Admiral Group plc Results for the Year Ended 31 December 2010
2 March 2011

Admiral announces another record profit coupled with continued strong growth. Profit before tax at £266 million was 23% ahead of 2009, whilst turnover rose 47% to £1.58 billion. The Board is proposing a record final dividend for 2010 of 35.5p per share, to be paid on 10 June 2011.

2010 Preliminary Results Highlights

- Group profit before tax up 23% at £266 million (2009: £216 million)
- Record final dividend of 35.5p per share, full dividend 68.1p (2009: second interim 29.8p, full 57.5p)
- Group turnover* up 47% at £1.58 billion (2009: £1.08 billion)
- Number of Group customers up 32% to 2.75 million (2009: 2.08 million)
- Non-UK car insurance turnover up 64% to £78 million with customers up 61% to 195,000
- Record return on capital of 59% (2009: 54%)
- Employee Share Scheme – shares, in total worth over £12 million will be distributed to over 3,500 staff based on the 2010 result

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

Comment from Alastair Lyons, Group Chairman

"With higher profits, a capital-efficient cash-generative business model, and a conservatively managed business, we are very pleased once again to be able to propose an increase in total dividends for the year of 18% to 68.1p per ordinary share. This represents 94% of after-tax earnings."

Comment from Henry Engelhardt, Group Chief Executive

"For the seventh consecutive year, indeed every year since we became a public company, Admiral Group has reported record profits and record turnover. We have now exceeded £1.5 billion turnover which is a fantastic achievement.

"I'm extremely proud of how hard everyone at Admiral has worked to achieve this result. Does it make sense, however, to say that I am pleased, but far from satisfied? In my view, 2010 was a mixed year for the Group. There were some big triumphs but also some quite sobering moments and, in a lot of areas, it's too early to judge the quality of the work completed.

"The big success was the UK motor insurance business. It's a snowball going like a freight train. Downhill. Wow! Throughout 2010 we experienced a flood of new business, with UK vehicle growth at over 30%. Everyone in the organisation is focussed on providing great value and service to all our customers.

"However there is a lot of work to be done to create sustainable, profitable and growing businesses outside the UK. There is no magic formula. In 2010 we said goodbye to our German operation AdmiralDirekt and we wish the team there every success for the future. Closer to home, we also have a lot of work to do with Confused which had a tough year in 2010."

Dividend

The Directors have proposed a final dividend of 35.5p per share which will be paid on 10 June 2011. The ex-dividend date is 18 May 2011 and the record date 20 May 2011.

Management presentation

Analysts and investors will be able to access the Admiral Group management presentation which commences at 09:00 GMT on Wednesday 2 March 2011 by dialling + 44 (0)20 3059 5845 and using participant password "Admiral". A copy of the presentation slides will be available at www.admiralgroup.co.uk.

Chairman's Statement

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

- Grow our share of the UK private motor insurance market
- Exploit the knowledge, skills and resources attaching to our established UK businesses to promote our expansion overseas in both private motor and price comparison

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

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

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

Admiral's non-UK car insurance turnover increased by 64% over 2009. ConTe in Italy advanced strongly, whilst in Spain, Balumba had 40% more customers by the year-end, despite difficult trading conditions. 2010 was our first full year in the US with Elephant Auto and, as such, was a year of building capability and learning how best to position ourselves in this new market. At the end of the year we announced the sale of our German insurance business, AdmiralDirekt. We have made no secret of the fact that we have found the German market the most difficult of those entered under

our international expansion strategy and there was not, in our view, an early prospect of further investment delivering the required return for our shareholders.

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

The strength of our advance in UK Car Insurance drove our Group result for 2010, pre-tax profits at £266 million being 23% ahead of the previous year. Admiral's capital-light business model, transferring a significant proportion of our underwriting risk to reinsurance partners, allows the majority of our earnings to be distributed as dividends. This year we will distribute 94% of post-tax earnings, our full year dividends amounting to 68.1 pence per share, 18% up on our declaration for 2009. Our normal dividend, growing in line with our growth in profits based on a 45% pay-out ratio, amounted to 32.4 pence per share, whilst our available surplus, after taking into account our required solvency, provision for our overseas expansion plans, and a margin for contingencies, made possible a special dividend of 35.7 pence per share. We have paid such a special dividend as part of every distribution we have made since becoming a public company – in total £398m, 52% of overall dividends.

