pricing based on past practices and expected future changes in the market.

The headroom above the goodwill carrying value is very significant, and there is no foreseeable event that would eliminate this margin.

Deferred acquisition costs:
Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that 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 fair value of the asset, less costs to sell 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 2010 and 31 December 2009.

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 less impairment using the effective interest method. Impairment losses 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. Movements in the amortised cost are recognised through the income statement, as are any impairment losses.

Impairment of financial assets

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

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

De-recognition of financial assets

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

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 26 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 other comprehensive income is also recognised in other comprehensive income 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 and share scheme charges. The resulting deferred tax is charged or credited in the income statement, except in relation to share scheme charges where the amount of tax benefit credited to the income statement is limited to an equivalent credit calculated on the accounting charge. Any excess is recognised directly in equity.

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) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies, and thereafter are measured at the lower of carrying value and fair value less costs to sell.

Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative loss.

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

This 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.

Non-UK Car Insurance

This 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 in Spain, ConTe in Italy and Elephant Auto in the USA. None of these operations are reportable on an individual basis, based on the threshold requirements in IFRS 8.

The results of our German car insurance business, AdmiralDirekt, which was sold in early 2011 are included in this segment.

Price comparison

This segment relates to the Group's price comparison websites Confused.com in the UK, Rastreator in Spain, LeLynx in France and Chiarezza in Italy. LeLynx and Chiarezza were launched in 2010, and are therefore included in this Price Comparison segment for the first time.

Each of the Price Comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as LeLynx, Chiarezza and Rastreator do not individually meet the threshold requirements in IFRS 8.

Other

This 'other' segment is designed to be comprised of all other operating segments that do not meet the threshold requirements for individual reporting. Currently there is only one such segment, the Gladiator commercial van insurance broking operation, and so it is the results and balances of this operation that comprises the 'other' segment.

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 2010, 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 2010
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Turnover*	1,419.7	77.6	75.7	11.8	–	1,584.8
Net insurance premium revenue	269.4	18.7	–	–	–	288.1
Other revenue and profit commission	249.0	6.7	75.7	11.8	–	343.2
Investment and interest income	8.3	0.1	–	–	–	8.4
Net revenue	526.7	25.5	75.7	11.8	–	639.7
Net insurance claims	(192.6)	(15.9)	–	–	–	(208.5)
Expenses	(58.3)	(17.6)	(63.6)	(9.1)	–	(148.6)
Segment profit/(loss) before tax	**275.8**	**(8.0)**	**12.1**	**2.7**	**–**	**282.6**
Other central revenue and expenses, including share scheme charges						(18.2)
Interest income						1.1
Consolidated profit before tax						**265.5**
Taxation expense						(71.9)
Consolidated profit after tax						**193.6**
Other segment items:						
Capital expenditure	6.8	2.6	1.7	0.1	–	11.2
Depreciation and amortisation	20.7	9.0	0.7	0.3	–	30.7

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

Revenue and results for the corresponding reportable segments for the year ended 31 December 2009 are shown below.

						31 December 2009
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Turnover*	939.1	47.2	80.5	10.6	–	1,077.4
Net insurance premium revenue	199.1	12.8	–	–	–	211.9
Other revenue and profit commission	188.6	4.2	80.5	10.6	–	283.9
Investment and interest income	7.5	0.2	–	–	–	7.7
Net revenue	395.2	17.2	80.5	10.6	–	503.5
Net insurance claims	(138.7)	(13.0)	–	–	–	(151.7)
Expenses	(49.6)	(13.7)	(55.6)	(8.2)	–	(127.1)
Segment profit/(loss) before tax	**206.9**	**(9.5)**	**24.9**	**2.4**	**–**	**224.7**
Other central revenue and expenses, including share scheme charges						(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	4.1	0.7	0.7	–	11.8
Depreciation and amortisation	9.9	4.3	0.5	0.2	–	14.9

* 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 £15.0 million (2009: £13.3 million). These amounts have not been eliminated in order to avoid distorting expense and combined ratios which are key performance indicators for 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. The revenue and results of the three non-UK Price Comparison businesses, Rastreator, LeLynx and Chiarezza are not yet material enough to be presented as a separate segment.

