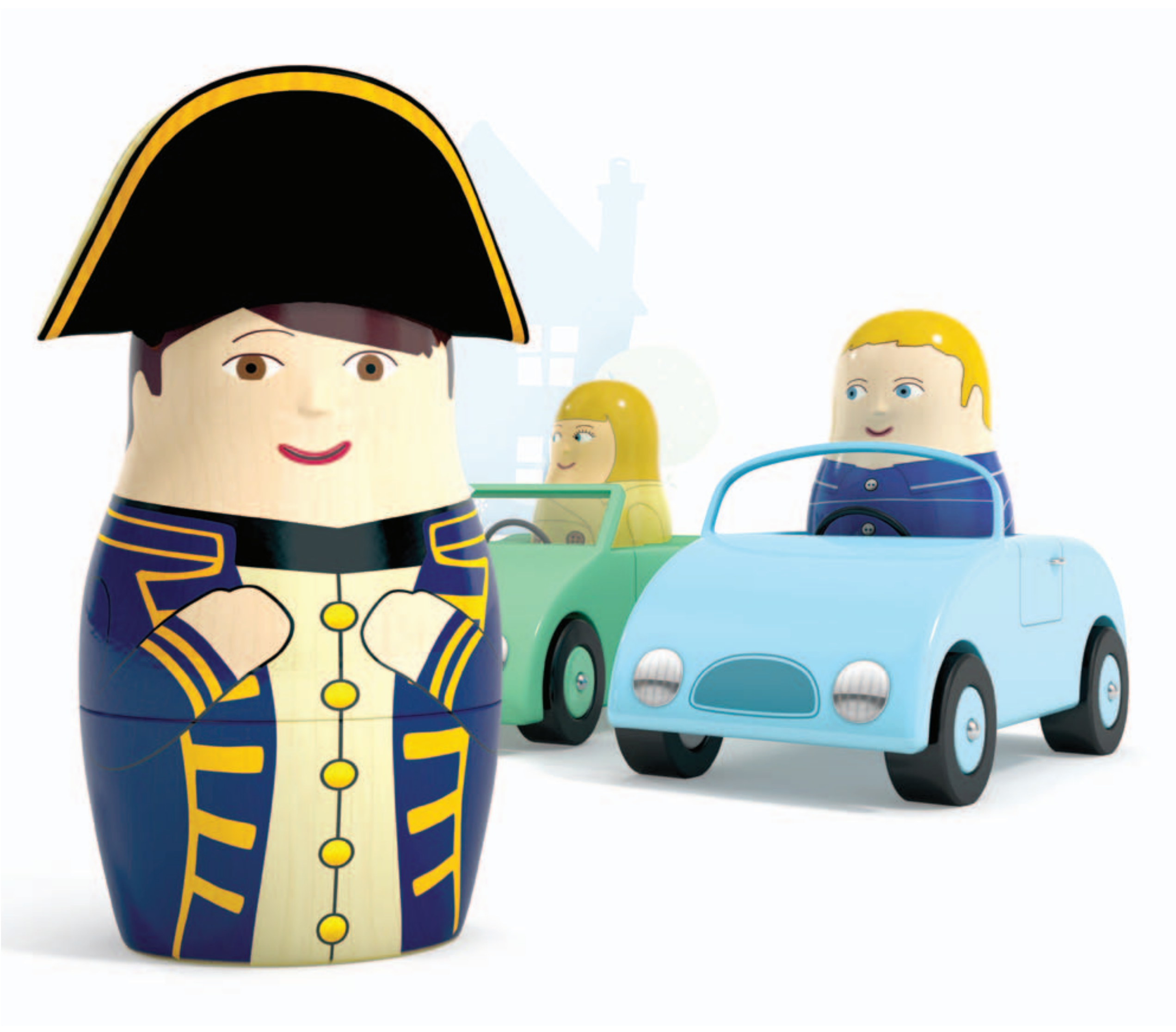
Admiral Group plc

Annual Report 2011



What we do:

Admiral Group is a successful car insurer based in South Wales in the UK. The Group's core UK Car Insurance business launched in 1993 and the Group has grown every year since.

In the UK, the Group has an 11% share of private car insurance through four brands; Admiral, Elephant, Diamond, and Bell. It also owns Confused.com, one of the leading UK price comparison websites.

Outside the UK, Admiral operates car insurance businesses in Spain, Italy, France and the USA which now insure over 300,000 vehicles. The Group also owns price comparison businesses in Spain, France and Italy.

At the end of 2011 Admiral had 3.4 million customers in five countries. It employs over 6,000 people in nine countries.

Admiral's Business Model:

Highly profitable

- Three-fold increase in profits to £299m (2004-2011)
- Focussed on delivering profit growth

Consistently growing

- 100% organic, controlled growth
- Three-fold increase in number of customers to 3.4m (2004-2011)
- Flexibility to adjust growth according to market conditions

Efficient and effective

- Lower customer acquisition costs
- Use sophisticated underwriting techniques
- Run low cost operations with service-orientated culture
- Cross-sell other products

Low risk model

- No debt and cash balances conservatively managed
- Use of co and reinsurance
- Test and learn approach

Strongly cash generative

- Strong earnings growth
- Highly capital efficient
- Transparent dividend policy and high dividend payout ratio

= High return on capital

Financial highlights

Profit before tax

£299.1m

2010: £265.5m +13%

Earnings per share

81.9p

2010: 72.3p +13%

Full year dividend

75.6p

2010: 68.1p +11%

Return on average equity

59%

2010: 59%

Turnover

£2.19bn

2010: £1.58bn +38%

Net revenue

£870.3m

2010: £640.8m +36%

UK Car Insurance profit

£313.6m

2010: £275.8m +14%

UK Car Insurance customers

2,966,000

2010: 2,459,000 +21%

International Car Insurance customers*

306,000

2010: 162,900 +88%

* Excludes AdmiralDirekt

Contents

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

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

UK Car Insurance

Highlights

Turnover
£1,966m
2010: £1,420m +38%

Combined ratio
91.3%
2010: 83.5%

Vehicles
2.97m
2010: 2.46m +21%

Pre-tax profit
£313.6m
2010: £275.8m +14%

- The Group's core business is UK private car insurance – it accounts for 90% of turnover and customers
- 2011 saw continued market gain in market share (to around 11%)
- Profit increased by 14% to £313.6 million
- Higher combined ratio primarily driven by lower reserve releases

International Car Insurance

Highlights*

Turnover
£122m
2010: £78m +57%

Combined ratio
164%
2010: 173%

Vehicles
306,000
2010: 195,000 +57%

Pre-tax loss
£9.5m
2010: loss £8.0m

- The Group has four car insurers outside the UK, in Spain, Italy, the US and France
- Continued growth in turnover and customers in each business
- Modest improvement in combined ratio

* figures include AdmiralDirekt, which was sold in January 2011

Price Comparison

Confused.com

Chiarezza.it

Rastreator.com
Tu Comparador de Seguros

LeLynx.fr
Comparateur d'assurance auto

UK Highlights

UK revenue
£77.6m
2010: £71.8m +8%

Operating profit
£16.1m
2010: £16.9m -5%

International Highlights

International revenue
£12.8m
2010: £3.9m +230%

International quotes
3.8m
2010: 1.7m +120%

- Confused generated profit of £16.1m in a highly competitive UK market
- Confused's share of car insurance comparison market maintained in 2011
- International price comparison operations grew strongly in 2011

Other Group activites

GLADIATOR

Highlights

Gladiator revenue
£11.7m
2010: £11.8m -1%

Gladiator operating profit
£2.8m
2010: £2.7m +4%

Investment & interest income
£13.7m
2010: £9.5m +44%

Group cash plus investments
£1,393m
2010: £910m +53%

- Gladiator increased profit to £2.8m in a difficult commercial vehicle market
- The Group remains low-risk in its investment strategy. Investment and interest income increased on higher total cash and investment balances

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).

UK

Admiral launched a private car insurance business in 1993. At the end of 2011 Admiral was operating through four brands: Admiral, Elephant, Diamond and Bell.

Gladiator, a commercial van insurer started trading in 1998.

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

France

LeLynx, a price comparison website launched in January 2010.

L'olivier Assurances, a French car insurer started trading in December 2010.

Italy

ConTe, an Italian car insurer launched in May 2008.

Chiarezza, a price comparison website started trading in February 2010.

Spain

Admiral Seguros is the Group's Car Insurance based in Seville, Spain. It launched its first brand, Balumba in 2006.

Rastreator a Spanish price comparison website launched in March 2009.

USA

The largest market in which the Group operates is the USA. Elephant Auto launched there in October 2009. At the end of 2011 Elephant was operating in:

- Virginia
- Maryland
- Illinois
- Texas

In this section:

OVERVIEW

Alastair Lyons, CBE
Chairman

Our consistent strategy:

- Grow profitably our share of the UK private motor insurance market
- Exploit the knowledge, skills and resources attaching to our established UK businesses to promote our expansion overseas in both private motor and price comparison
- Learn by taking relatively small and inexpensive steps to test different approaches and identify the best way forward
- Operate a 'capital-light' business model transferring a significant proportion of our underwriting risk to reinsurance partners, which in turn allows Admiral to distribute the majority of our earnings as dividends
- 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

Delivering our strategy

Turnover
£2.19bn
2010: £1.59bn

Profit before tax
£299.1m
2010: £265.5m

Return on capital employed
59%
2010: 59%

Earnings per share
81.9p
2011: 72.3p

Dividend
75.6p
2010: 68.1p

Dividend payout ratio
92%
2010: 94%

Each year since we floated in 2004 Admiral has increased its turnover, its profitability, and its dividends to shareholders. 2011 was no exception, with our turnover growing by 38%, our pre-tax profits by 13%, and our dividends by 11%. Admiral now insures 3.36 million vehicles across all its operations and has an estimated 11% share of the UK private motor market.

A lot has been written about Admiral over the past six months, not all of which I recognise as accurately reflecting the business I have chaired for the past eleven years. I think it is, therefore, appropriate to restate the clear and straightforward strategy that determines our direction and our priorities and remains, we believe, as relevant now as when we first listed:-

- Grow profitably our share of the UK private motor insurance market
- Exploit the knowledge, skills and resources attaching to our established UK businesses to promote our expansion overseas in both private motor and price comparison
- Learn by taking relatively small and inexpensive steps to test different approaches and identify the best way forward
- Operate a 'capital-light' business model transferring a significant proportion of our underwriting risk to reinsurance partners, which in turn allows Admiral to distribute the majority of our earnings as dividends
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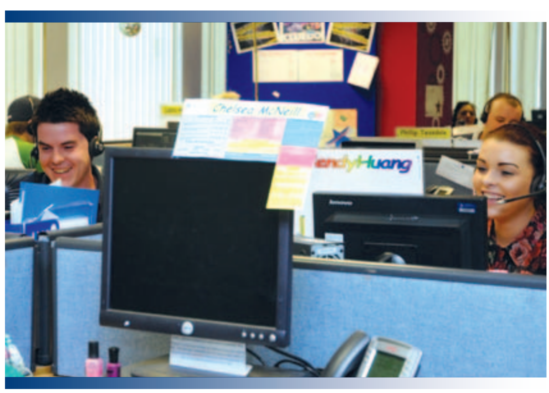
With our staff, management and Directors as shareholders we have all shared directly the disappointment of our broader shareholder base at the need in November to caution that our result for 2011 was likely to be somewhat lower than the prevailing analyst consensus. This mainly arose from the UK insurance business earned during 2011 which, whilst remaining very satisfactory at a 91% combined ratio, was not as profitable as we had previously expected.

It is important to underline that this did not result from inadequate booked reserves on prior years but from a higher than anticipated projected cost of bodily injury claims on a part of the business written during our recent rapid growth. The effect of our reinsurance agreements is that we receive a substantial share of emerging profit on all the business we write, while only bearing the risk of loss arising on a portion of that business. Changes to co- and reinsurance arrangements over the past few years give Admiral an even greater share of profits, meaning relatively small changes in the loss ratio have a material impact on our results.

The energies of our UK team have been focussed on taking the appropriate action as regards pricing and risk selection to put this issue behind us, re-establish the same broad confidence in the future potential of our business that we ourselves have, and restore lost shareholder value. Knowing as well as I do the quality of our management and our staff I am very confident that 2012 will demonstrate their capability and commitment to achieve this.



When all is said and done, Admiral's group pre-tax profits for 2011 at £299m represent a 13% growth on the previous year and deliver a 59% return on capital employed. They support total dividends for the year of 75.6 pence per share which represents a distribution of 92% of our earnings. Our normal dividend, growing in line with our growth in profits based on a 45% pay-out ratio, amounted to 36.8 pence per share, whilst our available surplus, after taking into account our required solvency, provision for our overseas expansion plans, and a margin for contingencies, made possible a further special dividend of 38.8 pence per share. In addition to this margin, we retain a significant buffer within our booked loss reserves against any future development, such as periodic payment orders, that might increase the cost of claims beyond what we currently project to be their ultimate cost.

This level of distribution, which sets Admiral apart from its peers, is made possible by our sharing the underwriting of our business with our reinsurance partners, and we have already announced the further extension of our current rolling quota share reinsurance contracts to cover the 2014 underwriting year.

We are very conscious of the impact on our customers of the significant increases in motor insurance premiums that the market has had to impose over the last two years to reflect the increasing cost of claims, in particular those relating to bodily injury. As the second largest player in the UK private motor market with 2.9 million customers we, therefore, fully support any action that will drive down the cost of claims. We also believe in open fair competition as we gain market share by pricing competitively and offering covers that meet the needs of our customers, such as Admiral MultiCar, which is now in its 7th year.

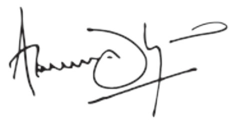
Our international expansion continues to make good progress across both car insurance and price comparison notwithstanding the impact on our customers of the challenging economic environment, particularly in southern Europe. In line with our strategy, we have advanced over the last five years in relatively small steps supported by a cautious level of investment.

We now have over 300,000 customers outside the UK and last year we provided close to 4 million quotes across our non-UK price comparison sites. Nowhere demonstrates better our test and learn approach than the US where we are now writing business in four states as we build our understanding of market dynamics and consumer buying behaviour. With this growth, Kevin Chidwick has moved his commercial focus, alongside his CFO responsibilities, from oversight of Confused.com to that of our US insurance operations.

Over the next two years, three of our Non-Executive Directors will reach the end of their permitted nine years. As I said last year, we are very keen to ensure continuity of knowledge and Board dynamics and have, therefore, a policy of recruiting well ahead of impending retirements. I am, therefore, delighted to welcome Roger Abravanel and Annette Court to the Board, the latter subject to FSA approval. With 34 years strategic consulting at McKinsey, and Non-Executive seats on the boards of a number of major international companies Roger brings to Admiral both an in-depth understanding of doing business in Italy, now our second largest market outside the UK, and a clear insight into how most effectively to develop our business internationally. Having been Chief Executive of RBS Insurance, the market leader in UK private motor insurance and European General Insurance CEO for Zurich Financial Services, Annette has both extensive experience in UK direct motor insurance and in building retail insurance businesses internationally.

Admiral has an experienced Board with the diverse range of backgrounds and perspectives needed to create an environment of challenging and constructive debate. As regards the specifics of gender diversity 23% of our Board are female whilst amongst our senior management team this proportion is 42%. We review annually the effectiveness of our Board, and of myself as Chairman, and the entire Board submits itself to annual re-election at the AGM. Recognising the needs of a growing and increasingly broad business the Board has a particular focus on the development of management talent. As Non-Executives we aim to understand the business by interacting with it informally as well as through the Board process. Each year Non-Executive Directors visit both specific parts of our UK business and one of our overseas businesses to spend time with local management. This provides an opportunity to discuss areas in more depth than is possible in the Board and to gain a first-hand view as to quality of management. The Board aims to maintain an appropriate balance between matters strategic and operational and each year has a multi-day off-site to review Admiral's progress against its strategic objectives and to shape future strategy. Conscious of the increasing demands of developments such as Solvency II we have this year split into two Committees, Audit and Risk, the activities of the Audit Committee, and our Committee Chairmen have the responsibility for identifying, and ensuring the delivery of, the technical training requirements of their members.