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

Each year we undertake an appraisal of the working of the Board and the Board Committees, and of my effectiveness as chairman, and seek to identify how we can improve our Board process and its effectiveness in setting, and having oversight of the implementation of, the Group's strategy. Every three years, of which 2010 was one such, this takes the form of an external review of our effectiveness. Whilst the overall conclusion was that the Board has continued to work very effectively in relation to most dimensions the review also identified clear areas of focus. In particular we recognise that several of our Non-Executive Directors are due to reach their maximum term in the next four years necessitating an effective process of succession planning leading to the recruitment of new directors with generous overlap to maintain continuity of knowledge and Board dynamics.

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

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

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

(*based on the closing share price on 25th February 2011)

Alastair Lyons
Chairman

Chief Executive's Statement

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

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

Admiral Group has a core business that is fantastic and appears to be getting better. Trading conditions in the UK were more favourable than any time since 2000. And I'm pleased to say we were able to take full advantage. Big price hikes in the market pushed consumers to shop. We raised our rates some, but also took advantage of our combined ratio advantage in the market to gobble up market share. We are now home to about 10% of the UK private car insurance market by value. More details on this market and our performance are provided by David Stevens on the following pages.

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

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

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

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

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

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

Here are a few highlights from 2010:

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

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

Chiarezza:
- Did over 164,000 quotes from launch in February '10

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

Elephant Auto:
- Gained license and now trading in Maryland, as well as Virginia
- Loss ratio figures better than expectations

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

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

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

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

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

Henry Engelhardt
Chief Executive Officer

Business Review

Group financial highlights and key performance indicators

	2008	2009	2010
Turnover	£910.2m	£1,077.4m	£1,584.8m
Net revenue	£422.8m	£507.5m	£640.7m
Number of customers	1.75m	2.08m	2.75m
Loss ratio	64.7%	69.0%	69.4%
Expense ratio	21.8%	23.1%	19.9%
Combined ratio	86.5%	92.1%	89.3%
Profit before tax	£202.5m	£215.8m	£265.5m
Earnings per share	54.9p	59.0p	72.3p

Turnover comprises total premiums written and other revenue

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

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

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

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

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

Other Group highlights include:

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

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

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

UK Car Insurance

Non-GAAP*1 format income statement

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

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

Key performance indicators

	2008	2009	2010
Reported loss ratio	62.0%	66.9%	68.3%
Reported expense ratio	19.0%	18.0%	15.2%
Reported combined ratio	81.0%	84.9%	83.5%
Written basis expense ratio	17.0%	16.9%	14.4%
Claims reserve releases	£38.0m	£31.3m	£23.5m
Releases as % of net premium	23.5%	15.7%	8.7%
Profit commission as % of net premium	21.4%	27.2%	24.9%
Vehicles insured at year-end	1.59m	1.86m	2.46m
Ancillary income per vehicle	£70.7	£72.0	£77.5

UK Car Insurance – Co-insurance and Reinsurance

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

The two principal advantages of the arrangements are:

- Capital efficiency – the majority of the capital supporting the underwriting is held outside the Group. As Admiral is typically able to retain much of the profit generated via profit commission, the return on Group capital is higher than in an insurance company with a standard business model

- Risk mitigation – The co-insurer and reinsurers bear their proportional shares of claims expenses and hence provide protection should results worsen substantially

In 2010, Admiral underwrote a net 27.5% of UK premiums (in line with 2009 & '08). 45% of the 2010 UK total is underwritten by the Munich Re Group (specifically Great Lakes Reinsurance (UK) Plc) through a long-term co-insurance agreement, with a further 27.5% being proportionally reinsured to Hannover Re (10.0%), New Re (10.0%) and Swiss Re (7.5%).

The nature of the co-insurance is such that 45% of all motor premium and claims for the 2010 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

New arrangements for 2011 and beyond

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

The Great Lakes co-insurance contract will run until at least the end of 2016, and will see Great Lakes co-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.

UK Car Insurance Financial Performance

Commentary on UK market conditions is included in the Chief Operating Officer's Review.

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

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

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

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

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

Claims reserving

Admiral's policy is initially to reserve conservatively, above independent and internal projections of ultimate loss ratios. This results in a significant margin being held in reserves to allow for unforeseen adverse development in open claims and creates a position whereby Admiral makes above industry average reserve releases.