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2010 are as follows:

					31 December 2010	
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Plant, property and equipment	8.6	2.3	2.1	0.6	–	13.6
Intangible assets	76.0	6.8	0.1	–	–	82.9
Reinsurance assets	324.7	32.3	–	–	–	357.0
Financial assets	947.3	47.4	–	–	–	994.7
Trade and other receivables	150.5	(4.7)	(0.9)	8.5	(105.5)	47.9
Cash and cash equivalents	90.6	40.3	11.2	3.1	–	145.2
Assets held for sale	–	1.5	–	–	–	1.5
Reportable segment assets	**1,597.7**	**125.9**	**12.5**	**12.2**	**(105.5)**	**1,642.8**
Insurance contract liabilities	752.1	54.5	–	–	–	806.6
Trade and other payables	531.5	18.2	6.6	4.7	–	561.0
Reportable segment liabilities	**1,283.6**	**72.7**	**6.6**	**4.7**	**–**	**1,367.6**
Reportable segment net assets	**314.1**	**53.2**	**5.9**	**7.5**	**(105.5)**	**275.2**
Unallocated assets and liabilities						75.5
Consolidated net assets						**350.7**

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

There is an asymmetrical allocation of assets and income to the reportable segments, in that the interest earned on cash and cash equivalent assets deployed in the UK Car Insurance, Price Comparison and 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 segment assets and liabilities at 31 December 2009 are as follows:

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

5. Net insurance premium revenue

	31 December 2010 £m	31 December 2009 £m
Total motor insurance premiums before co-insurance	1,308.6	847.7
Group gross premiums written after co-insurance	738.5	439.9
Outwards reinsurance premiums	(380.0)	(207.4)
Net insurance premiums written	358.5	232.5
Change in gross unearned premium provision	(163.9)	(53.5)
Change in reinsurers' share of unearned premium provision	93.5	32.9
Net insurance premium revenue	288.1	211.9

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

6. Other revenue

	31 December 2010 £m	31 December 2009 £m
Ancillary revenue	174.6	129.5
Price Comparison revenue	75.7	80.6
Other revenue	25.9	22.5
Total other revenue	276.2	232.6

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

7. Profit commission

	31 December 2010 £m	31 December 2009 £m
Total profit commission	67.0	54.2

Source of profit commission:

Underwriting year:	Financial year: 2007 £m	2008 £m	2009 £m	2010 £m
2006 and prior	20.6	26.2	6.0	(0.1)
2007	–	8.5	33.1	7.6
2008	–	–	13.5	20.4
2009	–	–	1.6	28.2
2010	–	–	–	10.9
Total	20.6	34.7	54.2	67.0

8. Investment and interest income

	31 December 2010 £m	31 December 2009 £m
Net investment return	8.4	7.7
Interest receivable	1.1	1.1
Total investment and interest income	9.5	8.8

Interest received during the year was £1.1 million (2009: £1.1 million)

9. Operating expenses and share scheme charges

	31 December 2010			31 December 2009		
	Insurance contracts £m	Other £m	Total £m	Insurance contracts £m	Other £m	Total £m
Acquisition of insurance contracts	20.9	–	20.9	17.3	–	17.3
Administration and other marketing costs	28.0	102.9	130.9	26.0	87.5	113.5
Expenses	48.9	102.9	151.8	43.3	87.5	130.8
Share scheme charges	–	15.0	15.0	–	9.2	9.2
Total expenses and share scheme charges	48.9	117.9	166.8	43.3	96.7	140.0

Analysis of other administration and other marketing costs:

	31 December 2010 £m	31 December 2009 £m
Ancillary sales expenses	26.9	20.0
Price Comparison operating expenses	63.6	55.6
Other expenses	12.4	11.9
Total	102.9	87.5

The £28.0 million (2009: £26.0 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 £333.2 million (2009: £265.0 million). This amount can be reconciled to the total expenses and share scheme charges above of £166.8 million (2009: £140.0 million) as follows:

	31 December 2010 £m	31 December 2009 £m
Gross expenses	333.2	265.0
Co-insurer share of expenses	(99.5)	(80.6)
Expenses, net of co-insurer share	233.7	184.4
Adjustment for deferral of acquisition costs	(7.9)	(6.1)
Expenses, net of co-insurer share (earned basis)	225.8	178.3
Reinsurer share of expenses (earned basis)	(59.0)	(38.3)
Total expenses and share scheme charges	166.8	140.0

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

	31 December 2010 £m	31 December 2009 £m
Insurance contract expenses from above	48.9	43.3
Add: claims handling expenses	8.5	5.5
Adjusted expenses	57.4	48.8
Net insurance premium revenue	288.1	211.9
Reported expense ratio	19.9%	23.0%

