

Corporate governance

The Combined Code on Corporate Governance

This Corporate Governance Report explains key features of the Group's governance structure, how it applies the principles in the revised Combined Code on Corporate Governance (the 'Code'), and the extent to which the Company has complied with the provisions of the Code.

In the 2004 Corporate Governance statement the Company made reference to paragraphs C.3.1 and B.2.1 of the Combined Code, which state that the Audit and Remuneration Committees should comprise three independent Non-executive Directors. At that time these Committees had only two independent Non-executive members and it was explained that the Board was actively recruiting a new independent Non-executive Director who would join both Committees on appointment. On 26 April 2005 Gillian Wilmot was appointed to the Board and the Audit and Remuneration Committees.

The provisions of the Code have been reviewed and where appropriate steps have been taken to ensure that the Company is in compliance with all of the provisions of the Code. As at the date of this Report the Company complies with all of the provisions of the Code, save the requirement in Code D.1.1 that the Senior Independent Director should attend meetings with a range of shareholders, Code A.7.2 that Non-executive Directors should be appointed for specified terms and Code A.3.2 that at least half of the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent.

Taking each item:

D.1.1 – Whilst 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 feedback from investors through the Company's programme of investor meetings is that regular meetings with the Senior Independent Director are not considered necessary.

A.7.2 – This is currently being reviewed by the Nomination Committee.

A.3.2 – As noted in the Chairman's statement Gillian Wilmot's appointment as Chief Executive of the privately owned credit retail business Buy-as-you-View in August 2005 results in her no longer being regarded as an independent Director under the Combined Code, the Chairman also being Chairman of that Company. As a consequence she will retire and not offer herself for re-election as a Director of Admiral at the forthcoming Annual General Meeting. The Nomination Committee has instigated a search for a new Non-executive Director with equivalent skills and experience.

The Company has a comprehensive programme of meetings and dialogue with institutional investors. The views of investors expressed through this dialogue are communicated to the Board as a whole through the investor relations report. All Directors can, therefore, develop an understanding of any issues and concerns of major shareholders should any be raised. Feedback from shareholders suggests that these arrangements for communication between the Company and its shareholders are considered to be satisfactory and effective.

The Admiral Group Board

The Group is controlled by its Board of Directors. The Board is responsible for the proper management of the Group as well as setting the Group's strategic goals and objectives, ensuring the necessary financial and other resources are made available to meet them, and measuring

progress towards achieving them. The Board is ultimately responsible to shareholders for the financial and operational success of the Group.

The Board, which meets at least eight times a year, has a schedule of matters reserved for its approval which include:

- approval of the annual report and accounts, including the corporate governance statement and remuneration report
- approval of preliminary announcements of interim and final results
- approval of the dividend policy, including the declaration of the interim dividend and recommendation of the final dividend
- setting Group strategy and approving an annual budget and medium-term projections
- reviewing operational and financial performance
- approving major acquisitions, divestments and capital expenditure
- reviewing the Group's systems of financial control and risk management
- ensuring that appropriate management and succession plans are in place
- approving Board, Board Committee and Company Secretarial appointments
- approving policies relating to Directors' remuneration and the severance of Directors' contracts
- ensuring that a satisfactory dialogue takes place with shareholders
- commencement of significant new business activities

The Board has delegated the following responsibilities to the Executive Directors:

- the development and recommendation of strategic plans that reflect the longer-term objectives and priorities established by the Board

- implementation of the strategies and policies of the Group as determined by the Board
- day to day monitoring of the operating and financial results against plans and budgets
- prioritising the allocation of capital, technical and human resources
- developing and implementing risk management systems

During the year the Board carried out an evaluation of itself and its Committees. The evaluation consisted of detailed questionnaires completed by all Directors and one-to-one discussions between the Chairman and Directors including meetings with the Non-executive Directors without the Executive Directors being present. The results of the evaluation were discussed at a Board meeting in November 2005 and an action plan produced. No major issues were identified.

The performance of the individual Executive Directors is appraised annually by the Chief Executive, to whom they report. The performance of the Chairman is reviewed by the Non-executive Directors, led by the Senior Independent Non-executive (John Sussens), taking into account the views of the Executive Directors. A meeting was held in November 2005 under the Chairmanship of John Sussens to discuss the results of this review. John Sussens also gave individual feedback to the Chairman and was able to confirm that the performance of the Chairman continues to be effective, and that the Chairman continues to demonstrate commitment to his role.

