Admiral Group plc Results for the Year Ended 31 December 2012 6 March 2013

06 Mar 2013

iral Group plc announces a strong annual result with profit before tax of £345 million for the year to December 2012, an increase of 15% over the previous year. The Board is proposing a final dividend for 2012 of 45.5 pence per share, to be paid on 24 May 2013.

2012 Preliminary Results Highlights

- Group profit before tax up 15% at £345 million (2011: £299 million)
- Earnings per share up 16% at 95.1 pence (2011: 81.9 pence)
- Final dividend of 45.5 pence per share bringing the 2012 total dividend to 90.6 pence per share up 20% (2011: 75.6 pence per share)
- Return on capital of 60% (2011: 59%)
- Group turnover* up 1% at £2.22 billion (2011: £2.19 billion)
- Group vehicle count up 6% to 3.55 million (2011: 3.36 million)
- International car insurance turnover* up 33% to £163 million with customers up 42% to 436,000 (2011: £122 million and 306,000 customers)
- 6,500 staff will receive Free Shares worth £3,000 in the Employee Share Scheme; £1,500 worth of shares based on the H1 2012 result, in addition to a further £1,500 worth of shares awarded in accordance with the full-year result.

** Turnover is defined as total premiums written (including co-insurers' share) and other revenue*

Comment from Alastair Lyons, Group Chairman
"We are pleased to report profit before tax up 15% at £345 million, and to propose an increase in total dividends for the year of 20% to 90.6 pence per share. This represents 95% of after-tax earnings, testament to the strength of Admiral's capital-efficient and cash generative business model."

Comment from Henry Engelhardt, Group Chief Executive Officer
"2012 was Admiral's 20th and most successful year to date. Looking back over the last 20 years, I want to thank everyone who has helped us to create such a robust business. Alongside our financial achievements we were proud to be named the best large UK workplace by the Great Place to Work Institute and also recently named the UK's 11th Best Company to Work For by the Sunday Times."

Dividend
The Directors have proposed a final dividend of 45.5 pence (21.4 pence normal and 24.1 pence special) per share, to be paid on 24 May 2013. The ex-dividend date is 1 May 2013 and the record date 3 May 2013.

Management presentation
Analysts and investors will be able to access the Admiral Group management presentation which commences at 08:30 GMT on Wednesday 6 March 2013 by dialling + 44 (0)20 3059 8125. A copy of the presentation slides will be available at www.admiralgroup.co.uk

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Chairman's statement

In my statement last year I commented that I was very confident, given the quality of our management and our staff, that 2012 would demonstrate their capability and commitment to put the 2011 issue of higher than expected claims behind us and restore lost shareholder value. This confidence has, I believe, been fully justified with pre-tax profits 15% higher at £345m; reserve releases from the 2010 and 2011 years; and a share price that was 36% higher at the end of the year than the start.

This level of profitability delivered a 60% return on capital employed and supported total dividends of 90.6 pence per share, which represents a distribution of 95% of our earnings. Our normal dividend, growing in line with our growth in profits based on a 45% pay-out ratio, amounted to 42.7 pence per share, whilst our available surplus, after taking into account our required solvency, provision for our overseas expansion plans, and a margin for contingencies, made possible a further special dividend of 47.9 pence per share.

Our UK Business

UK motor insurance is cyclical. As rates harden and profitability improves so too interest in growth increases amongst insurers, raising marketing spend; developing new offerings; and, in turn, leading to lower prices to grow share. This phase continues until the market recognises that the new business it is attracting is unprofitable for most, leading to a further turn. It makes good economic sense to grow in the up-cycle and refrain from chasing the market down in the down-cycle. This is even more the case for a player such as Admiral that has a significant combined ratio advantage over the market as a whole and can, therefore, afford to raise rates less quickly than the market as a whole when the cycle turns up. The UK market reached its low point in 2009, a year that saw a totally unsustainable overall market combined ratio of 127%, and then raised rates significantly over the subsequent two years to reflect the increasing cost of claims, in particular those relating to bodily injury. By contrast, in 2009 Admiral had achieved a combined ratio of 94% and was, therefore, able to take advantage of these market conditions to add material growth to its UK motor book, finishing 2011 almost 60% larger than two years previously. Similarly in 2012, as the second largest UK private motor insurer, we have not sought to add to the downward pressure on prices but have been content to hold our share broadly steady.

Admiral has always had a low appetite for risk. This is demonstrated by the fact that we reinsure 75% of our book either through co-insurance or quota share; we only invest in the highest quality assets with no equity exposure; and when we enter new markets we do so slowly through organic growth, adopting a test and learn approach. Nowhere is this low risk appetite more evident than our approach to reserving against motor claims. We establish initial reserves at the prudent end of potential outcomes, reviewing how claims develop in subsequent years and releasing parts of the reserve to profit as and when justified. In our reserving we seek to reflect not only what we know but what may happen, such as potential changes to discount rates and increasing numbers of periodic payment orders. Our approach to reserving is conservative; how conservative will vary with our assessment of the level of uncertainty and volatility to which our business is exposed.

Currently the UK motor market is undergoing significant change - the implementation of the EU gender directive; the OFT referral to the Competition Commission; the banning of referral fees; and the emergence of telematics offerings are all potentially disruptive events. Admiral has, however, built its business to embrace and profit from change, rather than fear it and we have been as transparent as we can as to the likely effects of these changes on our business. The management team has developed a flexible, responsive, low-cost, data-rich business model that allows the effect of change to be identified quickly, measured accurately, and responded to effectively. By seeking to minimise bureaucracy, encourage individual managers to use their initiative, and avoid management by committee which leads to an absence of decision-taking and the abrogation of responsibility, we aim to react more quickly than our competitors to changes in our environment. Through our all-employee Free Share scheme we seek to motivate all of our people to work together to achieve the best outcome for what is their business, creating a total alignment between their interests and those of our shareholders. We were, therefore, delighted to be named best large UK workplace by the Great Places to Work Institute in 2012.

The customer is at the centre of everything we do. We design our products and processes in order to meet their needs better than our competitors, and we are now pleased to be able to offer our UK customers

household insurance alongside motor insurance. We seek feedback after every interaction in order to learn how we can improve our service. Last year we received over 140,000 individual items of feedback - in the critical area of claims processing over 90% of those claiming under their policy said that they would take motor insurance from us again. All departments have quality scores against their relevant key performance indicators, and compete to win Quality Awards. For customer-facing departments these quality measures underpin the regulatory assessment of our compliance with the principles of Treating Customers Fairly. We fully support initiatives that can reduce the overall cost of providing motor insurance, in turn making possible a reduction in the premiums insurers have to charge their customers. Minimising the potential for fraudulent claims and reducing incidental claims costs both have their part to play.

Admiral Overseas

We have continued to grow our overseas businesses at the measured pace dictated by a strategy of organic growth and within the constraints of the challenging economic environment, particularly as affects southern Europe. We are still very much at the stage of learning how best to compete in each of these markets and shall focus in the near term on building the businesses that we have established over the past six years. When each year I visit our international operations I always know that I am in Admiral, testament to the effectiveness with which our can-do culture, management ethos, and approach to our customers and employees have been exported.

We are already seeing the results of investing in price comparison in new markets in order to kick start the process of change to more active switching of car insurance provider by consumers. Market data shows price comparison growth in Italy, Spain and France and we are delighted to see others being attracted by our initiative to establish their own price comparison sites in markets where we provide motor insurance - the launch of Les Furets in France is a case in point. The more impact price comparison can have, the stronger the potential for direct insurance in these markets.

Our Board

Over the past couple of years we have added to our Board beyond its normal size in anticipation of three of our Non-Executive Directors reaching the end of the nine years following which they are no longer regarded as independent under the UK Corporate Governance Code. By structuring this overlap we aim to maintain the continuity of Board process and the strength of personal interaction which underlies the effectiveness of the Board as a team. The first of these, Keith James, stood down at our 2012 AGM although he continues to bring his knowledge of our business and his wise counsel to bear through his chairmanship of our principal UK-regulated operating subsidiaries. May I take this opportunity to thank Keith for everything that he added to our debate during his time on the Board.

I would also like to extend this thanks more generally to all of our Non-Executives for the time they give and the commitment they make to our business. As our business expands and broadens, and against the backdrop of challenging economics and a demanding regulatory environment, what is expected of Non-Executives, and in particular Committee Chairs, bears little relation to the position that existed when Admiral floated in 2004. During 2012 all Non-Executives visited at least one of our overseas businesses in addition to the normal Board process. It is only by such active engagement with the business and the opportunity to spend time with management across many levels that Non-Executives can gain a real understanding of its underlying health and potential. In a business that has sustained profitable growth as its objective the depth and breadth of management is both the key enabler and the potential greatest inhibitor. Our Board, therefore, aims to assess not only the plans for immediate succession but, at least as, if not more, importantly, the emerging bench strength for 5 to 10 years time. Throughout 2012 we have had three senior managers join the Board in each of its meetings in order to broaden their understanding of the Group's strategy and Board process and contribute actively to Board deliberations.

Thank You

A business is only as good as its people and every individual has their particular contribution to the success of the whole. It is, therefore, everyone in Admiral across all the various markets and functions that now make up our Group that I must thank for what has been achieved in 2012. Whilst there are many elements to why Admiral is different, for me the most significant is that the management team has been successful in

designing a business where the overwhelming majority of those I meet enjoy coming to work and through enjoying what they do, and the environment within which they work, are more successful in what they do. It is, therefore, no surprise that the average length of service of our 20 most senior UK managers is 13 years in a company that is itself just 20 years old. I am confident that this depth of focused knowledge and commitment within a supportive environment will lead to a continued strong performance within our markets.

Alastair Lyons, CBE
Chairman
5 March 2013

Chief Executive's statement

We've done the heavy lifting: the first 20 years. We've put the hole in the ground and we've got the cranes in place. All that's left to do is to build the metaphorical skyscraper.

We've had our ups and downs, good moments and, well, less good moments, over the first 7,304 days (we started on 2 January 1993 and there have been five leap years along the way, but who's counting?). In 20 years, we've done a lot of car insurance (total turnover? £13 billion, our combined ratio over the first 20 years? 84%), we've had a lot of laughs, lost (quite) a few hairs and gained a few pounds. But the net result is my belief that the next 20 years will make the first 20 seem downright pedestrian for Admiral Group. And if I do my job well, then when the next wave of management takes over, it will inherit a very strong foundation upon which to construct their skyscraper.

Before we attack the next 20 years, let's take a look at the 20th!