10. Staff costs and other expenses

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

	31 December 2010 £m	31 December 2009 £m
Salaries	92.5	75.9
Social security charges	12.7	10.5
Pension costs	1.3	0.7
Share scheme charges (see note 26)	18.5	13.7
Total staff expenses	125.0	100.8
Depreciation charge:		
– Owned assets	4.1	3.8
– Leased assets	0.5	1.3
Amortisation charge:		
– Software	2.7	2.3
– Deferred acquisition costs	23.4	7.6
Operating lease rentals:		
– Buildings	6.4	5.7
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	0.2	0.1
Net foreign exchange losses	0.8	0.2
Analysis of fees paid to the auditor for other services:		
Tax services	0.1	0.1
Other services	0.1	–
Total as above	0.2	0.1

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: 2010 Number	2009 Number
Direct customer contact staff	3,280	2,695
Support staff	972	846
Total	4,252	3,541

12. Taxation

	31 December 2010 £m	31 December 2009 £m
Current tax		
Corporation tax on profits for the year	87.4	63.0
Over provision relating to prior periods	(0.7)	(1.2)
Current tax charge	86.7	61.8
Deferred tax		
Current period deferred taxation movement	(15.3)	(2.8)
Under/(over) provision relating to prior periods – deferred tax	0.5	(0.1)
Total tax charge per income statement	71.9	58.9

Factors affecting the total tax charge are:

	31 December 2010 £m	31 December 2009 £m
Profit before tax	**265.5**	**215.8**
Corporation tax thereon at UK corporation tax rate of 28%	74.3	60.4
Expenses and provisions not deductible for tax purposes	(0.1)	(0.6)
Difference in tax rates	0.2	–
Other differences	(2.4)	0.3
Adjustments relating to prior periods	(0.1)	(1.2)
Total tax charge for the period as above	71.9	58.9

13. Dividends

Dividends were declared and paid as follows:

	31 December 2010 £m	31 December 2009 £m
March 2009 (26.5p per share, paid May 2009)	–	69.6
August 2009 (27.7p per share, paid October 2009)	–	72.8
March 2010 (29.8p per share, paid April 2010)	78.3	–
September 2010 (32.6p per share, paid October 2010)	86.4	–
Total dividends	164.7	142.4

The dividends declared in March represent the final dividends paid in respect of the 2008 and 2009 financial years. Dividends declared in August 2009 and September 2010 are interim distributions in respect of 2009 and 2010.

A final dividend of 35.5p per share (£95.3 million) has been declared in respect of the 2010 financial year. Refer to the Chairman's statement and business review for further details.

14. Earnings per share

	31 December 2010	31 December 2009
Profit for the financial year after taxation (£m)	193.6	156.9
Weighted average number of shares – basic	267,827,176	265,712,457
Unadjusted earnings per share – basic	72.3p	59.0p
Weighted average number of shares – diluted	268,221,829	266,062,457
Unadjusted earnings per share – diluted	72.2p	59.0p

The difference between the basic and diluted number of shares at the end of 2010 (being 394,653; 2009: 350,000) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 26 for further details.

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 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 1 January 2009	2.1	5.7	2.6	0.6	11.0
Net book amount					
At 31 December 2009	2.2	6.4	2.5	1.0	12.1
Cost					
At 1 January 2010	5.0	20.1	7.7	3.2	36.0
Additions	0.7	5.4	1.2	0.4	7.7
Disposals	–	(0.2)	–	–	(0.2)
Transferred to 'assets classified as held for sale'	(0.5)	(1.2)	(0.4)	(0.2)	(2.3)
At 31 December 2010	5.2	24.1	8.5	3.4	41.2
Depreciation					
At 1 January 2010	2.8	13.7	5.2	2.2	23.9
Charge for the year	0.9	2.4	0.9	0.4	4.6
Disposals	–	(0.1)	–	–	(0.1)
Transferred to 'assets classified as held for sale'	(0.2)	(0.5)	(0.1)	–	(0.8)
At 31 December 2010	3.5	15.5	6.0	2.6	27.6
Net book amount					
At 31 December 2010	1.7	8.6	2.5	0.8	13.6
Assets classified as held for sale	0.3	0.7	0.3	0.2	1.5

Refer to note 21 for details of assets classified as held for sale.

