

# Financial statements

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## Independent auditor's report to the members of Admiral Group plc

We have audited the group and parent company financial statements (the "financial statements") of Admiral Group plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Parent Company Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expenses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities in the Director's report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair

view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement, the Chief Executive's statement and the Business review that is cross referred from the Business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and

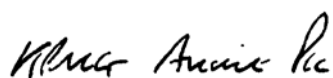
disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



### KPMG Audit Plc

Chartered Accountants  
Registered Auditor  
Cardiff

3 March 2009

## Consolidated income statement

		Year ended:	
		31 December 2008	31 December 2007
	Note:	£000	£000
Insurance premium revenue		301,460	233,075
Insurance premium ceded to reinsurers		(131,624)	(90,839)
<b>Net insurance premium revenue</b>	5	<b>169,836</b>	<b>142,236</b>
Other revenue	6	193,863	176,878
Profit commission	7	34,726	20,448
Investment and interest income	8	24,381	24,572
<b>Net revenue</b>		<b>422,806</b>	<b>364,134</b>
Insurance claims and claims handling expenses		(213,780)	(172,611)
Insurance claims and claims handling expenses recovered from reinsurers		99,204	72,816
<b>Net insurance claims</b>		<b>(114,576)</b>	<b>(99,795)</b>
Expenses	9	(99,763)	(78,986)
Share scheme charges	9, 25	(5,924)	(2,971)
<b>Total expenses</b>		<b>(220,263)</b>	<b>(181,752)</b>
<b>Operating profit</b>		<b>202,543</b>	<b>182,382</b>
Finance charges	12	(25)	(284)
<b>Profit before tax</b>	10	<b>202,518</b>	<b>182,098</b>
Taxation expense	13	(57,580)	(54,682)
<b>Profit after tax attributable to equity holders of the Company</b>		<b>144,938</b>	<b>127,416</b>
<b>Earnings per share:</b>			
Basic	15	54.9p	48.6p
Diluted	15	54.9p	48.6p
Dividends declared (total)	14	128,515	116,016
Dividends declared (per share)	14	49.2p	44.6p

## Consolidated balance sheet

		As at:	
		31 December 2008	31 December 2007
	Note	£000	£000
<b>ASSETS</b>			
Property, plant and equipment	16	11,002	7,708
Intangible assets	17	75,685	69,063
Financial assets	18	586,935	481,848
Reinsurance assets	19	170,594	131,668
Deferred income tax	24	-	1,629
Trade and other receivables	18, 20	25,501	22,633
Cash and cash equivalents	18, 21	144,286	155,773
<b>Total assets</b>		<b>1,014,003</b>	<b>870,322</b>
<b>EQUITY</b>			
Share capital	25	265	263
Share premium account	26	13,145	13,145
Retained earnings	26	251,821	223,828
Other reserves	26	10,338	396
<b>Total equity</b>		<b>275,569</b>	<b>237,632</b>
<b>LIABILITIES</b>			
Insurance contracts	19	439,556	363,060
Deferred income tax	24	10,327	-
Trade and other payables	18, 22	270,088	239,593
Current tax liabilities		18,463	30,037
<b>Total liabilities</b>		<b>738,434</b>	<b>632,690</b>
<b>Total equity and total liabilities</b>		<b>1,014,003</b>	<b>870,322</b>

These financial statements were approved by the Board of Directors on 27 February 2009 and were signed on its behalf by:



**Kevin Chidwick**  
Director

## Consolidated statement of recognised income and expense

	31 December 2008 £000	31 December 2007 £000
Exchange differences on translation of foreign operations	9,942	429
<b>Net income recognised directly in equity</b>	<b>9,942</b>	<b>429</b>
Profit for the period	144,938	127,416
<b>Total recognised income and expense for the period</b>	<b>154,880</b>	<b>127,845</b>

## Consolidated cash flow statement

	31 December 2008	31 December 2007
Note	£000	£000
<b>Profit after tax</b>	<b>144,938</b>	<b>127,416</b>
Adjustments for non-cash items:		
- Depreciation	3,746	3,227
- Amortisation of software	1,390	725
- Change in unrealised gains on investments	796	(1,123)
- Share scheme charge	11,320	5,560
25		
Loss on disposal of property, plant and equipment and software	30	6
Change in gross insurance contract liabilities	76,496	68,635
Change in reinsurance assets	(38,926)	(56,979)
Change in trade and other receivables, including from policyholders	(36,466)	(14,772)
Change in trade and other payables, including tax and social security	30,704	25,506
Interest expense	25	284
Taxation expense	57,580	54,682
<b>Cash flows from operating activities, before movements in investments</b>	<b>251,633</b>	<b>213,167</b>
Net cash flow into investments held at fair value	(76,049)	(76,849)
Cash flows from operating activities, net of movements in investments	175,584	136,318
Interest payments	(25)	(284)
Taxation payments	(56,949)	(49,477)
<b>Net cash flow from operating activities</b>	<b>118,610</b>	<b>86,557</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment and software	(11,315)	(5,390)
<b>Net cash used in investing activities</b>	<b>(11,315)</b>	<b>(5,390)</b>
<b>Cash flows from financing activities:</b>		
Capital element of new finance leases	490	457
Repayment of finance lease liabilities	(699)	(1,506)
Equity dividends paid	(128,515)	(116,016)
<b>Net cash used in financing activities</b>	<b>(128,724)</b>	<b>(117,065)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(21,429)</b>	<b>(35,898)</b>
Cash and cash equivalents at 1 January	155,773	191,242
Effects of changes in foreign exchange rates	9,942	429
<b>Cash and cash equivalents at end of period</b>	<b>144,286</b>	<b>155,773</b>
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## Notes to the financial statements

### 1. General information and basis of preparation

#### General information

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

The financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2008 and comparative figures for the year ended 31 December 2007. 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 subsidiaries. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (IAS) 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions.