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

In determining the quantum of releases from prior years, we seek to maintain a consistent level of prudence in reserves (taken together with 'reserves' of profit commission) based on actuarial projections of ultimate loss ratios. In recent periods the contribution to the total margin deriving from profit commission has increased significantly.

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

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

Including investment income of £8.2 million (2009: £7.5 million), underwriting profit in 2010 rose significantly to £52.7 million from £37.6 million in 2009. Of this increase, around £10 million relates to higher net insurance premium revenue, with the majority of the remaining £5 million derived from the improved combined ratio. Investment income is discussed further below.

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

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

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

Non-UK Car Insurance

Non-GAAP format income statement

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

Note - Pre-launch costs excluded

Key Performance Indicators

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

Non-UK Co-insurance and Reinsurance

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

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

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

In the USA, Admiral's US insurer retains one third of the underwriting, with the remaining two thirds shared between two reinsurers. Both bear their proportional share of expenses and underwriting, subject to certain caps on the reinsurers' total exposures.

All contracts have profit commission terms that allow Admiral to receive a proportion of the profit earned on the underwriting once the business reaches cumulative profitability.

The contracts in place for Germany, Italy, France and the USA include proportional sharing of ancillary profits.

Non-UK Car Insurance Financial Performance

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

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

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

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

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

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

Balumba

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

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

Balumba – loss ratio development

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

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

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

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

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

AdmiralDirekt

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

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

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

AdmiralDirekt's result for 2010 was a loss of around £3 million, notably better than the £5 million loss in 2009. The combined ratio was over 50 percentage points better in 2010 (183% v 238%), with the improvement being spread over the loss and expense ratios. Earned premium was broadly flat at £4 million across 2009 and '10.

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

ConTe

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

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

ConTe – loss ratio development

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

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

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

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

Elephant Auto

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

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

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

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

L'Olivier Assurances

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

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

Price Comparison

Non-GAAP format income statement

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

UK Price Comparison – Confused.com:

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

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

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

Non-UK Price Comparison:
Rastreator

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

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

LeLynx & Chiarezza

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

Other Group Items

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

Gladiator

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

Non GAAP income statement and key performance indicators

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

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

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

Share scheme charges

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

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

Investments and Cash

Investment strategy

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

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

Cash and investments analysis

	31 December 2010				
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Total £m
Money market funds	333.8	29.8	-	-	363.6
Long-term cash deposits	283.0	6.6	-	10.0	299.6
Cash	90.6	40.3	11.2	104.6	246.7
Total	**707.4**	**76.7**	**11.2**	**114.6**	**909.9**

	31 December 2009				
	UK Car Insurance £m	Non-UK Car Insurance £m	Price Comparison £m	Other £m	Total £m
Money market funds	208.5	29.2	-	-	237.7
Long-term cash deposits	178.5	5.0	-	-	183.5
Short-term cash deposits	-	-	-	20.0	20.0
Cash	112.9	21.3	9.0	48.6	191.8
Total	**499.9**	**55.5**	**9.0**	**68.6**	**633.0**

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

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

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

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

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

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

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

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

The key features to note are:

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

Other financial items

Taxation

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

Earnings per share

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

Dividends

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

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

UK Car Insurance Market Review – David Stevens

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

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

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

The number of vehicles insured by Admiral rose by 32% during 2010. That sort of growth carries risks in any business, but particularly in an insurance business. Admiral employed 800 more people at the end of the year than at the beginning (itself a joy in these difficult economic times). By year end, over a third of our staff had been with us for less than a year. It is a tribute to the quality and enthusiasm of our managers, from team managers upwards, and of those new recruits, that the business has coped so well with this very substantial increase in its size. An increase in our customer retention ratios, despite the substantial year-on-year rate increases, and a further reduction in the average time taken to settle a claim are two examples of the measures that reassure us that these new staff are reinforcing, and not diluting, our success. Another source of reassurance is that we gained our highest ever rank in the Sunday Times Best Companies to Work For 2011 survey. We came 9th, up from 16th in 2010.

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

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

Confused.com Review – Kevin Chidwick

Q: How did Confused do in 2010?

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

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

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

Q: Is Confused still losing market share?

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

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

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

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

Q: How is the new marketing campaign doing?