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

	31 December 2010 £m	31 December 2009 £m
Computer equipment	1.2	1.6

16. Intangible assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
Carrying amount:				
At 1 January 2009	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
Additions	–	28.9	3.4	32.3
Amortisation charge	–	(23.4)	(2.7)	(26.1)
Disposals	–	–	(0.3)	(0.3)
At 31 December 2010	62.3	14.9	5.7	82.9

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

17. Financial assets and liabilities

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

	31 December 2010 £m	31 December 2009 £m
Financial assets:		
Investments held at fair value	363.6	237.7
Held to maturity deposits with credit institutions	299.6	183.5
Receivables – amounts owed by policyholders	341.5	209.7
Total financial assets	1,004.7	630.9
Trade and other receivables	47.9	32.7
Cash and cash equivalents	246.7	211.8
	1,299.3	875.4
Financial liabilities:		
Trade and other payables	561.0	306.8

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 approximate fair value of held to maturity deposits is £285.2 million (2009: £183.5 million) based on a calculation to discount expected cash flows arising at the Group's WACC. The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

	< 1 Year £m	Between 1 and 2 years £m	> 2 Years £m
Financial assets:			
Investments held at fair value	363.6	–	–
Held to maturity deposits with credit institutions	197.3	54.5	33.4
Receivables – amounts owed by policyholders	341.5	–	–
Total financial assets	902.4	54.5	33.4
Trade and other receivables	47.9	–	–
Cash and cash equivalents	246.7	–	–
	1,197.0	54.5	33.4
Financial liabilities:			
Trade and other payables	561.0	–	–

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, interest rate risk, liquidity risk, and foreign exchange risk. The Board of Directors has delegated the task of supervising risk management and internal control to the Risk Management Committee (RMC) and non-UK equivalent Committees. There is also an Investment Committee that makes recommendations to the Board on the Group's investment strategy.

There are several key elements to the risk management environment throughout the Group. These are detailed in full in the Corporate Governance statement. Specific considerations for the risks arising from financial assets and liabilities are detailed below.

Credit risk

The Group defines credit risk as the risk of loss if another party fails to perform its obligations 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 reinsurance 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, largely due to the potential for default by instalment payers. The impact of this is mitigated by the large customer base and low average level of balance recoverable. There is also mitigation by the operation of numerous high and low level controls in this area, including payment on policy acceptance as opposed to inception and automated cancellation procedures for policies in default.

The Group's maximum exposure to credit risk at 31 December 2010 is £1,251.4 million (2009: £842.7 million), being the carrying value of financial assets and cash. The Group does not use credit derivatives or similar instruments to mitigate exposure.

The amount of bad debt expense relating to policyholder debt charged to the income statement in 2010 and 2009 is insignificant.

There were no significant financial assets that were past due at the close of either 2010 or 2009.

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

	Rating	31 December 2010 £m	31 December 2009 £m
Financial institutions – Money market funds	AAA	363.6	237.7
Financial institutions – Credit institutions	AA	252.6	85.0
Financial institutions – Credit institutions	A	47.0	310.3
Reinsurers	A	104.4	96.0

Interest rate risk

The Group considers interest rate risk to be the risk that unfavourable movements in interest rates could adversely impact on the capital values of financial assets and liabilities. This relates primarily to investments held at fair value.

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

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

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.

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, meaning that a large proportion of the Group cash and investments are immediately available.

A breakdown of the Group's financial liabilities – trade and other payables is shown in note 22. 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 23 and the maturity profile at the start of this note for further details.)

In practice, the Group's Directors expect actual cashflows 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 £327.4 million (2009: £154.4 million), £218.3 million (2009: £91.3 million) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

A maturity analysis for insurance contract liabilities is included in note 18.

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

Liquidity risk is not, therefore, considered to be significant.

Foreign exchange risks

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

The Group may be exposed to foreign exchange risk through its expanding operations overseas. Although the relative size of these 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 similar instruments. None were outstanding at the balance sheet date.

Fair value

The carrying value of all of the Group's financial assets equate to fair value. For, cash at bank and cash deposits, the fair value approximates to the book value due to their short maturity. For assets held at fair value through profit and loss, their value equates to level 1 (quoted prices in active markets) of the fair value hierarchy specified in the amendment to IFRS 7.

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

The Group's dividend policy is to make distributions after taking into account capital that is required to be held a) for regulatory purposes; b) to fund expansion activities; and c) as a further prudent buffer against unforeseen events. This policy gives the Directors flexibility in managing the Group's capital.

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

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) and its overseas equivalents.

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 generated to external underwriters. In 2010, 45% of the UK risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 27.5% 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.

Arrangements outside of the UK are set out in the business review on page 17.