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

#### Adoption of new and revised standards

The Group has applied all adopted IFRS and interpretations endorsed by the EU at 31 December 2008, including all amendments to extant standards that are not effective until later accounting periods, except for those listed below:

- Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation
- IFRIC 13 Customer Loyalty Programmes
- Amendment to IFRS 2 Share –Based Payment: Vesting Conditions and Cancellations
- Amendment to IAS 23 Borrowing Costs

Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation is effective

for periods beginning on or after 1 January 2009 and the Group has elected not to adopt the Amendment in advance of the effective date. Although it will introduce a number of changes to the presentation of the primary financial statements, it will not change the recognition, measurement or disclosure of transactions or events that are required by other IFRS.

IFRIC 13 Customer Loyalty Programmes is effective for periods beginning on or after 1 July 2008. It is not applicable during the current accounting period, and on adoption will not have a material impact on the Group's financial statements.

Amendment to IFRS 2 Share –Based Payment: Vesting Conditions and Cancellations is effective for periods beginning on or after 1 January 2009. On adoption, it will not have a material impact on the Group's financial statements.

Amendment to IAS 23 Borrowing Costs is also effective for periods beginning on or after 1 January 2009. It is not applicable during the current accounting period, and on adoption will not have a material impact on the Group's financial statements.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2008 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. These are as follows:

- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Improvements to IFRSs (2007)
- Revised IFRS 3 Business Combinations
- Revised IFRS 1 First Time Adoption of IFRS
- IFRIC 12 Service Concession Agreements
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of Net Investment in A Foreign Operation
- IFRIC 17 Distributions of Non-Cash Assets to Owners

- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition

It is not anticipated that any of the standards, interpretations or amendments above will have a material impact on the Group's financial statements in future periods.

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

- IFRS 8 Operating Segments
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Instruments

The Group has elected to adopt IFRS 8 Operating Segments in advance of its effective date (periods beginning on or after 1 January 2009). IFRS 8 introduces the management approach to segment reporting based on information presented to the Group's Board of Directors. Following adoption of IFRS 8, the Group's reporting segments have not changed significantly but have been sub-divided into a larger number of segments based in line with the increasing materiality of certain operations within the Group. For further information, refer to note 4 to the financial statements.

IFRIC 11 addresses whether share based payments accounted for as equity-settled in consolidated financial statements, should be treated as equity or cash settled in the subsidiary. As it does not address treatment in the consolidated financial statements, it has no impact on the consolidated financial results or position of the Group for the current or previous financial years.

IFRIC 14 addresses the accounting treatment of a defined benefit pension scheme asset and is therefore not applicable to the Group in the current or previous financial years.

Amendments to IAS 39 and IFRS 7 address reclassification of financial assets. The Group has not reclassified any financial assets so that standard is also not applicable.

### 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.

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

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

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

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

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

## 2. Critical accounting judgements and estimates

### Judgements:

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

### Estimation techniques used in calculation of claims provisions:

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

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

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

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

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

The claims provisions are subject to independent review by the Group's actuarial

advisors. For further detail on objectives, policies and procedures for managing insurance risk, refer to note 19 of the financial statements.

Future changes in claims reserves also impact profit commission income, as the recognition of this income is dependent on the loss ratio booked in the financial statements, and cash receivable is dependent on actuarial projections of ultimate loss ratios.

## 3. Significant accounting policies

### a) Revenue recognition Premiums, ancillary income and profit commission:

Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover.

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

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

### Revenue from Gladiator and Confused.com:

Commission from these activities is credited to income on the sale of the underlying insurance policy.

### Investment income:

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

**b) Foreign currency translation****Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands 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 differences on non-monetary items are included in the fair value reserve in equity.

**Translation of financial statements of foreign operations**

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

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

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

**c) Insurance contracts and reinsurance assets****Premium:**

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

**Claims:**

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

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

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

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

Provision for unexpired risks is made where necessary for the estimated amount required over and above unearned premiums 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 the business.

**Reinsurance assets:**

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

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

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

**d) Intangible assets****Goodwill:**

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

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

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

The Goodwill held on the balance sheet at 31 December 2008 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 net realisable value and the value in use of the CGU.

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

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

**Deferred acquisition costs:**

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

**Software:**

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

**e) Property, plant and equipment and depreciation**

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

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

### Impairment of property, plant and equipment

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

#### f) Leased assets

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

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

#### g) Financial assets – investments and receivables

##### Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss (FVTPL), loans and receivables or held to maturity investments. The Group has not held any derivative instruments in the years ending 31 December 2008 and 31 December 2007.

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 at inception.

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

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

##### Subsequent measurement

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

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

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

##### Impairment of financial assets

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

#### 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 25 for further details on share schemes.

**k) Taxation**

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

**Current tax:**

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

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

**Deferred tax:**

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

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

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

**l) Government grants**

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

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

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

## 4. Operating segments

The Group has adopted IFRS 8 Operating Segments in advance of its effective date. IFRS 8 adopts a strict management approach to segment reporting and requires that operating segments be identified on the same basis as financial information is reported internally to the chief operating decision maker for the purposes of allocating resources between segments and assessing their performance.

IAS 14, the previously effective standard on segment reporting, was similar, in that identification of segments started with internal financial reporting to key management personnel. However its main focus was on components of the business with similar risks and generating similar returns which could potentially be very different to the management approach.

The Group's Directors consider that the adoption of IFRS 8 does not lead to a material change in the identification of the Group's segments as the business segments reported to the Group's Board of Directors have clearly defined lines of risk and reward. The Board of Directors is considered to be the chief operating decision maker for the Group.

Under IAS 14 in previous financial years, the primary segments were identified by business type. No secondary geographical segments were presented on materiality grounds. As described below the segments presented under IFRS 8 continue to be identified by business type. In addition, the Group's Directors consider that the car insurance segment should be sub-divided into two geographical reportable segments; UK and Non-UK, on the basis of it being useful information to users of the financial statements rather than the breach of quantitative thresholds within the standard.