In 2012 the return to form of the UK business was heart-warming to all of us. We enjoyed substantial reductions in the actuarial view of best estimate for the back years, which has in turn allowed us to release some reserves and increase the reserve stock for the future. The upshot of all this is a 15% increase in profits at Group level. Nice.

In addition, we did not chase growth. A common misconception seems to surround the question of policyholder growth and profit growth. If one tries to make a simple link between these two it would completely miss the third part of the triangle: margin. Prices in the market fell more than 10% in 2012. We chased it some of the way down but not all the way down. As a result we kept some integrity with regard to margin. We believe that to have chased the market further, such that we could present greater year-end policyholder growth, would have meant sacrificing profit in both the short- and long-term.

The UK car insurance market has, historically, been violently cyclical; some profitable years followed by big losses. There is no reason to believe that the market will stop being cyclical, although the extent of the future violence is as yet unknown. Therefore there will be far better opportunities to grow at the next turn in the cycle, when rates begin going up faster than claims inflation.

Admiral is in the enviable position of being profitable throughout the cycle. This allows us to choose when we grow and how much we grow and what margins we maintain.

It was also a good sign that Confused.com, for the first time in four years, made more profit than the year before. However, the trading environment for Confused will be even more challenging in 2013. The rate of aggregator growth in the market is slowing. This isn't a surprise for two reasons: first, so many people are already using price comparison that there aren't that many new people left! Secondly, as rates tumble in the market consumers get renewal notices with premiums lower than last year. This only serves to dampen their enthusiasm for shopping. Confused is doing a lot of interesting things however to try and insulate itself from the vagaries of the car insurance market. It has, for example, a very sophisticated offering of credit cards and it has developed a very nifty app to help drivers find parking wherever they're at in the UK.

2012 saw Admiral take a big but small step. After 19 years, 11 months and 16 days of having car insurance

as the only stand-alone, underwritten product, we launched household insurance in the UK on 18 December, 2012. It's a big step because we have, for the first time, diversified the product range which we underwrite. It's a small step because the business is intended to be very small in the first year or two. Test and learn, test and learn...

The results outside the UK were mixed.

The insurance businesses made some strides towards their goal of being growing, profitable, sustainable businesses - however, these strides were not as long as anticipated. Overall the opportunities are well worth the investment but we do need to pick up our game and make more progress, more quickly.

The non-UK price comparison businesses each had a good year. The results for Rastreator and LeLynx, in Spain and France respectively, were better than expected. These two businesses are poised for great things, but achieving greatness is never easy.

Following on from the success of Rastreator and LeLynx, just after the end of the year we launched the beta version of a price comparison site in the US, Comparenow.com. Until now no one has done European-style price comparison in the US, and so Comparenow will plough new ground. Comparenow is attempting to change normal shopping patterns on a big scale and success is sure to be challenging and exciting in equal parts.

Admiral Group's strategy is not complicated. Based on the premise that the internet is an irresistible force, our strategy is to continue to progress in the UK market while taking what we know and do well, which is internet and telephone delivery of car insurance, beyond the UK. Translation: keep doing what we're doing but do it better than we did it last year.

And that in itself will be challenging because the bar was raised again in 2012 with a new record for profits (which we've done every year since we went public in 2004 and actually a few years before) and a return on capital of 60%.

Financial milestones are great but one of the most rewarding moments of the first 20 years came in 2012 when we were named the best large company to work for in the UK and the 4th best multinational company to work for in Europe, by the Great Places to Work Institute. We have a simple philosophy at Admiral: if people like what they do, they'll do it better. So we go out of our way to make this a good place to work. The result: happier staff, record profits.

Finally, it was a year marked by a long-overdue action. In the last half of December David Stevens, co-founder and COO, several other senior managers and I went through an entry-level sales training course and then got on the phones with customers. So after 19 years and 50 weeks, I made my first sale!

This experience was a real eye-opener. We all learned a great deal about our business doing this but the biggest learning point was first-hand knowledge of how great the people who work for us are. It was a pleasure to be trained by them, helped by them, play games with them and learn from them. We all came away with a huge respect for our staff's ability to tackle the challenges created by a complicated product, systems, regulation, etc. and still give great customer service every day. We also came away reinforced in our belief that if you treat customers well they appreciate it and will treat you well too.

In sum, 2012 was the year of the kangaroo: it bounced around a little bit but it turns out to be pretty big, strong and energetic, with the babies protected in the mother's pouch.

Great. We're off to a good start. Let's get on with the next 20 years.

Henry Engelhardt, CBE
Chief Executive Officer
5 March 2013

UK Car Insurance Review

Twenty years ago, Admiral launched on a grey Saturday in Wales - the seventh of what ultimately became a couple of dozen Direct Line "clones"; new players and subsidiaries of big, established insurers, copying the over-the-'phone "cut out the middle man" model. For such a superficially dull industry, those twenty years have seen an astonishing pace of change.

For a start, of the top five private car insurers in 1993, only one made it into the top five in 2011 (Royal, Sun Alliance, AGF, Eagle Star, Direct Line in 1993..Direct Line, Admiral, Aviva , LV & Axa in 2011).

Back in 1993, one in five customers made a claim each year and almost all of those were for bent metal or car theft. Twenty years on, it's heading towards one in ten making a claim, but most of the cost of those claims is now attributable to "bodily injury". Of course, most strikingly, none of the business in 1993 came via the internet, and only a minority over the 'phone. Now, almost three quarters of new customers start their journey on the internet.

But some things don't change. The market average expense ratio in 1993 was 26%. Last year, after two decades of industry consolidation, I.T. investment, adaption of direct distribution, exploitation of the internet, the industry average expense ratio was 26%. Admiral's was 13%; delivering an eighteenth year of better-than-industry average expense ratio, and a tenth year of beating it by over ten percentage points.

Our claims ratio has also bettered industry averages, at least since the millennium. Our rapid rise up the league tables to be the UK's second largest car insurer, by vehicles covered, is all down to this sustained superior underwriting performance over many years.

But that's history. What does the future hold? The headlines (unusually in the popular press, as well as the trade press) are dominated by the current slew of actual and potential legislative and regulatory change - the Competition Commission, hot on the heels of the OFT enquiry, the Jackson reforms, possible further changes to the administration of, and costs associated with bodily injury claims, the banning of gender-based rating, the newly-formed Financial Conduct Authority's focus on value for money add-ons. But it's not the ultimate outcome of this frenetic activity that will determine the health of Admiral's core UK operation in twenty years' time. Current and proposed changes, as long as they're implemented and enforced even-handedly and universally across the market, don't affect relative competitive strength, over anything but the very short-term. Nor do they affect overall industry profitability. It is, as it has always been, the ability to execute better than others in dozens of individually insignificant, but collectively important, ways, and to respond to fundamental underlying changes more quickly and more adeptly than competitors that will be the key to future success.

Late last year, we launched our first major product extension ever, with the launch of household insurance. One question we will be able to answer in twenty years, or possibly sooner, is whether we've developed an industry-beating competence in a second £6 billion market without losing our edge in the ever more massive car insurance market.

In terms of concrete future guidance on household, all I can really say is "so far, so good". Ten weeks in. For what that's worth.

David Stevens, CBE
Chief Operating Officer
5 March 2013

Group financial highlights and key performance indicators

£m	**2010**	**2011**	**2012**
Turnover*	£1,584.8m	£2,190.3m	£2,215.1m
Net revenue	£640.8m	£870.3m	£984.3m

Number of customers	2.75m	3.36m	3.55m
Loss ratio	69.4%	78.9%	78.9%
Expense ratio	19.9%	16.8%	17.7%
Combined ratio	89.3%	95.7%	96.6%
Profit before tax	£265.5m	£299.1m	£344.6m
Earnings per share	72.3p	81.9p	95.1p
Dividends per share	68.1p	75.6p	90.6p
Return on capital	59%	59%	60%

**Turnover comprises total premiums written and other revenue*

Admiral Group grew pre-tax profits in 2012 by 15% to £344.6 million (2011: £299.1 million) and earnings per share by 16% to 95.1 pence (2011: 81.9 pence).

Turnover increased slightly to £2,215.1 million (2011: £2,190.3 million), whilst net revenue rose 13% to £984.3 million (2011: £870.3 million). Customer numbers were 6% higher at the end of 2012 at 3.55 million (2011: 3.36 million).

UK Car Insurance delivered a profit of £372.8 million - up 19% on 2011's result of £313.6 million, primarily driven by higher net insurance premium revenue and an improved combined ratio (along with associated profit commission). Turnover for this core business accounted for 87% of the Group total (2011: 90%) and 85% of customers (2011: 88%). Growth in the UK was moderated in 2012 in response to conditions in the UK market.

Admiral's international car insurance businesses continue to develop, with turnover rising 33% to £162.9 million (2011: £122.1 million) and customer numbers reaching 435,900 - an increase of 42% on a year earlier. The combined loss from the operations was, however, higher, at £24.5 million (2011: loss of £9.5 million). This was predominantly a result of growth in the younger businesses and some strengthening of back year claims reserves in the more mature businesses.

The Group's UK price comparison business, Confused.com, delivered a pre-tax profit of £18.2 million - around £2 million higher than 2011's result, on 7% higher revenue. Outside the UK, Admiral's international price comparison businesses (Rastreator.com in Spain and LeLynx.fr in France) made a combined loss of only £0.2 million (2011: loss of £5.6 million) whilst combined revenue increased by nearly 70%. The Group sold its Italian price comparison business, Chiarezza.it, in April 2012.

Admiral's capital-efficient and highly profitable business model led to return on capital employed of 60% (2011: 59%). A key feature of the business model is the extensive use of co- and reinsurance across the Group. During the first half of 2012 Admiral announced extensions to its UK reinsurance arrangements until at least the end of 2014. Admiral's long-term UK co-insurance agreement (covering 40% of the business) runs to at least the end of 2016.

Other Group key performance indicators include:

- Group loss ratio of 78.9% in line with 2011 (an improved UK loss ratio offsetting a higher international ratio)
- Group expense ratio 17.7%, up from 16.8% in 2011 (an improved UK ratio offset by a higher international ratio)
- Group combined ratio at 96.6% (2011: 95.7%)

Total dividends paid and proposed for the financial year amount to 90.6 pence per share (£245 million), an increase of 20% on the previous year (2011: 75.6 pence; £203 million). The final dividend proposed is 45.5 pence per share (25% higher than the final 2011 dividend of 36.5 pence).