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

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

Consolidated income statement

	Note:	Year ended: 31 December 2010 £m	31 December 2009 £m
Insurance premium revenue		574.6	386.4
Insurance premium ceded to reinsurers		(286.5)	(174.5)
Net insurance premium revenue	5	**288.1**	**211.9**
Other revenue	6	276.2	232.6
Profit commission	7	67.0	54.2
Investment and interest income	8	9.5	8.8
Net revenue		**640.8**	**507.5**
Insurance claims and claims handling expenses		(416.7)	(283.1)
Insurance claims and claims handling expenses recoverable from reinsurers		208.2	131.4
Net insurance claims		**(208.5)**	**(151.7)**
Operating expenses	9,10	(151.8)	(130.8)
Share scheme charges	9, 26	(15.0)	(9.2)
Total expenses		**(375.3)**	**(291.7)**
Profit before tax		**265.5**	**215.8**
Taxation expense	12	(71.9)	(58.9)
Profit after tax		**193.6**	**156.9**
Profit after tax attributable to:			
Equity holders of the parent		193.8	156.9
Non-controlling interests		(0.2)	-
		193.6	**156.9**
Earnings per share:			
Basic	14	72.3p	59.0p
Diluted	14	72.2p	59.0p
Dividends declared and paid (total)	13	164.7	142.4
Dividends declared and paid (per share)	13	62.4p	54.2p

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

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

Consolidated cash flow statement

	Note	31 December 2010 £m	31 December 2009 £m
Profit after tax	**9**	**193.6**	**156.9**
Adjustments for non-cash items:			
- Depreciation		4.6	5.1
- Amortisation of software		2.7	2.2
- Change in unrealised gains on investments		(1.3)	0.2
- Other gains and losses		0.9	2.9
- Share scheme charge	26	18.5	13.7
Change in gross insurance contract liabilities		273.7	93.4
Change in reinsurance assets		(144.0)	(42.3)
Change in trade and other receivables, including from policyholders		(152.9)	(41.1)
Change in trade and other payables, including tax and social security		254.3	36.5
Taxation expense		71.9	58.9
Cash flows from operating activities, before movements in investments		**522.0**	**286.4**
Net cash flow into investments		(240.8)	(10.5)
Cash flows from operating activities, net of movements in investments		281.2	275.9
Taxation payments		(69.5)	(49.1)
Net cash flow from operating activities		**211.7**	**226.8**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(11.1)	(11.8)
Net cash used in investing activities		**(11.1)**	**(11.8)**
Cash flows from financing activities:			
Capital element of new finance leases		0.4	1.4
Repayment of finance lease liabilities		(0.6)	(1.2)
Equity dividends paid	13	(164.7)	(142.4)
Net cash used in financing activities		**(164.9)**	**(142.2)**
Net increase in cash and cash equivalents		**35.7**	**72.8**
Cash and cash equivalents at 1 January		211.8	144.3
Effects of changes in foreign exchange rates		(0.8)	(5.3)
Cash and cash equivalents at end of period	**20**	**246.7**	**211.8**

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Retained profit and loss £m	Non-controlling interests £m	Total equity £m
At 1 January 2009	0.3	13.1	10.3	251.8	-	275.5
Profit for the period	-	-	-	156.9	-	156.9
Other comprehensive income						
Currency translation differences	-	-	(5.3)	-	-	(5.3)
Total comprehensive income for the period	**-**	**-**	**(5.3)**	**156.9**	**-**	**151.6**
Transactions with equity-holders						
Dividends	-	-	-	(142.4)	-	(142.4)
Issue of shares to non-controlling interests	-	-	-	-	0.6	0.6
Share scheme credit	-	-	-	13.7	-	13.7
Deferred tax charge on share scheme credit	-	-	-	1.8	-	1.8
Total transactions with equity-holders	**-**	**-**	**-**	**(126.9)**	**0.6**	**(126.3)**
As at 31 December 2009	0.3	13.1	5.0	281.8	0.6	300.8
At 1 January 2010	0.3	13.1	5.0	281.8	0.6	300.8
Profit for the period	-	-	-	193.8	(0.2)	193.6
Other comprehensive income						
Currency translation differences	-	-	(0.8)	-	-	(0.8)
Total comprehensive income for the period	**-**	**-**	**(0.8)**	**193.8**	**(0.2)**	**192.8**
Transactions with equity-holders						
Dividends	-	-	-	(164.7)	-	(164.7)
Share scheme credit	-	-	-	18.5	-	18.5
Deferred tax credit on share scheme credit	-	-	-	3.3	-	3.3
Total transactions with equity-holders	**-**	**-**	**-**	**(142.9)**	**-**	**(142.9)**
As at 31 December 2010	0.3	13.1	4.2	332.7	0.4	350.7

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 comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2010 and comparative figures for the year ended 31 December 2009. The financial statements of the Company's subsidiaries are consolidated in the Group financial statements. The Company controls 100% of the voting share capital of all its principal subsidiaries. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (IAS) 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions in the consolidated financial statements.