The following segments represent the principal split of business that is regularly reported to the Group's Board of Directors, and therefore become the Group's reportable segments under IFRS 8:

### UK car insurance

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

### Price comparison

The segment relates to the Group's price comparison operation Confused.com. This operation had previously been combined with the Group's commercial van insurance broker, Gladiator, to form an 'Insurance Broking' segment. However based on the management reporting approach, the Directors consider that Price comparison is an independent reportable segment.

### Non-UK car insurance

The segment consists of the underwriting of car insurance and the generation of ancillary income outside of the UK. It specifically covers the Group's Balumba.es, AdmiralDirekt.de and ConTe.it operations in Spain, Germany and Italy respectively.

### Other

The other segment includes the Gladiator broking operation in addition to certain central expenses, overseas development expenses, share scheme costs, finance charges and interest. None of these are reportable segments based on their immateriality.

Taxes are not allocated across the segments and are included for the purposes of reconciliation to the Income Statement.

**Segment income, results and other information**

An analysis of the Group's revenue and results for the year ended 31 December 2008, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in note 3 for the Group.

	31 December 2008				
	UK car insurance £000	Price comparison £000	Non-UK car insurance £000	Other £000	Group £000
Net insurance premium revenue	161,947	-	7,889	-	169,836
Other revenue and profit commission	149,266	66,143	3,656	9,524	228,589
Investment and interest income	17,098	-	628	6,655	24,381
Net revenue	328,311	66,143	12,173	16,179	422,806
Net insurance claims	(105,123)	-	(9,453)	-	(114,576)
Expenses	(43,281)	(40,539)	(6,821)	(15,046)	(105,687)
Operating profit	179,907	25,604	(4,101)	1,133	202,543
Finance charges	-	-	-	(25)	(25)
Segment profit / (loss) before tax	179,907	25,604	(4,101)	1,108	202,518
Unallocated taxation expense					(57,580)
Group profit after tax					144,938
Other segment items:					
Interest revenue	-	-	-	6,655	6,655
Interest expense				25	25
Capital expenditure	15,330	882	9,611	83	25,906
Depreciation and amortisation	13,442	313	2,131	74	15,960

Restated revenue and results for the corresponding reportable segments for the year ended 31 December 2007 are shown below.

	31 December 2007 (Restated)				
	UK car insurance £000	Price comparison £000	Non-UK car insurance £000	Other £000	Group £000
Net insurance premium revenue	140,267	-	1,969	-	142,236
Other revenue and profit commission	118,406	69,159	2,238	7,523	197,326
Investment and interest income	16,662	-	133	7,777	24,572
Net revenue	275,335	69,159	4,340	15,300	364,134
Net insurance claims	(97,019)	-	(2,776)	-	(99,795)
Expenses	(36,124)	(32,433)	(2,223)	(11,177)	(81,957)
Operating profit	142,192	36,726	(659)	4,123	182,382
Finance charges	-	-	-	(284)	(284)
Segment profit / (loss) before tax	142,192	36,726	(659)	3,839	182,098
Unallocated taxation expense					(54,682)
Group profit after tax					127,416
Other segment items:					
Interest revenue	-	-	-	7,777	7,777
Interest expense	-	-	-	284	284
Capital expenditure	11,516	335	3,063	59	14,973
Depreciation and amortisation	11,243	145	942	71	12,401

### Segment revenues

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

The total of Price comparison revenues from transactions with other reportable segments is £11,050,000 (2007: £10,784,000).

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

### Information about geographical locations

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

**Segment assets and liabilities**

The identifiable segment assets and liabilities at 31 December 2008 are as follows.

	31 December 2008					
	UK car insurance	Price comparison	Non-UK car insurance	Other	Eliminations	Group
	£000	£000	£000	£000	£000	£000
Plant, property and equipment	6,649	1,079	3,112	162	-	11,002
Intangible assets	68,836	-	6,849	-	-	75,685
Financial assets	549,680	-	37,255	-	-	586,935
Reinsurance assets	149,521	-	21,073	-	-	170,594
Trade and other receivables	105,777	6,557	1,415	5,638	(93,886)	25,501
Cash and cash equivalents	50,295	15,602	18,245	60,144	-	144,286
<b>Reportable segment assets</b>	<b>930,758</b>	<b>23,238</b>	<b>87,949</b>	<b>65,944</b>	<b>(93,886)</b>	<b>1,014,003</b>
Insurance contract liabilities	406,869	-	32,687	-	-	439,556
Trade and other payables	261,759	4,080	4,359	46,385	(46,495)	270,088
<b>Reportable segment liabilities</b>	<b>668,628</b>	<b>4,080</b>	<b>37,046</b>	<b>46,385</b>	<b>(46,495)</b>	<b>709,644</b>
<b>Reportable segment net assets</b>	<b>262,130</b>	<b>19,158</b>	<b>50,903</b>	<b>19,559</b>	<b>(47,391)</b>	<b>304,359</b>
Unallocated assets and liabilities						(28,790)
<b>Total net assets</b>						<b>275,569</b>

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

There is an asymmetrical allocation of assets and income to the reportable segments, in that the interest earned on cash and cash equivalent assets deployed in the UK car insurance, Price comparison and Non-UK car insurance segments is allocated to the Other reportable segment.