The Chairman, taking into account the views of other Directors, conducts the performance review of the Chief Executive.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Alastair Lyons, and the Chief Executive, Henry Engelhardt, is clearly defined in written job specifications and has been approved by the Board.

Directors and Directors' independence

The Board currently comprises the Chairman, three independent Non-executive Directors, one Non-executive Director who is employed by a significant shareholder and is not, therefore, independent, and one Non-executive Director deemed by the Combined Code not to be independent. There are three Executive Directors.

The independent Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

Details of the Chairman's other commitments are included in the Chairman's biography. The Chairman does perform a number of other Non-executive roles outside of the Group but the Board is satisfied that these are not such as to interfere with the performance of the Chairman's duties within the Group. Since the last annual report the Chairman was appointed Chairman of Higham Group Plc on 1 July 2005. During 2005 he resigned as a Non-executive Director of the Department of Transport.

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

Professional development

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

The induction is supplemented by visits to the Group's two locations and meetings with members of the senior management team and their departments. Throughout their period in office the Directors are continually updated on the Group's business, legal matters concerning their role and duties, the competitive environments in which the Group operates and any other changes affecting the Group and the industry in which it operates.

The Board receives presentations from senior managers from within the Group on a regular basis as a component of the ongoing development of the Non-executive Directors.

Re-election

Subject to the Company's Articles of Association, the Companies Act and satisfactory annual performance evaluation, Non-executive Directors are appointed without a maximum period of appointment. Their contracts may, however, be terminated by either party giving one month's notice, or three months for the Chairman (without compensation).

The Board is conscious of the requirement of the Combined Code and at such a time as a Non-executive Director's length of service goes beyond that recommended to be considered independent, the Board will review the position. Manfred Aldag's appointment is contingent upon his continued employment with Munich Re.

At the Company's Annual General Meeting on 18 May 2005 all of the Directors were re-elected by shareholders except for Gillian Wilmot who was appointed on 26 April 2005, between the date of the AGM notice and the AGM. As noted above she will retire and not seek re-election at the forthcoming AGM. In accordance with the Company's Articles, which provide that a minimum of one third of Directors (or if this is not a whole number, the nearest number not exceeding one third) should resign and offer themselves for re-election at each AGM, Manfred Aldag and Henry Engelhardt will retire by rotation and seek re-election by shareholders at the forthcoming AGM.

The Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that appointment and removal of the Company Secretary is a matter for the Board.

Information

Reports and papers are circulated to the Directors 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.

The Non-executive Directors receive monthly management accounts and other regular management reports and information, enabling them to scrutinise the Group's performance against agreed objectives and budgets.

Relations with shareholders

The Investor Relations team has effective day-to-day primary responsibility for managing communications with institutional shareholders through a combination of briefings to analysts and institutional shareholders, both at the interim and year end results. Site visits and individual discussions with the Executive Directors are also arranged throughout the year. 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 fulfilment of the Chairman's obligations under the new Combined Code, the Chairman would give feedback to the Board on issues raised with him by major shareholders, although to date there have been no such issues. This is supplemented by monthly feedback to the Board on meetings between management and investors. External analyst reports are circulated to all the Directors.

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

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

Board Committees

The number of full Board meetings and Committee meetings attended by each Director during 2005 is shown below.

The terms of reference of the principal Committees of the Board – Audit, Remuneration and Nomination – are available on the Company's corporate website. Those terms of reference are reviewed annually.

The Audit Committee

Constitution and membership

The membership in place at the year-end was, Martin Jackson (Chairman), Keith James, and Gillian Wilmot (appointed 26 April 2005). The Company Secretary or his nominated Deputy acts as Secretary to the Committee.