UK Car Insurance

Non-GAAP*1 format income statement

£m	2010	2011	2012
Turnover*2	1,419.7	1,966.0	1,936.2
Total premiums written*3	1,237.6	1,728.8	1,748.7
Net insurance premium revenue	269.4	418.6	455.6
Investment income	8.3	10.6	13.9
Net insurance claims	(192.6)	(335.5)	(355.1)
Net insurance expenses	(32.4)	(46.7)	(50.0)
Underwriting profit	**52.7**	**47.0**	**64.4**
Profit commission	67.0	61.8	108.4
Net ancillary income	142.4	181.5	170.9
Instalment income	13.7	23.3	29.1
UK Car Insurance profit before tax	**275.8**	**313.6**	**372.8**

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

Split of 2012 underwriting profit

£m	Motor	Ancillary	Total
Underwriting profit	**59.6**	**4.8**	**64.4**

Key performance indicators

	2010	2011	2012
Reported motor loss ratio	68.3%	77.3%	76.1%
Reported motor expense ratio	15.2%	14.0%	13.6%
Reported motor combined ratio	83.5%	91.3%	89.7%
Written basis motor expense ratio	14.4%	13.2%	13.0%
Claims reserve releases	£23.5m	£10.3m	£17.6m
Vehicles insured at year-end	2.46m	2.97m	3.02m
Other revenue per vehicle	£84	£84	£79

UK Car Insurance - Co-insurance and Reinsurance

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

The two principal advantages of the arrangements are:

- Capital efficiency - The majority of the capital supporting the underwriting is held outside the Group. As

Admiral is typically able to retain much of the profit generated via profit commission, the return on Group capital is higher than in an insurance company with a standard business model.

- Risk mitigation - Co- and reinsurers bear their proportional shares of claims expenses and hence provide protection should results worsen substantially.

Arrangements for 2012 to 2014

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

	2012	2013	2014
Admiral	25.00%	25.00%	25.00%
Great Lakes (Munich Re)	40.00%	40.00%	40.00%
New Re	13.25%	13.25%	13.25%
Hannover Re	8.75%	8.75%	8.75%
Swiss Re	7.50%	7.50%	9.00%
Mapfre Re	3.00%	3.00%	4.00%
XL Re	2.50%	2.50%	-
Total	**100.00%**	**100.00%**	**100.00%**

The proportion underwritten by Great Lakes (a UK subsidiary of Munich Re) is on a co-insurance basis, such that 40% of all motor premium and claims for the 2012 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

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

All other agreements are quota share reinsurance.

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

UK Car Insurance Financial Performance

Commentary on Admiral's UK Car Insurance business result and its market is contained in Chief Operating Officer David Stevens' review above.

As noted in the Group's interim 2012 results, the UK Car Insurance market became substantially more price competitive in 2012 than it had been during 2010 and 2011, over which period Admiral grew its business significantly. Whilst the number of customers continued to grow, the rate of growth was slowed significantly as Admiral opted to preserve margin rather than chase growth.

Total premium written in 2012 was broadly flat compared to 2011 at just over £1.7 billion, whilst the number of customers rose 2% year-on-year to 3.02 million at 31 December 2012. Vehicle count in the second half of the year was flat. Across new business and renewals, Admiral cut its rates by around 6% in 2012. Average written premium for the year was around £580, down 9% on 2011, due in part to the rate cuts and in part to portfolio changes (notably a shift in favour of renewal business).

Profit from UK Car Insurance increased by 19% to £372.8 million (2011: £313.6 million).

UK Car Insurance Underwriting Result and Profit Commission

The UK combined ratio improved by around two percentage points in 2012 as follows:

UK Car Insurance Combined Ratio	**2011**	**2012**
Loss Ratio excluding reserve releases	79.8%	80.0%
Reserve releases	2.5%	3.9%
Loss Ratio net of releases	**77.3%**	**76.1%**
Expense Ratio	14.0%	13.6%
Combined Ratio	**91.3%**	**89.7%**

The loss ratio before releases was broadly flat in the year, though larger reserve releases (3.9% of net earned premium compared to 2.5%) led to an improved net loss ratio of 76.1%.

The higher level of releases compared to 2011 reflected the more positive development during the year in projected ultimate outcomes on prior underwriting years (notably 2011 and 2010). Claims development in general during 2012 was encouraging; with no repeat of the spike in large bodily injury claims that occurred during H2 2011.

The projected ultimate combined ratio for Admiral for the 2012 accident year is 83%, compared to 82% for the 2011 year. The reported combined ratio for the UK market for 2011 was 105%.

Claims Reserving

Admiral's reserving policy (both within the claims function and in the financial accounts) is initially to reserve conservatively, above internal and independent projections of ultimate loss ratios. This is designed to create a margin held in reserves to allow for unforeseen adverse development in open claims and typically results in Admiral making above industry average reserve releases.

As profit commission income is recognised in the income statement in line with loss ratios accounted for on Admiral's own claims reserves, the reserving policy also results in profit commission income being deferred and released over time.

The improved combined ratio, along with the significant growth in the size of the business since 2009, has led to a material increase in profit commission income recognised in 2012 - at £108.4 million compared to £61.8 million (though the comparative figure was subdued by the disappointing claims experience in 2011). Note 4c) to the financial statements analyses profit commission income by underwriting year.

Total profit from car insurance underwriting and profit commission increased significantly, by 54% to £168.0 million from £108.8 million.

UK Car Insurance Other Revenue - Analysis of Contribution:

£m	**2010**	**2011**	**2012**
Ancillary contribution	168.3	213.9	205.2
Underwritten ancillary profit	-	-	4.8
Instalment income	13.7	23.3	29.1
Other revenue	**182.0**	**237.2**	**239.1**
Internal costs	(25.9)	(32.4)	(34.3)
Net other revenue	**156.1**	**204.8**	**204.8**
Other revenue per vehicle	**£84**	**£84**	**£79**

Admiral generates other revenue from a portfolio of insurance products that complement the core car insurance product, and also fees generated over the life of the policy. There is also some (less significant) income from other products unconnected to car insurance.

The most material contributors to net other revenue are:

- Profit earned from motor policy upgrade products underwritten by Admiral, including breakdown, car hire and personal injury covers
- Profit from other insurance products, not underwritten by Admiral
- Vehicle Commission (refer below)
- Fees - administration fees, wasted leads and referral income (refer below)
- Instalment income - interest charged to customers paying for cover in instalments

Vehicle Commission

With effect from 1 April 2012, Admiral no longer earns Other Revenue from the sale of legal protection policies. In addition, the Group began charging its panel of co- and reinsurers a vehicle commission. Admiral's car insurance policies will continue to include legal protection as an integral feature and there has been no impact on customers in the level of cover or cost of policies as a result of this change. The planned overall economic impact of these two changes is not significant.

However, the accounting recognition and treatment of vehicle commission results in Other Revenue per vehicle in 2012 being reduced by approximately £6 (£16 million in total). Further detail on the intra-group element of vehicle commission is set out in note 3.

Referral Fees

As previously noted, personal injury referral fees will be banned with effect from 1 April 2013. In 2012 Admiral earned approximately £6 per vehicle insured (£18.6 million) from personal injury referral fees.

In additional, in 2012 Admiral earned around £5 per vehicle in credit hire referral fees (£13.6 million). Admiral notes that the UK Competition Commission has recently embarked upon a review of the car insurance market and a potential outcome of the review is a further ban on credit hire referral fees.

International Car Insurance Financial Performance
Non-GAAP format income statement*1

£m	2010	2011	2012
Turnover	77.6	122.1	162.9
Total premiums written	71.0	112.5	148.5
Net insurance premium revenue	18.7	27.2	43.3
Investment income	0.1	0.2	0.1
Net insurance claims	(15.9)	(28.3)	(49.4)
Net insurance expenses	(16.5)	(16.2)	(27.4)
Underwriting result	**(13.6)**	**(17.1)**	**(33.4)**
Net ancillary income	5.3	8.0	8.9
Other revenue and charges	0.3	(0.4)	-
Non-UK Car Insurance result	**(8.0)**	**(9.5)**	**(24.5)**

Note - Pre-launch costs excluded

Key Performance Indicators*1

£m	2010	2011	2012
Reported loss ratio	85%	104%	114%
Reported expense ratio	88%	60%	63%
Reported combined ratio	**173%**	**164%**	**177%**
Vehicles insured	195,000	306,000	436,000
Other revenue per vehicle	£34	£32	£25

**1 Figures include AdmiralDirekt (sold in January 2011)*

International Car Insurance Co-insurance and Reinsurance

Reinsurance arrangements for the 2012 year remained the same as 2011 in all countries, with Admiral retaining 35% (Spain and Italy), 30% (France) and one third (USA) of the underwriting risk respectively.

The arrangements for 2013 will remain the same, other than in Spain, where Admiral will retain 30% of the risk, down from 35% in 2012. The balance of 70% will be shared equally between Munich Re and Swiss Re.

All contracts are subject to certain caps on the reinsurers' exposures and all contracts have profit commission terms that allow Admiral to receive a proportion of the profit earned on the underwriting once the business reaches cumulative profitability. The contracts include proportional sharing of ancillary profits.

International Car Insurance Financial Performance

Admiral's international insurance businesses (in aggregate and individually) continued to grow, adding 130,000 customers and ending 2012 42% larger than a year earlier. Turnover grew 33% to £162.9 million (2011: £122.1 million).

Growth in the younger businesses, along with some adverse prior year claims development in the more mature operations, led to a higher combined ratio however, which increased to 177% from 164%. The higher combined ratio, in conjunction with higher net insurance premium revenue led to a higher loss, of £24.5 million in 2012, up from £9.5 million in 2011.

As the Group's new insurance operations grow, it is expected that they will make losses until appropriate scale has been achieved. Although the 2012 loss was higher than anticipated, the Group is satisfied with the progress each business continues to make towards the goal of becoming a sustainable, growing, profitable operation.

Price Comparison Financial Performance
Non-GAAP format income statement

£m	2010	2011	2012
Revenue:			
Car insurance price comparison	59.6	72.2	82.5
Other	16.1	18.2	21.0
Total	75.7	90.4	103.5
Operating expenses	(63.6)	(79.9)	(85.5)
Operating profit	**12.1**	**10.5**	**18.0**
Confused.com profit	16.9	16.1	18.2
International Price Comparison result*	(4.8)	(5.6)	(0.2)

	12.1	**10.5**	**18.0**

* excludes pre-launch costs. Figures include results of Chiarezza.it, which was sold in April 2012. The disposal did not have material impact on the income statement.

UK Price Comparison - Confused.com

Confused.com continues to operate in the very competitive UK price comparison market, which has been dominated by four businesses for a number of years. Media spend remained high, though growth in the number of car insurance policies distributed via the channel in 2012 was lower than in prior years.