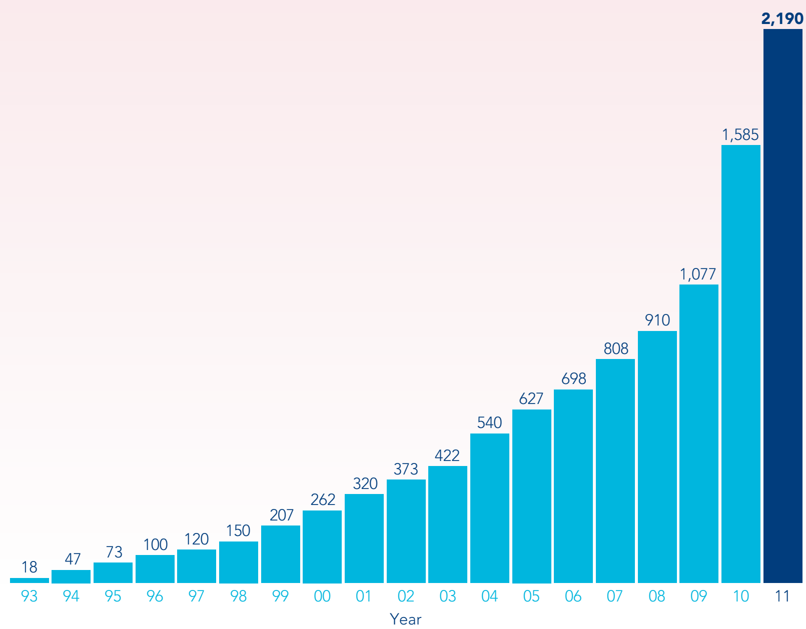
Let me finish by thanking all our people for the contribution they have individually made to a year where we have extended our business still further whether measured by revenue, profit, market share, or geography. It is their ownership of their objectives, their commitment to their delivery, and the creativity of their thinking, that underpin the delivery of our strategy and the sustained profitable growth that I am confident we shall continue to be able to report.



Alastair Lyons, CBE
Chairman
6 March 2012

Henry Engelhardt, CBE
Chief Executive Officer

Turnover: £m



Performance highlights:

- For the eighth consecutive year, Admiral Group has reported record turnover and record profits, with a return on capital of 59%.

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven, we were all going direct the other way."

How did Mr. Dickens know, nearly 200 years ago, that his words could be used to describe Admiral's 2011 year? (Or at least the way some pundits would see the year.)

Based on some of the hyperbole you might have heard during the year, what, you may be wondering, happened to Admiral in 2011? When last we left this narrative the company was flying along at great pace; able to leap tall buildings in a single bound. The market was raising rates and Admiral, lagging neatly just a tad behind those rate hikes, was winning loads of new customers. Admiral was starting from a combined ratio of 84% and so 2011 was looking like it would be a giant winner.

Fast forward a year. Profits are up 13%, and in most situations you'd call this a giant winner. But this is less than most people thought they would be. Far less than I thought they would be, that's for sure. It has been a disappointing year. Not because it was a bad year, but because so much more was expected.

Is Admiral broken? Not at all. Our ratios in the UK are still first rate. Simply put, the problem is that we've increased our volatility by increasing our profit commissions. So if our combined ratio moves up or down just a couple of points it adds or subtracts tens of millions from our bottom line. This was not the case in years past because we didn't get as much of the profits. So there's a penalty to pay for greater profits: greater volatility.

Meanwhile, we continue to grow our businesses outside the UK to ensure continued prosperity for Admiral Group well into the future. It was a good year for these operations, although all of the markets we're in present their own individual challenges.

In short, 2011 was the year of the chameleon: quite useful (they eat insects!) but changeable and a bit fickle. As we enter 2012 I feel confident. If there was any complacency developing in our operation it is certainly gone now. I know we've got lots of people who work hard every day to ensure Admiral's continued success well into the future.

For the eighth consecutive year, in fact every year since we became a public company, Admiral Group has reported record turnover and record profits with a return on capital of 59%. If this is, as Dickens put it, the winter of despair, then I say: Please, Sir, may I have some more?

Henry Engelhardt, CBE
Chief Executive Officer
6 March 2012

In this section:

PERFORMANCE

Once again in 2011, the Group grew significantly, with turnover increasing by 38% to £2,190.3 million (2010: £1,584.8 million) and the number of customers served around the Group reaching 3.36 million – a rise of 22% (2010: 2.75 million).

Pre-tax profit increased by 13% to £299.1 million from £265.5 million and earnings per share rose similarly to 81.9 pence (2010: 72.3 pence). Dividends for the 2011 financial year total 75.6 pence (including a 36.5 pence recommended final dividend) – up 11% on the 68.1 pence paid in respect of 2010.

The Group's core UK Car Insurance operation again accounted for 90% of Group turnover and a similar proportion of customers. The business continued to grow market share over the year, closing with 2.97 million vehicles insured. Though it contributed £37.8 million to the total Group profit increase of £33.6 million, a higher combined ratio than in 2010 (resulting predominantly from lower reserve releases) and lower profit commissions meant that the growth in profit was more modest than in recent years, increasing by 14% to £313.6 million from £275.8 million last year.

The Group's International Car Insurance operations insured a total of 306,000 vehicles at year-end, an increase of 88% over the end of 2010. Turnover for the businesses rose by 79% to £115.0 million (comparatives here exclude the AdmiralDirekt business in Germany which was sold in January 2011). Good progress continues to be made in all locations, and each grew market share over the year. The combined result from these young businesses was a loss of £9.5 million (up from £8.0 million in 2010).

In UK Price Comparison, Confused.com performed well in a tough environment, generating profit of £16.1 million – marginally down on 2010 (£16.9 million). Market share in the core car insurance product was stable. Sustained investment in developing International Price Comparison grew revenue and quotes significantly, resulting in a loss of £5.6 million (2010: £4.8 million).

Other Group key performance indicators include:

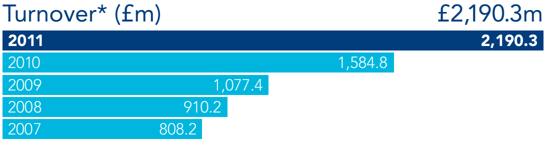
- Group combined ratio at 95.7%, against 89.3% in 2010
- Net revenue up 36% to £870.3 million
- Return on average equity at 59% – in line with 2010

Total dividends paid and proposed for the financial year amount to 75.6 pence per share (£203 million), an increase of 11% on the previous year (68.1 pence; £181 million).

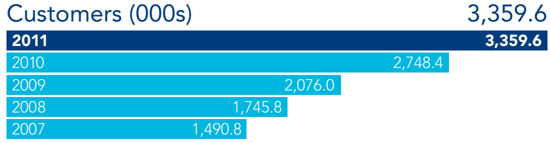
The Group's results are presented in three key segments – UK Car Insurance, International Car Insurance and Price Comparison. Other Group items are summarised in a fourth section.

Group financial highlights

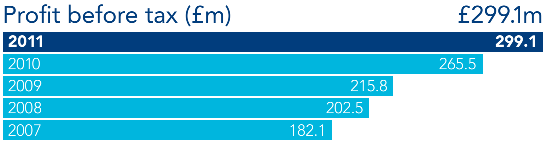
Turnover* (£m) £2,190.3m



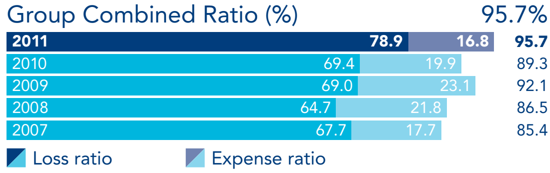
Customers (000s) 3,359.6



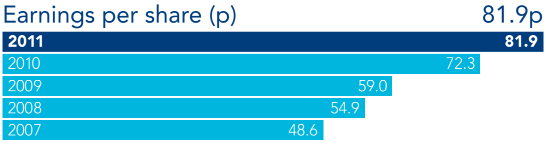
Profit before tax (£m) £299.1m



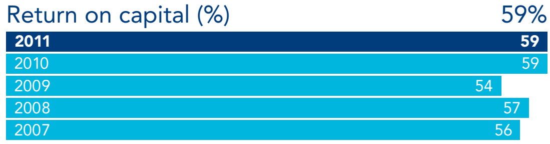
Group Combined Ratio (%) 95.7%



Earnings per share (p) 81.9p



Return on capital (%) 59%



* Turnover comprises total premiums written and other revenue

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.co.uk
- Our policies are distributed through price comparison websites and direct channels (our own websites and the telephone)
- We estimate that we account for over 11% of the UK market, insuring nearly 3 million cars at the end of 2011. Total UK premium in 2011 was over £1.7 billion
- Our main operations are in Cardiff, Swansea and Newport in South Wales, and Nova Scotia, Canada and Bangalore, India

UK Car Insurance strategy

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

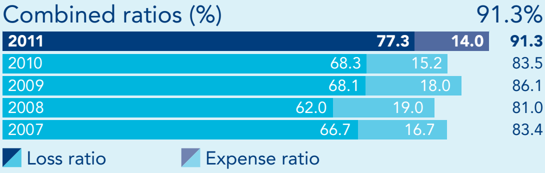
- We aim to grow profitably our share of the UK private motor insurance market
- At the same time, we endeavour always to give excellent service to our customers, whilst providing a positive environment in which our staff can work and develop

UK Car Insurance Key Performance Indicators

Vehicle base & growth (000s) 2,965.7

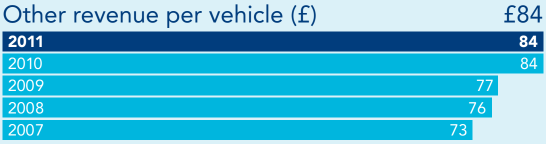
- Strong, sustained, organic growth: 21% increase in vehicle base in 2011
- 21% compound annual growth over 5 years
- Over 11% share of UK market

Combined ratios (%) 91.3%



- Consistent outperformance compared to market in underwriting profitability
- Combined ratio increased in 2011 to 91% from 84% due to increased loss ratio (77% from 68%)
- Expense ratio at 14% – around half the market average

Other revenue per vehicle (£) £84



- Substantial profit generated from non-underwriting activities – 31% increase in other revenue (ancillary plus instalment contribution)
- Ancillary contribution per vehicle stable in 2011 at £76
- Other revenue (ancillary plus instalment contribution) per vehicle also stable at £84

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

UK Car Insurance

Non-GAAP*1 format income statement

£m	2009	2010	2011
Turnover*2	939.1	1,419.7	1,966.0
Total premiums written*3	804.7	1,237.6	1,728.8
Net insurance premium revenue	199.1	269.4	418.6
Investment income	7.5	8.3	10.6
Net insurance claims	(138.7)	(192.6)	(335.5)
Net insurance expenses	(30.3)	(32.4)	(46.7)
Underwriting profit	37.6	52.7	47.0
Profit commission	54.2	67.0	61.8
Net ancillary income	106.3	142.4	181.5
Other revenue	8.8	13.7	23.3
UK Car Insurance profit before tax	**206.9**	**275.8**	**313.6**

*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

	2009	2010	2011
Reported loss ratio	66.9%	68.3%	77.3%
Reported expense ratio	18.0%	15.2%	14.0%
Reported combined ratio	84.9%	83.5%	91.3%
Written basis expense ratio	16.9%	14.4%	13.2%
Claims reserve releases	£31.3m	£23.5m	£10.3m
Vehicles insured at year-end	1.86m	2.46m	2.97m
Ancillary contribution per vehicle	£72	£77	£76
Other revenue (including ancillary contribution) per vehicle	£77	£84	£84

UK Car Insurance – Co-insurance and Reinsurance

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

The two principal advantages of the arrangements are:

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

Arrangements for 2011 to 2014

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

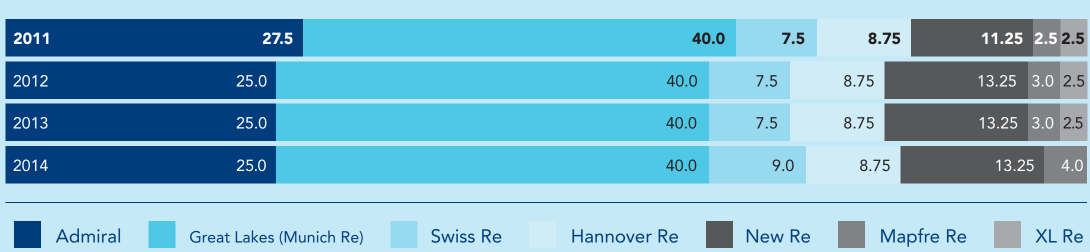
The proportion underwritten by Great Lakes (a UK subsidiary of Munich Re) is on a co-insurance basis, such that 40% of all motor premium and claims for the 2011 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

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

All other agreements are quota share reinsurance.

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

UK Co-insurance & Reinsurance Arrangements (% share)



UK Car Insurance Financial Performance

Further commentary on the UK business and market conditions is provided by David Stevens, in his Chief Operating Officer's review.

In line with expectations, the UK business again grew significantly during 2011, though the rate of growth slowed in the second half of the year.

Admiral's price changes over the course of 2011 have run ahead of the market (according to price surveys and internal data) and this contributed to the slow-down in growth in the second half of the year (vehicle count in H2 grew by 5%). Admiral's rates ended 2011 around 15% higher than a year earlier. Average written premium increased by around 12%.

Total premiums written in the UK increased by 40% to £1,728.8 million (2010: £1,237.6 million) whilst the number of vehicles insured at year-end increased 21% to 2.97 million (2010: 2.46 million).

Claims experience in 2011

The reported loss ratio for 2011 is 77.3%, up from 68.3% in 2010. A significant proportion of the increase relates to a lower level of releases from prior year reserves, which in 2011 only equated to 2.5% of net premium revenue, compared to 8.7% in 2010. The loss ratio excluding the impact of releases was 79.8% in 2011, up from 77.0% in 2010.

The two main factors contributing to the higher loss ratio are:

- Disappointing development in the number of 2009 and 2010 bodily injury claims that emerged as higher value (typically in excess of £100,000) claims than previously anticipated; and
- The proportion of new 2011 claims that were reported and reserved as higher value claims

The above experience was of particular note in quarters two and three of 2011. Experience in the first quarter of the year was in line with prior years, and in quarter four was better than quarter three.

Development during 2011 of underwriting years prior to 2009 was more positive in the second half of the year than in the first and was in line with past patterns.

To better understand and address the above claims experience, management has undertaken various actions including:

- Detailed claims review (including additional independent actuarial analysis and independent expert reviews of higher value claims files)

- Higher relative price increases, slowing the rate of growth in the second half of 2011
- Pricing action to shift the portfolio away from high bodily injury claims frequency segments
- Accelerating initiatives to further improve risk selection

The attractiveness of the profit commission arrangements under Admiral's co- and reinsurance contracts also results in a level of volatility in the income statement, as, despite only underwriting around one quarter of the risk on its own books, Admiral earns the majority of the profit achieved on the whole book.

Claims reserving

There has been no change in Admiral's reserving policy, which is initially to reserve conservatively, above independent and internal projections of ultimate loss ratios. This is designed to create a significant margin held in reserves to allow for unforeseen adverse development in open claims and would typically result in Admiral making above industry average reserve releases.

As profit commission income is recognised in the income statement in line with loss ratios accounted for on our own claims reserves, the reserving policy also results in profit commission income being 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 based on actuarial projections of ultimate loss ratios.

The effect of the higher booked loss ratio in 2011 (despite a 55% increase in net premium revenue) was a reduction in the level of profit commission, which fell to £61.8 million (15% of premium) from £67.0 million (25% of premium).

The expense ratio benefited from increased average premiums, and fell to 14.0% from 15.2% in 2010. Admiral's expense ratio continues to run at around half the market average.

As a result of the higher loss ratio, only slightly offset by the improved expense ratio, the combined ratio in 2011 increased to 91.3% from 83.5%. Although the ratio has worsened, the business remains highly profitable and management currently estimate the ultimate combined ratio on the business earned in 2011 will be between 85% and 90%.

Other revenue (including net ancillary contribution and instalment income) increased by 31% to £204.8 million from £156.1 million. This increase is in line with the increase in the average number of vehicles insured over the period. Ancillary contribution per vehicle was £76 in 2011, broadly consistent with 2010. Other revenue (which includes ancillaries and instalment income) per vehicle was £84 in both 2011 and 2010.

Ancillary income – analysis of contribution

£m	2009	2010	2011
Ancillary contribution	125.6	168.3	213.9
Instalment income	8.8	13.7	23.3
Other revenue	**134.4**	**182.0**	**237.2**
Internal costs	(19.3)	(25.9)	(32.4)
Net other revenue	**115.1**	**156.1**	**204.8**
Ancillary contribution per vehicle	**£72**	**£77**	**£76**
Other revenue per vehicle	**£77**	**£84**	**£84**

Ancillary contribution and other revenue

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

Instalment income relates to interest charged to customers paying for their insurance in instalments over the policy term.

Overall, despite the higher combined ratio, pre-tax profit grew by 14% to £313.6 million (2010: £275.8 million).