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



## 5. Net insurance premium revenue

	31 December 2008 £000	31 December 2007 £000
Total motor insurance premiums before co-insurance	716,288	631,251
Group gross premiums written after co-insurance	334,665	260,901
Outwards reinsurance premiums	(140,264)	(119,049)
Net insurance premiums written	194,401	141,852
Change in gross unearned premium provision	(33,204)	(27,826)
Change in reinsurers' share of unearned premium provision	8,639	28,210
Net insurance premium revenue	169,836	142,236

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

## 6. Other revenue

	31 December 2008 £000	31 December 2007 £000
Ancillary revenue	109,774	94,216
Revenue from Confused.com	66,143	69,159
Revenue from Gladiator	9,524	7,520
Instalment income earned	8,422	5,983
Total other revenue	193,863	176,878

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

## 7. Profit commission

	31 December 2008	31 December 2007
	£000	£000
Total profit commission	34,726	20,448

Source of profit commission:	Financial year:			
	2005	2006	2007	2008
	£000	£000	£000	£000
Underwriting year:				
2003 & prior	3,858	6,770	3,657	2,611
2004	9,110	8,075	6,811	5,522
2005	1,767	4,701	8,263	8,846
2006	-	380	1,717	9,221
2007	-	-	-	8,526
Total	14,735	19,926	20,448	34,726

## 8. Investment and interest income

	31 December 2008	31 December 2007
	£000	£000
Net investment return	17,726	16,795
Interest receivable	6,655	7,777
Total investment and interest income	24,381	24,572

## 9. Expenses and share scheme charges

	31 December 2008			31 December 2007		
	Insurance contracts £000	Other £000	Total £000	Insurance contracts £000	Other £000	Total £000
Acquisition of insurance contracts	12,482	-	12,482	8,420	-	8,420
Administration and other marketing costs	19,726	67,555	87,281	13,314	57,252	70,566
Expenses	32,208	67,555	99,763	21,734	57,252	78,986
Share scheme charges	-	5,924	5,924	-	2,971	2,971
Total expenses and share scheme charges	32,208	73,479	105,687	21,734	60,223	81,957

### Analysis of other administration and other marketing costs:

	31 December 2008 £000	31 December 2007 £000
Ancillary sales expenses	17,893	16,613
Confused.com operating expenses	40,539	32,432
Gladiator operating expenses	6,719	5,520
Central overheads	2,404	2,687
Total	67,555	57,252

The £19,726,000 (2007: £13,314,000) 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 £211,181,000 (2007: £167,773,000). This amount can be reconciled to the total expenses and share scheme charges above of £105,687,000 (2007: £81,957,000) as follows:

	31 December 2008 £000	31 December 2007 £000
Gross expenses	211,181	167,773
Co-insurer share of expenses	(72,783)	(66,430)
Expenses, net of co-insurer share	138,398	101,343
Adjustment for deferral of acquisition costs	(5,974)	(3,687)
Expenses, net of co-insurer share (earned basis)	132,424	97,656
Reinsurer share of expenses (earned basis)	(26,737)	(15,699)
Total expenses and share scheme charges	105,687	81,957

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

	31 December 2008 £000	31 December 2007 £000
Insurance contract expenses from above	32,208	21,734
Add: claims handling expenses	4,745	3,471
Adjusted expenses	36,953	25,205
Net insurance premium revenue	169,836	142,236
Reported expense ratio	21.8%	17.7%

## 10. Staff costs and other expenses

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

	31 December 2008	31 December 2007
	£000	£000
Salaries	60,725	45,022
Social security charges	7,678	6,231
Pension costs	713	588
Share scheme charges (see note 25)	11,320	5,560
	<hr/>	<hr/>
Total staff expenses	80,436	57,401
	<hr/>	<hr/>
Depreciation charge:		
- Owned assets	2,667	2,127
- Leased assets	1,079	1,100
Amortisation charge:		
- Software	1,390	725
- Deferred acquisition costs	10,824	8,449
Operating lease rentals:		
- Buildings	3,902	3,018
Auditor's remuneration:		
- Fees payable for the audit of the Company's annual accounts	30	25
- Fees payable for the audit of the Company's subsidiary accounts	186	169
- Fees payable for other services	160	85
Loss on disposal of property, plant and equipment	30	6
Net foreign exchange gains	162	171
	<hr/>	<hr/>
Analysis of fees paid to the auditor for other services:		
Tax services	160	85
Other services	-	-
	<hr/>	<hr/>
Total as above	160	85
	<hr/>	<hr/>

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	
	2008 Number	2007 Number
Direct customer contact staff	2,354	1,839
Support staff	731	525
Total	3,085	2,364

## 12. Finance charges

	31 December 2008 £000	31 December 2007 £000
Finance lease interest	25	243
Letter of credit charges	-	41
Total finance charges	25	284

## 13. Taxation

	31 December 2008 £000	31 December 2007 £000
<b>Current tax</b>		
Corporation tax on profits for the year	50,104	56,194
Over provision relating to prior periods	(4,730)	(87)
Current tax charge	45,374	56,107
<b>Deferred tax</b>		
Current period deferred taxation movement	12,102	(1,422)
Under / (over) provision relating to prior periods – deferred tax	104	(3)
Total tax charge per income statement	57,580	54,682

Factors affecting the tax charge are:

	31 December 2008 £000	31 December 2007 £000
<b>Profit before tax</b>		
	202,518	182,098
Corporation tax thereon at UK corporation tax rate of 28.5% (2007: 30%)	57,718	54,629
Expenses and provisions not deductible for tax purposes	414	178
Other differences	(481)	(36)
Adjustments relating to prior periods	(71)	(89)
Tax charge for the period as above	57,580	54,682

## 14. Dividends

Dividends were declared and paid as follows:

	31 December 2008	31 December 2007
March 2007 (24.0p per share, paid May 2007)	-	62,412
September 2007 (20.6p per share, paid October 2007)	-	53,604
March 2008 (23.2p per share, paid May 2008)	60,473	-
July 2008 (26.0p per share, paid September 2008)	68,042	-
	<hr/>	<hr/>
Total dividends	128,515	116,016

The dividends declared in March represent the final dividends paid in respect of the 2007 and 2006 financial years. Dividends declared in September 2007 and July 2008 are interim distributions in respect of 2007 and 2008.

A final dividend of 26.5p per share has been proposed in respect of the 2008 financial year. Refer to the Chairman's statement and Business review for further detail.

## 15. Earnings per share

	31 December 2008	31 December 2007
Profit for the financial year after taxation (£000s)	144,938	127,416
Weighted average number of shares – basic	263,821,341	261,981,843
Unadjusted earnings per share – basic	54.9p	48.6p
Weighted average number of shares – diluted	264,188,008	262,291,843
Unadjusted earnings per share – diluted	54.9p	48.6p

The difference between the basic and diluted number of shares at the end of 2008 (being 366,667) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 25 for further detail.