The Committee consisted entirely of independent Non-executive Directors until Gillian Wilmot's appointment to the Board of Buy-as-you-view in August 2005. It is required

	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
Total meetings held	9	4	1	4
Alastair Lyons (Chairman)	9 (100%)		1 (100%)	
Henry Engelhardt (Chief Executive)	9 (100%)			
Andrew Probert	9 (100%)			
David Stevens	9 (100%)			
Manfred Aldag	7 (78%)		1 (100%)	
Martin Jackson	9 (100%)	4 (100%)		4 (100%)
Keith James	9 (100%)	4 (100%)	1 (100%)	
John Sussens	8 (89%)			4 (100%)
Gillian Wilmot*	7(100%)	3 (100%)		2 (100%)

*Gillian Wilmot attended all of the meetings after her appointment date on 26th April 2005.

to meet at least three times per annum. There have been four meetings during 2005. As noted above, all members attended all meetings. Gillian Wilmot attended all meetings following her appointment to the Admiral Board on 26 April 2005.

The Board considers that the members of the Committee have the appropriate competence and experience to carry out their duties and further considers that Martin Jackson (Committee Chairman) has the appropriate recent and relevant financial experience as defined in the Combined Code. Ongoing training is provided to all members, and this is intended to cover relevant developments in financial reporting, company law and the various regulatory frameworks. The Terms of Reference of the Audit Committee include all matters suggested by the Code.

Summary of key activities

The key activities within the remit of the Committee are as follows:

1) Financial reporting matters

The Committee is charged with monitoring the integrity of the Group's financial statements (including accompanying narrative statements) along with any formal announcements relating to the Group's financial performance – especially where this is of a price sensitive nature.

During the year the Committee has reviewed and advised the Board on the Group's interim and annual financial statements, its accounting policies and the control of its financial and business risks, the nature and scope of the work to be performed by the external auditor, and the results of this audit work.

2) Internal control and Risk Management Strategy

The Committee has reviewed the effectiveness of the Group's system of internal control and the overall Risk Management strategy. In this context, the Committee works closely with the Group's Risk Management Committee, whose activities are described later in this statement.

The findings of all internal and external investigations into internal control and risk management are reviewed, along with management's response to the same.

The Committee also reviews the effectiveness of processes in place throughout the Group to identify, assess and manage business risks. It is also responsible for reviewing and approving the statement on internal control and risk management that is included later in this statement.

3) Internal audit

The Committee is responsible for monitoring and has reviewed the effectiveness of the Group's Internal Audit function. This involves, *inter alia*:-

- reviewing, assessing and approving the annual internal audit programme
- considering the appropriateness of the resource, remit and terms of reference of the internal audit function
- receiving, on a regular basis, reports on the work of internal audit and updates on the progress through the work programme
- meeting with the Internal Audit Manager and Compliance Officer at least once annually, without the attendance of management

4) Auditor's independence and objectivity

The Committee has reviewed and made recommendations on the appointment and remuneration of the external auditor and monitored their performance. The Audit Committee regularly monitors the non-audit services being provided to the Group by its external auditor.

Both the Board and the external auditor have safeguards in place to prevent the auditor's independence and objectivity being compromised. The Audit Committee has put in place a comprehensive policy to regulate the use of the external auditor for non-audit services. This policy sets out the nature of the work the external auditor may not undertake.

For those services that are deemed appropriate for the auditor to carry out, the policy sets out the approval process that must be followed for each type of assignment.

The policy includes four key principles that underpin the provision of non-audit services by the external auditor. The auditor should not:

- audit its own firm's work
- make management decisions for the Group
- have a mutuality of financial interest with the Group, or
- be put in the role of advocate for the Group

Prior approval of the Committee is required for any services provided by the external auditor where the fee is likely to be in excess of £30,000. In any case, activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved. The Committee monitors the amounts paid to the external auditor for non-audit services on a regular basis.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in the notes to the financial statements.

During the year the Committee undertook an audit tender process. The decision to tender for the external audit was driven by a number of factors including governance requirements and the known rotation of the existing audit partner following the 2005 year-end. In addition KPMG had been appointed auditor upon the request of Barclays Private Equity in 1999. This gave the Committee an opportunity for objective reassessment of the incumbent auditor as well as alternative audit firms. The Audit Committee concluded that the incumbent auditor should be recommended to serve another term and that the tender process should be carried out at intervals of no longer than five years.

5) Whistle blowing

The Committee reviewed and assessed the procedures put in place throughout the Group to enable employees to raise concerns (in confidence) over any possible wrongdoing in relation to financial reporting or other matters. The Committee ensures that the arrangements in place allow for reasonable, independent investigation of the matters and appropriate follow-up action.