Regulatory environment

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

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

All three companies are required to maintain capital 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 European insurance companies will be subject to the regulations of Solvency II – the EU's new regulatory regime for insurers. The Group's Solvency II Implementation Committee (chaired by Chief Financial Officer Kevin Chidwick) continues to work towards ensuring the Group is ready to comply with the new rules when they come into effect. Key areas of focus are:

- Enhancing risk management and governance structures (including formation of Group Risk Committee which takes responsibility for Solvency II implementation)
- Updating Solvency Capital Requirement calculations
- Entering into the Gibraltar regulator's pre-application process for internal model approval

Based on current guidance, the Group does not anticipate a material change in its capital requirements under the new regime.

UK Car Insurance review

David Stevens
Chief Operating Officer

UK Car Insurance highlights

+21%

The number of UK vehicles insured by Admiral rose by 21% during 2011

+40%

Total premiums written in the UK increased by 40% during 2011

+14%

UK car insurance pre-tax profit grew by 14% in 2011

Our focus in 2012 will be on realising opportunities that we have identified to continue to do things better.

For both ourselves and the market as a whole, 2011 was a year of two halves.

For the market as a whole, the middle of the year marked the point when the dramatic premium inflation that kicked off in late 2009 ground to a halt. Over the 21 months to mid-2011 market price surveys suggested new business rate increases of almost 50%. These surveys significantly overstate the level of premium increases actually achieved, but it was undoubtedly a period of rapid premium inflation. In contrast, in the following six months the market drifted down by 1% as the shedders slowed their rate of market share decline and the growers, including ourselves, continued to add share.

A combination of benign weather, higher policy excesses, higher petrol prices and lower disposable income led to a fall in claims frequency of over 10% for the market as a whole. This also tempered insurers' appetite for price increases, and helped slow the relentless rise in the cost of bodily injury claims in the UK market.

The rapid increase in premiums put car insurance unusually high on the political agenda during 2011. The legislation following the Jackson recommendations, Jack Straw's private members' bill, scrutiny by the House of Commons Transport

Committee and then, towards the end of the year, the OFT exploration of a wide range of issues to do with the car insurance market, all took car insurance from the personal finance sections of the press to the front pages. Hopefully, the result will be some much needed reform of an often dysfunctional system to the benefit of customers and ultimately insurers.

For ourselves 'the game of two halves' was more about the rate of policy growth than the rate of premium increases. In the first half of 2011 our vehicle count grew 15%, in the second half 5%. Our competitiveness on price comparison sites peaked in March and fell month on month thereafter as we deliberately maintained the pace of price increases above and beyond the increases being put through by our competitors.

Our relatively higher price increases through most of 2011 were, in part, a response to a disappointing bodily injury claims experience in quarters two and three. The main source of the disappointment was in the proportion of 2009 and 2010 claims that were emerging as potentially bigger, costlier claims than anticipated and the proportion of new, 2011 claims that were being identified as potentially big claims, and reserved accordingly. The development of earlier years remained reassuringly stable with small improvements in expected ultimate loss ratios across most years.

Disappointment should perhaps be set in context. The currently anticipated combined ratio for 2011 is in the late eighties, a pretty attractive outcome both absolutely and relative to the combined ratio of the market as a whole. However, given our price increases and our established history of substantial over performance versus market, the outcome, if confirmed by the subsequent development of these claims, would qualify as a 'disappointment'. There remain, however, many opportunities that we have identified to continue to do things better, and avoid some of the issues we encountered in 2011, notably in terms of risk selection. After the rapid growth in 2010 and 2011, our focus in 2012 will be very much on realising these opportunities.

International Car Insurance

What we do

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

- Admiral Seguros (Seville, Spain) is our most mature international business, having traded for over five years. It delivered a second profitable year in 2011
- ConTe (Rome, Italy), which launched in May 2008
- Elephant Auto (Richmond, Virginia, USA) has been trading since October 2009 and now provides car insurance in four US states (Virginia, Maryland, Illinois and Texas)
- L'olivier Assurances (Paris, France) is the Group's newest business and enjoyed its first birthday in December 2011

International Car Insurance strategy

An important element of Group strategy is to exploit the knowledge, skills and resources attaching to Admiral's established UK businesses in order to promote our expansion overseas in both private motor and price comparison, aiming to create profitable, sustainable and growing businesses.

We also aim to learn by taking relatively small and inexpensive steps to test different approaches and identify the best way forward. Coupled with the use of proportional reinsurance across all these markets, this means the impact on the Group's income statement of the new initiatives is modest.

As previously reported, the decision was made in late 2010 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 insurer in early 2011. The impact on the financial statements is insignificant.

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 selected countries outside the UK	• Spain, Balumba, October 2006 • Germany, AdmiralDirekt, October 2007 – now sold • Italy, ConTe, May 2008 • USA, Elephant, October 2009 • France, L'olivier Assurances, December 2010
2. Develop each new operation into a profitable, sustainable, growing business	• All businesses remain in early stages • Admiral Seguros has been profitable since 2010 • ConTe, Elephant Auto and L'olivier Assurances are each making good progress • Each business grew market share in 2011 and in total now insure over 300,000 vehicles
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 Group will not persevere in markets where there is no strong probability of success within a reasonable timeframe

International Car Insurance Financial Performance

Non-GAAP format income statement*1

£m	2009	2010	2011
Turnover	47.2	77.6	122.2
Total premiums written	43.0	71.0	112.5
Net insurance premium revenue	12.8	18.7	27.2
Investment income	0.2	0.1	0.2
Net insurance claims	(13.0)	(15.9)	(28.3)
Net insurance expenses	(13.0)	(16.5)	(16.2)
Underwriting result	**(13.0)**	**(13.6)**	**(17.1)**
Net ancillary income	3.3	5.3	8.0
Other revenue and charges	0.2	0.3	(0.4)
International Car Insurance result	**(9.5)**	**(8.0)**	**(9.5)**

Note – Pre-launch costs excluded

Key Performance Indicators*1

£m	2009	2010	2011
Reported loss ratio	102%	85%	104%
Reported expense ratio	102%	88%	60%
Reported combined ratio	**204%**	**173%**	**164%**
Vehicles insured	121,000	195,000	306,000
Ancillary contribution per vehicle	£32	£33	£31
Other revenue per vehicle	£35	£34	£32

*1 Figures include AdmiralDirekt (sold in January 2011)

The combined businesses continued to develop and increase market share during 2011, ending the year with a combined total of over 300,000 vehicles insured.

International Car Insurance Co-insurance and Reinsurance

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

In Spain and Italy, Admiral retains 35% of the risks, with the remaining 65% underwritten by Munich Re. In France, Admiral retains 30%, with 70% reinsured among three reinsurers.

Following the sale of AdmiralDirekt in early 2011, all premiums written and earned in 2011 in Germany are 100% reinsured to the acquirer. 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 insignificant.

In the USA, the Group retains one third of the underwriting, with the remainder 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 Italy, France and the USA include proportional sharing of ancillary profits.

International Car Insurance Financial Performance

The combined businesses continued to develop and increase market share during 2011, ending the year with a combined total of over 300,000 vehicles insured. This represents an increase of over 140,000 (around 90%) on the end of 2010 (AdmiralDirekt figures excluded).

Combined turnover reached £115.0 million (2010: £64.3 million, again excluding AdmiralDirekt) and in aggregate, the combined ratio improved to 164% from 173%.

The overall underwriting loss of £17.1 million (2010: £13.6 million) was mitigated by net other revenue of £7.6 million (£5.6 million) to give an overall loss of £9.5 million, up from £8.0 million in 2010.

Each market the Group operates in provides different challenges, but the Group is satisfied with the progress made in each business during 2011.

Price Comparison

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 from commissions paid by the product provider on the sale of an insurance policy or financial product
- Confused is one of the UK's leading car and home insurance comparison websites

In Europe

We have three price comparison businesses operating outside the UK:

- Rastreator in Spain (launched in 2009)
- LeLynx in France (launched in 2010)
- Chiarezza in Italy (launched in 2010)

All three sites allow consumers to compare a range of general insurance and financial services products across price and policy benefits

Price Comparison strategy

UK

- Confused's strategy is focussed on car insurance comparison and is aimed at making Confused the most competitive price comparison website in the UK market

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 market share, quote volumes, conversion rates, sales volumes, income per sale, revenue per customer and cost per sale.

Price Comparison Financial Performance

Non-GAAP format income statement

£m	2009	2010	2011
Revenue:			
Motor	62.2	59.6	72.2
Other	18.3	16.1	18.2
Total	80.5	75.7	90.4
Operating expenses	(55.6)	(63.6)	(79.9)
Operating profit	**24.9**	**12.1**	**10.5**
Confused.com profit	25.7	16.9	16.1
International Price Comparison result	(0.8)	(4.8)	(5.6)
Operating profit	**24.9**	**12.1**	**10.5**

UK Price Comparison – Confused.com

2011 was a much more stable year for Confused than 2010, with a broadly flat profit of £16.1 million on the prior year (2010: £16.9 million). This was a strong achievement in a market that has become yet more competitive, with ever higher amounts spent on media by the main competitors.

Revenue grew by around 8% to £77.6 million (2010: £71.8 million), though the competitive market required greater media investment and resulted in a fall in operating margin to 21% (24% in 2010).

Market share in car insurance comparison ended the year broadly in line with the end of 2010.

Revenue from other products contributed around 22% of revenue – in line with 2010.

International Price Comparison

The combined operations grew strongly in 2011, delivering revenue of £12.8 million, a substantial increase on 2010 (£3.9 million). Momentum built through the year, with £7.8 million of the full year total generated in the second half of the year.

Total quotes provided across all products also rose substantially, to 3.8 million in 2011 from 1.7 million last year.

The three businesses made a combined loss of £5.6 million, up from £4.8 million in 2010.

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.

Other Group items

£m	2009	2010	2011
Gladiator operating profit	2.4	2.7	2.8
Group net interest income	1.1	1.1	2.9
Share scheme charges	(9.2)	(15.0)	(18.6)
Expansion costs	(2.0)	(1.1)	(0.8)
Other central overhead	(1.7)	(2.1)	(1.8)

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	2009	2010	2011
Revenue	10.6	11.8	11.7
Expenses	(8.2)	(9.1)	(8.9)
Operating profit	**2.4**	**2.7**	**2.8**
Operating margin	23%	23%	24%
Customer numbers	93,400	94,500	87,900

Gladiator faced a challenging market in 2011 with significant price competition. Revenue was lower than in 2010 as a result of lower sales resulting from the increased competition.

Expenses were also lower than in 2010, and consequently operating profit increased modestly to £2.8 million from £2.7 million, whilst the operating margin percentage also moved up slightly to 24% from 23%.

Share scheme charges

The charge in the income statement increased to £18.6 million from £15.0 million for 2 key reasons:

- Higher share price at award: The weighted average share price for shares awarded in 2011 was £15.60 compared to £13.90 in 2010 (+16%)
- Higher number of shares awarded: In 2011, a total of 2.6 million shares were awarded under the Group's schemes – 10% higher than in 2010 (2.4 million), reflecting growth in Group headcount

Investments and Cash

Investment Strategy

There was no change in investment strategy, and the Group's funds continue to be held either in money market funds, term deposits or as cash at bank. The Group's Investment Committee continues to perform regular reviews of the strategy to ensure it remains appropriate.

The key focus of the Group's investment strategy is capital preservation, with an additional priority being a focus on low volatility of investment return.

Cash and investments analysis

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

31 December 2010	UK Car Insurance £m	International 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	**707.4**	**76.7**	**11.2**	**114.6**	**909.9**

The main change in the allocation of funds between the two main investment types (money market funds and term deposits) was an increase in the proportion allocated to money market funds (to 62% of total cash plus investments, from 40%). This was in order to reduce relative exposure to deposit counterparties. All investment objectives continue to be met. The Group's holding of non-UK sovereign debt is insignificant.

Average balances held during 2011 continued to grow substantially, in line with the growth of the business in the UK and internationally. Total investment and interest income rose to £13.7 million from £9.5 million in 2010. With little or no change in benchmark or market interest rates, the average rate of return on invested sterling funds (composing the large majority of total balances) was just over 1% in 2011 (up marginally on 2010).

The key focus of the Group's investment strategy is capital preservation

The Group continues to generate substantial amounts of cash, and the 'capital-light' business model enables the distribution of the majority of post-tax profits.

£m	2009	2010	2011
Operating cash flow, before transfers to investments	286.4	522.0	**779.1**
Transfers to financial investments	(10.5)	(240.8)	**(493.9)**
Operating cash flow	275.9	281.2	**285.2**
Tax and interest payments	(49.1)	(69.5)	**(95.3)**
Investing cash flows	(11.8)	(11.1)	**(12.9)**
Financing cash flows (largely dividends)	(142.2)	(164.9)	**(198.1)**
Foreign currency translation impact	(5.3)	(0.8)	(1.0)
Net cash movement	67.5	34.9	(22.1)
Net increase in cash and financial investments	77.8	276.9	473.8

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

£m	2009	2010	2011
Profit after tax	**156.9**	**193.6**	221.3
Change in net insurance liabilities	51.1	129.7	244.3
Net change in trade receivables and liabilities	(4.6)	101.4	203.7
Non-cash income statement items	24.1	25.4	32.0
Tax and net interest expense	58.9	71.9	77.8
Operating cash flow, before transfers to investments	**286.4**	**522.0**	**779.1**

The key features to note are:

- Total cash plus investments increased by £474 million (52%), largely driven by significant growth in the UK Car Insurance business. A higher portion of the cash inflow was transferred into investments, resulting in a small decrease in the amount of cash held at 31 December 2011
- Operating cashflow, before transfers into investments, was £779 million (an increase of 49%) – consistent with the increase noted above

Other financial items

Taxation
The taxation charge reported in the income statement is £77.8 million (2010: £71.9 million), which equates to 26.0% (2010: 27.1%) of profit before tax. The lower effective rate of taxation results from the lower average rate of UK corporation tax in 2011.

Earnings per share
Basic earnings per share rose by 13% to 81.9 pence from 72.3 pence. The change is in line with pre- and post-tax profit growth.

Dividends
The Directors have proposed a final dividend for the financial year of 36.5 pence per share. Total dividends for the year amount to 75.6 pence per share, 11% higher than the 68.1 pence distributed in respect of 2010.

The final dividend is made up of a 17.4 pence normal element based on the stated dividend policy of distributing 45% of post tax profits, and a further special element of 19.1 pence. The special dividend is calculated with reference to distributable reserves after considering capital that is required to be held a) for regulatory purposes; b) to fund expansion activities; and c) as a further prudent buffer against unforeseen events.

The payment date is 1 June 2012, ex-dividend date 2 May and record date 4 May.

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.

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.

Basic earnings per share rose by 13% to 81.9 pence from 72.3 pence.

At 31 January 2012, 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	10.0%
Morgan Stanley & Co Inc	21,848,582	8.1%
BlackRock Inc	14,047,726	5.2%
Power Corporation of Canada	10,295,739	3.8%

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

Principal risks and uncertainties

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

Risk	Description and Impact	Mitigation
1. UK Car Insurance – erosion of competitive advantage	Admiral has typically been able to produce a significant advantage over the UK market in combined ratio terms. 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 deliver growth (loss and expense ratio impacts) c) A deterioration in the ability to obtain or use data to price effectively 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 1990's, and has enjoyed regular outperformance against the market throughout that time. We now insure over 11% of the UK market and continue to write very profitable business. 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. There are regular reviews of the interactions between vehicle growth, pricing and claims experience. Claims and other senior management continue to pay close attention to the key indicators of adverse developments in large bodily injury claims. The Group's ownership of Confused.com, which is one of the leading UK price comparison websites and operates independently of the UK car insurance business, helps to mitigate the risk of over-reliance on this distribution channel. Admiral also contributes materially to the revenues of the other price comparison businesses and therefore it is not considered probable that a material source of new business would be lost.
2. UK & International 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 e) Significant increases in large bodily injury claims cost inflation	Many of the potential causes of claims shocks are outside the control of the Group and focus, therefore, is generally on how to prepare and react to the occurrence of such events. In the current economic environment there has been an increased focus on the management of claims fraud. In the case of legislative changes impacting existing claims, the Group holds an appropriate and explicit buffer in reserves to cover significant changes. To cover other potential claims shocks, we continue to hold an additional buffer in our reserves over the 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).