## 16. Property, plant and equipment

	Improvements to short leasehold buildings £000	Computer equipment £000	Office equipment £000	Furniture and fittings £000	Motor vehicles £000	Total £000
<b>Cost</b>						
At 1 January 2007	2,333	11,191	4,169	1,812	12	19,517
Additions	413	2,129	781	170	-	3,493
Disposals	-	(6)	-	(3)	-	(9)
At 31 December 2007	2,746	13,314	4,950	1,979	12	23,001
<b>Depreciation</b>						
At 1 January 2007	648	7,348	2,716	1,350	7	12,069
Charge for the year	577	1,858	611	178	3	3,227
Disposals	-	(2)	-	(1)	-	(3)
At 31 December 2007	1,225	9,204	3,327	1,527	10	15,293
<b>Net book amount</b>						
At 1 January 2007	1,685	3,843	1,453	462	5	7,448
<b>Net book amount</b>						
At 31 December 2007	1,521	4,110	1,623	452	2	7,708
<b>Cost</b>						
At 1 January 2008	2,746	13,314	4,950	1,979	12	23,001
Additions	1,297	3,534	1,837	371	10	7,049
Disposals	-	(10)	-	-	-	(10)
At 31 December 2008	4,043	16,838	6,787	2,350	22	30,040
<b>Depreciation</b>						
At 1 January 2008	1,225	9,204	3,327	1,527	10	15,293
Charge for the year	692	1,983	841	227	3	3,746
Disposals	-	(1)	-	-	-	(1)
At 31 December 2008	1,917	11,186	4,168	1,754	13	19,038
<b>Net book amount</b>						
At 31 December 2008	2,126	5,652	2,619	596	9	11,002

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

	31 December 2008	31 December 2007
Computer equipment	1,561	2,149

## 17. Intangible assets

	Goodwill £000	Deferred acquisition costs £000	Software £000	Total £000
<b>Carrying amount:</b>				
At 1 January 2007	62,354	3,445	958	66,757
Additions	-	9,584	1,896	11,480
Amortisation charge	-	(8,449)	(725)	(9,174)
At 31 December 2007	62,354	4,580	2,129	69,063
Additions	-	14,591	4,266	18,857
Amortisation charge	-	(10,824)	(1,390)	(12,214)
Disposals	-	-	(21)	(21)
At 31 December 2008	62,354	8,347	4,984	75,685

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.

## 18. Financial assets and liabilities

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

	31 December 2008	31 December 2007
	£000	£000
<b>Financial assets:</b>		
Investments held at fair value	310,831	335,608
Held to maturity deposits with credit institutions	100,032	-
Receivables – amounts owed by policyholders	176,072	146,240
<b>Total financial assets per consolidated balance sheet</b>	<b>586,935</b>	<b>481,848</b>
Trade and other receivables	25,501	22,633
Cash and cash equivalents	144,286	155,773
	<b>756,722</b>	<b>660,254</b>
<b>Financial liabilities:</b>		
Trade and other payables	270,088	239,593

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

All investments held at fair value are invested in AAA-rated money market liquidity funds. These funds (spread across three very large providers) target a 7 day LIBID return with capital security and low volatility and continue to achieve these goals.

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

### Objectives, policies and procedures for managing financial assets and liabilities

The Group's activities expose it primarily to the significant financial risks of credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Board of Directors has delegated the task of supervising risk management and internal control to the Risk Management Committee (RMC). There is also an Investment Committee that makes recommendations to the Board on the Group's investment strategy.

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

### Interest rate risk

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

The Group has a policy of primarily investing in AAA-rated money market liquidity funds, which in turn invest in a mixture of very short dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial paper.

The funds are not permitted to have an average maturity greater than 60 days and hence are not subject to large movements in yield and value resulting from changes in market interest rates (as longer duration fixed income portfolios experience). Returns are likely to closely track the 7 day LIBID benchmark and hence while the Group's investment return will vary according to market interest rates, the capital value of these investment funds will not be impacted by rate movements. The interest rate risk arising is therefore considered to be minimal.

The Group also holds a number of fixed rate, longer-term deposits with UK credit institutions rated A or above. These are classified as held to maturity and valued at amortised cost. Therefore neither the capital value of the deposits, or the interest return will be impacted by fluctuations in interest rates.

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

### 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 and bank deposits and to a lesser extent, policyholder receivables.

Economic and financial market conditions have led the Directors to consider counterparty exposure more frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Group's risk appetite, and no material credit losses have been experienced by the Group.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds which invest in a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with credit institutions with a financial strength rating of A or above.

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

The other principal form of credit risk is in respect of amounts due from policyholders due to the potential for default on credit card payments. The impact of this is mitigated by the large customer base and low average level of balance recoverable. There is also mitigation by the operation of numerous high and low level controls in this area, including payment on policy acceptance as opposed to inception and automated cancellation procedures for policies in default.

The fair value of receivables from policyholders represents the maximum exposure to credit risk. The group does not use credit derivatives or similar instruments to mitigate exposure. The amount of bad debt expense relating to policyholder debt charged to the income statement in 2007 and 2008 is insignificant.

There were no significant financial assets that were past due at the close of either 2008 or 2007.

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

	Rating	31 December 2008 £000	31 December 2007 £000
Financial institutions – Money market funds	AAA	310,831	335,608
Financial institutions – Credit institutions	AA	115,613	133,179
Financial institutions – Credit institutions	A	128,705	22,591
Reinsurers	A	64,491	45,546

**Foreign exchange risks**

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

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

**Liquidity risk**

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

The Group has traditionally been strongly cash generative due to the large proportion of profit arising from non-underwriting activity. Further, as noted above, a significant portion of insurance funds are invested in money market liquidity funds with same day liquidity features, meaning that the vast majority of the Group cash and investments are immediately available. The current uncertainty in credit markets is not likely to impact this.