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

Adoption of new and revised standards

The Group has applied all adopted IFRS and interpretations endorsed by the EU at 31 December 2010, including all amendments to extant standards that are not effective until later accounting periods.

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

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

IFRS 9, Financial Instruments is the only new standard, all the others being improvements, amendments to standards, interpretations or revisions of current standards.

This standard was issued in November 2009 by the IASB and focuses on the classification and measurement of financial instruments. Under the new standard only two possible classifications arise, rather than the four existing classifications currently available under IAS 39, and will result in all financial assets being valued at amortised cost or fair value. This includes an option to measure equities at fair value, but with movements in fair value taken to the Other comprehensive income statement with no-recycling of realised gains.

Based on the Group's current financial assets, which are all held at fair value through profit or loss which will continue to be a valid classification under IFRS 9, this standard is not expected to have a material impact on the Group's financial statements in future periods.

In addition, it is not anticipated that any of the other improvements, amendments to standards, interpretations or revisions of current standards above will have a material impact on the Group's financial statements in future periods.

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

- Amendment to IAS 32 Classification of Rights Issues
- Revised IAS24 Related Party Disclosures
- Improvements to IFRSs (Issued April 2009)
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions.
- Amendments to IFRS 1 Additional exemptions for First Time adopters
- Amendments to IFRS1 Limited Exemption from Comparative IFRS 7 disclosures for First Time adopters
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 12 Service concession arrangements
- IFRIC 15 Agreements for the Construction of real estate
- IFRIC 16 Hedges of a Net Investment of a Foreign Operation
- IFRIC 17 Distribution of non cash assets to owners
- IFRIC 18 Transfer of assets from customers

None of these standards or interpretations adopted for the first time have had a material impact on the consolidated financial results or position of the Group for the year ended 31 December 2010.

Basis of preparation

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

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

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

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

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

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

2. Critical accounting judgements and estimates

Judgements:

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

Estimation techniques used in calculation of claims provisions:

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

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

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

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

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

The claims provisions are subject to independent review by the Group's actuarial advisors. Management's reserving policy is to reserve at a level above best estimate assumptions to allow for unforeseen adverse claims development. For further detail on objectives, policies and procedures for managing insurance risk, refer to note 18 of the financial statements.

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

3. Significant accounting policies

a) Revenue recognition

Premiums, ancillary income and profit commission:

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

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

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

Revenue from Price Comparison and Gladiator:

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

Investment income:

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

b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

Translation of financial statements of foreign operations

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

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction); and

(iii) All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity.

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

c) Insurance contracts and reinsurance assets

Premiums:

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

Claims:

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

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

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

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

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

Co-insurance:

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

Reinsurance assets:

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

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

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

d) Intangible assets

Goodwill:

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

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

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

The Goodwill held on the balance sheet at 31 December 2010 is allocated solely to the UK car insurance segment.

Impairment of goodwill:

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

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

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

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

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

Deferred acquisition costs:

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

Software:

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

e) Property, plant and equipment and depreciation

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

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

Impairment of property, plant and equipment

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

f) Leased assets

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

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

g) Financial assets – investments and receivables

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments. The Group has not held any derivative instruments in the years ending 31 December 2010 and 31 December 2009.

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

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

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

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

Subsequent measurement

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

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

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

Impairment of financial assets

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

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

Derecognition of financial assets

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

h) Cash and cash equivalents

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

i) Share capital

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

j) Employee benefits

Pensions:

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

Employee share schemes:

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

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

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

Refer to note 26 for further details on share schemes.

k) Taxation

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

Current tax:

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

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

Deferred tax:

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

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

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

l) Government grants

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

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

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

m) Non-current assets held for sale

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

recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

4. Operating segments

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

Non-UK Car Insurance

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

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

Price Comparison

The segment relates to the Group's price comparison websites Confused.com in the UK, Rastreator in Spain, LeLynx in France and Chiarezza in Italy. LeLynx and Chiarezza were launched in 2010, and are therefore included in this price comparison segment for the first time. Each of the Price Comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as LeLynx, Chiarezza and Rastreator do not individually meet the threshold requirements in IFRS 8.