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. There is an ongoing risk that one or more of the operations 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 though at present the Board is confident there is a suitable management structure in place for the Group's international operations. 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 the level of ancillary profit earned per customer will diminish. This might be due to regulatory or legal changes, or customer or market behaviour. The impact on the Group would be less profit earned on the car insurance portfolios and a lower return on capital employed. The most immediate risk to ancillary profits arises from the OFT market study in motor insurance. Whilst there are a range of possible outcomes from this study, Admiral welcomes any changes that are likely to lead to lower claims costs.	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. Admiral continuously assesses the value of the ancillary products it offers, and makes changes to ensure the products offer value to policyholders. 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 currently attempting to increase their market share through aggressive media activity.	Confused management continually analyse the success or otherwise of all media activity. The Directors believe Confused is a fundamentally strong business and is well positioned to maintain its position in the UK price comparison market.
6. Co-insurance and reinsurance arrangements	Admiral uses proportional co-insurance and reinsurance across its insurance businesses to reduce its own capital needs (and increase return on the capital it does hold) and to mitigate the cost and risk of establishing new operations. There is a risk that such support will not be available in the future if the results of either the UK business or (more realistically) one or more of the international operations are not satisfactory to the co- and/or reinsurers. The impact on the Group would be the need to raise additional capital to support underwriting. This could be in the form of equity or debt. Return on capital would potentially be lower than current levels.	Admiral mitigates risks to its reinsurance arrangements by ensuring that it has a strongly rated and diverse range of partners. Admiral has enjoyed a long-term relationship with one of the world's strongest reinsurers, Munich Re, which has supported Admiral since 2000. The Group also has strong relationships with a number of other reinsurers, including Amlin, Hannover Re, Mapfre Re, New Re, Swiss Re and XL Re (avoiding reliance on a single partner). In the UK, co- and reinsurance arrangements have been agreed up to the end of 2014, reflecting confidence in the Admiral UK car insurance business. Pricing on these deals was in line with existing arrangements. The long-term co-insurance agreement with Munich Re will remain in place (at 40% of the business) until at least the end of 2016.
7. Credit risk	Admiral is exposed to credit risk primarily in the form of a) default of reinsurer; b) failure of banking or investment counterparty.	The mitigation of these risks is discussed in note 17 to the financial statements.

The Board also considers the following risks to be significant:

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

In this section:

GOVERNANCE

Corporate Responsibility

This report focuses on two key areas: Admiral's employees and customers.

Details on Admiral's commitment to charitable giving and community work and efforts to reduce our impact on the environment can be found on our website at www.admiralgroup.co.uk

Employees

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

This is a simple philosophy that runs throughout the Group. At the core of Admiral's success is a skilled and motivated workforce and the Group invests significant time and money in 4 key areas which underpin this:

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

Communication at Admiral is designed to be open, transparent and two-way. Employees are provided with a wide range of communication tools to assist in understanding the Company's goals and objectives. We work to communicate these in as many ways as possible. For example everyone is encouraged to attend the annual Staff General Meeting (SGM).

SGM

The SGM is the one occasion each year where all UK employees are brought together. As well as presentations from Admiral's Chairman and Executive Directors, there were guest speakers from the International Rugby Board and Wales Rugby Union.

Team briefings, suggestion schemes, staff forums, online chats and internal newsletters are a few of the other examples.

Column

The Column is a Group wide monthly newsletter issued to staff showcasing a broad range of activities from across the Group. The Column focuses on our staff with content contributed by staff from all levels from across the company. The magazine focuses on staff achievements and fun and charitable causes which our staff are involved in, whether through work or outside of it.

One of the most important tools we use to measure how we are doing, is an anonymous survey that collects views on what it is like working for Admiral. The survey includes questions covering 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.

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

The key results relating to morale and whether employees feel that their opinions are important are provided in the table above. 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 key areas such as morale, association with Admiral and how employees feel Admiral treats its customers, remained at very high levels in 2011 and encouragingly a number of areas have shown improvements. During 2011 the number of vehicles insured in the UK increased by over 20% and headcount increased by 27% (following vehicle growth in 2010 of 32%). Achieving positive results across these areas, whilst rapidly growing the business, is testament to the hard work of everyone at Admiral.

Across the Group we participate in a number of independently managed surveys such as; The Sunday Times Best Companies to Work For, the Great Place to Work Institute UK's Best Workplaces and the Great Place to Work Best Workplaces in Europe.

Admiral was again listed as one of The Sunday Times 100 Best Companies to Work For. Since its first publication 12 years ago, we have been listed every year, something we are very proud of and this year received special recognition for this achievement. In the 2012 list we were extremely pleased to be placed in sixth position – an excellent result for Admiral and everyone who works within the Group. We were also extremely pleased to receive the Well Being award and for Henry Engelhardt's ranking in the Best Leader category.

The organisers of the event have identified 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 23 February 2012 and are based on questionnaires completed by a number of UK employees, who were randomly selected by the organisers. For the 2012 results, surveyed during the fourth quarter of 2011, 3,322 (2011: 1,237) employees provided responses – a response rate of 75% (2011: 77%) of those receiving the questionnaires.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Position	32	42	46	60	20	20	21	57	37	16	9	6

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

Survey Factor	2008	2009	2010	2011	2012	2012 v 2011
Leadership	5.56	5.64	5.77	5.91	6.00	2%
My Company	5.35	5.47	5.58	5.82	5.89	1%
My Manager	5.64	5.69	5.74	5.85	5.91	1%
Personal Growth	5.12	5.10	5.17	5.41	5.53	2%
My Team	5.80	5.79	5.86	5.94	6.03	2%
Fair Deal	3.86	4.03	4.32	4.57	4.64	2%
Giving Something Back	4.70	4.81	4.99	5.12	5.15	1%
Wellbeing	5.15	5.12	5.19	5.30	5.27	-1%

It is not just Admiral's UK operation which is being recognised as a fantastic place to work.

The Group's US operation, Elephant Auto, based in Richmond, Virginia, was this year named as being one of the top 50 Most Engaged Workplaces in America for the first time. This annual award recognises top employers in the USA that display leadership and innovation towards engaging their employees.

Applicants for The 50 Most Engaged Workplaces™ Award are evaluated against one another by a panel of judges incorporating Eight Elements of Employee Engagement™. These core elements include: Communication, Leadership, Culture, Rewards & Recognition, Professional & Personal Growth, Accountability & Performance, Vision & Values, and Corporate Social Responsibility. These are deemed to be vital benchmarks in determining an employee's engagement and something we pride ourselves on as an employer.

In addition, there is another of our brands who have been steadily climbing up the rankings in their own country. 2011 saw ConTe placed 8th in the Italian Great Places To Work. ConTe, our Italian direct insurer, has improved its place in the survey in each of the last three years. This is a fantastic achievement for everyone at ConTe, and demonstrates that the Admiral culture is thriving in our start-up operations overseas.

We have a really simple approach to **Equality**. Everyone should be treated the same. There are no executive dining rooms, no company cars, no dress code, and everyone has their own desk. Fundamental to equality and also important for **Reward and Recognition** is the share ownership scheme.

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 report. All UK employees are eligible to receive shares in the Group's Approved Free Share Plan. Overseas employees are able to receive 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 2,241 shares – of which 851 could be sold free of income tax and national insurance. If none of the shares had been sold, these shares would be worth £24,600 (based on the share price of £10.96 on 1 March 2012).

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. Even with the share price fall experienced in 2011, 79% (2010: 78%) of employees say they are more likely to stay with Admiral because of the share schemes.

Fun If people like what they do, they will do it better. Organised activities for our staff can be weird, wild and wonderful, but they are also a great tool for motivating.

The Ministry of Fun (MOF) operates across the company, encouraging our staff to have fun at work. Responsibility for the scheme is rotated around the company and different departments take control of organising quizzes and competitions across the company. Every member of staff has the opportunity to take part. 2012 has already seen a scalectrix competition, staff nominating another member of staff to receive a handwritten letter along with a song, a hug and a rose as well as a 'beat the cube' contest.

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-05	411	585,675	1,425	1,142	6.60%
2	16-Mar-06	227	350,942	1,546	1,252	6.30%
3	05-Sep-06	213	350,811	1,647	1,383	5.30%
4	09-Mar-07	151	277,387	1,837	1,552	5.20%
5	04-Sep-07	182	353,444	1,942	1,671	4.70%
6	07-Mar-08	162	337,770	2,085	1,803	4.50%
7	22-Aug-08	163	353,732	2,164	1,921	3.74%

Each year Admiral celebrates its culture with a Top Ten Department competition.

The Top 10 awards are designed to give recognition to staff and the work they do throughout the year. Each department is posed a question and they have to respond with a presentation demonstrating their answer. 2011's question focussed on the benefits of teamwork.

As well as this, all staff across the company are asked to complete a questionnaire about how they feel their department is doing with regards to morale and how they are engaged as employees.

The results of these surveys are taken into account in deciding the winners.

The award ceremony takes place in Cardiff's City Hall, with hundreds of staff attending from all sites across South Wales and overseas. The winners are recognised across the company and highlighted in the Column, the news pages of our intranet and the four best presentations are available to view on Admiral TV (our in house video channel).

As part of our commitment to engage with staff, feedback is given to departments regarding their performances with special attention being given to the questionnaire responses.

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 2011 the Group had 3.36 million customers, up 22% from 2.75 million the year before.

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

- Measures programme
- Monitoring programme
- Comment form analysis
- Treating customers fairly reporting
- Complaints analysis
- 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 Column and awards are presented each year to the best departments (this is in addition to the Top Ten Department awards highlighted above).

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. There is a comprehensive monthly Treating Customers Fairly (TCF) Management Information pack, pulling together specific measures that demonstrate we are consistently treating our customers fairly. This is now adopted throughout the Group.

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 UK 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 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.

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 2011 the average red grades for the measures amounted to 3.99% (2010: 2.58%). 88% of the measures throughout the period achieved a green grade (2010: 88%).

TCF Measure	2008	2009	2010	2011	Targets
Complaints per 1,000 vehicles	1.14	1.06	1.19	1.33	<1.4
% Financial Ombundsman Service (FOS) complaints found in favour of Admiral	78%	67%	68%	66%	>75%
Customer service call answer rate	95%	93%	91%	94%	>90%
Claims call answer rate	92%	93%	94%	96%	>90%
Customer comment form score	9.37	9.39	9.31	9.28	>9.0
Claims Service Customer Comment forms	8.80	8.75	8.65	9.01	>8.5
% Customer who would renew following a claim	93%	93%	92%	91%	>85%
Call Answer rate for complaint lines	91%	93%	93%	91%	>90%

The increase in red grades was due to lower scores being achieved when customer calls are internally monitored for quality. During 2011 Admiral recruited heavily, naturally a newer member of staff may not be able to achieve the same level of quality as a more experienced team member. With time, as new employees gain experience, we hope to see improvements in this area.

Charitable, Community and Environment

We have showcased below a handful of examples of our charitable giving and community work and initiatives to reduce our impact on the environment. More examples are included on our website www.admiralgroup.co.uk.

Festival of Sport

For the last 6 years Admiral has supported the Neath Port Talbot Festival of Sport for children with disabilities in Margam Park, South Wales.

In 2011, 129 members of Admiral staff volunteered to attend the week-long event and support children in taking part in the activities which they otherwise may not have had the confidence or ability to do.

Neath Port Talbot's Disability Sport Development Officer and festival organiser Vicky Radmore said, "We're very grateful for the continued support from Admiral. Without their support we would not be able to accommodate as many young people, let alone provide the diversity of activities."

Balumba – Apadrina Un Poblado

Balumba, our direct insurer in Spain which launched in October 2006 has also embraced the company culture of giving back to the local and international community. Balumba runs a corporate volunteering program whereby employees work together to improve an impoverished community.

Balumba have chosen to 'adopt' Mariankiari village, in Junin, Peru. This will result in Balumba and its staff providing a helping hand to bring about sustainable improvements that meet basic human needs and improve the quality of life in the village. One visit was made during 2011, and a group of employees will be visiting the village in 2012 to further relationships with the villagers and establish the donation options which would be of most benefit to the community.

UK Community Chest

Admiral's Community Chest is a scheme set up to enable staff to have a very direct say in where our charitable budget is spent. If a member of staff or their family has involvement in an organisation, charity, school or local sports club and that group needs funding for something, then a member of staff can apply to the Community Chest for the funding. Since its launch in 1998, over £500,000 has been donated to organisations in the local area (with over 1000 successful applicants). In 2011 alone, the entire budget of £70,000 has been given as donations.

Board of Directors

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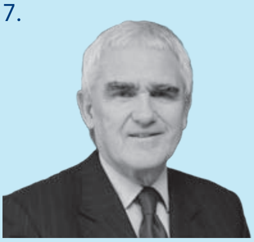
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1. Alastair Lyons, CBE (58)
Chairman □

Alastair was appointed Chairman of the Company in July 2000. He is also Non-Executive Chairman of Serco and of the Towergate Insurance Group, Deputy Chairman of Bovis Homes Group Plc, and Senior Independent Director at the Phoenix 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 the CBE in the 2001 Birthday Honours for services to social security.

2. Henry Engelhardt, CBE (54)
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, (48)
Chief Financial Officer

Kevin is responsible for finance, compliance and investments, as well as the subsidiary Elephant Auto. He joined Admiral in 2005, becoming Finance Director in September 2006.

Prior to Admiral, Kevin has been in UK financial services for over 25 years. He has held a number of senior roles in other insurance organisations including, most recently, Finance Director of Engage Mutual Assurance and Cigna UK.

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

4. David Stevens, CBE (50)
Chief Operating Officer ◇

David is a founder Director of Admiral. Initially the Marketing Director, he was appointed Director responsible for pricing in 1996 and claims and pricing in 1999. He was appointed as Chief Operating Officer in 2004.

He joined Admiral in 1991 from McKinsey & Co. where he worked in the Financial Interest Group, London office. Prior to working for McKinsey & Co, he worked for Cadbury Schweppes in the United Kingdom and the United States.

David has an MBA from Insead. David was awarded a CBE in 2010 for services to business and the community in Wales.

David is a member of the Risk Committee.

Key:
- △ Audit Committee member
- ○ Remuneration Committee member
- ◇ Risk Committee member
- □ Nomination Committee member

5. Manfred Aldag, (61)
Non-Executive Director

Manfred was appointed a Non-Executive Director of the Company in 2003. He graduated from University of Essen and has a degree in Economics/Business Management (Diplom-Kaufmann).

He has worked for Munich Re since September 1981 and is currently the Chief Executive Manager responsible for United Kingdom/Ireland.

6. Martin Jackson, (63)
Non-Executive Director △ ○ ◇

Martin was appointed Non-Executive Director and Chairman of the Audit Committee in August 2004. Martin stood down as Chairman of the Audit Committee with effect from 1 January 2012 and became Chairman of the newly formed Risk Committee from that date.

Martin is also a Non-Executive Director of IG Group Holdings plc and Rothesay Life Limited. 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.

He is a Fellow of the Institute of Chartered Accountants.

7. Keith James, OBE (67)
Non-Executive Director △ □

Keith was appointed a Non-Executive Director in December 2002. He is Chairman of the Nomination Committee and is also the independent Chairman of Admiral Insurance Company Limited and Inspop.com Limited.

He is also Chairman of Julian Hodge Bank Limited and Hodge Life Assurance Company Limited.

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.

8. Margaret Johnson, (53)
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.

9. Lucy Kellaway, (52)
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 Nomination Committee on appointment to the Board.

10. John Sussens, (66)
Non-Executive Director ○ ◇

John was appointed the Senior Independent Non-Executive Director in August 2004. He is Chairman of the Remuneration Committee and a member of the Risk Committee. He is also a Non-Executive Director of Cookson 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, (46)
Non-Executive Director △ ○

Colin was appointed a Non-Executive Director in December 2010 and immediately joined the Audit and Remuneration Committees. With effect from 1 January 2012, he has taken on the Chairmanship of the Audit Committee.

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. In 2011 he was appointed Chairman of GoOutdoors Ltd, which is a rapidly growing retailer of outdoor equipment and clothing.

Colin is a Chartered Management Accountant and was formally a member of the Executive Committee of Tesco plc. During his 22 year career at Tesco he held a wide range of positions including UK Finance Director and CEO Tesco Express.

12. Roger Abravanel, (65)
Non-Executive Director

Roger was appointed a Non-Executive Director with effect from 6 March 2012. He has significant international consulting experience having been with McKinsey and Co. from 1972 until his retirement as Director Emeritus in 2006.

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

Roger is also a member of the Board of the Italian Institute of Technology and is Chairman of the INSEAD Advisory Group in Italy.

13. Annette Court, (49)
Non-Executive Director △

Annette was appointed a Non-Executive Director (subject to FSA approval) and will join the Audit and Risk Committees on appointment to the Board. She has extensive insurance experience having been a former Chief Executive Officer of RBS Insurance with its Direct Line and Churchill direct brands, and a member of the RBS Group Executive Management Committee. Between 2007 and 2010 Annette was Chief Executive Officer for Europe General Insurance for Zurich Financial Services and a member of the Group Executive Committee. Annette has previously served as a member on the Board of the Association of British Insurers (ABI).

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2011.

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 £221.3 million (2010: £193.6 million).

The Directors declared and paid dividends of £198.8 million during 2011 (2010: £164.7 million) – refer to note 13 for further details.

The Directors have declared a final dividend of £99 million, 36.5 pence per share), payable on 1 June 2012.