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; and
- Fast and flexible responsiveness to data analysis and market trends

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

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

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 2010 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:				
	2006	2007	2008	2009	2010
Booked loss ratio	75%	70%	74%	75%	78%
Impact of 1% change (£m)	2.1	3.6	2.8	3.5	2.8

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 2010 £m	31 December 2009 £m
Gross:		
Claims outstanding	434.2	323.5
Unearned premium provision	372.4	209.4
Total gross insurance liabilities	806.6	532.9
Recoverable from reinsurers:		
Claims outstanding	165.2	114.1
Unearned premium provision	191.8	98.8
Total reinsurers' share of insurance liabilities	357.0	212.9
Net:		
Claims outstanding	269.0	209.4
Unearned premium provision	180.6	110.6
Total insurance liabilities – net	449.6	320.0

The maturity profile of gross insurance liabilities is as follows:

	< 1 Year £m	1 – 3 years £m	> 3 years £m
Claims outstanding	130.3	147.6	156.3
Unearned premium provision	372.4	–	–
Total gross insurance liabilities	502.7	147.6	156.3

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.

	Financial year ended 31 December					
Analysis of claims incurred (net amounts):	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Underwriting year (UK only):						
Earlier years	(36.0)	26.8	20.6	2.7	1.1	–
2006	(67.6)	(53.1)	10.5	7.9	(1.0)	(103.3)
2007	–	(67.3)	(42.0)	11.6	2.7	(95.0)
2008	–	–	(89.5)	(57.7)	10.2	(137.0)
2009	–	–	–	(96.9)	(66.9)	(163.8)
2010	–	–	–	–	(130.2)	(130.2)
UK net claims incurred (excluding claims handling costs)	(103.6)	(93.6)	(100.4)	(132.4)	(184.1)	
Non-UK net claims incurred	–	(2.8)	(9.5)	(13.6)	(15.9)	
Claims handling costs and other amounts	(3.5)	(3.4)	(4.7)	(5.7)	(8.5)	
Total net claims incurred	(107.1)	(99.8)	(114.6)	(151.7)	(208.5)	

	Financial year ended 31 December				
UK loss ratio development:	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Underwriting year (UK only):					
2006	90%	87%	79%	75%	75%
2007	–	89%	80%	72%	70%
2008	–	–	88%	79%	74%
2009	–	–	–	84%	75%
2010	–	–	–	–	78%

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				
	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Underwriting year:					
2000	1.1	0.7	0.4	0.4	–
2001	1.9	1.5	0.5	0.5	–
2002	2.3	1.3	–	0.3	0.3
2003	5.1	3.2	2.3	1.2	–
2004	7.9	7.6	6.4	(1.6)	0.8
2005	2.6	12.6	11.0	1.8	–
2006	–	2.6	10.5	7.9	(1.0)
2007	–	–	6.9	11.6	2.7
2008	–	–	–	9.2	10.3
2009	–	–	–	–	10.4
Total net release	20.9	29.5	38.0	31.3	23.5
Net premium revenue	145.0	142.2	169.8	211.9	288.1
Release as % of net premium revenue	14.4%	20.7%	22.4%	14.8%	8.2%

Profit commission is analysed in note 7.

F) Reconciliation of movement in net claims provision:

	31 December 2010 £m	31 December 2009 £m
Net claims provision at start of period	209.4	178.5
Net claims incurred	199.9	146.2
Net claims paid	(140.3)	(115.3)
Net claims provision at end of period	269.0	209.4

G) Reconciliation of movement in net unearned premium provision:

	31 December 2010 £m	31 December 2009 £m
Net unearned premium provision at start of period	110.6	90.5
Written in the period	358.5	232.5
Earned in the period	(288.5)	(212.4)
Net unearned premium provision at end of period	180.6	110.6

H) Other disclosures:

The Directors are aware that the Ministry of Justice has been reviewing the discount rate used in the calculation of damages awards in bodily injury and fatal claims in the UK (the Ogden tables). Whilst an announcement is expected imminently, at the date the financial statements were approved the discount rate used in these calculations remained at 2.5%.

Including an allowance for the estimated impact of a significant reduction in the discount rate, the Directors remain satisfied that the selected reserves included in the financial statements provide an appropriate and consistent margin over projected ultimate loss ratios.