Against this backdrop, Confused.com delivered an improved result, with revenue 7% higher at £82.7 million (2011: £77.6 million) and profit up £2.1 million to £18.2 million (2011: £16.1 million). Market share in car insurance price comparison was stable.

Revenue from non-car insurance comparison sources increased in actual terms and continued to represent around one fifth of total revenue. Confused.com's operating margin improved slightly to 22% (2011: 21%).

International Price Comparison

Following the sale of the Italian price comparison operation (Chiarezza) during H1 2012 and the launch in Q1 2013 of a new operation in the USA, Admiral now operates three price comparison businesses outside the UK; in Spain (Rastreator), France (LeLynx) and the USA (comparenow.com).

The combined revenue from the operations in 2012 (on a like-for-like basis) increased by 67% to £21 million, with 29% more quotes delivered. Both Rastreator and LeLynx both have strong positions and brands in their respective markets.

The combined result for International Price Comparison was a loss of £0.2 million - notably improved from a £5.7 million loss in 2011.

The disposal of Chiarezza had an insignificant impact on the income statement.

In March 2013, Admiral launched a new price comparison operation in the USA (based in Virginia), trading as comparenow.com. The initial investment in the new business is not expected to be material in the context of the Group. Pre-launch costs are included in Other Group Items, below.

Other Group Items

£m	**2010**	**2011**	**2012**
Gladiator operating profit	2.7	2.8	2.5
Group net interest income	1.1	2.9	1.9
Share scheme charges	(15.0)	(18.6)	(20.6)
Expansion costs	(1.1)	(0.8)	(2.1)
Other central overhead	(2.1)	(1.8)	(3.4)

Gladiator

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

Non-GAAP income statement and key performance indicators

£m	**2010**	**2011**	**2012**

Revenue	11.8	11.7	12.5
Expenses	(9.1)	(8.9)	(10.0)
Operating profit	**2.7**	**2.8**	**2.5**
Operating margin	23%	24%	20%
Customer numbers	94,500	87,900	94,800

The van insurance broking market remained competitive during 2012, and although Gladiator increased revenue to £12.5 million (2011: £11.7 million), operating margin was lower at 20% and resulting operating profit fell to £2.5 million from £2.8 million.

Gladiator increased its customer base by around 8% to 94,800.

Share Scheme Charges

These costs relate to the Group's two share schemes, further detail on which is set out in the notes to the financial statements. The increase in the charge relates to a higher number of shares awarded in 2012 compared to 2011 (resulting from increased headcount across the Group).

UK Household Insurance

In December 2012, the Group launched a UK household insurance product, underwritten within the Group and based in the Group's Cardiff offices. Common with other launches, initial plans are modest, and the business is supported by proportional reinsurance covering 70% of the underwriting risk (shared between Munich Re, 40% and Swiss Re, 30%).

Investments and Cash
Investment Strategy

Admiral maintained a low-risk investment strategy throughout the year, with a broadly consistent allocation of funds to the three main asset categories (cash at bank, cash deposits and money market funds) as in recent years.

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

The Group's Investment Committee continues to perform regular reviews of the strategy to ensure it remains appropriate.

Cash and Investments Analysis

	31 December 2012				
	UK Car Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Total £m
Money market funds and short-dated debt securities	1,074.5	76.7	-	74.6	1,225.8
Cash deposits	370.5	5.3	-	-	375.8

Cash	125.0	50.2	25.4	16.0	216.6
Total	**1,570.0**	**132.2**	**25.4**	**90.6**	**1,818.2**

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

The only notable change in asset allocation during 2012 was a higher proportion invested in money market funds and short-dated debt securities and a move away from cash compared to 2011. All investment objectives continue to be met.

Investment and interest income in 2012 was £15.9 million, up 16% on 2011 (£13.7 million). The rate of return was similar to 2011, at slightly less than 1%.

The Group continues to generate substantial amounts of cash, and its capital efficient business model enables the distribution of the majority of post-tax profits as dividends.

£m	**2010**	**2011**	**2012**
Operating cash flow, before transfers to investments	522.0	779.1	742.0
Transfers to financial investments	(240.8)	(493.9)	(441.9)
Operating cash flow	281.2	285.2	300.1
Tax and interest payments	(69.5)	(95.3)	(79.7)
Investing cash flows (capital expenditure)	(11.1)	(13.2)	(10.9)
Financing cash flows (largely dividends)	(164.9)	(197.8)	(214.8)
Foreign currency translation impact	(0.8)	(1.0)	(2.7)
Net cash movement	**34.9**	**(22.1)**	**(8.0)**
Net increase in cash and financial investments	**276.9**	**473.8**	**434.5**

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

£m	**2010**	**2011**	**2012**
Profit after tax	**193.6**	**221.3**	**258.4**
Change in net insurance liabilities	129.7	244.3	200.0

Net change in trade receivables and liabilities	101.4	203.7	163.0
Non-cash income statement items	25.4	32.0	34.4
Tax and net interest expense	71.9	77.8	86.2
Operating cash flow, before transfers to investments	**522.0**	**779.1**	**742.0**

The key features to note are:

- Total cash plus investments increased by £435 million or 31% (2011: £474 million, 52%), the lower rate of growth resulted from lower growth in the UK business; somewhat offset by higher growth internationally
- The net change in actual cash balances was small, as funds were transferred into investments

Other Financial Items

Taxation

The taxation charge in the income statement is £86.2 million (2011: £77.8 million), which equates to 25.0% (2011: 26.0%) of profit before tax. The average rate of UK Corporation Tax in 2012 was 24.5%.

Earnings Per Share

Basic earnings per share rose by 16% to 95.1 pence from 81.9 pence. The change is in line with profit growth.

Dividends

The Directors have proposed a final dividend for the financial year of 45.5 pence per share. Total dividends for the year amount to 90.6 pence per share, 20% higher than the 75.6 pence per share distributed in respect of 2011.

The final dividend is made up of a 21.4 pence normal element based on the stated dividend policy of distributing 45% of post-tax profits, and a further special element of 24.1 pence. The special dividend is calculated with reference to distributable reserves after considering capital that is required to be held a) for regulatory purposes; b) to fund expansion activities; and c) as a further prudent buffer against unforeseen events.

The payment date is 24 May 2013, ex-dividend date 1 May and record date 3 May.

Capital Structure, Financial Position

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

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

The majority of the Group's capital requirement is derived from its European insurance operations, Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL). The minimum capital requirements and surplus position at the end of the 2012 for those companies, along with the overall Group position was as follows:

£m	AIGL	AICL	Group

Net assets less goodwill	£170m	£85m	£395m
Minimum capital requirement	£78m	£25m	£122m
Surplus over minimum requirement	**£92m**	**£60m**	**£273m**
Total regulatory capital requirement			£240m
Surplus over regulatory capital requirement			**£155m**

The Directors note the delay in the progress towards implementing the Solvency II regulatory regime in the EU. As previously noted, the Directors do not believe, based on current guidance, that there will be a material change in the level of the Group's capital surplus under the new regime.

Consolidated income statement

	Note:	Year ended: 31 December 2012 £m	31 December 2011 £m
Insurance premium revenue		1,156.5	959.7
Insurance premium ceded to reinsurers		(657.6)	(513.9)
Net insurance premium revenue	4	**498.9**	**445.8**
Other revenue	6	361.1	349.0
Profit commission	4	108.4	61.8
Investment and interest income	5	15.9	13.7
Net revenue		**984.3**	**870.3**
Insurance claims and claims handling expenses		(929.1)	(785.9)
Insurance claims and claims handling expenses recoverable from reinsurers		524.6	422.1
Net insurance claims		**(404.5)**	**(363.8)**
Operating expenses	7	(214.6)	(188.8)
Share scheme charges	7	(20.6)	(18.6)
Total expenses		**(639.7)**	**(571.2)**
Profit before tax		**344.6**	**299.1**
Taxation expense	8	(86.2)	(77.8)
Profit after tax		**258.4**	**221.3**
Profit after tax attributable to:			
Equity holders of the parent		258.4	221.2
Non-controlling interests		-	0.1

		258.4	**221.3**
Earnings per share:			
Basic	10	95.1p	81.9p
Diluted	10	94.9p	81.7p
Dividends declared and paid (total)	10	219.3	198.8
Dividends declared and paid (per share)	10	81.6p	74.6p

Consolidated statement of comprehensive income

	Year ended: 31 December 2012 £m	31 December 2011 £m
Profit for the period	**258.4**	**221.3**
Other comprehensive income		
Exchange differences on translation of foreign operations	(2.7)	(1.0)
Other comprehensive income for the period, net of income tax	**(2.7)**	**(1.0)**
Total comprehensive income for the period	**255.7**	**220.3**
Total comprehensive income for the period attributable to:		
Equity holders of the parent	255.9	220.2
Non-controlling interests	(0.2)	0.1
	255.7	**220.3**

Consolidated statement of financial position

	Note:	As at: 31 December 2012 £m	31 December 2011 £m
ASSETS			
Property and equipment	9	16.5	17.6
Intangible assets	9	92.5	87.5
Deferred income tax	8	15.2	10.3

Reinsurance assets	4	803.0	639.8
Trade and other receivables	5, 9	55.3	52.1
Financial assets	5	2,005.1	1,583.0
Cash and cash equivalents	5	216.6	224.6
Total assets		**3,204.2**	**2,614.9**
EQUITY			
Share capital	10	0.3	0.3
Share premium account		13.1	13.1
Other reserves		0.7	3.2
Retained earnings		443.0	377.3
Total equity attributable to equity holders of the parent		**457.1**	**393.9**
Non-controlling interests		3.6	0.5
Total equity		**460.7**	**394.4**
LIABILITIES			
Insurance contracts	4	1,696.9	1,333.7
Trade and other payables	5, 9	1,006.5	856.6
Current tax liabilities		40.1	30.2
Total liabilities		**2,743.5**	**2,220.5**
Total equity and total liabilities		**3,204.2**	**2,614.9**

These financial statements were approved by the Board of Directors on 5 March 2013 and were signed on its behalf by:

Kevin Chidwick
Director
Admiral Group plc
Company Number: 03849958

Consolidated cash flow statement

	Note	31 December 2012 £m	31 December 2011 £m
Profit after tax		**258.4**	**221.3**
Adjustments for non-cash items:			
- Depreciation		6.6	6.1
- Amortisation of software		4.1	3.3
- Change in unrealised gains on investments		(0.6)	(1.9)