Share capital

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

Financial Instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in note 17 to the financial statements.

Directors and their interests

The present Directors of the Company are shown on pages 32 - 33 of this report, whilst Directors' interests in the share capital of the Company are set out in the Remuneration report on pages 50 - 51.

Charitable and political donations

During the year the Group donated £178,000 (2010: £168,000) to various local and national charities. The Group has never made political donations. Refer to the Business review for further detail.

Employee policies

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

Creditor payment policy

It is the policy of the Group to pay all purchase invoices by their due date, and appropriate quality measures are in place to monitor and encourage this. At the end of the year outstanding invoices represented 14 days purchases (2010: 16).

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 2011, the company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital and shares issued during the year can be found in note 24.

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

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

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

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

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

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

Power to issue shares

At the last annual general meeting, held on 6 May 2011, authority was given to the Directors to allot unissued relevant securities in the Company up to a maximum of £88,721, equivalent to one third of the issued share capital as at 30 March 2011. This authority expires on the date of the annual general meeting to be held on 26 April 2012 and the Directors will seek to renew this authority for the following year.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company (up to a maximum of 5% of the issued share capital of the Company) for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the annual general meeting to be held on 26 April 2012 and the Directors will seek to renew this authority for the following year.

Appointments of Directors

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

However, in accordance with the requirement under the UK Corporate Governance Code for annual election of Directors, all Directors, apart from Keith James, will submit themselves for re-election at the Group's Annual General Meeting on 26 April 2012. Keith James, having served for 9 years as a Non-Executive Director, will be retiring from the Board at the forthcoming AGM and will not be submitting himself for re-election by shareholders.

Articles of Association

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

Power of the Directors

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

Annual General Meeting

It is proposed that the next AGM be held at Cardiff City Hall, Cathays Park, Cardiff CF10 3ND on Thursday 26 April 2012 at 2.00pm, 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 Annual General Meeting.

By order of the Board,

Mark Waters
Company Secretary
6 March 2012

Kevin Chidwick
Group Chief Financial Officer
6 March 2012

The UK Corporate Governance Code

This report sets out the governance framework in which the Group operates and the approach that it has taken in 2011 to achieve the standards of good corporate governance for which it is accountable to the Group's shareholders. It describes how the principles set out in the UK Corporate Governance Code (the 'Code') have been applied, and details the extent to which the Group has complied with the principles and provisions of the Code during the year under review.

The Board complied with the Code in all respects during 2011 except for Code E.1.1, which requires that the Senior Independent Director (John Sussens) should attend meetings with a range of shareholders. The Company has a comprehensive programme of meetings and dialogue with institutional investors, and the Chairman makes himself available for meetings with the largest 10 such investors. The views of investors expressed through this dialogue are communicated to the Board as a whole on a regular basis through the Investor Relations report. All Directors can, therefore, develop an understanding of issues or concerns of major shareholders should any be raised. Feedback from shareholders suggests that these arrangements for communication between the Company and its shareholders continue to be viewed by them as effective. The Senior Independent Director is always available to meet with individual shareholders on request to ensure the Board is aware of any shareholder concerns that cannot be resolved through the routine mechanisms for investor communications.

The Admiral Group Board

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

The Board has adopted a formal schedule of reserved matters, which is reviewed on an annual basis (this was last carried out in December 2011). 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 eight occasions in 2011 with five of these meetings being held over two days. Two of the meetings were unscheduled Board meetings that were called at short notice. The Board also held a strategy day and visited its operations in Spain and the United States. The Chairman visits each of the Group's overseas operations every year and Non-Executive Directors are invited to join either him or the Chief Executive on one or more of their overseas visits each year. In addition, the Non-Executive Directors and the Chairman met during the year without the Executive Directors being present. In order to increase their understanding of the operation of the Group below Board level, the Non-Executive Directors and the Chairman also attended a dinner with members of the Group's senior management team 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 Board and Committee meetings during the year were held in an open atmosphere with Chairmen encouraging robust and constructive challenge and debate. 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. It is the Group's policy that every three years an external consultant, who has no connection with the Company, carries out a formal review of the Board's performance and such an evaluation process took place in 2010. The evaluation process in 2011 was led by the Chairman with support from the Company Secretary. The process consisted of the completion, by all Directors, of a comprehensive questionnaire evaluating the performance of the Board and its Committees. The questionnaire considered board processes and their effectiveness, board composition, board objectives, board support, and content of discussion and focus at Board meetings, and invited Directors to indicate where specific improvements could be made. Completion of the questionnaire by each Director was followed by one-to-one discussions between each Director and the Chairman where the Board's role and structure, process, relationships, and any emerging issues were discussed.

The overall results of the evaluation were considered by the Chairman and the principal recommendations presented by him for review and discussion by the Board in February 2012. The evaluation concluded that good progress had been achieved in most of the areas identified for action in the last Board evaluation and that the Board and its Committees has continued to work very effectively in relation to most dimensions. Improvements have been seen in many of the areas of focus identified in the evaluation undertaken in 2010. These included the recruitment of two new Non-Executive Directors in response to forthcoming Non-Executive Director rotation as Directors reach their maximum term; and increased Board focus on the importance of effective succession planning and identifying talented individuals across the Group who have senior management potential.

In addition, the Chairman has concluded that each Director contributes effectively and demonstrates full commitment to his/her duties. As a result of the evaluation undertaken in 2011, the following emerged as areas of particular focus:

- Further increasing depth of management by recruiting talented individuals to assist existing management and develop as leaders of tomorrow
- Ensure that the balance of management time between the Group's core UK business and its overseas operations remains appropriate and aligned with the Group's agreed long term strategy objectives
- The effectiveness of Board visits to the Group's overseas operations was reviewed. Rather than annual formal visits to the Group's foreign businesses it was proposed that in future individual Non-Executive Directors should accompany the Chairman and Chief Executive on at least one of their overseas visits made throughout the year
- Whilst progress had been made in shifting the balance of Board consideration towards the strategic and away from the operational it was acknowledged that more time could be made available for in depth discussions on strategic issues and developments

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 Chairman's evaluation questionnaire. Following these discussions with the Chairman, the SID was able to confirm that the performance of the Chairman continues to be effective, and that 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 scheduled Board meetings and Committee meetings of which they are a member attended by each Director during 2011 is provided in the table below.

	Scheduled Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
Total meetings held	**6**	**5**	**3**	**6**
Alastair Lyons (Chairman)	6		3	
Henry Engelhardt (Chief Executive)	6			
David Stevens (Chief Operating Officer)	6			
Kevin Chidwick (Chief Financial Officer)	6			
Manfred Aldag	6			
Martin Jackson	6	5		6
Keith James	6	5	3	
Margaret Johnson	6	4		5
Lucy Kellaway	6		3	
John Sussens	6			6
Colin Holmes	6	5		5

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 and approved in December 2011.

Board balance and independence

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

Although Colin Holmes holds, with Alastair Lyons, a cross-directorship in Bovis Homes Group PLC, the Board has determined that Colin Holmes remains independent in character and judgement and that his holding of a cross-directorship does not affect his ability to present an objective, rigorous and constructive challenge to the assumptions and viewpoints presented by management and the Board nor will it affect his time commitment to the role.

As part of the ongoing review of the balance and composition of the Board and in the context of several of the Non-Executive Directors reaching their maximum term over the next two years, the Nomination Committee initiated the process of recruiting two Non-Executive Directors with, between them, insurance and international business experience to reflect the growth in the Group's overseas businesses. Appointments to the Board are the responsibility of the Board as a whole, acting on the advice and recommendations of the Nomination Committee. Following a formal, rigorous and transparent process implemented and led by the Nomination Committee the Board approved its recommendation and appointed Roger Abravanel and Annette Court as independent Non-Executive Directors. Roger Abravanel was appointed with effect from March 2012 and Annette Court was appointed subject to FSA approval. Roger Abravanel and Annette Court will be subject to election by shareholders at the forthcoming AGM.

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

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

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

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

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

Keith James, having served for 9 years as a Non-Executive Director, will be retiring from the Board at the forthcoming AGM and will not be submitting himself for re-election by shareholders.

In accordance with the requirement under the Code for annual election of Directors, all Directors, except Keith James, will be submitting themselves for re-election by shareholders at the forthcoming AGM. The Board is satisfied that all 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 Group 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 quarterly Investor Relations Report that is circulated to the Board. The Report contains an analysis of share price performance; a summary of analyst reports received during the quarter and of meetings that have been held with investors and analysts; together with details of any significant changes to the shareholders' register.

All shareholders are invited to attend the Company's Annual General Meeting (AGM). The Chairmen of the Audit, Remuneration, Nomination and Risk Committees attends 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 2011.

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 Nomination – all comply fully with the requirements of the Code. In December 2011 the Group announced its intention, with effect from 1 January 2012, to split the current remit of the Audit Committee into two with the establishment of a Group Risk Committee. The constitution and membership of the Risk Committee is set out below.

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

The Audit Committee

Constitution and membership

The membership at the end of the year was Martin Jackson (Chairman), Keith James, Margaret Johnson and Colin Holmes. In December 2011 the Group announced that, with effect from 1 January 2012, Colin Holmes would succeed Martin Jackson as Chair of the Audit Committee, with Martin becoming Chair of the newly constituted Group Risk Committee. Colin Holmes was appointed as a Non-Executive Director of the Company on 3rd December 2010 and joined the Audit Committee with effect from that date. Following this change the members of the Company's Audit Committee are Colin Holmes, Martin Jackson, Keith James, Margaret Johnson and Annette Court (appointment subject to FSA approval).

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

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

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

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

Summary of key activities during 2011

During the year the Committee reviewed the following:

- The annual report and interim results
- Reports from the internal audit departments within the Group on the effectiveness of the Group's risk management and internal control procedures, details of key audit findings, and actions taken by management to manage and reduce the impact of the risks identified
- Effectiveness of the Group's system of internal control, particularly gaining assurance that the internal control and risk management processes, including compliance, 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 'whistle-blowing' procedures
- The Group's reserving strategy which remained an area of focus for the Committee throughout the year

During the year 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. 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.

The Committee undertakes an annual review to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. Following this review the Committee concluded that the auditor, KPMG remained independent and was fit for purpose. It was agreed that a decision on whether to re-tender external audit should be reviewed at least every five years and, if deemed appropriate, a tender for external audit services would be carried out. In view of the high quality of service received by the Group; the fresh perspective provided by rotation of the audit engagement partner during the year and the continued competitiveness of their audit fee, the Committee recommended that a re-tender process should not be undertaken in 2011 but that the relationship and the effectiveness of KPMG should be kept under review. A resolution for the reappointment of KPMG as auditors will be proposed at the forthcoming AGM. During the year and in accordance with Auditing Practice Board guidance, KPMG rotated the audit engagement partner who had led the audit process for the Group for the last five years.

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

The Head of Internal Audit in the UK attends all 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 as well as obtaining all issued audit reports, enabling the Committee to challenge the content and related recommendations contained in the reports. The overseas internal auditors attend Committee meetings periodically. Committee members receive either the full reports or executive summaries and therefore have access to all internal audit reports, which gives the opportunity to raise questions on the content and recommendations contained within them. The Committee approves the internal audit programmes at the start of each calendar year and the activities performed, the effectiveness and workload of the internal audit functions, and the adequacy of available resources are monitored throughout the year.

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

During the year, the Committee specifically received presentations from senior managers on topics including the challenges of identifying fraud and the prevention and detection measures that were being implemented by the Group.

In 2011, the Committee approved the annual compliance review plan and received copies of the resulting reports. The Head of Compliance provided the Committee with quarterly Compliance Reports summarising activities. In addition, the Head of Risk provided the Committee with quarterly Risk Reports covering changes in key risk scores and providing details on any significant risk events. From 1 January 2012, the Group Risk Committee took over responsibility for review of the compliance activities and risk reports.

In addition to the evaluation of the Committee's effectiveness undertaken by the Board and in the context of the split of the remit of the Committee's activities with the establishment of a Risk Committee, 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 provide objective assessment of the Committee's performance, including its effectiveness in monitoring internal and external audit. The Committee discussed the results of the review and it was concluded that the Committee and the audit process were effective and that the Committee had full access to all the information it required; that the Committee had appropriate terms of reference; and that it had achieved its remit.

The Risk Committee

In recognition of the increased focus on the setting of the Group's risk strategy and risk appetite, and monitoring of the Group's risk management systems, particularly in the context of the implementation of Solvency II, the Group announced, in December 2011, its intention, with effect from 1 January 2012, to split the current remit of the Audit Committee into two with the establishment of a Group Risk Committee.

With effect from 1 January 2012, Martin Jackson moved from Audit Committee Chairman to Chairman of the Risk Committee, whose other members are Senior Independent Director, John Sussens, Executive Director, David Stevens and Non-Executive Director Annette Court (appointed subject to FSA approval).

The duties and responsibilities of the Risk Committee are set out in Terms of Reference that were approved by the Board in December 2011. The responsibilities of the Committee include:

- Setting the standard for the Group's risk framework, which includes the Risk Management Committees that are established within each of the Group's operational entities;
- Monitoring the Group's prudential risk exposure, which includes ensuring that the Group's capital resources and liquidity profile are appropriate to its needs whilst meeting minimum regulatory requirements;
- Ensuring the adequacy and effectiveness of the Group's systems and controls for the prevention of financial crime;
- Monitoring the adequacy and effectiveness of the Group's Compliance functions; and
- Reviewing the Group's proposed strategy for achieving Solvency II compliance.

The work of the Risk Committee is supported by more detailed work undertaken by Risk Management Committees in each of the Group's operational entities. Membership of each of these Committees includes the Managing Director of the operation. In the UK, membership of the Risk Management Committee includes the Group Chief Executive and the Chief Operating Officer. At each meeting, the Risk Management Committees consider significant movements in the operation' s risk profile, any risks that have been realised and any emerging risks. The Risk Committees also assess and monitor any regulatory issues, ensuing that their resolution and relevant actions are appropriately recorded.

The Nomination 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 met on three occasions during 2011.

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 2011, as part of the Board's commitment to review the size of the Board and the balance of its composition and having regard to the length of service of some of the existing Board members, the Board decided to initiate a search for two additional Non-Executive Directors. The Group has in place a policy of recruiting well ahead of impending retirements in order to ensure continuity of knowledge and Board dynamics. The Nomination Committee led this process and assessed the balance of skills, knowledge, independence, diversity and experience on the Board. The Committee developed appropriate specifications for these roles identifying the need for the successful candidates to have between them both insurance and overseas business experience. The Committee used external consultants to advise on the identification and suitability of potential candidates. All candidates were interviewed by members of the Committee. Following this process the Committee unanimously recommended to the Board that Roger Abravanel, having the required overseas business experience, should be appointed to the Board. Annette Court was separately identified by the Committee as a strong candidate given her extensive insurance business experience. All members of the Committee interviewed her and recommended to the Board that she should be appointed to the Board.

Annette Court is a former Chief Executive Officer of RBS Insurance/Direct Line and a member of the RBS Group Executive Management Committee. Between 2007 and 2010 Annette was Chief Executive Officer for Europe General Insurance for Zurich Financial Services and was a member of the Group Executive Committee.

Roger Abravanel has significant international consulting experience having been with McKinsey and Co. from 1972 until his retirement as Director Emeritus in 2006. Since his retirement Roger has applied his capacity for providing strategic, organisational and development advice as a Non-Executive Director, serving on, amongst others, the Boards of: Luxottica Group S.p.A.; Teva Pharmaceutical Industries LTD; Banca Nazionale del Lavoro S.p.A. and COFIDE S.p.A. Roger is also a member of the Board of the Italian Institute of Technology and is Chairman of the INSEAD Advisory Group in Italy.

The Board approved the Committee's recommendation and Roger Abravanel was formally appointed to the Board on 6 March 2012. The appointment of Annette Court is subject to FSA approval.

The Committee and subsequently the Board, at their meetings in December 2011, considered the Group's current Succession Plan. 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, and whether there was a permanent replacement available within the organisation, or whether the position would need to be filled externally. It also identified where there were individuals who would be capable of moving into particular senior management roles following the gaining of further experience.

The process of identifying and managing talent across the Group was discussed in detail by the Board at its meeting in February 2012. A presentation by the Executive team identifying key individuals within the organisation who could, with appropriate training and development, succeed, at the appropriate time, to senior management positions was considered.

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

The Committee is mindful of the recommendations made by Lord Davies in his report: Women on Boards. The Chairman announced in August 2011 that the Group strongly supports the principle of boardroom diversity, of which gender is an important, but not the only aspect. What is important is diversity of thought, experience, and approach and each new appointment must complement what already exists at the Board table. Accordingly, appointments will always be made on merit against objective criteria, including diversity, and not just to achieve an externally prescribed number.