19. Trade and other receivables

	31 December 2010 £m	31 December 2009 £m
Trade receivables	47.9	32.5
Prepayments and accrued income	–	0.2
Total trade and other receivables	47.9	32.7

20. Cash and cash equivalents

	31 December 2010 £m	31 December 2009 £m
Cash at bank and in hand	246.7	191.8
Cash on short term deposit	–	20.0
Total cash and cash equivalents	246.7	211.8

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. Non-current assets held for sale

On 6 January 2011, the Group disclosed that following exclusive discussions, it had sold its German operation, AdmiralDirekt, to Itzehoer Versicherung ('Itzehoer'). The insurance contracts generated by AdmiralDirekt and underwritten by the Group in 2011 will be fully reinsured by Itzehoer, and it is intended to transfer 2011 and prior year underwriting business to Itzehoer subject to regulatory and court approval.

At the balance sheet date, a disposal group consisting of property, plant and equipment assets belonging to the AdmiralDirekt operation were separately classified as held for sale. The carrying amount of these assets is lower than the fair value of the assets less costs to sell and therefore no impairment loss has been recognised on the reclassification. No other assets or liabilities of the AdmiralDirekt operation were included in the sale.

The results of the AdmiralDirekt operation in 2010 are not material to the results of the Group and therefore have not been separately presented. The results and balances of AdmiralDirekt are included in the Non-UK Car Insurance segment in note 4.

22. Trade and other payables

	31 December 2010 £m	31 December 2009 £m
Trade payables	13.3	10.7
Amounts owed to co-insurers and reinsurers	327.4	154.4
Finance leases due within 12 months	–	0.3
Finance leases due after 12 months	0.2	0.1
Other taxation and social security liabilities	16.5	10.9
Other payables	59.7	29.1
Accruals and deferred income (see below)	143.9	101.3
Total trade and other payables	561.0	306.8

Of amounts owed to co-insurers and reinsurers, £213.8 million (2009: £93.1 million) are held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2010 £m	31 December 2009 £m
Premium receivable in advance of policy inception	82.3	53.9
Accrued expenses	46.2	35.3
Deferred income	15.4	12.1
Total accruals and deferred income as above	143.9	101.3

23. Obligations under finance leases

Analysis of finance lease liabilities:

	31 December 2010			31 December 2009		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	–	–	–	0.3	–	0.3
Between one and five years	0.2	–	0.2	0.1	–	0.1
More than five years	–	–	–	–	–	–
	0.2	–	0.2	0.4	–	0.4

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

24. Deferred income tax (asset)/liability

	31 December 2010 £m	31 December 2009 £m
Brought forward at start of period	5.7	10.3
Movement in period	(18.1)	(4.6)
Carried forward at end of period	(12.4)	5.7

Analysis of net deferred tax (asset)/liability:

	31 December 2010 £m	31 December 2009 £m
Tax treatment of share scheme charges	(6.9)	(4.4)
Capital allowances	(1.3)	(1.6)
Other differences	(4.2)	(0.6)
Unremitted overseas income	–	12.3
Deferred tax (asset)/liability at end of period	(12.4)	5.7

The UK corporation tax rate will move from 28% to 27% on 1 April 2011. Deferred tax has been calculated at 27% where the temporary difference is expected to reverse after this date.

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

	31 December 2010 £m	31 December 2009 £m
Tax treatment of share scheme charges	(0.8)	0.3
Capital allowances	(0.3)	1.6
Other differences	3.6	0.5
Unremitted overseas income	12.3	0.5
Net deferred tax credited to income	14.8	2.9

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.

25. Events after the balance sheet date

On 1 March 2011, the European Court of Justice (ECJ) gave a preliminary ruling that upheld the recommendation that Article 5 (2) of the Gender Directive is invalid, due to it being incompatible with the general principle of equal treatment for men and women which is a fundamental principal under EU law. Article 5 (2) of the Gender Directive allowed insurers to use gender related information in determining insurance premiums and benefits if insurers can provide statistically valid data that proved gender is a determining risk factor. As a result insurance companies will no longer able to use gender specific information in determining insurance premiums and benefits.

The requirement for unisex premiums and benefits will come into effect after a transitional period on 21 December 2012, by which time the Group's EU insurers will have gender neutral pricing and benefits in place.

26. Share capital and share incentive plan

	31 December 2010 £m	31 December 2009 £m
Authorised:		
500,000,000 ordinary shares of 0.1p	0.5	0.5
Issued, called up and fully paid:		
268,571,725 ordinary shares of 0.1p	0.3	–
266,477,291 ordinary shares of 0.1p	–	0.3
	0.3	0.3

During 2010 2,094,434 (2009: 1,935,461) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

594,434 (2009: 751,513) 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.