A breakdown of the Group's financial liabilities – trade and other payables is shown in note 22. In terms of the maturity profile of these liabilities, all amounts may potentially mature within 12 months of the balance sheet date except for a minority of finance lease liabilities which will expire after 12 months. (Refer to note 23 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 £147.9m (2007: £134.7m), £77.5m (2007: £62.9m) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

All financial assets will mature within 12 months. The Group's Directors believe that the cashflows arising from these assets will be consistent with this profile.

Liquidity risk is therefore considered to be insignificant.

**Fair value**

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

**Objectives, policies and procedures for managing capital**

For details of objectives, policies and procedures for managing capital, and external capital requirements, refer to the Business review.

## 19. 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 18, it has delegated the task of supervising risk management to the Risk Management 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 above, the Group cedes a significant amount of the motor insurance business written to external underwriters. In 2008, 55% of the risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 17.5% was ceded under quota share reinsurance contracts.

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

#### ii) Data driven pricing:

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

- Collating and analysing more comprehensive data from customers;
- Tight control over the pricing guidelines in order to target profitable business sectors; 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 2008 that would result from a 1 per cent change in the loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year						Total
	2003	2004	2005	2006	2007	2008	
Loss ratio	53.5%	57.0%	67.0%	78.5%	80.5%	89.0%	
Impact of 1% change (£000s)	1,753	2,235	2,871	2,827	3,196	1,032	13,914

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 2008	31 December 2007
	£000	£000
<b>Gross:</b>		
Claims outstanding	282,273	242,576
Unearned premium provision	157,283	120,484
Total gross insurance liabilities	439,556	363,060
<b>Recoverable from reinsurers:</b>		
Claims outstanding	103,794	76,055
Unearned premium provision	66,800	55,613
Total reinsurers' share of insurance liabilities	170,594	131,668
<b>Net:</b>		
Claims outstanding	178,479	166,521
Unearned premium provision	90,483	64,871
Total insurance liabilities – net	268,962	231,392

**D) Analysis of re-estimation of claims provisions:**

The following tables set out the cumulative impact, to 31 December 2008, of the retrospective re-estimation of claims provisions initially established at the end of the financial years stated. Figures are shown gross and net of reinsurance. These tables present data on an accident year basis.

Gross amounts:	Financial year ended 31 December				
	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Gross claims provision as originally estimated	142,968	170,216	202,421	242,576	282,273
Provision re-estimated as of:					
One year later	137,075	162,205	192,283	223,688	-
Two years later	127,613	149,317	178,679	-	-
Three years later	119,625	138,171	-	-	-
Four years later	113,136	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2008	113,136	138,171	178,679	223,688	-
Gross cumulative overprovision	(29,832)	(32,045)	(23,742)	(18,888)	-

Net amounts:	Financial year ended 31 December				
	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Net claims provision as originally estimated	98,120	128,631	154,711	166,521	178,479
Provision re-estimated as of:					
One year later	93,910	122,423	146,435	154,751	-
Two years later	87,761	111,964	135,825	-	-
Three years later	82,004	102,911	-	-	-
Four years later	77,331	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2008	77,331	102,911	135,825	154,751	-
Net cumulative overprovision	(20,789)	(25,720)	(18,886)	(11,770)	-

**E) Analysis of net claims provision releases:**

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

Underwriting year:	Financial year ended 31 December				
	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
2000	1,480	370	1,110	740	370
2001	2,967	5,043	1,879	1,483	494
2002	3,229	5,166	2,260	1,292	-
2003	1,513	4,622	5,084	3,235	2,311
2004	-	2,076	7,948	7,589	6,429
2005	-	-	2,623	12,545	10,977
2006	-	-	-	2,588	10,528
2007	-	-	-	-	6,857
<b>Total net release</b>	<b>9,189</b>	<b>17,277</b>	<b>20,904</b>	<b>29,472</b>	<b>37,966</b>
Net premium revenue	107,501	139,454	144,955	142,236	169,836
Release as % of net premium revenue	8.5%	12.4%	14.4%	20.7%	22.4%

**F) Reconciliation of movement in net claims provision:**

	31 December 2008	31 December 2007
	£000	£000
Net claims provision at start of period	166,521	154,711
Net claims incurred	109,830	96,324
Net claims paid	(97,872)	(84,514)
Net claims provision at end of period	<u>178,479</u>	<u>166,521</u>

**G) Reconciliation of movement in net unearned premium provision:**

	31 December 2008	31 December 2007
	£000	£000
Net unearned premium provision at start of period	64,871	65,025
Written in the period	194,401	141,851
Earned in the period	(168,789)	(142,005)
Net unearned premium provision at end of period	<u>90,483</u>	<u>64,871</u>

**20. Trade and other receivables**

	31 December 2008	31 December 2007
	£000	£000
Trade receivables	22,266	20,747
Prepayments and accrued income	3,235	1,886
Total trade and other receivables	<u>25,501</u>	<u>22,633</u>

## 21. Cash and cash equivalents

	31 December 2008	31 December 2007
	£000	£000
Cash at bank and in hand	140,336	150,902
Cash on short term deposit	3,950	4,871
Total cash and cash equivalents	144,286	155,773

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.