	Note		
- Other gains and losses		0.6	0.9
- Share scheme charges	7	23.7	23.6
Change in gross insurance contract liabilities		363.2	527.1
Change in reinsurance assets		(163.2)	(282.8)
Change in trade and other receivables, including from policyholders		13.1	(88.4)
Change in trade and other payables, including tax and social security		149.9	292.1
Taxation expense		86.2	77.8
Cash flows from operating activities, before movements in investments		**742.0**	**779.1**
Net cash flow into investments		(441.9)	(493.9)
Cash flows from operating activities, net of movements in investments		300.1	285.2
Taxation payments		(79.7)	(95.3)
Net cash flow from operating activities		**220.4**	**189.9**
Cash flows from investing activities:			
Proceeds from investing activities		-	3.9
Purchases of property, equipment and software		(10.9)	(16.8)
Net cash used in investing activities		**(10.9)**	**(12.9)**
Cash flows from financing activities:			
Non-controlling interest capital contribution		4.6	-
Capital element of new finance leases		-	1.0
Repayment of finance lease liabilities		(0.1)	(0.3)
Equity dividends paid	10	(219.3)	(198.8)
Net cash used in financing activities		**(214.8)**	**(198.1)**
Net decrease in cash and cash equivalents		**(5.3)**	**(21.1)**

Cash and cash equivalents at 1 January		224.6	246.7
Effects of changes in foreign exchange rates		(2.7)	(1.0)
Cash and cash equivalents at end of period	5	**216.6**	**224.6**

Consolidated statement of changes in equity

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

At 1 January 2012	0.3	13.1	3.2	377.3	0.5	394.4
Profit for the period	-	-	-	258.4	-	258.4
Other comprehensive income						
Currency translation differences	-	-	(2.5)	-	(0.2)	(2.7)
Total comprehensive income for the period	**-**	**-**	**(2.5)**	**258.4**	**(0.2)**	**255.7**
Transactions with equity-holders						
Dividends	-	-	-	(219.3)	-	(219.3)
Share scheme credit	-	-	-	23.7	-	23.7
Deferred tax credit on share scheme credit	-	-	-	1.5	-	1.5
Transactions with non-controlling interests	-	-	-	1.4	3.3	4.7
Total transactions with equity-holders	**-**	**-**	**-**	**(192.7)**	**3.3**	**(189.4)**
As at 31 December 2012	0.3	13.1	0.7	443.0	3.6	460.7

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 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 2012, including all amendments to extant standards that are not effective until later accounting periods.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2012 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. These are as follows:

- IFRS 9 Financial Instruments
- Government Loans (Amendments to IFRS 1)
- Improvements to IFRSs 2009-2011
- Transition guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

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

In addition, none of the standards or interpretations adopted for the first time in the year have had a material impact on the consolidated financial results or position of the Group for the year ended 31 December 2012.

Basis of preparation

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

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

Further information regarding the company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the business review above. Further information regarding the financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Business Review above. In addition notes 5 and 10 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

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

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

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not

readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is reviewed if this revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, it is recognised by adjusting the carrying amount of the related asset or liability in the period of the change.

2. Critical accounting judgements and estimates

Judgements:

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

Estimation techniques used in calculation of claims provisions:

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

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

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

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

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

The claims reserves are subject to independent review by the Group's actuarial advisors. Management's reserving policy is to reserve at a level above best estimate assumptions to allow for unforeseen adverse claims development. For further detail on objectives, policies and procedures for managing insurance risk, refer to note 4 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. Group consolidation and operating segments

3a) Accounting policies

(i) Group consolidation

The consolidated financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2012 and comparative figures for the year ended 31 December 2011. The financial statements of the Company's subsidiaries are consolidated in

the Group financial statements. The Company controls 100% of the voting share capital of all its principal subsidiaries, except Rastreator.com Limited and Inspop USA LLC. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (IAS) 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions in the consolidated financial statements.

(ii) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation currency.

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.

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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
- All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity.

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

3b) Segment reporting

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

UK Car Insurance:

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

International Car Insurance:

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

Price Comparison:

The segment relates to the Group's price comparison websites Confused in the UK, Rastreator in Spain and LeLynx in France. The Group's price comparison operation in Italy, Chiarezza was sold in 2012. Each of the Price Comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as LeLynx and Rastreator do not individually meet the threshold requirements in IFRS 8.

Other:

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

The Group launched a UK Household insurance product at the end of 2012. There are no transactions relating to household insurance within any of the segments reported below.

Taxes are not allocated across the segments and, as with the corporate activities, are included in the reconciliation to the Consolidated Income Statement and Consolidated Statement of Financial Position.

An analysis of the Group's revenue and results for the year ended 31 December 2012, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in the notes to the financial statements for the Group.

						31 December 2012
	UK Car Insurance	International Car Insurance	Price Comparison	Other	Eliminations	Segment total
	£m	£m	£m	£m	£m	£m
Turnover*	1,936.2	162.9	103.5	12.5	-	2,215.1
Net insurance premium revenue	455.6	43.3	-	-	-	498.9
Other revenue and profit commission	342.7	10.8	103.5	12.5	-	469.5
Investment and interest income	13.9	0.1	-	-	-	14.0
Net revenue	812.2	54.2	103.5	12.5	-	982.4
Net insurance claims	(355.1)	(49.4)	-	-	-	(404.5)
Expenses	(84.3)	(29.3)	(85.5)	(10.0)	-	(209.1)
Segment profit / (loss) before tax	**372.8**	**(24.5)**	**18.0**	**2.5**	**-**	**368.8**
Other central revenue and expenses, including share scheme charges						(26.1)
Interest income						1.9
Consolidated profit before tax						**344.6**
Taxation expense						(86.2)

Consolidated profit after tax						**258.4**
Other segment items:						
Capital expenditure	6.1	3.1	0.9	0.1	-	10.2
Depreciation and Amortisation	28.8	26.2	1.0	0.3	-	56.3

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

Revenue and results for the corresponding reportable segments for the year ended 31 December 2011 are shown below.

						31 December 2011
	UK Car Insurance	International Car Insurance	Price Comparison	Other	Eliminations	Segment total
	£m	£m	£m	£m	£m	£m
Turnover*	1,966.0	122.2	90.4	11.7	-	2,190.3
Net insurance premium revenue	418.6	27.2	-	-	-	445.8
Other revenue and profit commission	299.0	9.7	90.4	11.7	-	410.8
Investment and interest income	10.6	0.2	-	-	-	10.8
Net revenue	728.2	37.1	90.4	11.7	-	867.4
Net insurance claims	(335.5)	(28.3)	-	-	-	(363.8)
Expenses	(79.1)	(18.3)	(79.9)	(8.9)	-	(186.2)
Segment profit / (loss) before tax	**313.6**	**(9.5)**	**10.5**	**2.8**	**-**	**317.4**
Other central revenue and expenses, including share scheme charges						(21.2)
Interest income						2.9
Consolidated profit before tax						**299.1**
Taxation expense						(77.8)
Consolidated profit after tax						**221.3**
Other segment items:						
Capital expenditure	12.4	2.9	1.1	0.4	-	16.8
Depreciation and Amortisation	37.8	11.8	1.2	0.3	-	51.1

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

other revenue.

Segment revenues

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

The total of Price Comparison revenues from transactions with other reportable segments is £13.0m (2011: £14.9m). These amounts have not been eliminated on consolidation as the Directors consider that not doing so results in a better overall presentation of the financial statements. The impact on the financial statements in the current and prior period is not material. There are no other transactions between reportable segments.

Within the UK Car Insurance segment, transactions between the Group's intermediary and the Group's insurance companies relating to vehicle commission totalling £7.0m have not been eliminated (from the insurance expenses and other revenue lines in the income statement) in order to ensure consistency between the financial statements and key performance indicators quoted in the business review. There is no profit impact of the non-elimination.

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

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country are shown within the International Car Insurance reportable segment shown above. The revenue and results of the two International Price Comparison businesses, Rastreator and LeLynx are not yet material enough to be presented as a separate segment.

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2012 are as follows.

						31 December 2012
	UK Car Insurance £m	International car insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Property and equipment	11.6	2.8	1.7	0.4	-	16.5
Intangible assets	77.6	13.8	1.0	0.1	-	92.5
Reinsurance assets	717.1	85.9	-	-	-	803.0
Trade and other receivables	98.7	(20.6)	9.1	9.5	(41.4)	55.3
Financial assets	1,833.2	97.3	-	-	-	1,930.5
Cash and cash equivalents	125.0	50.2	25.4	5.6	-	206.2
Reportable segment assets	2,863.2	229.4	37.2	15.6	(41.4)	3,104.0

Insurance contract liabilities	1,543.0	153.9	-	-	-	1,696.9
Trade and other payables	961.8	31.9	6.5	6.3	-	1,006.5
Reportable segment liabilities	2,504.8	185.8	6.5	6.3	-	2,703.4
Reportable segment net assets	358.4	43.6	30.7	9.3	(41.4)	400.6
Unallocated assets and liabilities						60.1
Consolidated net assets						460.7

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

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

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

The segment assets and liabilities at 31 December 2011 are as follows.

						31 December 2011
	UK Car Insurance £m	International car insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Property and equipment	12.1	3.1	1.8	0.6	-	17.6
Intangible assets	78.4	8.5	0.5	0.1	-	87.5
Reinsurance assets	570.3	69.5	-	-	-	639.8
Trade and other receivables	118.7	(5.5)	(0.2)	9.0	(69.9)	52.1
Financial assets	1,464.8	83.2	-	-	-	1,548.0
Cash and cash equivalents	117.8	38.9	8.8	4.4	-	169.9
Reportable segment assets	2,362.1	197.7	10.8	14.1	(69.9)	2,514.8

Insurance contract liabilities	1,215.4	118.3	-	-	-	1,333.7
Trade and other payables	816.1	28.3	6.6	5.6	-	856.6
Reportable segment liabilities	2,031.5	146.5	6.6	5.6	-	2,190.2
Reportable segment net assets	330.6	51.2	4.2	8.5	(69.9)	324.6
Unallocated assets and liabilities						69.8
Consolidated net assets						394.4

4 Premium, Claims and Profit Commissions

4a) Accounting policies

(i) Revenue recognition - premiums:

Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders are recognised within policyholder receivables.