Other

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

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

Segment income, results and other information

An analysis of the Group's revenue and results for the year ended 31 December 2010, by reportable segment are shown below. The accounting policies of the reportable segments are consistent with those presented in note 3 for the Group.

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

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

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

						31 December 2009
	UK Car Insurance £m	Non–UK Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Segment total £m
Turnover*	939.1	47.2	80.5	10.6	-	1,077.4
Net insurance premium revenue	199.1	12.8	-	-	-	211.9
Other revenue and profit commission	188.6	4.2	80.5	10.6	-	283.9
Investment and interest income	7.5	0.2	-	-	-	7.7
Net revenue	395.2	17.2	80.5	10.6	-	503.5
Net insurance claims	(138.7)	(13.0)	-	-	-	(151.7)
Expenses	(49.6)	(13.7)	(55.6)	(8.2)	-	(127.1)
Segment profit / (loss) before tax	**206.9**	**(9.5)**	**24.9**	**2.4**	**-**	**224.7**
Other central revenue and expenses, including share scheme charges						(10.0)
Interest income						1.1
Consolidated profit before tax						**215.8**
Taxation expense						(58.9)
Consolidated profit after tax						**156.9**
Other segment items:						
Capital expenditure	6.3	0.7	4.1	0.7	-	11.8
Depreciation and amortisation	9.9	0.5	4.3	0.2	-	14.9

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

Segment revenues

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

The total of Price Comparison revenues from transactions with other reportable segments is £15.0m (2009: £13.3m). These amounts have not been eliminated in order to avoid distorting expense and combined ratios which are key performance indicators for insurance businesses. There are no other transactions between reportable segments.

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

Information about geographical locations

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

Segment assets and liabilities

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

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

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

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

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

The segment assets and liabilities at 31 December 2009 are as follows.

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

5. Net insurance premium revenue

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

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

6. Other revenue

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

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

7. Profit commission

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

Source of profit commission:

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

8. Investment and interest income

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

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

9. Operating expenses and share scheme charges

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

Analysis of other administration and other marketing costs:

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

The £28.0m (2009: £26.0m) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

The gross amount of expenses, before recoveries from co-insurers and reinsurers is £333.2m (2009: £265.0m). This amount can be reconciled to the total expenses and share scheme charges above of £167.2m (2009: £140.0m) as follows:

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

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

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

10. Staff costs and other expenses

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

	31 December 2010 £m	31 December 2009 £m
Salaries	92.5	75.9
Social security charges	12.7	10.5
Pension costs	1.3	0.7
Share scheme charges (see note 26)	18.5	13.7
Total staff expenses	125.0	100.8

	31 December 2010 £m	31 December 2009 £m
Depreciation charge:		
- Owned assets	4.1	3.8
- Leased assets	0.5	1.3
Amortisation charge:		
- Software	2.7	2.3
- Deferred acquisition costs	23.4	7.6
Operating lease rentals:		
- Buildings	6.4	5.7
Auditor's remuneration:		
- Fees payable for the audit of the Company's annual accounts	-	-
- Fees payable for the audit of the Company's subsidiary accounts	0.2	0.2
- Fees payable for other services	0.2	0.1
Net foreign exchange losses	0.8	0.2

Analysis of fees paid to the auditor for other services:	31 December 2010 £m	31 December 2009 £m
Tax services	0.1	0.1
Other services	0.1	-
Total as above	0.2	0.1

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

11. Staff numbers (including Directors)

	Average for the year	
	2010	2009
	Number	Number
Direct customer contact staff	3,280	2,695
Support staff	972	846
Total	4,252	3,541

12. Taxation

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

Factors affecting the total tax charge are:

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

13. Dividends

Dividends were declared and paid as follows.

	31 December 2010 £m	31 December 2009 £m
March 2009 (26.5p per share, paid May 2009)	-	69.6
August 2009 (27.7p per share, paid October2009)	-	72.8
March 2010 (29.8p per share, paid April 2010)	78.3	-
September 2010 (32.6p per share, paid October 2010)	86.4	-
Total dividends	164.7	142.4

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

A final dividend of 35.5p per share (£95.3m) has been declared in respect of the 2010 financial year. Refer to the Chairman's statement and Business Review for further detail.