## 22. Trade and other payables

	31 December 2008	31 December 2007
	£000	£000
Trade payables	10,760	5,960
Amounts owed to co-insurers and reinsurers	147,942	134,659
Finance leases due within 12 months	126	345
Finance leases due after 12 months	14	4
Other taxation and social security liabilities	9,492	8,557
Other payables	18,830	15,545
Accruals and deferred income (see below)	82,924	74,523
Total trade and other payables	270,088	239,593

### Analysis of accruals and deferred income:

	31 December 2008	31 December 2007
	£000	£000
Premium receivable in advance of policy inception	45,567	38,477
Accrued expenses	29,350	26,948
Deferred income	8,007	9,098
Total accruals and deferred income as above	82,924	74,523

## 23. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2008			At 31 December 2007		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£000	£000	£000	£000	£000	£000
Less than one year	136	10	126	360	15	345
Between one and five years	15	1	14	4	-	4
More than five years	-	-	-	-	-	-
	<u>151</u>	<u>11</u>	<u>140</u>	<u>364</u>	<u>15</u>	<u>349</u>

The average term of leases outstanding is two years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

## 24. Deferred income tax liability / (asset)

	31 December 2008	31 December 2007
	£000	£000
Brought forward at start of period	(1,629)	981
Movement in period	<u>11,956</u>	<u>(2,610)</u>
Carried forward at end of period	<u>10,327</u>	<u>(1,629)</u>

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

Analysis of net deferred tax liability / (asset):	31 December 2008	31 December 2007
	£000	£000
Tax treatment of Lloyd's Syndicates	-	541
Tax treatment of share scheme charges	(2,401)	(2,091)
Capital allowances	31	126
Other differences	(132)	(205)
Unremitted overseas income	<u>12,829</u>	<u>-</u>
Deferred tax liability / (asset) at end of period	<u>10,327</u>	<u>(1,629)</u>

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

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

Amounts (charged) / credited to income or expense:	31 December 2008 £000	31 December 2007 £000
Tax treatment of Lloyd's Syndicates	541	1,395
Tax treatment of share scheme charges	60	53
Capital allowances	95	23
Other differences	(73)	(46)
Unremitted overseas income	(12,829)	-
Net deferred tax (charged) / credited to income	(12,206)	1,425

The closing deferred tax balances reflect the change in UK corporation tax rate from 30% to 28% which became effective on 1 April 2008.

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

## 25. Share capital

	31 December 2008 £000	31 December 2007 £000
<b>Authorised:</b>		
500,000,000 ordinary shares of 0.1p	500	500
<b>Issued, called up and fully paid:</b>		
264,541,810 ordinary shares of 0.1p	265	-
262,721,426 ordinary shares of 0.1	-	263
	265	263

During 2008 1,820,384 (2007: 1,534,827) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

589,384 (2007: 570,827) 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.

1,231,000 (2007: 964,000) 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 2008	31 December 2007
	£000	£000
SIP charge (note i)	2,484	1,268
DFSS charge (note ii)	3,440	1,703
Total share scheme charges	5,924	2,971

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2008: £11,320,000, 2007: £5,560,000) and the gross credit to reserves reported in note 26.

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 half-year amounts to 600,000 shares (or a maximum annual award of £3,000 per employee if smaller).

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

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

**(ii) The Discretionary Free Share Scheme (the DFSS)**

Under the DFSS, details of which are contained in the Remuneration report, individuals receive an award of free shares at no charge. Staff must remain in employment until the vesting date in order to receive shares. The maximum number of shares that can vest relating to the 2008 scheme is 1,372,001 (2007 scheme: 964,000).

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.

The range of awards is as follows:

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

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

Awards under the DFSS are not eligible for dividends 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 2008:

	Awards outstanding*	Vesting date
SIP H205 scheme	350,034	March 2009
SIP H106 scheme	350,811	September 2009
SIP H206 scheme	277,538	April 2010
SIP H107 scheme	353,444	September 2010
SIP H207 scheme	337,770	April 2011
SIP H108 scheme	352,732	September 2011
DFSS 2006 scheme, 1st award	604,187	April 2009
DFSS 2006 scheme, 2nd award	105,369	September 2009
DFSS 2007 scheme 1st award	1,210,006	April 2010
DFSS 2007 scheme 2nd award	26,350	December 2010
DFSS 2008 scheme 1st award	1,285,099	April 2011
DFSS 2008 scheme 2nd award	86,902	November 2011
Total awards committed	<u>5,340,242</u>	

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

During the year ended 31 December 2008, awards under the SIP H105 scheme and the DFSS 2005 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 2008:

	Original Awards	Awards vested
SIP H105 scheme	581,565	468,540
DFSS 2005 scheme 1st award	686,143	604,962
DFSS 2005 scheme 2nd award	74,943	70,259

## 26. Analysis of movements in capital and reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Foreign exchange reserve £000	Retained profit and loss £000	Total equity £000
As at 1 January 2007	261	13,145	17	(50)	205,682	219,055
Retained profit for the period	-	-	-	-	127,416	127,416
Dividends	-	-	-	-	(116,016)	(116,016)
Issues of share capital	2	-	-	-	-	2
Currency translation differences	-	-	-	429	-	429
Share scheme charges	-	-	-	-	5,560	5,560
Deferred tax credit on share scheme charges	-	-	-	-	1,186	1,186
As at 31 December 2007	263	13,145	17	379	223,828	237,632
Retained profit for the period	-	-	-	-	144,938	144,938
Dividends	-	-	-	-	(128,515)	(128,515)
Issues of share capital	2	-	-	-	-	2
Currency translation differences	-	-	-	9,942	-	9,942
Share scheme charges	-	-	-	-	11,320	11,320
Deferred tax credit on share scheme charges	-	-	-	-	250	250
As at 31 December 2008	265	13,145	17	10,321	251,821	275,569

The capital redemption reserve arose in 2002 on the redemption of shares previously in issue at below par.

The foreign exchange reserve represents the net gains or losses on translation of the Group's net investment in foreign operations.