(ii) Revenue recognition - profit commission:

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

(iii) Insurance contracts and reinsurance assets:

- **Premiums**

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

- **Claims**

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

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

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

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

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

- **Co-insurance**

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

- **Reinsurance assets**

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

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

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

4b) Net insurance premium revenue

	31 December 2012 £m	31 December 2011 £m
Total motor insurance premiums written before co-insurance	1,897.2	1,841.3
Group gross premiums written after co-insurance	1,167.2	1,128.4
Outwards reinsurance premiums	(679.1)	(622.0)
Net insurance premiums written	488.1	506.4
Change in gross unearned premium provision	(10.7)	(168.7)
Change in reinsurers' share of unearned premium provision	21.5	108.1
Net insurance premium revenue	498.9	445.8

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

4c) Profit commission

	31 December 2012 £m	31 December 2011 £m
Underwriting year:		
2009 & prior	(2.3)	2.3
2010	9.4	46.8
2011	98.1	12.7
2012	3.2	-
Total profit commission	108.4	61.8

4d) Reinsurance assets and insurance contract liabilities

(i) 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 5, it has delegated the task of supervising risk management to the Group Risk Committee.

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

A number of the key elements of these policies and procedures are detailed below:

- **Co-insurance and reinsurance**

As noted in the business review, the Group cedes a significant amount of the motor insurance business generated to external underwriters. In 2012, 40% of the UK risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer. A further 35% of the UK risk was ceded under quota share reinsurance contracts. Co-insurance and reinsurance contracts are also used in the International car insurance businesses. Further detail can be found in the Business review above.

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.

- **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.

- **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 has historically written only one line of insurance business, the risks are spread across a large number of people and a wide regional base.

(ii) Sensitivity of recognised amounts to changes in assumptions:

The following table sets out the impact on equity and profit or loss at 31 December 2012 that would result from a 1 per cent movement in the UK loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year			
	2009	2010	2011	2012
Booked loss ratio	77%	75%	76%	84%
Impact of 1% change (£m)	5.3	8.3	12.0	6.0

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.

(iii) Analysis of recognised amounts:

	31 December 2012 £m	31 December 2011 £m
Gross:		
Claims outstanding	1,147.7	781.1
Unearned premium provision	549.2	552.6

Total gross insurance liabilities	1,696.9	1,333.7
Recoverable from reinsurers:		
Claims outstanding	487.3	334.2
Unearned premium provision	315.7	305.6
Total reinsurers' share of insurance liabilities	803.0	639.8
Net:		
Claims outstanding	660.4	446.9
Unearned premium provision	233.5	247.0
Total insurance liabilities - net	893.9	693.9

The maturity profile of gross insurance liabilities at the end of 2012 is as follows:

	< 1 Year	1 - 3 years	> 3 years
	£m	£m	£m
Claims outstanding	344.1	391.7	411.9
Unearned premium provision	549.2	-	-
Total gross insurance liabilities	893.3	391.7	411.9

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

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

(iv) Analysis of UK claims incurred:

The following tables illustrate the development of net UK Car Insurance claims incurred for the past four financial periods, including the impact of re-estimation of claims provisions at the end of each financial year. The first table shows actual net claims incurred, and the second shows the development of UK loss ratios. Figures are shown net of reinsurance and are on an underwriting year basis.

	Financial year ended 31 December				
Analysis of claims incurred (Net amounts):	2009	2010	2011	2012	Total
	£m	£m	£m	£m	£m
Underwriting year (UK only):					
2009 and earlier	(132.4)	(53.9)	8.7	(5.5)	

2010	-	(130.2)	(128.6)	8.4	(250.3)
2011	-	-	(203.7)	(151.1)	(354.8)
2012	-	-	-	(191.3)	(191.3)

UK net claims incurred (excluding claims handling costs)	**(132.4)**	**(184.1)**	**(323.6)**	**(339.5)**
International net claims incurred	(13.6)	(15.9)	(28.3)	(54.2)
Claims handling costs and other amounts	(5.7)	(8.5)	(11.9)	(10.8)
Total net claims incurred	**(151.7)**	**(208.5)**	**(363.8)**	**(404.5)**

UK loss ratio development:	2009	2010	2011	2012
Underwriting year (UK only):				
2007	72%	70%	69%	69%
2008	79%	74%	72%	73%
2009	84%	75%	77%	77%
2010		78%	77%	75%
2011			82%	76%
2012				84%

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

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

	Financial year ended 31 December			
	2009	2010	2011	2012
	£m	£m	£m	£m
Underwriting year:				
2009 & prior	31.3	23.5	8.7	(5.5)
2010	-	-	1.6	8.4
2011	-	-	-	14.7
Total net release	31.3	23.5	10.3	17.6
Net releases on Admiral net share	31.3	23.1	7.8	16.3
Releases on commuted quota share reinsurance contracts[1]	-	0.4	2.5	1.3
Total net release as above	31.3	23.5	10.3	17.6

[1] Admiral typically commutes quota share reinsurance contracts in its UK Car Insurance business 24 or 36 months following the start of the underwriting year. After commutation, any changes in claims costs on the commuted proportion of the business are reflected within claims costs and are separately analysed here.

(vi) Reconciliation of movement in net claims provision:

31 31

	December 2012 £m	December 2011 £m
Net claims provision at start of period	446.9	269.0
Net claims incurred	393.7	351.9
Movement in net claims provision due to commutation	102.2	44.0
Net claims paid	(282.4)	(218.0)
Net claims provision at end of period	660.4	446.9

(vii) Reconciliation of movement in net unearned premium provision:

	31 December 2012 £m	31 December 2011 £m
Net unearned premium provision at start of period	247.0	180.6
Written in the period	488.1	506.4
Earned in the period	(501.6)	(440.0)
Net unearned premium provision at end of period	233.5	247.0

5 Investments

5a) Accounting policies

(i) Investment income:

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

(ii) Financial assets - investments and receivables:

- **Initial recognition**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments.

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

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

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

The Group's deposits with credit institutions are classified as held to maturity investments, which is consistent

with the intention for which they were purchased.

- **Subsequent measurement**

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

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

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

- **Impairment of financial assets**

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

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

- **Derecognition of financial assets**

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

- **Cash and cash equivalents**

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

5b) Investment and interest income

	31 December 2012 £m	31 December 2011 £m
Net investment return	14.0	10.8
Interest receivable	1.9	2.9
Total investment and interest income	15.9	13.7

Interest received during the year was £1.9m (2011: £2.9m).

5c) Financial assets and liabilities

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

	31 December 2012	31 December 2011

Financial assets:	£m	£m
Investments held at fair value	1,025.4	862.1
Held to maturity deposits with credit institutions	375.8	297.0
Held to maturity deposits short dated debt securities	200.4	-
Receivables - amounts owed by policyholders	403.5	423.9
Total financial assets per consolidated statement of financial position	2,005.1	1,583.0
Trade and other receivables	55.3	52.1
Cash and cash equivalents	216.6	224.6
	2,277.0	1,859.7
Financial liabilities:		
Trade and other payables	1,006.5	856.6

All investments held at fair value are invested in AAA-rated money market liquidity funds. These funds target a short term cash return with capital security and low volatility and continue to achieve these goals.

The approximate fair value of held to maturity deposits plus short dated debt securities is £562.8m (2011: £280.8m) based on a calculation to discount expected cashflows arising at the Group's weighted average cost of capital (WACC). The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

The maturity profile of financial assets and liabilities at 31 December 2012 is as follows:

	On demand	< 1 Year	Between 1 and 2 years	> 2 Years
Financial assets:	£m	£m	£m	£m
Investments held at fair value	1,025.4	-	-	-
Held to maturity deposits with credit institutions	-	213.8	162.0	-
Held to maturity short dated debt securities	-	200.4	-	-
Receivables - amounts owed by policyholders	-	403.5	-	-
Total financial assets	1,025.4	817.7	162.0	-
Trade and other receivables	-	55.3	-	-
Cash and cash equivalents	216.6	-	-	-
	1,242.0	873.0	162.0	-

Financial liabilities:

Trade and other payables	-	1,006.5	-	-

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

	O demand	< 1 Year	Between 1 and 2 years	> 2 Years
Financial assets:	£m	£m	£m	£m
Investments held at fair value	862.1	-	-	-
Held to maturity deposits with credit institutions	-	175.3	79.2	42.5
Receivables - amounts owed by policyholders	-	423.9	-	-
Total financial assets	862.1	599.2	79.2	42.5
Trade and other receivables	-	52.1	-	-
Cash and cash equivalents	224.6	-	-	-
	1,086.7	651.3	79.2	42.5
Financial liabilities:				
Trade and other payables	-	856.6	-	-

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

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

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

1. Credit risk

The Group defines credit risk as the risk of loss if another party fails to perform its obligations. The key areas of exposure to credit risk for the Group result through its reinsurance programme, investments, bank deposits and policyholder receivables.

Economic and financial market conditions have led the Directors to consider counterparty exposure more frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Group's risk appetite, and during 2012 and historically no material credit losses have been experienced by the Group.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds which invest in a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. The detailed holdings are reviewed regularly by the Investment Committee.

To mitigate the risk arising from exposure to reinsurers (in the form of reinsurance recoveries and profit commissions), the Group only conducts business with companies of appropriate financial strength ratings. In addition, most reinsurance contracts are operated on a funds withheld basis, which substantially reduces credit risk, as the Group holds the cash received as collateral.

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

The Group's maximum exposure to credit risk at 31 December 2012 is £2,221.7m (2011: £1,807.6m) being the carrying value of financial assets and cash. The group does not use credit derivatives or similar instruments to mitigate exposure. The amount of bad debt expense relating to policyholder debt charged to the income statement in 2011 and 2012 is insignificant.

There were no significant financial assets that were past due at the close of either 2012 or 2011.

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

	Rating	31 December 2012 £m	31 December 2011 £m
Financial institutions - Money market funds	AAA	1,025.4	862.1
Financial institutions - Credit institutions	AAA	60.1	-
Financial institutions - Credit institutions	AA	169.2	178.2
Financial institutions - Credit institutions	A	506.4	98.0
Financial institutions - Credit institutions	BBB	57.1	20.8
Reinsurers	AA	117.8	-
Reinsurers	A	196.3	88.3
Reinsurers	BBB	6.5	-

2. Interest rate risk

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

As noted above, the Group invests in money market liquidity funds, which in turn invest in a mixture of very short dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial paper. The funds are not permitted to have an average maturity greater than 60 days and hence are not subject to large movements in yield and value resulting from changes in market interest rates (as longer duration fixed income portfolios can experience). Returns are likely to closely track the LIBID benchmark and hence while the Group's investment return will vary according to market interest rates, the capital value of these investment funds will not be impacted by rate movements. The interest rate risk arising is therefore considered to be minimal.

During the year the Group has placed funds into two segregated mandates. The guidelines of the

investments retain the credit quality of the money market liquidity funds, whilst holding the securities on a hold to maturity basis. As the duration of the securities is short there is no material interest rate risk relating to these investment.