The Group already has strong female representation in both management and at Board level. 42% of our senior managers are women, and on our Executive Committees women comprise 30% of that for the UK and 42% for our International operations. In addition, of the total employees in the UK, 48% are women. The proportion that women constitute of our plc Board is currently 23%, however, following the retirement of Keith James as a Non-Executive Director in April 2012, the Group will already have met the 25% target set for 2015 by Lord Davies. The Group remains committed to providing equal opportunities, eliminating discrimination and encouraging diversity amongst its workforce both in the UK and overseas.

Remuneration Committee

The membership at the year-end was John Sussens (Chairman), Martin Jackson, Margaret Johnson and Colin Holmes. 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 met six times during 2011.

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 judgments on the levels of remuneration appropriate for the Directors and to review the remuneration of the Group's senior Executives. PricewaterhouseCoopers (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 2011; 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 executive supervision of risk management and internal control to the Group Risk Committee, which was established on 1 January 2012. The work of the Group Risk Committee is supported by the UK Risk Management Committee (RMC) 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 strategy and policy by the Risk Committee; enforcement of that policy by the Chief Executive; delivery of the policy by the RMC and the Group's other UK and overseas entities by the application of the Group's systems of internal control and risk management; and the overall assurance provided by the Audit Committee that the systems operate effectively. The Board recognises that the day-to-day responsibility for implementing these policies must lie with the Senior Management whose operational decisions must take into account risk and how this can be controlled effectively. The Risk Committee will report on its activities to the Audit Committee as part of the overall assurance provided by the Audit Committee that the systems operate effectively.

During the year, a Head of Risk was appointed to oversee the Risk Department and take responsibility for ensuring managers are aware of their risk management obligations, providing them with support and advice, and ensuring that the risk management strategy is properly communicated. The Risk Department defines and prescribes the financial and operational risk assessment processes for the business; maintains the risk registers and undertakes regular reviews of these risks in conjunction with line management. Reports are produced showing the most significant risks identified and the controls in place.

Internal Audit uses the risk registers to plan and inform their programme of audits around the most significant risks to the Group to ensure that the described controls are in place and are operating effectively.

The Risk Committee, UK RMC and other UK and overseas Committees receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units. The 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, focussing on the principal assessed exposures and the effectiveness of the mitigation strategies adopted and from 1 January 2012 this was delegated to the Risk Committee. The Board 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 March 2012 the Board carried out the annual review of the effectiveness of the Group's system of internal controls for the 2011 year, also taking account of events since 31 December 2011, by considering documentation from the Audit Committee including 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 by the Risk Committee to implement the risk management strategy.

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

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 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, 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.

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 UK Corporate Governance Code (the 'Governance Code'), and has considered the guidelines issued by its leading shareholders and bodies such as the Association of British Insurers and the National Association of Pension Funds. 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 with consideration to the prevailing economic climate within the economies in which the Group operates. Its remit includes recommending the remuneration of the Chairman, the Executive Directors and the Company Secretary; reviewing the remuneration of senior management; and reviewing the composition of and awards made under the performance-related incentive schemes.

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

Its terms of reference are available on the Group's corporate website and are summarised in the Corporate Governance report.

Composition

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. 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.

The members of the Committee do not have any personal financial interests (other than shareholdings), or any conflicts that relate to the business of the Committee. The Committee is aware of the cross-directorships held by Colin Holmes and Alastair Lyons, who are both Directors of Bovis Homes plc. The Committee has satisfied itself as to the independence of Colin Holmes, however he has chosen to take no part in decisions on the Chairman's remuneration. The members do not have any day-to-day involvement in the running of the Group.

Activities

During the year ended 31 December 2011, the Committee met on six separate occasions. The key matters considered included:

- Reviewing salary proposals for the Executive Directors and Senior Management
- Reviewing the appropriateness of the performance conditions for both the Discretionary Free Share Scheme (DFSS) and Free Share Incentive Plan (SIP) awards
- Reviewing the company's performance against the performance conditions applicable to the DFSS and SIP awards and where appropriate authorizing the vesting of awards
- Reviewing and authorizing the grant of awards under both DFSS and SIP plans
- Reviewing the Committee's terms of reference and recommending amendments to the Board for approval

Advice provided to the Committee

During the year, in order to enable the Committee to reach informed decisions on executive remuneration, advice on market data and trends was obtained from independent consultants, Kepler Associates. In addition, the Committee received advice on the structure of the Group's share schemes from PricewaterhouseCoopers LLP (PwC). The Company Secretary also circulates market survey results as appropriate.

Remuneration Policy

The Group is committed to the primary objective of maximizing 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 and recognises the need to ensure that the remuneration policy is firmly linked to the Group's strategy including its risk management philosophy and given this approach, 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 developments in governance are also considered, as are general salary levels throughout the organisation
- Performance linked – A significant part of the Executive Director's (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, which provides cover of three times salary to all UK 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 £9,000. This is available to all employees following completion of their probationary period. (Kevin Chidwick is included in the plan and is subject to the maximum employer contribution limit of £9,000. Henry Engelhardt and David Stevens have declined to be included in the plan)
- Private Medical Cover and Permanent Health Insurance, available to approximately 220 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 3-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.

The Committee reviewed the performance targets contained within the DFSS scheme and agreed that the criteria based on earnings per share measured against LIBOR continued to represent a challenging and appropriate target.

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 to attract and retain 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 continues to feel that having a group-wide bonus equivalent to the dividend flow received by investors further aligns the incentive structure with shareholders.

The Company has controls in place to ensure that shares awarded under both schemes operated by the Company within any rolling ten year period do not exceed 10 per cent of the number of ordinary shares in the capital of the Company 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 4.3% taking his salary to £365,000 with effect from 1 July 2011. David Stevens was awarded a rise of 4.5% to £345,000 with effect from 1 September 2011.

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.

There are three main elements to the Chief Financial Officer's remuneration package:

1) Basic annual salary

With effect from 1 October 2011 Kevin Chidwick's base salary was increased broadly in line with UK inflation by 5% to £420,000. The Committee considered that the increase in Kevin Chidwick's base salary was justified given his performance during the year as CEO of Confused.com, the Group's price comparison business, the effective manner in which he has maintained his responsibilities as Chief Financial Officer and his contribution to the Group in a wider context across a number of areas.

2) Awards under the DFSS

Kevin Chidwick received an award of 50,000 DFSS shares on 15 April 2011 with a value at the date of the award of £809,500. 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.

3) DFSS bonus

Consistent with other holders of unvested DFSS awards, Kevin Chidwick received a bonus calculated to be equivalent to dividends that would have been payable during the year on DFSS shares awarded but not vested. In 2011 these bonuses totalled £106,000 (2010: £80,000).

Additional benefits include private medical cover, permanent health insurance, death in service cover and eligibility for the Group's Personal Pension Plan.

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 (month)	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.
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.
Colin Holmes	3 years commencing 3 December 2010, 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 in 2011. It was agreed that given the increased time commitment and preparation involved of having an additional Board meeting in 2012 the base fee should be increased by £5,000 to the figure as set out below:

Base fee	50,000
Plus:	
Member of Audit Committee	12,000
Member of Risk Committee	12,000
Senior Independent Director	5,000
Chair of Audit Committee	20,000
Chair of Risk Committee	20,000
Chair of Nomination 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.

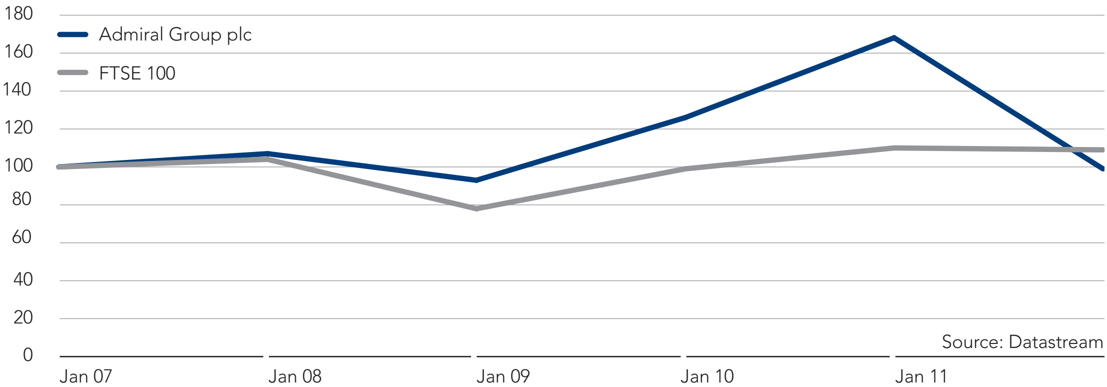
The fee payable to Alastair Lyons in respect of his appointment as Chairman of the Board is reviewed annually. Following review in January 2011 the Chairman's fee was increased from £180,000 to £210,000 p.a. The Committee approved the increase in fees payable to the Chairman on the basis that they remained modest and appropriate for a Chairman of a FTSE 100 company. The appointment may be terminated by either the Chairman or the Company on three months' notice.

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 Annual General Meeting.

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 2007 up to 31 December 2011. 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 2011	31 December 2010
Executive Directors		
Kevin Chidwick*	72,870	50,067
Henry Engelhardt**	39,313,565	40,490,720
David Stevens	10,534,450	10,234,000
Chairman and Non-Executive Directors		
Alastair Lyons	492,152	562,152
Manfred Aldag	1,919	–
Colin Holmes	40,000	–
Martin Jackson	–	–
Keith James	46,150	44,500
Margaret Johnson	–	–
Lucy Kellaway	–	–
John Sussens	60,000	8,000

All figures include amounts held by family members.

* Includes 1,755 shares within the Group's SIP details of which are shown below. Of these, 898 have reached their three-year maturity date.

** The decrease in the shareholding of Henry Engelhardt since 31 December 2010 reflects the transfer of 2,200,000 shares to the Moondance Foundation - a charitable foundation of which both Henry Engelhardt and his wife Diane Briere de l'Isle are trustees. Diane Briere de l'Isle also acquired 1,022,845 shares during 2011.

Directors' remuneration – Audited

Remuneration for the year ended 31 December 2011 was as follows:

	Base salary and fees (£000)	Bonuses (£000)	Benefits (£000)	2011 Total (£000)	2010 Total (£000)
Executive Directors					
Kevin Chidwick*1	405	106	6	517	455
Henry Engelhardt	357	–	1	358	344
David Stevens	335	–	1	336	324
Chairman and Non-Executive Directors					
Alastair Lyons	210	–	–	210	180
Manfred Aldag	6	–	–	6	6
Colin Holmes	64	–	–	64	–
Martin Jackson	70	–	–	70	65
Keith James*2	104	–	–	104	100
Margaret Johnson	62	–	–	62	57
Lucy Kellaway	50	–	–	50	45
John Sussens	64	–	–	64	55
Totals	1,727	106	8	1,841	1,636

*1 Kevin Chidwick received bonuses of £106,000 in lieu of dividends on shares awarded (but not yet vested) under the Group's DFSS bonus plan (consistent with all DFSS scheme participants).

*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 International 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 31/12/11 or maturity (£)	Date of award	Final vesting/ maturity date
DFSS	48,667	–	48,667*	–	£8.08	£393,229	£814,199	29/04/08	29/04/11
DFSS	45,009	–	–	45,009	£8.89	£400,130	£383,477	13/04/09	13/04/12
DFSS	45,010	–	–	45,010	£13.29	£598,182	£383,485	30/04/10	30/04/13
DFSS	3,000	–	–	3,000	£15.51	£46,530	£25,560	15/12/10	15/12/13
DFSS	–	50,000	–	50,000	£16.39	£819,500	£426,000	15/04/11	15/04/14
SIP	162	–	162	–	£9.18	£1,487	£2,679	07/03/08	07/03/11
SIP	163	–	163	–	£9.20	£1,499	£2,479	22/08/08	22/08/11
SIP	171	–	–	171	£8.74	£1,494	£1,457	06/03/09	06/03/12
SIP	140	–	–	140	£10.67	£1,494	£1,193	28/08/09	28/08/12
SIP	121	–	–	121	£12.36	£1,495	£1,031	05/03/10	05/03/13
SIP	100	–	–	100	£14.90	£1,490	£852	27/08/10	27/08/13
SIP	–	90	–	90	£16.78	£1,510	£767	08/03/11	08/03/14
SIP	–	110	–	110	£13.52	£1,487	£937	05/09/11	05/09/14

The closing price of Admiral shares on 31 December 2011 was £8.52 per share

* 100% of the DFSS award made in April 2008 vested during 2011. The earnings per share index for the performance period (2008 to 2010 years, inclusive) was 149 points, compared to the LIBOR index for the same period of 108 (outperformance of 41 points). 10% of the award is achieved for meeting LIBOR, with a further 2.5% for each point of outperformance (up to a maximum of 100%).

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

This report was approved by the Board of Directors on 6 March 2012 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 2011 set out on pages 53 to 84. 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 35, 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 2011 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 44-45 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:
And
Under the Listing Rules we are required to review:

- 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 45, in relation to going concern;
- the part of the Corporate Governance Statement on pages 37-45 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

6 March 2012

In this section:

FINANCIAL STATEMENTS

Consolidated income statement

	Note:	Year ended: 31 December 2011 £m	31 December 2010 £m
Insurance premium revenue		959.7	574.6
Insurance premium ceded to reinsurers		(513.9)	(286.5)
Net insurance premium revenue	5	**445.8**	**288.1**
Other revenue	6	349.0	276.2
Profit commission	7	61.8	67.0
Investment and interest income	8	13.7	9.5
Net revenue		**870.3**	**640.8**
Insurance claims and claims handling expenses		(785.9)	(416.7)
Insurance claims and claims handling expenses recoverable from reinsurers		422.1	208.2
Net insurance claims		**(363.8)**	**(208.5)**
Operating expenses	9, 10	(188.8)	(151.8)
Share scheme charges	9, 24	(18.6)	(15.0)
Total expenses		**(571.2)**	**(375.3)**
Profit before tax		**299.1**	**265.5**
Taxation expense	12	(77.8)	(71.9)
Profit after tax		**221.3**	**193.6**
Profit after tax attributable to:			
Equity holders of the parent		221.2	193.8
Non-controlling interests		0.1	(0.2)
		221.3	**193.6**
Earnings per share:			
Basic	14	81.9	72.3p
Diluted	14	81.7	72.2p

Dividends declared and paid (total)	13	198.8	164.7
Dividends declared and paid (per share)	13	74.6p	62.4p

Consolidated statement of comprehensive income

	Year ended:	
	31 December 2011 £m	31 December 2010 £m
Profit for the period	**221.3**	**193.6**
Other comprehensive income		
Exchange differences on translation of foreign operations	(1.0)	(0.8)
Other comprehensive income for the period, net of income tax	**(1.0)**	**(0.8)**
Total comprehensive income for the period	**220.3**	**192.8**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	220.2	193.0
Non-controlling interests	0.1	(0.2)
	220.3	**192.8**

Consolidated statement of financial position

		As at:	
	Note:	31 December 2011 £m	31 December 2010 £m
ASSETS			
Property and equipment	15	17.6	13.6
Intangible assets	16	87.5	82.9
Deferred income tax	23	10.3	12.4
Reinsurance assets	18	639.8	357.0
Trade and other receivables	17, 19	52.1	47.9
Financial assets	17	1,583.0	1,004.7
Cash and cash equivalents	17, 20	224.6	246.7
Assets held for sale		–	1.5
Total assets		**2,614.9**	**1,766.7**
EQUITY			
Share capital	24	0.3	0.3
Share premium account		13.1	13.1
Other reserves		3.2	4.2
Retained earnings		377.3	332.7
Total equity attributable to equity holders of the parent		**393.9**	**350.3**
Non-controlling interests		0.5	0.4
Total equity		**394.4**	**350.7**
LIABILITIES			
Insurance contracts	18	1,333.7	806.6
Trade and other payables	17, 21	856.6	561.0
Current tax liabilities		30.2	48.4
Total liabilities		**2,220.5**	**1,416.0**
Total equity and total liabilities		**2,614.9**	**1,766.7**

These financial statements were approved by the Board of Directors on 6 March 2012 and were signed on its behalf by:

Kevin Chidwick
Director:
Admiral Group plc

Company Number: 03849958

Consolidated cash flow statement

	Note	31 December 2011 £m	31 December 2010 £m
Profit after tax		**221.3**	**193.6**
Adjustments for non-cash items:			
– Depreciation		6.1	4.6
– Amortisation of software		3.3	2.7
– Change in unrealised gains on investments		(1.9)	(1.3)
– Other gains and losses		0.9	0.9
– Share scheme charge	24	23.6	18.5
Change in gross insurance contract liabilities		527.1	273.7
Change in reinsurance assets		(282.8)	(144.0)
Change in trade and other receivables, including from policyholders		(88.4)	(152.9)
Change in trade and other payables, including tax and social security		292.1	254.3
Taxation expense		77.8	71.9
Cash flows from operating activities, before movements in investments		**779.1**	**522.0**
Net cash flow into investments		(493.9)	(240.8)
Cash flows from operating activities, net of movements in investments		285.2	281.2
Taxation payments		(95.3)	(69.5)
Net cash flow from operating activities		**189.9**	**211.7**
Cash flows from investing activities:			
Proceeds from investing activities		3.9	–
Purchases of property, equipment and software		(16.8)	(11.1)
Net cash used in investing activities		**(12.9)**	**(11.1)**
Cash flows from financing activities:			
Capital element of new finance leases		1.0	0.4
Repayment of finance lease liabilities		(0.3)	(0.6)
Equity dividends paid	13	(198.8)	(164.7)
Net cash used in financing activities		(198.1)	(164.9)
Net (decrease)/increase in cash and cash equivalents		**(21.1)**	**35.7**
Cash and cash equivalents at 1 January		246.7	211.8
Effects of changes in foreign exchange rates		(1.0)	(0.8)
Cash and cash equivalents at end of period	20	**224.6**	**246.7**

Consolidated statement of changes in equity

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

1. General information and basis of preparation

General information

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

The consolidated financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2011 and comparative figures for the year ended 31 December 2010. The financial statements of the Company's subsidiaries are consolidated in the Group financial statements. The Company controls 100% of the voting share capital of all its principal subsidiaries, except Rastreator.com Limited. 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 2011, 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 2011 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
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- Amendments to IFRS 12, IFRS 1, IAS 1, IAS 19, IFRS 7, and IAS 32
- IFRIC interpretation 20: Stripping costs in the production phase of a surface mine

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

In addition, none of the standards or interpretations adopted for the first time in the year have had a material impact on the consolidated financial results or position of the Group for the year ended 31 December 2011.