14. Earnings per share

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

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

15. Property, plant and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	Total £m
Cost					
At 1 January 2009	4.0	16.8	6.8	2.4	30.0
Additions	1.2	3.6	1.0	0.8	6.6
Disposals	(0.2)	(0.3)	(0.1)	-	(0.6)
At 31 December 2009	5.0	20.1	7.7	3.2	36.0
Depreciation					
At 1 January 2009	1.9	11.1	4.2	1.8	19.0
Charge for the year	0.9	2.7	1.1	0.4	5.1
Disposals	-	(0.1)	(0.1)	-	(0.2)
At 31 December 2009	2.8	13.7	5.2	2.2	23.9
Net book amount					
At 1 January 2009	2.1	5.7	2.6	0.6	11.0
Net book amount					
At 31 December 2009	2.2	6.4	2.5	1.0	12.1
Cost					
At 1 January 2010	5.0	20.1	7.7	3.2	36.0
Additions	0.7	5.4	1.2	0.4	7.7
Disposals	-	(0.2)	-	-	(0.2)
Transferred to 'assets classified as held for sale'	(0.5)	(1.2)	(0.4)	(0.2)	(2.3)
At 31 December 2010	5.2	24.1	8.5	3.4	41.2
Depreciation					
At 1 January 2010	2.8	13.7	5.2	2.2	23.9
Charge for the year	0.9	2.4	0.9	0.4	4.6
Disposals	-	(0.1)	-	-	(0.1)
Transferred to 'assets classified as held for sale'	(0.2)	(0.5)	(0.1)	-	(0.8)
At 31 December 2010	3.5	15.5	6.0	2.6	27.6
Net book amount					
At 31 December 2010	1.7	8.6	2.5	0.8	13.6
Assets classified as held for sale	0.3	0.7	0.3	0.2	1.5

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

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

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

16. Intangible assets

	Goodwill £m	Deferred acquisition costs £m	Software £m	Total £m
At 1 January 2009	62.3	8.4	5.0	75.7
Additions	-	8.6	5.2	13.8
Amortisation charge	-	(7.6)	(2.2)	(9.8)
Disposals	-	-	(2.7)	(2.7)
At 31 December 2009	62.3	9.4	5.3	77.0
Additions	-	28.9	3.4	32.3
Amortisation charge	-	(23.4)	(2.7)	(26.1)
Disposals	-	-	(0.3)	(0.3)
At 31 December 2010	62.3	14.9	5.7	82.9

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

17. Financial assets and liabilities

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

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

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

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

The approximate fair value of held to maturity deposits is £285.0m (2009: £183.5m) based on a calculation to discount expected cashflows arising at the Group's WACC. The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

The maturity profile of financial assets and liabilities at fair value is as follows:

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

Objectives, policies and procedures for managing financial assets and liabilities

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

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

Credit risk

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

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

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

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

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

The Group's maximum exposure to credit risk at 31 December 2010 is £1,251.4m (2009: £842.7m) 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 2009 and 2010 is insignificant.

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

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

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

Interest rate risk

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

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

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

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

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

Liquidity risk

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

The Group has traditionally been strongly cash generative due to the large proportion of 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 22. In terms of the maturity profile of these liabilities, all amounts will mature within 3 – 6 months of the balance sheet date except for a minority of finance lease liabilities which will expire after 12 months. (Refer to note 23 and the maturity profile at the start of this note for further detail)

In practice, the Group's Directors expect actual cashflows to be consistent with this maturity profile except for amounts owed to co-insurers and reinsurers. Of the total amounts owed to co-insurers and reinsurers of £327.4m (2009: £154.4m), £213.8m (2009: £91.3m) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

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

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

Liquidity risk is not, therefore considered to be significant.

Foreign exchange risks

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

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

Fair value

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

18. Reinsurance assets and insurance contract liabilities

A) Objectives, policies and procedures for the management of insurance risk:

The Group is involved in issuing motor insurance contracts that transfer risk from policyholders to the Group and its underwriting partners.

Insurance risk primarily involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued.

The key reserving risk is that the frequency and / or value of the claims arising exceeds expectation and the value of insurance liabilities established.

The Board of Directors is responsible for the management of insurance risk, although as mentioned in note 17, it has delegated the task of supervising risk management to the Risk Management Committee (RMC) and its overseas equivalents.