1,500,000 (2009: 1,183,948) 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 2010 £m	31 December 2009 £m
SIP charge (note i)	5.1	3.6
DFSS charge (note ii)	9.9	5.6
Total share scheme charges	15.0	9.2

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2010: £18.5 million, 2009: £13.7 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.

(i) The Approved Share Incentive Plan (the SIP)
Eligible employees qualify for awards under the SIP based upon the performance of the Group in each half-year period. The current maximum award for each year is £3,000 per employee.

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

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

(ii) The Discretionary Free Share Scheme (the DFSS)
Under the DFSS, details of which are contained in the Remuneration policy section of the Remuneration report, individuals receive an award of free shares at no charge. Staff must remain in employment until the vesting date in order to receive shares. The maximum number of shares that can vest relating to the 2010 scheme is 1,662,303 (2009 scheme: 1,438,426).

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 2010 scheme, 50% (2009 scheme: 50%) of the shares awarded at the start of the three-year vesting period are subject to these performance conditions.

The range of awards is as follows:

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

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

Awards under the DFSS are not eligible for dividends (although a discretionary bonus is currently paid equivalent to the dividend that would have been paid on the respective shareholding) and hence the fair value of free shares to be awarded under this scheme has been revised downwards to take account of these distributions. The unadjusted fair value is based on the share price at the date on which awards were made (as stated in the Remuneration report).

Number of free share awards committed at 31 December 2010:

	Awards outstanding (*1)	Vesting date
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
SIP H209 scheme	377,641	March 2013
SIP H110 scheme	352,100	August 2013
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
DFSS 2010 scheme 1st award	1,543,203	April 2013
DFSS 2010 scheme 2nd award	119,100	August 2013
Total awards committed	6,787,887	

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

During the year ended 31 December 2010, awards under the SIP H206 and H107 schemes and the DFSS 2007 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 2010:

	Original Awards	Awards vested
SIP H206 scheme	277,387	234,532
SIP H107 scheme	353,444	304,122
DFSS 2007 scheme, 1st award	1,210,781	1,065,964
DFSS 2007 scheme, 2nd award	26,350	19,430

27. Financial commitments

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

Operating leases expiring	31 December 2010 £m	31 December 2009 £m
Within one year	0.2	–
Within two to five years	11.1	4.1
Over five years	16.4	31.6
Total commitments	27.7	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 2010 £m	31 December 2009 £m
Expenditure contracted to	–	–

28. Group subsidiary companies

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

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

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

29. Related party transactions

a) Mapfre:

In 2010, the Group participated in transactions with Mapfre S.A., during the normal course of its Non-UK Car Insurance and Price Comparison operations. Mapfre is a related party of Admiral Group due to its 25% minority interest in Group subsidiary Rastreator.com Limited. Details of the total transactions with Mapfre and balances outstanding as at 31 December are given in the table below.

	31 December 2010	31 December 2009
Total transactions	0.3	–
Balances outstanding at 31 December	–	–

b) Other:

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

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

Parent Company financial statements & notes

In this section:

Parent Company financial statements

Parent Company balance sheet

	Note:	31 December 2010 £m	31 December 2009 £m
Fixed assets – investments			
Shares in group undertakings	5	125.0	119.2
Other investments		10.0	–
Current assets			
Cash at bank and in hand		101.4	65.1
		101.4	65.1
Creditors – falling due within one year			
Other creditors	6	(90.4)	(66.8)
		(90.4)	(66.8)
Net current assets/(liabilities)		11.0	(1.7)
Total assets less current liabilities		146.0	117.5
Net assets		**146.0**	**117.5**
Capital and reserves			
Called up share capital	8	0.3	0.3
Share premium account		13.1	13.1
Capital redemption reserve		–	–
Profit and loss account		132.6	104.1
	7	**146.0**	**117.5**

These financial statements were approved by the Board of Directors on 1 March 2011 and were signed on its behalf by:

Kevin Chidwick
Director
Admiral Group plc

Company Number: 03849958

Notes to the Parent Company financial statements

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

1. Basis of preparation
The accounts have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board have reviewed the Company's projections for the next 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:

- Improvements to FRSs 2010

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

The Admiral Group plc Company financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and in accordance with the provisions of Section 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 29 of the Consolidated financial statements for disclosure of related party transactions.

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

3. Taxation

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

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

4. Employee share schemes

The Group operates a number of equity settled compensation schemes for its employees. For schemes commencing 1 January 2004 and after, the fair value of the employee services received in exchange for the grant of free shares under the schemes is recognised as an expense, 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 26 of the consolidated financial statements for further details on share schemes.