Basis of preparation

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

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

Further information regarding the company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Business review on pages 11-26. Further information regarding the financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Business review on pages 11-26. In addition note 17 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The accounting policies set out in 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. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, it is recognised by adjusting the carrying amount of the related asset or liability in the period of the change.

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 reinsurance contracts. A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

Estimation techniques used in calculation of claims provisions:

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

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

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

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

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

The claims 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 assumptions to allow for unforeseen adverse claims development. 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 revenue 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 in other comprehensive income and in a separate component of equity.

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

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

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

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

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

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

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

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

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

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

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

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 (CGU's) according to business segment and is reviewed annually for impairment.

The Goodwill held on the balance sheet at 31 December 2011 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 CGU's) 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 cashflow projections in the value in use calculations is 11.3% (2010: 11.5%), 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 2 and 4 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 and equipment, and depreciation

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

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

Impairment of property and equipment:

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

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 2011 and 31 December 2010.

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

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

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

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

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

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

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

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 cashflows arising from the asset.

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

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

h) Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term deposits with original maturities of three months or less. All cash and cash equivalents are measured at amortised cost.

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

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

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

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

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

Refer to note 24 for further details on share schemes.

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

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

Current tax related to items recognised 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 have been enacted or substantially enacted by the balance sheet date, or that are expected to apply in the period when the liability is settled or the asset is realised.

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

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

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 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 their carrying value and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

4. Operating segments
The Group has 4 reportable segments, as described below. These segments represent the principal split of business that is regularly reported to the Group's Board of Directors, which is considered to be the Group's chief operating decision maker in line with IFRS 8, Operating Segments.

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

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

Price Comparison
The segment relates to the Group's price comparison websites Confused in the UK, Rastreator in Spain, LeLynx in France and Chiarezza in Italy. Each of the Price Comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as LeLynx, Chairezza and Rastreator do not individually meet the threshold requirements in IFRS 8.

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

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 2011, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in note 3 for the Group.

	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	31 December 2011 Eliminations £m	31 December 2011 Segment total £m
Turnover*	1,966.0	122.2	90.4	11.7	–	2,190.3
Net insurance premium revenue	418.6	27.2	–	–	–	445.8
Other revenue and profit commission	299.0	9.7	90.4	11.7	–	410.8
Investment and interest income	10.6	0.2	–	–	–	10.8
Net revenue	728.2	37.1	90.4	11.7	–	867.4
Net insurance claims	(335.5)	(28.3)	–	–	–	(363.8)
Expenses	(79.1)	(18.3)	(79.9)	(8.9)	–	(186.2)
Segment profit/(loss) before tax	**313.6**	**(9.5)**	**10.5**	**2.8**	**–**	**317.4**
Other central revenue and expenses, including share scheme charges						(21.2)
Interest income						2.9
Consolidated profit before tax						**299.1**
Taxation expense						(77.8)
Consolidated profit after tax						**221.3**
Other segment items:						
Capital expenditure	12.4	2.9	1.1	0.4	–	16.8
Depreciation and Amortisation	37.8	11.8	1.2	0.3	–	51.2

*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 2010 are shown below.

	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	31 December 2010 Eliminations £m	31 December 2010 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.

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

The total of Price Comparison revenues from transactions with other reportable segments is £16.1m (2010: £15.0m). These amounts have not been eliminated on consolidation 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 International Car Insurance reportable segment shown above. The revenue and results of the three International 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 2011 are as follows.

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

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

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

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

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

	UK Car Insurance £m	International car insurance £m	Price Comparison £m	Other £m	31 December 2010 Eliminations £m	Segment total £m
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
Trade and other receivables	150.5	(4.7)	(0.9)	8.5	(105.5)	47.9
Financial assets	947.3	47.4	–	–	–	994.7
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

5. Net insurance premium revenue

	31 December 2011 £m	31 December 2010 £m
Total motor insurance premiums before co-insurance	1,841.3	1,308.6
Group gross premiums written after co-insurance	1,128.4	738.5
Outwards reinsurance premiums	(622.0)	(380.0)
Net insurance premiums written	506.4	358.5
Change in gross unearned premium provision	(168.7)	(163.9)
Change in reinsurers' share of unearned premium provision	108.1	93.5
Net insurance premium revenue	445.8	288.1

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 2011 £m	31 December 2010 £m
Ancillary revenue	223.3	174.6
Price comparison revenue	90.4	75.7
Other revenue	35.3	25.9
Total other revenue	349.0	276.2

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

7. Profit commission

	31 December 2011 £m	31 December 2010 £m
Total profit commission	61.8	67.0

8. Investment and interest income

	31 December 2011 £m	31 December 2010 £m
Net investment return	10.8	8.4
Interest receivable	2.9	1.1
Total investment and interest income	13.7	9.5

Interest received during the year was £2.9m (2010: £1.1m).

9. Operating expenses and share scheme charges

	31 December 2011			31 December 2010		
	Insurance contracts £m	Other £m	Total £m	Insurance contracts £m	Other £m	Total £m
Acquisition of insurance contracts	36.2	–	36.2	20.9	–	20.9
Administration and other marketing costs	26.7	125.9	152.6	28.0	102.9	130.9
Expenses	62.9	125.9	188.8	48.9	102.9	151.8
Share scheme charges	–	18.6	18.6	–	15.0	15.0
Total expenses and share scheme charges	62.9	144.5	207.4	48.9	117.9	166.8

Analysis of other administration and other marketing costs:

	31 December 2011 £m	31 December 2010 £m
Ancillary sales expenses	33.8	26.9
Price comparison operating expenses	79.9	63.6
Other expenses	12.2	12.4
Total	125.9	102.9

The £26.7m (2010: £28.0m) 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 £369.9m (2010: £333.2m). This amount can be reconciled to the total expenses and share scheme charges above of £207.4m (2010: £166.8m) as follows:

	31 December 2011 £m	31 December 2010 £m
Gross expenses	369.9	333.2
Co-insurer share of expenses	(77.9)	(99.5)
Expenses, net of co-insurer share	292.0	233.7
Adjustment for deferral of acquisition costs	(11.0)	(7.9)
Expenses, net of co-insurer share (earned basis)	281.0	225.8
Reinsurer share of expenses (earned basis)	(73.6)	(59.0)
Total expenses and share scheme charges	207.4	166.8

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

	31 December 2011 £m	31 December 2010 £m
Insurance contract expenses from above	62.9	48.9
Add: claims handling expenses	11.9	8.5
Adjusted expenses	74.8	57.4
Net insurance premium revenue	445.8	288.1
Reported expense ratio	16.8%	19.9%

10. Staff costs and other expenses

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

	31 December 2011 £m	31 December 2010 £m
Salaries	114.5	92.5
Social security charges	10.3	12.7
Pension costs	1.3	1.3
Share scheme charges (see note 24)	23.6	18.5
Total staff expenses	149.7	125.0
Depreciation charge:		
– Owned assets	5.4	4.1
– Leased assets	0.7	0.5
Amortisation charge:		
– Software	3.3	2.7
– Deferred acquisition costs	41.8	23.4
Operating lease rentals:		
– Buildings	7.9	6.4
Auditor's remuneration (including VAT):		
– Fees payable for the audit of the Company's annual accounts	–	–
– Fees payable for the audit of the Company's subsidiary accounts	0.2	0.2
– Fees payable for other services	0.3	0.2
Net foreign exchange losses	0.8	0.8
Analysis of fees paid to the auditor for other services:		
Tax compliance services	0.1	–
Tax advisory services	0.2	0.1
Other services	–	0.1
Total as above	0.3	0.2

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

11. Staff numbers (including Directors)

	Average for the year: 2011 Number	2010 Number
Direct customer contact staff	4,264	3,280
Support staff	1,060	972
Total	5,324	4,252

12. Taxation

	31 December 2011 £m	31 December 2010 £m
Current tax:		
Corporation tax on profits for the year	80.3	87.4
Over provision relating to prior periods	(3.2)	(0.7)
Current tax charge	77.1	86.7
Deferred tax:		
Current period deferred taxation movement	(0.8)	(15.3)
Under provision relating to prior periods – deferred tax	1.5	0.5
Total tax charge per income statement	77.8	71.9

Factors affecting the total tax charge are:

	31 December 2011 £m	31 December 2010 £m
Profit before tax	299.1	265.5
Corporation tax thereon at effective UK corporation tax rate of 26.5% (2010: 28%)	79.3	74.3
Expenses and provisions not deductible for tax purposes	0.1	(0.1)
Difference in tax rates	0.5	0.2
Adjustments relating to prior periods	(1.7)	(0.1)
Other differences	(0.4)	(2.4)
Total tax charge for the period as above	77.8	71.9

13. Dividends

Dividends were declared and paid as follows.

	31 December 2011 £m	31 December 2010 £m
March 2010 (29.8p per share, paid April 2010)	–	78.3
September 2010 (32.6p per share, paid October 2010)	–	86.4
March 2011 (35.5p per share, paid May 2011)	94.5	–
August 2011 (39.1p per share, paid October 2011)	104.3	–
Total dividends	198.8	164.7

The dividends declared in March represent the final dividends paid in respect of the 2009 and 2010 financial years. Dividends declared in September 2010 and August 2011 are interim distributions in respect of 2010 and 2011.

A final dividend of 36.5p per share (£99m) has been proposed in respect of the 2011 financial year. Refer to the Chairman's statement and Business review for further detail.

14. Earnings per share

	31 December 2011 £m	31 December 2010 £m
Profit for the financial year after taxation (£m)	221.2	193.6
Weighted average number of shares – basic	269,903,301	267,827,176
Unadjusted earnings per share – basic	81.9p	72.3p
Weighted average number of shares – diluted	270,782,526	268,221,829
Unadjusted earnings per share – diluted	81.7p	72.2p

The difference between the basic and diluted number of shares at the end of 2011 (being 879,225; 2010: 394,653) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 24 for further detail.

15. Property and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	Total £m
Cost:					
At 1 January 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 1 January 2010	2.2	6.4	2.5	1.0	12.1
Net book amount:					
At 31 December 2010	1.7	8.6	2.5	0.8	13.6
Cost:					
At 1 January 2011	5.2	24.1	8.5	3.4	41.2
Additions	1.5	4.5	2.9	1.5	10.4
Disposals	–	(0.3)	–	–	(0.3)
At 31 December 2011	6.7	28.3	11.4	4.9	51.3
Depreciation:					
At 1 January 2011	3.5	15.5	6.0	2.6	27.6
Charge for the year	0.9	3.5	1.2	0.5	6.1
Disposals	–	–	–	–	–
At 31 December 2011	4.4	19.0	7.2	3.1	33.7
Net book amount					
At 31 December 2011	2.3	9.3	4.2	1.8	17.6

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

	31 December 2011 £m	31 December 2010 £m
Computer equipment	2.8	1.2

16. Intangible assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
At 1 January 2010	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
Additions	–	43.3	6.4	49.7
Amortisation charge	–	(41.8)	(3.3)	(45.1)
Disposals	–	–	–	–
At 31 December 2011	62.3	16.4	8.8	87.5

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 2011 £m	31 December 2010 £m
Financial assets:		
Investments held at fair value	862.1	363.6
Held to maturity deposits with credit institutions	297.0	299.6
Receivables – amounts owed by policyholders	423.9	341.5
Total financial assets per consolidated balance sheet	1,583.0	1,004.7
Trade and other receivables	52.1	47.9
Cash and cash equivalents	224.6	246.7
	1,859.7	1,299.3
Financial liabilities:		
Trade and other payables	856.6	561.0

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 £280.8m (2010: £285.2m) based on a calculation to discount expected cashflows arising at the Group's weighted average cost of capital (WACC). The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

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

	On demand £m	< 1 Year £m	Between 1 and 2 years £m	> 2 Years £m
Financial assets:				
Investments held at fair value	862.1	–	–	–
Held to maturity deposits with credit institutions	–	175.3	79.2	42.5
Receivables – amounts owed by policyholders	–	423.9	–	–
Total financial assets	862.1	599.2	79.2	42.5
Trade and other receivables	–	52.1	–	–
Cash and cash equivalents	224.6	–	–	–
	1,086,7	651.3	79.2	42.5
Financial liabilities:				
Trade and other payables	–	856.6	–	–

The maturity profile of financial assets and liabilities at 31 December 2010 was as follows:

	On demand £m	< 1 Year £m	Between 1 and 2 years £m	> 2 Years £m
Financial assets:				
Investments held at fair value	363.6	–	–	–
Held to maturity deposits with credit institutions	–	197.3	60.8	41.5
Receivables – amounts owed by policyholders	–	341.5	–	–
Total financial assets	363.6	538.8	60.8	41.5
Trade and other receivables	–	47.9	–	–
Cash and cash equivalents	246.7	–	–	–
	610.3	586.7	60.8	41.5
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 Committee. There is also an Investment Committee that makes recommendations to the Board on the Group's investment strategy.

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

Credit risk:
The Group defines credit risk as the risk of loss if another party fails to perform its obligations 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 highly rated credit institutions.

To mitigate the risk arising from exposure to reinsurers (in the form of reinsurance recoveries and profit commissions), the Group only conducts business with companies of 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 2011 is £1,807.6m (2010: £1,251.4m) 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 2011 is insignificant.

There were no significant financial assets that were past due at the close of either 2011 or 2010.

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

	Rating	31 December 2011 £m	31 December 2010 £m
Financial institutions – Money market funds	AAA	862.1	363.6
Financial institutions – Credit institutions	AA	178.2	252.6
Financial institutions – Credit institutions	A	98.0	47.0
Financial institutions – Credit institutions	BBB	20.8	–
Reinsurers	A	88.3	104.4

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. These are classified as held to maturity and valued at amortised cost. Therefore neither the capital value of the deposits, or the interest return will be impacted by fluctuations in interest rates.

No sensitivity analysis to interest rates has been presented on the grounds of materiality.

Liquidity risk:
Liquidity risk is defined as the risk that the Group does not have sufficient, available, financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.

The Group is strongly cash generative due to the large proportion of revenue arising from non-underwriting activity. Further, as noted above, a significant portion of insurance funds are invested in money market liquidity funds with same day liquidity, meaning that a large proportion of the Group cash and investments are immediately available.

A breakdown of the Group's financial liabilities – trade and other payables is shown in note 21. In terms of the maturity profile of these liabilities, all amounts will mature within 3 – 6 months of the balance sheet date except for a minority of finance lease liabilities which will expire after 12 months. (Refer to note 22 and the maturity profile at the start of this note for further detail.)

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 £579.4m (2010: £327.4m), £432.9m (2010: £213.8m) 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 cashflows arising from these assets will be consistent with this profile.

Liquidity risk is not, therefore considered to be significant.

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

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

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 Committee.

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

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 2011, 40% of the UK risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer. A further 32.5% of the UK risk was ceded under quota share reinsurance contracts.