The Nominations Committee

The membership in place at the year-end was Keith James (Chairman), Alastair Lyons and Manfred Aldag. The Company Secretary acts as Secretary to the Committee.

The Committee as required by the Code contains a majority of independent Non-executive Directors.

The Committee has met on one occasion during the last twelve months with all members present at that meeting.

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

During 2005, the Committee instructed external search consultants to provide support in relation to the appointment of a Non-executive Director. Detailed role specifications were drawn up with reference to the mix of skills, knowledge and experience of the existing Directors and the requirements of the Board. Interviews were carried out with a range of potential candidates, by the external agency, members of the Committee, and other members of the Board. As a result

of the process, the Committee recommended to the Board, and the Board agreed, that Gillian Wilmot be appointed to the Board as a Non-executive Director with effect from 26 April 2005. The anticipated time commitments for the role were discussed and agreed with Gillian.

The Committee reviewed the current Board size, structure and composition and confirmed that no changes were required and that the leadership of the organisation was such that the Company could continue to compete effectively in the marketplace in which it operates.

Remuneration Committee

The membership in place at the year-end was John Sussens (Chairman), Martin Jackson and Gillian Wilmot (appointed 26 April 2005). The Company Secretary acts as Secretary to the Committee.

The Committee met four times during the year and all members attended the meetings. Gillian Wilmot attended the two meetings that were held after her appointment.

During the year the Committee carried out the following tasks;

- reviewed the Group's overall remuneration policy and strategy
- recommended for approval individual remuneration packages for Executive Directors and the Chairman including terms and conditions of employment and any changes to packages
- reviewed the rules and performance measures of the Group share schemes and the grant, award, allocation or issue of shares under such schemes

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is 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 significant risks, that it has been in place for the year ended 31 December 2005 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Board and that it accords with the internal control guidance for Directors on the Combined Code.

In order to ensure these responsibilities are properly discharged, the Board has delegated the task of supervising risk management and internal control to the Risk Management Committee (RMC) – which is discussed further below.

There are several key elements to the risk management environment throughout the Group. These include the setting of risk management policy at Board level, enforcement of that policy by the Chief Executive, delivery of the policy by the RMC via the Group's systems of internal control and risk management and the overall assurance provided by the Audit Committee that the systems operate effectively.

The Board recognises that the day-to-day responsibility for implementing these policies must lie with the management team, whose operational decisions must take into account risk and how this can be effectively controlled. The Compliance Officer and Risk Officer take responsibility for ensuring management are aware of their risk management obligations, providing them with support and advice and ensuring that the risk management strategy is properly communicated.

The RMC receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the operational units and reinforced by risk awareness training. The RMC and the Audit Committee also receive regular reports from Internal Audit, which include

recommendations for improvement in the control and operational environment. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board's agenda includes a regular item for consideration of risk and control and receives reports thereon from the RMC and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its March 2006 meeting, the Board carried out the annual assessment for the 2005 year by considering documentation from the Audit Committee, taking account of events since 31 December 2005.

The Audit Committee's ability to provide the appropriate assurance to the Board depends on the provision by Internal Audit of periodic and independent confirmation that the controls established by management are operating effectively. The Audit Committee reviews the wider aspects of internal control and risk management, providing a high level challenge to the steps being taken to implement the risk management strategy.

The Risk Management Committee

The Committee's members include the three Executive Directors, the Compliance Officer and the Group Company Secretary.

One of the Committee's principal responsibilities is to ensure that the risk management policy approved by the Board is implemented throughout the Group. The Committee is expected to:

- assess the nature and extent of the risks facing the Group and ensure appropriate controls are in place to mitigate risks in line with the Risk Appetite Policy
- to empower all managers throughout the business to take responsibility for the management of risks in their areas and improve risk management decision making
- consider the likelihood of occurrence of the risks identified and assess the Company's ability to manage these risks

- prepare relevant and useful risk management information for use by the Audit Committee and Board

Another key responsibility is to assess the extent of regulation applying to authorised companies within the Group. The Committee develops policies to ensure compliance with such regulation and ensures that appropriate action is taken by the management team to implement compliant systems and procedures.

Internal Audit

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

Going concern

The Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and therefore consider it appropriate to prepare the financial statements on the going concern basis.