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

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

3. Liquidity risk

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

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

A breakdown of the Group's financial liabilities - trade and other payables is shown in note 9. In terms of the maturity profile of these liabilities, all amounts will mature within 3 - 6 months of the balance sheet date. (Refer to the maturity profile at the start of this note for further detail.)

In practice, the Group's Directors expect actual cashflows to be consistent with this maturity profile except for amounts owed to co-insurers and reinsurers. Of the total amounts owed to co- insurers and reinsurers of £723.5m (2011: £579.4m), £609.6m (2011: £432.9m) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

A maturity analysis for insurance contract liabilities is included in note 4.

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

Liquidity risk is not, therefore considered to be significant.

4. Foreign exchange risks

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

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

The Group's exposures to net assets held in euros and dollars at the balance sheet date were £13.3m and £46.7m respectively.

Fair value

For cash at bank and cash deposits, the fair value approximates to the book value due to their short maturity. For assets held at fair value through profit and loss, their value equates to level 1 (quoted prices in active markets) of the fair value hierarchy.

5d) Cash and cash equivalents

	31 December 2012 £m	31 December 2011 £m
Cash at bank and in hand	216.6	224.6
Total cash and cash equivalents	216.6	224.6

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.

6 Other Revenue

6a) Accounting policy

(i) Ancillary and other revenue:

Ancillary and other revenue includes revenue earned on the sale of ancillary products, administration and other charges paid by the policyholder, referral fees, revenue from policies paid by instalments and vehicle commission charges paid by co- and reinsurers. Revenue is credited to the income statement over the period matching the Group's obligations to provide services. Where the Group has no remaining contractual obligations, the revenue is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of ancillary amounts charged.

Commission from price comparison activities and earned by Gladiator is credited to revenue on the sale of the underlying insurance policy.

6b) Ancillary and other revenue

	31 December 2012 £m	31 December 2011 £m
Ancillary revenue	215.7	223.3
Price comparison revenue	103.5	90.4
Other revenue	41.9	35.3
Total other revenue	361.1	349.0

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

7 Expenses

7a) Accounting policies

(i) Acquisition costs, vehicle commission and operating expenses:

Acquisition costs incurred in obtaining new and renewal business are charged to the income statement over the period in which those premiums are earned. Vehicle commissions relating to new and renewal business is also recognised over the period in which those premiums are earned. All other operating expenses are charged to the income statement in the period that they are incurred.

Insurance contract expenses, which comprise of the acquisition costs, vehicle commissions and operating expenses referred to above are included in the income statement net of recoveries from co-insurers and

re-insurers.

(ii) Employee benefits:

Pensions

The Group contributes to 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 7e) for further details on share schemes.

7b) Operating expenses and share scheme charges

	31 December 2012			31 December 2011		
	Insurance contracts	Other	Total	Insurance contracts	Other	Total
	£m	£m	£m	£m	£m	£m
Acquisition of insurance contracts	50.6	-	50.6	36.2	-	36.2
Administration and other marketing costs	26.7	137.3	164.0	26.7	125.9	152.6
Expenses	77.3	137.3	214.6	62.9	125.9	188.8
Share scheme charges	-	20.6	20.6	-	18.6	18.6
Total expenses and share scheme charges	77.3	157.9	235.2	62.9	144.5	207.4

Analysis of other administration and other marketing costs:

	31 December 2012	31 December 2011
	£m	£m
Ancillary sales expenses	35.9	33.8

Price comparison operating expenses	85.5	79.9
Other expenses	15.9	12.2
Total	137.3	125.9

The £26.7m (2011: £26.7m) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

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

	31 December 2012 £m	31 December 2011 £m
Insurance contract expenses from above	77.3	62.9
Add: claims handling expenses	10.8	11.9
Adjusted expenses	88.1	74.8
Net insurance premium revenue	498.9	445.8
Reported expense ratio	17.7%	16.8%

7c) Staff costs and other expenses

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

	31 December 2012 £m	31 December 2011 £m
Salaries	137.1	114.5
Social security charges	13.8	10.3
Pension costs	1.0	1.3
Share scheme charges (see note 7e)	32.5	30.8
Total staff expenses	184.4	156.9
Depreciation charge:		
- Owned assets	5.4	5.4
- Leased assets	1.2	0.7
Amortisation charge:		
- Software	4.1	3.3
- Deferred acquisition costs	48.0	41.8
Operating lease rentals:		
- Buildings	10.5	7.9
Auditor's remuneration (including VAT):		
- Fees payable for the audit of the Company's annual accounts	-	-
- Fees payable for the audit of the Company's subsidiary accounts	0.3	0.2
- Fees payable for other services	0.3	0.3

Net foreign exchange losses	-	0.8
Analysis of fees paid to the auditor for other services:		
Tax compliance services	0.1	0.1
Tax advisory services	0.2	0.2
Other services	-	-
Total as above	0.3	0.3

Refer to the corporate governance report for details of the Audit Committee's policy on fees paid to the Company's auditor for non-audit services. The ratio of non-audit fees to audit fees in 2012 was 124% (2011: 119%).

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

7d) Staff numbers (including Directors)

	Average for the year	
	2012	2011
	Number	Number
Direct customer contact staff	4,991	4,264
Support staff	1,231	1,060
Total	6,222	5,324

7e) Staff share schemes

Analysis of share scheme costs (per income statement):

	31 December 2012	31 December 2011
	£m	£m
SIP charge (note i)	6.6	6.0
DFSS charge (note ii)	14.0	12.6
Total share scheme charges	20.6	18.6

The share scheme charges reported above are net of the co-insurer's share of the cost and therefore differ from the gross charge reported in note 7c) (2012: £32.5m, 2011: £30.8m) and the gross credit to reserves reported in the consolidated statement of changes in equity (2012: £23.7m, 2011: £23.6m).

The consolidated cashflow statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cashflows from operating activities'. The co-insurance share of the charge is included in the 'change in trade and other payables' line.

(i) The Approved Share Incentive Plan (the SIP)

Eligible employees qualify for awards under the SIP based upon the performance of the Group in each half-year period. The current maximum award for each year is £3,000 per employee. The awards are made with reference to the Group's performance against prior year profit before tax. Employees must remain in

employment for the holding period (three years from the date of award) otherwise the shares are forfeited.

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

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

Under the DFSS, details of which are contained in the remuneration policy section of the remuneration report, individuals receive an award of free shares at no charge. Staff must remain in employment until the vesting date in order to receive shares. The maximum number of shares that can vest relating to the 2012 scheme is 2,149,566 (2011 scheme: 1,791,234).

Individual awards are calculated based on the growth in the Company's earnings per share (EPS) relative to a risk free return (RFR), for which LIBOR has been selected as a benchmark. This performance is measured over the same three-year period. For the 2012 and 2011 schemes, 50% of the shares awarded at the start of the three year vesting period are subject to these performance conditions.

The range of awards is as follows:

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

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

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

Number of free share awards committed at 31 December 2012:

	Awards outstanding (*1)	Vesting date
SIP H209 scheme	377,641	March 2013
SIP H110 scheme	352,100	August 2013
SIP H210 scheme	346,590	March 2014
SIP H111 scheme	489,170	September 2014
SIP H211 scheme	598,528	March 2015
SIP H112 scheme	619,164	September 2015
DFSS 2010 scheme 1st award	1,542,453	April 2013
DFSS 2010 scheme 2nd award	121,051	August 2013
DFSS 2011 scheme 1st award	1,634,732	April 2014

DFSS 2011 scheme 2nd award	157,312	September 2014
DFSS 2012 scheme 1st award	181,668	March 2015
DFSS 2012 scheme 2nd award	1,967,898	October 2015
Total awards committed	8,388,307	

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

During the year ended 31 December 2012, awards under the SIP H208 and H109 schemes and the DFSS 2009 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 2012:

	Original Awards	Awards vested
SIP H208 scheme	477,432	396,549
SIP H109 scheme	396,200	340,060
DFSS 2009 scheme, 1st award	1,313,865	1,166,379
DFSS 2009 scheme, 2nd award	127,020	81,855

8 Taxation

8a) Accounting policy

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

(i) Current tax:

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

Current tax related to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

(ii) Deferred tax:

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

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

The principal temporary differences arise from depreciation of property and equipment and share scheme charges. The resulting deferred tax is charged or credited in the income statement, except in relation to share scheme charges where the amount of tax benefit credited to the income statement is limited to an

equivalent credit calculated on the accounting charge. Any excess is recognised directly in equity.

8b) Taxation

	31 December 2012 £m	31 December 2011 £m
Current tax		
Corporation tax on profits for the year	88.4	80.3
Under / (over) provision relating to prior periods	1.2	(3.2)
Current tax charge	89.6	77.1
Deferred tax		
Current period deferred taxation movement	(2.8)	(0.8)
(Over) / under provision relating to prior periods - deferred tax	(0.6)	1.5
Total tax charge per income statement	86.2	77.8

Factors affecting the total tax charge are:

	31 December 2012 £m	31 December 2011 £m
Profit before tax	344.6	299.1
Corporation tax thereon at effective UK corporation tax rate of 24.5% (2011: 26.5%)	84.4	79.3
Expenses and provisions not deductible for tax purposes	1.4	0.1
Difference in tax rates	0.7	0.5
Adjustments relating to prior periods	(0.4)	(1.7)
Other differences	0.1	(0.4)
Total tax charge for the period as above	86.2	77.8

8c) Deferred income tax (asset)

	31 December 2012 £m	31 December 2011 £m
Brought forward at start of period	(10.3)	(12.4)
Movement in period	(4.9)	2.1
Carried forward at end of period	(15.2)	(10.3)

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

Analysis of net deferred tax (asset):	31 December 2012 £m	31 December 2011 £m
Tax treatment of share scheme charges	(3.8)	(3.6)
Capital allowances	(1.9)	(1.5)
Carried forward losses	(5.7)	(2.6)
Other differences	(3.8)	(2.6)
Deferred tax (asset) at end of period	(15.2)	(10.3)

The UK corporation tax rate reduced from 26% to 24% on 1 April 2012. The average effective rate of tax for 2012 is 24.5% (2011: 26.5%). It will fall to 23% in April 2013, and is expected to fall to 22% in April 2014 although this change has not yet been substantively enacted. Deferred tax has therefore been calculated at 23% where the temporary difference is expected to reverse after this date.

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

Amounts credited to income or expense:	31 December 2012 £m	31 December 2011 £m
Tax treatment of share scheme charges	(1.3)	(1.9)
Capital allowances	0.4	0.2
Carried forward losses	3.1	1.3
Other difference	1.2	(0.3)
Net deferred tax credited / (charged) to income	3.4	(0.7)

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.