5. Fixed asset investments

	£m
Investments in subsidiary undertakings:	
At 1 January 2009	108.6
Additions	10.6
At 31 December 2009	119.2
Additions	5.8
At 31 December 2010	125.0

The Company's subsidiaries are disclosed in note 28 of the Group financial statements.

6. Other creditors – due within one year

	31 December 2010 £m	31 December 2009 £m
Trade payables and other liabilities	0.2	–
Deferred income tax	–	12.3
Corporation tax payable	41.9	20.2
Amounts owed to subsidiaries	48.3	34.3
	90.4	66.8

Notes to the Parent Company financial statements
continued

7. Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium account £m	Retained profit and loss £m	Total equity £m
At 1 January 2009	0.3	13.1	88.0	101.4
Retained profit for the period	–	–	144.8	145.5
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
Retained profit for the period	–	–	174.7	174.7
Dividends	–	–	(164.7)	(164.7)
Issues of share capital	–	–	–	–
Share scheme charges	–	–	18.5	18.5
As at 31 December 2010	0.3	13.1	132.6	146.0

8. Share capital

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

Other information

In this section:

Consolidated financial summary

Basis of preparation:

The figures below are as stated in the Group financial statements preceding this financial summary and issued previously. Only selected lines from the income statement and balance sheet have been included.

Income statement

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Total motor premiums	**1,308.6**	**847.7**	**716.3**	**631.3**	**566.6**
Net insurance premium revenue	288.1	211.9	169.8	142.2	145.0
Other revenue	276.2	232.6	193.9	176.9	131.6
Profit commission	67.0	54.2	34.7	20.5	19.9
Investment and interest income	9.5	8.8	24.4	24.6	14.5
Net revenue	**640.8**	**507.5**	**422.8**	**364.2**	**311.0**
Net insurance claims	(208.5)	(151.7)	(114.6)	(99.8)	(107.1)
Total expenses	(166.8)	(140.0)	(105.7)	(82.0)	(55.5)
Operating profit	**265.5**	**215.8**	**202.5**	**182.4**	**148.4**

Balance sheet

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Property, plant and equipment	13.6	12.1	11.0	7.7	7.5
Intangible assets	82.9	77.0	75.7	69.1	66.8
Financial assets	1,004.7	630.9	586.9	481.8	395.9
Reinsurance assets	357.0	212.9	170.6	131.7	74.7
Deferred income tax	12.4	–	–	1.6	–
Trade and other receivables	47.9	32.7	25.5	22.6	16.9
Cash and cash equivalents	246.7	211.8	144.3	155.8	191.2
Assets held for sale	1.5	–	–	–	–
Total assets	**1,766.7**	**1,177.4**	**1,014.0**	**870.3**	**753.0**
Equity	**350.7**	**300.8**	**275.6**	**237.6**	**219.1**
Insurance contracts	806.6	532.9	439.6	363.1	294.4
Deferred income tax	–	5.7	10.3	–	1.0
Trade and other payables	561.0	306.8	270.0	239.6	215.1
Current tax liabilities	48.4	31.2	18.5	30.0	23.4
Total liabilities	**1,766.7**	**1,177.4**	**1,014.0**	**870.3**	**753.0**

Directors and advisers

Directors

Alastair Lyons, CBE
(Non-Executive Director)

Henry Engelhardt, CBE
(Chief Executive Officer)

Kevin Chidwick
(Chief Financial Officer)

David Stevens, CBE
(Chief Operating Officer)

Manfred Aldag
(Non-Executive Director)

Colin Holmes (appointed 3 December 2010)
(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)

Company Secretary

Mark Waters
Capital Tower
Greyfriars Road
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Auditor

KPMG Audit plc
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SE1 2AF

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Kent
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HSBC Business Banking
97 Bute Street
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CF10 5NA

Joint Corporate Brokers

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

Citigroup Financial Markets
UK Equity Group Limited
Citigroup Centre
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London
E14 5LB

Registrar

Capita IRG plc
The Registry
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Beckenham
Kent
BR3 4TU

Solicitor

Norton Rose
3 More London Riverside
London
SE1 2AQ

Further information

Corporate website

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

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

Financial calendar

Final 2010 dividend
18 May 2011 – Ex dividend date
20 May 2011 – Record date
10 June 2011 – Payment date

Interim Management Statement
6 May 2011

Annual General Meeting
6 May 2011

Interim results
24 August 2011

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 24 August 2011.

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