## 27. Financial commitments

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

	31 December 2008	31 December 2007
Operating leases expiring:	£000	£000
Within one years	-	-
Within two to five years	4,139	2,139
Over five years	31,574	27,357
Total commitments	35,713	29,496

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

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

	31 December 2007	31 December 2006
Expenditure contracted to	£000	£000
	898	489

## 28. Group subsidiary companies

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

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

## 29. Related party transactions

There were no related party transactions occurring during 2008 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the Remuneration Report. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

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

## Consolidated financial summary

### Basis of preparation:

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

### Income statement

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
<b>Total motor premiums</b>	<b>716.3</b>	<b>631.3</b>	<b>566.6</b>	<b>533.6</b>	<b>470.4</b>
Net insurance premium revenue	169.8	142.2	145.0	139.5	107.5
Other revenue	193.9	176.9	131.6	93.4	69.5
Profit commission	34.7	20.5	19.9	14.7	21.7
Investment and interest income	24.4	24.6	14.5	15.5	11.9
<b>Net revenue</b>	<b>422.8</b>	<b>364.2</b>	<b>311.0</b>	<b>263.1</b>	<b>210.6</b>
Net insurance claims	(114.6)	(99.8)	(107.1)	(100.5)	(74.3)
Total expenses	(105.7)	(82.0)	(55.5)	(40.9)	(28.9)
<b>Operating profit</b>	<b>202.5</b>	<b>182.4</b>	<b>148.4</b>	<b>121.7</b>	<b>107.4</b>

### Balance sheet

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Property, plant and equipment	11.0	7.7	7.5	4.6	3.3
Intangible assets	75.7	69.1	66.8	66.5	66.5
Financial assets	586.9	481.8	395.9	378.7	300.7
Reinsurance assets	170.6	131.7	74.7	54.2	66.1
Deferred income tax	-	1.6	-	-	-
Trade and other receivables	25.5	22.6	16.9	9.4	16.7
Cash and cash equivalents	144.3	155.8	191.2	150.2	119.3
<b>Total assets</b>	<b>1,014.0</b>	<b>870.3</b>	<b>753.0</b>	<b>663.6</b>	<b>572.6</b>
Equity	275.6	237.6	219.1	181.4	144.6
Insurance contracts	439.6	363.1	294.4	254.1	216.1
Financial liabilities	-	-	-	22.0	33.1
Deferred income tax	10.3	-	1.0	3.6	4.8
Trade and other payables	270.0	239.6	215.1	182.9	164.3
Current tax liabilities	18.5	30.0	23.4	19.6	9.7
<b>Total liabilities</b>	<b>1,014.0</b>	<b>870.3</b>	<b>753.0</b>	<b>663.6</b>	<b>572.6</b>

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## Parent Company balance sheet

	Note:	31 December 2008 £000	As at: 31 December 2007 £000
<b>Fixed asset investments</b>	4	108,604	106,604
<b>Current assets</b>			
Debtors	5	-	4,354
Cash at bank and in hand		57,184	48,114
		<u>57,184</u>	<u>52,468</u>
<b>Creditors – falling due within one year</b>			
Other creditors	6	(64,345)	(9,987)
Accruals and deferred income		-	(16)
		<u>(64,345)</u>	<u>(10,003)</u>
<b>Net current (liabilities) / assets</b>		(7,161)	42,465
<b>Total assets less current liabilities</b>		<u>101,443</u>	<u>149,069</u>
<b>Net assets</b>		<b>101,443</b>	<b>149,069</b>
<b>Capital and reserves</b>	7		
Called up share capital	8	265	263
Share premium account		13,145	13,145
Capital redemption reserve		17	17
Profit and loss account		88,016	135,644
		<u>101,443</u>	<u>149,069</u>

These financial statements were approved by the Board of Directors on 27 February 2009 and were signed on its behalf by:



**Kevin Chidwick**  
Director

## 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 twelve months and beyond, including cash flow forecasts and regulatory capital surpluses. The Company has no debt.

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

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

- Abstract 41 - 'FRS 20 – Group and Treasury Share Transactions;
- Amendment to FRS 17 – Retirement Benefits

The adoption of these standards has not had a material impact on either the current year or comparative figures as Company does not have any direct employees.

The Company has not adopted in advance amendments to FRS 26 relating to reclassification of financial assets and eligible hedged items which are in effect for accounting periods beginning on or after 1 July 2008 and 1 January 2009 respectively.

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 226 of, and Schedule 4 to, the Companies Act 1985.

As permitted by Section 230 of the Companies Act 1985, 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 Company has taken advantage of the exemption in FRS 8 not to disclose transactions or balances with its 90% or more owned subsidiary undertakings on the basis that the consolidated accounts are publicly available.

The Parent Company audit fee is not disclosed in these accounts as it is disclosed in the consolidated Group accounts, which precede them at note 10.

### 2. Investments

Investments in subsidiary undertakings are valued at cost less any provision for impairment in value.

### 3. Taxation

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

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

## Notes to the Parent Company financial statements

### 4. Fixed asset investments

	£000
Investments in subsidiary undertakings:	
At 1 January 2007	103,804
Additions	<u>2,800</u>
At 31 December 2007	106,604
Additions	<u>2,000</u>
At 31 December 2008	<u>108,604</u>

The Company's principal subsidiaries (all of which are 100% directly owned) are disclosed in note 28 of the Group financial statements.

### 5. Debtors

	31 December 2008 £000	As at: 31 December 2007 £000
Amounts owed by subsidiary undertakings	-	4,348
Deferred tax asset	<u>-</u>	6
	<u>-</u>	<u>4,354</u>

### 6. Other creditors – due within one year

	31 December 2008 £000	As at: 31 December 2007 £000
Deferred income tax	12,816	-
Corporation tax payable	8,890	9,931
Amounts owed to subsidiaries	42,590	-
Other creditors	<u>49</u>	56
	<u>64,345</u>	<u>9,987</u>

## 7. Reconciliation of movements in shareholders' funds

Company figures	Share capital £000	Share premium account £000	Capital reserve redemption £000	Retained profit and loss £000	Total equity £000
At 1 January 2007	261	13,145	17	139,048	152,471
Retained profit for the period	-	-	-	107,052	107,052
Dividends	-	-	-	(116,016)	(116,016)
Issues of share capital	2	-	-	-	2
Share scheme charges	-	-	-	5,560	5,560
As at 31 December 2007	263	13,145	17	135,644	149,069
Retained profit for the period	-	-	-	69,567	69,567
Dividends	-	-	-	(128,515)	(128,515)
Issues of share capital	2	-	-	-	2
Share scheme charges	-	-	-	11,320	11,320
As at 31 December 2008	265	13,145	17	88,016	101,443

## 8. Share capital

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