9 Other assets and other liabilities

9a) Accounting policy

(i) Property and equipment, and depreciation:

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

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

(ii) Impairment of property and equipment:

In the case of property and equipment, carrying values are reviewed at each balance sheet date to determine

whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The carrying value is the higher of the fair value of the asset, less costs to sell and the asset's value in use. Impairment losses are recognised through the income statement.

(iii) 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 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.

(iv) 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 2012 is allocated solely to the UK car insurance segment.

Impairment of goodwill

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

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

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond this period are considered, but not included in the calculation. The discount rate applied to the cashflow projections in the value in use calculations is 9.0% (2011: 11.3%), based on the Group's weighted average cost of capital, which is in line with the market (source: Bloomberg).

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

The headroom above the goodwill carrying value is very significant, and there is no foreseeable event that

would eliminate this margin.

Deferred acquisition costs:

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

Software:

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

9b) Property and equipment

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

Cost					
At 1 January 2012	6.7	28.3	11.4	4.9	51.3
Additions	0.6	3.4	1.5	0.1	5.6
Disposals	-	(0.1)	-		(0.1)
At 31 December 2012	7.3	31.6	12.9	5.0	56.8
Depreciation					
At 1 January 2012	4.4	19.0	7.2	3.1	33.7
Charge for the year	0.9	3.6	1.5	0.6	6.6
Disposals	-	-	-	-	-
At 31 December 2012	5.3	22.6	8.7	3.7	40.3
Net book amount					
At 31 December 2012	2.0	9.0	4.2	1.3	16.5

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

	31 December 2012 £m	31 December 2011 £m
Computer equipment	3.0	2.8

9c) Intangible assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
At 1 January 2011	62.3	14.9	5.7	82.9
Additions	-	43.3	6.4	49.7
Amortisation charge	-	(41.8)	(3.3)	(45.1)
Disposals	-	-	-	-
At 31 December 2011	62.3	16.4	8.8	87.5
Additions	-	51.9	5.5	57.4
Amortisation charge	-	(48.0)	(4.1)	(52.1)
Disposals	-	-	(0.3)	(0.3)

At 31 December 2012	62.3	20.3	9.9	92.5

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

9d) Trade and other receivables

	31 December 2012 £m	31 December 2011 £m
Trade receivables	54.8	51.1
Prepayments and accrued income	0.5	1.0
Total trade and other receivables	55.3	52.1

9e) Trade and other payables

	31 December 2012 £m	31 December 2011 £m
Trade payables	13.0	12.1
Amounts owed to co-insurers and reinsurers	723.5	579.4
Finance leases due within 12 months	0.8	0.9
Other taxation and social security liabilities	22.9	21.9
Other payables	71.5	51.0
Accruals and deferred income (see below)	174.8	191.3
Total trade and other payables	1,006.5	856.6

Of amounts owed to co-insurers and reinsurers, £609.6m (2011: £432.9m) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2012 £m	31 December 2011 £m
Premium receivable in advance of policy inception	115.4	110.1
Accrued expenses	41.4	55.8
Deferred income	18.0	25.4

Total accruals and deferred income as above	174.8	191.3

9f) Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2012			At 31 December 2011		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£m	£m	£m	£m	£m	£m
Less than one year	0.8	-	0.8	0.9	-	0.9
Between one and five years	-	-	-	-	-	-
More than five years	-	-	-	-	-	-
	0.8	-	0.8	0.9	-	0.9

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

9g) Financial commitments

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

Operating leases expiring:	31 December 2012 £m	31 December 2011 £m
Within one year	0.2	-
Within two to five years	12.3	12.0
Over five years	15.5	20.3
Total commitments	28.0	32.3

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

In addition, the Group had entered into contracts at the end of 2012 in relation to the lease and fit-out of new premises in Cardiff and Newport, which are currently under construction and due for completion in 2014. There were no equivalent contracts in place at the end of 2011.

10 Share capital

10a) Accounting policies

(i) Share capital

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

(ii) Dividends

Dividends are recorded in the period in which they are declared and paid.

10b) Dividends

Dividends were declared and paid as follows.

	31 December 2012 £m	31 December 2011 £m
March 2011 (35.5p per share, paid May 2011)	-	94.5
August 2011 (39.1p per share, paid October 2011)	-	104.3
March 2012 (36.5p per share, paid June 2012)	98.0	-
August 2012 (45.1p per share, paid October 2012)	121.3	-
Total dividends	219.3	198.8

The dividends declared in March represent the final dividends paid in respect of the 2010 and 2011 financial years. The dividends declared in August are interim distributions in respect of 2011 and 2012.

A final dividend of 45.5p per share (£124.5m) has been proposed in respect of the 2012 financial year. Refer to the Chairman's statement and business review for further detail.

10c) Earnings per share

	31 December 2012	31 December 2011
Profit for the financial year after taxation attributable to equity shareholders (£m)	258.4	221.2
Weighted average number of shares - basic	271,714,535	269,903,301
Unadjusted earnings per share - basic	95.1p	81.9p
Weighted average number of shares - diluted	272,403,242	270,782,526
Unadjusted earnings per share - diluted	94.9p	81.7p

The difference between the basic and diluted number of shares at the end of 2012 (being 688,707; 2011: 879,225) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 7 for further detail.

10d) Share capital

	31 December 2012 £m	31 December 2011 £m
Authorised:		
500,000,000 ordinary shares of 0.1p	0.5	0.5
Issued, called up and fully paid:		
273,523,594 ordinary shares of 0.1p	0.3	-
270,726,075 ordinary shares of 0.1p	-	0.3
	0.3	0.3

During 2012 2,797,519 (2011: 2,217,350) new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

1,177,519 (2011: 717,350) 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.

1,620,000 (2011: 1,500,000) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

10e) Objectives, policies and procedures for managing capital

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

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

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

10f) Group subsidiary companies

The Parent Company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of shares held	% Ownership	Principal activity
EUI Limited	England and Wales	Ordinary	100	General insurance intermediary
EUI (France) Limited	England and Wales	Ordinary	100	General insurance intermediary
Admiral Insurance Company Limited	England and Wales	Ordinary	100	Insurance Company
Admiral Insurance (Gibraltar) Limited	Gibraltar	Ordinary	100	Insurance Company
Able Insurance Services Limited	England and Wales	Ordinary	100	Intermediary

Inspop.com Limited	England and Wales	Ordinary	100	Internet insurance intermediary
Elephant Insurance Company	United States of America	Ordinary	100	Insurance Company
Elephant Insurance Services, LLC	United States of America	Ordinary	100	Insurance intermediary
Rastreator.com Limited	England and Wales	Ordinary	75	Internet insurance intermediary
Inspop Technologies Private Limited	India	Ordinary	100	Internet technology supplier
Inspop.com (France) Limited	England and Wales	Ordinary	100	Internet insurance intermediary
Inspop.com (Italy) Limited	England and Wales	Ordinary	100	Internet insurance intermediary
Admiral Syndicate Limited	England and Wales	Ordinary	100	Dormant
Admiral Syndicate Management Limited	England and Wales	Ordinary	100	Dormant
Admiral Life Limited	England and Wales	Ordinary	100	Dormant
Bell Direct Limited	England and Wales	Ordinary	100	Dormant
Confused.com Limited	England and Wales	Ordinary	100	Dormant
Diamond Motor Insurance Services Limited	England and Wales	Ordinary	100	Dormant
Elephant Insurance Services Limited	England and Wales	Ordinary	100	Dormant
Inspop USA LLC	United States of America	Ordinary	78.76%	Internet insurance intermediary
Comparenow.com Insurance Agency LLC	United States of America	Ordinary	100	Internet insurance intermediary
Tooley Shelf number 1	England and Wales	Ordinary	100	Dormant
Tooley Shelf number 2	England and Wales	Ordinary	100	Dormant

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

10g) Related party transactions

(i) Mapfre:

In 2012, the Group participated in transactions with Mapfre S.A. during the normal course of its Car Insurance and Price Comparison operations. Mapfre is a related party of Admiral Group due to its 25% minority interest in Group subsidiary Rastreator.com Limited. Details of the transactions with Mapfre and balances outstanding as at 31 December in respect of price comparison business are given in the table below.

	31 December 2012	31 December 2011
Transactions in the course of price comparison business with Rastreator.com	0.7	0.7
Balances outstanding at 31 December	0.2	0.1

(ii) Other:

Details relating to the remuneration and shareholdings of key management personnel are set out in the

remuneration report (audited section). Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

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

11 Statutory information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2012 or 2011. Statutory accounts for 2011 have been delivered to the registrar of companies, and those for 2012 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Consolidated financial summary

Basis of preparation:

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

Income statement

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Total premiums	**1,897.2**	**1,841.3**	**1,308.6**	**847.7**	**716.3**
Net insurance premium revenue	498.9	445.8	288.1	211.9	169.8
Other revenue	361.1	349.0	276.2	232.6	193.9
Profit commission	108.4	61.8	67.0	54.2	34.7
Investment and interest income	15.9	13.7	9.5	8.8	24.4
Net revenue	**984.3**	**870.3**	**640.8**	**507.5**	**422.8**
Net insurance claims	(404.5)	(363.8)	(208.5)	(151.7)	(114.6)
Total expenses	(235.2)	(207.4)	(166.8)	(140.0)	(105.7)
Operating profit	**344.6**	**299.1**	**265.5**	**215.8**	**202.5**

Balance sheet

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Property and equipment	16.5	17.6	13.6	12.1	11.0
Intangible assets	92.5	87.5	82.9	77.0	75.7
Deferred income tax	15.2	10.3	12.4	-	-
Reinsurance assets	803.0	639.8	357.0	212.9	170.6
Trade and other receivables	55.3	52.1	47.9	32.7	25.5
Financial assets	2,005.1	1,583.0	1,004.7	630.9	586.9
Cash and cash equivalents	216.6	224.6	246.7	211.8	144.3
Assets held for sale	-	-	1.5	-	-

Total assets	**3,204.2**	**2,614.9**	**1,766.7**	**1,177.4**	**1,014.0**
Equity	460.7	394.4	350.7	300.8	275.6
Insurance contracts	1,696.9	1,333.7	806.6	532.9	439.6
Deferred income tax	-	-	-	5.7	10.3
Trade and other payables	1,006.5	856.6	561.0	306.8	270.0
Current tax liabilities	40.1	30.2	48.4	31.2	18.5
Total liabilities	**3,204.2**	**2,614.9**	**1,766.7**	**1,177.4**	**1,014.0**