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

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

i) Co-insurance and reinsurance:

As noted in the Business Review, the Group cedes a significant amount of the motor insurance business generated to external underwriters. In 2010, 45% of the risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 27.5% was ceded under quota share reinsurance contracts.
As well as these proportional arrangements, an excess of loss reinsurance programme is also purchased to protect the Group against very large individual claims and catastrophe losses.

ii) Data driven pricing:

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

- Collating and analysing more comprehensive data from customers;
- Tight control over the pricing guidelines in order to target profitable business sectors; and
- Fast and flexible responsiveness to data analysis and market trends.

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

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

iii) Effective claims management:

The Group adopts various claims management strategies designed to ensure that claims are paid at an appropriate level and to minimise the expenses associated with claims management. These include:

- An effective, computerised workflow system (which along with the appropriate level of resources employed helps reduce the scope for error and avoids significant backlogs);
- Use of an outbound telephone team to contact third parties aiming to minimise the potential claims costs and to ensure that more third parties utilise the Group approved repairers;
- Use of sophisticated and innovative methods to check for fraudulent claims.

Concentration of insurance risk:

The Directors do not believe there are significant concentrations of insurance risk. This is because, although the Group only writes one line of insurance business, the risks are spread across a large number of people and a wide regional base.

B) Sensitivity of recognised amounts to changes in assumptions:

The following table sets out the impact on equity at 31 December 2010 that would result from a 1 per cent worsening in the UK loss ratios used for each underwriting year for which material amounts remain outstanding.

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

The impact is stated net of reinsurance and includes the change in net insurance claims along with the associated profit commission movements that result from changes in loss ratios. The figures are stated net of tax at the current rate.

C) Analysis of recognised amounts:

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

The maturity profile of gross insurance liabilities is as follows:

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

D) Analysis of UK claims incurred

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

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

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

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

Profit commission is analysed in note 7.

F) Reconciliation of movement in net claims provision:

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

G) Reconciliation of movement in net unearned premium provision:

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

H) Other disclosures:

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

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

19. Trade and other receivables

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

20. Cash and cash equivalents

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

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

21. Non-current assets held for sale

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

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

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

22. Trade and other payables

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

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

Analysis of accruals and deferred income:

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

23. Obligations under finance leases

Analysis of finance lease liabilities:

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

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

24. Deferred income tax (asset) / liability

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

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

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

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

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

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

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

25. Events after the balance sheet date

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

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

26. Share capital and share incentive plans

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

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

594,434 (2009: 751,513) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme. These shares are entitled to receive dividends.

1,500,000 (2009: 1,183,948) were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

Staff share schemes:

Analysis of share scheme costs (per income statement):

	31 December 2010 £m	31 December 2009 £m
SIP charge (note i)	5.1	3.6
DFSS charge (note ii)	9.9	5.6
Total share scheme charges	15.0	9.2

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2010: £18.5m, 2009: £13.7m) and the gross credit to reserves reported in the consolidated statement of changes in equity.

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

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

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

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

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

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

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

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

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

The range of awards is as follows:

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

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

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

Number of free share awards committed at 31 December 2010:

	Awards outstanding (*1)	Vesting date
SIP H207 scheme	337,770	April 2011
SIP H108 scheme	352,732	September 2011
SIP H208 scheme	477,432	April 2012
SIP H109 scheme	396,200	September 2012
SIP H209 scheme	377,641	March 2013
SIP H110 scheme	352,100	August 2013
DFSS 2008 scheme 1st award	1,306,081	April 2011
DFSS 2008 scheme 2nd award	87,202	November 2011
DFSS 2009 scheme 1st award	1,311,686	April 2012
DFSS 2009 scheme 2nd award	126,740	August 2012
DFSS 2010 scheme 1st award	1,543,203	April 2013
DFSS 2010 scheme 2nd award	119,100	August 2013
Total awards committed	6,787,887	

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

During the year ended 31 December 2010, awards under the SIP H206 and H107 schemes and the DFSS 2007 scheme vested. The total number of awards vesting for each scheme is as follows.

Number of free share awards vesting during the year ended 31 December 2010:

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

27. Financial commitments

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

Operating leases expiring:	31 December 2010 £m	31 December 2009 £m
Within one year	0.2	-
Within two to five years	11.1	4.1
Over five years	16.4	31.6
Total commitments	27.7	35.7

Operating lease payments represent rentals payable by the Group for its office properties.
In addition, the Group had contracted to spend the following on property, plant and equipment at the end of each period:

	31 December 2010 £m	31 December 2009 £m
Expenditure contracted to	-	-