As well as these proportional arrangements, an excess of loss reinsurance programme is also purchased to protect the Group against very large individual claims and catastrophe losses.

ii) Data driven pricing:
The Group's underwriting philosophy is focused on a sophisticated data-driven approach to pricing and underwriting and on exploiting the competitive advantages direct insurers enjoy over traditional insurers through:

- Collating and analysing more comprehensive data from customers;
- Tight control over the pricing guidelines in order to target profitable business sectors; 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 2011 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	2011
Booked loss ratio	74%	69%	72%	77%	77%	82%
Impact of 1% change (£m)	2.1	3.6	2.8	4.1	8.5	6.2

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 2011 £m	31 December 2010 £m
Gross:		
Claims outstanding	781.1	434.2
Unearned premium provision	552.6	372.4
Total gross insurance liabilities	1,333.7	806.6
Recoverable from reinsurers:		
Claims outstanding	334.2	165.2
Unearned premium provision	305.6	191.8
Total reinsurers' share of insurance liabilities	639.8	357.0
Net:		
Claims outstanding	446.9	269.0
Unearned premium provision	247.0	180.6
Total insurance liabilities – net	693.9	449.6

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

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

The maturity profile of gross insurance liabilities at the end of 2010 was 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 5 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):	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £m
Underwriting year (UK only):						
Earlier years	(26.3)	31.1	10.6	0.1	8.2	–
2007	(67.3)	(42.0)	11.6	2.7	0.6	(94.4)
2008	–	(89.5)	(57.7)	10.2	4.6	(132.4)
2009	–	–	(96.9)	(66.9)	(4.8)	(168.6)
2010	–	–	–	(130.2)	(128.5)	(258.7)
2011	–	–	–	–	(203.7)	(203.7)
UK net claims incurred (excluding claims handling costs)	(93.6)	(100.4)	(132.4)	(184.1)	(323.6)	
International net claims incurred	(2.8)	(9.5)	(13.6)	(15.9)	(28.3)	
Claims handling costs and other amounts	(3.4)	(4.7)	(5.7)	(8.5)	(11.9)	
Total net claims incurred	(99.8)	(114.6)	(151.7)	(208.5)	(363.8)	

	Financial year ended 31 December				
UK loss ratio development:	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
Underwriting year (UK only):					
2006	87%	79%	75%	75%	74%
2007	89%	80%	72%	70%	69%
2008		88%	79%	74%	72%
2009			84%	75%	77%
2010				78%	77%
2011					82%

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

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

	Financial year ended 31 December				
	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
Underwriting year:					
2000	0.7	0.4	0.4	–	(0.4)
2001	1.5	0.5	0.5	–	–
2002	1.3	–	0.3	0.3	0.2
2003	3.2	2.3	1.2	–	0.7
2004	7.6	6.4	(1.6)	0.8	1.2
2005	12.6	11.0	1.8	–	3.7
2006	2.6	10.5	7.9	(1.0)	2.9
2007	–	6.9	11.6	2.7	0.6
2008	–	–	9.2	10.3	4.5
2009	–	–	–	10.4	(4.7)
2010	–	–	–	–	1.6
Total net release	29.5	38.0	31.3	23.5	10.3
UK net premium revenue	140.2	161.9	199.1	269.4	418.6
Release as % of UK net premium revenue	21.0%	23.5%	15.7%	8.7%	2.5%

f) Reconciliation of movement in net claims provision:

	31 December 2011 £m	31 December 2010 £m
Net claims provision at start of period	269.0	209.4
Net claims incurred	351.9	199.9
Net claims paid	(174.0)	(140.3)
Net claims provision at end of period	446.9	269.0

g) Reconciliation of movement in net unearned premium provision:

	31 December 2011 £m	31 December 2010 £m
Net unearned premium provision at start of period	180.6	110.6
Written in the period	506.4	358.5
Earned in the period	(440.0)	(288.5)
Net unearned premium provision at end of period	247.0	180.6

19. Trade and other receivables

	31 December 2011 £m	31 December 2010 £m
Trade receivables	51.1	47.9
Prepayments and accrued income	1.0	–
Total trade and other receivables	52.1	47.9

20. Cash and cash equivalents

	31 December 2011 £m	31 December 2010 £m
Cash at bank and in hand	224.6	246.7
Total cash and cash equivalents	224.6	246.7

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term deposits with original maturities of 3 months or less.

21. Trade and other payables

	31 December 2011 £m	31 December 2010 £m
Trade payables	12.1	13.3
Amounts owed to co-insurers and reinsurers	579.4	327.4
Finance leases due within 12 months	0.9	–
Finance leases due after 12 months	–	0.2
Other taxation and social security liabilities	21.9	16.5
Other payables	51.0	59.7
Accruals and deferred income (see below)	191.3	143.9
Total trade and other payables	856.6	561.0

Of amounts owed to co-insurers and reinsurers, £432.9m (2010: £213.8m) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2011 £m	31 December 2010 £m
Premium receivable in advance of policy inception	110.1	82.3
Accrued expenses	55.8	46.2
Deferred income	25.4	15.4
Total accruals and deferred income as above	191.3	143.9

22. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2011			At 31 December 2010		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	0.9	–	0.9	–	–	–
Between one and five years	–	–	–	0.2	–	0.2
More than five years	–	–	–	–	–	–
	0.9	–	0.9	0.2	–	0.2

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

23. Deferred income tax (asset)

	31 December 2011 £m	31 December 2010 £m
Brought forward at start of period	(12.4)	5.7
Movement in period	2.1	(18.1)
Carried forward at end of period	(10.3)	(12.4)

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

Analysis of net deferred tax (asset):

	31 December 2011 £m	31 December 2010 £m
Tax treatment of share scheme charges	(3.6)	(6.9)
Capital allowances	(1.5)	(1.3)
Other differences	(5.2)	(4.2)
Deferred tax (asset) at end of period	(10.3)	(12.4)

The UK corporation tax rate reduced from 28% to 26% on 1 April 2011. It is expected to fall to 25% on 1 April 2012. Deferred tax has therefore been calculated at 25% where the temporary difference is expected to reverse after this date.

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

Amounts credited to income or expense:

	31 December 2011 £m	31 December 2010 £m
Tax treatment of share scheme charges	1.9	(0.8)
Capital allowances	(0.2)	(0.3)
Other differences	(1.0)	3.6
Remittance of overseas income	–	12.3
Net deferred tax credited to income	(0.7)	14.8

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

24. Share capital

	31 December 2011 £m	31 December 2010 £m
Authorised:		
500,000,000 ordinary shares of 0.1p	0.5	0.5
Issued, called up and fully paid:		
270,789,075 ordinary shares of 0.1p	0.3	–
268,571,725 ordinary shares of 0.1p	–	0.3
	0.3	0.3

During 2011 2,217,350 (2010: 2,094,434) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

717,350 (2010: 594,434) 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 (2010: 1,500,000) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

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

	31 December 2011 £m	31 December 2010 £m
SIP charge (note i)	6.0	5.1
DFSS charge (note ii)	12.6	9.9
Total share scheme charges	18.6	15.0

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2011: £23.6m, 2010: £18.5m) and the gross credit to reserves reported in the consolidated statement of changes in equity.

The consolidated cashflow statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cashflows 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 (3 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 2011 scheme is 1,791,234 (2010 scheme: 1,662,303).

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

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

The range of awards is as follows:

- If the growth in EPS is less than the RFR, no awards vest;
- EPS growth is equal to RFR – 10% of maximum award vests; and
- To achieve the maximum award, EPS growth has to be 36 points higher than RFR over the 3-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 2011:

	Awards outstanding (*1)	Vesting date
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
SIP H210 scheme	346,590	March 2014
SIP H111 scheme	489,060	September 2014
DFSS 2009 scheme 1st award	1,313,865	April 2012
DFSS 2009 scheme 2nd award	127,020	August 2012
DFSS 2010 scheme 1st award	1,542,453	April 2013
DFSS 2010 scheme 2nd award	120,951	August 2013
DFSS 2011 scheme 1st award	1,634,032	April 2014
DFSS 2011 scheme 2nd award	157,202	September 2014
Total awards committed	7,334,546	

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

During the year ended 31 December 2011, awards under the SIP H207 and H108 schemes and the DFSS 2008 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 2011:

	Original Awards	Awards vested
SIP H207 scheme	337,770	294,192
SIP H108 scheme	352,732	313,123
DFSS 2008 scheme, 1st award	1,306,381	1,165,265
DFSS 2008 scheme, 2nd award	87,691	67,968

25. Financial commitments

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

Operating leases expiring:	31 December 2011 £m	31 December 2010 £m
Within 1 year	–	0.2
Within 2 to 5 years	12.0	11.1
Over 5 years	20.3	16.4
Total commitments	32.3	27.7

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 and equipment at the end of each period:

	31 December 2011 £m	31 December 2010 £m
Expenditure contracted	–	–

26. Group subsidiary companies

The Parent Company's principal subsidiaries are as follows:

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

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

27. Related party transactions

a) Mapfre:

In 2011, the Group participated in transactions with Mapfre S.A. during the normal course of its International 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 2011 £m	31 December 2010 £m
Total transactions	0.7	0.3
Balances outstanding at 31 December	0.1	–

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 balance sheet

	Note:	Year ended: 31 December 2011 £m	31 December 2010 £m
Fixed assets – investments			
Shares in group undertakings	5	142.5	125.0
Other investments		35.0	10.0
Current assets			
Cash at bank and in hand		54.7	101.4
		54.7	101.4
Creditors – falling due within one year			
Other creditors	6	(63.8)	(90.4)
		(63.8)	(90.4)
Net current (liabilities)/assets		(9.1)	11.0
Total assets less current liabilities		168.4	146.0
Net assets		**168.4**	**146.0**
Capital and reserves	7		
Called up share capital	8	0.3	0.3
Share premium account		13.1	13.1
Capital redemption reserve		–	–
Profit and loss account		155.0	132.6
		168.4	**146.0**

These financial statements were approved by the Board of Directors on 6 March 2012 and were signed on its behalf by:

Kevin Chidwick
Director:
Admiral Group plc

Company Number: 03849958

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.

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

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

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

The Parent Company audit fee is not disclosed in these accounts as it is disclosed in the Consolidated financial statements for Admiral Group plc, which precede them at note 10.

Refer to note 27 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 24 of the consolidated financial statements for further details on share schemes.

5. Shares in Group undertakings

	£m
Investments in subsidiary undertakings:	
At 1 January 2010	119.2
Additions	5.8
At 31 December 2010	125.0
Additions	17.5
At 31 December 2011	142.5

A full list of the Company's subsidiaries is disclosed in note 26 of the Group financial statements.

6. Other creditors – due within 1 year

	31 December 2011 £m	31 December 2010 £m
Trade payables and other liabilities	0.1	0.2
Deferred income tax	–	–
Corporation tax payable	49.3	41.9
Amounts owed to subsidiaries	14.4	48.3
	63.8	90.4

7. Reconciliation of movements in shareholders' funds

Company figures	Share capital £m	Share premium account £m	Retained profit and loss £m	Total equity £m
At 1 January 2010	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
Retained profit for the period	–	–	197.6	197.6
Dividends	–	–	(198.8)	(198.8)
Issues of share capital	–	–	–	–
Share scheme charges	–	–	23.6	23.6
As at 31 December 2011	0.3	13.1	155.0	168.4

8. Share capital

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

In this section:

OTHER INFORMATION

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Total motor premiums	**1,841.3**	**1,308.6**	**847.7**	**716.3**	**631.3**
Net insurance premium revenue	445.8	288.1	211.9	169.8	142.2
Other revenue	349.0	276.2	232.6	193.9	176.9
Profit commission	61.8	67.0	54.2	34.7	20.5
Investment and interest income	13.7	9.5	8.8	24.4	24.6
Net revenue	**870.3**	**640.8**	**507.5**	**422.8**	**364.2**
Net insurance claims	(363.8)	(208.5)	(151.7)	(114.6)	(99.8)
Total expenses	(207.4)	(166.8)	(140.0)	(105.7)	(82.0)
Operating profit	**299.1**	**265.5**	**215.8**	**202.5**	**182.4**

Balance sheet

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Property and equipment	17.6	13.6	12.1	11.0	7.7
Intangible assets	87.5	82.9	77.0	75.7	69.1
Deferred income tax	10.3	12.4	–	–	1.6
Reinsurance assets	639.8	357.0	212.9	170.6	131.7
Trade and other receivables	52.1	47.9	32.7	25.5	22.6
Financial assets	1,583.0	1,004.7	630.9	586.9	481.8
Cash and cash equivalents	224.6	246.7	211.8	144.3	155.8
Assets held for sale	–	1.5	–	–	–
Total assets	**2,614.9**	**1,766.7**	**1,177.4**	**1,014.0**	**870.3**
Equity	**394.4**	**350.7**	**300.8**	**275.6**	**237.6**
Insurance contracts	1,333.7	806.6	532.9	439.6	363.1
Deferred income tax	–	–	5.7	10.3	–
Trade and other payables	856.6	561.0	306.8	270.0	239.6
Current tax liabilities	30.2	48.4	31.2	18.5	30.0
Total liabilities	**2,614.9**	**1,766.7**	**1,177.4**	**1,014.0**	**870.3**

Directors and advisers

Directors

Alastair Lyons, CBE
(Non-Executive Director)

Henry Engelhardt, CBE
(Chief Executive Officer)

Kevin Chidwick
(Chief Financial Officer)

David Stevens, CBE
(Chief Operating Officer)

Roger Abravanel (appointed 6 March 2012)
(Non-Executive Director)

Manfred Aldag
(Non-Executive Director)

Annette Court
(appointment subject to FSA approval)
(Non-Executive Director)

Colin Holmes
(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

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Auditor

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Kent
ME08 0LS

HSBC Business Banking
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CF10 5NA

Joint Corporate Brokers

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London
EC1A 1HQ

UBS Investment Bank
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London
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The Registry
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Kent
BR3 4TU

Solicitor

Norton Rose
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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 2011 dividend

2 May 2012 – Ex dividend date
4 May 2012 – Record date
1 June 2012 – Payment date

Interim Management Statement

26 April 2012

Annual General Meeting

26 April 2012

Interim results

30 August 2012

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 30 August 2012.

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Greyfriars Road
Cardiff
CF10 3AZ

Admiral Group businesses

UK

Car Insurance:
Admiral
www.admiral.com

Bell
www.bell.co.uk

Diamond
www.diamond.co.uk

elephant
www.elephant.co.uk

Price Comparison:
Confused.com
www.confused.com

Van Insurance:
Gladiator
www.gladiator.co.uk

France

Car Insurance:
L'olivier
www.lolivier.fr

Price Comparison:
LeLynx
www.lelynx.fr

Spain

Car Insurance:
Balumba
www.balumba.es

Price Comparison:
Rastreator
www.rastreator.com

Italy

Car Insurance:
ConTe
www.conte.it

Price Comparison:
Chiarezza
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USA

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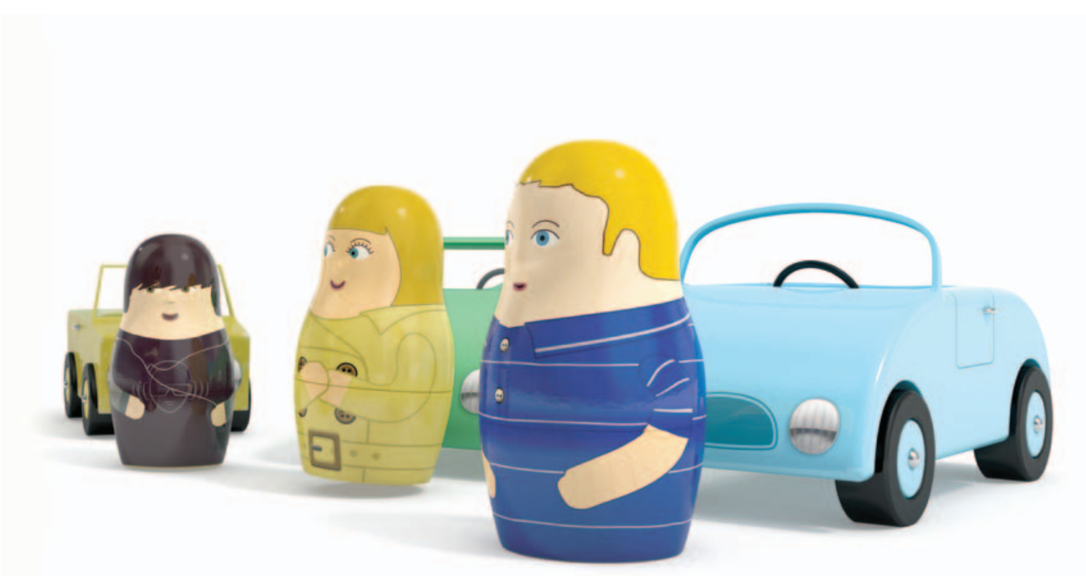
Admiral Group plc Annual Report 2011



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